



CENTRAL BANK OF CYPRUS
EUROSYSTEM

MONETARY POLICY IMPLEMENTATION IN CYPRUS

2025

NICOSIA - CYPRUS

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All data are subject to periodic revisions in accordance with the ECB guidelines.

Cut-off date 31 December 2025.

ABBREVIATIONS

1. Asset Purchase Programme (APP)
2. Autonomous factors (AFs)
3. Current Account (CA)
4. Deposit Facility (DF)
5. Deposit Facility Rate (DFR)
6. Excess liquidity (EL)
7. Long-term refinancing operations (LTROs)
8. Main refinancing operations (MROs)
9. Marginal lending facility (MLF)
10. Monetary policy eligible counterparties (MPEC)
11. Monetary policy operations (MPOs)
12. Minimum Reserve Requirement (MRR)
13. National Central Bank (NCB)
14. Pandemic Emergency Purchase Programme (PEPP)
15. Targeted Longer-Term Refinancing Operations (TLTROs)
16. European Central Bank (ECB)
17. Central Bank of Cyprus (CBC)

Executive Summary

The Central Bank of Cyprus' (CBC) balance sheet remained broadly stable in 2025, with total assets increasing marginally from €28.6 billion at end-2024 to €28.7 billion at end-2025. Assets continued to consist primarily of Intra-Eurosystem claims in TARGET and monetary-policy portfolios. On the liabilities side, bank deposits/liquidity, declined from €19.2 billion to €18.6 billion over the same period.

Structurally, liquidity developments were driven mainly by movements in Intra-Eurosystem claims, autonomous factors, and the reduction in the value of monetary-policy portfolios, which fell by €0.77 billion in 2025. Despite this decline, overall liquidity in the banking system remained ample throughout the year.

In 2025, the ECB Governing Council implemented a series of reductions in the deposit facility rate, lowering it from 3.00% at the end of 2024 to 2.00% by June 2025. These adjustments were carried out through four successive rate cuts (in February, March, April, and June of 2025) in line with the Governing Council's assessment that a more accommodative monetary-policy stance was required as inflationary pressures eased and financing conditions normalised.

The successive reductions in the deposit facility rate during 2025 reduced the facility's attractiveness for banks to place their excess liquidity (€17.4 billion as at end-2025) with the Central Bank of Cyprus (CBC). Consequently, banks increasingly turned to alternative investment options, including bond holdings and lending.

Within the banking sector, the most significant asset categories in 2025 were loans, debt securities, deposits and cash equivalents. Loans rose from €27.6 billion at end-2024 to €31.7 billion at end-2025, while deposits and cash equivalents declined from €20.4 billion to €19.8 billion. Total banking-sector liabilities increased from €59.4 billion to €63.1 billion over 2025, driven mainly by higher deposits from households and non-financial corporations.

The minimum required reserves of the monetary-policy-eligible counterparties in Cyprus increased from €527 million at the end of the final maintenance period of 2024 to €553 million at the end of the corresponding period in 2025. Mobilised collateral placed with the CBC in 2025 consisted primarily of additional credit claims, covered bonds, and government bonds.

1. INTRODUCTION

This report provides a detailed account of developments in monetary policy implementation in Cyprus during 2025. The year was characterised by a further contraction in excess liquidity (EL), reflecting the continued normalisation of Eurosystem monetary policy and the ongoing reduction in the CBC's monetary policy portfolios.

Notwithstanding this decline, aggregate liquidity conditions in the Cypriot banking system remained ample throughout the year. As a result, Cypriot monetary policy counterparties did not participate in the Eurosystem's refinancing operations during 2025.

The report is organised as follows: Section 2 examines the evolution of the CBC balance sheet, detailing the influence of the various monetary policy instruments that have shaped its composition. Section 3 presents a liquidity analysis, identifying the key determinants of liquidity conditions in Cyprus during the review period. Section 4 describes developments in the Minimum Reserve Requirement (MRR) together with trends in EL. Section 5 summarises progress in collateral mobilisation by monetary policy counterparties in Cyprus, while Section 6 reviews changes in the consolidated banking sector balance sheet and assesses how these developments have been influenced by monetary policy operations (MPOs).

2. CBC BALANCE SHEET DEVELOPMENTS

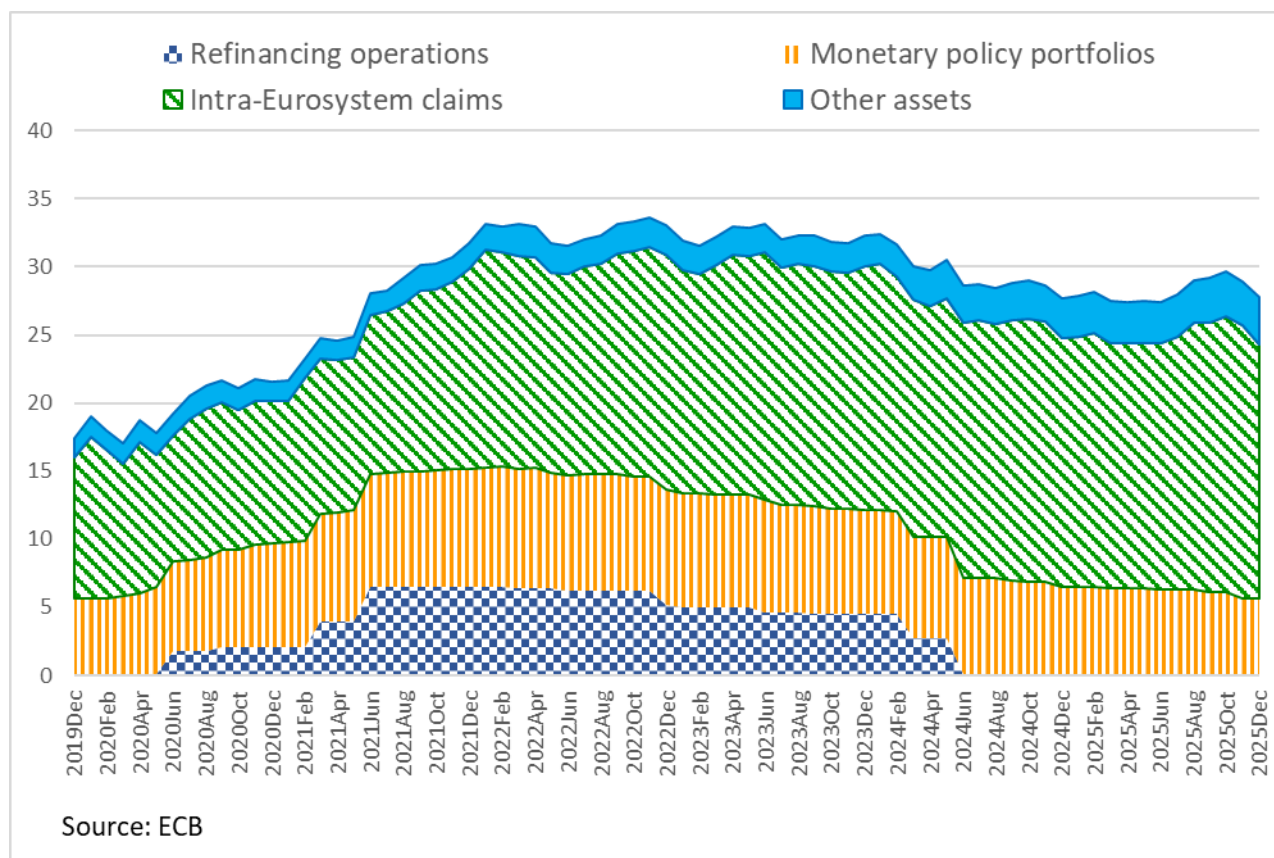
The monetary policy normalisation trajectory in Cyprus, evident throughout 2024, advanced at a comparatively slower pace in 2025 relative to the broader Eurosystem trend. Consequently, the CBC’s balance sheet did not undergo a material contraction; instead, its total assets increased marginally from €28.6 billion at end-2024 to €28.7 billion at end-2025.

The composition of the CBC’s assets is presented in Chart 1. Assets associated with the implementation of monetary policy comprise the monetary policy portfolios, which declined from €6.5 billion to €5.7 billion during 2025, as well as refinancing operations to Cypriot monetary policy counterparties, which remained unused over the period under review.

The largest asset category on the CBC’s balance sheet consists of Intra-Eurosystem claims within TARGET, arising from the operations of both the CBC and the Cypriot banking sector with other Eurosystem jurisdictions. These claims increased from €18.4 billion to €18.6 billion in 2025.

A modest increase was also recorded in other assets not related to monetary policy implementation, including securities held in the CBC’s investment portfolios and the Bank’s gold holdings.

Chart 1 - CBC’s assets (EUR billion)

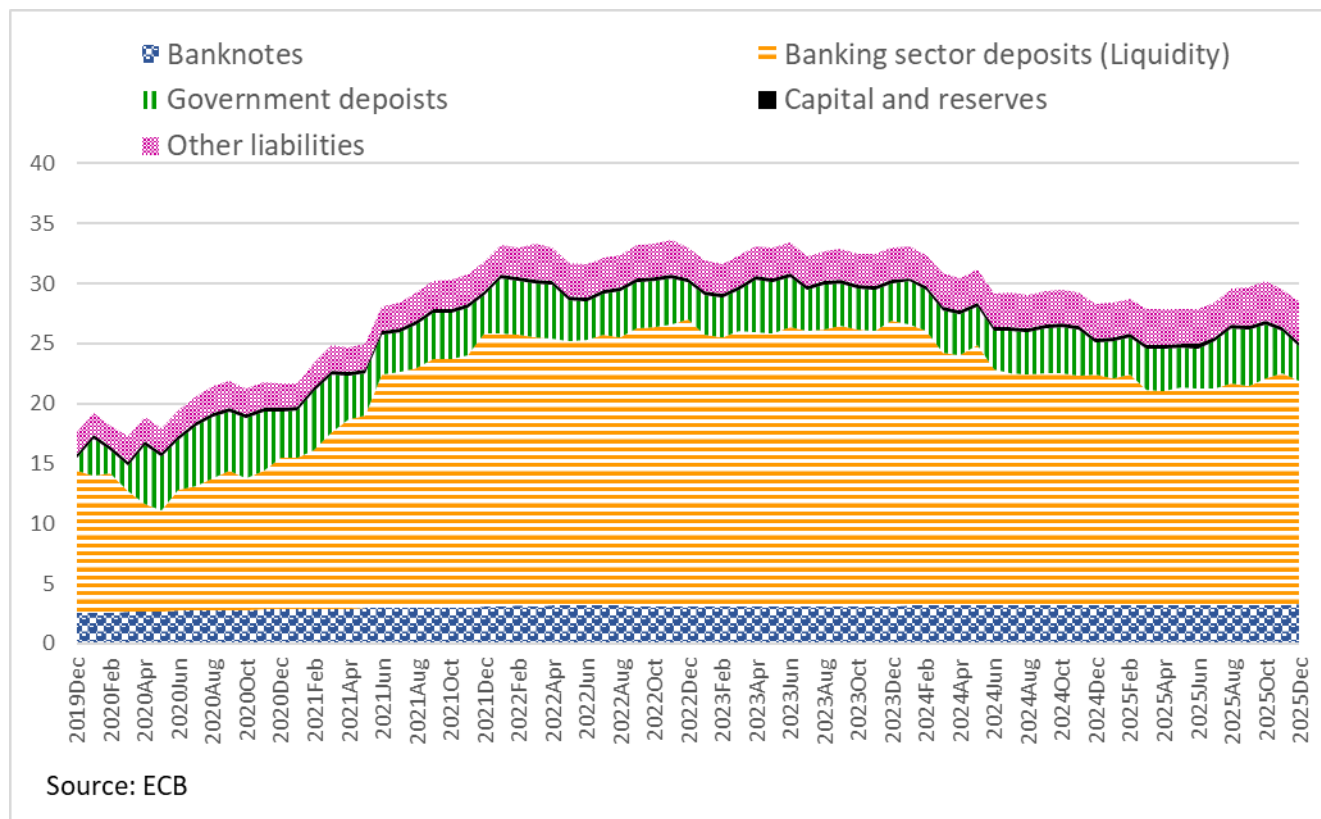


The composition of the CBC’s liabilities is shown in Chart 2. The largest liability item consists of the deposits of monetary policy counterparties held with the CBC, commonly referred to as liquidity. Counterparties maintain these accounts for purposes related to monetary policy implementation, including the fulfilment of MRRs and access to standing facilities. These deposits declined from €19.2 billion at end-2024 to €18.6 billion at end-2025.

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Other major liability items not related to monetary policy implementation include banknotes in circulation, which increased slightly from €3.2 billion to €3.3 billion, and government deposits held with the CBC, which rose from €2.6 billion to €2.9 billion. Additional liabilities comprise deposits held at the CBC by various entities unrelated to MPOs, including, among others, deposits denominated in foreign currency.

Chart 2 - CBC's liabilities (EUR billion)



The share of the stylised balance sheet items as a percentage of the total size of the balance sheet is provided in Table 1 below.

Table 1 - Stylised composition of CBC balance sheet at end of 2023, 2024, 2025
(% of total assets/liabilities)

<u>ASSETS</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Monetary policy portfolios	23.1	22.6	19.8
Refinancing operations	13.6	0	0
Intra Eurosystem claims	54.0	64.3	64.7
Other assets	9.3	13.1	15.5

<u>LIABILITIES</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Banknotes	9.3	11.2	11.3
Banking sector deposits	71.8	67.3	64.8
Government deposits	9.6	9.2	10.1
Capital and other liabilities	9.4	12.3	13.8

3. LIQUIDITY ANALYSIS

Monetary policy implementation entails the management of the supply of liquidity within the Eurosystem. Through liquidity control, the Eurosystem influences money market rates and, by extension, the overall financing conditions in the economy.

The provision of liquidity is carried out in a decentralised manner by each national central bank (NCB). Liquidity is generated through liquidity-providing operations—including refinancing operations, monetary policy portfolios, and recourse to the marginal lending facility—conducted by each NCB. The liquidity thus created is subsequently deposited by the Eurosystem’s monetary policy counterparties with their respective NCBs.

In addition to the liquidity-providing operations, which are designed explicitly to regulate the supply of liquidity for monetary policy purposes, all operations conducted by NCBs for purposes other than monetary policy implementation also influence liquidity conditions. These transactions may either absorb or inject liquidity into the banking system and are collectively referred to as autonomous factors. In net terms, autonomous factors (AFs) on the CBC’s balance sheet exerted a liquidity-absorbing effect during 2025, consistent with developments observed in previous years.

Liquidity generated by each NCB is redistributed across euro-area jurisdictions through interbank transfers, executed between banks operating within the monetary union. As a result, certain countries accumulate liquidity over and above the amount created domestically through liquidity-providing operations, while others hold less.

These cross-border liquidity movements are recorded as Intra-Eurosystem claims in TARGET on the balance sheet of each NCB. In the case of the CBC, these claims are positive, indicating that the liquidity held within the Cypriot banking system exceeds the liquidity created by the CBC itself.

This liquidity relationship is expressed by the identity below:

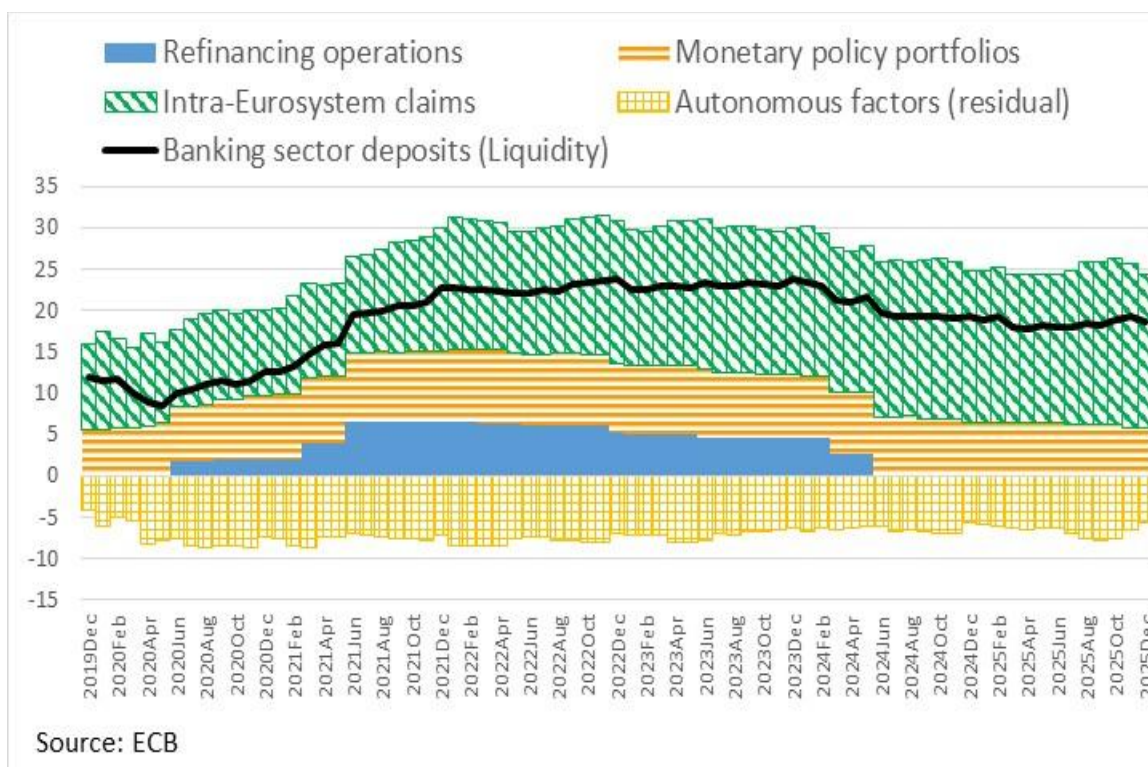
$$\text{Liquidity} = \text{Asset purchases} + \text{Refinancing Operations} + \text{MLF} + \text{Intra-Eurosystem claims} - \text{Autonomous Factors}$$

The composition of liquidity determinants in Cyprus over recent years is depicted in Chart 3. As noted in Section 2, liquidity declined from €19.2 billion to €18.6 billion. This reduction primarily reflects a €0.77 billion decrease in the CBC’s monetary policy portfolios. Intra-Eurosystem claims in TARGET contributed a €0.2 billion increase in liquidity; however, this inflow was insufficient to offset the liquidity reduction stemming from the decline in monetary policy assets.

The remaining balance-sheet items—classified as autonomous factors—fell by €0.05 billion, absorbing less liquidity than at end-2024. This decline also failed to offset the liquidity effect of the reduction in monetary policy assets. Even so, liquidity in the Cypriot banking system remained ample (see Section 4 for further analysis).

In summary, total liquidity at end-2025 consisted of €18.6 billion in Intra-Eurosystem claims and €5.6 billion from the CBC’s monetary policy portfolios. However, since AFs also absorbed approximately €5.6 billion of liquidity—around 30% of the total—the resulting net liquidity position closed at €18.6 billion.

Chart 3 – CBC Liquidity composition (EUR billion)



3.1. Liquidity providing operations

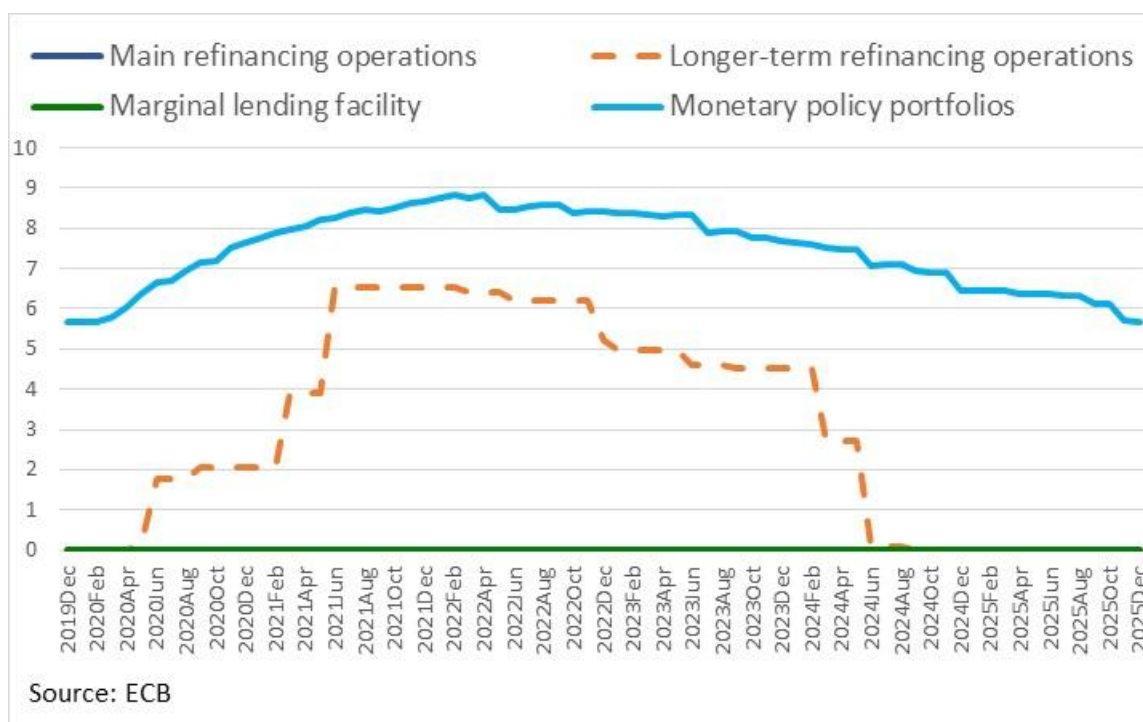
Liquidity-providing operations comprise three main categories: refinancing operations, the marginal lending facility, and monetary policy purchases conducted under the Eurosystem’s asset purchase programmes:

- **Refinancing operations:** The regular refinancing operations—comprising the main refinancing operations (MROs) and the longer-term refinancing operations (LTROs)—provide one-week and three-month liquidity, respectively, at the MRO rate. The European Central Bank (ECB) maintains favourable borrowing conditions for credit institutions and supports lending to the real economy by offering long-term funding on attractive terms.

All refinancing operations are conducted as reverse transactions secured by ECB-eligible collateral (see Section 5) and are accessible to any institution meeting the counterparty eligibility criteria (see Section 6). Certain institutions rely on these operations to meet their MRRs, particularly when they are not active participants in the money markets. Others engage in MROs (announced with weekly frequency) and LTROs (announced with monthly frequency) to optimise regulatory metrics such as the Liquidity Coverage Ratio. In addition, some banks draw on refinancing operations to address funding needs arising from unforeseen developments relative to their funding plans.

- **Marginal lending facility (MLF):** The MLF functions as an overnight liquidity-providing mechanism. It is intended to address specific liquidity shortfalls arising from market developments or from technical disruptions affecting the settlement of counterparties' payments, particularly when counterparties are unable to obtain alternative market funding or lack the operational capacity to conduct secured transactions. During 2025, Cypriot monetary policy counterparties made no use of either refinancing operations or the marginal lending facility, reflecting the continued presence of ample EL in the system.
- **Monetary policy portfolios:** The ECB's asset purchase programmes, introduced in mid-2015 as part of a broader set of non-standard monetary policy measures—together with the Targeted Longer-Term Refinancing Operations (TLTROs)—were established to reinforce the monetary policy transmission mechanism and to provide the degree of policy accommodation required to maintain price stability. In 2025, the monetary policy portfolio continued its steady and predictable decline, reflecting the cessation of reinvestments at the end of 2024.

Chart 4: Monetary policy assets (EUR billions)



All liquidity-providing operations conducted by the CBC are presented in Chart 4. During 2024, banks repaid their outstanding TLTRO borrowings using their EL, resulting in a €4.5 billion reduction in TLTRO balances and a corresponding decline in monetary policy deposits on the liability side of the CBC's balance sheet. In 2025, holdings in the CBC's monetary policy

portfolio decreased from €6.5 billion to €5.7 billion, reflecting the maturing of securities under the Asset Purchase Programme (APP) and the Pandemic emergency purchase programme (PEPP).

3.2. Intra – Eurosystem claims in TARGET

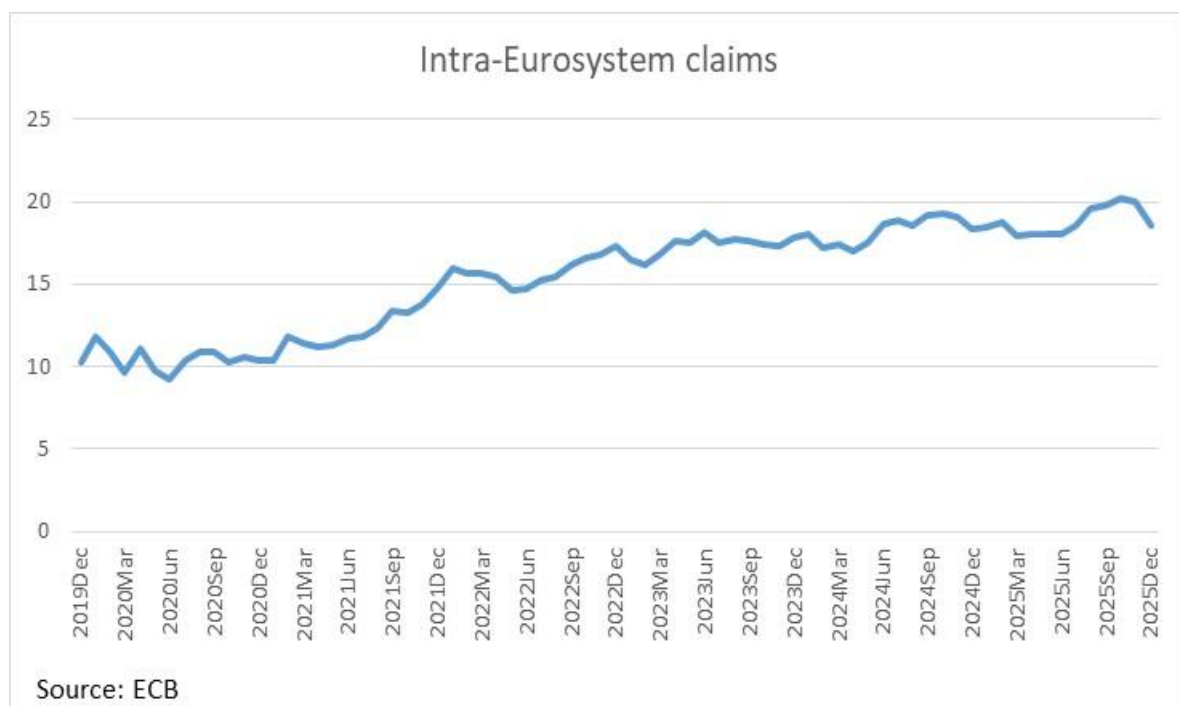
The CBC’s intra-Eurosystem claims increased from €18.4 billion to €18.6 billion (Chart 5) over the course of 2025, thereby extending their upward trajectory. Potential sources of liquidity inflows from other euro-area jurisdictions that contribute to the rise in these claims include:

- Net increase in public debt financed from abroad.
- Repatriation of residents’ funds.
- Increase in foreign direct investment.
- Issuance of debt and equity by local banks, financed by foreign investors.
- Sale of non-performing loans by local banks to foreign investors.
- Other balance of payments factors.

In addition to the inverse of the factors noted above, several developments may contribute to a decrease in the CBC’s intra-Eurosystem claims. These include:

- CBC purchases of foreign euro-denominated bonds within its investment portfolio.
- CBC acquisitions of foreign-currency securities that increase the CBC’s foreign-currency position.
- Investments abroad by resident entities, which reduce liquidity held within Cyprus and thereby lower intra-Eurosystem claims.

Chart 5: Intra-Eurosystem claims (EUR billion)

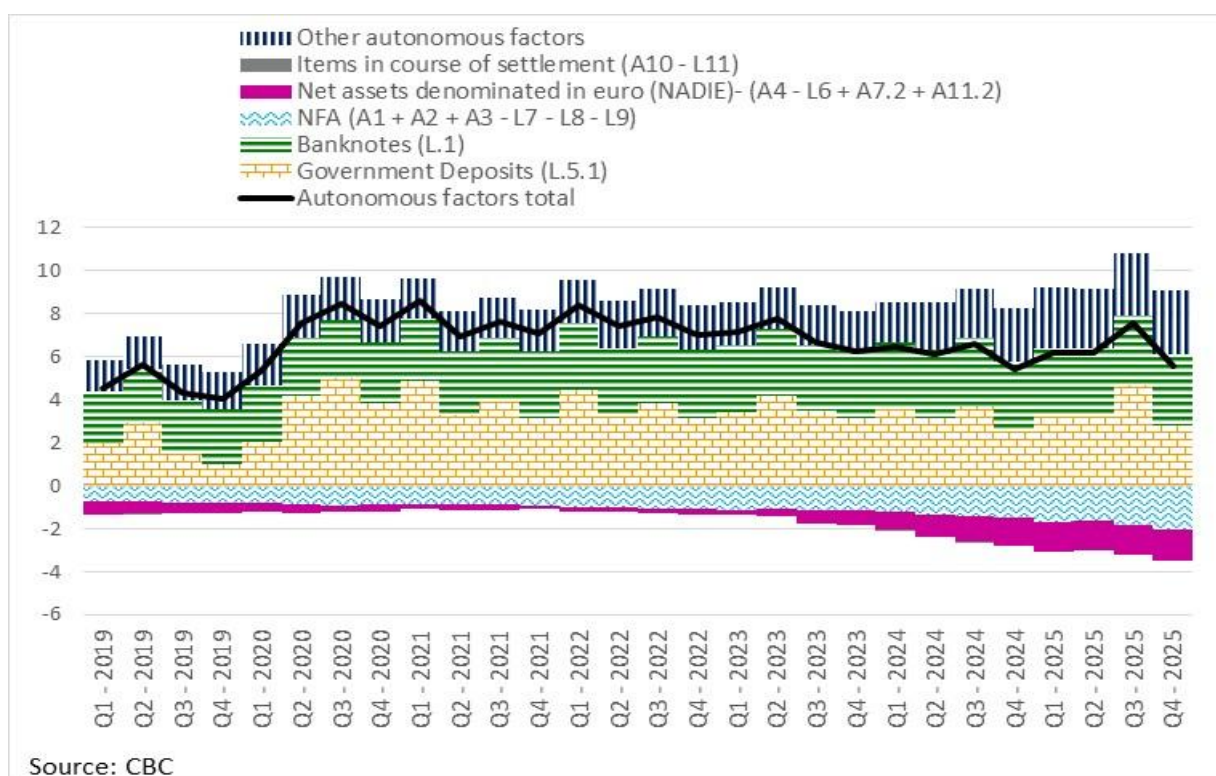


3.3. Autonomous factors

AFs comprise all balance-sheet items of the CBC that influence liquidity but are not directly related to the implementation of monetary policy. These factors can be classified into six distinct categories, with government deposits and banknotes in circulation representing the most significant components on the CBC’s balance sheet. The evolution and composition of AFs over recent years are illustrated in Chart 6.

Government deposits, banknotes in circulation, and several other autonomous liquidity factors appear on the positive side of the liquidity-analysis framework, reflecting their role as liquidity-absorbing items for the banking system. In contrast, net assets denominated in euro (NADIE) and net foreign assets (NFA) are positioned on the negative side, indicating that they inject liquidity into the system. On a net basis, AFs have constituted a liquidity-absorbing position in 2025, in line with previous years.

Chart 6 – Autonomous Factors composition (EUR billion)



During 2025, net AFs increased moderately from €5.4 billion to €5.6 billion, signalling a further strengthening of their liquidity-absorbing impact. This development primarily reflects the rise in government deposits held with the CBC, which expanded from €2.5 billion to €2.8 billion, alongside increases in other autonomous liquidity factors.

On the liquidity-providing side of AFs—represented on the negative axis of the framework—both NFA and NADIE increased, with NFA rising from €1.5 billion to €2.0 billion and NADIE from €1.3 billion to €1.5 billion. Despite these increases, AFs remained a net source of liquidity absorption in 2025.

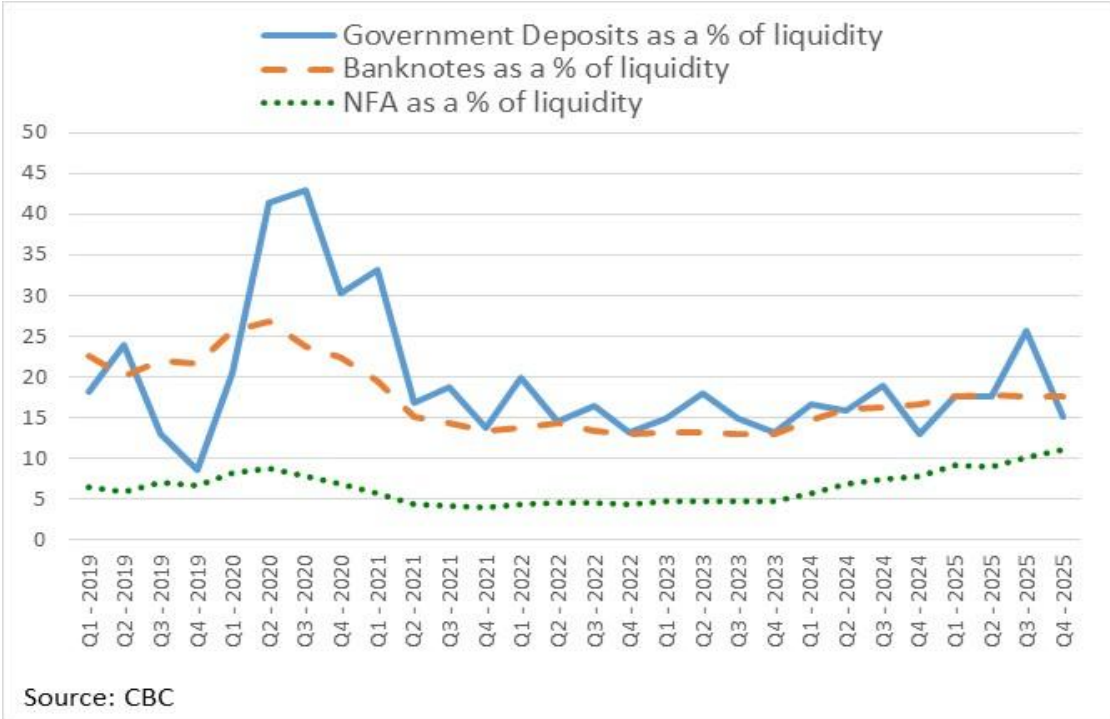
AFs play an important role in Eurosystem monetary policy implementation, especially in a liquidity-scarce environment, because sudden shifts in these items can influence liquidity and, in turn, money market rates. Under the current abundant-liquidity regime, however, movements in

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AFs have only limited effects on market rates but as liquidity declines over time, their influence should be expected to grow.

The relative importance of each component within AFs can be assessed by considering both its magnitude in relation to system liquidity and the degree of its short-term variability. Chart 7 presents the three largest AF components as a percentage of total liquidity in Cyprus. During the final quarter of 2025, the most significant items were banknotes in circulation (17.6%), government deposits (15.1%) and net foreign assets (11%). Among these, government deposits exhibited the highest level of daily volatility, thereby exerting an immediate and more pronounced influence on banking-system liquidity. Movements in government deposits are shaped by a range of fiscal decisions, including the timing of debt issuance and the schedule of government debt repayments.

Chart 7 – Major Autonomous Factors as a percentage of liquidity (%)



4. MINIMUM RESERVE REQUIREMENT AND EXCESS LIQUIDITY

The MRR represents the average level of reserve balances that monetary policy counterparties must maintain with the CBC over each maintenance period¹. These required balances are calculated based on specific liabilities recorded on a counterparty's balance sheet, which are reported to the CBC prior to the start of the maintenance period and constitute the reserve base. In general, an expansion of deposit liabilities increases the MRR. For each counterparty, the requirement is determined by applying the reserve coefficient, currently set at 1%, to the relevant short-term liabilities included in the reserve base.

The Eurosystem's minimum reserve system was originally designed to create a structural liquidity deficit in the euro-area banking system, thereby supporting the steering of money-market rates within the standing-facilities corridor. However, the large-scale non-standard measures introduced after the Global Financial Crisis generated substantial EL, reducing subsequently the operational relevance of minimum reserves in liquidity management. Despite this diminished role, the MRR remains an essential criterion for counterparty eligibility in Eurosystem's MPOs, preserving its institutional importance within the framework.

Traditionally, balances held to satisfy the MRR were remunerated at the rate applicable to the MROs. However, as of 20 September 2023, the remuneration rate on minimum reserve holdings was set to 0%. This adjustment aims to safeguard the effectiveness of the ECB's monetary policy transmission while enhancing the operational efficiency of the policy framework by reducing the volume of interest payments on reserve balances required to implement the desired monetary policy stance. In Cyprus, the aggregate MRR for all monetary policy counterparties increased from €526.7 million at the end of the final maintenance period (MP) of 2024 to €553 million at the end of the final MP of 2025.

EL is defined as commercial bank deposits at the CBC, either in their current account (CA) or in the deposit facility (DF), over and above the MRR, minus any overnight credit from the MLF. This is shown by the identity below:

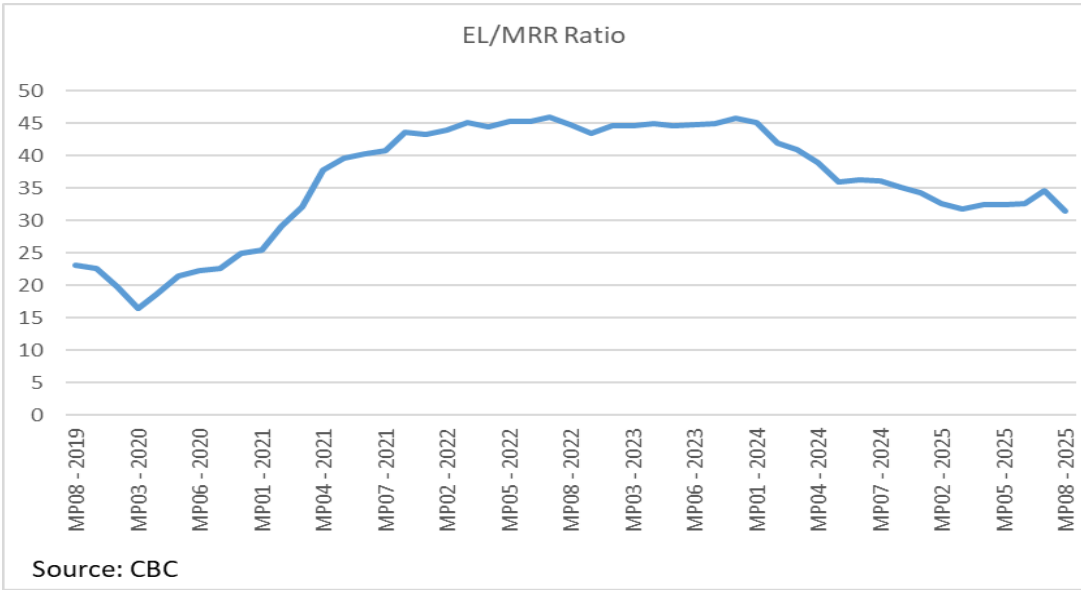
$$EL = CA + DF - MRR - MLF$$

During 2025, EL in Cyprus declined from €18.5 billion to €17.4 billion, driven primarily by a reduction in DF balances, notwithstanding modest increases in both the MRR and CA balances. Consequently, in 2025 the EL-to-MRR ratio decreased from 35.2 to 31.5, as illustrated in Chart 8.

Deposits held with the CBC in counterparties' current accounts over and above their MRR, are remunerated at the lower of 0% or the Deposit Facility Rate (DFR). With the DFR having remained in positive territory since 2022, it has become economically advantageous for banks to allocate surplus liquidity to the DF rather than maintain excess balances in their CA.

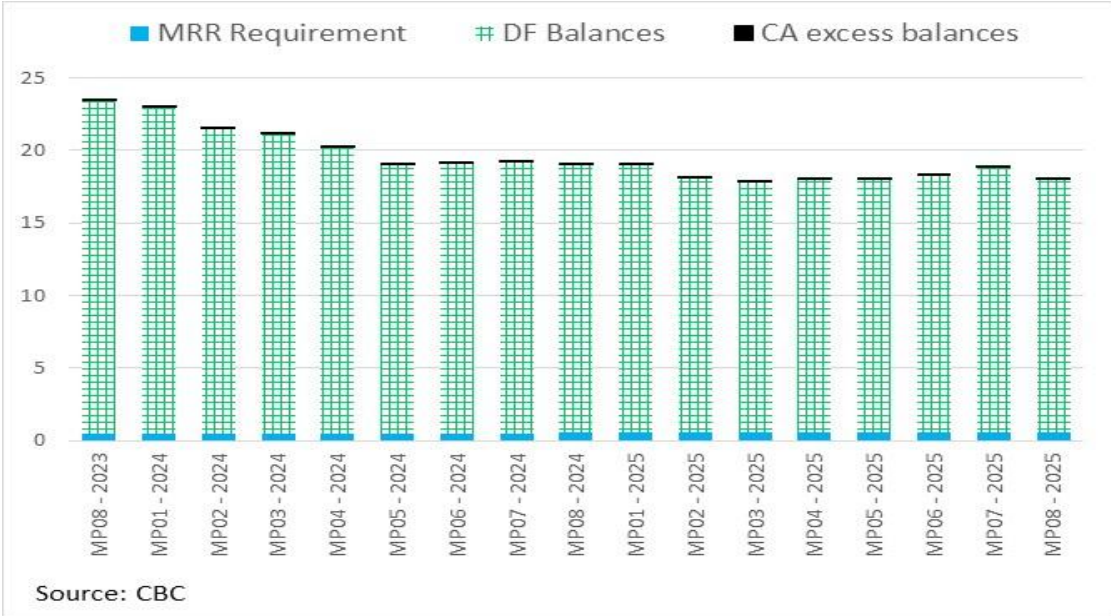
¹ Maintenance periods typically last around 6 weeks and refer to the reserve maintenance period set by the ECB, during which banks in the euro area must hold a certain average amount of minimum reserves with their NCBs.

Chart 8 – EL/MRR Ratio



By transferring EL to the DF, banks earn the positive DFR, provided they satisfy the relevant counterparty eligibility criteria (see Section 6). The distribution of liquidity between the DF and the CA for Cypriot counterparties over the past two years is presented in Chart 9. A limited amount of EL above the MRR continues to be held in CA as a precautionary buffer to ensure ongoing compliance with MRR provisions.

Chart 9 – Current account and deposit facility balances (EUR billions)



In 2025, the ECB Governing Council reduced the DFR from 3.00% at end-2024 to 2.00% by June, following four successive cuts that reflected a shift towards a more accommodative monetary-policy stance, amid easing inflationary pressures and normalising financing conditions. As the rate declined, placing EL in the DF became less attractive for banks, prompting a shift towards more active investment strategies, including increased bond purchases and lending activities.

5. ELIGIBLE ASSETS

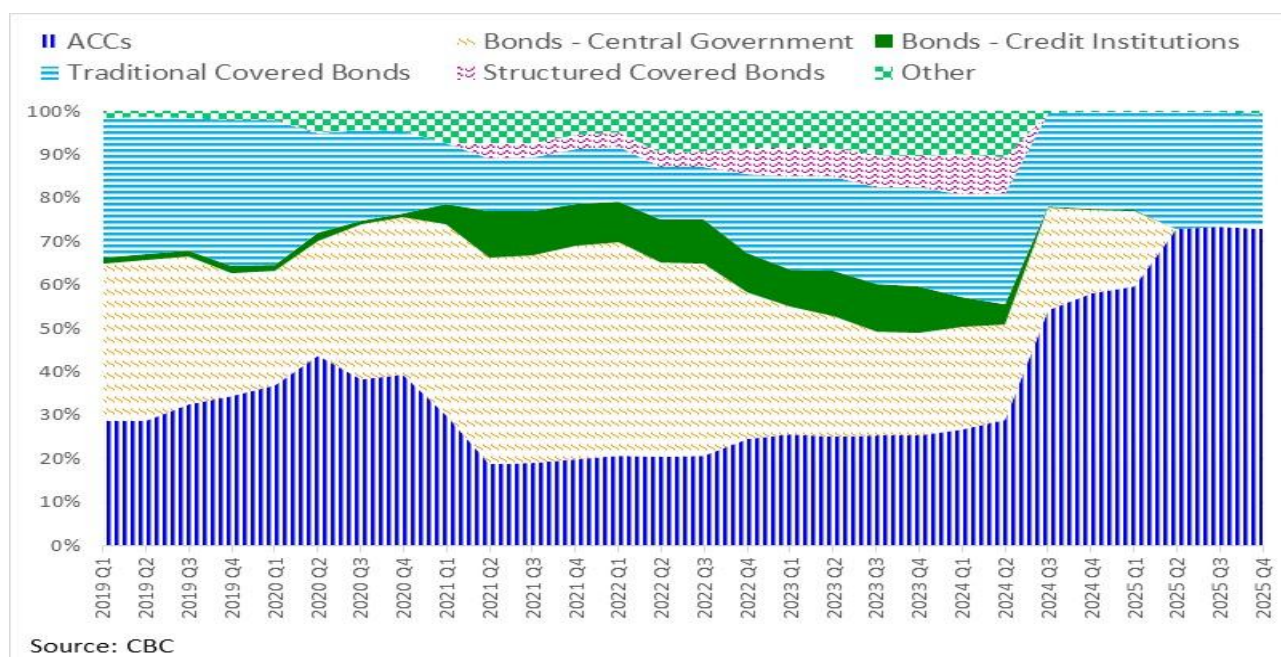
The Eurosystem collateral framework governs the collateralisation of Eurosystem credit operations and provides a second layer of risk protection against counterparty default, complementing the safeguards embedded in the Eurosystem’s counterparty framework. Under this framework, the Eurosystem extends credit solely against adequate collateral, which may consist of marketable financial instruments—such as debt securities—or non-marketable assets, including credit claims and cash. Assets that meet the eligibility criteria defined by the Eurosystem are referred to as eligible assets.

Eligible assets are therefore classified into marketable and non-marketable categories. Marketable assets include, inter alia, central and local government debt instruments, covered bonds issued by credit institutions, unsecured bank debt instruments, supranational and agency bonds, and asset-backed securities. Non-marketable assets comprise, among others, fixed-term deposits placed by eligible counterparties and credit claims.

In addition to the general collateral framework described above, the Eurosystem has, since the global financial crisis, operated a temporary collateral framework comprising a set of crisis-related collateral-easing measures. These measures expanded the range of assets accepted in Eurosystem credit operations beyond those permitted under the standard framework. Notably, they included the eligibility of asset types otherwise ineligible - such as private-individual credit claims and pools of credit claims backed by real-estate assets under the additional credit claims (ACC) framework - as well as, the acceptance of individual credit claims with credit quality below credit-quality step 3.

On 29 November 2024, the ECB Governing Council decided to phase out the temporary crisis-related collateral-easing measures, including the discontinuation of certain asset categories that had been accepted exclusively under the temporary framework, with effective termination date 30 March 2026. Chart 10 presents the composition of collateral pledged at the CBC since 2019. During the final quarter of 2025, the predominant collateral types mobilised were central government bonds (0.5%), traditional covered bonds (25.9%) and ACCs (73%).

Chart 10 – Percentages of total collateral



6. ELIGIBLE COUNTERPARTIES

The counterparty framework sets out the criteria under which credit institutions may obtain access to Eurosystem MPOs. Monetary-policy eligible counterparties (MPECs) are defined as institutions that are authorised to participate in liquidity-providing and/or liquidity-absorbing operations, as well as to access the Eurosystem’s standing facilities. The framework is designed to ensure that a broad and diverse set of counterparties can participate in monetary policy implementation, while simultaneously safeguarding the Eurosystem against counterparty credit risk.

To qualify as an eligible counterparty, an institution needs to:

- (1) be subject to Eurosystem’s MRR,
- (2) be supervised by competent authorities,
- (3) be financially sound and
- (4) fulfil the operational requirements of the local NCB for participating in MPOs.

The first requirement ensures that euro-area credit institutions can access Eurosystem MPOs, thereby supporting the effective transmission of monetary policy. The second and third requirements provide the Eurosystem with a first layer of protection against counterparty credit risk, with collateral serving as the second layer. According to the fourth requirement, access to Eurosystem MPOs is granted by the relevant NCB to counterparties that fulfil the eligibility criteria in line with the decentralised monetary policy implementation in the euro area.

The assessment of financial soundness is supervised by the Eurosystem and may draw, at a minimum, on prudential information relating to capital, leverage, and liquidity ratios, as well as on the methodologies applied in cases of in-kind recapitalisation, such as debt-to-equity conversions or the transfer of non-performing loans.

In 2025, following the completion of the merger between Eurobank Cyprus Ltd and Hellenic Bank Public Company Limited and the acquisition of Astrobank Public Company Limited by Alpha Bank Cyprus Ltd, the number of credit institutions authorized to participate in credit operations in Cyprus was reduced to eight (8). The list with the counterparties is shown below:

	Credit Institution	Subsidiaries, branches or parent companies
Local authorised credit institutions in Cyprus	Ancoria Bank Limited	NA
	Bank of Cyprus Public Company Ltd	
	Cyprus Development Bank Public Company Limited	
	Housing Finance Corporation	
Subsidiaries of foreign credit institutions from E.U. Member States	Alpha Bank Cyprus Ltd	Parent company in Eurozone (Greece)
	Eurobank Limited	Parent company in Eurozone (Greece)
	National Bank of Greece (Cyprus) Ltd	Parent company in Eurozone (Greece)
Subsidiaries of foreign credit institutions from non E.U. Member States	Societe Generale Bank-Cyprus Limited	Non-E.U. parent company

Source: CBC

6.1. Aggregate Banking Sector Developments

This section presents the 2025 consolidated balance sheet developments of the banking sector in Cyprus². Aggregate banking-sector assets increased from €65.6 billion at end-2024 to €70 billion at end-2025, driven primarily by higher holdings of debt securities and an expansion in loans and advances. Over the same period, EL declined, reflecting a reduction in bank deposits held with the CBC.

Chart 11 – Banking Sector Assets (EUR billions)

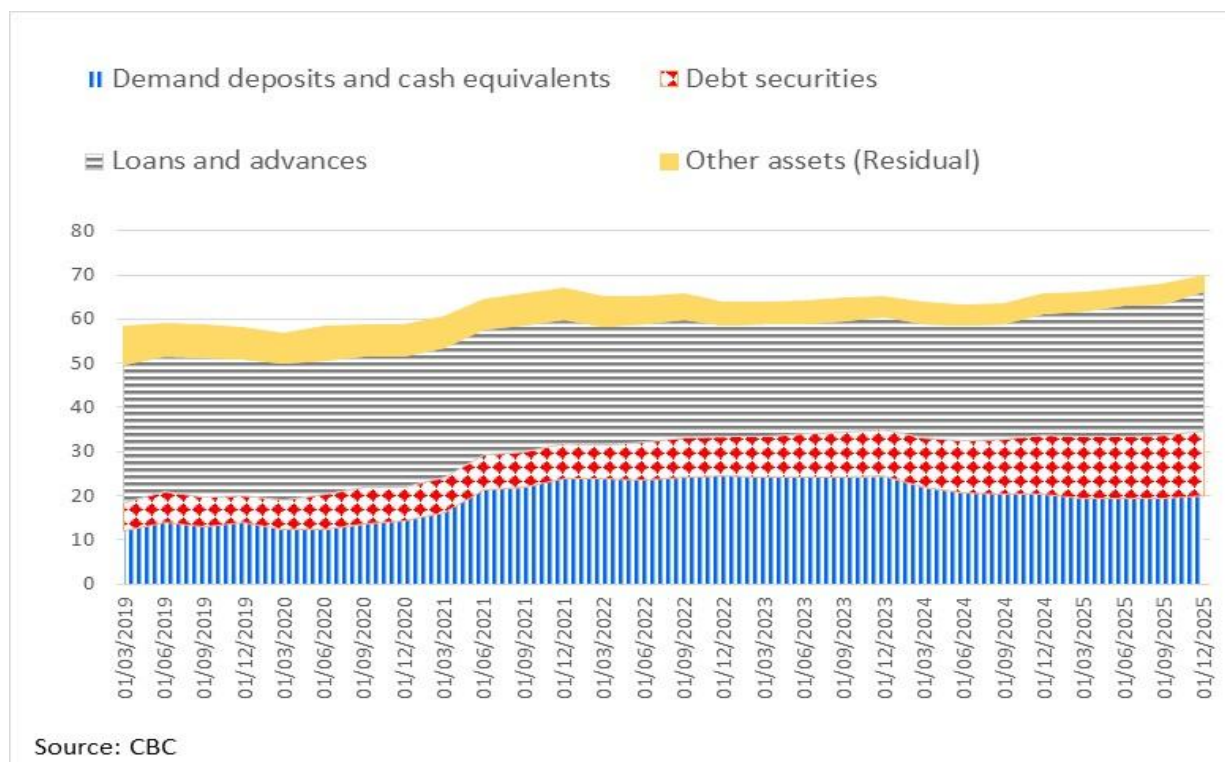


Chart 11 presents the composition of banking-sector assets, with loans, debt securities, deposits and cash equivalents constituting the largest categories. In 2025, loans increased from €27.6 billion at end-2024 to €31.7 billion at end-2025, while deposits and cash equivalents declined from €20.4 billion to €19.8 billion.

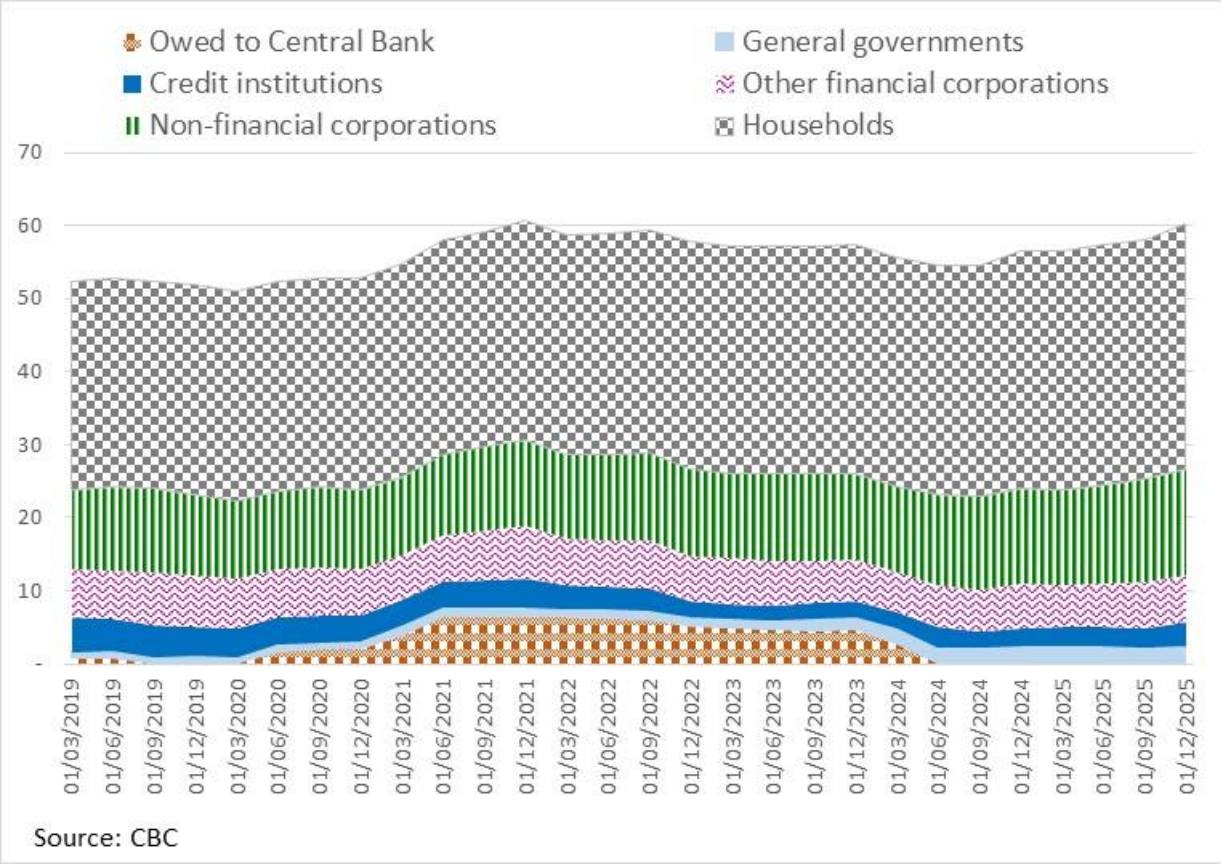
In terms of liabilities, deposits accounted for 95% of total liabilities in the final quarter of 2025 and, consistent with previous years, remained the banking sector’s primary source of funding. Debt securities represented 3%, while other liabilities accounted for 2%. Total liabilities rose from €59.4 to €63.1 billion over 2025, mainly reflecting an increase in deposits.

Demand deposits comprise current accounts, overnight deposits, deposits with agreed maturity, deposits redeemable at notice, and repurchase agreements. Chart 12 presents the composition of deposits, the majority of which are held by households and non-financial corporations.

² Aggregate data for all domestic and foreign credit institutions operating in Cyprus on a consolidated basis. A list of all banks operating in Cyprus can be found on the Central Bank of Cyprus (CBC) website under the following link:

<https://www.centralbank.cy/en/licensing-supervision/banks/register-of-credit-institutions-operating-in-cyprus>

Chart 12 – Composition of banking sector deposits (EUR billions)



7. CONCLUSIONS

In line with developments across the rest of the Eurosystem, Cyprus's banking sector operated in an environment of ample liquidity throughout 2025, with the DFR serving as the principal benchmark for guiding the €STR. As a result, refinancing operations were not utilised, and the value of monetary-policy portfolios continued to decline as maturing securities were not reinvested. Banks placed the bulk of their EL in the DF, rather than in current accounts, owing to its higher remuneration. However, following the successive reductions in the DFR in 2025, banks increasingly sought more active investment opportunities, such as bond purchases and lending, leading to a gradual decline in their DF balances. Collateral mobilised with the CBC consisted predominantly of ACCs and traditional covered bonds, while Intra-Eurosystem claims remained the principal source of liquidity.