



CENTRAL BANK OF CYPRUS
EUROSYSTEM

Explanatory note on External Statistics Data December 2020

DATA FOR THE THIRD QUARTER OF 2020 (2020 Q3)

CURRENT ACCOUNT

The current account recorded a deficit of €784,2 million in 2020 Q3, compared with a deficit of €105,5 million in the same quarter of 2019 (see Table 1). The significant increase in the current account deficit resulted from lower surplus in *services* (from €1.408,2 million to €637,3 million) and larger deficit in *primary income* (from -€185,0 million to -€299,5 million). The aforementioned adverse developments were partly offset by lower deficits in *goods* (from -€1.251,7 million to -€1.062,3 million) and in *secondary income* (from -€77,0 million to -€59,7 million). It is worth mentioning that the developments in the period under review, especially in services, were greatly affected by the COVID-19 pandemic.

Table 1. Current Account

| (€ million) | Q3 2019 | | | Q3 2020 | | | %ΔBalance* |
|---------------------------|----------------|----------------|-----------------|----------------|----------------|-----------------|------------|
| | Credit | Debit | Balance | Credit | Debit | Balance | |
| Current account | 8.378,6 | 8.484,1 | -105,5 | 5.911,6 | 6.695,8 | -784,2 | ↓ -643,3% |
| Goods | 670,2 | 1.921,9 | -1.251,7 | 578,1 | 1.640,4 | -1.062,3 | ↑ 15,1% |
| Services | 3.772,9 | 2.364,7 | 1.408,2 | 2.645,1 | 2.007,8 | 637,3 | ↓ -54,7% |
| <i>of which:</i> | | | | | | | |
| Transport | 850,6 | 624,7 | 225,9 | 691,8 | 389,1 | 302,8 | ↑ 34,0% |
| Travel | 1.291,7 | 510,4 | 781,3 | 221,9 | 276,9 | -55,1 | ↓ -107,0% |
| Financial services | 839,3 | 470,0 | 369,3 | 944,5 | 556,1 | 388,5 | ↑ 5,2% |
| Other business services | 78,0 | 181,7 | -103,7 | 88,1 | 213,4 | -125,2 | ↓ -20,7% |
| Primary income | 3.808,5 | 3.993,5 | -185,0 | 2.570,5 | 2.870,0 | -299,5 | ↓ -61,9% |
| Compensation of employees | 20,4 | 30,1 | -9,7 | 18,8 | 27,8 | -9,0 | ↑ 7,4% |
| Direct investment | 3.140,7 | 3.297,5 | -156,8 | 2.244,0 | 2.252,1 | -8,1 | ↑ 94,8% |
| Portfolio investment | 401,9 | 219,6 | 182,3 | 124,4 | 171,6 | -47,2 | ↓ -125,9% |
| Other investment | 241,4 | 437,2 | -195,8 | 173,5 | 407,1 | -233,6 | ↓ -19,3% |
| Other primary income | 3,5 | 9,1 | -5,6 | 9,3 | 11,5 | -2,1 | ↑ 61,6% |
| Secondary income | 127,0 | 204,0 | -77,0 | 117,9 | 177,6 | -59,7 | ↑ 22,4% |

Source: Central Bank of Cyprus

Note: *%ΔBalance is defined as the % change in the balance of Q3 2020 over the corresponding balance of Q3 2019.

More details of the changes recorded in the main categories of the current account are given below:

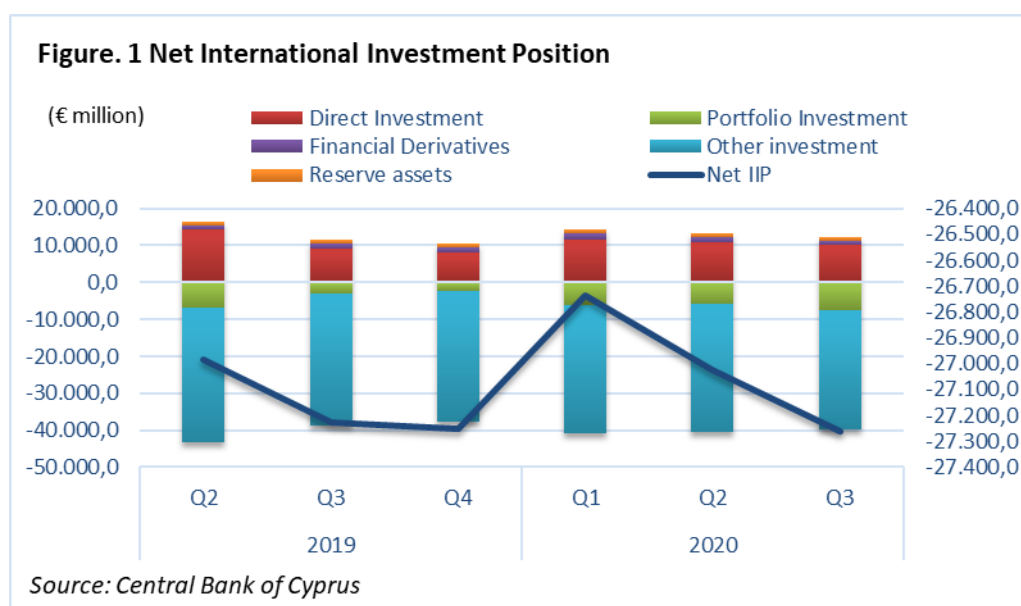
- **Goods** - The trade deficit in 2020 Q3 shrunk, following a decrease in imports (decrease in both, general merchandise and imports of movable equipment (i.e. vessels, yachts and airplanes)). The reduction in the trade deficit was mitigated by the decrease in exports (associated with a decrease in both, exports of general merchandise and exports of movable equipment).

- *Services* - The significant decrease in the surplus of *services* resulted almost entirely from the substantial decrease in net receipts of *travel*. These adverse changes were partly offset by the increase in the surplus of *transport* and *financial services*.
- *Primary income* – The widening of the deficit of *primary income* was mainly associated with the negative developments in *portfolio investment income* and, to a lesser extent, *other investment income*. The said developments were mitigated, mainly, by the improvements in *direct investment income*.
- *Secondary income* – The shrinkage in the deficit of *secondary income* was associated with a decreases in funds contributed to the EU and a decrease in payments of other sectors which surpassed the respective decreases in receipts.

INTERNATIONAL INVESTMENT POSITION

The *international investment position* recorded a net liability position of €27.263,2 million at the end of 2020 Q3, compared with a respective position of €27.023,3 million, in the previous quarter (see Figure 1 and Table 2).

This small deterioration was mainly due to the decreases recorded in *direct investment*, *portfolio investment* and *financial derivatives*, while these changes were partly compensated by the improvements in, *other investment* and *reserves*.



In parallel, the slight deterioration in the net *international investment position* in 2020 Q3 was driven by negative net transactions, net exchange rate revaluations and net price changes, which were partially offset, by positive net other volume changes (see Table 2).

Table 2. International Investment Position

| (€ million) | Q2 2020 | Q3 2020 | | | | |
|-----------------------|---------------------|--------------|-----------------------|---------------|----------------------|---------------------|
| | Amounts outstanding | Transactions | Exchange rate changes | Price changes | Other volume changes | Amounts outstanding |
| Net | -27.023,3 | -385,2 | -2,5 | -1.083,7 | 1.231,3 | -27.263,2 |
| Direct investment | 10.922,6 | -1.824,6 | 465,7 | -363,8 | 970,4 | 10.170,2 |
| Portfolio investment | -5.965,3 | -450,8 | -496,0 | -725,7 | 62,7 | -7.575,0 |
| Financial derivatives | 1.341,4 | -189,1 | 0,0 | -7,8 | 0,4 | 1.145,1 |
| Other investment | -34.367,8 | 2.076,5 | 41,0 | 0,1 | 197,7 | -32.052,6 |
| Reserve assets | 1.045,8 | 2,8 | -13,2 | 13,5 | 0,1 | 1.049,0 |
| Assets | 502.775,9 | -747,8 | -4.409,3 | -646,4 | 6.324,1 | 503.296,6 |
| Direct investment | 417.507,5 | -1.475,1 | -3.252,7 | -505,1 | 5.754,5 | 418.029,1 |
| Portfolio investment | 23.550,3 | 361,5 | -742,7 | -155,7 | 148,1 | 23.161,5 |
| Financial derivatives | 2.842,8 | -134,0 | 0,0 | 0,8 | 0,4 | 2.710,3 |
| Other investment | 57.829,5 | 497,0 | -400,7 | 0,1 | 420,9 | 58.346,7 |
| Reserve assets | 1.045,8 | 2,8 | -13,2 | 13,5 | 0,1 | 1.049,0 |
| Liabilities | 529.799,2 | -362,6 | -4.406,9 | 437,3 | 5.092,8 | 530.559,8 |
| Direct investment | 406.584,9 | 349,5 | -3.718,5 | -141,3 | 4.784,2 | 407.858,8 |
| Portfolio investment | 29.515,5 | 812,2 | -246,7 | 570,0 | 85,5 | 30.736,5 |
| Financial derivatives | 1.501,4 | 55,2 | 0,0 | 8,6 | 0,0 | 1.565,2 |
| Other investment | 92.197,3 | -1.579,5 | -441,7 | 0,0 | 223,1 | 90.399,2 |

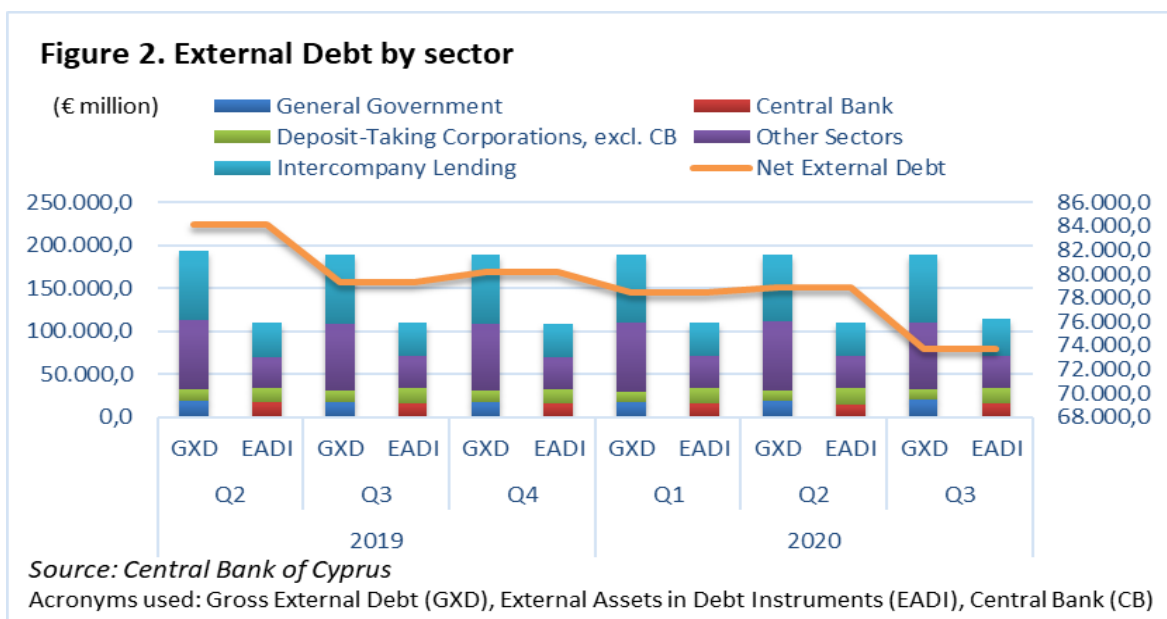
Source: Central Bank of Cyprus

EXTERNAL DEBT

The *gross external debt* decreased slightly to €188.588,8 million in 2020 Q3, compared with €189.395,9 million in 2020 Q2. *External assets in debt instruments* increased to €114.880,9 million from €110.539,4 million in 2020 Q2. Consequently, *net external debt (gross external debt less external assets in debt instruments)* decreased by €5.148,6 million to €73.707,9 million in 2020 Q3 (see Figure 2).

More analytically, as regards:

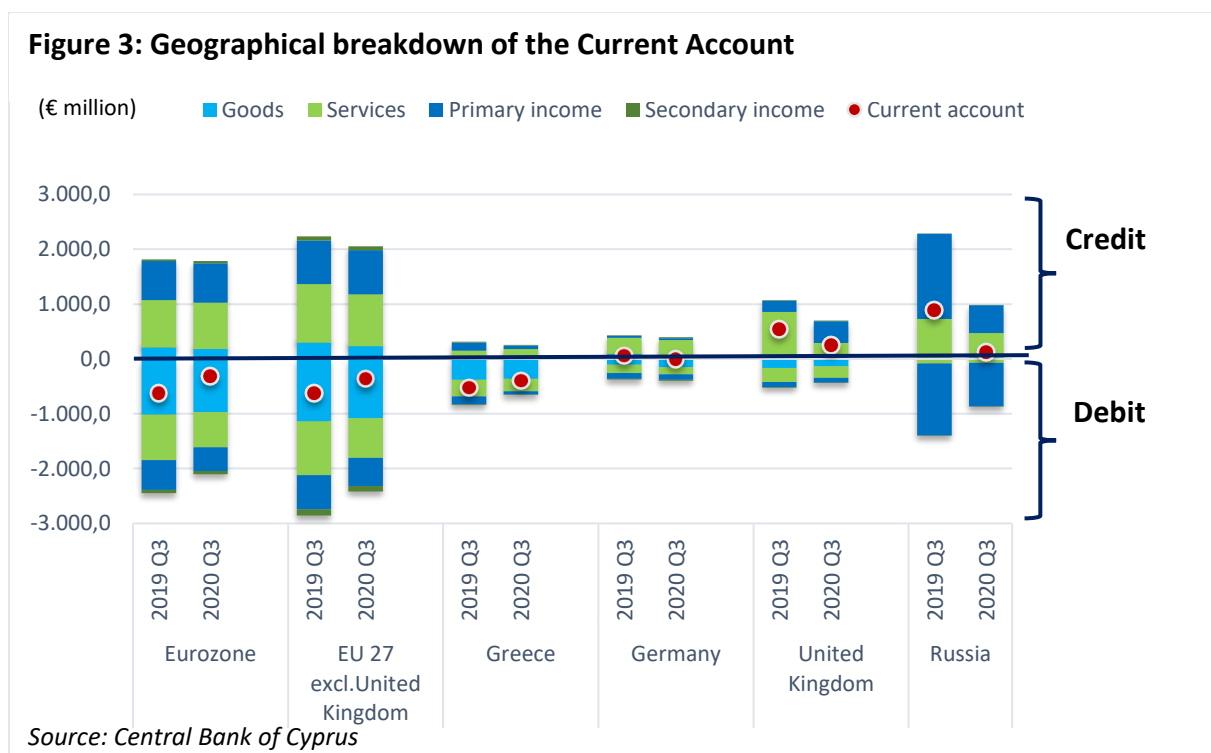
- *Gross external debt* - The slight deterioration in the *gross external debt* resulted from the increase in debt of *Central Bank, the Deposit-Taking Corporations (except the Central Bank), "other" sectors, and intercompany lending*. These changes were partly compensated by the rise in the debt of the *General Government*.
- *External assets in debt instruments* - The improvement of *external assets in debt instruments* was due to the rise in debt instruments held by *Central Bank and intercompany lending*. The decline in debt instruments held by the *General Government, Deposit Taking Corporations (except the Central Bank), and "other" sectors*, on the other hand, mitigated the abovementioned increase.



GEOGRAPHICAL BREAKDOWN OF MAIN EXTERNAL INDICATORS

Geographical breakdown of the Current Account

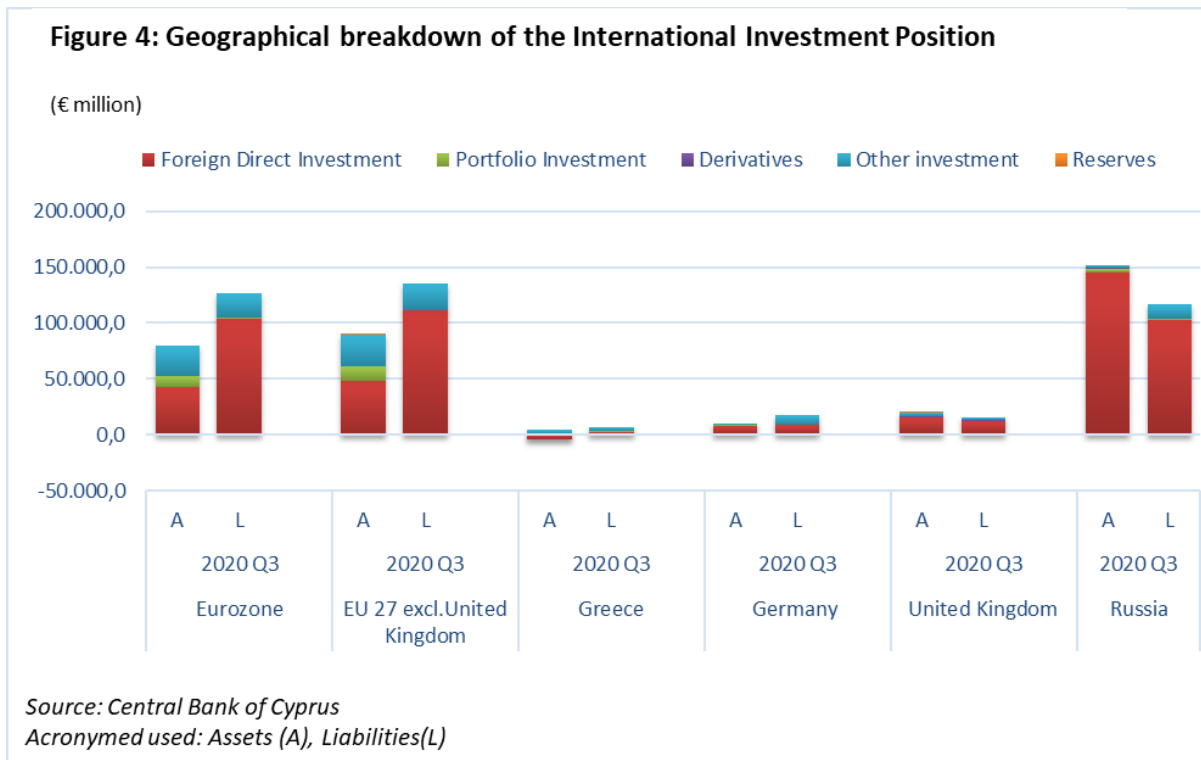
Data on the main geographic counterparts of the Cyprus' current account (see Figure 3) present that in 2020 Q3, Cyprus recorded its largest bilateral surpluses vis-à-vis Russia (€113,9 million, down from €885,1million a year earlier) and the United Kingdom (€258,6 million, down from €548,8 million). The largest bilateral deficits in current account were recorded vis-à-vis Greece (-€400,3 million, down from -€525,3 million) and Germany (-€1,7 million, down from a surplus of €58,2 million). As regards bilateral data vis-à-vis the European Union (excl. UK), a deficit of €365,6 million was recorded in 2020 Q3 (from a deficit of €624,2 million in 2019 Q3), as well as, a deficit of -€318,1 million was recorded vis-à-vis the Eurozone in the same quarter (from a deficit of €626,7 million in 2019 Q3).



Geographical breakdown of the International Investment Position¹

As shown in Figure 4, the largest assets and liabilities stocks of Cyprus vis-à-vis an individual country, were recorded with Russia. In particular, stock assets with Russia were recorded at €151.747,4 million and liabilities at €117.274,1 million (net position of €34.473,3 million). With regards to the European Union (excl. UK), stock assets were recorded at €89.518,5 million and stock liabilities at €134.887,0 million (net position of -€45.368,5million).

As regards direct investment, the main category of the IIP, Russia recorded the highest net position at €42.481,9 million while European Union (excl. UK) recorded a negative net position of -€62.860,4 million.

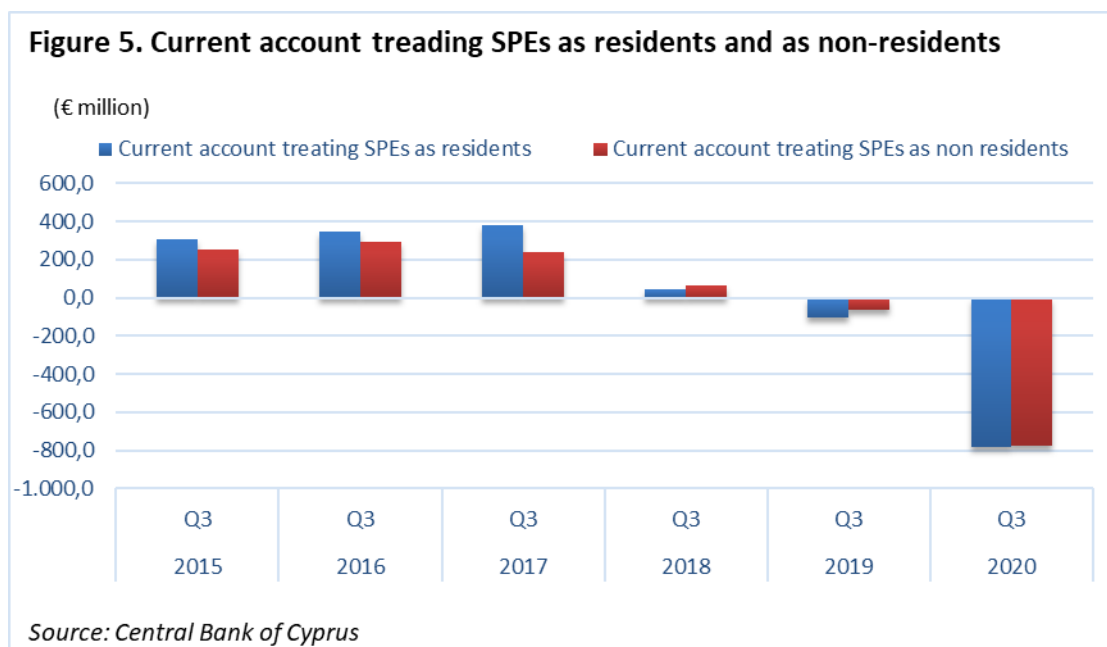


¹ Certain data on IIP (especially portfolio liabilities) are not able to be classified to a specific counterpart country. In particular, a share of around 11% on total assets and 16% on total liabilities in 2020 Q2 were not able to be allocated to a certain country.

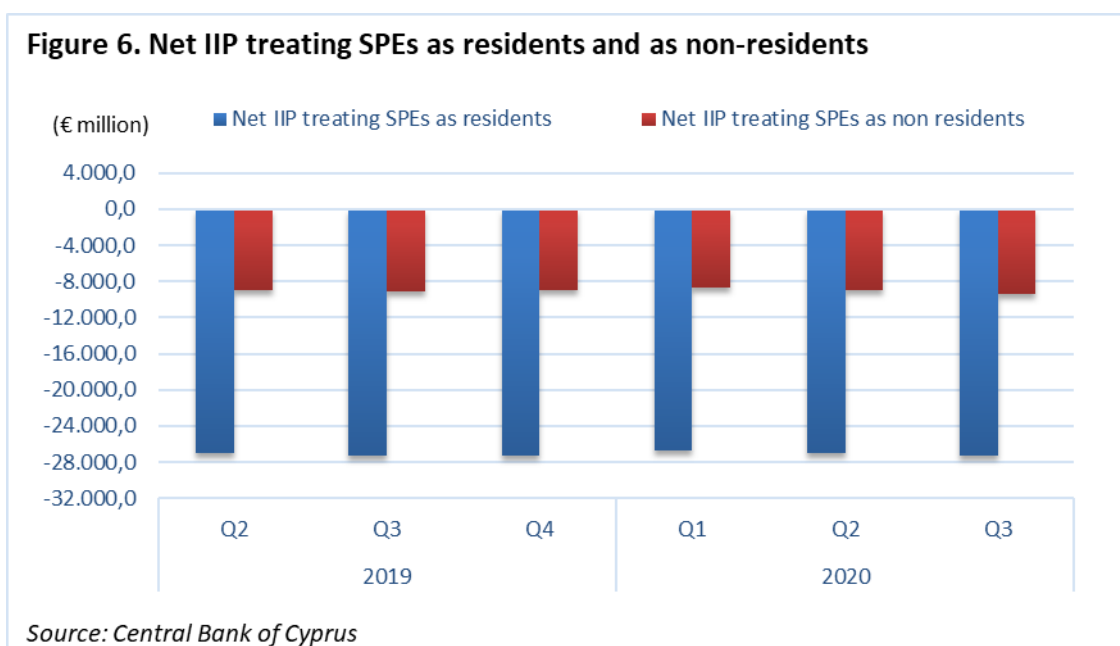
DATA ADJUSTED FOR THE IMPACT OF SPES

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 a substantial deterioration in 2020 Q3, reaching a deficit of €779,0 million, compared with a deficit of €62,4 million in 2019 Q3 (see Figure 5).



The *international investment position*, adjusted for the impact of SPEs, recorded a net liability position of €9.337,7 million at the end of 2020 Q3, compared with a net liability position of €8.997,4 million, at the end of the previous quarter (see Figure 6).



The *gross external debt*, adjusted for the impact of SPEs, amounted to €60.325,6 million in 2020 Q3, up from €60.204,1 million a quarter earlier, while the corresponding *net external debt* indicator decreased to -€2.880,5 million (down by €245,0 million), compared with -€2.635,5 million in 2020 Q2 (see Figure 7).

