



THE RETAIL PAYMENTS LANDSCAPE IN CYPRUS 2014-2021

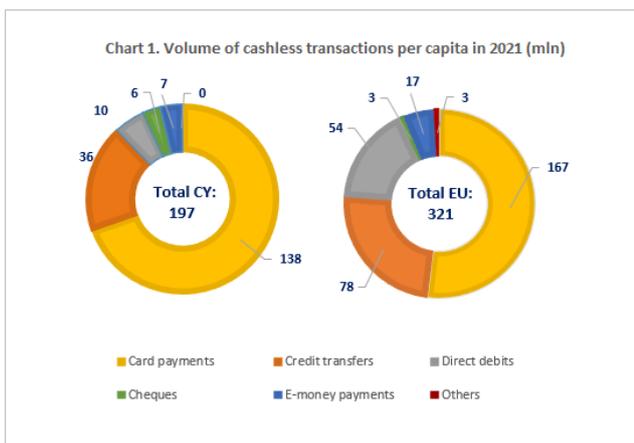
1. INTRODUCTION

This report gives an overview of the retail payments landscape in Cyprus from 2014 up until 2021. The sources of data used are: (i) the statistics collected by the Central Bank of Cyprus (CBC), in line with the ECB Regulation on Payment Statistics (ECB/2013/43)¹, and (ii) the publicly available ECB's Report on the use of cash in 2016².

2. PAYMENT PREFERENCES

Cypriots still rely heavily on cash payments (volume: 88%; value: 72% of the total). According to the ECB Report on the use of cash, Cyprus ranked amongst the top three countries.

In 2021, the average inhabitant in the EU used cashless payment instruments 1,6 times more often than the average inhabitant in Cyprus (Chart 1).



¹ These data are published in the ECB's Statistical Data Warehouse (SDW).

² ['The use of cash by households in the euro area, ECB Occasional Paper Series No 201 / November 2017'](#).

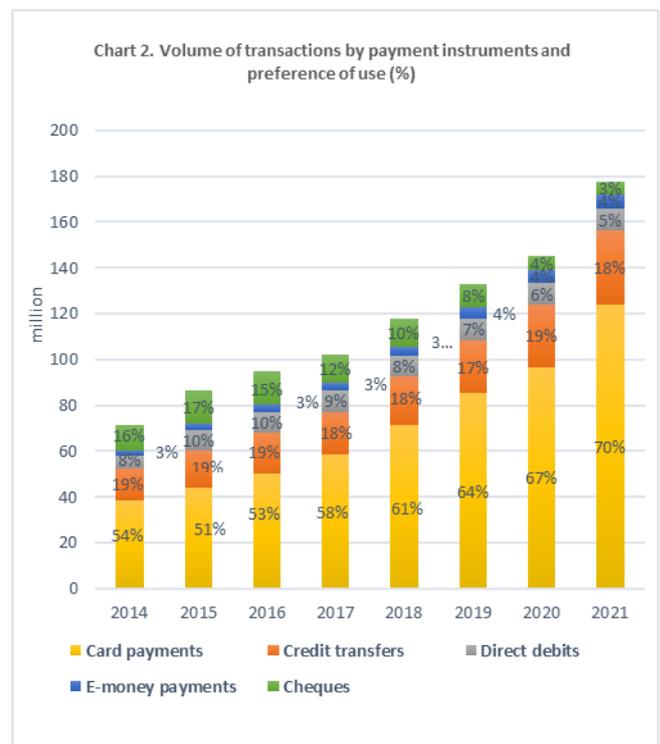
3. THE USE OF CASHLESS PAYMENT INSTRUMENTS

The non-cash payment instruments used in Cyprus comprise cards, credit transfers, cheques, direct debits and e-money payments.

Cards are, by far, the most popular instrument in terms of volume of transactions (70%), whereas credit transfers largely dominate the total value (86%). Cheques remain important, in terms of value.

3.1 VOLUME ANALYSIS

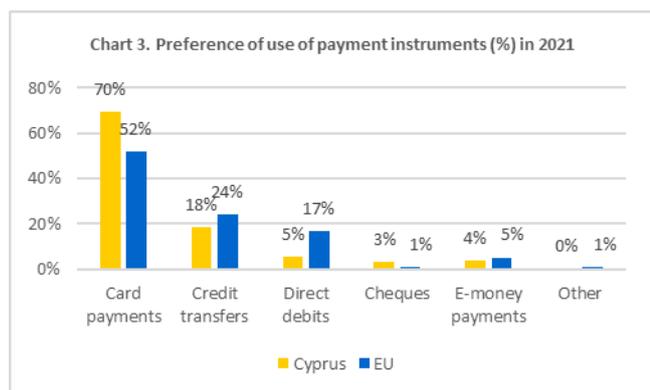
Chart 2 depicts the evolution of volumes for cashless payment instruments.



Cards are used almost 4 times more often than credit transfers, the latter ranking second in order of

preference. Card payments displayed an upward growth rate since 2014 (CAGR³: 11%) and consistently accounted for more than half of the total volume of cashless payments for each year under review. In 2021, card payments peaked to 70% of the total, whereby transactions more than tripled from 39 mln in 2014 to 124 mln in 2021 (Chart 2).

On an aggregate level, Cypriots use cards more frequently than their European peers (Chart 3).



The use of cheques continued to fall. Volumes more than halved in 2021 compared to 2019, the latter being the pre-pandemic year (Chart 1). **Over the counter transactions decreased** by more than 5 times over the review period (i.e. 1,7 mln transactions in 2021 as opposed to 7,3 mln in 2014).

The key drivers for these tendencies are the following:

- In-person visits at banks’ premises are no longer always necessary, because services are largely available online. At the same time, the number of bank offices have gradually reduced.
- Cards are easy, safe and more sanitary to use than cheques, which proved important due to the pandemic.
- Cypriot banks continued to issue more cards, in order to improve financial inclusion of all groups in society.
- Due to the pandemic, contactless payments were increased in 2020 from 20 euro up to 50 euros with a payment card, smartphone or wearable without having to enter the PIN.

³ CAGR: compound annual growth rate.

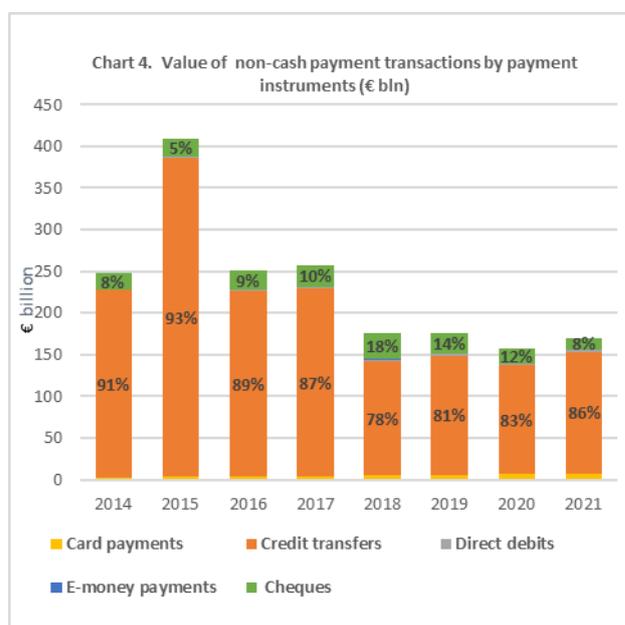
- Businesses increasingly accept payments with digital payment instruments or have even ceased to accept cheque payments.
- The increase in the points of sale (POS) terminals, due to the entry into force of a decree issued by the Ministry of Finance that made the acceptance of payment cards compulsory for businesses operating in the retail trade and services sectors. This is also indicated by the increase in the use of cards issued by non-Cypriot banks at local POS terminals (2021: 23% YoY). Nevertheless, a more representative view of the impact of the decree is expected in the next years, because it only entered into force in September 2021.

Cypriots do not display a clear preference to the use direct debits for making recurring payments (e.g. utility bills, insurance, subscriptions, public charges, etc.). Consumers seem to also use cards as well as cash at the physical POSs.

E-money payments are relatively new in Cyprus but are nevertheless gaining wider use and tripled from 2.1 mln transactions in 2014 to 6.3 mln transactions in 2021. The licensing of e-money institutions commenced from 2018 onwards and reached 18 in 2021, as opposed to only 1 in 2014.

3.2 VALUE ANALYSIS

Chart 4 depicts the evolution of value for cashless payment instruments.



The value of cashless payments is mainly generated by credit transfers (86%), which are used for bulk payments, such as salaries, pensions, various payments to the Republic of Cyprus (e.g. VAT, tax payments.), etc. It is worth to note that from 2017 onwards, because of a joint initiative between the Tax Department and the CBC and in cooperation with banks, the government has substituted the biggest part of the use of cheques with digital payment instruments. In specific, credit transfers and card payments account for the largest share the government's receipts in value terms.

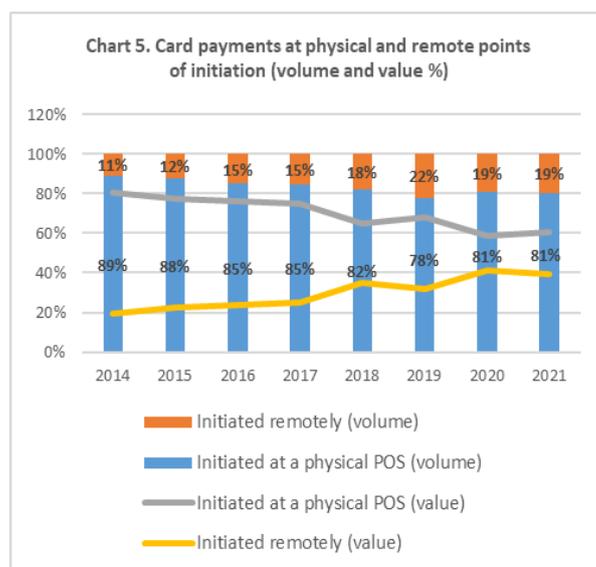
Cyprus is one of the few European countries in which cheques are still used and in fact ranks second in terms of value (8%). Though expensive, businesses and individuals still perceive cheques as an important credit line for making retail payments. This is indicated by:

- The significant contribution of cheques in the total value of retail payments, which well-exceeds the EU average for 2021 (CY: 8%; EU: 0,7%).
- The average value per cheque is more than twice the EU average (CY: EUR 2.400; EU: EUR 1.100).

4. CONCLUDING REMARKS

- ✓ **Cypriots still perceive important to always have the option to pay with cash and cheques.**
- ✓ **Consumer preferences favour digital payment methods**, as manifested by the following:
 - The **increased use of cards, which is mainly driven by debit cards**. In fact, Cypriots consistently choose debit over credit cards (2021: 84%; 2019: 77%; 2014: 66%).
 - **Access to cash is not as easy as in 2014, due to the reduction and consolidation of the banking sector**. The number of banks' offices decreased by 42% (2021: 260; 2014: 615) and the decrease in the number of automated teller machines (2021: 451; 2015: 526).
- ✓ **Consumer habits indicate a clear preference for making purchases using cards at physical POSs (81%) rather than online (Chart 5)**. In specific:

- **The pandemic had no major impact on the volume of card transactions** (online or at physical POSs).
- **The pandemic mainly affected the value of online card payments since 2019** with a sharp increase of 58% to EUR 2,9 bln in 2021 compared to EUR 1,9 bln in 2019. Card payments at physical POSs decreased by only 6% to EUR 3,7 bln in 2021 from EUR 4 bln in 2019.
- **The aforementioned effect of the pandemic was only short-term**, as the value of online card payments had stabilised in 2021.
- **E-commerce transactions using payment cards are gaining popularity** and have increased by more than 5 times in volume and in value terms from 2014 up until 2021.



- ✓ **The culture of using digital methods for retail payments is not yet as widespread in Cyprus as in the EU as a whole**. In 2021, the average value per card transaction is almost twice the EU average (CY: EUR 60; EU: EUR 36).
- ✓ **Consumer behaviour for Cyprus' population of just under one million citizens is shifting towards digital payment methods at double the pace compared with the EU average** (5-year CAGR: 18% in CY vs 9% in the EU). This is only expected because Cypriots still pay in cash and via cheques, therefore any shifts towards digital

payments have a greater impact compared to the EU average.

- ✓ **The pandemic has accelerated profoundly this shift.** Since 2019 digital payments have increased by 40% in Cyprus as opposed to 18% in the EU.