



CENTRAL BANK OF CYPRUS
EUROSYSTEM

Explanatory note on External Statistics – December 2023

The current note aims to provide an overview of the main developments in External Statistics¹ of Cyprus for the Third Quarter of **2023**, with an emphasis on developments in selected macroeconomic indicators.

I. BALANCE OF PAYMENTS (Table 1 and Figure 1)

I.1 Current and Capital Accounts

The Current Account deficit increased to €517,0 million in Q3 2023, compared with a deficit of €399,0 million in Q3 2022 (see Table 1 and Figure 2). The increase in the Current Account deficit resulted mainly from the deterioration of the deficits of *Goods* and of *Primary* and *Secondary Incomes*. In particular, the increase in the deficit of *Goods* (from €1.577,7 million to €1.731,8 million), the deterioration of the deficit in *Primary Income* (from €488,1 million in Q3 2022 to €749,5 million in Q3 2023) and, to a lesser extent, the increase in the deficit of *Secondary Income* (from €66,0 million in Q3 2022 to €109,2 million in Q3 2023), contributed to the increase of the deficit. The aforementioned developments were partly offset by the increased surplus of *Services* (from €1.732,8 million to €2.073,4 million).

Table 1. The Balance of Payments

(€ million)	Q3 2022			Q3 2023			%ΔBalance*
	Credit	Debit	Balance	Credit	Debit	Balance	
Current account	12.772,9	13.171,9	-399,0	13.234,8	13.751,8	-517,0	↓ -29,6%
Goods	1.051,1	2.628,8	-1.577,7	1.004,9	2.736,7	-1.731,8	↓ -9,8%
Services	5.872,2	4.139,5	1.732,8	6.237,8	4.164,3	2.073,4	↑ 19,7%
<i>of which:</i>							
Transport	1.019,2	750,2	269,0	1.070,5	830,0	240,5	↓ -10,6%
Travel	1.216,0	470,0	746,0	1.448,1	569,5	878,6	↑ 17,8%
Financial services	1.207,3	775,3	432,0	1.174,2	713,9	460,3	↑ 6,6%
Telecommunications, computer, and information services	1.736,0	1.162,2	573,8	1.726,0	1.100,8	625,2	↑ 9,0%
Other business services	388,2	765,5	-377,3	406,7	717,9	-311,1	↑ 17,5%
Primary Income	5.665,8	6.153,9	-488,1	5.805,6	6.555,1	-749,5	↓ -53,5%
Compensation of employees	20,1	30,3	-10,2	20,2	32,5	-12,3	↓ -20,8%
Direct investment	5.220,7	5.808,8	-588,0	5.145,1	6.090,7	-945,6	↓ -60,8%
Portfolio investment	135,5	153,6	-18,2	115,2	162,8	-47,5	↓ -161,6%
Other investment	284,7	145,5	139,1	517,8	252,3	265,5	↑ 90,8%
Reserve assets	0,6		0,6	0,7		0,7	↑ 25,9%
Other primary income	4,3	15,7	-11,4	6,6	16,8	-10,2	↑ 10,6%
Secondary Income	183,7	249,7	-66,0	186,5	295,7	-109,2	↓ -65,5%
Capital account	143,7	42,9	100,8	17,1	50,1	-33,0	↓ -132,7%
	Assets	Liabilities	Net	Assets	Liabilities	Net	
Financial Account	-777,4	-604,4	-173,1	439,5	608,0	-168,5	↑ 2,6%
Direct investment	-4.342,3	312,7	-4.654,9	-52,5	910,1	-962,6	↑ 79,3%
Portfolio investment	2.629,4	-364,8	2.994,2	1.186,3	-642,3	1.828,6	↓ -38,9%
Financial derivatives	-94,0	-32,4	-61,6	-27,3	-22,6	-4,7	↑ 92,3%
Other investment	964,5	-519,9	1.484,3	-665,4	362,8	-1.028,2	↓ -169,3%
Reserve assets	64,9		64,9	-1,6		-1,6	↓ -102,5%
Net Errors and Omissions			125,2			381,5	↑ 204,8%

Source: Central Bank of Cyprus

Note: *%ΔBalance is defined as the % change in the balance of Q3 2023 over the corresponding balance of Q3 2022

¹ External Statistics – namely Balance of Payments, International Investment Position and External Debt Statistics –measure all economic transactions and all financial positions between residents and non-residents.



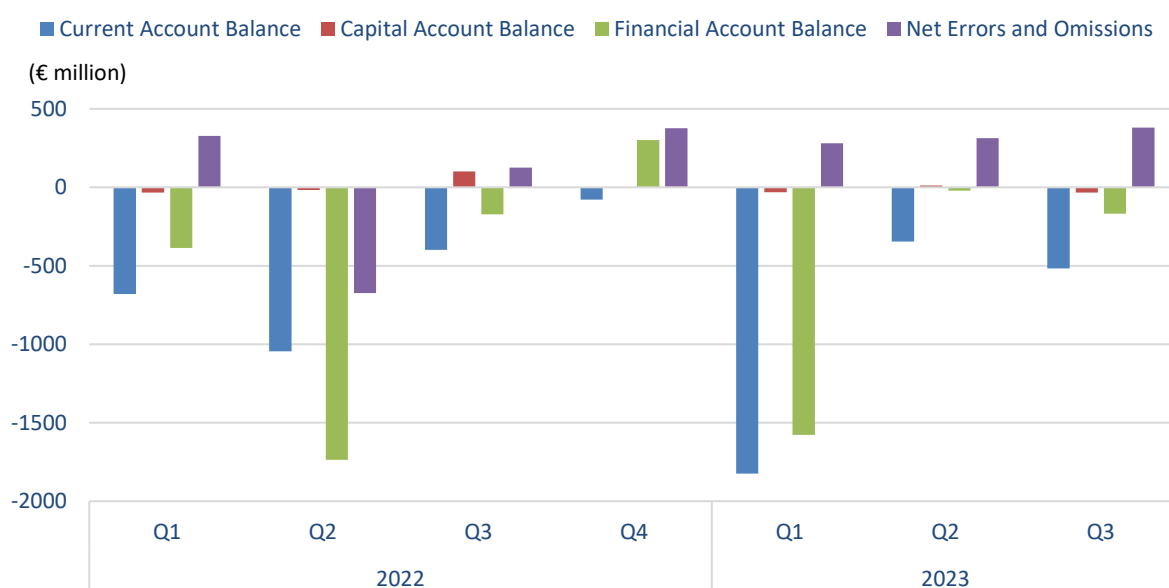
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More details of the changes recorded in the main categories of the Current Account are given below:

- **Goods** - Imports remained consistently higher than exports. The trade deficit in the Q3 2023 increased, mainly due to the increase in imports and to a lesser extent, the decrease in exports. The increase in imports was attributed to the increase in imports of movable equipment while imports of other general merchandise decreased. On the export side, movable equipment and the rest types of goods included under general merchandise recorded decreases. As regards net exports of goods under merchanting, this registered an increase of €95,7 million (from €199,6 million in Q3 2022 to €295,3 million in Q3 2023).
- **Services** - The increase in the surplus of *Services* resulted mainly from positive developments in *travel, other business services, telecommunications, computer and information*, and, to a lesser extent, from *financial services* and *manufacturing services on physical inputs owned by others* (processing services). The said increases were partially offset by decreases mainly in the categories of *transport* and *Charges for the use of intellectual property n.i.e.*
- **Primary Income** – The increase of the deficit of *Primary Income* was mainly associated with decreases recorded in *Direct Investment income* which is negatively correlated with the development in the *Services Account*, and to a lower degree in portfolio investment income. Those were mitigated by the increase recorded in *other investment income* mainly due to higher interest received by monetary and other depository taking institutions.
- **Secondary Income** – The widening of the deficit of Secondary Income was mainly associated with a decrease of net funds received by the government from the EU.

Figure 1
The Balance of Payments



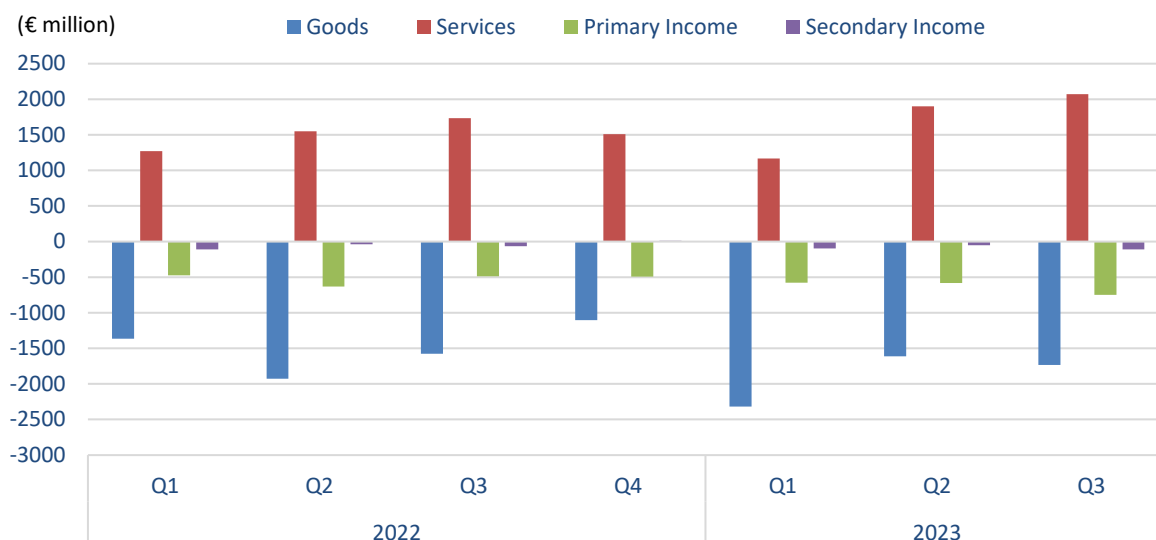
Source: Central Bank of Cyprus



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Figure 2
The Current Account



Source: Central Bank of Cyprus

The Capital Account recorded a deficit of €33 million in Q3 2023, compared with a surplus of €100,8 million in the equivalent Quarter of 2022. The said development is mainly the result of lower investment grants received by the EU during the quarter under review.

I.2. Financial Account

The Financial Account recorded an improvement with a net inflow of €168,5 million in Q3 2023, compared with a net inflow of €173,1 million in Q3 2022 (see Table 1 and Figure 3). The aforementioned situation in the Net Financial Account in Q3 2023, was mainly attributed to the considerable net inflows of the categories of *Direct Investment* and *Other Investment* which entirely mitigated the decreased net outflow of Portfolio Investment.

As regards *Direct Investments*, the net inflow recorded in Q3 2023 resulted from the decrease in net asset transactions by €52,5 million in combination with an increase in net liabilities transactions by €910,1 million (total net inflows of €962,6 million). The category of *Portfolio Investment* recorded the highest outflows in Q3 2023 with €1.828,6 million. In particular, net asset transactions increased by €1.186,3 million while net liabilities transactions decreased by €642,3 million.

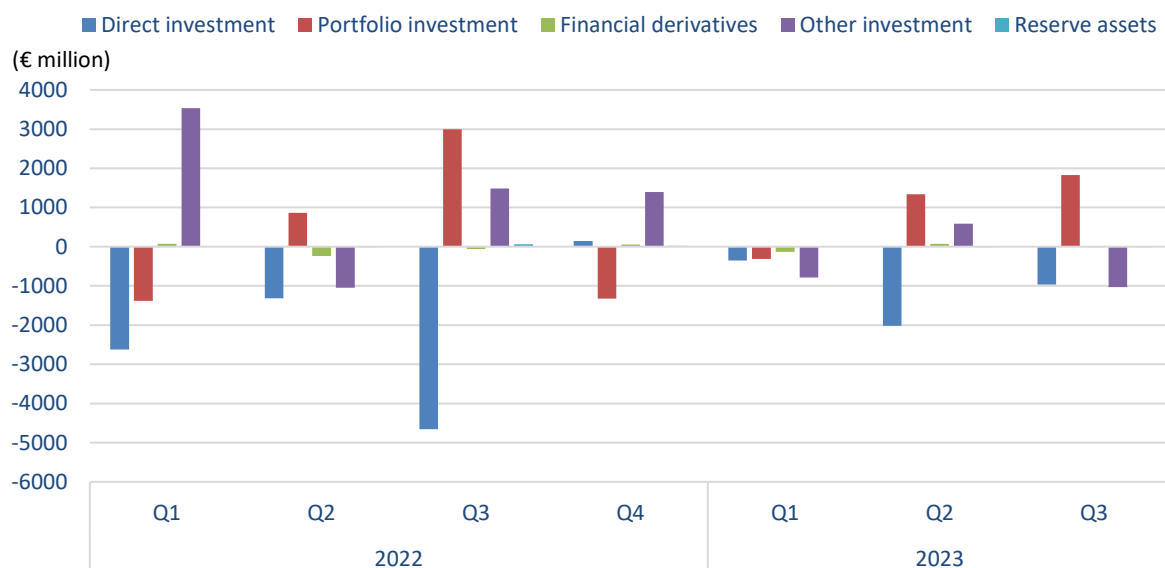
Regarding the category of *Other Investment*, it recorded a decrease in net asset transactions by €665,4 million while net liabilities transactions increased by €362,8 million. Finally, *Financial Derivatives* and *Reserve assets* both recorded marginal net inflows of €4,7 million in Q3 2023 compared to a net inflow of €61,6 million in Q3 2022 and €1,6 million in Q3 2023 compared with an outflow of €64,9 million in Q3 2022, respectively.



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Figure 3
The Financial Account

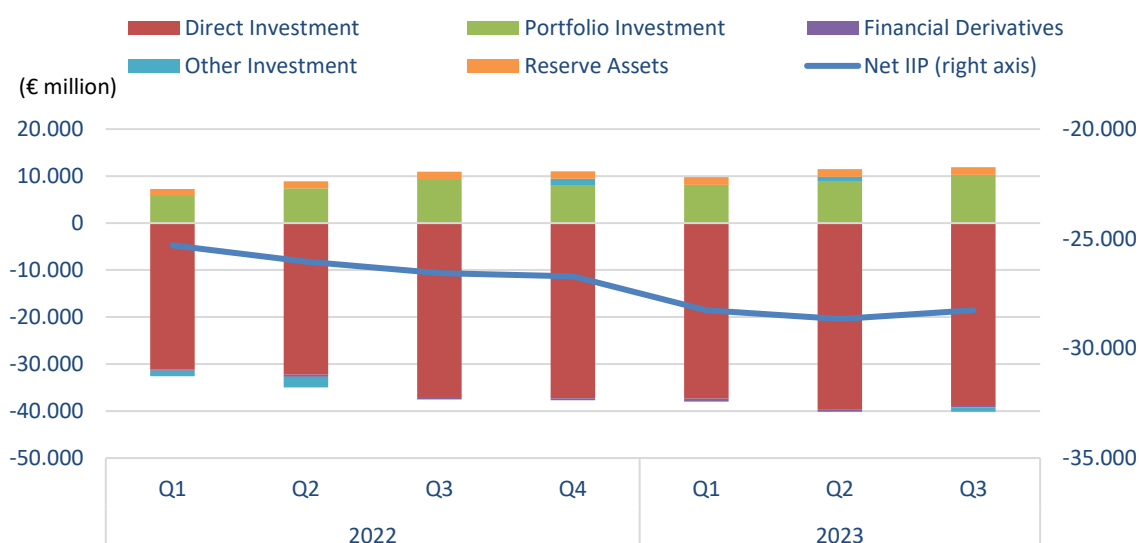


Source: Central Bank of Cyprus

II. INTERNATIONAL INVESTMENT POSITION

Cyprus' financial liabilities with the rest of the world remained significantly higher than the foreign financial assets owned by its residents and thus the *International Investment Position* recorded a net liability position of €28.267,5 million in Q3 2023, compared with a respective position of €28.658,3 million, in Q2 2023 (see Figure 4 and Table 2).

Figure 4
Net International Investment Position



Source: Central Bank of Cyprus



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The improvement in Q3 of 2023 was mainly the result of the increase of the net asset position of *Portfolio Investments* as well as the decrease of the net liability positions of *Direct Investments* and that of *Financial Derivatives*. On the other hand, the net liability position of *Other Investments*, affected negatively the net *International Investment Position*, thus mitigating the above-mentioned improvement.

In parallel, the improvement in the net *International Investment Position* of Q3 2023 was driven by positive net other volume changes, and to a lesser extent by positive net exchange rate revaluations. Those changes were partially offset by negative price changes and negative transactions (see Table 2).

Table 2. International Investment Position

(€ million)	2023 Q2	2023 Q3				
	Amounts outstanding	Transactions	Exchange rate changes	Price changes	Other volume changes	Amounts outstanding
Net	-28.658,3	-168,5	204,9	-914,5	1.268,9	-28.267,5
Direct investment	-39.622,5	-962,6	-115,7	-293,0	2.270,3	-38.723,5
Portfolio investment	8.933,5	1.828,6	109,7	-642,0	44,9	10.274,7
Financial derivatives	-502,4	-4,7	0,0	16,3	0,3	-490,5
Other investment	949,0	-1.028,2	198,6	0,5	-1.046,6	-926,6
Reserve assets	1.584,0	-1,6	12,4	3,6	-0,1	1.598,4
Assets	473.291,6	439,5	1.512,8	447,6	-7.398,3	468.293,1
Direct investment	380.136,6	-52,5	1.019,5	389,2	-5.857,4	375.635,4
Portfolio investment	26.192,3	1.186,3	184,4	29,7	56,4	27.649,1
Financial derivatives	556,7	-27,3	0,0	24,6	0,3	554,4
Other investment	64.822,0	-665,4	296,4	0,5	-1.597,6	62.855,9
Reserve assets	1.584,0	-1,6	12,4	3,6	-0,1	1.598,4
Liabilities	501.949,9	608,0	1.307,8	1.362,1	-8.667,2	496.560,6
Direct investment	419.759,1	910,1	1.135,3	682,2	-8.127,7	414.358,9
Portfolio investment	17.258,7	-642,3	74,7	671,7	11,5	17.374,4
Financial derivatives	1.059,2	-22,6	0,0	8,3	0,0	1.044,9
Other investment	63.872,9	362,8	97,8	0,0	-551,0	63.782,5

Source: Central Bank of Cyprus

III. EXTERNAL DEBT

The *gross External Debt* decreased to €162.317,2 million in Q3 2023, compared with €169.614,3 million in Q2 2023. Furthermore, *external assets in debt instruments* increased to €152.975,1 million from €146.830,5 million in Q2 2023. Consequently, *net External Debt (gross external debt less external assets in debt instruments)* decreased by €13.441,7 million to €9.342,1 million in Q3 2023 (see Figure 5).

More analytically, as regards:

- *Gross External Debt* – The decrease in the *gross External Debt* mainly resulted from a debt decrease of *Intercompany lending*, and to a lesser extent the decrease in the categories of *General Government* and *Other Sectors*. The aforementioned decreases were mitigated by the increases recorded in the categories of the *Central Bank* and that of *other Deposit Taking Corporations*.

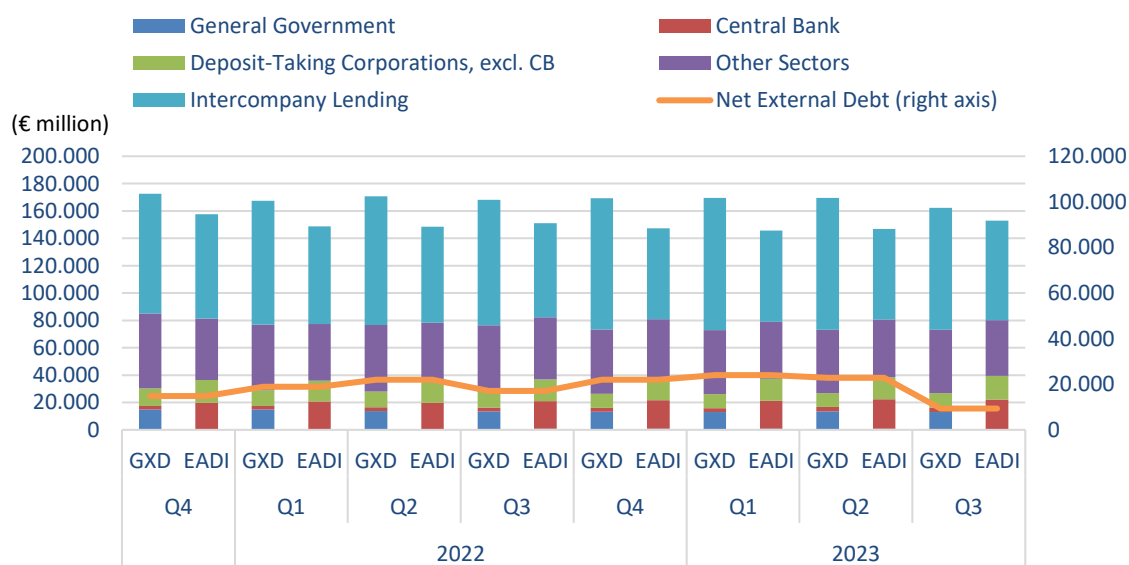


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- *External assets in debt instruments* - The increase of external assets in debt instruments resulted from increases in the *Intercompany Lending* and *Deposit-Taking Corporations, except the Central Bank*. The decreases recorded by the categories of *the Other Sectors*, the *General Government* and to a lesser extent by the *Central Bank*, partly moderated the above increases.

Figure 5
External Debt by Sector



Acronyms used: Gross External Debt (GXD), External Assets in Debt Instruments (EADI), Central Bank (CB)
Source: Central Bank of Cyprus

IV. GEOGRAPHICAL BREAKDOWN OF MAIN EXTERNAL INDICATORS

IV. 1. Geographical breakdown of the Current Account²

Data on the main geographic counterparts of the Cyprus' current account (see Figure 6) show that in Q3 2023, Cyprus recorded bilateral surpluses vis-à-vis Germany (€166,8 million, down from €175,0 million a year earlier), the United Kingdom (€443,0 million, up from a surplus of €324,4 million), and Russia (€55,3 million, down from a surplus of €397,0 million a year ago). On the other hand, bilateral deficits in the current account were recorded vis-à-vis Greece (€898,1 million compared with a deficit of €670,1 million in Q3 2022) and the USA (€230,2 million compared with a deficit of €307,3 million a year earlier).

As regards bilateral data vis-à-vis the Eurozone, a surplus of €726,8 million was recorded in Q3 2023 down from €856,8 million a year earlier. In parallel a surplus of €2.140,3 million was recorded vis-à-vis the European Union (excl. UK) down from €2.255,4 million a year earlier.

² A part of *Primary Income* payable (in particular *Portfolio Investment Income*) is not broken down at a country level according to the current methodological standards.

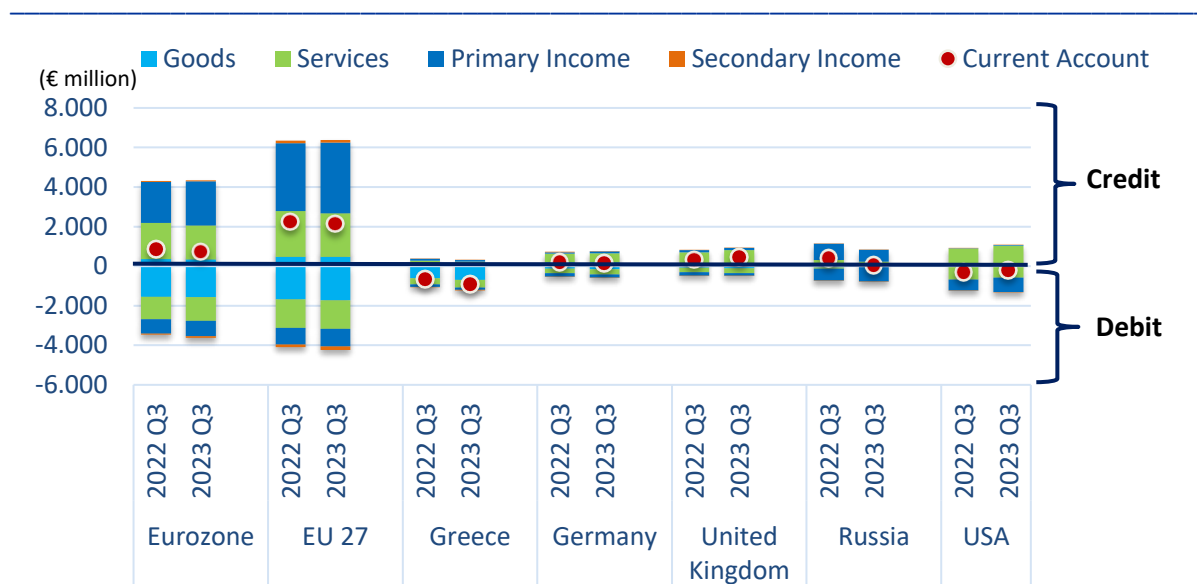


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Figure 6

Geographical breakdown of the Current Account



Source: Central Bank of Cyprus

IV.2. Geographical breakdown of the International Investment Position³

As shown in Figure 7, the largest assets and liabilities stocks of Cyprus vis-à-vis an individual country, continued to be recorded with Russia, reflecting the fact that Cyprus hosts a large number of SPEs with Russian origin. In particular, stock assets with Russia stood at €94.201,8 million and liabilities at €94.080,5 million (net position of €121,3 million). With regards to the European Union (excl. UK), stock assets stood at €139.755,5 million and stock liabilities at €160.320,3 million (negative net position of €20.564,8 million).

As regards direct investment, the main category of the IIP, United Kingdom recorded a net position at €6.132,8 million while European Union (excl. UK) recorded a negative net position of €47.417,1 million.

³ Certain data on International Investment Position (especially Portfolio Liabilities) are not able to be classified to a specific counterpart country. In particular, a share of around 20,8% in total assets and 14,0% in total liabilities in Q3 2023 were not able to be allocated to a certain country.

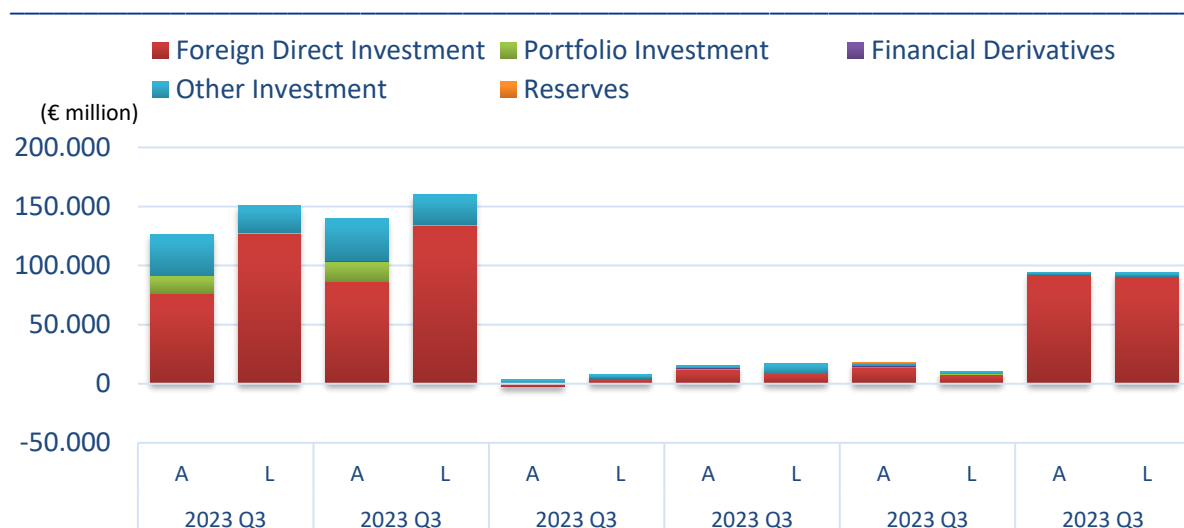


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Figure 7

Geographical breakdown of the International Investment Position



Acronyms used: Assets (A), Liabilities (L)

Source: Central Bank of Cyprus

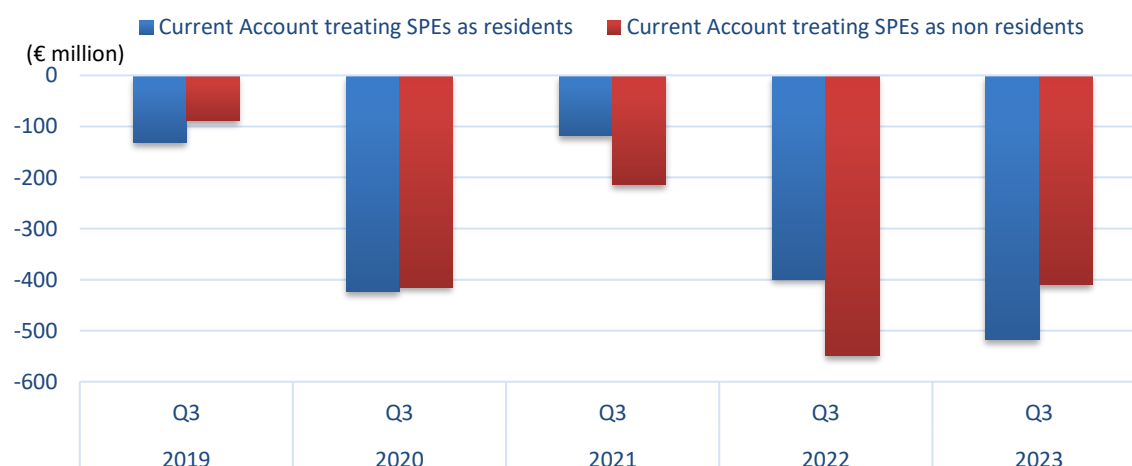
V. DATA ADJUSTED FOR THE IMPACT OF SPES

In order to present external statistics in a more objective manner, the main figures are also adjusted for the impact of special purpose entities ([SPES](#)), i.e. by classifying them as non-residents.

The *Current Account*, adjusted for the impact of SPES, recorded an improvement in Q3 2023, recording a deficit of €408,9 million, compared with a deficit of €548,8 million in Q3 2022 (see Figure 8). The said development, as mentioned before, resulted mainly from the improvement of the surplus in *Services* and to a lesser extent by the improvement of the deficit in *Goods* and in particular the sub-category of net exports of goods under merchanting. The deterioration of the deficits in *Primary and in Secondary Incomes* mitigated the improvement of the *Current Account* but only partially.

Figure 8

Current Account treating SPES as residents and as non-residents



Source: Central Bank of Cyprus



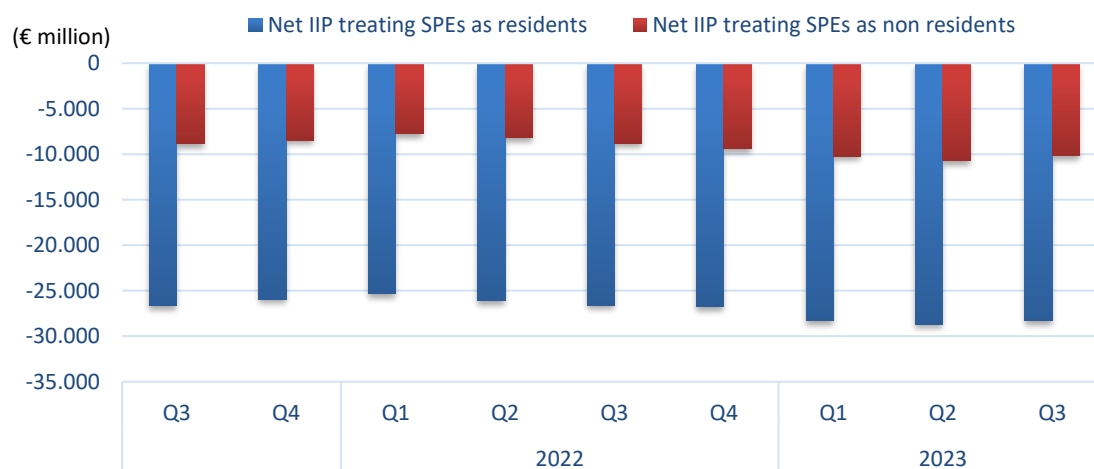
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The *International Investment Position*, adjusted for the impact of SPEs, recorded a net liability position of €10.130,7 million in Q3 2023, compared with a net liability position of €10.710,7 million, in the previous quarter (see Figure 9), thus recording a slight improvement. It is worth mentioning that the significant gap between net *International Investment Position* treating SPEs as residents and the one treating SPEs as non-residents, is primarily connected to ship-owning SPEs. This is due to the fact that these companies own real assets (i.e. ships) which are not included in IIP since they are not financial assets while their financing is mainly obtained from non-domestic sources which is included in IIP.

Figure 9

Net International Investment Position treating SPEs as residents and as non-residents

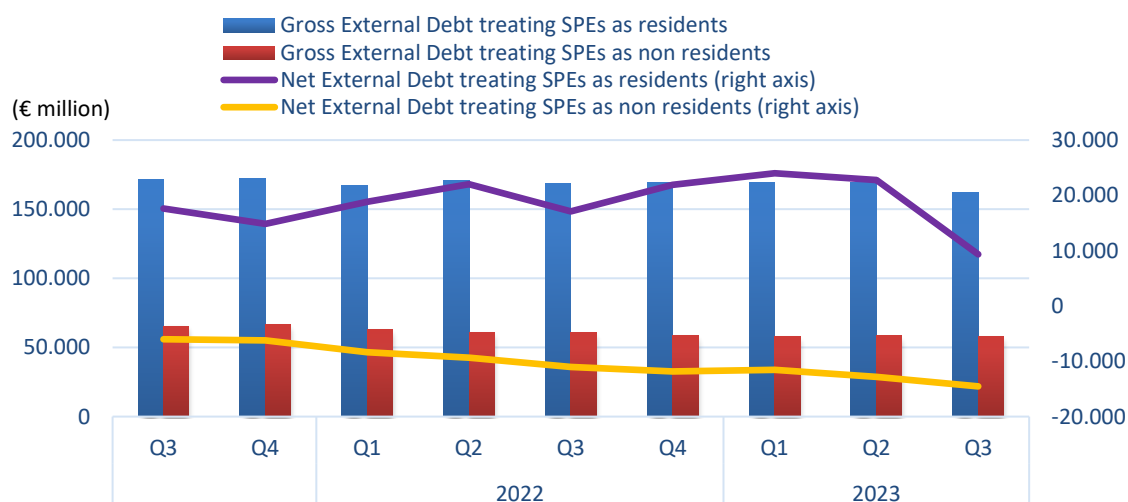


Source: Central Bank of Cyprus

The *gross External Debt*, adjusted for the impact of SPEs, amounted to €58.261,2 million in Q3 2023, down from €58.513,4 million in the previous quarter, while the corresponding *net External Debt* indicator was recorded at -€14.534,8 million, down from -€12.822,1 million the previous quarter (see Figure 10).

Figure 10

External Debt treating SPEs as residents and as non-residents



Source: Central Bank of Cyprus