

Cyprus

Throughout 2023, the Cyprus economy continued to exhibit resilience and flexibility, despite the geopolitical instability and ongoing sanctions. GDP growth decelerated to 2.5% (from 5.1% in 2022), yet was among the highest in the EU as a result of the diversification attained in economic activities, for example the development of the ICT and shipping sector and the expansion to new tourism markets. Internal demand was boosted by private consumption due to the growth of disposable income of households as well as by major private investment projects.

The labour market continued to improve, with unemployment decreasing significantly to 6.1% (from 6.8% in 2022) with moderate wage demand and rising productivity levels. Inflation has decelerated significantly in 2023 and at a faster rate compared with the European Area average, reaching 3.9% (compared to 8.1% in 2022), following the gradual correction in oil prices and monetary policy tightening.

One of the important landmarks of the year was the further upgrading of the credit rating of Cyprus to investment grade from all the major credit rating agencies, reflecting the improved fiscal position as well as the ongoing reforms in the domestic banking system.

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 restructure operations and overcome challenges to finance new investment opportunities.

Following a difficult decade, the banking sector is displaying high capital adequacy, liquidity and profitability ratios, comparing favorably to other eurozone countries. In December 2023, the Common Equity Tier 1 capital ratio of the Cyprus banking sector was 21.3%, compared to the European average of 16.07% and the Return on Equity reached 24.6%, much exceeding the European average which was 9.29%. There is still excess liquidity, as evidenced by the loan to deposit ratio of 48%. The non-performing loans have continued to improve and by the end of 2023 the non-performing loan ratio dropped to 6.7%, nevertheless it remains higher than the eurozone average. It should be noted, however, that the quality of the loan portfolio has not deteriorated, despite the ECB's increases in interest rates.

The banking sector in Cyprus comprises of domestic 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 18 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, three branches of banks from EU Member States, four

branches of banks from non-EU Member States and one representative office. It is noted that due to the deterioration of the economic situation in Lebanon, Lebanese banks have closed their branches in Cyprus, following a decision by the Lebanon Central Bank.

There are two local credit institutions 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.

As of the end of 2023, members of the Association of Cyprus Banks had 162 branches in Cyprus and a total of 6,477 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 2023, aggregate bank deposits remained stable at €52.2 billion (2022: €52.1 billion). Bank deleveraging is continuing, and total outstanding loans were reduced by €1.1 billion throughout 2023 to €24.8 billion as banks maintained their efforts to reduce non-performing loans (NPLs). Nevertheless, credit expansion was vigorous and during the year a total of €3.3 billion of new lending was given to firms and households.

In the area of financial education, the ACB and its member banks in cooperation with the organisation “Junior Achievement” (Cyprus) are promoting programs aimed at familiarising students in primary and secondary schools with financial literacy and entrepreneurship. These programs have been introduced since 2016 and are under the auspices of the Ministry of Education and Culture.

As part of the green transition, banks are required to assess and report on their sustainability as well as on that of their clients and set targets for improvement. In order to perform this ESG assessment for their clients, members of ACB collaborated with Artemis Credit Bureau (a subsidiary of ACB), along with ICAP CRIF S.A., a member of the international CRIF S.p.A. Group, to establish an important infrastructure Project in the field of ESG, the Interbank Project for the assessment of businesses based on ESG criteria. This Project was successfully launched in the first quarter of 2024, introducing to the Cypriot market an international, reliable tool for assessing the degree of compliance of companies regarding ESG criteria.