

7th International Funds Summit –Speech by Minister of Finance,

Mr Constantinos Petrides

The state of the Cyprus economy

First of all, let me thank the organisers, “Invest Cyprus” and “CIFA”, for hosting this event and for providing me with the opportunity to present the state of the Cyprus economy and its economic outlook. In these very challenging times, we are grateful to have strong allies such as Invest Cyprus and CIFA, for the promotion of our country as an attractive investment destination.

Let me also extend my greetings to all participants and to my esteemed fellow speakers.

It is a fact that the Covid-19 pandemic has placed enormous pressure on the global economy, both from the demand and the supply side. However, with the rollout of the vaccination program and the subsequent re-opening and recovery of the international economy, we are now going through the growth and resilience phase.

This is exactly the experience from our side.

Since the onset of the crisis, Cyprus has taken very strict measures of containment to primarily protect its citizens and the public health system. As a result, the government’s fiscal policy had to be particularly expansionary, mostly through the direct support of incomes. The fiscal buffers of the last few years, played a significant role in allowing the Government to respond in a timely manner and address the scarring effects of the pandemic on the economy.

At the same time, we used the relaxation of fiscal rules that the EU allowed for to our advantage. A relaxation that allows member states to spend according to their capability.

I am pleased to note that the government measures have been highly effective as shown by statistical data. The magnitude of the recession in 2020 was less

than the E.U. average and much less than other countries that are also somewhat dependent on the tourist sector. These measures have also helped to contain the increase in the unemployment rate to a significant extent.

With the gradual reopening of the economy, our baseline scenario is that the economy will enter into a recovery trajectory from 2021 onwards. In particular, real GDP growth is forecast at 5.5% in 2021, thus fully recovering the lost ground.

Regarding the tourism sector which is one of the main growth drivers of the Cyprus economy, we don't expect any scarring effects from the pandemic. Based on recent data, arrivals are expected to surpass those in 2020, whereas we expect similar numbers in 2022 compared to 2019.

In the labour market, the utilization of the temporary income support schemes has helped to keep unemployment at low levels so far. The unemployment rate increased only marginally from 7.1% in 2019 to 7.6% in 2020 and is expected to fall to around 7.5% in 2021.

On the fiscal front, as expected, the extraordinary fiscal support to the economy has had negative consequences on public finances. The general government balance recorded a deficit of 5.7% of GDP in 2020, following the strong performance of the last four years, while it is expected to record a deficit of around 5.0% in 2021. The budget position is expected to improve considerably from 2022 onwards, reaching a surplus by 2024.

At the end of 2020 public debt stood at 119.1% of GDP compared to 94% in 2019. The debt increase was mainly attributed to a decisive increase in cash buffers as a precautionary action, due to the uncertainty caused by the pandemic, but also to the comprehensive fiscal support measures. As of 2021, debt to GDP is expected to decline to about 107% and remain on a declining path over the medium term.

Ladies and gentlemen,

It is imperative to ensure that during this recovery and growth process, we take full advantage of the opportunities that the EU's Recovery and Resilience Facility offers to the maximum benefit of our economies.

In fact, we view the national Recovery and Resilience Plan as key for the overhaul of the Cyprus economy. Through the Plan's measures, we aim at promoting Cyprus as a country with high levels of resilience, productivity and competitiveness through a sustainable model of long-term growth, where the education system and workforce development are aligned with the skills needed for the future. We want Cyprus to be among the pioneers in Green and Digital transition. A country with a resilient health system, a welfare state with a strong protection network for those in need.

Despite the pandemic setback, our policy priorities remain the same, that is achieving macroeconomic stability, implementing prudent fiscal policies, ensuring financial stability and establishing a competitive, business-friendly regulatory environment of high standards.

In this context and as part of a package of incentives to promote the island's economic recovery, investors will be able to take advantage of the "Business Facilitation Unit", that is envisaged to be established beginning of 2022. The incentives included in this initiative cover residence and employment incentives, simplification and digitisation of procedures, as well as promoting Cyprus as an attractive investment destination.

Moreover, the Cyprus Government has consistently supported the development of the funds' industry in Cyprus as it has been identified as a sector in which Cyprus has a competitive advantage stemming from its skilled human capital, the comparatively low running and set up costs, as well as its access to the European and regional markets, under the robust framework of the European Union for financial services.

The Funds Industry in Cyprus has exhibited steady growth with assets under management increasing by more than 200% from €2.7 billion in 2016 to €8.5 billion in 2020. Apart from the general growth of the sector, which provides employment, specialisation, and value through the financial services industry, it is of particular importance that 25% of the funds under management in 2020, were invested in Cyprus, directly financing the economy.

Both dimensions of the Funds Industry are important for growth, and are interlinked. The enhanced Private Equity and Venture Capital activity of recent years has the potential to benefit the emerging and growing Cyprus startups and innovation ecosystem, powered traditionally by government grants, angel investors, incubators and accelerators. According to venture capital expenditures data from the Invest Europe organization, Investment Funds based in Cyprus have invested more than 28 million Euros in Cypriot-based enterprises in 2020.

However, a significant equity finance gap still prevails and the difficulty in accessing financing in Cyprus still remains and is well documented. It is also evident by the increased Cypriot enterprises' participation in the various European and local competitive financing programmes.

The ecosystem has reached a maturity point where the existing financing sources need to be further complemented by private capital. Local knowledge also needs to be further enhanced by international VCs expertise.

It is encouraging that in a series of contacts with the market, we have identified the increased interest and appetite by local and international investors and fund managers to scale up their investments in the Cyprus Economy and take full advantage of the market potential.

Ladies and Gentlemen,

We are going through turbulent times but I am confident that we will rise to the challenge once again.

Let me conclude by wishing you success to this event.

Thank you.