

# Cyprus

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## IN A NUTSHELL

- GDP grew by 3.4%
- 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

In 2024, the economy achieved a growth rate of 3.4% driven by rising exports and strong economic activity in key sectors, primarily the information and communications sector, business and professional services, tourism and construction. The positive momentum is expected to continue in the medium term, barring unforeseen shocks, with economic growth forecast to average around 3.0% in 2025 and 2026 according to the Ministry of Finance.

Labour productivity growth remains a strong contributor to growth economy and the unemployment rate dropped to 4.6% by year end (seasonally adjusted). Inflation measured by the Harmonised Index of Consumer Prices, has been declining since the peak in July-August 2022, dropping to 3.9% in 2023 and 2.3% in 2024.

The budget surplus was 4.3% of GDP (1.7% in 2023). Strong revenue growth, long average debt maturity and limited financing needs are expected to continue driving solid fiscal performance. The general government debt to GDP, dropped to 65% (73.6% in 2023).

Short-term risks are mainly external and skewed to the downside, including a downturn in key tourism markets, an escalation of regional conflicts, and delays in the implementation of the Recovery and Resilience Plan. Medium-term risks stem from climate change and a possible further deterioration in the global geopolitical outlook.

## HOUSING MARKET

Home ownership has declined since the financial crisis of 2012-14 reflecting the deep recession, high non-performing loans and tighter credit conditions. Home ownership peaked in 2007 at 74.1% and dropped to a low of 67.9% in 2019. Since then, it has increased to 69.4% in 2024. The median value across all EU countries was 73.4%. Real gross value added by construction rose by 4.8% but is still 29% lower than its peak in 2007.

Growth in property sales slowed to 1.8% in 2024 after rising by an average of 25% a year in 2021-2023. Property sales by residents rose by 4.4% (average 15% in 2021-2023). Property sales by non-residents dropped marginally by 0.6% in 2024 (average 41% in 2021-2023).

Property sales in 2024 were distributed 49% to residents and 51% to non-residents, of which 37% of the total were to non-EU buyers. Prices of residential

property have been rising since 2017 following a protracted period of decline (2008-2016). Residential property prices increased by 6.7% on average in 2024 (average 3.5% annually in 2017-2024).

Regional price differences reflect differences in the composition of demand. In Limassol there is higher demand from non-residents related 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 since the financial crisis of 2012-14, in absolute terms and relative to GDP as the banking sector restructured and deleveraged. Total outstanding loans for house purchase at year end were EUR 8.5 bn, 25% of GDP. This compares with EUR 12.7 bn, 65% of GDP in 2012.

Loans for house purchase increased as a share of loans to residents (including loans to corporates but excluding the government) in 2024, to 41.9% (from 24% in 2012) and as a share of all household loans to 79% (53% in 2012). This indicates a higher degree of deleveraging in the period in non-mortgage loans.

New mortgage loans net of renegotiated amounts, rose by 7% in 2024 to €1.09 bn or 28% of total new loans.

The variable interest rate (up to one-year initial rate fixation) for house purchase dropped to 4.7% at year-end (5.2% in December 2023).

Non-performing exposures of the household sector (there are no separate statistics for the performance of mortgages themselves) have been declining steadily. At the end of December 2024, they were EUR 0.8 bn, 7.9% of corresponding gross loans, compared with EUR 1.1 bn, or 11.1% of corresponding gross loans at the end of December 2023. At their peak in early 2015, non-performing exposures of households EUR 13.1 bn or 52.3% of gross loans. There is a provisioning ratio of 45.2% and a ratio of restructured facilities with the non-performing exposures of 33.5% at the end of December 2024.

### NON-MARKET LED INITIATIVES

The standard VAT rate in Cyprus is 19% and applies to the sale of new properties. A reduced rate of 5% may apply to the first 130 or 200 square meters of a property purchased as the primary residence subject to specific conditions. Resale properties are generally exempt from VAT.

The applicable Loan-to-Value (LTV) limits vary according to several factors. For loans intended for the purchase of a primary residence, LTV limits are 80%, for non-primary residences the LTV is generally lower, often up to 70% and for investment properties it is often lower still potentially up to 60%.

While there isn't a Debt-To-Income (DTI) limit set by the Central Bank, lenders consider DTI ratio as a crucial factor in their loan approval process. It is generally set around 30-40%.

The Cyprus Asset Management Company (KEDIPEs) was established in 2018 to manage and dispose of non-performing loans, helping to clean up the banking sector and stabilize the financial system.

The government provides financial assistance to first-time homebuyers to help them afford down payments and closing costs. The Housing Finance Corporation (HFC) is specifically designed to support moderate- and low-income households in accessing affordable housing finance. HFC was established with a social mandate to promote home ownership among citizens who might not qualify for loans from commercial banks and offer favourable loan terms to individuals and families with limited financial means. It has a limited portfolio of loans.

As of May 2025, the government offers several schemes to help home purchases subject to criteria, including:

- the Housing Subsidy Scheme for Young Couples and/or Individuals up to 41 Years Old, providing assistance for the acquisition of housing;
- the Housing Subsidy Plan for the Revitalization of Mountainous, Borderline, and Disadvantaged Areas;
- Housing Schemes by the Cyprus Land Development Corporation for affordable housing options through the construction and sale/rental of houses and apartments;
- the Special Subsidy for Purchasing or Building a New House to provide a lump-sum subsidy as an alternative to a reduced VAT rate on the purchase or construction of a primary residence, and
- the 'Renovate-Rent' Scheme to bring vacant properties back into the rental market at affordable prices for individuals with moderate or low incomes.

## 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 45.5% at the end of 2024, from 47.5% at the end of 2023. The loans to deposits 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 and the covered bond legislation provide additional funding tools.

## GREEN FUNDING

Green funding is gaining momentum, driven by national targets aligned with EU climate goals and various funding mechanisms. The National Energy and Climate Plan (NECP) outlines the government's strategies to reduce greenhouse gas emissions, increase renewable energy sources, and improve energy efficiency. The final updated NECP was submitted in December 2024.

Cyprus adopted a National Adaptation Strategy and action plans to address the impacts of climate change. A revised strategy is expected in 2025. Cyprus is committed to the EU's Green Deal objectives, focusing on a transition to a green economy. A significant portion of green funding comes from various EU instruments. Cyprus' Recovery and Resilience Facility (RRF) dedicates a substantial amount (over 60% in some reports) to the green transition, focusing on renewable energy, energy efficiency, sustainable mobility, and climate change adaptation. The THALIA Programme is supported by the European Investment Bank (EIB), and

targets smart and green investments in areas like water, energy, environmental protection, and digitalization.

|  | CYPRUS<br>2023 | CYPRUS<br>2024 | EU 27<br>2024 |
|--|----------------|----------------|---------------|
| <b>MACROECONOMIC VARIABLES</b>   |                |                |               |
| Real GDP growth (%) (1)*   | 2.8            | 3.4            | 1.0           |
| Unemployment Rate (LSF), annual average (%) (1)*                         | 6.3            | 5.8            | 5.9           |
| HICP inflation (%) (1)   | 3.9            | 2.3            | 2.6           |
| <b>HOUSING MARKET</b>  |                |                |               |
| Owner occupation rate (%) (1)  | 68.8           | 69.4           | 68.4          |
| Gross Fixed Investment in Housing (annual change) (1)                    | 5.8            | 3.2            | -4.3          |
| Building Permits (2015=100) (2)  | 143.0          | 136.2          | 136.9         |
| House Price Index - country (2015=100) (2)                               | 112.7          | 118.3          | 179.8         |
| House Price Index - capital (2015=100) (2)                               | 109.9          | 112.6          | 171.5         |
| Nominal house price growth (%) (2)                                       | 5.7            | 5.0            | 4.9           |
| <b>MORTGAGE MARKET</b>   |                |                |               |
| Outstanding Residential Loans (mn EUR) (2)                               | 8,339          | 8,488          | 6,879,667     |
| Outstanding Residential Loans per capita over Total Population (EUR) (2) | 9,057          | 8,783          | 15,311        |
| Outstanding Residential Loans to disposable income ratio (%) (2)         | 45.3           | 43.5           | 71.3          |
| Gross residential lending, annual growth (%) (2)                         | -13.8          | 7.0            | 3.9           |
| Typical mortgage rate, annual average (%) (2)                            | 4.1            | 4.7            | 4.34          |

(1) Eurostat Data

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

\* Eurostat Reviewed

\*\* EU 2024 to be confirmed