

# Sapienta Country Analysis

## Cyprus

February 2023

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*Comprehensive monthly analysis of politics,  
economic policy and economics*

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- [Fiscal performance and forecast](#). Fiscal policy is likely to be cautious under the “new/old” returning finance minister, Makis Keravnos. The government will issue a sustainable bond in early March amid strong public finances. Debt payments will peak in 2028. Parliament will attempt to amend VAT on property in early March.
- [Banking sector](#). Restructured loans declined in 2022. There is some evidence that consumers are dipping into savings. Bank of Cyprus has put the 2013 crisis behind it with the NPE ratio shrinking to 4%. The mortgage to rent scheme has been approved in time for the lifting of the suspension of foreclosures.
- [Macroeconomic trends and forecast](#). Real GDP growth slowed to 4.4% in the fourth quarter of 2022 but retail sales accelerated despite negative real earnings growth. Employment and unemployment have risen. Greece has benefited most from Brexit. We continue to expect real GDP growth of 3.5% in 2022.
- [Economy of northern Cyprus\\*](#). The loss of 48 lives in the Turkey earthquakes has prompted a focus on buildings in northern Cyprus. A new property tax has been introduced that will help pay for earthquake support and the Immovable Property Commission. A new airline will start operations in April. Russians topped non-Turkish arrivals in 2022.

*\*Areas not under the effective control of the government of the Republic of Cyprus.*

**Table 1**

Sapienta Economics macroeconomic forecast					
	2021	2022	2023	2024	2025
GDP at current prices (€ m)	24,019	27,417	28,807	30,326	31,892
GDP per capita (€)	26,677	30,169	31,405	32,754	34,138
GDP at constant 2005 prices (€ m)	22,938	24,251	25,097	25,692	26,232
Real GDP growth (%)	6.6	5.7	3.5	2.4	2.1
Harmonized consumer price inflation (%)	2.3	8.0	1.5	2.8	3.0
Unemployment rate (%)	7.5	6.8	6.2	5.6	5.0
Budget balance (ESA2010) (€ m)	-389	610	668	810	961
% of GDP	-1.6	2.2	2.3	2.7	3.0
Primary balance (ESA2010) (€ m)	44	795	1,042	1,190	1,303
% of GDP	0.2	2.9	3.6	3.9	4.1
Gross public debt (€ m)	24,271	23,366	22,311	20,145	18,771
% of GDP	101.0	85.2	77.5	66.4	58.9
Current-account balance (% of GDP)	-7.1	-10.1	-8.5	-4.7	-4.1

Sources: Cystat, Ministry of Finance, Sapienta Economics estimates and forecasts in italics.

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### Nikos Christodoulides announces a cabinet of technocrats and party supporters—

The new president elected in the second round of the elections held on 5 and 12 February, Nikos Christodoulides, announced his Council of Ministers (cabinet) on 27 February (see box), having kept his preferences close to his chest until the day of the announcement. The new foreign minister is Constantinos Kombos (see below), the new finance minister is Makis Keravnos (see [Fiscal performance and forecast](#)) and the new energy minister is George Papanastasiou (see [Energy and structural reforms](#)). The new government will officially start work on 1 March. The cabinet comprises a mixture of members of political parties that supported him for the election, others who directly supported him during the campaign, former ministers, as well as technocrats and others. The parties that officially supported him are the Democratic Party (DIKO); the Democratic Alliance (DIPA); the Movement of Social Democrats (EDEK); some members of the Green party; and Eleni Theocharous, leader of the non-parliamentary Solidarity Movement. Mr Christodoulides did not meet his target of a cabinet of 50% women but he has broadened representation via non-ministerial and commissioner posts.

As we noted in our January issue, one of the more urgent tasks of the new government will be dealing with what risks becoming an electricity crisis (see [Energy and structural reforms](#)), as well as unions demanding the full reinstatement of wage indexation. DISY's outgoing leader, Averof Neophytou, has indicated that the party will be supportive in opposition. However, Mr Neophytou, is not standing for the party leadership elections that will take place in March (see below).

**Table 2**

Presidential election results, 2023		
	% of valid vote (a)	Number of votes
<b>Second round</b>		
Nikos Christodoulides	52.0	204,867
Andreas Mavroyiannis	48.0	189,335
<b>Valid votes</b>	<b>97.0</b>	<b>394,202</b>
Invalid (% of all votes cast)	2.1	8,428
Blank (% of all votes cast)	1.0	3,986
Turnout (% of registered voters)	72.5	406,616
<b>First round</b>		
Nikos Christodoulides (supported by DIKO, DIPA, EDEK & others)	32.0	127,309
Andreas Mavroyiannis (supported by AKEL)	29.6	117,551
Averof Neophytou (DISY official candidate)	26.1	103,748
Christos Christou (ELAM)	6.0	23,988
Achilleas Demetriades (independent)	2.1	8,137
Constantinos Christofides	1.6	6,326
Other 8 candidates	2.6	10,258
<b>Valid votes</b>	<b>98.3</b>	<b>397,317</b>
Invalid (% of all votes cast)	1.3	5,333
Blank (% of all votes cast)	0.4	1,671
Turnout (% of registered voters)	72.0	404,321
<b>Memorandum item</b>		
Registered voters	-	561,273

(a) Unless otherwise indicated.

Sources: Ministry of Interior; <https://www.eklektor.org>.

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### **—and we expect him to take the lead in foreign relations**

The new foreign minister, Constantinos Kombos, is an academic lawyer at the University of Cyprus and reportedly a former lecturer of the wife of Mr Christodoulides, Philippa Karsera. Mr Kombos was involved in the negotiations to solve the Cyprus problem as a member of the legal advisory team but we understand he had little direct involvement at the table. Inferring from Mr Christodoulides' remarks since his election, we expect the president to play the leading role in foreign relations. He has [indicated](#) several times that his first foreign policy priority will be to try to involve the EU more closely in making progress on the Cyprus problem and that he has prepared a document to that effect. Although his attempt to involve the EU could be taken as a way of undermining the UN, he has also said that he hopes to take advantage of the presence of the UN Secretary-General, Antonio Guterres, at the European Council heads of government meeting in March. As we noted in our January issue, when discussing the EU's potential role, Mr Christodoulides has [hinted](#) at confidence-building measures that would involve Turkey and the EU. For example, during the campaign he said in an interview that only the EU has incentives for Turkey at its disposal and [suggested](#) as an example that the EU could grant visas to Turkish business people in exchange for Turkey opening one port to Cyprus-flagged ships.

### **An outpouring of sympathy after the earthquakes may shift Cyprus problem dynamics**

These remarks suggest that his approach will not simply be to demand a senior role for the EU at the negotiating table, as some have assumed. Turkey has traditionally rejected a political role for the EU in the "negotiations proper", as the Republic of Cyprus is already a member. Traditional UN-facilitated talks are in any case unlikely to start any time soon. Although Mr Christodoulides met the Turkish Cypriot leader and president of the unrecognized Turkish Republic of Northern Cyprus (TRNC), Ersin Tatar, for an informal meeting organized by the UN on 23 February, and has [committed](#) himself to the traditional bizonal bicomunal federal model, the positions of the two sides on a comprehensive settlement of the Cyprus problem continue to [differ](#) widely. However, one can imagine other forms of rapprochement in which the EU could be involved, especially after the outpouring of public sympathy for Turkey after the earthquakes in Turkey and Syria on 6 February. Relations between Turkey and Greece seem to be [thawing](#) after Greece's significant support in search and rescue operations. In Cyprus there was also an unprecedented show of sympathy and support among Greek Cypriots, especially after news came of the loss of 48 Turkish Cypriots in the quakes (according to most reports), of whom 35 were schoolchildren mostly on a [volleyball trip](#). In addition to the [sympathy](#) expressed by members of the public on social media, the Republic of Cyprus Council of Ministers held a minute's silence and [donated](#) €0.5m to rescue efforts; the parliament and the University of Cyprus put their flags at half mast; and the UN Peacekeeping Force (UNFICYP) helped [collect](#) a large amount of donated items from Greek Cypriots.

### **DISY will pick a new leader after coming third in the presidential election**

The main fallout of the presidential election has been on DISY and its leader, Averof Neophytou, who came third in the first round of the election and was persuaded not to stand again for the party leadership election that will take place on 11 March. Mr Neophytou had decided to stand in the presidential election despite opinion polls showing that he was not personally popular and despite the risk that Mr Christodoulides would split the DISY vote. Mr Neophytou might yet have made it had it not been for the tacit support of the outgoing president, Nicos Anastasiades, for Mr Christodoulides, which became even [clearer](#) on the night of the first round, when Mr Anastasiades told Mr Neophytou to back Mr Christodoulides. In the end, DISY decided to recommend a "vote of conscience" for the second round, although it was clear that the party leadership favoured the

other candidate, Andreas Mavroyiannis. Exit polls suggest that only 43% of those who supported Mr Neophytou in the first round voted for Mr Mavroyiannis in the second, while 52% voted for Mr Christodoulides. Separately, other polls suggest that as many as 75% of regular DISY supporters voted for Mr Christodoulides in the second round. The split over the election risked a longer-term rift within DISY. However, the party seems to have pre-empted this with a decision to sweep away the “old guard” of the party: neither Mr Neophytou nor the former finance minister and deputy DISY leader, Harris Georgiades, is standing for the leadership and nor are any others who served as ministers. Instead, two newer faces have been put forward: the 38-year-old president of House of Representatives since 2021, Annita Demetriou, and the 41-year-old party spokesperson, Demetris Demetriou. At the time of writing Ms Demetriou seemed to be the favourite to win.

<b>Council of Ministers from 1 March 2023</b>	<b>(Official name spellings may change)</b>
Agriculture, Rural Development & Environment	Petros Xenofontos
Culture (deputy ministry)	Michael Hatzigiannis
Defence	Michalis Giorgallas
Education, Youth and Sport	Athina Michaelidou
Energy, Commerce and Industry	George Papanastasiou
Finance	Makis Keravnos
Foreign Affairs	Constantinos Kombos
Health	Popi Kanari
Interior	Konstantinos Ioannou
Justice & Public Order	Anna Procopiou
Labour & Social insurance	Yannis Panayiotou
Research, Innovation & Digital Policy (deputy ministry)	Philippos Hadjizacharia
Shipping (deputy ministry)	Marina Hadjimanoli
Social Welfare (deputy ministry)	Marilena Evangelou
Tourism (deputy ministry)	Kostas Koumis
Transport, Communications & Works	Alexis Vafiadis
Government Spokesperson	Konstantinos Letymptotis
Deputy Government Spokesperson	Doxa Komodromou
Director of the President’s Office	Charalambos Charalambous
Director of the Diplomatic Office	Marilena Raouna
Deputy Minister to the President	Irene Piki
Director of the Press Office	Viktoras Papadopoulos
Secretary to the Council of Ministers	Penelope Papavasiliou

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## Energy and structural reforms [Next section](#) [Previous section](#)

### **Gas pipeline from Israel for LNG exports may get traction with the new energy minister—**

With the appointment of George Papanastasiou as energy minister, Cyprus will have an energy minister who is directly from the oil and gas industry for the first time since natural gas was first discovered in 2011. Mr Papanastasiou spent 25 years at BP and in recent years has been managing director of the Dutch-owned VTTV terminal in Vasilikos. His appointment can be expected to lead to an acceleration of efforts to bring natural gas to Cyprus from Israel via pipeline and to convert it into liquefied natural gas (LNG) for export. VTTI was [mentioned](#) in a media report in May 2022 in the context of proposals by Energean to bring gas to Cyprus from Israel. The report mentioned a plan to site a floating liquefied natural gas (FLNG) vessel, Hilli Episeyo, at the VTTI jetty in Vasilikos by 2026. The FLNG platform would convert natural gas that would arrive at a rate of 4 billion cubic metres (bcm) per year from Energean's Karish field, according to the report. The same report said that Vitol, the owner of VTTV, had expressed interest in buying the LNG and selling it to Greece among others. Energean, Golar, VTTI and Vitol were said to be due to work together on the FLNG project once the results of Energean's drilling in the Athena well in Israel were known. The Athena discovery was announced in May 2022 and we understand that the companies have indeed been working together on the project since.

### **—and raise the pressure on Chevron's over its plans for Aphrodite**

Assuming that plans for this project are accelerated, it will put pressure on Chevron to clarify its plans for the production of natural gas from the Aphrodite field, which was first discovered in 2011 but is still awaiting its third drill (second appraisal well). The Aphrodite licence is held by Chevron (35%), Shell (35%) and NewMed Energy (30%) and, according to the respected *Middle East Economic Survey (MEES)*, Chevron has formerly asked Shell's permission to use its West Delta Deep Marine (WDDM) processing facilities in Egypt. This suggests that it is serious about piping gas to Egypt and converting it into liquefied natural gas (LNG) at the plant in Idku. *MEES* also said that Chevron had contracted the Stena Forth drill ship to undertake the drilling of the second appraisal well. The A3 well is due to be drilled by August 2023 and Chevron noted in its investor presentation on 28 February that it is due to drill this year. We understand that the drilling is likely to take place earlier than the August 2023 deadline.

Results of this drilling are likely to be decisive for the future of Aphrodite. Moreover, given the development of alternative gas export options, we believe that neither the new president nor the new energy minister will be willing to allow Chevron to put back its final production plan any further. It is possible, therefore, that the consortium will be put under pressure to relinquish its licence if it does not go ahead with a production plan. This also means that the [unresolved](#) issue with Israel over the Yishai reservoir will also need to be resolved.

As noted in our January issue, ENI's announcement in December of a discovery of 2.0-3.5 trillion cubic feet (tcf) in Block 6 of the Republic of Cyprus Exclusive Economic Zone (EEZ) brings the estimated exploitable reserves of Cyprus to around 16.3 trillion cubic feet (tcf) or 462 billion cubic metres (bcm). ENI has indicated a desire to exploit the reserves quickly but in a month dominated by elections, there has been no further news on its plans.

### **Addressing electricity issues will be a priority issue for the new minister**

As regards local energy demands, the first priority of Mr Papanastasiou will be to address the various issues troubling the electricity sector, such as the grid being unable to take on any more



renewable energy sources (RES), the Transmission Service Operator (TSO) not being ready for liberalization and continued dependence on high-emission, high-penalty fuels. The issue came to a head on 23 January when the TSO [disconnected](#) some smaller commercial and residential photovoltaic (PV) systems from the distribution network and requested that all new PV systems be halted, as the system was unable to cope with additional supply. The issue has led to a blame game. The Association of Renewable Energy Sources of Cyprus (SEPAEK) sent a letter to the outgoing energy minister, Natasa Pilides, in February laying the blame on the TSO and the Distribution Systems Operator (DSO) for failing to implement the country's long-term energy plan. At the same time, four of the five electricity unions sent a letter to the head of the Cyprus Energy Regulatory Authority (CERA), Andreas Poullikas, in which they laid the blame on him for trying to limit the EAC's involvement in RES production. It seems that the unions will ultimately get their way, with increased RES penetration owing to a crisis to which they contributed.

In its letter SEPAEK suggested that the authorities should abolish [virtual net billing](#) for PV production because it can lead to network over-saturation. SEPAEK said that the use by the Electricity Authority of Cyprus (EAC) of remote control systems ("[ripple control](#)")—which allows the electricity operator to cut electricity supply during peak times—is "obsolete". Instead, it recommended the use of [smart meter](#) technology.

The issue of network saturation will only get worse, given the soaring demand for PV systems. According to analysis by [Brief.com.cy](#), up to November 2022, 33,000 houses had installed photovoltaic systems (there is as yet no system for apartment buildings) and there are around 1,500 new applications every month. The new minister also needs to amend regulations to address another issue, namely the ability of large electricity users to [switch](#) from the EAC to new private suppliers but without setting their bills with the EAC first.

### **The fallout from the golden passport saga continues**

A change of leadership both at the presidential palace and at the Democratic Rally (DISY) in March, combined with the launch of the [website](#) of the new Independent Authority Against Corruption have led to some hopes that governance in Cyprus will be somewhat cleaner than in the past 10 years, which were marked by ever-more alarming scandals relating to Citizenship by Investment ("golden passports") programme. In practice, cleaning up the political system will be difficult, given that Cyprus is a highly clientelist system and that the new president owes his fortunes to the outgoing president, Nicos Anastasiades, who was most closely identified with the golden passport programme. For example, a senior member of the opposition Progressive Party of Working People (AKEL), Christos Christofides, said in a television interview that 353 passports were issued by law firms that were directly or indirectly related to the president or members of the cabinet. He said that only a small number of these related to the former justice minister, Emily Yiolitis, whose firm had issued a small number of passports before she became minister. Meanwhile, various revelations, investigations and [court cases](#) continue for the golden passports programme. In the most recent [revelations](#), it transpired that five individuals sanctioned by the US for selling arms to Russia obtained the citizenship of Cyprus in 2016 and one of whom is said to operate as an arms dealer out of Cyprus.

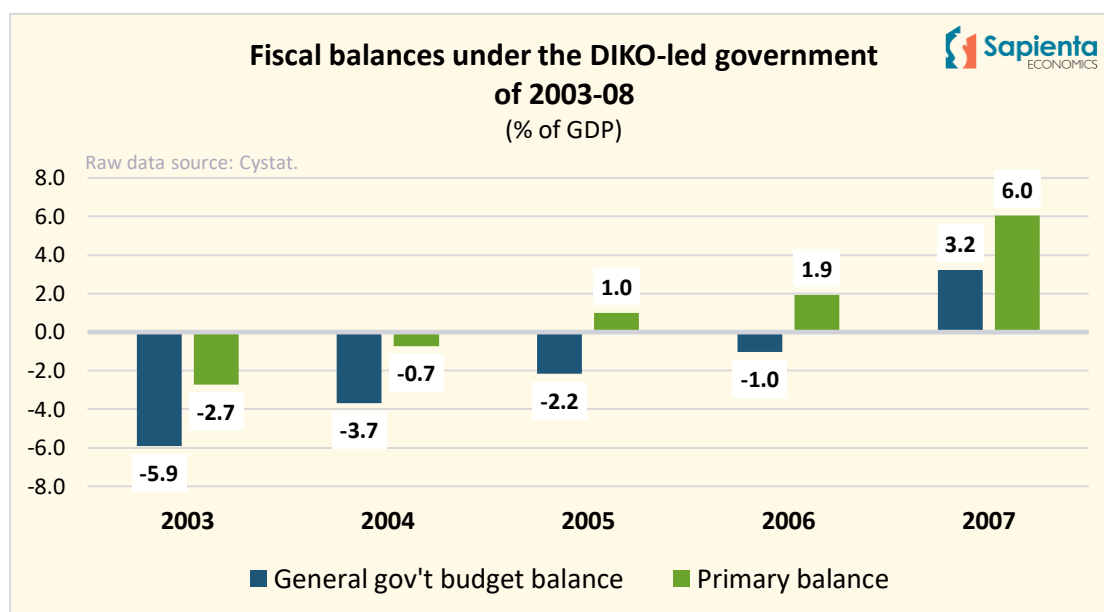
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### The new finance minister is an “old hand” and fiscal policy is likely to be cautious

The new finance minister, Makis Keravnos, is an “old hand” from the Democratic Party (DIKO), having served as finance minister under the late president Tassos Papadopoulos from May 2004 to August 2005. This was a period characterized by improving public finances (see chart) and Cyprus’ entry into the Exchange Rate Mechanism (ERM) in May 2005. Mr Keravnos was also chief executive officer (CEO) of Hellenic Bank from September 2005 until September 2014 and, unlike the now-defunct Laiki or Bank of Cyprus (BOC), avoided the rush into Greek government bonds that led to massive losses for Laiki and BOC and ultimately the Cyprus financial crisis of 2013. One can assume, therefore, that fiscal policy will continue to be fairly cautious under the new minister.



### Government to issue a sustainable bond in early March

The Public Debt Management Office (PDMO) is preparing for the issuance of a 10-year €1bn “sustainable” bond in early March according to media reports. A sustainable bond is one in which the proceeds are spent on projects of long-term value to the economy. Cyprus’ strategy for sustainable investment includes tackling climate change; protecting wildlife; promoting the social welfare state; promoting renewable energy sources; preventing and combating environmental pollution; protecting biodiversity; sustainable management of natural resources; and the sustainable management of water and wastewater. No date has been given for the issuance. We assume that the earliest could be Monday 6 March, as Standard & Poor’s rating agency is [due to issue](#) a credit rating announcement on Friday 3 March according to the Public Debt Management Office. (Ratings are normally issued late on a Friday.) If the government waits for a second assessment, it will be after the update due by FitchRatings on 10 March. According to some [reports](#) the bond could be issued at a yield of 4.10%.

### Public finances end the year with a €609m surplus

The bond will be issued amid positive news for fiscal performance. The public finances ended the year with a comfortable general government surplus of €609m, or 2.8% of Sapienta-estimated

GDP, and a primary surplus of €795m, or 3.6% of estimated GDP (see Table 3). Revenue for the full year rose by 14.5% and expenditure by 4.1%. The slowing pace of revenue that we noted in our January issue seems to have reversed in December, as revenue rose by 17%, while the pace of growth of expenditure slowed in December, reversing the previous pattern in September-November. The public finances in 2022 were still affected by pandemic-related lockdowns and expenditure, therefore revenue growth in 2023 should settle into a more regular, post-pandemic pattern. Meanwhile, the House Finance Committee will meet on 3 March in order to approve the budgets of 20 semi-government organizations whose budgets were not approved before the election.

**Table 3**

<b>General government accounts</b>			
€ million unless otherwise stated; these figures no longer match ESA 2010			
	<b>Jan-Dec 2021</b>	<b>Jan-Dec 2022</b>	<b>% change year on year</b>
<b>Total revenue</b>	<b>9,940</b>	<b>11,376</b>	<b>14.5</b>
Taxes on production & imports	3,388	3,961	16.9
VAT on products & services	2,182	2,671	22.4
Taxes on income & wealth	2,490	2,877	15.5
Personal income tax: public sector	215	240	11.8
Personal income tax: private sector	504	576	14.3
Defence contribution (a)	303	355	17.2
Total corporate tax	1,211	1,349	11.4
Social security contributions	2,724	3,113	14.3
Property income	111	114	2.0
Revenue classified as "other"	1,225	1,312	7.1
<b>Total expenditure</b>	<b>10,343</b>	<b>10,767</b>	<b>4.1</b>
Compensation of employees	3,006	3,148	4.7
of which: public-sector pensions	603	610	1.1
Intermediate consumption	1,044	1,211	16.0
of which defence (inferred)	531	551	3.8
Social payments	3,841	4,275	11.3
Pensions	1,516	1,650	8.9
Unemployment	53	72	35.3
Other social transfers	2,272	2,553	12.4
Interest	439	407	-7.4
Subsidies	585	142	-75.8
Gross fixed capital formation	637	695	9.1
Expenditure classified as "other"	791	890	12.5
<b>General government balance</b>	<b>-403</b>	<b>609</b>	<b>-</b>
% of GDP	-1.7	2.8	-
<b>Primary balance</b>	<b>35</b>	<b>795</b>	<b>2,198</b>
% of GDP	0.1	3.6	-
(a) Mainly dividends and interest income.			
Note: Sapienta Economics estimates in italics.			
Source: Cystat.			
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## Debt payments to peak in 2028

We have updated our table on debt redemptions due based on the data to the end of December 2022. The data show that debt payments will peak in 2028, when just under €3bn worth of debt redemptions are due (see Table 4). The debt redemptions include a €1.5 European Medium Term Note (EMTN) (international bond) which was issued in 2018 as well as an instalment of the €6.3bn borrowed from the European Stability Mechanism (ESM) as part of the 2013-15 bailout programme. The PDMO figures on outstanding debt suggest that the entire €6.3bn is due in 2023.

However, its other data on the debt maturity profile show that the payments are spaced out over a period of seven years. The government continues to hold a large amount of cash reserves to meet debt redemptions. As of 31 December 2022, shortly after a debt redemption of €610m, it held cash of €3.2bn. This is enough to meet almost two full years redemptions, compared with an official policy of holding 6-9 months of redemptions.

**Table 4**

Debt redemptions due as of end-December 2022 € million						
	2023 Year	2024 Year	2025 Year	2026 Year	2027 Year	2028 Year
European Medium Term Notes (EMTN)	1,000	1,850	1,000	1,000	1,250	1,500
Gov't Registered Development Stock (GRDS)	225	300	92	0	0	0
Retail bonds	68	111	79	46	42	0
Domestic loans	0	0	0	252	2	2
Other bilateral loans inc. EIB, COEDB, SURE	5	0	165	32	14	221
ESM	0	0	350	1,000	1,000	1,000
<b>Total redemptions exc Treasury bills</b>	<b>1,302</b>	<b>2,261</b>	<b>1,850</b>	<b>2,362</b>	<b>2,321</b>	<b>2,945</b>
Treasury bills, estimate	125	125	125	125	125	125
<b>Total redemptions inc Treasury bills</b>	<b>1,427</b>	<b>2,386</b>	<b>1,975</b>	<b>2,487</b>	<b>2,446</b>	<b>3,070</b>

Sources: Public Debt Management Office; IMF Post-Programme Monitoring Reports;

Sapienta Economics estimates in italics.

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## Energy subsidies are extended

On 22 February the outgoing Council of Ministers (cabinet) approved an extension of the subsidies relating to energy costs. Subsidies for electricity consumption were extended to the end of April (covering bills in January-February), at a cost of €30m. The government had already spent around €58m between 1 September 2022 and 31 January 2023. The cut in excise duties on the motor and heating fuel were also extended.

**Table 5**

Sapienta Economics budget and debt forecasts (ESA 2010) € m unless otherwise indicated						
	2020	2021	2022	2023	2024	2025
General government revenue	8,499	9,946	11,376	11,788	12,478	13,192
% change	-6.9	17.0	14.4	3.6	5.8	5.7
General government expenditure	9,744	10,335	10,767	11,121	11,667	12,231
% change	10.3	6.1	4.2	3.3	4.9	4.8
General government budget balance	-1,245	-389	610	668	810	961
% of GDP	-5.7	-1.6	2.2	2.3	2.7	3.0
Primary balance	-742	44	795	1,042	1,190	1,303
% of GDP	-3.4	0.2	2.9	3.6	3.9	4.1
Gross government debt	24,852	24,271	23,366	22,311	20,145	18,771
% of GDP	113.5	101.0	85.2	77.5	66.4	58.9

Sources: Eurostat; Cystat; Sapienta Economics estimates and forecasts in italics.

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## Parliament to review VAT on property

The House Finance Committee intends to put a bill to address the issue of value-added tax (VAT) on property to the first plenary session on 9 March, given the looming fine from the European Commission. As noted in our January issue the European Commission sent a letter of formal notice to the government on 15 December, with a deadline of 15 February to alter the legislation. The current legislation currently grants a lower VAT rate to all first-time buyers regardless of their

economic circumstances or the total size of the property. Whether they will manage to put forward agreed legislation by that date is uncertain, however, given that various actors are still pushing their own proposals and that, whatever is proposed needs the approval of the European Commission. For example, some are pushing for a change to the [government bill](#) that applies different rules to apartments and houses, while others are trying to raise the threshold above which the full rate will apply.

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## Banking sector [Next section](#) [Previous section](#)

### Restructured loans decline but remain above pre-pandemic levels

The total value of restructured loans in the banking system dropped to €1.3bn in 2022 compared with €2.3bn in 2021. Most of the restructurings in 2022 were for business loans which, at €1.2bn, accounted for almost all of the €1.3bn total. Restructurings remained elevated compared with the pre-pandemic period, however. In Cyprus, a moratorium on loan-interest payments for eligible loans was [in force](#) from March 2020 to December 2020, therefore there was little need for restructurings during this period. However, there is also a long-term structural issue for higher levels of restructurings that will not change, namely stricter capital requirements relating to non-performing loans (NPLs). These give banks a very strong incentive to deal pro-actively with loans that look like they are about to go sour. Quarterly data potentially point to some deterioration in loan quality: loan restructurings reached €721m in the second half of 2022, compared with €585m in the first half of the year. However, one should be cautious in drawing conclusions as there may be seasonality in the data. Compared with the same period of the previous year, loan restructurings were lower in every quarter of 2022 than in 2021.

**Table 6**

Restructured loans by type € unless otherwise stated					
	2018	2019	2020	2021	2022
Consumer credit	13	12	17	34	19
<i>Year-on-year % change</i>	-19.5	-10.2	42.6	100.2	-45.4
House purchase	90	96	157	221	108
<i>Year-on-year % change</i>	-34.4	6.6	64.1	40.7	-51.3
Other household loans	37	49	44	72	24
<i>Year-on-year % change</i>	-11.4	32.6	-10.9	64.0	-66.0
Business loans under €1 million	33	48	68	213	74
<i>Year-on-year % change</i>	-55.1	44.4	43.5	211.2	-65.5
Business loans over €1 million	151	372	468	1,780	1,081
<i>Year-on-year % change</i>	-51.0	146.0	25.8	280.3	-39.2
<b>Total restructured loans</b>	<b>324</b>	<b>576</b>	<b>754</b>	<b>2,319</b>	<b>1,305</b>
<i>Year-on-year % change</i>	-43.9	77.8	30.8	207.6	-43.7

Source: Central Bank of Cyprus.

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### Pure new loans decline again but at a more moderate pace

Meanwhile, as noted in our January issue, pure new loans continue to decline. The latest data show a drop of 3.0% year on year in the fourth quarter of 2022 to €829m (see Table 7), after a decline of 5.0% in the third. Some of this is a baseline effect after large increases in certain quarters of 2021, as lockdown restrictions eased. In terms of value, pure new loans in 2022, at €3.2bn, reached the same level as the pre-pandemic year of 2019. Nevertheless, demand for loans is bound to have been affected by rising interest rates. One way in which banks are addressing this is to promote fixed interest rate loans more aggressively. These had not been so common in Cyprus until now. For example, on 7 February Bank of Cyprus offered an interest rate fixed for up to 10 years at a rate of 3.5%. This rate may already be about to change, as later in February the chief executive officer, Panicos Nicolaou, mentioned a potential fixed interest rate of 4.0%. His remarks probably came in the context of expectations of higher interest rates after the eurozone economy has performed better than expected. The European Central Bank (ECB) raised its main rate to 2.50% on 2 February and is currently [expected](#) to raise them to at least 3.5% by September.

**Table 7**

Pure new banking loans by type (a)					
€ unless otherwise stated					
	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Consumer credit	34	34	44	38	40
<i>Year-on-year % change</i>	-24.2	-1.6	9.5	-6.3	15.7
House purchase	328	437	256	239	245
<i>Year-on-year % change</i>	23.8	91.6	-12.3	-12.5	-25.2
Other household loans	25	20	21	20	22
<i>Year-on-year % change</i>	-19.6	-42.0	-46.0	-22.1	-13.1
Business loans under €1 million	141	142	133	113	144
<i>Year-on-year % change</i>	19.5	-1.1	-4.4	-2.6	1.6
Business loans over €1 million	325	278	348	282	378
<i>Year-on-year % change</i>	3.1	37.4	70.2	3.2	16.2
<b>Total pure new loans</b>	<b>854</b>	<b>911</b>	<b>802</b>	<b>691</b>	<b>829</b>
<i>Year-on-year % change</i>	10.1	41.8	12.3	-5.0	-3.0

(a) Pure new loans exclude restructured loans.

Source: Central Bank of Cyprus.

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## Non-EU deposits (mainly Russia) continue to shrink

Deposits from non-EU residents continued their secular decline in 2022, dropping to €5.6bn at the end of 2022, compared with €6.4bn at the end of 2021 and a peak of €21.9bn in April 2012 before capital controls and the bail-in (haircut) of 2013. Inferring from statistics announced by Bank of Cyprus and Hellenic Bank at the beginning of the war in Ukraine, we calculate that around 80% of non-Eurozone deposits are of Russian origin. These will have declined partly because of the closure of RCB Bank but also because of the general disengagement of non-residents from the banking system as “know your customer” rules tightened. This suggests that Russian business in Cyprus today is either already resident or is focused in other areas, such as real estate, as a result of the now infamous golden passports scheme (see [Energy and structural reforms](#)).

**Table 8**

Bank deposits by residency and currency					
€ million; end-period					
	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Domestic residents	51,527	50,496	51,262	51,772	52,124
EU residents	2,827	2,716	2,782	2,710	2,639
Non-EU residents	6,355	5,940	5,995	6,010	5,643
<b>Total deposits</b>	<b>51,533</b>	<b>50,496</b>	<b>51,262</b>	<b>51,778</b>	<b>51,778</b>
In EUR	43,627	43,142	43,670	44,217	45,224
In USD	6,666	6,207	6,424	6,382	5,809
In GBP	812	781	824	842	815
In JPY	6	5	9	9	8
In CHF	38	41	39	32	30

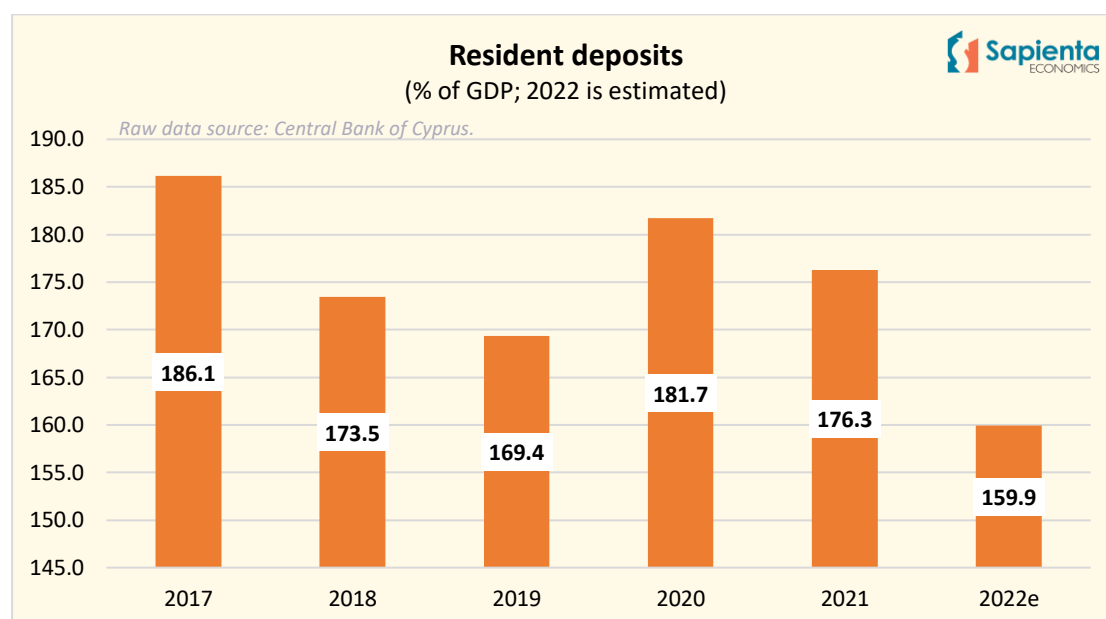
Source: Central Bank of Cyprus, Monetary and Financial Statistics.

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## There is some evidence of dipping into savings

As regards resident deposits (see chart), there is some indication that consumers dipped into savings in order to maintain expenditure. While resident deposits rose from 169% in 2019 to 182% in 2020, as many people stayed at home, they dropped to 176% in 2021 and an estimated 160% in 2022 as the shops, workplaces and airlines opened up again. It should be noted that this

effect will also have been exaggerated by higher than usual inflation, which will have swelled GDP at current prices.



**Table 9**

Bank of Cyprus Group financial statement highlights (a)				
€ million unless otherwise stated				
	31-Dec-22 3 mths	30-Sep-22 3 mths	31-Dec-22 12 mths	31-Dec-21 12 mths
Operating profit	129	80	319	197
New loan-loss provisions	-11	-12	-47	-66
Post-tax profit/loss	80	-59	71	30
Net interest income	136	89	370	296
Common Equity Tier 1 capital	1,563	1,495	1,563	1,620
Risk weighted assets	10,114	10,538	10,114	10,694
Common Equity Tier 1 capital ratio (%)	15.5	14.2	15.5	15.1
Customer deposits	18,998	18,792	18,998	17,531
Gross loans	10,217	10,913	10,217	10,856
NPEs: EBA definition	411	1,018	411	1,343
NPE ratio: EBA definition (b) (%)	4.0	9.3	4.0	12.4
Accumulated provisions	282	610	282	792
Coverage ratio (provisions as % of NPEs under EBA definition)	68.5	59.9	68.5	58.9
Net interest margin, annualized (%)	2.36	1.53	1.65	1.45

(a) Before fair value on initial recognition.  
(b) Includes, inter alia, loans restructured and less than 90 DPD.

Sources: Bank of Cyprus financial statements and investor presentations; any inferred data in italics.

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### Bank of Cyprus puts the 2013 crisis behind it as its NPE ratio shrinks to 4%—

Rising interest rates are generally good for banking-sector profitability and this is also the case in Cyprus. Bank of Cyprus (BOC) reported a net profit of €80m in the last quarter of 2022 and €71m for the year as a whole, thanks primarily to rising net interest income. The net interest margin in the last three months of the year, at 2.36%, was considerably higher than just three months earlier, when it was 1.53% (see Table 9). Thanks both to profitability and supervisory rules, the bank is expecting to be able to pay dividends this year for the first time since the 2013 Cyprus financial



crisis. Hellenic Bank will report its results on 1 March, therefore we shall cover that in our March issue.

The year 2022 was also one in which BOC brought its bad loan ratio into single digits. The ratio of non-performing exposures (NPEs) to gross loans dropped to 4% at the end of 2022, representing just €411m, compared with a ratio of 12.4% (€1.3bn) at the end of 2021. This was a result of both loan-sales and “organic” reduction. For example, in 2022 the €550m “Helix 3” loan-sale finalized in November and the smaller Sinope sale in August together accounted for €562m in NPE reduction, while net organic reduction for the year amounted €360m.

At its peak, BOC’s NPE ratio had reached 63% in the first quarter of 2015, with NPEs amounting to €15.2bn. BOC has therefore largely put behind it the crisis of 2013, when banks were shut for 12 consecutive days. At that time BOC was forced overnight to absorb €9bn of Emergency Liquidity Assistance (ELA) from a suddenly closed Laiki; it found itself in an extremely precarious liquidity situation at a time when relations between the Central Bank governor and the government were very poor; it was subject to a haircut on deposits of over €100,000 “up to 60%” (eventually 47.5%); and, like other banks, was subject to strict capital controls.

### **—and the focus now shifts to climate risks**

The main focus for BOC and indeed all other banks in the Eurozone today is addressing the growing regulatory requirements relating to the aim of “de-carbonizing” loan portfolios. Specifically, BOC aims to be “[carbon neutral](#)” by 2030 and “[net zero](#)” by 2050. There is not yet an agreed global system for measuring the climate impact of loan portfolios, especially “[Scope 3 emissions](#)”, which mainly relate to the services sectors. However, as part of its preparations BOC joined the Partnership for Carbon Accounting Financials ([PCAP](#)) in October 2022. Currently with 166 global members, the partnership is working on a common approach to assessing and disclosing greenhouse gas emissions (GHG) related to loan portfolios. BOC has said it is working on issuing “green” corporate bonds whose proceeds will be dedicated towards “green” lending. Ultimately these new rules will have a profound impact on construction lending, making banks reluctant to lend to construction companies that source concrete from heavy polluters, for example.

### **Mortgage to rent scheme is approved—**

On 8 February the Council of Ministers (cabinet) approved the mortgage to rent scheme that will allow certain categories of vulnerable borrowers in default to remain in their homes while transferring the title of the property to the state asset management company, KEDIPEs, to which they will pay rent. According to media reports the move came following indications from the European Commission that it would be approving the scheme in March. Estimates for the number of people who will benefit from the scheme vary, but the latest reports suggest that 2,000 borrowers will benefit and that the scheme will cover a portfolio of up to €2.5bn, of which around €1.5bn will be portfolios of KEDIPEs. The scheme covers both those who were rejected from the earlier ESTIA and OIKIA schemes on the grounds that they did not have sufficient income, as well as the primary target group, namely individual borrowers in arrears, whose collateralized first residences do not exceed a value of €250,000.

### **—while the outgoing minister warns credit collection companies against abuse**

The approval of the scheme came just days after the expiry of the much-extended suspension of foreclosures on primary residences with a value of up to €350,000 and commercial premises with a turnover of up to €750,000 and plots of land worth €100,000. The approval probably influenced

a decision by opposition Members of Parliament (MPs), who were in any case focused on the presidential election, not to hold a special parliamentary session in order to extend the suspension yet another time. The lifting of the suspension does not entail an unrestricted ability to foreclose on bad loans, however. The outgoing finance minister, Constantinos Petrides, [noted](#) that there were protections for borrowers who had applied for a government scheme.

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## Macroeconomic trends and forecast [Next section](#) [Previous section](#)

### Real GDP growth slowed to 4.4% in the fourth quarter—

As we had expected, real GDP growth slowed in the fourth quarter of 2022 according to the “flash” estimated released in January, expanding by a seasonally adjusted 4.4% relative to the same period of the previous year and by 1.1% relative to the previous quarter. This was slower than the 5.4% year-on-year growth recorded in the third quarter of 2022 but it remained buoyant by historical standards. According to our estimates the fourth-quarter results brought the growth rate for the whole of 2022 to 5.6%, compared with 6.6% in 2021. The full breakdown of national accounts will be published in March but the Statistical Service, Cystat, cited a wide range of services sectors when saying where the growth mainly came from: tourism; transport; communications; wholesale and retail trade; vehicle repairs; arts and entertainment; and other services. As the fourth-quarter growth rate was in line with our expectations, we have not made any adjustment to our growth forecast and still expect real GDP growth of 3.5% in 2023 and 2.4% in 2024.

**Table 10**

Real GDP growth forecast											
Seasonally adjusted; % change over period indicated											
	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	2022	2023	2024
Previous year	6.6	6.6	6.3	5.4	4.4	5.4	4.4	4.8	5.6	3.5	2.4
Previous quarter	2.0	1.7	0.3	1.3	1.1	0.9	0.8	0.6	-	-	-

Source: Cystat; Sapienta Economics forecasts in italics.

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### —but retail sales accelerated—

The GDP slowdown in the fourth quarter does not seem to have come from consumer spending, as growth in retail sales volumes accelerated from 1.6% in the third quarter of 2022 to 3.0% in the fourth—its fastest growth rate all year. This was owing to a pick-up in non-food sales, especially in the category that includes computer and telecommunications equipment, which rose by 10.7%. Demand for clothing was also strong with this category, rising by 8.8% in the fourth quarter. Demand therefore remains strong despite inflation lifting the value of retail trade overall by 11.7% in the fourth quarter.

**Table 11**

Retail trade volume					
% change over same period of previous year					
	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Food, drink & tobacco	2.0	-4.2	-1.7	3.7	1.7
In non-specialized stores	1.6	-3.2	-1.4	4.2	2.8
In specialized stores	4.4	-10.6	-3.3	0.5	-5.9
Non-food products (except auto fuel)	6.2	8.9	7.6	1.9	5.6
Textiles, clothing & footwear	22.6	23.2	16.4	5.5	8.8
Electrical goods & furniture	4.0	8.3	3.6	2.3	3.1
Computer equipment, books & other	6.3	7.6	12.7	3.0	10.7
Other trade in non-specialized stores	-11.5	-15.7	-11.9	-4.7	-5.9
Auto fuel in specialized stores	4.4	12.0	-2.6	-9.3	-2.6
<b>Total retail trade volumes</b>	<b>4.0</b>	<b>2.2</b>	<b>2.0</b>	<b>1.6</b>	<b>3.0</b>
Retail trade values	8.6	10.4	12.6	10.2	11.7

Source: Cystat.

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For the year as a whole, however, retail sales slowed to 2.2% in 2022 from 6.8% in 2021. Food sales, unusually for Cyprus, declined by 0.1% in 2022, compared with a rise of 3.0% in 2021, while

non-food sales rose by 5.7% in 2022 compared with 11.8% in the previous year. We assume that the slight decline in food sales is related to prices. The value of retail sales of food rose by 7.5% in 2022 according to our calculations. Consumers therefore seem to have limited spending on food in order to maintain spending elsewhere. One caveat to this assumption is that there has been a noticeable increase since Covid-19 in deliveries of prepared food and beverages items such as coffee or meals. It is possible that this is the reason for lower food sales in specialized stores (such as supermarkets).

### —despite negative real earnings growth in the previous two quarters

Faster retail sales volumes growth came despite negative real earnings growth in the second and third quarters according to the latest available data. Gross earnings expanded in nominal terms by 7.4% in the second quarter and 5.5% the third, probably because of partial inflation indexation for public-sector and unionized workers, who receive 50% of the change in the cost-of-living index (inflation excluding excise duties). However, because the inflation rate peaked during this period, earnings contracted in real terms by 1.4% in the second quarter and by 4.2% in the third.

**Table 12**

Average monthly earnings of employees					
seasonally adjusted; % change over the same period of the previous year unless otherwise stated					
	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3
Average monthly earnings (€)	2,073	2,122	2,150	2,173	2,187
% change over same period of previous year	2.8	6.1	8.2	7.4	5.5
Real earnings based on HICP	-0.4	1.5	2.5	-1.4	-4.2
Memorandum items					
EU-harmonized consumer price inflation	3.2	4.6	5.7	8.8	9.7

Source: Cystat.  
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### Inflation continues to ease

The real earnings situation probably improved in relative terms in the fourth quarter, when the inflation rate dropped to 8.1%. Indeed, the inflation rate has fallen for six consecutive months, reaching 6.8% in January. One of the primary reasons has been a fall in the prices of petroleum products (see [Charts](#)). Despite the fall, on 22 February the outgoing government extended the freeze on fuel consumption tax and the subsidy on household electricity bills until 30 April.

**Table 13**

EU-harmonized consumer price inflation (HICP)					
% change over same period of previous year					
	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
<b>Harmonized consumer price inflation (a)</b>	<b>4.6</b>	<b>5.7</b>	<b>8.8</b>	<b>9.7</b>	<b>8.1</b>
Food & non-alcoholic beverages	0.6	7.9	10.3	7.6	13.4
Alcoholic beverages & tobacco	-0.2	1.1	1.8	1.8	1.9
Clothing & footwear	2.2	4.0	1.5	1.0	0.1
Housing, water, electricity & gas	16.3	14.9	22.0	29.8	19.0
Furnishings, household equipment & supplies	1.8	2.2	5.2	5.6	6.5
Health	1.0	0.9	0.6	0.7	0.8
Transport	14.2	10.7	17.9	18.2	9.9
Communication	0.0	2.6	1.0	-2.3	-2.9
Recreation & culture	2.1	2.2	2.6	5.8	5.0
Education	0.6	0.6	0.6	0.9	1.8
Restaurants & hotels	3.4	4.0	9.1	10.7	8.8

(a) 2015=100.  
Source: Cystat.  
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## Both employment and unemployment expand in the third quarter of 2022

One reason for the continued growth of retail sales despite the decline in real earnings is the expansion of employment. Total employment rose year on year by 2.9% to 453,625 in the third quarter of 2022 according to the Labour Force Survey (LFS). This pace of increase was slower than in previous quarters, however, and unemployment has also been rising as the labour force expands. The unemployment rate reached 6.8% according to the LFS in the third quarter. Registered unemployment data for the fourth quarter suggest that there will also be an increase in the fourth quarter. In absolute terms registered unemployment statistics show the largest rise of unemployment in the sectors of tourism and financial services. The increase in tourism-related unemployment is probably connected to the expiry of various Covid-19-related job support programmes, while the increase in financial services will be related to voluntary redundancies in the banking sector. Although the Attorney-General has ruled that those who take voluntary redundancy and receive a lump-sum payment are not entitled to unemployment benefits, the bankers' union is resisting this, therefore former bank employees are probably still registering in case the situation changes.

**Table 14**

<b>Labour force</b>					
Absolute number unless otherwise indicated					
	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3
<b>Labour force survey</b>					
Number of households	346,000	347,650	347,650	349,300	350,950
Labour force	472,314	473,537	474,631	482,385	486,492
Employed	440,959	443,937	443,327	449,482	453,625
Unemployed	31,355	29,600	31,305	32,903	32,868
Unemployment rate (%)	6.1	5.4	6.6	6.8	6.8
Unemployment rate of 15-24 year-olds (%)	14.5	17.4	17.7	17.6	19.9
<b>Other unemployment indicators</b>					
Registered unemployed	15,518	13,250	14,871	11,527	13,572
Eurostat estimated unemployment rate (%) (a)	6.9	6.6	6.2	6.8	7.0

(a) Eurostat unemployment data change frequently and may not be reliable.

Sources: Cystat; Labour Force Survey; Eurostat.

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## The trade deficit shrinks in the second half of 2022

The deficit on trade in goods expanded to €7.0bn (around 26% of GDP) in the whole of 2022 from €5.3bn (around 22%) in the whole of 2021. The primary reason for the increase was high international energy prices. The breakdown of imports by category show that imports of fuels and lubricants rose year on year by €1.0bn or 83% in January-November to €2.3bn. As international energy prices eased, the trade deficit started to shrink, recording €1.4bn in the fourth quarter of 2022, compared with a peak of €2.2bn in the second (see Table 15).

There was also a fairly large increase in imports of ships, which rose by €341m in the first 11 months of the year to €2.0bn. We assume that this is related to the beginning of the ferry service between Cyprus and Greece, which was [launched](#) in June 2022 and which is set to be [expanded](#). It is also possible that the increase in ship imports reflects changes in ownership registration of Russian-owned yachts.

## Greece significantly increases market share after Brexit

Annual data on imports and exports by country show that Greece has significantly increased its market share in Cyprus. In 1995, the largest supplier to Cyprus was the US, accounting for 13.0%

of the total, followed by the UK, accounting for 11.8%, while Greece accounted for just 7.2% of imports (see chart). By 2021, Greece was by far the largest supplier, accounting for 24.0% of imports, while the UK accounted for just 3.7% and the US 1.4%. Imports from Greece rose by 26% in 2021—the year in which the Brexit trade arrangements came into force. In that year imports from Greece rose by €422m while imports from the UK fell by €325m.

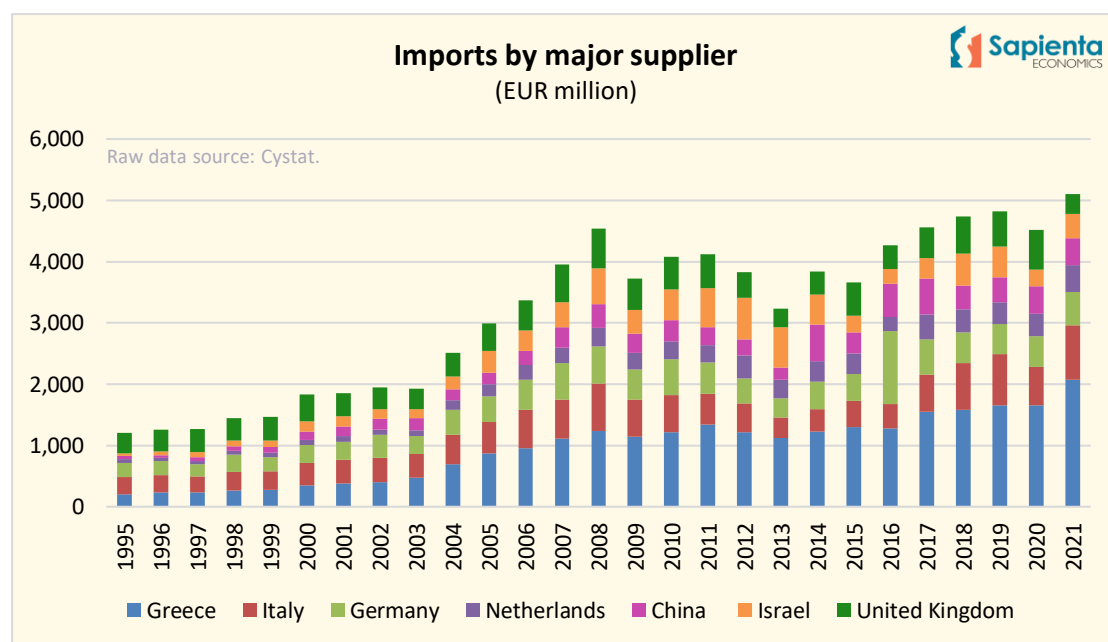
Table 15

Foreign trade in goods					
	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
<b>In € million</b>					
Total exports of goods fob	1,183	844	1,004	977	1,352
Total imports of goods cif	2,384	2,448	3,188	2,850	2,718
<b>Trade balance</b>	<b>-1,201</b>	<b>-1,604</b>	<b>-2,183</b>	<b>-1,873</b>	<b>-1,366</b>
<b>% change over same period of previous year (%)</b>					
Total exports of goods fob	93.7	50.5	27.6	16.0	14.3
Total imports of goods cif	6.7	24.8	47.5	32.8	14.0
<b>Trade balance</b>	<b>-26.0</b>	<b>14.5</b>	<b>59.0</b>	<b>43.7</b>	<b>13.7</b>

Note: December 2022 data are provisional.

Source: Cystat.

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\*Areas not under the effective control of the government of the Republic of Cyprus

**Table 16**

Northern Cyprus: key macroeconomic indicators					
	2017	2018	2019	2020	2021
GDP (TL million)	14,545	18,324	21,395	21,407	30,144
GDP (€ million, converted at annual average exchange rate)	3,530	3,210	3,365	2,658	2,868
Population, mid-year ('000)	345,722	362,226	377,358	382,533	386,790
GDP per capita (€)	10,210	8,863	8,918	6,948	7,414
Real GDP growth (%)	5.4	1.3	0.2	-16.2	3.9
Consumer price inflation (annual average, %)	15.1	23.1	19.5	11.7	25.5
Unemployment rate (%)	5.8	6.9	6.3	10.1	5.8
Fiscal balance (% of GDP)	-0.3	0.3	-1.3	-2.5	-3.2
Public debt (€ million, converted from \$ and ₺) (a)	4,893	n/a	n/a	n/a	n/a
of which debt to Turkey (a)	3,409	n/a	n/a	n/a	n/a
Public debt (% of GDP) (a)	138.6	n/a	n/a	n/a	n/a
of which debt to Turkey (% of GDP) (a)	96.6	n/a	n/a	n/a	n/a
Number of tourists ('000)	1,734	1,760	1,750	389	552
Exports of goods (\$ million)	106	95	82	101	129
Imports of goods (\$ million)	1,778	1,816	1,588	1,221	1,572
<b>Memorandum items</b>					
Turkish lira per euro (ECB)	4.1206	5.7077	6.3578	8.0547	10.512
Turkish lira per US dollar (ECB-derived)	3.6475	4.8329	5.6791	7.0519	8.8881

(a) Based on figures published by the government of Turkey.

Sources: İstatistik Kurumu; Maliye Bakanlığı; Türkiye Cumhuriyeti Lefkoşa Büyükelçiliği.

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## Loss of 48 lives in Turkey earthquakes prompts focus on buildings in northern Cyprus

The loss of 48 Turkish Cypriots (according to most reports), most of whom were children, in the earthquakes in Turkey and Syria on 6 February and the general aftermath of have dominated developments in northern Cyprus in February. The labour minister of the unrecognized Turkish Republic of Northern Cyprus (TRNC), Hasan Taçoy, said on 25 February that the north is officially hosting around 3,800 earthquake survivors. Processes are being sped up to allow them to work and it seems that they have been housed fairly easily, as many of them already had ties to the island.

In addition to a huge effort among the members of the public to organize support, including local organizations co-operating to [build and ship](#) pre-fabricated homes to southern Turkey, there has been a focus on the safety of buildings in an economy that has seen a lot of rapid tourist-related development in recent years. A programme of [inspections](#) of school buildings began on 25 February, starting with the Namık Kemal High School and Turkish Maarif College in Famagusta and people living in the “Sea Star” buildings at the edge of the fenced-off part of Varosha have been told to evacuate the building. The building has long been deemed unsafe because of erosion from seawater but tenants have refused to evacuate in the past.

Seawater erosion highlights a broader issue with respect to properties in Varosha. Greek Cypriot property owners of property in the fenced-off part of Varosha have long been highly sensitive about any suggestion that they have anything but full control over what happens to their properties. However, in the event that Varosha is every fully reopened in an internationally recognized way, safety will be a key issue for many buildings, some of which are only 100 metres from the seafront.



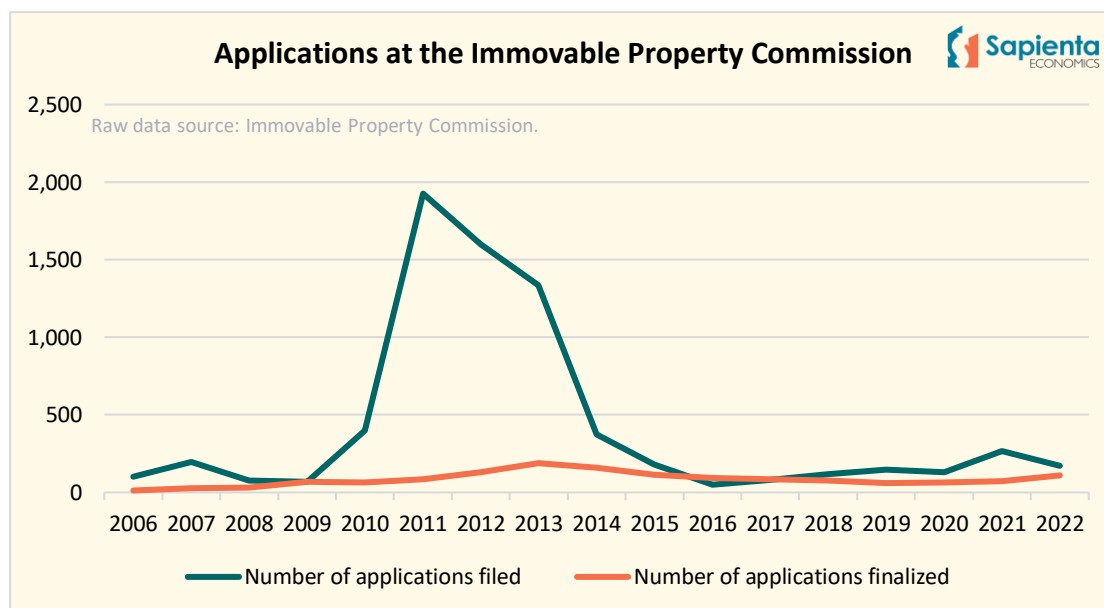
The earthquakes have probably closed for good what had been an ongoing battle between the ruling coalition and the Union of Chambers of Cyprus Turkish Engineers and Architects (KTMMOB) over the latter's role in approving building permits. We understand that there had been an attempt by the coalition to bypass the chamber's role via decree and then by legislation but in a [meeting](#) in late January the chamber and the coalition appear to have already come to an agreement to leave the legislation as it is.

### **A new property tax will help pay for the Immovable Property Commission—**

The title deed transfer fee payable by non-Turkish Cypriots and non-Turks on property purchases has been [doubled](#) from 6% to 12% with effect from 10 February. The interior minister, Ziya Öztürkler, said that the revenues would be used to fund a number of items including helping young Turkish Cypriots get on the property ladder, provide funding to the Immovable Property Commission and paying for earthquake-related costs. The Immovable Property Commission is the body that processes property claims by brought Greek Cypriots and so far has been considered an effective remedy by the European Court of Human Rights (ECHR). After an initial burst of applications when it was first established, the number of applications has slowed down considerably, not least owing to reports that it pays slowly because it lacks funding.

### **—after an attempt to cut public-sector pay fails**

Using property tax for some of the earthquake-related costs seems to have been a second option after an initial attempt to cut public-sector pay. The administration had initially planned pay cuts of 1% to 5% across the board, among other measures, but withdrew the plans following a widespread backlash.



### **New airline to be officially launched on 10 March**

The transport minister, Erhan Arikli, announced during a television interview on 24 February that a new airline will be launched on 10 March, with a first flight on 16 April. He referred to the airline as a local company, although we understand the investment comes from Turkey. There were no more details about the airline. Its main purpose seems to be to introduce some competition and therefore reduce the cost of flights. In comments made to *Kıbrıs* newspaper earlier in the week, Mr

Arikli said that he had travelled to Istanbul with the tourism minister, Fikri Ataoğlu, to hold talks with the head of Turkish Airlines to discuss cutting the cost of flights between northern Cyprus and Turkey and “treating” Ercan/Tymbou airport as a domestic Turkish airport in order to remove the need for fuel and overseas departure taxes. Turning the airport into a domestic airport of Turkey has been discussed for some time but we assume that international recognition issues and risks to the status of airports in Turkey have made it difficult for Turkey to make the move.

### Northern Cyprus budget ends the year in deficit

The public finances for the full year were published in February and show that the budget ended the year with a deficit of TL175m (€8.7m at current exchange rates), although it was smaller than the deficit of TL967m recorded for the whole of 2021. Budget revenue expanded in January-December by 119% to TL20.6bn, while expenditure rose by 157% to TL20.8bn. Expenditure therefore rose rather faster than average inflation of 99.7%. The turnaround in spending took place in the last two months of the year, since, as of January-October, inflation was still outstripping expenditure. Expenditure will have been lifted in the last two months of the year by the payment of 13th salaries, spending on the municipal elections and probably the [deal](#) to import fuel for electricity. The budget for 2023, allowing for expenditure of TL35.9bn (€1.8bn), was [passed](#) by parliament in early January. This implies an annual increase of 73%. This implies a contraction in real terms based on the inflation rate of January, which reached 89.2%.

**Table 17**

Northern Cyprus: central budget outturns						
TL million; excludes social insurance						
	2020 Year	2021 Year	% change	2021 Jan-Dec	2022 Jan-Dec	% change
Total revenue, of which:	8,160	9,419	15.4	9,419	20,622	118.9
Taxes, of which:	4,869	5,938	22.0	5,938	13,427	126.1
Income tax	1,752	1,975	12.7	1,975	3,898	97.4
Corporation tax	500	603	20.6	603	1,355	124.8
Value-added tax (VAT)	598	633	5.9	633	1,190	88.0
Excise duties on fuel	864	710	-17.8	710	1,676	136.2
Collections of receivables (deposit insurance fund)	120	120	0.0	120	26	-78.7
Aid (grants) from Turkey (a)	1,050	1,342	27.8	1,342	2,612	94.7
of which: defence (Turkish Cypriot military)	704	677	-3.9	677	1,206	78.0
Credit from Turkey (b)	564	492	-12.8	492	1,192	142.5
Total expenditure, of which:	8,696	10,386	19.4	8,099	20,797	156.8
Personnel expenses	2,691	3,123	16.1	3,123	5,930	89.9
Transfers to households	1,875	2,271	21.1	2,271	4,544	100.1
Pensions	1,125	1,314	16.8	1,314	2,430	84.9
Defence (Turkish Cypriot military)	704	677	-3.9	677	1,200	77.2
<b>Balance inferred</b>	<b>-536</b>	<b>-967</b>	<b>-</b>	<b>1,320</b>	<b>-175</b>	<b>-</b>
<b>Memorandum item</b>						
Consumer price inflation rate (%)	-	-	25.5	-	-	99.7
(a) Grants for infrastructure, defence and the real sector.						
(b) Budget support.						
Source: KKTC Maliye Bakanlığı; Sapienta inferences in italics.						
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### Russians top non-Turkish arrivals in 2022

Airport arrivals into northern Cyprus for the whole of 2022 reached 1.4 million, rising by 156% relative to 2021. Arrivals from outside Turkey reached 297,391 and rose by 162%, while arrivals from Turkey reached 1.1 million and rose by 155%. Arrivals for the whole of the year were around 81% of their levels in the pre-pandemic period of 2019 but had fully recovered to 2019 levels in

December. Data on arrivals by country (see [Charts](#)) show that, after Turkey, the largest number of arrivals came from Russia, with 32,442 arrivals in 2022. Russians outstripped arrivals from the UK, which is normally the largest market even when British nationals of Turkish Cypriot origin are excluded, doubtless because northern Cyprus and Turkey were among the few places where Russians did not encounter restrictions on travel. The next largest market after Russia was Iran. Since arrivals data also include students and migrant workers this could include a large number of students.

**Table 18**

Northern Cyprus: arrivals at ports and airports					
	2020 Number	2021 Number	2021/2020 YoY % change	2022 Number	2022/2021 YoY % change
Jan	112,232	5,295	-95%	54,358	927%
Feb	128,734	6,948	-95%	67,967	878%
Mar	44,107	10,032	-77%	105,191	949%
Apr	67	10,661	15812%	79,046	641%
May	37	11,054	29776%	129,342	1070%
Jun	477	19,116	3908%	120,320	529%
Jul	20,228	39,050	93%	125,790	222%
Aug	35,119	71,159	103%	134,394	89%
Sep	11,727	101,684	767%	165,276	63%
Oct	13,275	113,849	758%	159,553	40%
Nov	14,552	87,181	499%	130,981	50%
Dec	8,282	76,283	821%	142,848	87%
<b>Total</b>	<b>388,837</b>	<b>552,312</b>	<b>42%</b>	<b>1,415,066</b>	<b>156%</b>

Note: Includes students and temporary workers.

Source: Turizm Planlama Dairesi.

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**Table 19**

Northern Cyprus: selected short-term statistics				
% change over the same period of the previous year				
	Latest period	YoY % change in latest period	Value in YTD period	YoY % change in YTD period
Consumer prices (% change)	Jan	89.2	-	89.2
Tourism arrivals (absolute number)	Dec	87.3	1,415,066	156.2
of which from Turkey (absolute number)	Dec	92.8	1,117,675	154.8
Plastic card spending south of the Green Line (€ '000)	2022Q2	128.6	4,572	189.6
Plastic card spending north of the Green Line (€ '000)	2022Q2	912.7	20,151	1239.8
Imports of goods (\$ m)	May	23.3	720	39.0
of which from Turkey (\$ m)	May	51.2	493	59.4
Exports of goods (\$ m)	May	17.1	68	-3.2
of which to Turkey (\$ m)	May	27.5	41	2.9

Note: YTD means year-to-date.

Sources: İstatistik Kurumu; Turizm Planlama Dairesi; JCC Payments Systems; Ticaret Dairesi.

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## Charts [Previous section](#)

