

CES - CYPRUS ECONOMIC SOCIETY

A Cyprus Economic Society Web-Panel Discussion

The Impact of Covid-19 and its Aftermath

Thursday, 14 May 2020

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The Outbreak of COVID19 – Economic impact

Real GDP growth in 2019, sustaining the growth momentum of previous years

3.2%
GDP in 2019

5.4%
of GDP

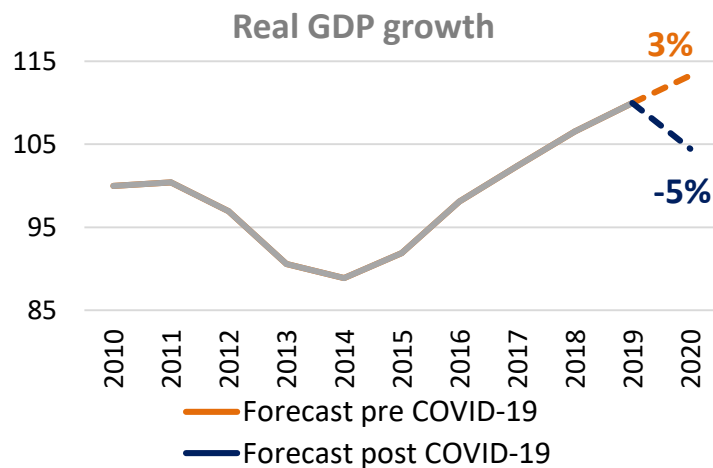
Republic of Cyprus - Fiscal measures of about €1.3bn, aim at preserving employment, disposable income and the “going concern” of SMEs, to maintain growth momentum after the end of the crisis

A major challenge for the international community is the recent coronavirus outbreak, whose expansion worldwide is causing a significant negative impact in the global economy

**COVID
19**

**COVID
19**

Travel and economic activity restrictions imposed both domestically and internationally to contain the spreading of the coronavirus will have a negative significant impact on the Cypriot economy



**Baseline
Scenario**

**Sectoral
impact**



Hospitality



Retail
Trade



Transportation

The Outbreak of COVID19 – Economic Outlook

Upside
Risks

Downside
Risks

Containment

Pent-up
demand

Second wave

Negative
sentiment

External
environment



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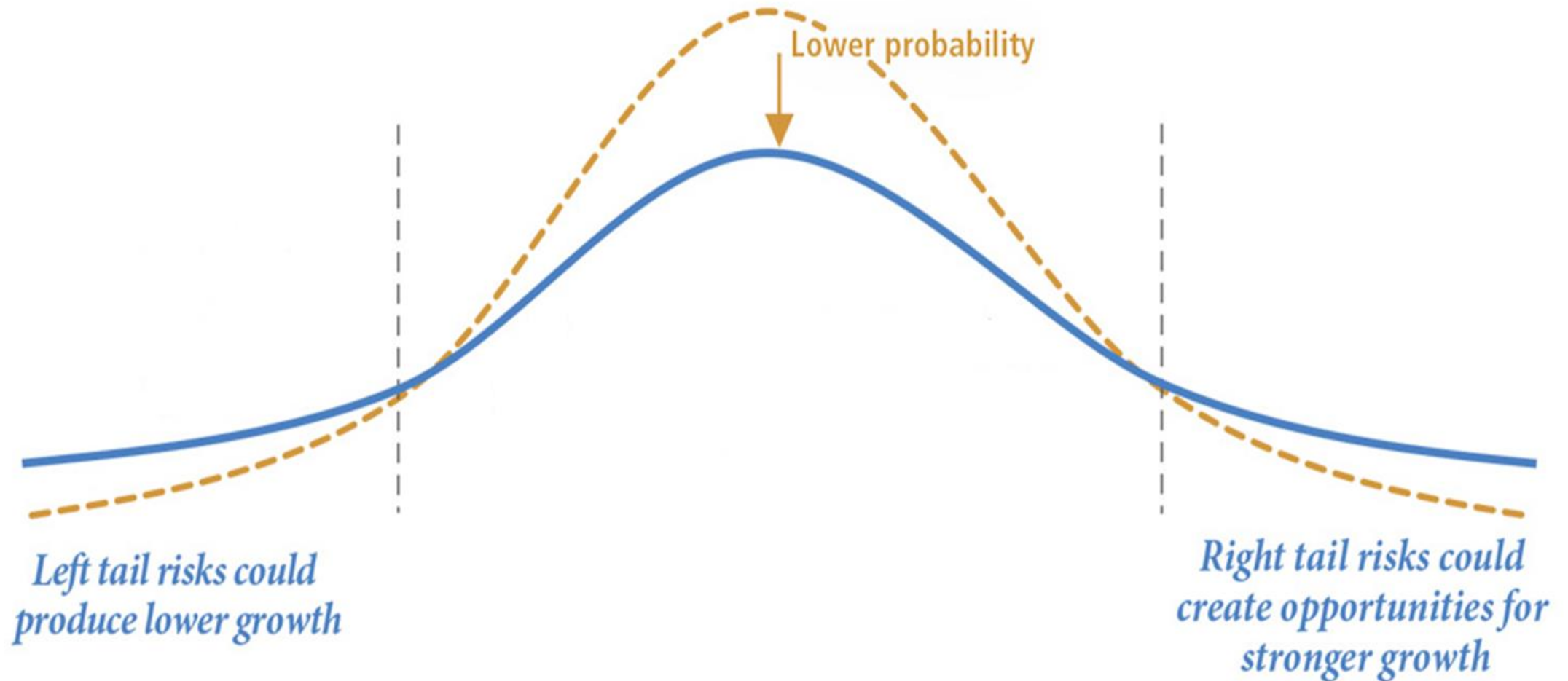
Negative
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External
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Important factors to have in mind...

- A week of full lockdown ~2% GDP loss (1 out of 52 weeks)
- Deflationary expectations
- Treatment of fiscal measures
- Disproportionate decrease in Imports Vs Consumption
- Size of tourism sector (direct & indirect) Revenue Vs GVA
- Local traveling spent abroad
- Negative impact on all sectors? Construction?

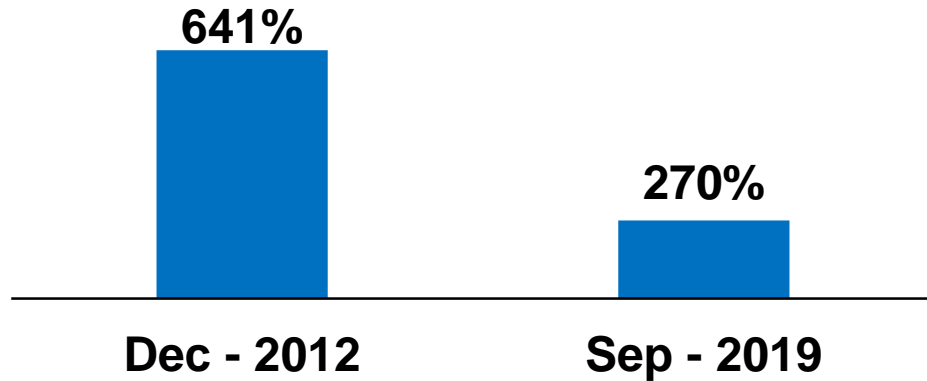
Assess economic outlook in terms of different scenarios and be open to scenario switching



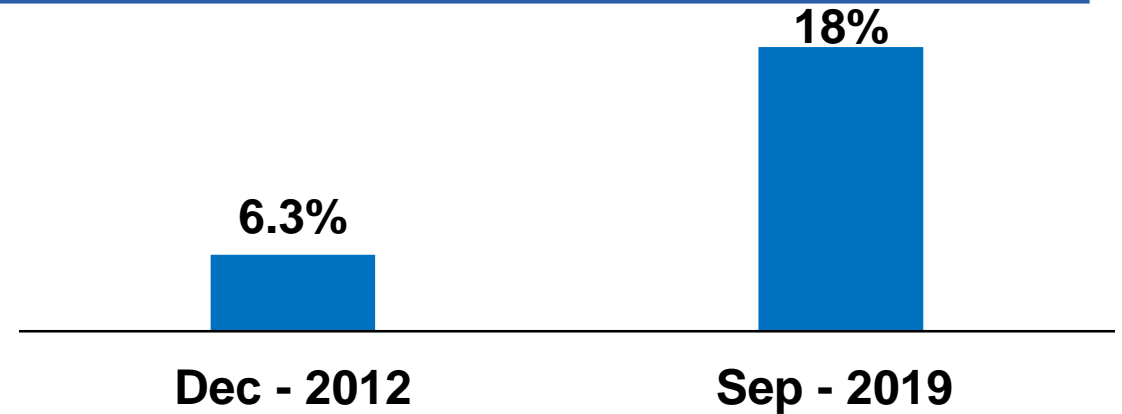
The Cyprus Banking System

... consolidated, recapitalized, in stronger position

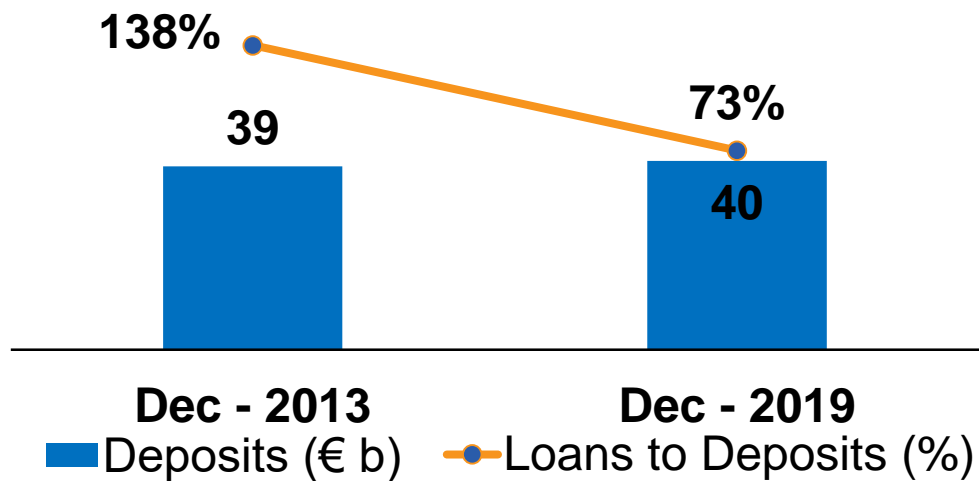
Banking sector size % GDP



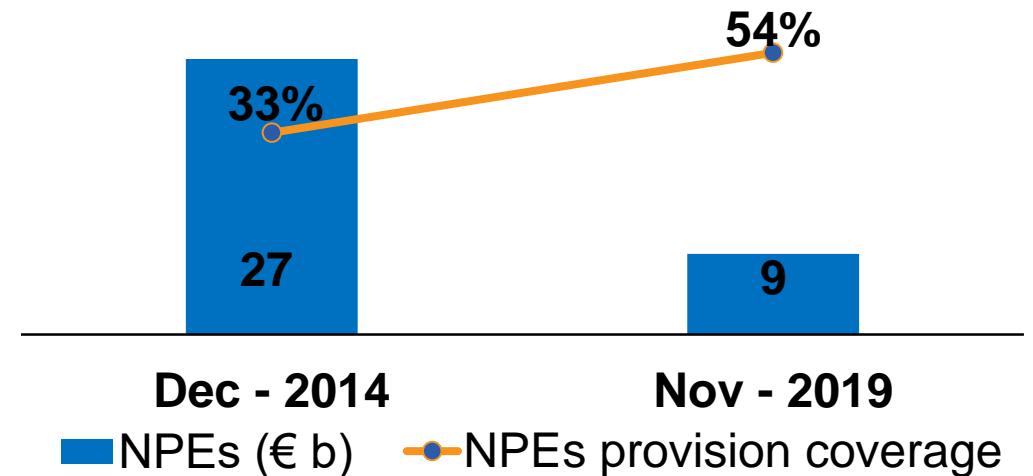
Tier 1 capital ratio (%)



System's deposits (HHs and NFCs)



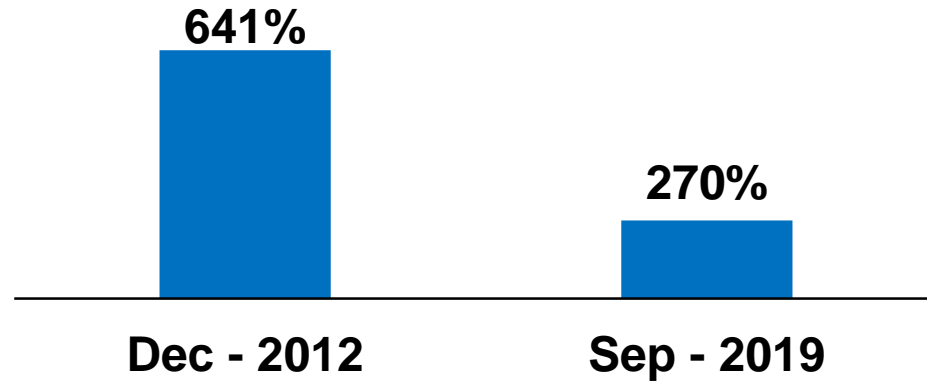
Loan portfolio quality



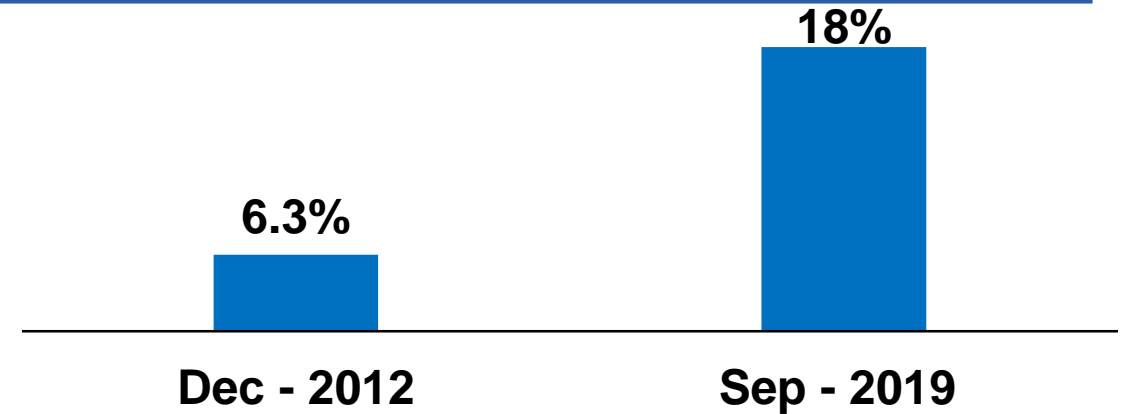
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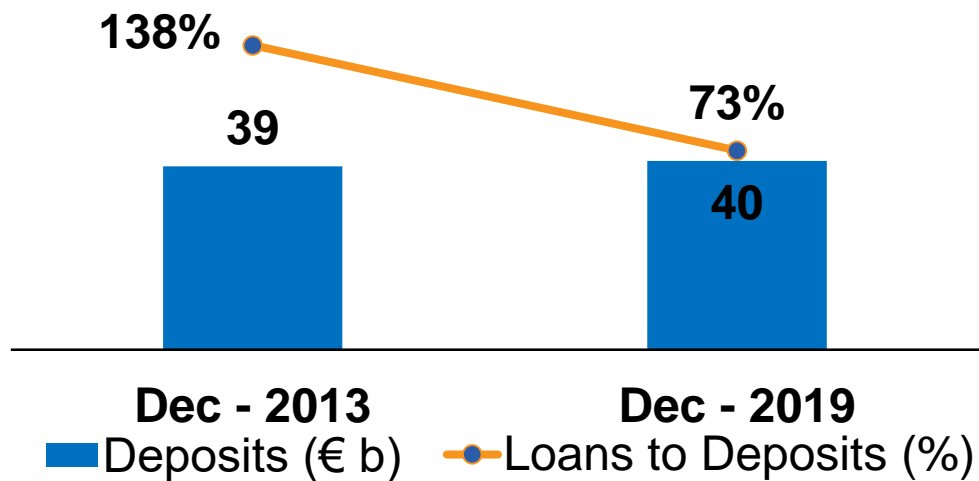
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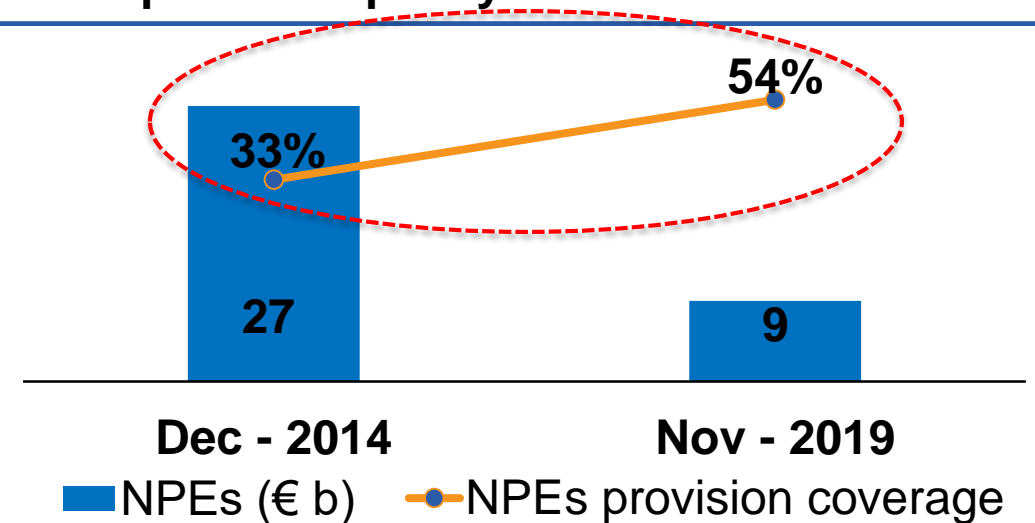
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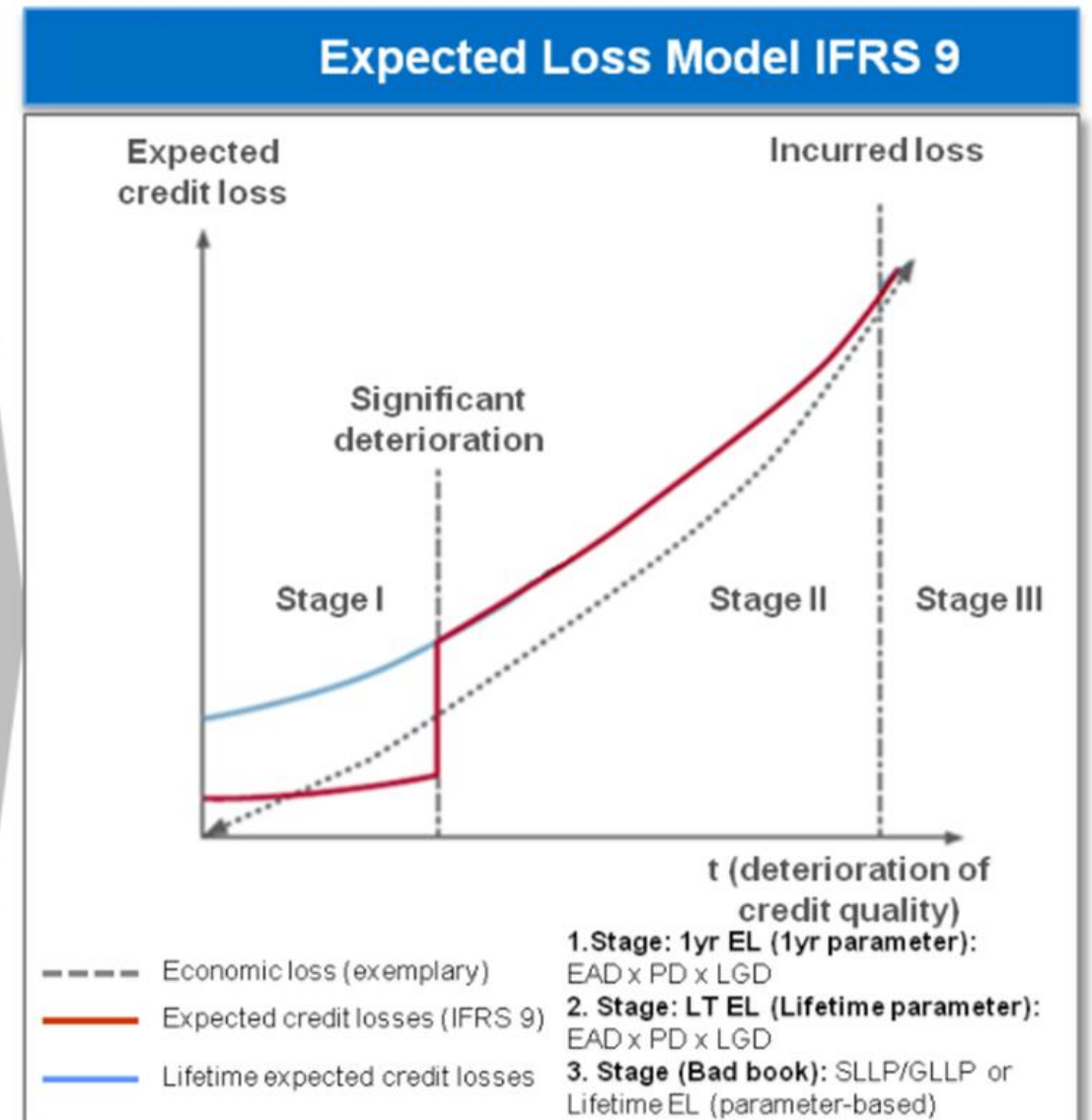
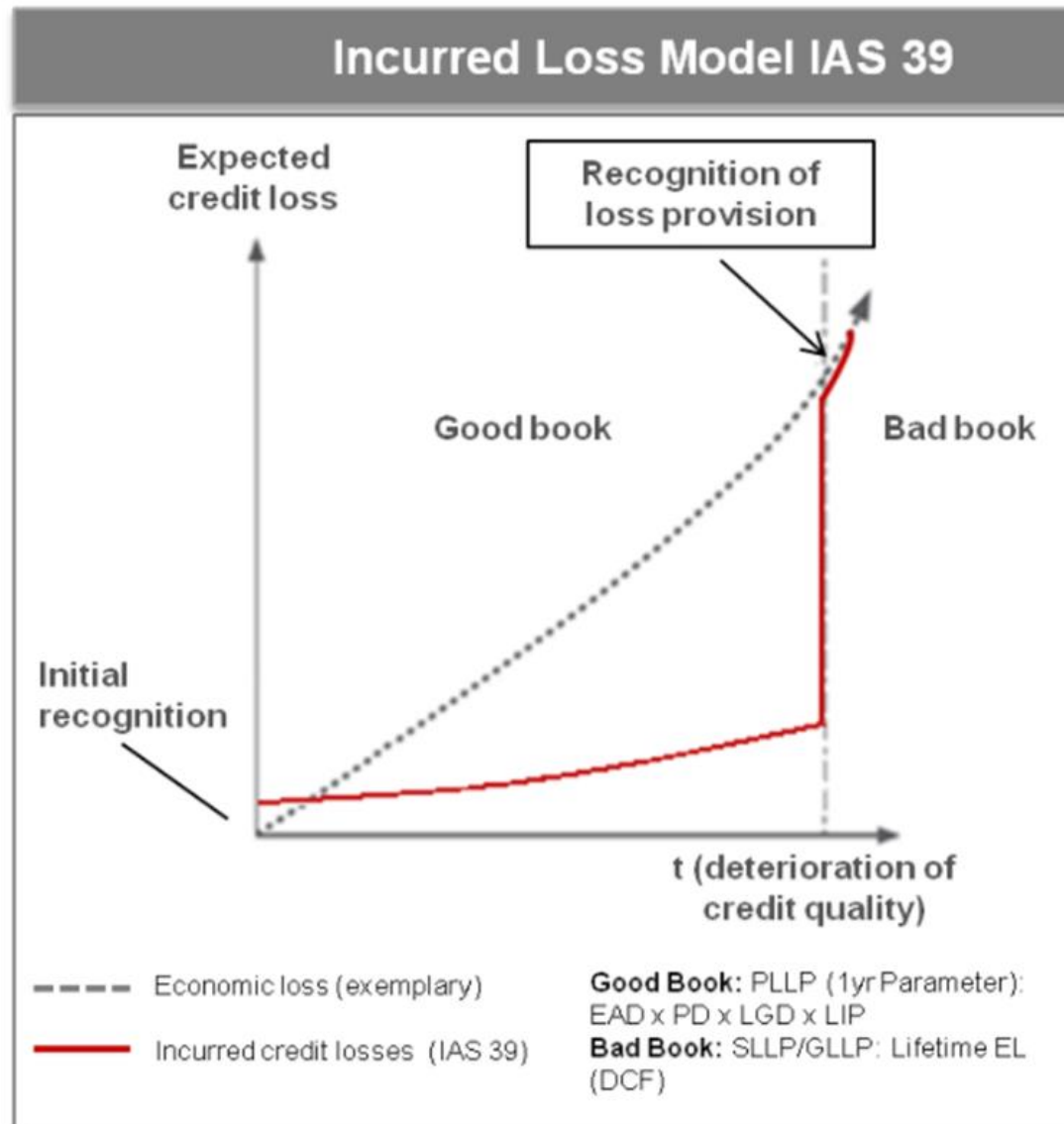
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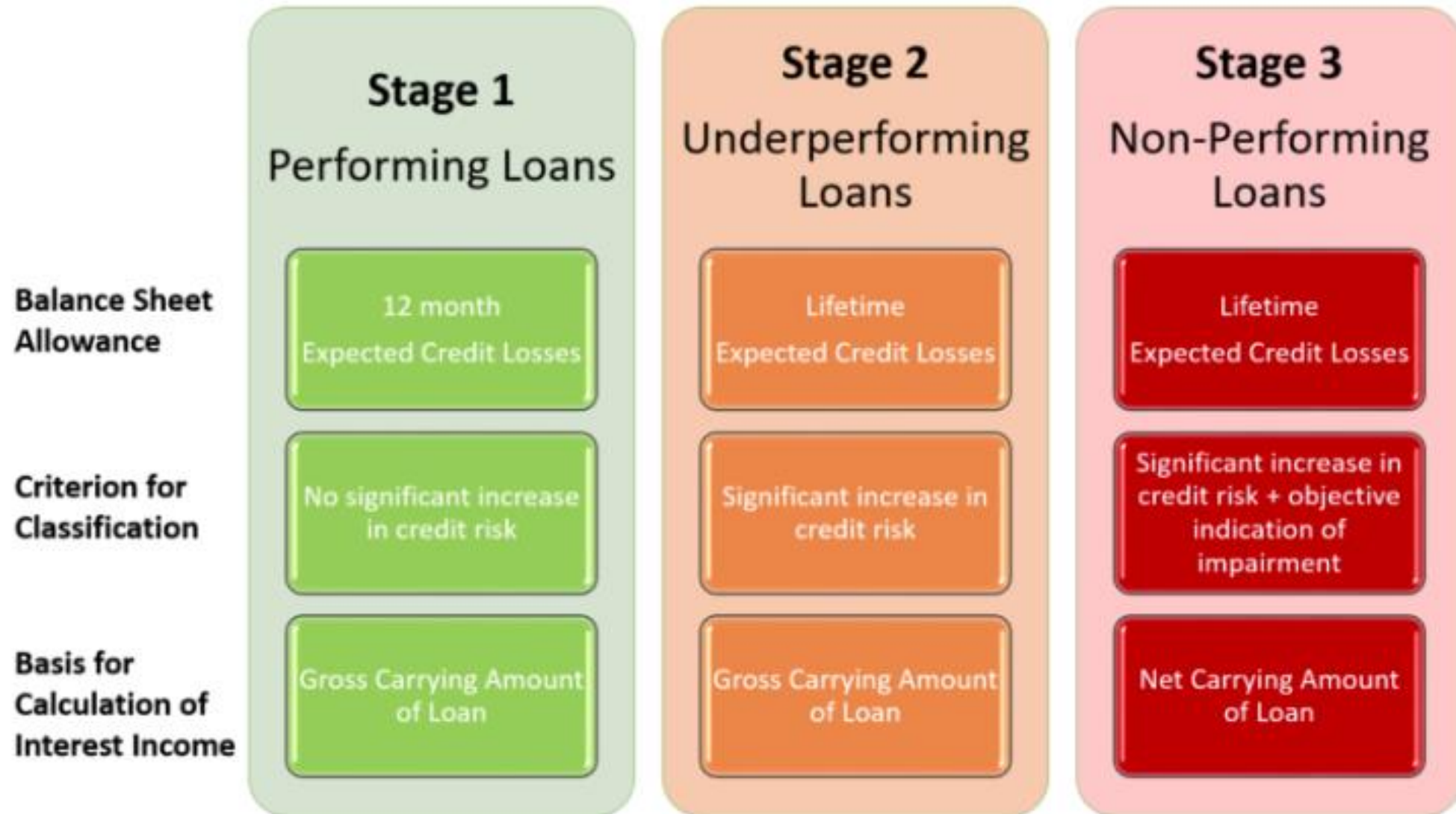
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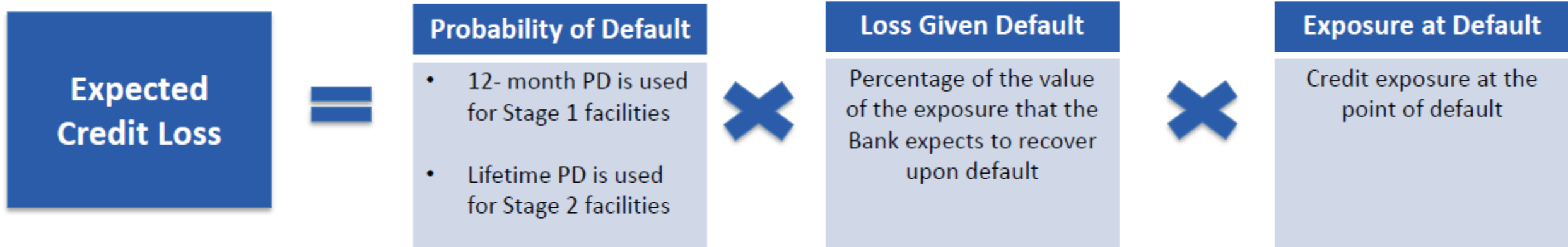
Changing Reporting Standards – IFRS9



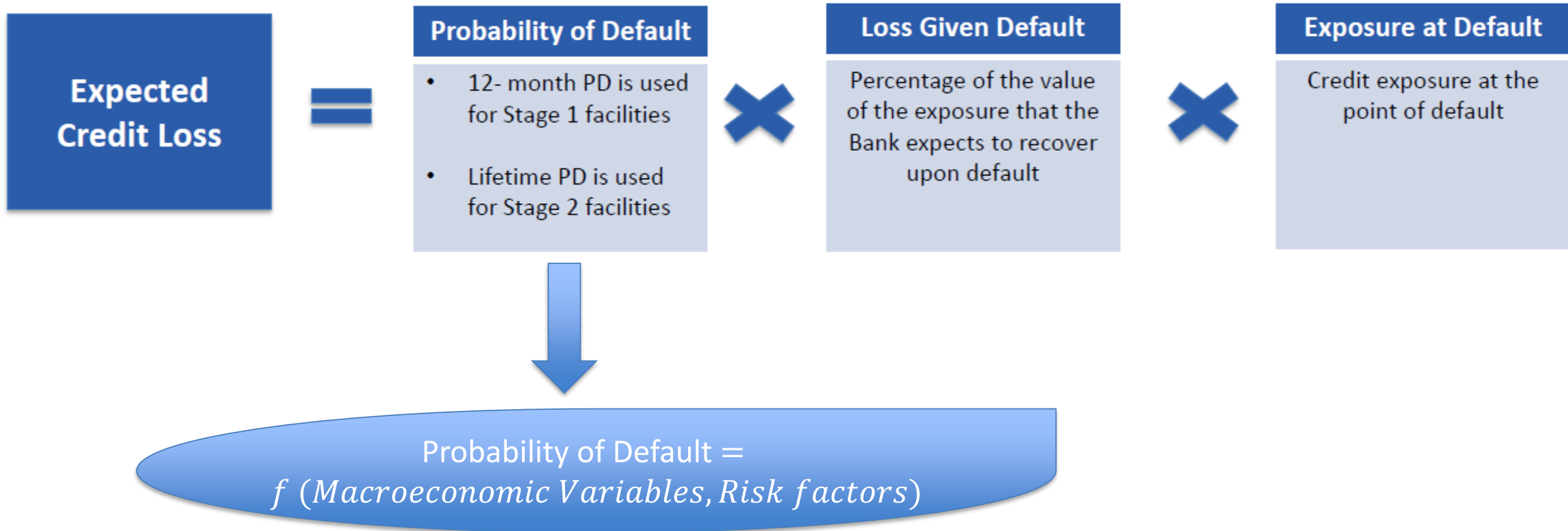
The new IFRS 9 applies a 3-stage model which requires to classify loans into performing, under-performing or non-performing



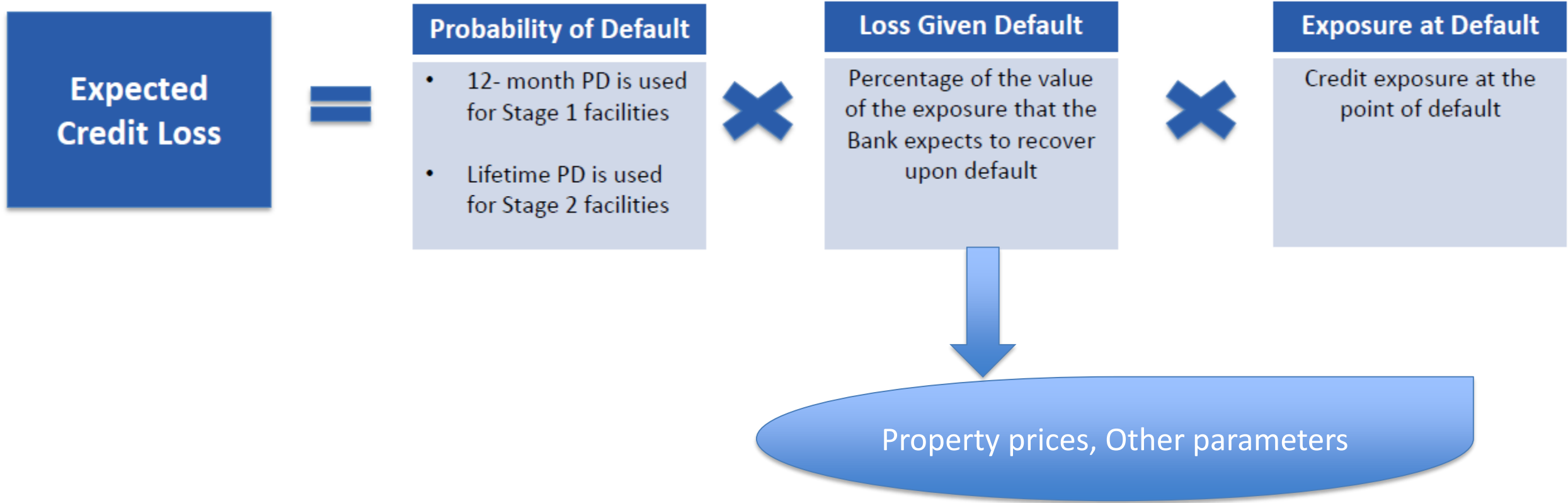
The new IFRS 9 – Estimation of provisions



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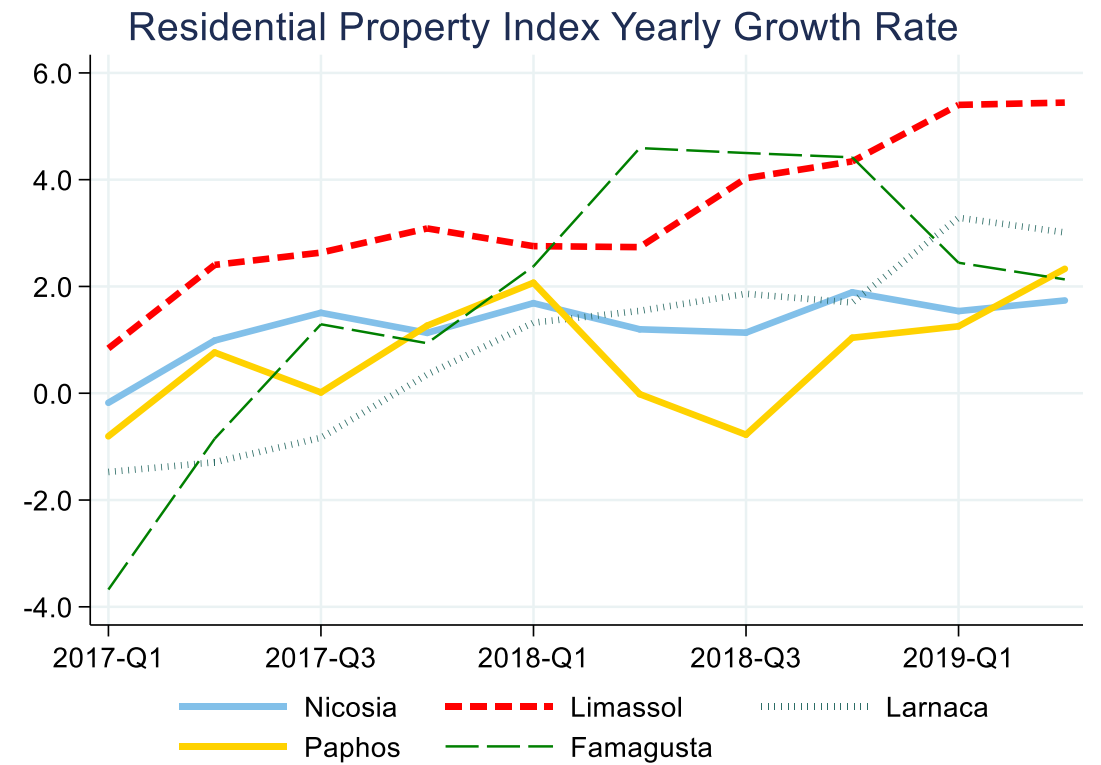
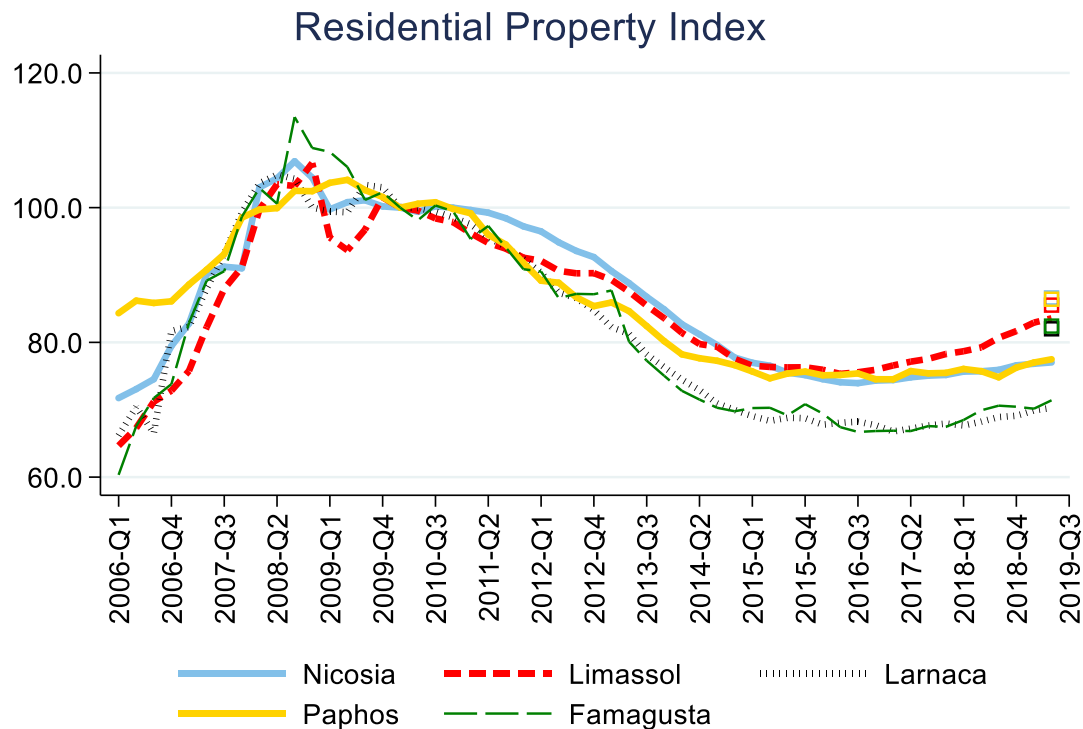


The new IFRS 9 – Estimation of provisions



Evolution of Property Prices

CBCs Residential Price Indices Across Districts: Residential prices are steadily rising

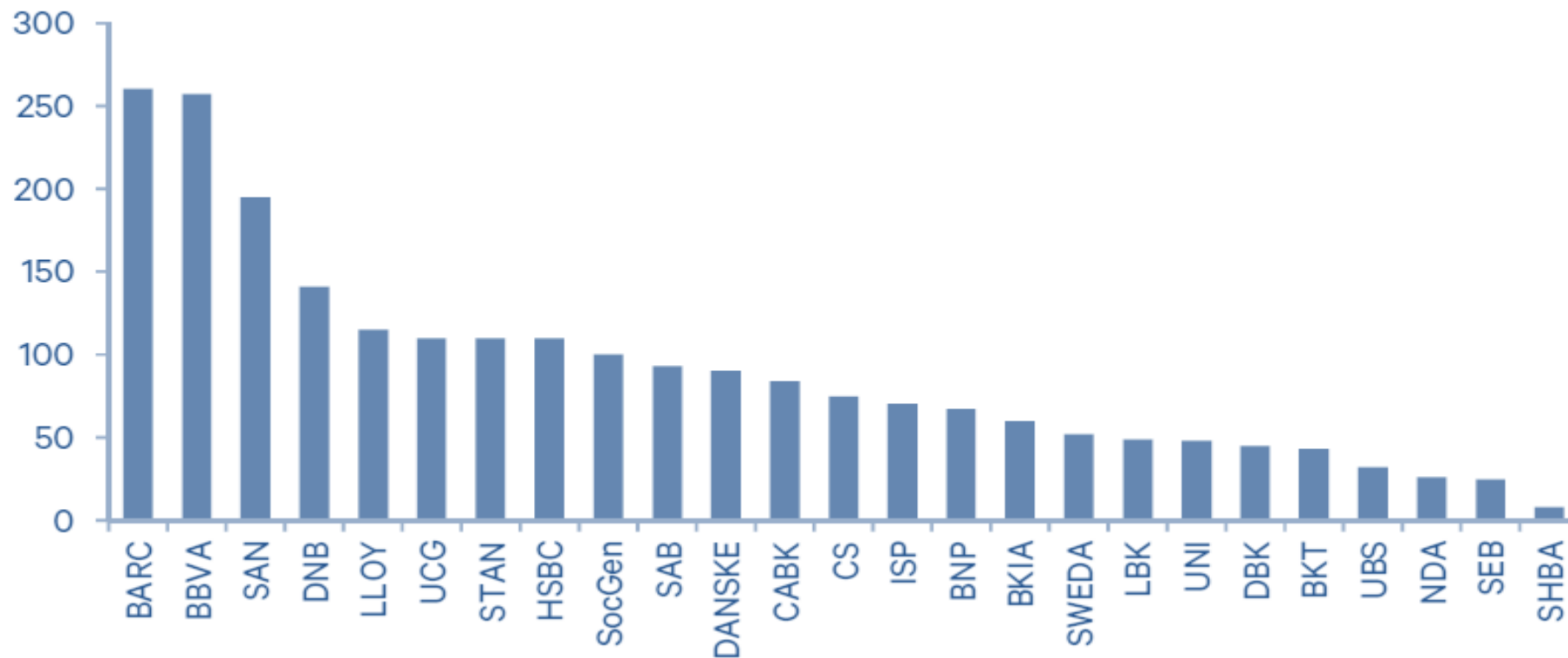


Note: Squares correspond to long-term averages for each district

Covid-19 impact of European Banks (Q1 2020)

- European banks are cautious about the outlook -5% to -15%
- Moratorium of installments not an automatic trigger for increased credit risk
- The average cost of risk so far is 90bps which is near prior crisis peaks of 100bps

Reported CoR in Q1 2020 (annualised), in bp



Source: Berenberg Bank

Opportunities for the banking sector?

Acceleration of digital transformation

Technology and digital banking the key remedy in doing business

New lending: Green finance

Data Analytics

Thank you