

Cyprus

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IN A NUTSHELL

- GDP growth moderated to 2.5%.
- House prices have continued to rise from the low post recession levels.
- Housing demand and residential construction remained strong.
- Bank liquidity remains good.

MACROECONOMIC OVERVIEW

Growth moderated with real GDP rising by 2.5% following 5.1% in the previous year. Growth was supported by a continued recovery in tourism, financial services, professional services and expanding IT activity, and strong investments. The outlook is positive but in the near-term there are downside risks the uncertain geopolitical environment. Growth is expected to remain strong in 2024, and to average 2.8% according to the European Commission's Spring forecasts, supported by rising real incomes and EU RRP inflows.

The unemployment rate, after rising in 2020 and the first half of 2021, has been declining since dropping to 6.0% in the fourth quarter of 2023 and 5.7% in the first quarter of 2024, seasonally adjusted.

HCIP was 3.9% and core inflation 2.8%. In January-June 2024, harmonised inflation was 2.3% and core was 2.5%. The decline in the headline inflation was driven by the non-core components of energy and food, while core inflation, remained more persistent.

The strong fiscal performance continued as the budget surplus rose to 3.1% of GDP from 2.7%, this was driven by robust revenue growth, contributing to a large decline in public debt to 77.3% of GDP. Debt affordability metrics are favourable and are expected to remain solid in the medium term.

Banks are well capitalized and remain resilient under stress tests. Despite higher interest rates, asset quality has not deteriorated. Non-performing exposures are by now, largely outside of bank balance sheets, but their resolution is critical for private sector balance sheets.

Short-term risks are mostly external, to the downside, including a downturn in major tourism markets, and an escalation of regional conflicts. In the medium-term risks are from climate change and from possible further deterioration in the global geopolitical outlook.

HOUSING MARKET

Home ownership has been declining since the financial crisis of 2012-14 reflecting the deep recession, high non-performing loans and tighter credit conditions. Home ownership peaked in 2013 at 74% and dropped to a low of 67.9% in 2019. Since then, it increased to 69.6% in 2022 and 68.8% in 2023 (EA average 65.3%).

New construction, fell from EUR 3.0 bn in 2008 to EUR 0.92 bn in 2014 and recovered gradually to EUR 2.9 bn in 2021, and EUR 3.4 bn in 2022, the latest available data. New construction of residential buildings rose from a low of EUR 0.4 bn in 2014 to EUR 1.8 bn in 2021 and EUR 2.2 bn (8,820 buildings) in 2022.

The total stock of dwellings at the end of 2022 was 482,000, 22.3% more than in 2008.

The long-term performance of the construction sector lags the total economy. Average annual growth in construction in the period 1996-2023, was 2.0% compared with 3.0% in the total economy, the growth rate is also more volatile. Construction activity dropped sharply in 2007-15 by a cumulative 62%, then recovered strongly in 2016-19, dropping in 2020 in the Covid pandemic and recovering subsequently. Real gross value added is still almost 30% lower than at the peak in 2007. The share of the sector's value-added in real terms dropped from 10% in 2007, to 4% in 2015 and then recovered to 5.2% in 2023.

Property sales fell by 82.3% in the period 2007-2013, then rose sharply in the period to 2023 at an average annual pace of 16.6%.

Prices, as measured by the Central Bank's residential property index, rose by a cumulative 27.3% in 2016-23, on an end-period basis, following a cumulative decline of 30% between 2008 and 2016. This increase was driven by apartments, up 49.5%, as opposed to houses which rose by 17.5%. Price increases in this period were greater in Limassol (42.3%) followed by Larnaca (26.8%), Famagusta (26.2%), Paphos (25.3%), and Nicosia (14.5%). Residential property prices increased by 8.3% (6.6% in 2022).

Regional differences reflect differences in the composition of demand. In Limassol there is higher demand from non-residents due to the city's international business orientation. There is a high proportion of vacation and second homes in the Larnaca, Paphos and Famagusta regions where prices have been more volatile in both the contraction and the recovery. Nicosia is the largest region by population and the country's capital and features demand from locals, diplomats, and students.

MORTGAGE MARKET

MARKET DYNAMICS

The mortgage market has been shrinking in absolute terms and relative to GDP since the financial crisis of 2012-14, as the banking sector restructures and deleverages. Total outstanding loans for house purchase at the end of 2023 were EUR 8.3 bn, 28% of GDP, compared to EUR 12.7 bn, 65% of GDP in 2012.

Loans for house purchase increased as a share of loans to residents (excluding the government) in 2023, to 41.2% (from 24% in 2012) and as a share of all household loans to 78.2% (53.1% in 2012). This indicates a higher degree of deleveraging in non-mortgage loans.

Excluding loan renegotiations, new mortgage loans have been rising since 2015, reaching EUR 1.2 bn in 2022 of 36% of total loans and EUR 1.0 bn in 2023 (31%), from EUR 0.3 bn or 16% of total in 2015.

Mortgage rates for new loans started to rise since the second quarter of 2022, in anticipation of a tightening cycle by the ECB. The variable interest rate (up to one-year initial fixed rate) fell from 6.5% at the end of 2008 to 2.1% at the end of 2019 then rose to 3.3% by the end of 2022 and 5.2% at the end of 2023. It has since fallen to 4.5% (May 2024). The mortgage rate for outstanding amounts of housing loans over five years was 4.6% (May 2024)

Non-performing loans to the household sector have been declining steadily, to EUR 1.1 bn, 10.2% of the total at year end (EUR 1.3 bn, or 12.1% 1 year previously). At their peak in early 2015, they were EUR 13.1 bn, 52.3% of the total. The average provisioning ratio is 39.3% and the percentage of NPLs restructured is 36.4% (35.4% and 38.9%, respectively, from a year earlier).

NON-MARKET LED INITIATIVES

The property market has been affected by tax and legislative changes. Property tax was abolished in 2017. A 19% VAT applies to the first sale of a new property but is reduced to 5% for the first 200 square meters.

The Central Bank of Cyprus has implemented Loan to Value limits, typically around 80% and Debt-To-Income limits, generally around 30-40%.

The Cyprus Asset Management Company (KEDIPES) was established to manage and dispose of non-performing loans, helping to clean up the banking sector and stabilize the financial system.

The "Estia" scheme also includes provisions for restructuring non-performing loans, offering borrowers reduced payment plans and other concessions to make their debt more manageable.

The government provides financial assistance to first-time homebuyers to help them afford down payments and closing costs. For example, the Housing Finance Corporation (HFC) offers favorable loan conditions to young families and newlyweds.

MORTGAGE FUNDING

Bank funding is primarily from customer deposits. Funding conditions are comfortable as reflected in the gross loans (not including provisions), to deposit ratio of 47.5% (from 50.1% at the end of 2022). The loan to deposit ratio was higher than 100% in 2017. At the same time Cypriot banks have access to ECB funding. The securitisation legislation which has been enacted in July 2018 provides an additional funding tool.

GREEN FUNDING

Cyprus will receive in total, EUR 1.0 bn in grants and EUR 227 mn in loans, from the Next Generation EU funds in the period 2020-26. The Recovery and Resilience Plan submitted to the European Commission consists of 134 measures structured around 13 components and grouped in five policy areas. Policies and projects to green the economy will comprise 41% of the recovery funds, and digital transition 23%. Key investments include improving the energy efficiency of buildings and incentives to use renewables. So far, Cyprus has received EUR 263 mn from the RRF, which includes the prefinancing payment and the first disbursement. The combined amount of the second and third tranches is expected to total EUR 152 mn. The fifth tranche request, amounting to EUR 120 mn, is planned to be submitted by the end of 2024, which will cover 28 additional milestones.

	CYPRUS 2022	CYPRUS 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	5.1	2.5	0.4
Unemployment Rate (LSF), annual average (%) (1)	6.8	6.1	6.1
HICP inflation (%) (1)	8.1	3.9	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	69.6	68.8	69.2
Gross Fixed Investment in Housing (annual change) (1)	5.7	5.8	-3.1
Building Permits (2015=100) (2)	151.7	143.0	94.0
House Price Index - country (2015=100) (2)	106.7	112.7	170.2*
House Price Index - capital (2015=100) (2)	105.2	109.9	165.1*
Nominal house price growth (%) (2)	3.9	5.7	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	8,386	8,339	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	9,269	9,057	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	47.4	45.3	71.3
Gross residential lending, annual growth (%) (2)	5.1	-13.8	-26.6
Typical mortgage rate, annual average (%) (2)	2.6	4.1	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:

(1) Eurostat.

(2) European Mortgage Federation - Hypostat 2024, Statistical Tables.

CYPRUS FACT TABLE

Which entities can issue mortgage loans in your country?	Financial institutions (banks and the Housing Finance Corporation HFC).
What is the market share of new mortgage issuances between these entities?	100%
Which entities hold what proportion of outstanding mortgage loans in your country?	Banks: 97% and HFC: 3%
What is the typical LTV ratio on residential mortgage loans in your country?	70%-80%.
How is the distinction made between loans for residential and non-residential purposes in your country?	Depending on the use of the house, then the loan is classified as residential or not i.e. residential is for primary home or holiday use.
What is/are the most common mortgage product(s) in your country?	Euro-denominated loans. Most of the loans are floating rates i.e. ECB base rate + spread. Fixed rate housing loans are also offered.
What is the typical/average maturity for a mortgage in your country?	The average maturity is 22 years.
What is/are the most common ways to fund mortgage lending in your country?	Customer deposits.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	The costs associated with house purchase include VAT or a transfer fee (for property sales for which VAT has to be paid, no transfer fees will be applied); a mortgage fee and stamp duty (in case of mortgage loan)- and, lastly, the costs of title deeds.
What is the level (if any) of government subsidies for house purchases in your country?	Due to the pandemic, the government subsidised mortgage loans for 4 years if the purpose of the house is for own use. This program has ceased as of 31/12/2021. The Cypriot parliament has approved a government proposal for a programme of reduced VAT to 5%, for the acquisition of a primary home subject to conditions.