

# Cyprus

Despite the pandemic the Cyprus economy has proved its resilience, as indicated by the GDP growth rate of 6.6% in 2021 and the upgrades from credit rating agencies. The unemployment level remained steady at 7.5% in 2021. The banking sector returned to profitability within 2021 and managed to maintain its capitalization at healthy levels with a solvency ratio of 20.7% and CET1 of 17.7% in December 2021. There is still excess liquidity, as evidenced by the loan to deposit ratio of 58%.

Over the last years, the banking sector has demonstrated great ability in adapting to various new regulatory and legislative requirements. The banking sector's achievements were recognized by international institutions, independent observers of Cyprus' economy and private organizations like correspondent banks in the EU and USA. During this period, banks have contributed towards Cyprus's successful performance, having managed to gradually restore credibility, restructure operations and procedures, and overcome challenges to finance new viable projects and investment opportunities. Lessons learned during the last years have prepared the banking sector well to respond to the new crisis and extraordinary circumstances.

The banking sector in Cyprus comprises domestic banks and international banks with Cyprus-based subsidiaries or branches. Beyond the traditional deposit and lending services, banks in Cyprus operate under the universal banking model as they offer a diverse range of products and services. Deposits from customers have traditionally been the main source of funding for banks and that element remains stable for the local banking sector.

There are 29 authorised credit institutions in Cyprus, consisting of six local authorised credit institutions, three subsidiaries of foreign banks from EU Member States, one subsidiary of a foreign bank from a non-EU country, five branches of banks from EU Member States, 13 branches of banks from non-EU Member States and one representative office.

Within the framework of the European Banking Union the Bank of Cyprus and Hellenic Bank have been, since November 2014, among the European credit institutions that came under the direct supervision of the ECB, as part of the Single Supervisory Mechanism (SSM) provisions, whereas the subsidiaries of Greek banks are supervised by the SSM as their parent banks are systemic in their home country.

All banks adhere to the SEPA direct debits' scheme, administered by JCC Payment Systems (a national card acquirer). A law transposing the revised Payment Services Directive (PSD2) was enacted in April 2018. The banking sector, through the Association of Cyprus Banks (ACB), has been undertaking preparations in order to deal with payment innovations that will be brought by open banking and instant payments as well as the necessary increased payment safety.

As of the end of 2021, members of the Association of Cyprus Banks had 218 branches in Cyprus and a total of 7,463 employees. Banks provide a widespread ATM network as well as mobile solutions, contactless transactions and smart device applications to customers, while they continuously upgrade their online banking sites.

During 2021, aggregate bank deposits increased to €51.5 billion (2020: €48.2 billion). Bank deleveraging is continuing, and total outstanding loans were reduced by €1.9 billion throughout 2021 to €29.9 billion as banks maintained their efforts to reduce non-performing loans (NPLs). Nevertheless, during the year a total of €2.9 billion of new lending was given to firms and households.

The banking sector is making progress in addressing the high level of NPLs. Within 2021, the total amount of NPLs was reduced by 42%. The NPL ratio at the end of 2021 was 11.0 % (2020:17.7%).

In the area of financial education, the ACB and its member banks launched an initiative named “More than Money” during 2016. The project is aimed at familiarising primary school pupils with concepts related to money management and it has taken place every year since. It is implemented by the organisation “Junior Achievement” (Cyprus) and is under the auspices of the Ministry of Education and Culture. This has been extended to more schools and students in the country and a new programme was introduced to secondary school students.