



CYPRUS

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

June 2025

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV Consultation with Cyprus, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis following discussions that ended on March 28, 2025, with the officials of Cyprus on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 13, 2025.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2025 Article IV Consultation with Cyprus

FOR IMMEDIATE RELEASE

- Growth is expected to decelerate to 2.5 percent in 2025 and stabilize at 3 percent in the medium term as Cyprus shifts towards more investment-driven growth.
- The fiscal surplus reached an impressive 4.3 percent of GDP in 2024, while public debt declined to 65 percent of GDP. Fiscal policy should continue to prioritize debt reduction to further build buffers against potential shocks.
- The banking sector boasts substantial capital and liquidity buffers, with financial risks appearing well-contained. The recent tightening of the macroprudential policy stance, will further enhance these financial buffers.

Washington, DC – May 29, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Cyprus and endorsed the staff appraisal without a meeting.¹ The authorities have consented to the publication of the Staff Report prepared for this consultation.²

In 2024, Cyprus's growth accelerated to 3.4 percent—one of the highest rates in the euro area (EA)—driven by a strong tourism season, continued Information and Communication Technology (ICT) sector expansion, and robust public and private consumption. While inflation has remained volatile, it has generally decreased, with headline inflation falling to 2.1 percent by March 2025. Fiscal performance continues to be very strong, with the fiscal surplus increasing to 4.3 percent of GDP in 2024, supported by robust tax revenues. As a result, public debt has declined to 65 percent of GDP by the end of 2024, while cash buffers remain large. Financial conditions remain tight, accompanied by subdued credit growth. Nevertheless, the banking sector possesses sizable capital and liquidity buffers, and overall banking sector risks appear contained.

Growth is expected to moderate to 2.5 percent in 2025 before reaching 3 percent in the medium term, driven by higher investment and structural reforms. Inflation is anticipated to hit the 2 percent target later this year, supported by moderating growth and lower oil prices. Near-term risks are tilted to the downside, including from elevated uncertainty from global trade tensions. In contrast, longer-term risks are more balanced, with risks on insufficient progress on structural reforms acting against the upside potential of Cyprus's evolving business model.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

² Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/cyprus page.

Executive Board Assessment

In concluding the 2025 Article IV consultation with Cyprus, Executive Directors endorsed staff's appraisal, as follows:

Cyprus has demonstrated remarkable economic resilience, with growth among the highest in the EA. This strong performance is underpinned by robust service exports and domestic consumption. The labor market remains tight, characterized by a declining unemployment rate and elevated job vacancy levels. While uncertainties persist, there are indications of potential overheating in the economy. This, along with tariff-related trade disruption, will lead growth to moderate this year. While volatile, inflation is projected to stabilize around 2 percent by the end of the year. The current account deficit is estimated to have moderated in 2024, but the external position is assessed to be weaker than the level implied by fundamentals.

The immediate outlook presents downside risks, while longer-term risks appear more balanced. An escalation of trade conflicts—particularly if this broadened to include services trade and FDI—poses an important downside risk. An escalation of regional tensions, and possible new energy price shocks, could affect FDI, tourism, and inflation. Domestically, there are concerns about further overheating, which may arise from a more accommodative fiscal policy. In the medium-to-long term, investment-driven growth will rely on continuous progress in structural reforms. On the upside, Cyprus's agile and dynamic economy offers substantial potential for growth.

Cyprus's strong fiscal position has reduced vulnerabilities. In 2024, the primary fiscal surplus reached 5.6 percent, fueled by significant revenue growth that more than compensated for increased public wages and social transfers. As a result, public debt decreased to 65 percent of GDP by the end of 2024, with substantial cash reserves supporting liquidity. This further increased resilience, built policy space for future shocks, and improved investor sentiment.

Fiscal policy should continue to prioritize debt reduction. Given overheating risks, it is crucial to avoid new discretionary measures that would ease fiscal policy and add to inflationary pressures. Instead, efforts should focus on reducing debt well below 60 percent of GDP, thereby ensuring a robust buffer against potential shocks. The authorities' commitment to maintaining fiscal surpluses through 2028, as specified in the MTFSP under the new EU economic governance framework, supports this goal.

As spending pressures increase, careful management of fiscal space is essential. The financial commitments required for achieving climate and digital transitions will persist beyond the end of EU RRP funding. Additionally, an aging population will necessitate higher expenditures on pensions and healthcare, alongside other long-term expenditures. As a result, the scope for fiscal loosening in the medium term is constrained.

Public spending should emphasize investment while retaining flexibility in response to economic shocks. Capital expenditures should take precedence to enhance potential growth and facilitate the climate transition. At the same time, expanding current spending—such as increasing public wages, broadening subsidies, or introducing untargeted social programs—should be avoided. Specifically, the authorities should resist further increases to the COLA indexation or new ad-hoc salary increases to contain the existing substantial public-private wage gap and prevent additional pressure on real wage growth.

The banking sector boasts substantial capital and liquidity buffers, with financial risks appearing well-contained. Profitability metrics have reached record highs for the second consecutive year, and capitalization levels are now among the highest in Europe. Despite elevated interest rates, asset quality

continues to improve, supported by strong economic growth. Nonetheless, ongoing vigilance is essential, particularly concerning the real estate sector.

Recent tightening of the macroprudential policy stance will enhance financial buffers further. The announced increase in the CCyB will bolster resilience by securing already high capital buffers without adversely affecting credit availability or economic growth. In the future, careful calibration of macroprudential policies should continue to strike a balance between financial stability and effective credit intermediation.

Although legacy NPLs continue to decrease, they remain at elevated levels. Most NPLs have been successfully transitioned away from the banking sector and do not pose a significant issue for financial stability. The ongoing resolution of legacy NPLs is expected to accelerate, given the full operationalization of the foreclosure framework and a strong uptake of the mortgage-to-rent scheme. Resolving legacy NPLs is expected to help mobilize domestic capital.

Structural reforms aimed at enhancing judicial efficiency and boosting labor productivity are vital for fostering long-term growth. With employment levels already high, capital deepening will increasingly drive growth. Consequently, policies must create a stable and streamlined business environment conducive to investment. Additional efforts are required in the judicial sector to strengthen the institutional framework for insolvency and creditor rights and to improve court efficiency. Labor policies should focus on addressing skill gaps and mismatches and engaging remaining segments of the labor force, particularly among youth and the long-term unemployed.

Key energy projects and reforms must be expedited to reduce energy costs, enhance energy security, and fulfill climate commitments. Completing the LNG terminal and improving electricity interconnectedness would represent significant progress toward these objectives. Additionally, increasing competition in the electricity market would help lower costs and emissions through market forces. The planned introduction of green taxation would further facilitate the energy transition.

Maintaining a strong AML framework is vital for mitigating reputational risks and business uncertainty. Ongoing efforts to broaden the definition of obliged entities for AML supervision are commendable. Furthermore, the proposed establishment of the National Sanctions Implementation Unit at the Ministry of Finance will enhance clarity for reporting entities regarding compliance with sanctions.

Table 1. Cyprus: Selected Economic Indicators, 2021–2030

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	<i>Projections</i>									
Real Economy	(Percent change, unless otherwise indicated)									
Real GDP	11.4	7.2	2.8	3.4	2.5	2.7	3.0	3.0	3.0	3.0
Domestic demand	5.6	8.5	5.2	0.7	4.6	3.6	3.6	3.5	3.4	3.2
Consumption	5.7	8.5	4.8	3.3	3.2	2.6	2.8	2.9	2.8	2.8
Private consumption	4.7	9.8	5.9	3.8	2.8	2.9	3.2	3.2	3.2	3.1
Public consumption	8.9	4.7	1.2	1.5	4.4	1.4	1.2	1.7	1.7	1.7
Gross capital formation	5.0	8.5	6.6	-9.5	10.5	7.8	7.0	6.0	5.5	4.5
Foreign balance 1/	5.8	-1.1	-2.3	3.0	-1.9	-0.9	-0.7	-0.5	-0.4	-0.3
Exports of goods and services	27.2	27.1	-2.8	5.3	4.0	4.1	4.0	4.0	4.0	4.0
Imports of goods and services	19.6	29.7	-0.7	2.4	6.1	5.1	4.6	4.5	4.4	4.2
Potential GDP growth	5.5	6.1	4.4	3.3	3.0	2.9	2.9	3.0	3.0	3.0
Output gap (percent of potential GDP)	0.9	2.0	0.4	0.6	0.2	-0.1	0.0	0.0	0.0	0.0
HICP (period average, seasonally-adjusted)	2.3	8.1	3.9	2.3	2.2	2.0	2.0	2.0	2.0	2.0
HICP (end of period, seasonally-adjusted)	4.8	7.6	1.9	3.1	2.0	2.0	2.0	2.0	2.0	2.0
GDP deflator	3.0	6.7	3.8	3.5	4.7	1.6	1.5	1.5	1.5	1.6
Unemployment rate (percent, period average)	7.2	6.3	5.8	4.9	4.8	5.0	5.0	5.0	5.0	5.0
Employment growth (percent, period average)	3.5	5.0	2.8	1.5	0.9	0.8	0.9	0.8	0.8	0.8
Labor force	3.0	4.0	2.3	0.4	0.8	1.0	0.9	0.8	0.8	0.8
Public Finance	(Percent of GDP, unless otherwise indicated)									
General government balance	-1.6	2.7	1.7	4.3	3.8	3.5	2.4	2.1	1.9	1.6
Revenue	41.0	40.6	43.7	44.3	44.7	44.3	43.3	43.2	43.2	43.2
Expenditure	42.6	38.0	42.0	40.0	40.9	40.8	40.8	41.1	41.4	41.6
Primary Fiscal Balance	0.1	4.0	3.0	5.6	5.2	4.8	3.8	3.4	3.1	2.9
General government debt	96.5	81.1	73.6	65.1	60.2	54.9	49.7	44.5	41.2	38.3
Balance of Payments										
Current account balance	-5.4	-5.4	-9.7	-6.1	-7.1	-7.7	-8.2	-8.7	-9.1	-9.4
Trade Balance (goods and services)	4.7	3.6	1.0	3.6	2.5	1.8	1.1	0.5	0.2	0.0
Exports of goods and services	90.8	105.6	97.2	96.7	95.8	97.4	98.4	99.5	100.5	101.5
Imports of goods and services	86.1	102.0	96.1	93.1	93.2	95.6	97.3	98.9	100.3	101.6
Goods balance	-16.9	-19.7	-23.7	-20.4	-20.4	-21.4	-22.4	-23.3	-24.2	-24.9
Services balance	21.6	23.3	24.7	24.0	22.9	23.2	23.5	23.9	24.4	24.9
Primary income, net	-8.9	-7.9	-9.6	-8.9	-8.6	-8.5	-8.4	-8.3	-8.3	-8.3
Secondary income, net	-1.2	-0.7	-1.1	-0.8	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Capital account, net	0.2	0.1	-0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Financial account, net	-7.6	-6.2	-8.7	-5.9	-6.9	-7.5	-8.2	-8.6	-9.1	-9.3
Direct investment	-3.3	-27.2	-21.0	-18.0	-18.0	-18.1	-18.3	-18.3	-18.5	-18.6
Portfolio investment	3.9	3.9	11.0	4.9	5.8	3.6	4.2	3.5	1.5	2.6
Other investment and financial derivatives	-9.6	16.8	1.2	7.2	5.3	7.0	5.9	6.2	7.9	6.7
Reserves (+ accumulation)	1.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing 2/	0.0	0.0	0.0	0.0	-1.0	-2.7	-2.5	-2.4	-2.4	-2.0
Errors and omissions	-2.5	-0.9	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Saving-Investment Balance										
National saving	13.8	14.9	11.8	14.4	13.7	13.6	13.4	13.3	13.2	13.1
Government	1.8	5.8	6.7	7.9	7.8	7.3	6.3	6.1	6.1	5.8
Non-government	12.0	9.0	5.1	6.5	5.9	6.3	7.1	7.2	7.1	7.3
Gross capital formation	19.2	20.3	21.4	20.5	20.8	21.3	21.7	22.1	22.4	22.5
Government	3.5	3.2	5.0	3.6	3.9	3.8	3.9	4.1	4.2	4.2
Private	15.8	17.1	16.4	16.9	16.9	17.4	17.7	18.0	18.1	18.2
Foreign saving	-5.4	-5.4	-9.7	-6.1	-7.1	-7.7	-8.2	-8.7	-9.1	-9.4
Memorandum Item:										
Nominal GDP (billions of euros)	25.7	29.4	31.3	33.6	36.0	37.6	39.3	41.1	42.9	44.9
Structural primary balance	-0.4	3.3	2.6	5.3	5.2	4.8	3.8	3.4	3.1	2.9
External debt	994.1	879.7	828.3	767.6	706.8	669.0	631.4	595.8	564.1	534.0
Net IIP	-105.7	-95.2	-92.7	-98.5	-99.3	-102.6	-106.9	-111.7	-114.6	-118.8

Sources: Cystat, Eurostat, Central Bank of Cyprus, and IMF staff estimates.

1/ Contribution to real GDP growth

2/ Program financing (+ purchases, - repurchases) is included under the Financial Account, with consistent sign conversion



CYPRUS

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

May 13, 2025

KEY ISSUES

Recent Developments and Outlook: Robust growth last year was driven by strong tourism, ICT sector expansion, and domestic consumption. And inflation decelerated despite some volatility. Activity is expected to moderate this year as consumption growth eases and exports are hit by rising trade tensions. Looking ahead, capital accumulation will become increasingly important for sustaining long-term growth, particularly as the contribution from labor begins to diminish.

Fiscal Policy: Cyprus has demonstrated strong fiscal performance, with the primary surplus rising further in 2024 and public debt falling to 65 percent of GDP. Still, any discretionary loosening of policy should be avoided to mitigate overheating risks and further build buffers. Protecting fiscal space is important given rising longer-term spending needs: new measures to expand the wage bill or expand untargeted subsidies should be avoided. Prioritizing capital investments and the proposed revenue-neutral tax reforms will support sustainable growth.

Financial Sector Policy: The financial sector remains strong, with profits benefiting from higher interest rates. Banks enjoy ample liquidity and capital and an uninterrupted improvement of asset quality, with non-performing loans (NPLs) continuing to decline. While risks in the banking sector appear contained, ongoing monitoring of the real estate sector is required given the banks' high exposure. Recent macroprudential tightening will help to lock-in strong capital buffers.

Structural Policies: Cyprus's new economic model has strong growth potential, albeit contingent upon overcoming structural constraints. A more efficient judiciary is crucial for fostering investment and supporting capital accumulation. Careful calibration of labor and education policies is needed to tackle labor market tightness and address skills mismatches. And a single supervisory framework for administrative services could further strengthen the anti-money laundering and counter-terrorism financing (AML/CFT) framework. Finally, timely completion of major energy infrastructure projects is key to lowering energy costs and meeting climate commitments.

Approved By:
Mark Horton (EUR)
and Jacques Miniane (SPR)

The 2025 Article IV Consultation mission was held in Nicosia during March 17–28, 2025. The team comprised Alex Pienkowski (head), Moheb Malak, Adam Remo, Valentina Semenova (all EUR) and Amira Rasekh (LEG). Carlos Acosta (LEG) joined some meetings virtually. Sharon Smith-Tohu and Paul Tershakovec (both EUR) and Celine Thevenot (FAD) supported the mission from IMF headquarters. Nina Stoyanova (Advisor to the Executive Director) joined some of the meetings. The mission met with Minister of Finance Makis Keravnos, Central Bank of Cyprus Governor Christodoulos Patsalides, Permanent Secretary of the Ministry of Finance Andreas Zachariades, and other senior officials, as well as with representatives of the private sector and academia.

CONTENTS

CONTEXT	4
RECENT ECONOMIC DEVELOPMENTS	4
OUTLOOK AND RISKS	9
POLICY DISCUSSIONS	12
A. Fiscal Policy: Building Buffers and Promoting Growth	12
B. Financial Sector Policies: Maintaining Resilience	15
C. Structural Policies: Raising Potential Growth	17
STAFF APPRAISAL	20
FIGURES	
1. Real Sector	23
2. Labor Market Developments	24
3. Fiscal Revenue	25
4. Financial Conditions and Credit	26
5. Real Estate Market Developments	27
6. Cyclical Indicators	28
7. Corporate Vulnerabilities	29
TABLES	
1. Selected Economic Indicators, 2021–30	30
2. Fiscal Developments and Projections, 2021–30	31
3. General Government Financing Requirements and Sources, 2021–30	32
4. Balance of Payments, 2021–30	33

5. Financial Soundness Indicators, 2015–24	34
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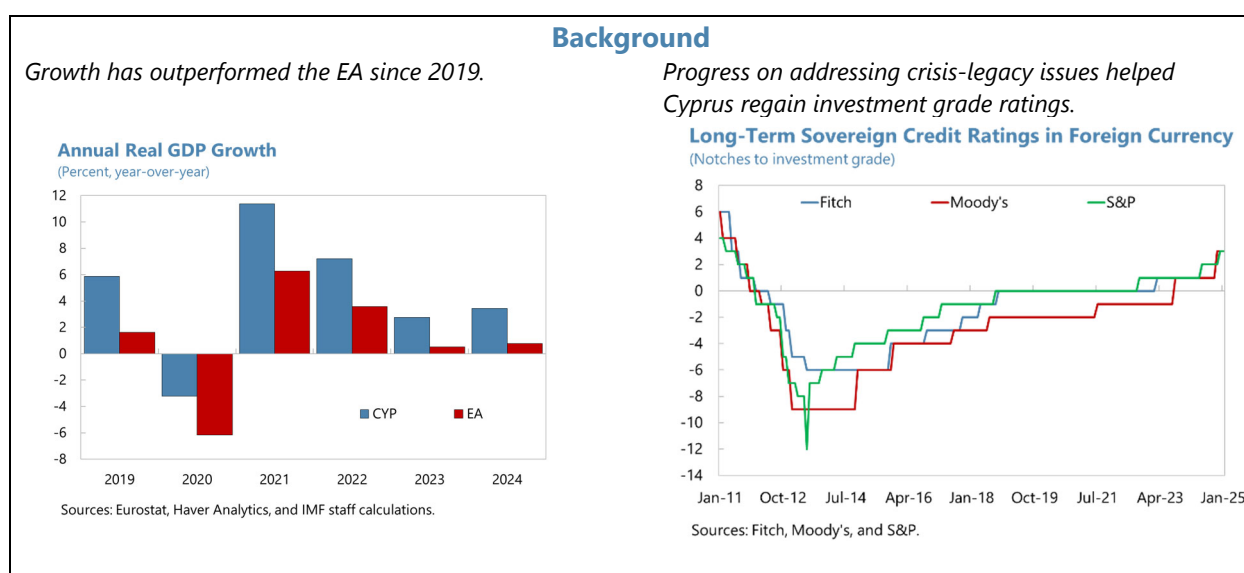
ANNEXES

I. Drivers of Growth: Capital and Labor	35
II. Sovereign Risk and Debt Sustainability Framework	41
III. External Sector Assessment	50
IV. Risk Assessment Matrix	53
V. Public Sector Wage Bill	55
VI. The Judicial System and Economic Growth	59
VII. Previous Article IV Recommendations	68
VIII. Data Issues	70

CONTEXT

1. Cyprus has demonstrated impressive resilience to successive shocks. Despite the pandemic, energy price shocks, disruption from Russia's war in Ukraine, and geopolitical turmoil in the Eastern Mediterranean region, growth has averaged over 4 percent since 2019, among the highest in the euro area (EA). Strong policy action, high FDI inflows, and reforms and financing under the EU Recovery and Resilience Plan (RRP) helped cushion these shocks. The economy also benefited from successful diversification of tourism and service-export markets and a boom in ICT.

2. Crisis legacy issues have largely been addressed. Public debt declined from 110 percent of GDP in 2014 to 65 percent in 2024. Bank capital and liquidity are among the highest in Europe, while (still-high) NPLs have largely been sold to specialized credit-acquiring companies (CACs). Private sector deleveraging continues, supported by strong growth and employment, and the now operational foreclosure framework.¹



RECENT ECONOMIC DEVELOPMENTS

3. Growth accelerated in 2024. Growth of 3.4 percent in 2024—up from 2.8 percent in 2023—was among the highest in the EA (Figure 1). Robust export growth was driven by another strong tourism season, continued ICT expansion, and further recovery of professional services, which had been hit by sanctions on Russia. Public and private consumption remained robust, supported by increases in government current expenditures, growing employment, and rising real wages. While investment declined, this was mainly driven by a decrease in inventories and from base effects associated with large ship imports in 2023. A recent rebasing increased the level of nominal GDP by 5 percent in 2023.

¹ See Box II of the 2024 Cyprus Article IV Consultation.

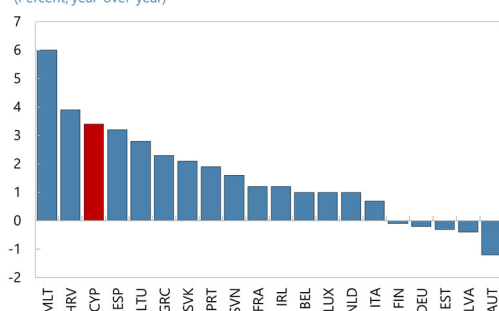
Economic Activity

GDP growth was among the highest of EA countries last year...

...supported by strong exports and consumption.

Annual Real GDP Growth, 2024

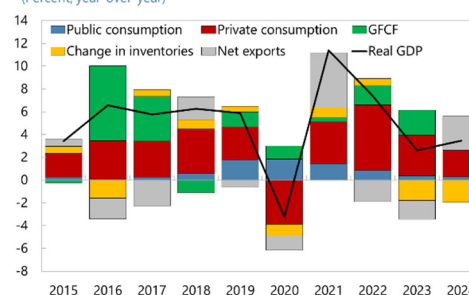
(Percent, year-over-year)



Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Contributions to Real GDP Growth

(Percent, year-over-year)



Sources: Cystat, Haver Analytics, and IMF staff calculations.

4. While volatile, inflation has fallen, broadly in line with the EA trend. Average headline inflation declined in 2024, supported by tight financial conditions and declining energy prices.

Headline inflation rebounded to 3.1 percent in December, in part due to base effects, before declining to 2.1 percent in March 2025. Core inflation, driven mainly by services, remained elevated throughout 2024 but has

shown signs of recent easing, similar to the EA trend. Inflation momentum indicators have fallen in recent months especially for core inflation. The one-year ahead inflation forecast, and consensus inflation expectations have come down from earlier peaks but remain elevated.

Key Inflation Indicators

(Percent)

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Headline, year-over-year	4.3	1.9	1.6	3.0	1.6	3.1	2.1
Headline, 3-mo. MA 1/	9.5	-4.3	2.7	4.2	3.5	2.0	-1.2
Core, year-over-year	3.9	2.5	2.2	2.2	2.7	2.5	1.6
Core, 3-mo. MA 1/	2.3	1.3	2.5	2.8	3.6	1.5	-0.8

Sources: Eurostat, Haver Analytics, and IMF staff calculations.

1/ Average of previous three months' month-over-month inflation rate, annualized

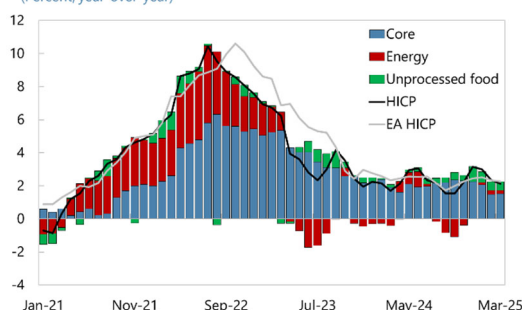
Inflation

Headline inflation fell to more normal levels.

Forward-looking inflation indicators declined from their peaks but remain elevated.

Headline Inflation Contributions

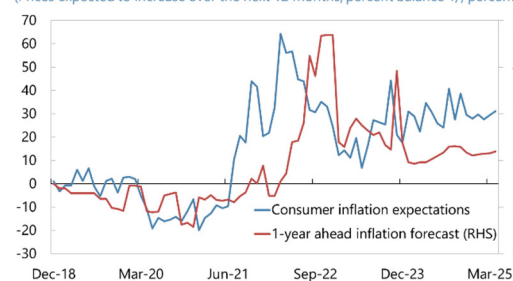
(Percent, year-over-year)



Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Consumer Price Expectations and 1-year Inflation Forecast

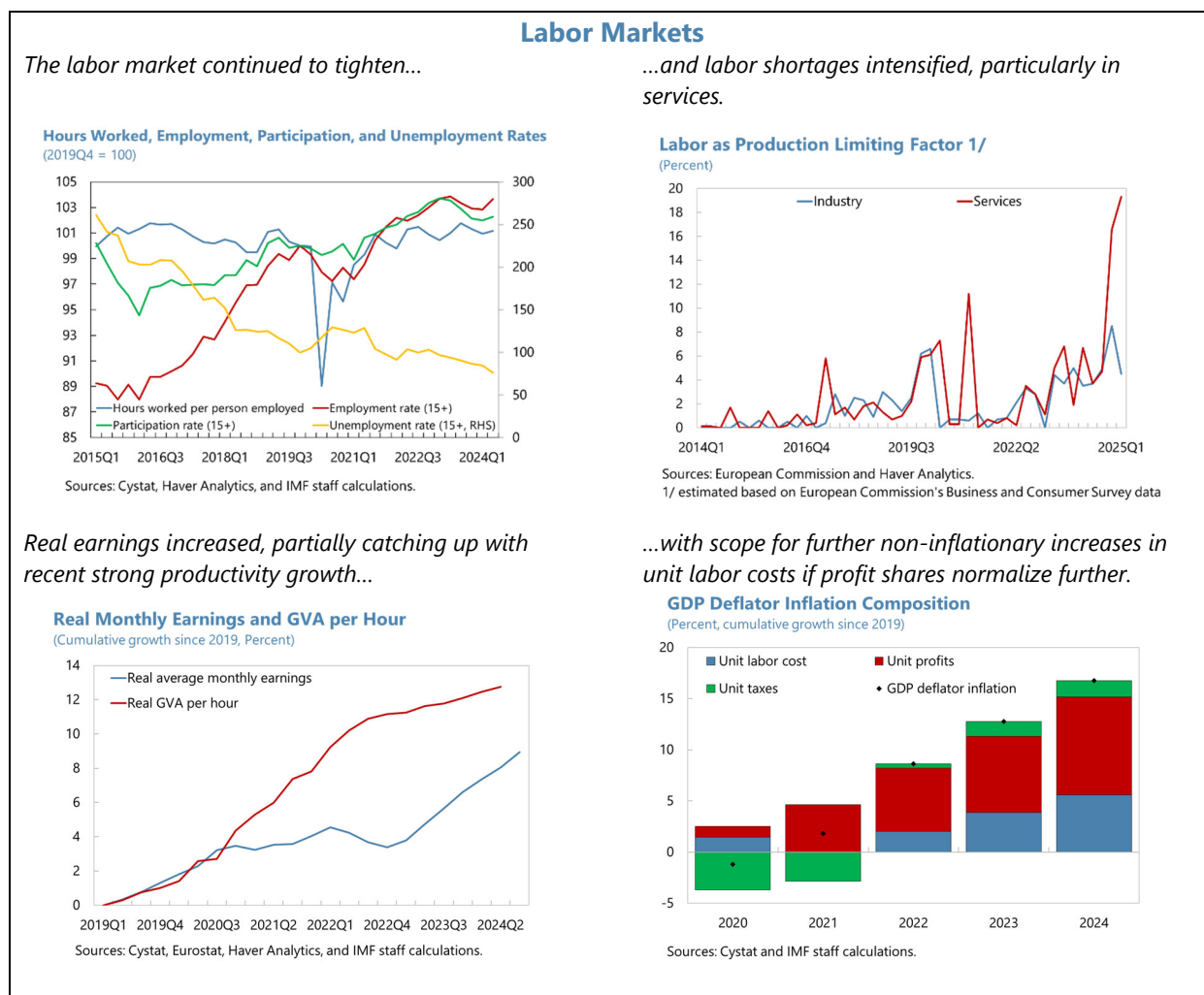
(Prices expected to increase over the next 12 months, percent balance 1/; percent)



Sources: Consensus Economics, European Commission, and Haver Analytics.

1/ percent balance is the percent of respondents reporting an increase minus the percent reporting a decrease

5. The labor market tightened further. Unemployment continued to decline to a new post-crisis low of 4.6 percent in 2024Q4, with job gains mostly in tourism and government services (Figure 2 and Annex I). Vacancy rates stayed near record highs and labor shortages were reported in services. A tight labor market and public sector pay increases boosted real wages, although this tracked strong productivity growth.

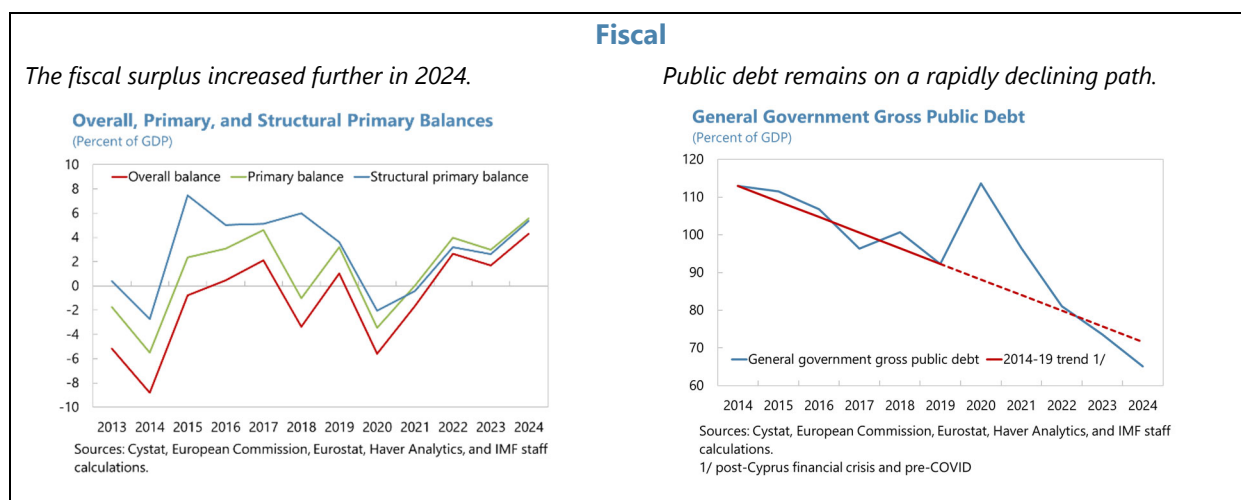


6. The fiscal surplus increased as strong revenues overshadowed rising current spending. The 2024 primary surplus increased to 5.6 percent of GDP, up from 3.0 percent in 2023.² The improvement mainly benefitted from strong tax performance and higher social security contribution rates. Indeed, the buoyant economy and a growing corporate income tax (CIT) base boosted tax revenues by 10 percent (Figure 3). However, public wages grew by 8 percent due to i) the full-year impact of the increase to the Cost-Of-Living Adjustment (COLA) indexation formula;³ and, ii) a 1.5

² The 2023 primary surplus was revised down from 4.5 to 3.0 percent of GDP due to modifications to the statistical treatment of a new civil servants' pension scheme, on accrual bases, following comments by Eurostat.

³ Public sector employees receive an annual COLA adjustment to base salaries automatically but partially indexed to inflation. Starting June 2023, the partial indexation rate was raised to 2/3 of last year's inflation up from 1/2.

percent general salary increase, the first since 2009. Social transfers also increased by 7 percent due to rising pension payments, transfers to the National Health Service (NHS), and higher social security contribution supplements.



7. Public debt is falling. Surpluses, high growth, and cash draw-down continued the decline in public debt to 65 percent of GDP by end-2024. And cash buffers exceed 10 percent of GDP, well exceeding projected 2025 financing needs. After regaining investment grade rating last year, rating agencies upgraded Cyprus further to A-/A3 in 2024. Staff assess risks to debt sustainability as “low” (Annex II).

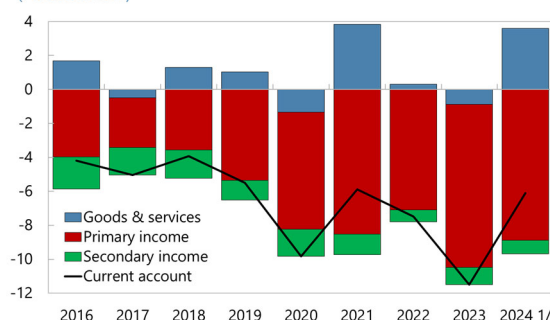
8. The RRP is progressing, but disbursements are delayed. The authorities received the second and third RRP tranches (0.3 percent of GDP, combined) in 2024 and requested payment of the fourth tranche (0.4 percent of GDP) bringing cumulative requested disbursements to 1/3 of the facility’s envelope. A portion of the second payment (0.1 percent of GDP) was withheld on incomplete implementation of an anti-aggressive tax planning measure. The authorities continue to progress on implementation of reforms and investments and are expecting to submit two more RRP disbursement requests in 2025. However, limitations to implementation capacity and assessment delays due to the detailed and complex nature of some measures are constraints to a faster disbursement schedule.

9. A large jump in the trade balance helped reduce the external current account (CA) deficit. The CA deficit is estimated to have narrowed to 6.1 percent of GDP in 2024, from 9.7 percent in 2023, driven by growing services exports, favorable terms-of-trade, and a decline in imports. Meanwhile, the primary income balance remained in large deficit (about 9 percent of GDP), due to FDI dividend payments, a large fraction of which were channeled into reinvested earnings. The external position is weaker than the level implied by fundamentals (Annex III).

External Sector

The CA deficit decreased on an improved trade balance...

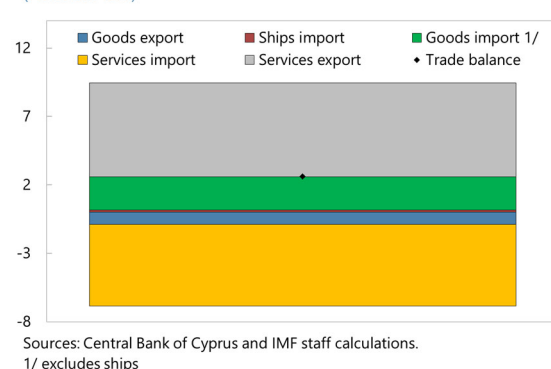
Current Account Balance Composition
(Percent of GDP)



Sources: Central Bank of Cyprus, Cystat, Haver Analytics, and IMF staff calculations.
1/ projected

...with higher net exports of services and contained goods imports.

Contributions to Change in Trade Balance
(Percent of GDP)



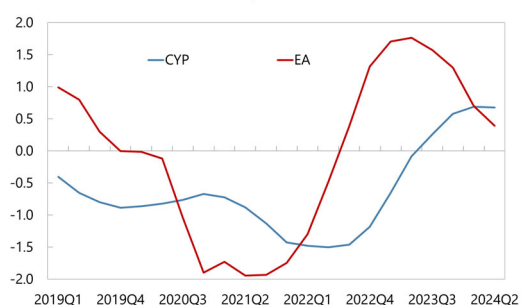
Sources: Central Bank of Cyprus and IMF staff calculations.
1/ excludes ships

10. Financial conditions remain tight, and credit growth is subdued. Domestic credit growth weakened in 2023 under the lagged impact of monetary tightening, followed by a modest recovery in 2024, led by mortgage loans (Figure 4). Indeed, the long-term deleveraging trend shows some signs of ending. And pure new loans to households and consumer credit have picked up. House prices have risen, but there are few signs of overvaluation (Figure 5).

Credit Developments

Financial conditions remain tight....

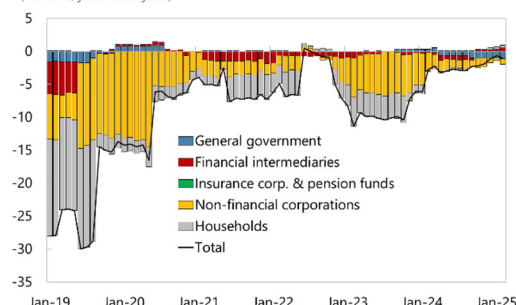
Financial Conditions Index 1/



Sources: Borraiccia et al., 2023 (IMF Working Paper 23/209) and IMF staff calculations.
1/ EA FCI = liability-weighted average of EA country FCIs

...but the long-term deleveraging trend appears to be ending.

Domestic Credit Growth
(Percent, year-over-year)

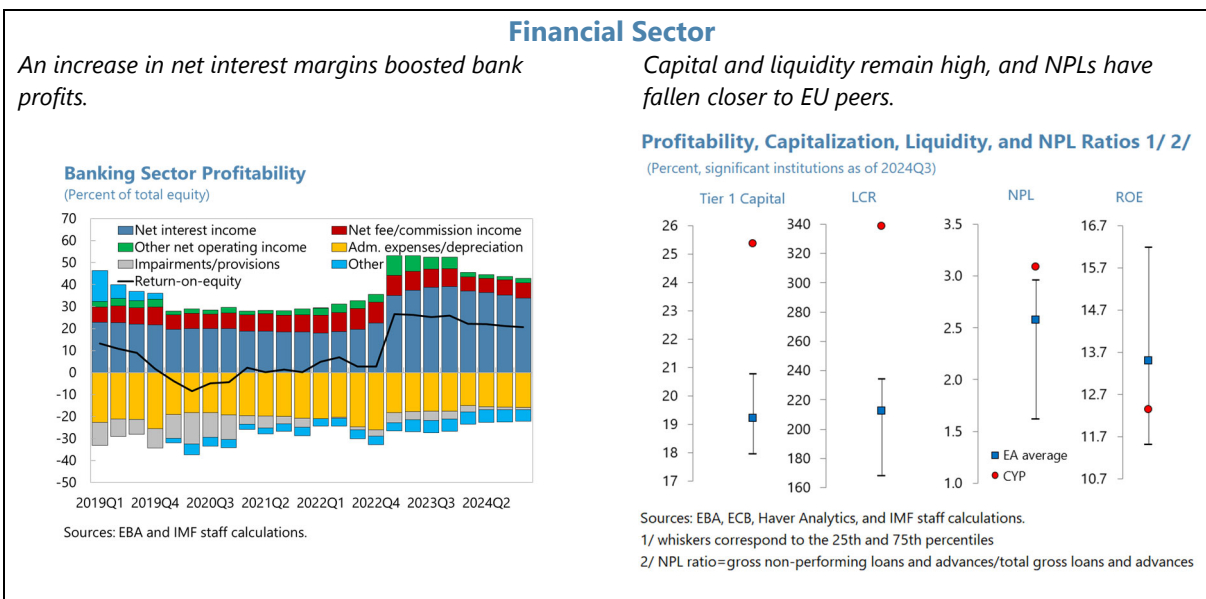


Sources: Central Bank of Cyprus, Haver Analytics, and IMF staff calculations.

11. Banks continue to benefit from the high-interest rate environment. An asymmetric pass-through of policy rates to lending and borrowing rates helped widen net interest margins, boosting profitability and capitalization.⁴ A merger between the second and third-largest banks in 2025 is expected to increase market concentration. Liquidity remained ample with large cash balances and a structurally low loan-to-deposit ratio. Despite tight financial conditions, asset quality

⁴ Beyer, R. Disinflation and Monetary Transmission in Cyprus. Selected Issues Papers, 2024 (138).

improved further as NPLs declined to 6.2 percent of total gross loans (3.1 percent according to the European Banking Authority (EBA) definition including advances).



OUTLOOK AND RISKS

12. Growth is expected to moderate to 2½ percent in 2025 and to pick up again over the medium term. While the economic outlook is highly uncertain, the main dynamics are as follows:

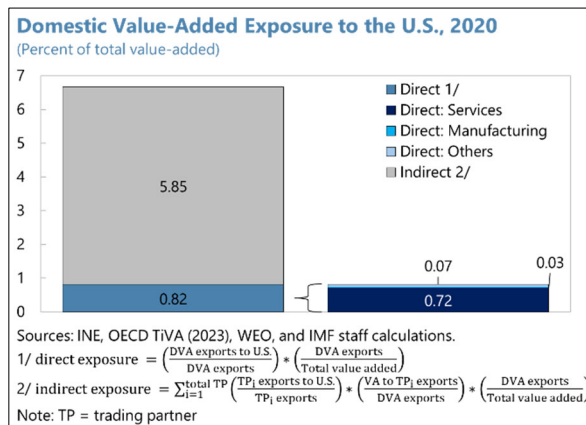
- **Cyclical moderation:** There are some signs of overheating, particularly in the labor market (Figures 2 and 6). Uncertainty around this assessment is high given the recent energy price shock, large FDI inflows, and the extent of the structural recovery since the 2013/14 crisis. Nevertheless, staff projects a moderate cyclical drag on growth over the next two years.
- **Trade disruption:** The U.S. makes up only 3 percent of total goods exports, so the direct impact from higher U.S. tariffs will be negligible. But weaker trading-partner growth, elevated uncertainty, and tighter financial conditions are expected to slow economic activity.
- **Investment recovery:** Partly on the back of base effects and stabilized inventories, investment will recover, supported by ongoing RRP projects and declining ECB policy rates.

Selected Economic Indicator Forecasts, 2025-2028

	2025	2026	2027	2028
(Percent, year-over-year)				
Real GDP	2.5	2.7	3.0	3.0
HICP (period average, SA)	2.2	2.0	2.0	2.0
(Percent of GDP)				
General government balance	3.8	3.5	2.4	2.1
General government debt	60.2	54.9	49.7	44.5
Current account balance	-7.1	-7.7	-8.2	-8.7
Nominal GDP (billions of euros)	36.0	37.6	39.3	41.1

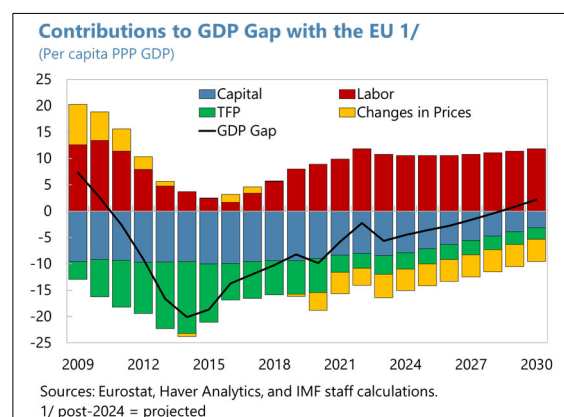
Sources: Central Bank of Cyprus, Cystat, Eurostat, Haver Analytics, and IMF staff calculations.

- Moderate inflation: Slower growth and lower oil prices, coupled with a broader deceleration of inflation in the EA, will help bring inflation towards 2 percent this year.
- Falling public debt: The fiscal surplus will moderate somewhat as public investment picks up and revenue growth eases. But public debt is projected to remain on a declining trajectory, falling below 60 percent of GDP next year.



13. Over the medium-term, growth is projected to be underpinned by further capital

accumulation. Over the last decade, the labor contribution to growth played an important role in narrowing the GDP per capita gap with EU peers (Annex I). Looking ahead, the contribution from labor is expected to be more limited, while capital accumulation will become increasingly important. A cross-country comparison and estimates of potential capital level based on a “Tobin’s Q” model suggest that the capital level is below its long-term equilibrium. A significant recent decline in Cyprus’s risk premium for non-financial corporations (NFCs) borrowing—driven by fiscal improvement, stronger banks, and lower NPLs—will, together with progress on structural reforms, support the capital stock converging closer to EU peers. Higher investment, along with continued FDI-related dividend outflows, will contribute to a growing current account deficit.

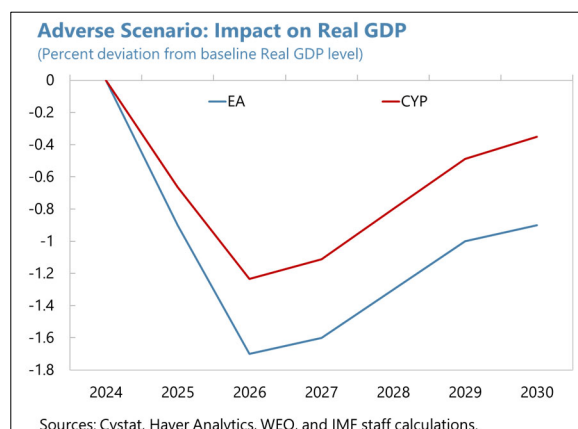


14. Near term risks are tilted to the downside while longer term risks are balanced. An escalation of trade conflicts—particularly if this broadens to include services trade and FDI—poses the major risk (Box 1 and Annex IV). Other external risks include a slowdown in Europe or an intensification of regional conflicts, which could weigh on tourism and FDI inflows. Energy price shocks—potentially linked to geopolitical instability—could reignite inflation. Cyber-risks could disrupt financial systems and harm confidence. Domestically, a faster loosening of fiscal or financial conditions, or further tightening of the labor market, could contribute to overheating. Over the medium-term, the expected shift to a more capital-driven growth model could be undermined by insufficient structural reforms, including in the execution of the RRP. Conversely, Cyprus’s evolving business model and continuing structural reforms hold significant upside potential.

Box 1. Calibrating Policy in an Adverse Scenario

Along with elevated uncertainty, downside risks to global growth are large. The April 2025 WEO outlined an adverse scenario (Box 1.1—Scenario A) that combined larger global divergences, an escalation in trade tensions, increased global uncertainty, and tighter financial conditions. This box explores the potential impact of such a scenario on Cyprus and the appropriate policy response.

In such an adverse scenario, the level of real GDP in Cyprus could be 1.2 percent lower than staff's baseline in 2026. With limited direct trade with the U.S. and a banking sector that is relatively shielded from changes in global risk appetite, the growth impact is around two-thirds of that of the EA. Inflation would fall to around 1.7 percent in 2026, as the impact from weaker demand and lower oil prices outweighs higher import costs due to the tariffs.



In response, staff would recommend allowing automatic fiscal stabilizers to operate fully, which would lead the overall fiscal balance to decrease by 0.7 percent of GDP in 2026. Given the current strength of the economy, this shock would not warrant any discretionary fiscal stimulus.

Nevertheless, given the expected persistence of this shock to growth, structural reforms that support investment and trade—including within the EU Single Market—would become even more important.

Adverse Scenario: Selected Economic Indicators, 2024-2030							
	2024	2025	2026	2027	2028	2029	2030
(Percent, year-over-year, unless otherwise indicated)							
Real GDP growth	3.4	1.8	2.1	3.1	3.3	3.3	3.1
HICP growth (period average)	2.3	1.9	1.7	1.8	1.8	1.8	1.9
Fiscal balance (percent of GDP)	4.3	3.4	2.8	1.7	1.4	1.3	1.0
(Percent deviation from baseline)							
Real GDP growth	0.0	-0.7	-0.6	0.1	0.3	0.3	0.1
HICP growth (period average)	0.0	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1
Fiscal balance (percent of GDP)	0.0	-0.4	-0.7	-0.7	-0.7	-0.6	-0.6

Sources: Central Bank of Cyprus, Cystat, Eurostat, Haver Analytics, and IMF staff calculations.

Authorities' Views

15. The authorities expect strong growth to continue, with a slight deceleration in the near term. Growth will be driven by domestic demand, supported by private investment and strong consumption from rising wages and a resilient labor market. The services sector will continue to support exports. Tariffs from the U.S. are expected to have an indirect effect on growth, mainly from lower European trading-partner growth, including through tourism. As such, the authorities project growth to moderate towards 3 percent this year, somewhat higher than staff's forecast. However, the authorities broadly agree with the inflation outlook, expecting convergence toward 2 percent

this year, as the pass-through from the 2022 energy shock to wages diminishes. The current account deficit will remain elevated, as strong service exports are offset by domestic demand-driven imports and dividend payments of foreign-owned companies.

POLICY DISCUSSIONS

While there are signs of moderate overheating—which could be exacerbated by anticipated monetary policy easing—these are not large enough to justify the use of fiscal policy to soften demand. The focus of fiscal policy should be to reduce debt comfortably below 60 percent of GDP. Macro-prudential policy appears appropriately calibrated. Policy emphasis should be on stepping up the pace of structural reform while the economy is strong to enhance longer-term prospects and reduce risks.

A. Fiscal Policy: Building Buffers and Promoting Growth

16. The favorable macroeconomic environment is opportune to further reduce debt.

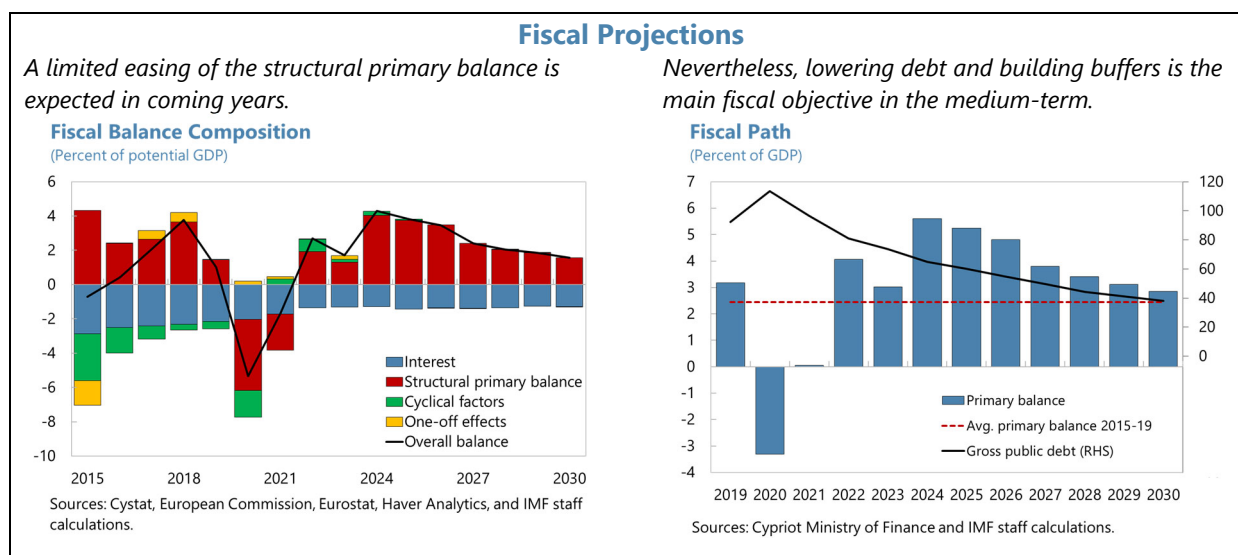
Against overheating concerns and the prospects of monetary easing, fiscal policy should refrain from loosening in the near term and continue to prioritize debt reduction. This will enhance resilience by providing greater fiscal room to respond to shocks, thereby further boosting market confidence. Consistent with previous advice, fiscal policy should target bringing debt sufficiently below 60 percent of GDP to allow a buffer against potential shocks.⁵ Once this is achieved, a lower primary balance would be sufficient to stabilize debt. This suggests that Cyprus has some fiscal space over the medium term, the use of which should be weighed against the cyclical position of the economy and rising longer-term needs.

17. The fiscal stance implied by the 2025 budget is consistent with continued accumulation of buffers. The authorities budget a primary surplus of 4.3 percent of GDP in 2025, implying some fiscal loosening, but conservative budgeting practices imply that revenue projections are likely underestimated. As such, staff anticipate a more limited easing of the fiscal stance. New discretionary measures that loosen fiscal policy should be avoided, given overheating risks. Furthermore, if overheating worsens or is larger than currently assessed, fiscal policy should be tightened. In contrast, if downside risks materialize and growth weakens, automatic stabilizers should be allowed to work (Box 1).

18. Further ahead, fiscal space should be carefully guarded to accommodate rising fiscal pressures. Spending needs to realize the climate and digital transitions will continue to ramp up beyond the expiration of RRP funding. Meanwhile, population ageing will require increased expenditures on pensions and health, while a shrinking working-age population will cap growth in personal income taxes and social security contributions. Taken together, these expenditure pressures are expected to halve the primary surplus by 2030 and add up to 6 percent of GDP by 2050, without accounting for other potential needs such as upgrading public infrastructure. Hence, the scope for discretionary loosening in the medium term is also limited. The authorities'

⁵ See Box 1 of the 2024 Cyprus Article IV Consultation.

commitment to fiscal surpluses up to 2028 in the Medium-Term Fiscal Structural Plan (MTFSP) delivered under the new EU economic governance framework is consistent with this objective.



19. The composition of expenditure can better support fiscal sustainability and growth.

Priority should be given to capital spending to raise potential growth and support the climate transition. Specifically, public infrastructure projects included in the RRP and those critical to the energy transition should be accelerated. Meanwhile, expansion of rigid current spending such as increasing the public wage bill, expanding subsidies, or launching untargeted social programs should be avoided to maintain agility in the face of potential shocks. Such flexibility is also important if the cyclical component of the fiscal surplus is larger than estimated. Energy subsidies and recent tax expenditures—while small (0.1 percent of GDP)—poorly target the vulnerable and distort market incentives, and should be phased out.

20. Restraint is needed in public sector wages. Public sector compensation is high, underlying a sizable wage bill relative to peers and a large public-private wage gap. The authorities should refrain from further increases to the COLA indexation or new ad hoc pay rises to contain the wage gap and avoid further pressure on real wage growth (Annex V).⁶ A review of the compensation system focused on limiting unconditional annual pay increases and introducing more skill and performance-based differentiation in pay would incentivize better outcomes and enhance spending efficiency.

21. The authorities' planned revenue-neutral tax reform is an opportunity to advance multiple policy goals. The reform aims to modernize and simplify the tax system, support larger families, encourage greater female labor force participation, and promote entrepreneurship, innovation and the green and digital transitions. This is achieved through a package of various policies, most of which are in line with best practices, but the effectiveness of others, such as child tax allowances, are uncertain. The main policies are (i) a higher personal income tax (PIT) threshold

⁶ See also FAD [TA report](#), "Cyprus: Managing Government Employment and Compensation", November 2024.

for the lowest and highest brackets, (ii) PIT exemptions for children, first homes, and financing the green transition, and (iii) simplification and reduction of dividend taxation. These are to be financed by an increase in the CIT tax rate from 12.5 to 15 percent, incorporating the recently enacted qualified domestic top up tax for large multinationals in compliance with the EU's Minimum Tax Directive (Pillar II). While the authorities' aim for the overall tax reform package to be revenue-neutral, the uncertain impact of a multitude of measures makes this assessment difficult. Separately, the anticipated introduction of carbon taxes, a key element of the RRP, will help align prices with green objectives.⁷

22. Emerging fiscal risks should be carefully managed. Additional resources may be required to fund the completion of large energy infrastructure projects, meet higher-than-projected uptake of the mortgage-to-rent scheme, and acquire carbon emission rights. The evolution of these fiscal risks should be closely monitored and incorporated into medium term fiscal plans to avoid a sudden materialization that could compromise compliance with fiscal rules or progress on debt reduction.

23. Reforms of the NHS and state-owned enterprises (SOEs) should continue. Achieving financial sustainability of the State Health Service Organization (SHSO) overseeing public hospitals is a key tenet of the recently rolled out NHS. Temporary government support to the SHSO was due to expire in 2024 but has been extended for two years after the pandemic derailed initial sustainability plans. Further support should ensure financial sustainability of public hospitals through efficiency-enhancing investments that would ease cost pressures and generate more revenues. This would also strengthen their capacity to compete with the private sector and limit subsidization. On SOEs, the Ministry of Finance developed an action plan, benefitting from IMF technical assistance,⁸ to better assess and categorize SOEs, strengthen their institutional frameworks, and enhance monitoring capacity. Decisive implementation of the plan will enhance performance of a key economic sector and safeguard public finances.

Authorities' Views

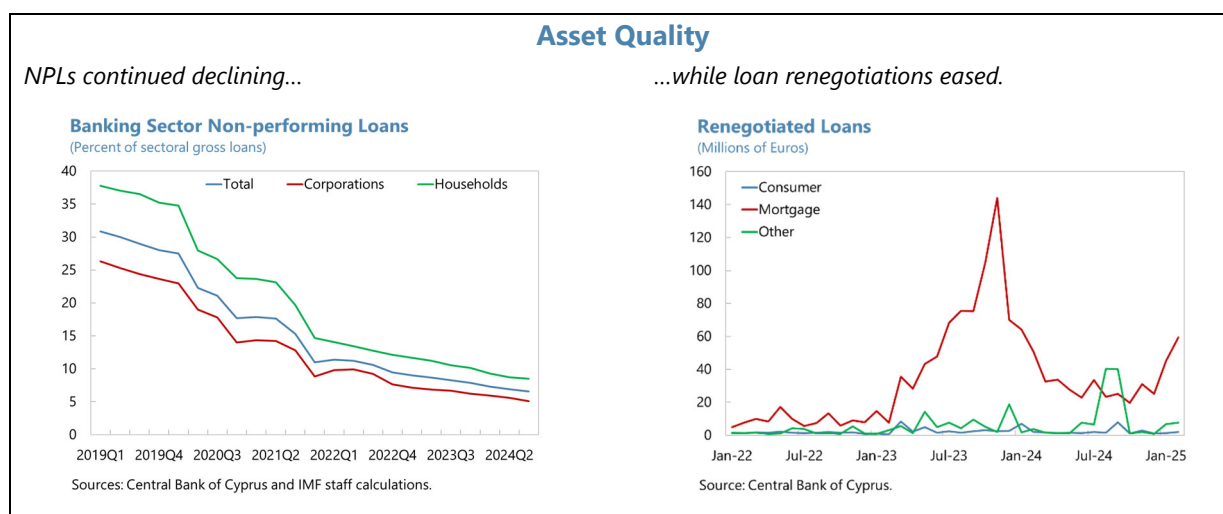
24. The authorities plan to continue prudent fiscal policies to strengthen buffers in an uncertain economic environment. Fiscal policy will follow the MTFSP over the medium term, with debt expected to fall below 60 percent of GDP in 2026, before declining further thereafter. Public sector compensation will be reviewed to develop options for containing wage bill growth, while priority will be given to capital expenditure projects included in the RRP. Tax reforms aim to maintain Cyprus's competitiveness and attract investments while maintaining fiscal neutrality. The large cash buffer will enable the authorities to manage fiscal risks and maneuver amid heightened uncertainty. Implementation of the extended SHSO reform plan is ongoing.

⁷ Malak, M., 2024. "Green Taxation: Along the Path to Climate Mitigation in Cyprus". Selected Issues Papers, 2024 (138).

⁸ FAD TA report, "Cyprus: Strengthening the Governance and Oversight of State-Owned Enterprises", August 2023.

B. Financial Sector Policies: Maintaining Resilience

25. Banking sector risks appear contained. Cyprus has a concentrated financial system, where the three largest banks hold nearly 80 percent of loans. Greater consolidation is expected this year, with the anticipated merger. In this regard, ensuring healthy competition in the market for financial services is critical for credit deepening and lowering borrowing costs. Profitability was at record highs for the second year in a row, while capital continued to grow to among the highest in Europe, amid comfortable liquidity. The ongoing improvement of asset quality was uninterrupted by the tightening in financial conditions, with NPL levels now more in line with EU peers. Several banks paid dividends for the first time since the 2013/14 crisis. Nevertheless, risks remain and should be monitored, including from still-elevated levels of loan renegotiations. The major banks in Cyprus successfully underwent the 2023 EBA stress testing exercise, as well as the 2024 cyber resilience stress test.



26. Corporate and household sector risks appear contained. NFCs have continued to deleverage and build liquidity (Figure 7). Household debt is high relative to peers, but much of it is held outside of the domestic banking system, including as legacy NPLs to CACs. This contributed to a more limited increase in debt service burdens following the increase in policy rates.

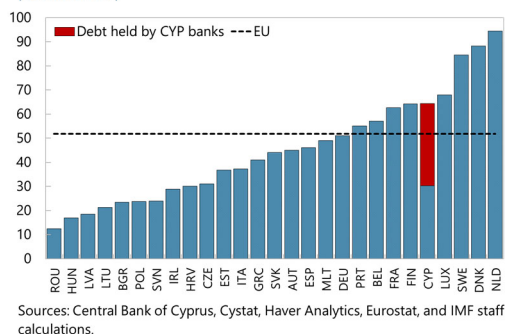
27. Financial sector exposure to real estate is significant and requires continued monitoring. The exposure is both direct, through lending to NFCs in the sector (26 percent of loans), and indirect, through loans secured by real estate collateral (with 34 percent of household loans secured by residential real estate, and 30 percent of NFC loans secured by commercial real estate). Macroprudential measures—loan-to-value (LTV) and debt service-to-income (DSTI) limits—are in place. Despite a modest increase in house prices (4 percent since 2019), price-to-income ratios have been declining. Commercial real estate prices have also been stable. Nevertheless, strong linkages between the financial and real estate sectors warrant close monitoring of real estate prices and LTV ratios (which are lower in Cyprus than the EU average).

Household Debt

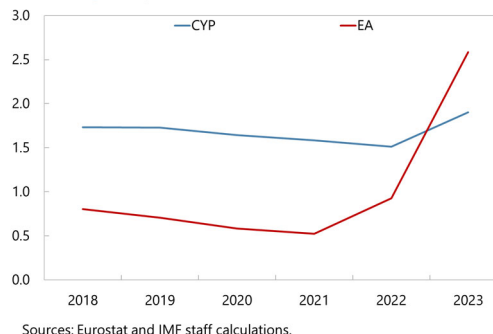
While household debt is relatively high, much is held outside the domestic banking sector, including in CACs.

This appears to have limited the pass-through of higher policy rates to household debt service burdens.

Household Debt, 2023
(Percent of GDP)

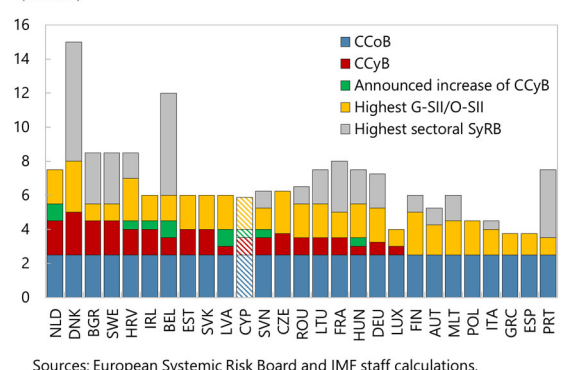


Household Interest Payments
(Percent of gross disposable income)



28. Recent macroprudential measures helped bolster buffers. The increase in the *neutral* counter-cyclical capital buffer (CCyB) from 0.5 to 1 percent, effective June 2024, and a recently announced *cyclical* increase to the CCyB to 1.5 percent, effective January 2026, will help to lock in already high capital buffers. Looking ahead, careful calibration of macro-prudential policies should continue balancing financial stability and healthy credit intermediation. Finally, banks have taken measures to place themselves above the EU Minimum Requirement for Own Funds and Eligible Liabilities (MREL) requirements.

Capital Buffer Requirements for EU Countries
(Percent)



29. Non-bank financial institutions (NBFIs) and the growing FinTech sector complement traditional banks. NBFIs report over €17bn in assets under management (around 50 percent of GDP). Most are funds that use foreign or domestic high-wealth capital to invest abroad, indicating that direct risks to the banking sector and the real economy are limited. The growing FinTech sector complements traditional banking. E-money institutions provide operational funds for businesses, while digital banking platforms attract retail clients by facilitating international transactions. A robust supervisory framework is crucial to monitor potential linkages with the rest of the economy, while protecting consumers and promoting further growth across both sectors. For example, more information on leverage and the investor composition of NBFIs, in particular on any links to the domestic banking sector, would enhance risk assessment. Additionally, consistent monitoring of NBFI investments in specific sectors of the economy—which have increased significantly over the last two years—will help track concentration and interconnectedness risks.

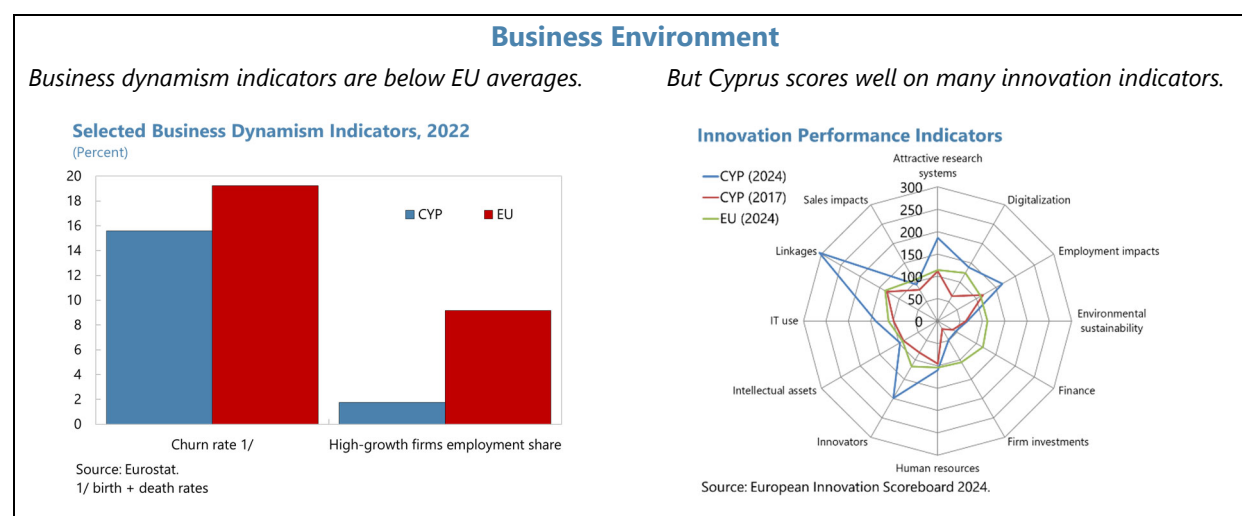
Authorities' Views

30. The authorities see the banking sector as resilient and aim to 'lock-in' higher capital while profits are robust. The authorities acknowledged the strong performance of the banking sector and see risks from households and corporates as broadly contained. Given the important role of real estate in the financial system, this sector will continue to be carefully monitored, but risks appear broadly contained. Against the backdrop of elevated domestic cyclical systemic risks and increased likelihood of potential severe tail events materializing in the global economy, the authorities announced an increase of the CCyB rate, locking in part of the banking sector's profits.

C. Structural Policies: Raising Potential Growth

31. Cyprus's economic reorientation is an opportunity to further boost growth, provided current constraints are overcome. The ongoing diversification into ICT-related industries and within the tourist and professional services export markets has boosted growth. To sustain this ongoing expansion, Cyprus needs to overcome multiple structural constraints including a shortage of domestic capital and labor, slow judicial processes, burdensome business regulations, skill shortages and mismatches in the labor market, and structurally high energy prices.

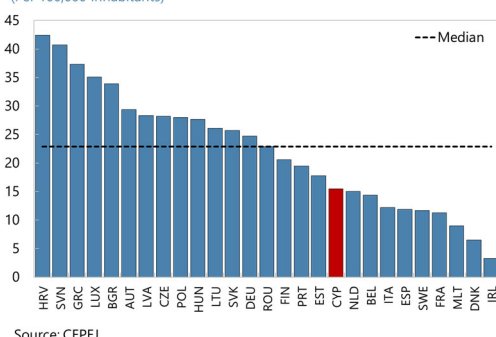
32. A more streamlined business environment and greater judiciary efficiency are needed to support investment. Capital accumulation will be an important driver of potential growth going forwards (Annex I). Policies should therefore ensure a stable and streamlined business environment conducive to investment. Further efforts are needed in the judicial sector, including the court system, to strengthen the institutional framework supporting insolvency and creditor rights. In particular, long-standing issues with lengthy disposition times, under-staffing, outdated and inefficient working practices, and lagging adoption of technology need to be addressed (Annex VI). These steps may require increasing the specialization of judges, expediting the operationalization of the Commercial Court, providing tailored training programs for judges, hiring more judges and support staff, and implementing the digitalization of court procedures.



Business Environment (concluded)

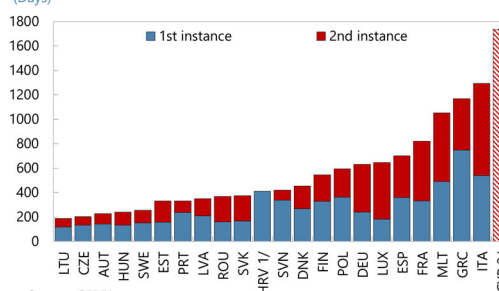
The courts are understaffed...

Number of Professional Judges, 2022
(Per 100,000 inhabitants)



...leading to very long disposition times of court cases.

Disposition Time for Civil and Commercial Litigation, 2022
(Days)

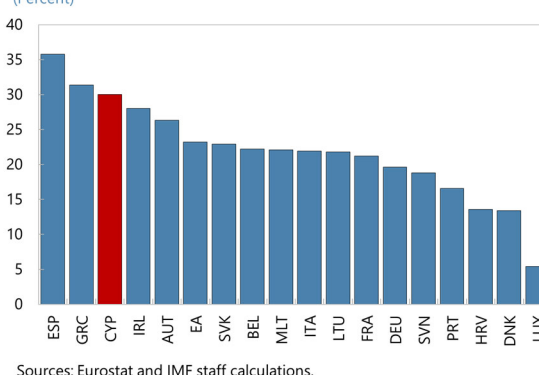


33. Resolving legacy NPLs will help mobilize domestic capital. The stock of legacy NPLs, primarily held by CACs, remains high at around 60 percent of GDP with only gradual resolution taking place so far. After several interruptions and amendments to the foreclosure framework, it is now operational and beginning to incentivize resolution. The framework should remain operational and provide legal certainty about the foreclosure process without further changes. And higher-than-expected uptake of the mortgage-to-rent scheme will also help reduce NPLs. Meanwhile, judicial sector reforms and improvements to out-of-court settlement processes are needed to accelerate resolution further.

34. Overcoming labor shortages and skills gaps and mismatches requires careful calibration of labor and education policies.

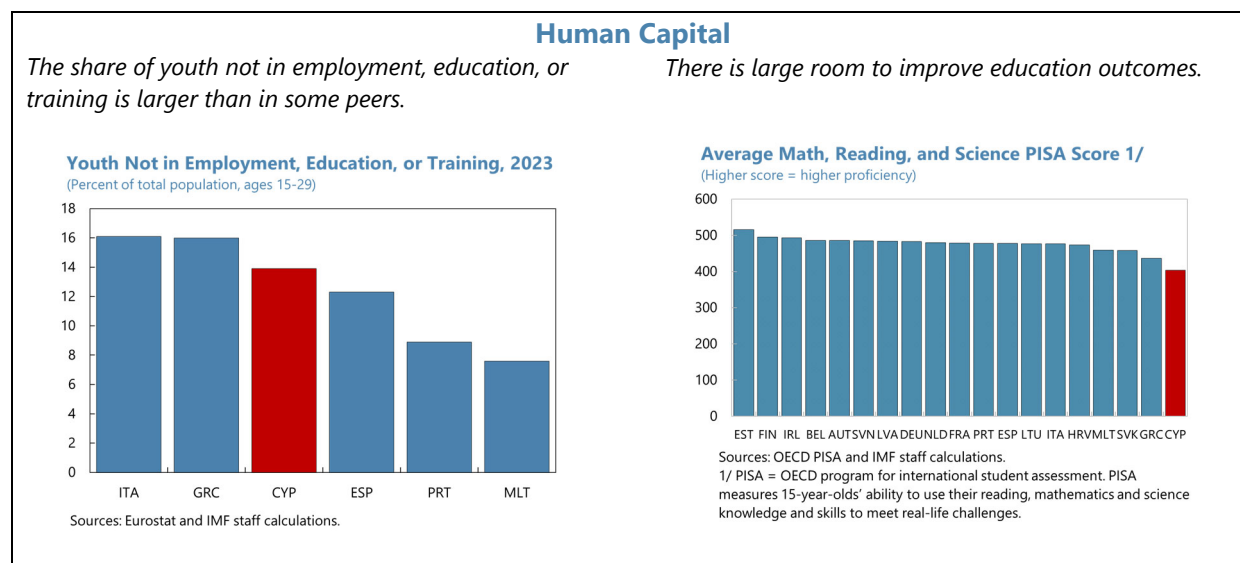
Both extensive and intensive labor margins in Cyprus are tight, with labor force participation and hours worked above EA peers. Policies should look to tap remaining pockets of domestic labor market slack (including among youth and long-term unemployed) and address skills gaps and mismatches through tailored active labor market and reskilling policies. Additionally, increased engagement of third-party nationals could alleviate shortages in services and provide the high-skilled workforce for the growing ICT sector. Finally, the education system should prioritize digital skills and increasing STEM graduates for an increasingly digitalized economy.

Over-qualification Rate of Employees (Ages 15-64)
(Percent)



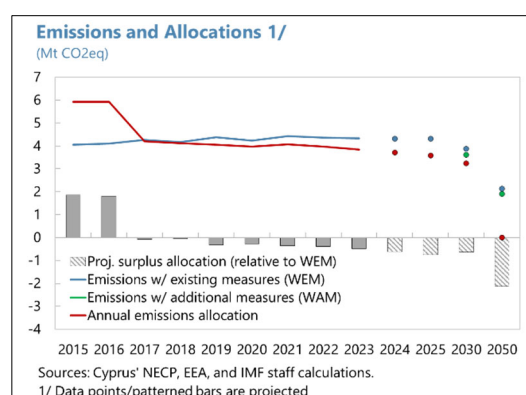
35. Continued improvement of the AML/CFT framework, including beyond the banking sector, is essential to safeguard against reputational risks and business uncertainty. The authorities should continue to enhance implementation of the framework and address gaps undermining its effectiveness. Ongoing efforts to extend the definition of obliged entities for AML/CFT supervision to include professional services in real estate are welcome. Consolidating

supervision under a single authority including of gatekeepers (lawyers, accountants, and trust and company service providers) could enhance cross-sectoral enforcement. And establishment of the National Sanctions Implementation Unit (NSIU) at the Ministry of Finance will provide better guidance to reporting entities concerning sanctions compliance.



36. Energy investment and reform are key to lower prices and meeting climate

commitments. Cyprus is behind on its climate transition plans with its oil-powered electricity sector incurring significant costs under the EU Emissions Trading System (ETS). The Electricity authority of Cyprus had to purchase carbon offsets worth 0.8 percent of GDP in 2022. Diversifying the energy mix—including through the new LNG terminal and electricity interconnectors—offers the potential to improve energy security and reduce costs. Despite significant delays and contractual issues, the new LNG terminal is expected to become operational in 2026. The Great Sea Interconnector project is yet to get a final approval. A cost-benefit analysis associated with such a project should take a long-term perspective and be consistent with Cyprus's vision of becoming a renewable energy exporter. The postponed opening of the state-monopolized electricity market to greater competition—needed to incentivize greater efficiency and lower costs and emissions via market forces—should not be delayed further. The planned adoption of green taxation would help support the transition.



37. Given Cyprus's exposure to climate risks, a comprehensive framework to mitigate and manage risks is needed. Continuous monitoring and updating of risk assessments is an important first step along with the establishment of early warning systems and contingency plans to deal with

acute risks, if they materialize. Chronic climate risks such as water shortages and sea level rise should be accounted for and integrated in national development plans.⁹

Authorities' Views

38. The authorities agree with the importance of enhancing the efficiency of courts, reducing NPLs, raising human capital, and supporting a robust AML/CFT framework. While important reforms have begun, they agree that more effort is needed to improve judicial efficiency. This includes operationalizing the new specialized courts and addressing judicial and non-judicial staffing issues. The RRP project to reduce the stock of NPLs has outperformed its targets and the higher-than-anticipated uptake of the mortgage-to-rent scheme would further reduce the stock. There are currently no plans to further amend the foreclosure framework. While the authorities believe they are close to “full employment”, they see potential to further increase participation among women and individuals aged over 60. Additionally, a new framework was introduced to support the employment of third-country nationals and reduce administrative burdens. On AML/CFT issues, a law establishing the NSIU was submitted to Parliament in March. Additionally, the authorities plan to introduce a law that will establish a single supervisory authority to oversee AML/CFT compliance for administrative services.

39. The authorities noted that progress is being made to improve energy security and meet climate objectives. The process to complete the Vassiliko LNG terminal is currently underway, with the terminal expected to commence operations in 2026. Regarding the Great Sea Interconnector project, the authorities will pay €25mn per year over a period of five years (from January 2025 until December 2029), strictly to subsidize a possible increase in electricity bills during the construction period so that consumers will not bear the burden of this increase. Meanwhile, Cyprus is making significant progress in implementing its National Adaptation Strategy (NAS) and Action Plan, incorporating insights from the Climate Risk and Vulnerability Assessment (CRVA).

STAFF APPRAISAL

40. Cyprus has demonstrated remarkable economic resilience, with growth among the highest in the EA. This strong performance is underpinned by robust service exports and domestic consumption. The labor market remains tight, characterized by a declining unemployment rate and elevated job vacancy levels. While uncertainties persist, there are indications of potential overheating in the economy. This, along with tariff-related trade disruption, will lead growth to moderate this year. While volatile, inflation is projected to stabilize around 2 percent by the end of the year. The current account deficit is estimated to have moderated in 2024, but the external position is assessed to be weaker than the level implied by fundamentals.

41. The immediate outlook presents downside risks, while longer-term risks appear more balanced. An escalation of trade conflicts—particularly if this broadened to include services trade

⁹ IMF, 2024. Addressing Climate Change in Cyprus: Policy Options and Strategies. Selected Issues Papers, 2024 (138).

and FDI—poses an important downside risk. An escalation of regional tensions, and possible new energy price shocks, could affect FDI, tourism, and inflation. Domestically, there are concerns about further overheating, which may arise from a more accommodative fiscal policy. In the medium-to-long term, investment-driven growth will rely on continuous progress in structural reforms. On the upside, Cyprus's agile and dynamic economy offers substantial potential for growth.

42. Cyprus's strong fiscal position has reduced vulnerabilities. In 2024, the primary fiscal surplus reached 5.6 percent, fueled by significant revenue growth that more than compensated for increased public wages and social transfers. As a result, public debt decreased to 65 percent of GDP by the end of 2024, with substantial cash reserves supporting liquidity. This further increased resilience, built policy space for future shocks, and improved investor sentiment.

43. Fiscal policy should continue to prioritize debt reduction. Given overheating risks, it is crucial to avoid new discretionary measures that would ease fiscal policy and add to inflationary pressures. Instead, efforts should focus on reducing debt well below 60 percent of GDP, thereby ensuring a robust buffer against potential shocks. The authorities' commitment to maintaining fiscal surpluses through 2028, as specified in the MTFSP under the new EU economic governance framework, supports this goal.

44. As spending pressures increase, careful management of fiscal space is essential. The financial commitments required for achieving climate and digital transitions will persist beyond the end of EU RRP funding. Additionally, an aging population will necessitate higher expenditures on pensions and healthcare, alongside other long-term expenditures. As a result, the scope for fiscal loosening in the medium term is constrained.

45. Public spending should emphasize investment while retaining flexibility in response to economic shocks. Capital expenditures should take precedence to enhance potential growth and facilitate the climate transition. At the same time, expanding current spending—such as increasing public wages, broadening subsidies, or introducing untargeted social programs—should be avoided. Specifically, the authorities should resist further increases to the COLA indexation or new ad-hoc salary increases to contain the existing substantial public-private wage gap and prevent additional pressure on real wage growth.

46. The banking sector boasts substantial capital and liquidity buffers, with financial risks appearing well-contained. Profitability metrics have reached record highs for the second consecutive year, and capitalization levels are now among the highest in Europe. Despite elevated interest rates, asset quality continues to improve, supported by strong economic growth. Nonetheless, ongoing vigilance is essential, particularly concerning the real estate sector.

47. Recent tightening of the macroprudential policy stance will enhance financial buffers further. The announced increase in the CCyB will bolster resilience by securing already high capital buffers without adversely affecting credit availability or economic growth. In the future, careful calibration of macroprudential policies should continue to strike a balance between financial stability and effective credit intermediation.

48. Although legacy NPLs continue to decrease, they remain at elevated levels. Most NPLs have been successfully transitioned away from the banking sector and do not pose a significant issue for financial stability. The ongoing resolution of legacy NPLs is expected to accelerate, given the full operationalization of the foreclosure framework and a strong uptake of the mortgage-to-rent scheme. Resolving legacy NPLs is expected to help mobilize domestic capital.

49. Structural reforms aimed at enhancing judicial efficiency and boosting labor productivity are vital for fostering long-term growth. With employment levels already high, capital deepening will increasingly drive growth. Consequently, policies must create a stable and streamlined business environment conducive to investment. Additional efforts are required in the judicial sector to strengthen the institutional framework for insolvency and creditor rights and to improve court efficiency. Labor policies should focus on addressing skill gaps and mismatches and engaging remaining segments of the labor force, particularly among youth and the long-term unemployed.

50. Key energy projects and reforms must be expedited to reduce energy costs, enhance energy security, and fulfill climate commitments. Completing the LNG terminal and improving electricity interconnectedness would represent significant progress toward these objectives. Additionally, increasing competition in the electricity market would help lower costs and emissions through market forces. The planned introduction of green taxation would further facilitate the energy transition.

51. Maintaining a strong AML framework is vital for mitigating reputational risks and business uncertainty. Ongoing efforts to broaden the definition of obliged entities for AML supervision are commendable. Furthermore, the proposed establishment of the National Sanctions Implementation Unit at the Ministry of Finance will enhance clarity for reporting entities regarding compliance with sanctions.

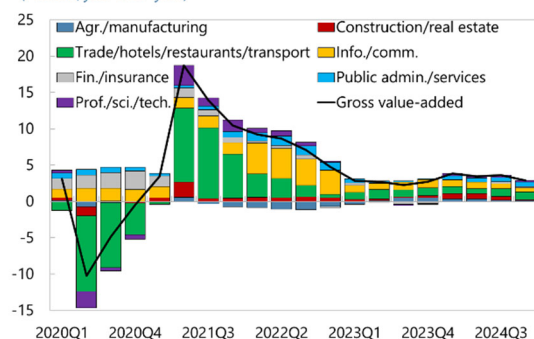
52. It is proposed that the next Article IV consultation with Cyprus take place on the standard 12-month cycle.

Figure 1. Cyprus: Real Sector

GDP growth has been mainly driven by the ICT sector...

Contributions to Value-Added Growth

(Percent, year-over-year)

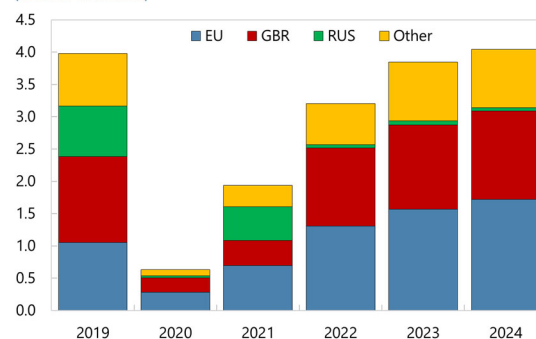


Sources: Cystat, Haver Analytics, and IMF staff calculations.

...and a record tourism season.

Tourist Arrivals

(Millions of tourists)

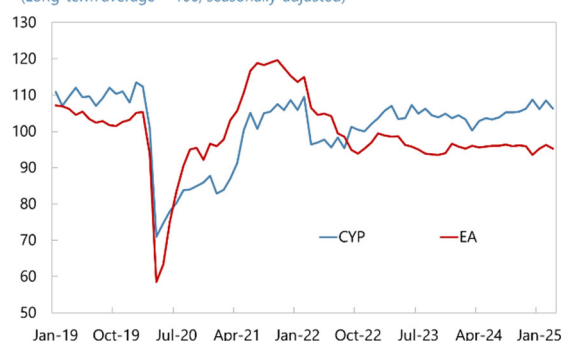


Sources: Cystat and IMF staff calculations.

Confidence is at a post-pandemic peak, well above the EA average...

Economic Confidence Indicators

(Long-term average = 100, seasonally-adjusted)

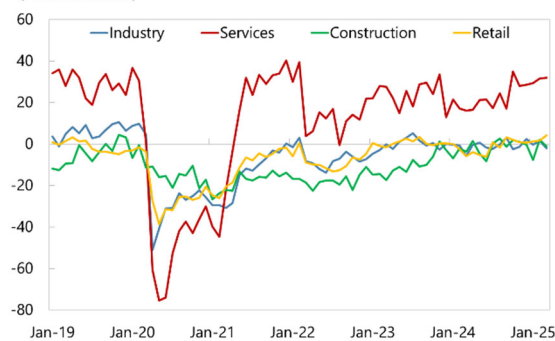


Sources: European Commission and Haver Analytics.

...particularly in the services sector.

Confidence Indicators

(Percent balance)

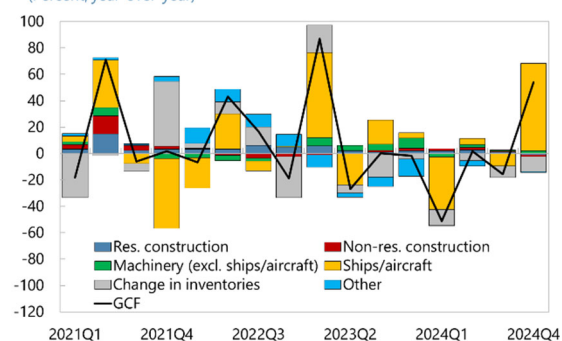


Sources: European Commission, Haver Analytics, and IMF staff calculations.

Investment has declined in 2024 mainly due to decrease in inventories and ship imports.

Contributions to Real Gross Capital Formation Growth

(Percent, year-over-year)

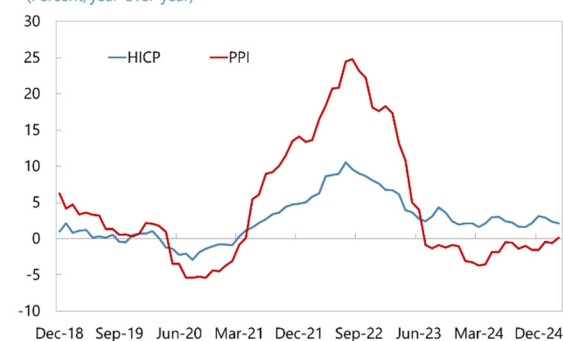


Sources: Eurostat, Haver Analytics, Cypriot authorities, and IMF staff calculations.

Falling producer prices will continue to support disinflation.

Consumer and Producer Inflation

(Percent, year-over-year)



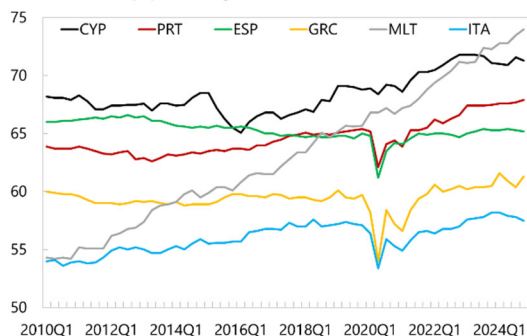
Sources: Cystat, Haver Analytics, and IMF staff calculations.

Figure 2. Cyprus: Labor Market Developments

Labor market participation improved in recent years and remained high in 2024...

Labor Force Participation Rates

(Percent of total population, ages 15-74)

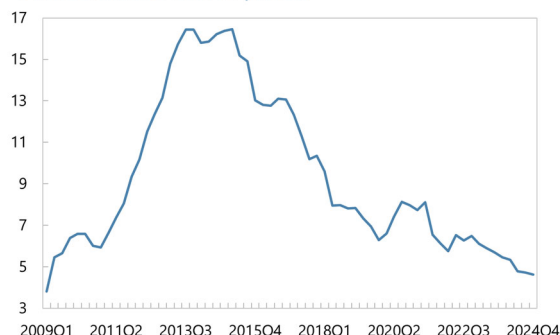


Sources: Eurostat and Haver Analytics.

...and unemployment has also fallen significantly...

Unemployment Rate

(Percent of total labor force, 15+ years old)

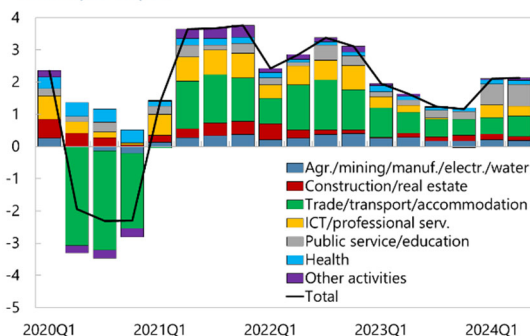


Sources: Cystat and Haver Analytics.

...with employment growth primarily concentrated in public services and tourism.

Sectoral Contributions to Employment Growth

(Percent, year-on-year)

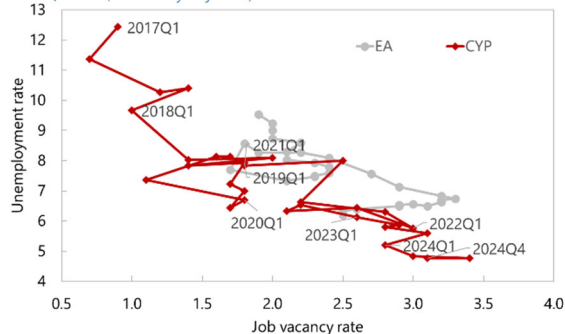


Sources: Cystat, Haver Analytics, and IMF staff calculations.

The labor market remains tight...

Beveridge Curve

(Percent, seasonally-adjusted)

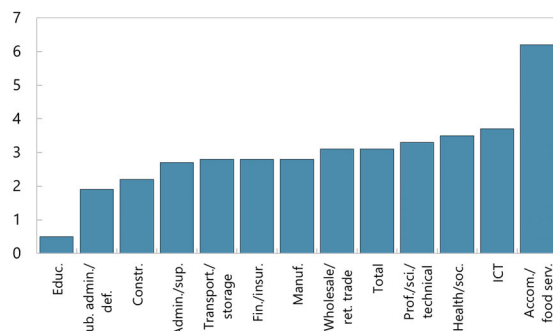


Sources: Cystat, Eurostat, Haver Analytics, and IMF staff calculations.

...with highest job vacancies rates in tourism related sectors

Job Vacancy Rate by Industry, 2024Q4

(Percent)

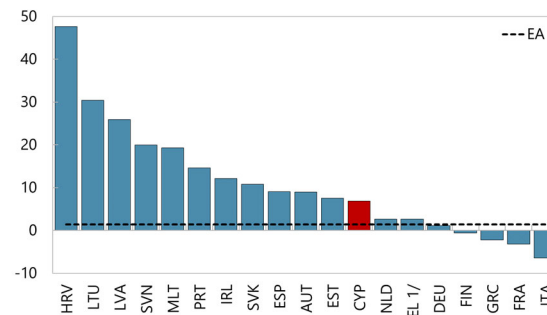


Sources: Eurostat and Haver Analytics.

Real wage growth has only been slightly above the EA average.

Change in Real Hourly Compensation, 2019Q1-2024Q4

(Percent)



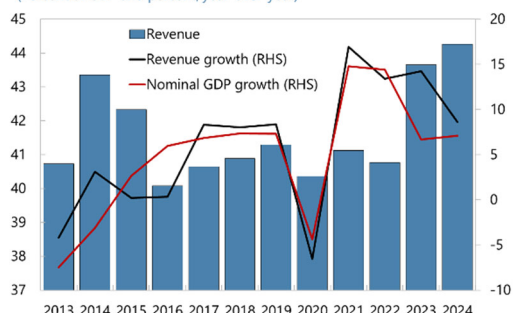
Sources: ECB, Eurostat, Haver Analytics, and IMF staff calculations.
1/ change in real hourly compensation, 2019Q1-2024Q3

Figure 3. Cyprus: Fiscal Revenue

Cyprus has experienced a boom in revenues in the previous two years, outpacing GDP growth.

General Government Revenue

(Percent of GDP and percent, year-over-year)

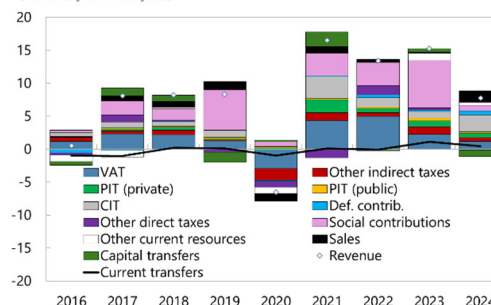


Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Revenue growth was broad based led by social contributions, VAT and CIT.

Revenue Growth Contributions

(Percent, year-over-year)

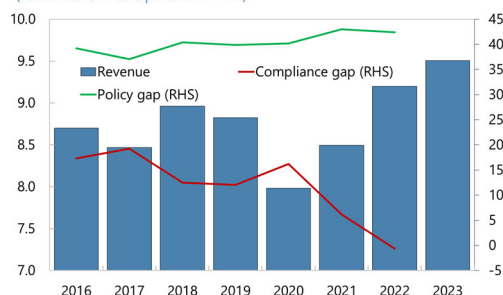


Sources: Cystat and IMF staff calculations.

VAT has seen a significant rise in buoyancy, mainly on improved compliance.

Value-Added Tax (VAT)

(Percent of GDP and percent of VTTL)

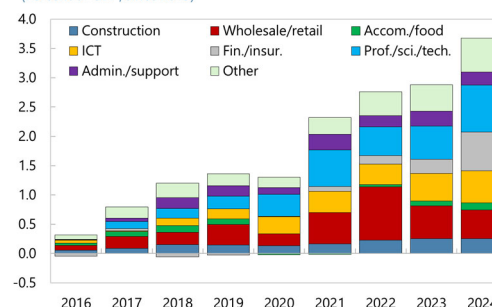


Sources: Ministry of Finance, 2024 VAT Gap in The EU Report, and IMF staff calculations.

Most sectors saw strong CIT performance, particularly ICT, wholesale and retail trade, and professional services.

Cumulative Sectoral CIT Change Contributions

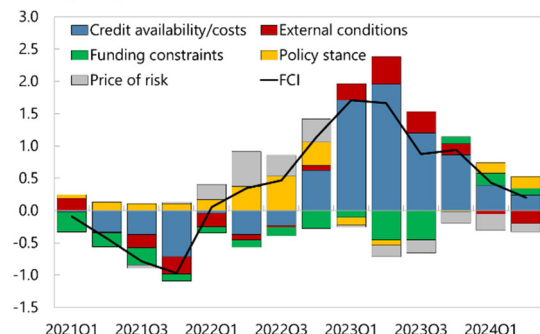
(Percent of GDP, since 2015)



Sources: Cyprus' Tax Department and IMF staff calculations.

Figure 4. Cyprus: Financial Conditions and Credit*Financial conditions have stopped tightening...***Contributions to FCI Changes**

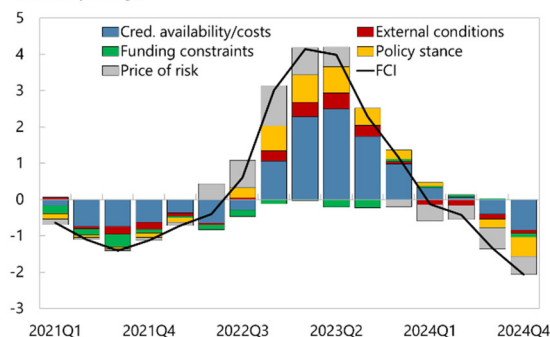
(Quarterly change)



Sources: Borraccia et al., 2023 (IMF Working Paper 23/209) and IMF staff calculations.

*...and have started to loosen for households...***Contributions to Household FCI Changes**

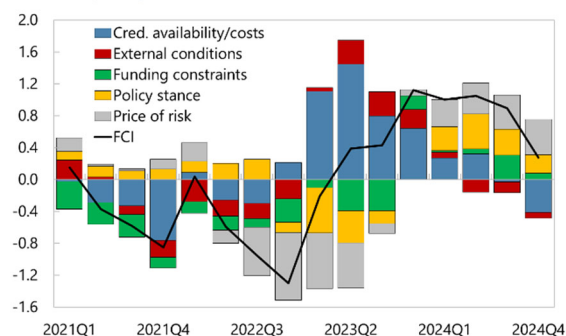
(Quarterly change)



Source: Borraccia et al., 2023 (IMF Working Paper 23/209).

*...but not NFCs.***Contributions to NFC FCI Changes**

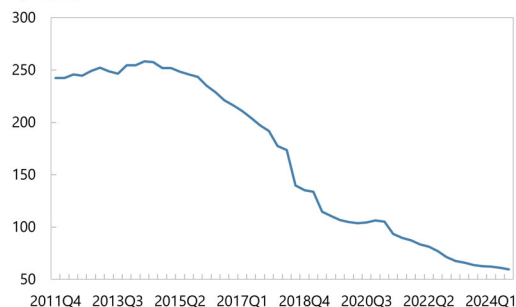
(Quarterly change)



Source: Borraccia et al., 2023 (IMF Working Paper 23/209).

*The credit-to-GDP ratio appears to be stabilizing after a steep fall over the last decade...***Credit-to-GDP Ratio 1/**

(Percent)

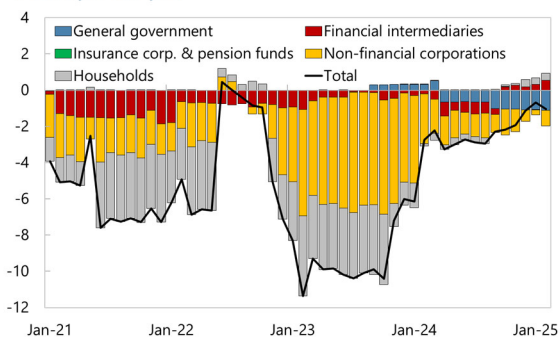


Sources: BIS, IFS, Haver Analytics, World Bank, and IMF staff calculations.

1/ credit-to-GDP ratio = claims on private sector in percent of GDP

*...but credit growth remains weak...***Domestic Credit Growth**

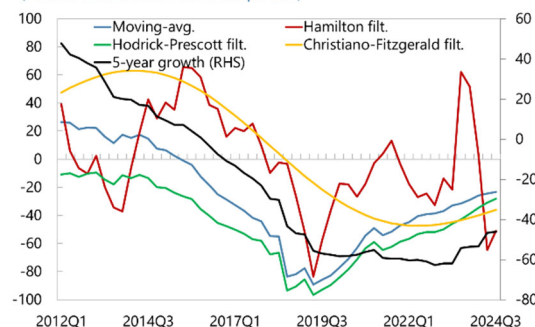
(Percent, year-over-year)



Sources: Central Bank of Cyprus, Haver Analytics, and IMF staff calculations.

*...with credit gap estimates highly negative.***Credit-to-GDP Ratio Gap**

(Percent deviation from trend and percent)

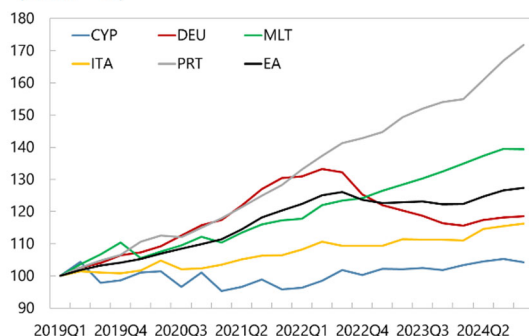


Sources: BIS, IFS, Haver Analytics, and IMF staff calculations.

Figure 5. Cyprus: Real Estate Market Developments

Compared to peers, house price growth in Cyprus has been moderate...

House Price Index (2019Q1 = 100)

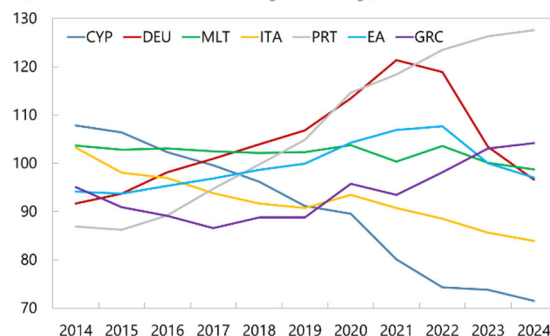


Sources: Eurostat, Haver Analytics, and IMF staff calculations.

...and housing affordability metrics continue to improve.

House Price-to-Income Ratio

(Price-to-income ratio relative to long-term average)

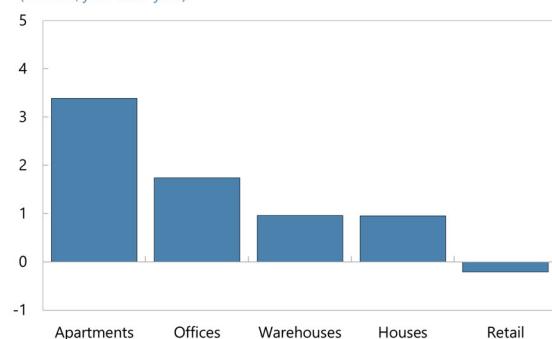


Source: Eurostat.

Apartments led the increase in real estate prices...

Property Market Price Growth by Type, 2024Q4

(Percent, year-over-year)

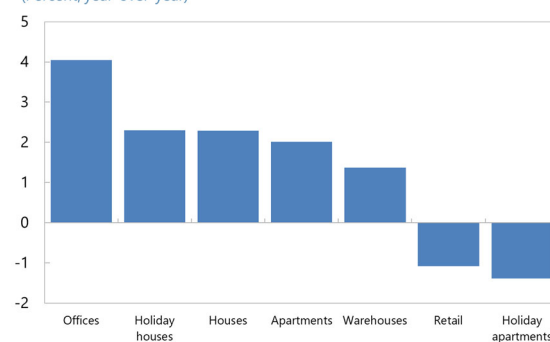


Sources: RICS Cyprus Property Index, KPMG, and IMF staff calculations.

...and rents followed a broadly similar trend.

Rent Growth by Type, 2024Q4

(Percent, year-over-year)

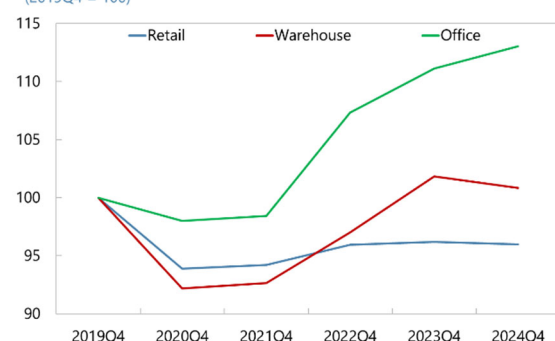


Sources: RICS Cyprus Property Index, KPMG, and IMF staff calculations.

Commercial real estate prices have remained fairly stable, with an uptick in the price of office space.

Commercial Real Estate Price Index

(2019Q4 = 100)

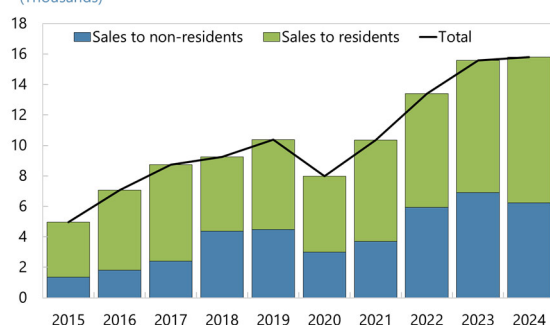


Sources: RICS Cyprus Property Index, KPMG, and IMF staff calculations.

Property sales stabilized in 2024 and sales to non-residents decreased.

Property Sales

(Thousands)

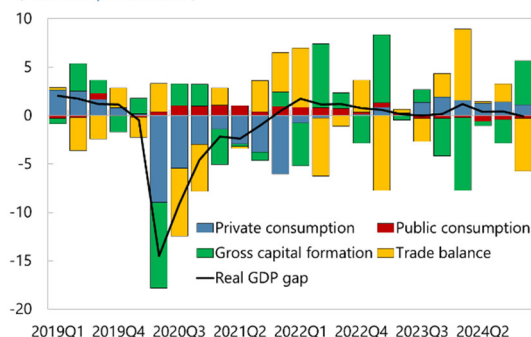


Sources: Cyprus' Department of Lands and Surveys, Haver Analytics, and IMF staff calculations.

Figure 6. Cyprus: Cyclical Indicators

HP-filter-based estimates indicate moderate overheating driven by domestic demand...

Real GDP Gap Composition (Adj. HP Filter Estimates)
(Percent of potential GDP)



Sources: Cystat, Haver Analytics, and IMF staff calculations.

...with consumption supported by recent increases in real wages, which follow productivity developments.

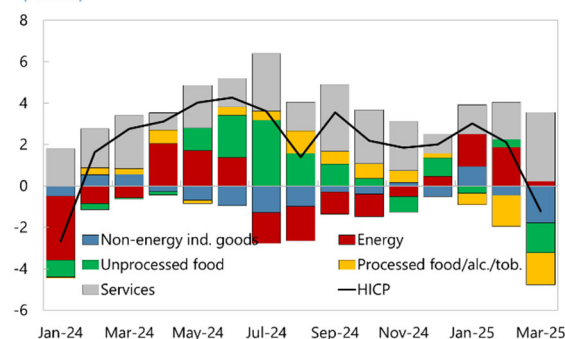
Real Monthly Earnings and GVA per Hour
(Cumulative growth since 2019, Percent)



Sources: Cystat, Eurostat, Haver Analytics, and IMF staff calculations.

Inflation has been falling recently, but services inflation has been persistently high...

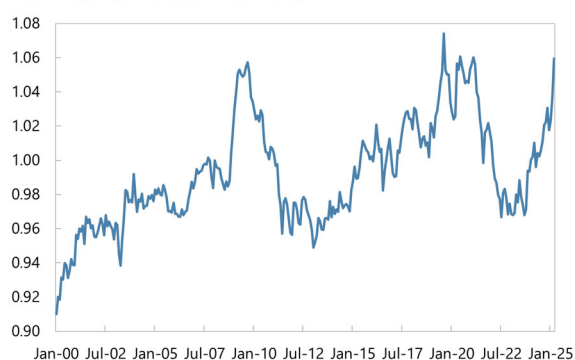
3-mo. Annualized Headline Inflation Composition
(Percent)



Sources: Eurostat, Haver Analytics, and IMF staff calculations.

...reflecting an ongoing correction in relative prices after the permanent shock to energy prices.

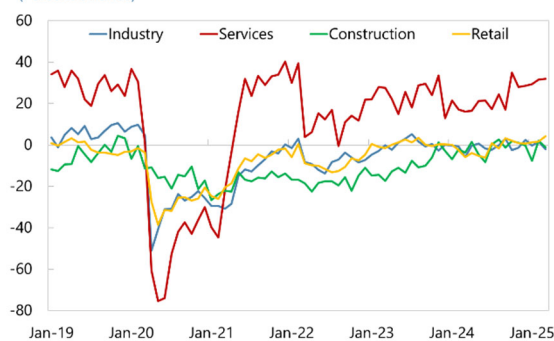
Services-to-Goods Price Ratio



Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Confidence indicators are broadly at pre-financial crisis levels...

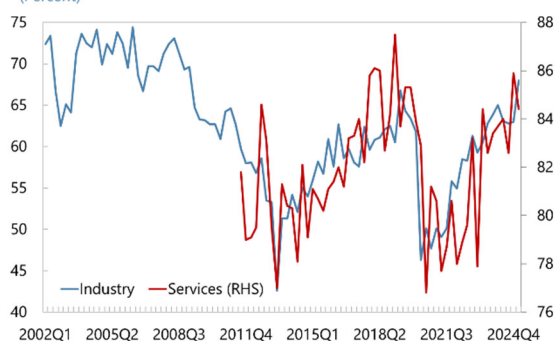
Confidence Indicators
(Percent balance)



Sources: European Commission, Haver Analytics, and IMF staff calculations.

...with high-capacity utilization rates in the services sector while industry sector is still below pre-crisis levels.

Capacity Utilization
(Percent)

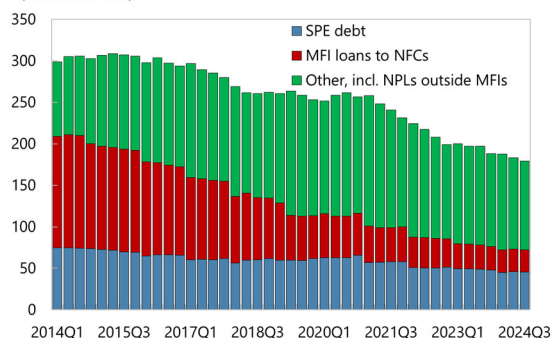


Sources: European Commission, Haver Analytics, and IMF staff calculations.

Figure 7. Cyprus: Corporate Vulnerabilities

NFC debt, especially from banks, has fallen significantly over the last decade.

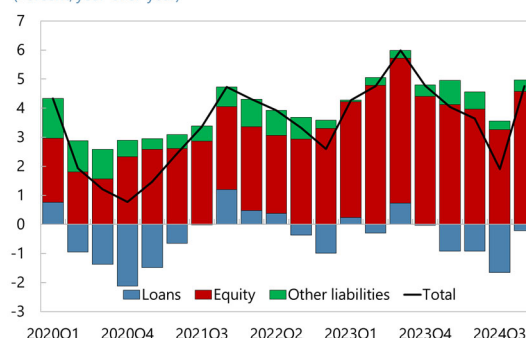
Non-financial Corporation Debt (Percent of GDP)



Sources: Central Bank of Cyprus, Eurostat, Haver Analytics, and IMF staff calculations.

Instead, equity liabilities have grown considerably...

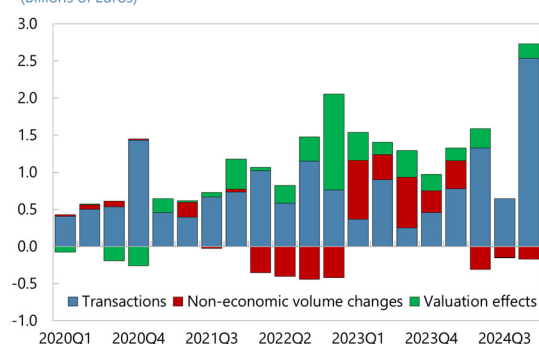
Non-financial Corporation Liabilities Growth Composition (Percent, year-over-year)



Sources: Eurostat and IMF staff calculations.

...driven by new issuance, rather than valuation effects.

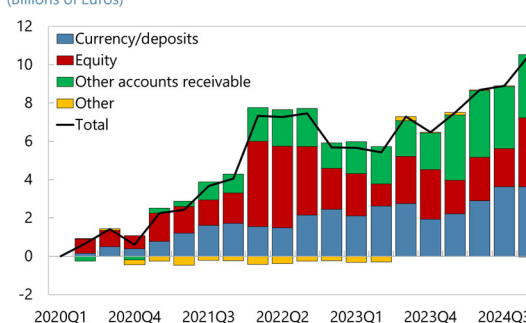
Non-financial Corporation Change in Equity Liabilities (Billions of Euros)



Sources: Eurostat and IMF staff calculations.

Financial assets have grown, especially cash holdings...

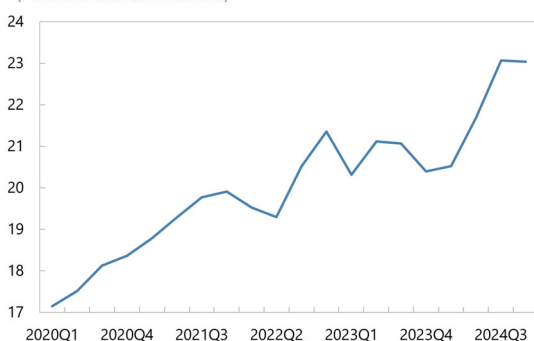
Non-financial Corporation Cumulative Change in Assets 1/ (Billions of Euros)



Sources: Eurostat and IMF staff calculations.
1/ since 2020Q1

...driving a significant improvement in liquidity...

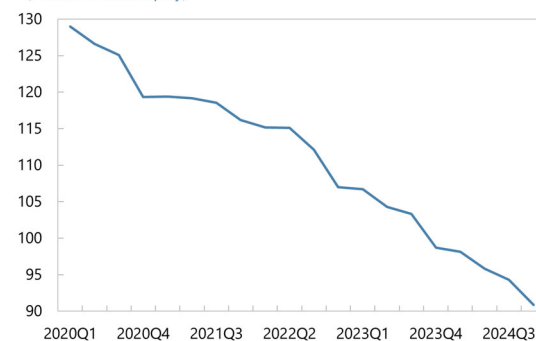
Non-financial Corporation Stock of Cash (Percent of total debt liabilities)



Sources: Eurostat and IMF staff calculations.

...and sustained deleveraging.

Non-financial Corporation Stock of Debt (Percent of total equity)



Sources: Eurostat and IMF staff calculations.

Table 1. Cyprus: Selected Economic Indicators, 2021–30

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Projections									
Real Economy	(Percent change, unless otherwise indicated)									
Real GDP	11.4	7.2	2.8	3.4	2.5	2.7	3.0	3.0	3.0	3.0
Domestic demand	5.6	8.5	5.2	0.7	4.6	3.6	3.6	3.5	3.4	3.2
Consumption	5.7	8.5	4.8	3.3	3.2	2.6	2.8	2.9	2.8	2.8
Private consumption	4.7	9.8	5.9	3.8	2.8	2.9	3.2	3.2	3.2	3.1
Public consumption	8.9	4.7	1.2	1.5	4.4	1.4	1.2	1.7	1.7	1.7
Gross capital formation	5.0	8.5	6.6	-9.5	10.5	7.8	7.0	6.0	5.5	4.5
Foreign balance 1/	5.8	-1.1	-2.3	3.0	-1.9	-0.9	-0.7	-0.5	-0.4	-0.3
Exports of goods and services	27.2	27.1	-2.8	5.3	4.0	4.1	4.0	4.0	4.0	4.0
Imports of goods and services	19.6	29.7	-0.7	2.4	6.1	5.1	4.6	4.5	4.4	4.2
Potential GDP growth	5.5	6.1	4.4	3.3	3.0	2.9	2.9	3.0	3.0	3.0
Output gap (percent of potential GDP)	0.9	2.0	0.4	0.6	0.2	-0.1	0.0	0.0	0.0	0.0
HICP (period average, seasonally-adjusted)	2.3	8.1	3.9	2.3	2.2	2.0	2.0	2.0	2.0	2.0
HICP (end of period, seasonally-adjusted)	4.8	7.6	1.9	3.1	2.0	2.0	2.0	2.0	2.0	2.0
GDP deflator	3.0	6.7	3.8	3.5	4.7	1.6	1.5	1.5	1.5	1.6
Unemployment rate (percent, period average)	7.2	6.3	5.8	4.9	4.8	5.0	5.0	5.0	5.0	5.0
Employment growth (percent, period average)	3.5	5.0	2.8	1.5	0.9	0.8	0.9	0.8	0.8	0.8
Labor force	3.0	4.0	2.3	0.4	0.8	1.0	0.9	0.8	0.8	0.8
Public Finance	(Percent of GDP, unless otherwise indicated)									
General government balance	-1.6	2.7	1.7	4.3	3.8	3.5	2.4	2.1	1.9	1.6
Revenue	41.0	40.6	43.7	44.3	44.7	44.3	43.3	43.2	43.2	43.2
Expenditure	42.6	38.0	42.0	40.0	40.9	40.8	40.8	41.1	41.4	41.6
Primary Fiscal Balance	0.1	4.0	3.0	5.6	5.2	4.8	3.8	3.4	3.1	2.9
General government debt	96.5	81.1	73.6	65.1	60.2	54.9	49.7	44.5	41.2	38.3
Balance of Payments										
Current account balance	-5.4	-5.4	-9.7	-6.1	-7.1	-7.7	-8.2	-8.7	-9.1	-9.4
Trade Balance (goods and services)	4.7	3.2	1.0	3.6	2.5	1.8	1.1	0.5	0.2	0.0
Exports of goods and services	90.8	102.4	97.2	96.7	95.8	97.4	98.4	99.5	100.5	101.5
Imports of goods and services	86.1	99.1	96.1	93.1	93.2	95.6	97.3	98.9	100.3	101.6
Goods balance	-16.9	-19.7	-23.7	-20.4	-20.4	-21.4	-22.4	-23.3	-24.2	-24.9
Services balance	21.6	22.9	24.7	24.0	22.9	23.2	23.5	23.9	24.4	24.9
Primary income, net	-8.9	-7.9	-9.6	-8.9	-8.6	-8.5	-8.4	-8.3	-8.3	-8.3
Secondary income, net	-1.2	-0.7	-1.1	-0.8	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Capital account, net	0.2	0.1	-0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Financial account, net	-7.6	-6.2	-8.5	-5.9	-6.9	-7.5	-8.2	-8.6	-9.1	-9.3
Direct investment	-3.3	-27.2	-21.0	-18.0	-18.0	-18.1	-18.3	-18.3	-18.5	-18.6
Portfolio investment	3.9	3.9	11.0	4.9	5.8	3.6	4.2	3.5	1.5	2.6
Other investment and financial derivatives	-9.6	16.8	1.5	7.2	5.3	7.0	5.9	6.2	7.9	6.7
Reserves (+ accumulation)	1.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing 2/	0.0	0.0	0.0	0.0	-1.0	-2.7	-2.5	-2.4	-2.4	-2.0
Errors and omissions	-2.5	-0.9	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Saving-Investment Balance										
National saving	13.8	14.9	11.8	14.4	13.7	13.6	13.4	13.3	13.2	13.1
Government	1.8	5.8	6.7	7.9	7.8	7.3	6.3	6.1	6.1	5.8
Non-government	12.0	9.0	5.1	6.5	5.9	6.3	7.1	7.2	7.1	7.3
Gross capital formation	19.2	20.3	21.4	20.5	20.8	21.3	21.7	22.1	22.4	22.5
Government	3.5	3.2	5.0	3.6	3.9	3.8	3.9	4.1	4.2	4.2
Private	15.8	17.1	16.4	16.9	16.9	17.4	17.7	18.0	18.1	18.2
Foreign saving	-5.4	-5.4	-9.7	-6.1	-7.1	-7.7	-8.2	-8.7	-9.1	-9.4
Memorandum Item:										
Nominal GDP (billions of euros)	25.7	29.4	31.3	33.6	36.0	37.6	39.3	41.1	42.9	44.9
Structural primary balance	-0.4	3.3	2.6	5.3	5.2	4.8	3.8	3.4	3.1	2.9
External debt	994.1	879.7	828.3	767.6	706.8	669.0	631.4	595.8	564.1	534.0
Net IIP	-105.7	-95.2	-92.7	-98.5	-99.3	-102.6	-106.9	-111.7	-114.6	-118.8

Sources: Cystat, Eurostat, Central Bank of Cyprus, and IMF staff estimates.

1/ Contribution to real GDP growth

2/ Program financing (+ purchases, - repurchases) is included under the Financial Account, with consistent sign conversion

Table 2. Cyprus: Fiscal Developments and Projections, 2021–30 1/ 2/
(Percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Projections					
Revenue	41.0	40.6	43.7	44.3	44.7	44.3	43.3	43.2	43.2	43.2
Current revenue	39.8	39.6	42.7	43.5	43.7	43.4	43.0	42.9	43.0	42.9
Tax revenue	23.1	23.7	24.6	25.3	25.3	25.3	25.4	25.4	25.4	25.4
Indirect taxes	13.4	13.7	14.2	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Direct taxes	9.7	10.0	10.4	11.3	11.3	11.3	11.3	11.3	11.3	11.3
Other taxes (capital taxes)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social security contributions	12.3	12.0	14.0	13.5	13.5	13.5	13.4	13.4	13.4	13.4
Other current revenue	4.4	4.0	4.1	4.7	4.9	4.7	4.2	4.1	4.2	4.1
Capital revenue	1.2	1.0	0.9	0.8	1.0	0.8	0.3	0.3	0.3	0.3
Expenditure	42.6	38.0	42.0	40.0	40.9	40.8	40.8	41.1	41.4	41.6
Current expenditure	39.2	34.8	36.9	36.4	37.0	37.0	36.9	37.1	37.1	37.4
Wages and salaries	11.7	10.8	11.5	11.6	11.9	12.0	12.0	12.1	12.1	12.2
Goods and services	4.2	4.3	4.1	4.6	4.6	4.6	4.5	4.5	4.5	4.5
Social transfers	17.0	15.7	15.8	15.8	16.1	16.1	16.2	16.3	16.4	16.5
Subsidies	2.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Interest payments	1.7	1.3	1.3	1.3	1.4	1.3	1.4	1.4	1.2	1.3
Other current expenditure	2.3	2.2	3.7	2.6	2.4	2.4	2.4	2.4	2.4	2.5
Capital expenditure	3.5	3.2	5.0	3.6	3.9	3.8	3.9	4.1	4.2	4.2
Capital transfers, payable	0.7	0.8	1.8	0.6	0.9	0.8	0.8	0.8	0.9	0.9
Gross capital formation less NFA disposal	2.7	2.4	3.2	3.0	3.1	3.1	3.1	3.3	3.4	3.4
Overall balance	-1.6	2.7	1.7	4.3	3.8	3.5	2.4	2.1	1.9	1.6
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-1.6	2.7	1.7	4.3	3.8	3.5	2.4	2.1	1.9	1.6
Net financial transactions	-1.7	2.6	1.6	4.2	3.8	3.5	2.4	2.1	1.9	1.6
Net acquisition of financial assets	-4.1	-0.7	-0.6	0.3	3.4	0.7	-0.4	-1.0	0.5	0.5
Currency and deposits	-4.1	-0.7	-0.6	0.3	3.4	0.7	-0.4	-1.0	0.5	0.5
Securities other than shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-2.4	-3.3	-2.2	-3.8	-0.5	-2.8	-2.8	-3.1	-1.4	-1.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	-3.8	-3.4	-2.2	-3.1	1.0	0.0	-0.2	-0.2	1.3	0.8
Loans	1.4	0.1	0.1	-0.7	-1.5	-2.7	-2.6	-2.8	-2.6	-2.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Output Gap	0.9	2.0	0.4	0.6	0.2	-0.1	0.0	0.0	0.0	0.0
Primary balance	0.1	4.0	3.0	5.6	5.2	4.8	3.8	3.4	3.1	2.9
Structural overall balance	-2.1	1.9	1.3	4.0	3.7	3.5	2.4	2.0	1.9	1.6
Structural primary balance	-0.4	3.3	2.6	5.3	5.2	4.8	3.8	3.4	3.1	2.9
Public debt	96.5	81.1	73.6	65.1	60.2	54.9	49.7	44.5	41.2	38.3
Public debt net of cash holding	85.7	72.2	64.6	55.0	47.4	41.9	37.7	34.0	30.7	27.8

Sources: Cyprus' Ministry of Finance and IMF staff estimates.

1/ Accrual basis, unless otherwise indicated

2/ A 1.1 percent one-off statistical treatment of past pension liability settlements increases both revenues and current expenditures in 2023.

Table 3. Cyprus: General Government Financing Requirements and Sources, 2021–30

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Projections									
Gross borrowing needs	2,847	1,460	1,340	1,111	510	973	1,565	1,911	560	1,412
Overall deficit	426	-762	-510	-1,395	-1,361	-1,293	-937	-827	-784	-689
Primary surplus	-14	-1,168	-941	-1,868	-1,885	-1,808	-1,490	-1,399	-1,336	-1,281
Interest payments	440	407	431	473	523	516	553	572	552	593
Amortization	2,420	2,222	1,850	2,506	1,872	2,265	2,503	2,738	1,344	2,100
Medium- and long-term	945	1,922	1,713	2,486	1,447	1,165	1,403	1,638	194	1,100
Foreign	91	1,098	1,104	2,115	1,278	1,122	1,367	1,620	178	1,087
Eurobonds	0	1,000	1,000	2,000	1,000	1,000	1,250	1,350	0	1,000
Russia	0	0	0	0	0	0	0	0	0	0
Other	91	98	104	116	278	122	117	270	178	87
Domestic	854	824	609	371	169	43	36	18	16	13
Short-term	1,475	300	137	20	75	100	100	100	100	100
EU and IMF	0	0	0	0	350	1,000	1,000	1,000	1,050	900
Stock-flow adjustment 1/	0	0	0	0	0	0	0	0	0	0
Gross financing sources	2,651	1,456	929	644	495	952	1,561	1,886	561	1,390
Privatization receipts	0	0	0	0	0	0	0	0	1	2
Market access	1,797	1,290	1,163	1,215	1,707	1,226	1,390	1,484	757	1,595
Medium- and long-term	1,497	1,153	1,143	1,140	1,607	1,126	1,290	1,384	657	1,495
Foreign	1,454	1,129	1,123	1,120	850	1,100	1,100	1,100	600	1,100
Domestic	43	24	21	20	757	26	190	284	57	395
Short-term	300	137	20	75	100	100	100	100	100	100
EU and IMF	0	0	0	0	0	0	0	0	0	0
Use of deposits 2/	854	166	-234	-571	-1,212	-274	171	402	-196	-205
Net placement	-623	-932	-687	-1,291	-165	-1,039	-1,113	-1,254	-587	-506
Medium and Long Term Debt	552	-769	-570	-1,346	160	-39	-113	-254	463	394
Domestic securities	-811	-800	-588	-96	588	-17	154	266	41	378
Eurobonds	1,000	0	0	-1,000	-250	0	-250	-350	500	0
Domestic loans	0	0	-1	-255	0	0	0	0	0	3
Foreign loans	363	31	19	4	-178	-22	-17	-170	-78	13
Short term (net increase)	-1,175	-163	-117	55	25	0	0	0	0	0
EU and IMF	0	0	0	0	-350	-1,000	-1,000	-1,000	-1,050	-900
Memorandum item:										
Cash holding (eop)	2,762	2,596	2,829	3,400	4,612	4,886	4,715	4,313	4,509	4,713
General government debt (eop)	24,776	23,813	23,076	21,848	21,683	20,644	19,532	18,277	17,690	17,185
General government debt (eop, percent of GDP)	96.5	81.1	73.6	65.1	60.2	54.9	49.7	44.5	41.2	38.3
General government net debt (eop, percent of GDP) 3/	85.7	72.2	64.6	55.0	47.4	41.9	37.7	34.0	30.7	27.8
Sources: Cypriot authorities and IMF staff estimates.										
1/ Adjustments for consistency between estimated cash basis fiscal balance and debt data										
2/ Minus (-) sign represents accumulation of deposits										
3/ General government debt minus cash holding										

Table 4. Cyprus: Balance of Payments, 2021–30
(Percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Est.			Projections			
Current Account Balance	-5.4	-5.4	-9.7	-6.1	-7.1	-7.7	-8.2	-8.7	-9.1	-9.4
Trade Balance (Goods and Services)	4.7	3.2	1.0	3.6	2.5	1.8	1.1	0.5	0.2	0.0
Goods Balance	-16.9	-19.7	-23.7	-20.4	-20.4	-21.4	-22.4	-23.3	-24.2	-24.9
Exports	14.6	17.1	13.9	12.1	12.0	12.0	12.0	12.1	12.2	12.2
Imports	31.5	36.8	37.6	32.5	32.4	33.4	34.4	35.4	36.4	37.2
Services Balance	21.6	22.9	24.7	24.0	22.9	23.2	23.5	23.9	24.4	24.9
Exports	76.2	85.3	83.2	84.6	83.8	85.4	86.4	87.4	88.3	89.3
Imports	54.6	62.4	58.5	60.6	60.9	62.2	62.9	63.5	63.9	64.4
Primary Income	-8.9	-7.9	-9.6	-8.9	-8.6	-8.5	-8.4	-8.3	-8.3	-8.3
Secondary Income	-1.2	-0.7	-1.1	-0.8	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Capital Account	0.2	0.1	-0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Financial Account (- financing)	-7.6	-6.2	-8.5	-5.9	-6.9	-7.5	-8.2	-8.6	-9.1	-9.3
Direct Investment	-3.3	-27.2	-21.0	-18.0	-18.0	-18.1	-18.3	-18.3	-18.5	-18.6
Portfolio Investment	3.9	3.9	11.0	4.9	5.8	3.6	4.2	3.5	1.5	2.6
Financial Derivatives	-2.3	-0.7	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Other Investment	-7.3	17.5	1.5	7.3	5.3	7.1	5.9	6.3	7.9	6.7
Reserves (+ accumulation)	1.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omission	-2.5	-0.9	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current Account Balance, adjusted for SPEs 1/	-7.2	-9.1	-11.5	...	...	...	...	...	...	...
Program Financing 2/	0.0	0.0	0.0	0.0	-1.0	-2.7	-2.5	-2.4	-2.4	-2.0
Private Net Capital Flows 3/	-24.0	-13.6	-8.1	...	...	...	...	...	...	...
o/w Portfolio Investment	2.5	4.2	10.1	...	...	...	...	...	...	...
o/w Other Investment	-20.9	10.1	-5.4	...	...	...	...	...	...	...
o/w MFIs	-4.0	7.8	0.9	...	...	...	...	...	...	...
o/w Non-MFIs	-17.0	2.3	-6.3	...	...	...	...	...	...	...
Gross External Debt	994.1	879.7	828.3	767.6	706.8	669.0	631.4	595.8	564.1	534.0
o/w Short-term Debt	268.5	211.4	197.5	181.0	165.6	156.2	147.3	139.3	132.1	125.7

Sources: Central Bank of Cyprus, Eurostat, and IMF staff estimates.

1/ Treating Special Purpose Entities (SPEs) as non-residents.

2/ Program financing (+ purchases, - repurchases) is included under the Financial Account with consistent sign conversion.

3/ Private net capital flows (- inflows, + outflows) are defined to exclude the public-sector flows (the central-bank flows and part of the general-government flows). It is not possible to exclude all general government-related flows from "other investment" in the published data because of secondary confidentiality issues (i.e., these data are suppressed to preserve the confidentiality of data pertaining to other sectors that could otherwise be indirectly deduced).

Table 5. Cyprus: Financial Soundness Indicators, 2015–24 1/
(Percent, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Capital Adequacy										
Total capital ratio	16.6	16.8	16.3	17.5	19.9	20.4	20.7	21.3	25.5	25.7
Tier I capital ratio	16.0	16.4	15.4	16.5	19.0	19.3	19.4	19.8	23.2	23.4
Asset Quality 2/										
Non-performing loans (NPLs) to total gross loans	45.3	46.4	42.5	30.5	28.0	17.7	11.0	9.5	7.9	6.2
Non-performing loans (NPLs) to total gross loans (local operations) 3/	45.8	47.2	43.7	30.3	27.9	17.7	11.0	9.5	7.9	6.2
Provisions to NPLs	38.3	42.1	47.2	51.6	55.2	50.1	49.0	52.3	54.9	62.6
Restructured loans classified as NPLs to total NPLs	40.1	40.8	40.9	44.8	44.6	43.7	49.6	44.1	45.1	44.5
Earnings and Profitability										
Return on assets 4/	-0.6	-0.3	-1.1	0.2	0.3	-0.3	-0.1	0.3	2.0	2.1
Return on equity 4/	-7.4	1.7	-11.2	6.1	3.4	-3.9	0.3	4.8	24.6	21.6
Net interest income to gross income ratio	81.2	75.3	70.7	67.1	68.5	67.6	71.9	69.0	76.2	78.6
Net fees and commissions income to gross income ratio	13.8	14.6	16.4	19.6	20.5	19.7	25.3	25.7	14.3	13.1
Net interest margin	2.8	2.6	2.3	1.8	1.9	1.8	1.5	1.6	3.1	3.4
Liquidity										
Cash, trading and available-for-sale assets to total assets ratio	19.8	22.9	27.9	27.6	29.3	28.8	39.6	40.7	40.0	37.0
Others										
Total loans and advances to total assets ratio	73.6	69.1	64.1	54.6	53.8	51.0	42.5	40.1	39.1	40.8
Total deposits (other than from credit institutions) to total assets ratio	65.1	74.9	75.6	79.2	82.8	80.7	75.1	79.4	77.7	79.4

Source: Central Bank of Cyprus.

1/ Unless otherwise specified, these FSIs cover consolidated accounts of domestic and foreign banks operating in Cyprus up to 2024Q1. The data on asset quality ratios is up to 2024Q4.

2/ Based on the European Banking Association's definition of NPLs. As of end-2014, banks report NPLs as per the EU's regulation on reporting NPLs and forborne exposures. The main changes with respect to the previous definition are that the minimum probation period for forborne loans remaining classified as NPLs has increased from 6 to 12 months.

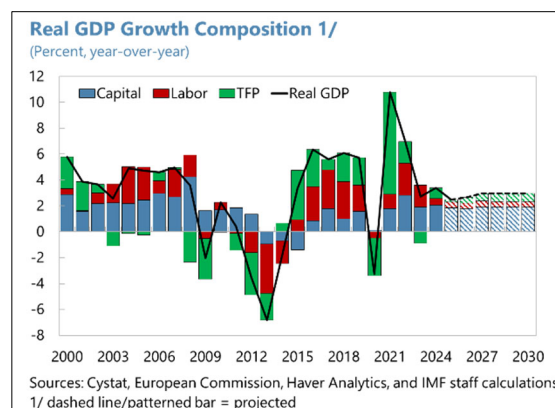
3/ Local operations are confined to banks active in the local market, excluding overseas branches and subsidiaries of Cyprus-based banks.

4/ Annual return. The last observation is the year-to-date return.

Annex I. Drivers of Growth: Capital and Labor¹

Over the last decade, Cyprus's strong economic performance has been supported by labor's contribution. Rising labor market participation, falling unemployment, and high immigration have all strengthened employment. But as unemployment declines below the EA average, participation rates flatten off, and job vacancies continue to rise to historic highs, the scope for further gains is limited. Instead, growth is expected to shift towards being more capital driven. Estimates suggest that Cyprus's capital stock is well below its potential and that capital contribution to annual growth will increase from an average 1.5 percentage points during 2016-2023 to about 2 percentage points over the next ten years.

1. Cyprus's post-financial crisis recovery has been robust and in large part driven by labor's contribution. Alongside improvements in total factor productivity (TFP), labor force participation and the unemployment rate have gradually recovered to pre-crisis levels and net migration has grown, driving much of the economic recovery. Gross fixed capital formation (GFCF), on the other hand, has only partially recovered since its decline in the 2013/2014 crisis, and remains below the levels observed in the 1990s and early 2000s.



2. Labor force participation has increased and is one of the highest in the EA. Participation rates have historically been high in Cyprus and have grown considerably since 2019. Within this, the participation rate is substantially higher among workers with primary and secondary education, but close to the EA average for those with tertiary education. Participation since the 2013/14 crisis has increased most among workers aged 55-64 (from 56 percent in 2014 to over 72 percent in 2024). While a modest gender gap persists, participation rates are relatively high for both men and women, suggesting that the scope for greater labor market inclusion appears limited.

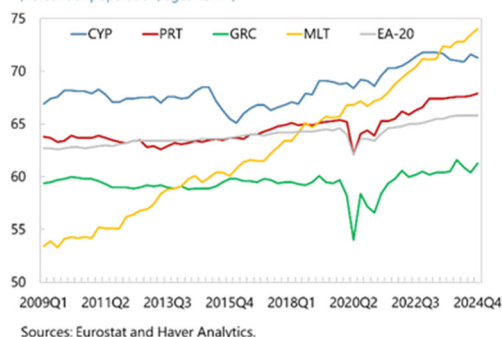
3. Unemployment has consistently declined in recent years and is likely around its equilibrium level. The long-term unemployment rate has declined from a high of 8 percent in 2014Q2 to 1 percent in 2024Q3, while short-term unemployment has declined from 10 percent in 2013 to 3 percent in 2024. Unemployment is now lower in Cyprus than the EA average across all categories, with a relatively small gender gap of 0.5 percentage points. Overall, the current unemployment rate, around 5 percent, is close to staff's assessment of the equilibrium level.

¹Prepared by Adam Remo and Valentina Semenova (EUR).

Labor Force Participation and Unemployment

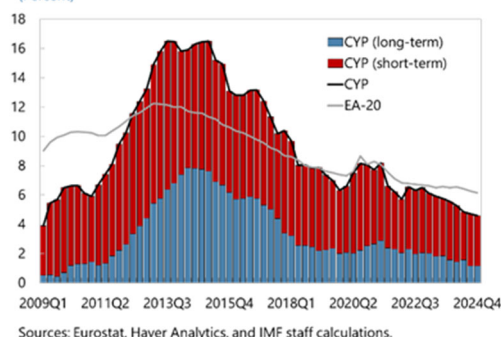
Labor force participation has increased to among the highest in the EA...

Labor Force Participation Rate
(Percent of population, ages 15-74)



...and unemployment has declined below the EA average.

Unemployment Rate
(Percent)

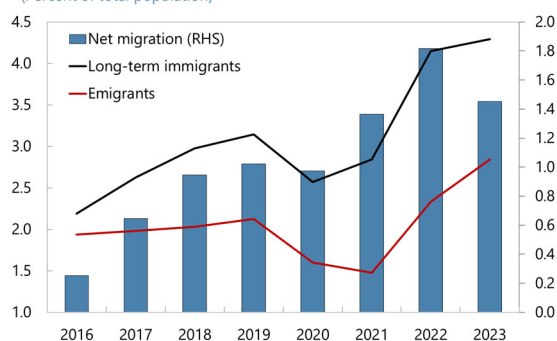


4. Net migration to Cyprus has helped relieve labor market pressure. Net migration has increased from 0.5 percent of the population in 2016 to around 2 percent in 2022, with the largest numbers of migrant workers in the Retail Trade and Accommodation / Food Services sectors. Cyprus has also succeeded at attracting high-skilled talent and expanding its tech sector through the introduction of its “headquartering scheme”. Simultaneously, the number of asylum-seekers has increased from below 3,000 in 2016 (0.3 percent of the population) to over 21,000 at its peak in 2022 (2.4 percent of the population). While this group is eligible to work, restrictions on employment have recently been raised. Despite ongoing policy efforts to attract foreign workers, given the already high stock of foreign workers in Cyprus and recent decline in net migration, it is unlikely that Cyprus can sustain the same levels of employment growth through migration alone.

Immigration

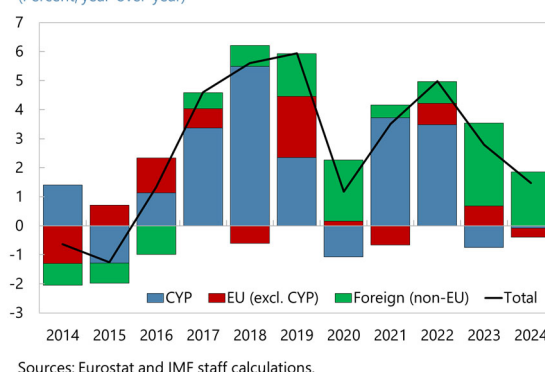
The number of people immigrating into Cyprus has increased significantly since 2016...

Migration
(Percent of total population)



...with employment growth through migration picking up since 2022.

Employment Growth Composition by Citizenship
(Percent, year-over-year)

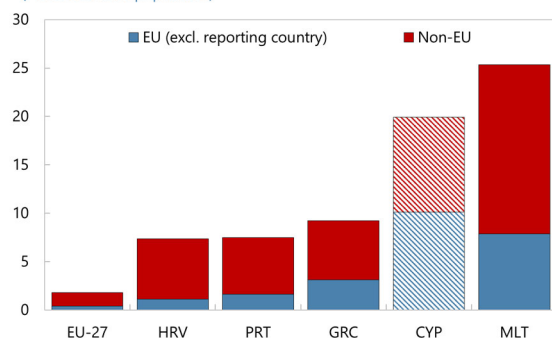


Immigration (concluded)

Cyprus has a relatively high percentage of non-EU foreigners...

EU and Non-EU Foreigners, 2024

(Percent of total population)

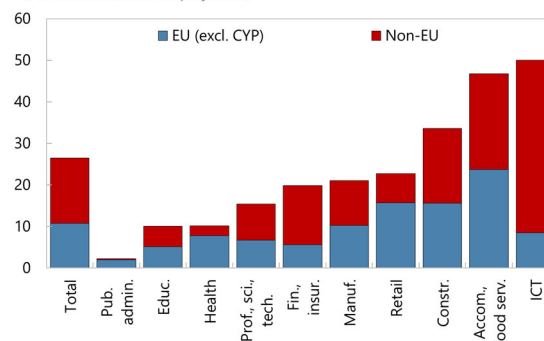


Sources: Eurostat and IMF staff calculations.

...who are heavily represented in ICT and service sectors.

Sectoral EU and Non-EU Immigrant Employment, 2024

(Percent of sectoral employment)



Sources: Cystat and IMF staff calculations.

5. In contrast to employment, Cyprus's capital stock is notably lower than that of the EA as a whole; income convergence with peers will likely require greater capital accumulation.

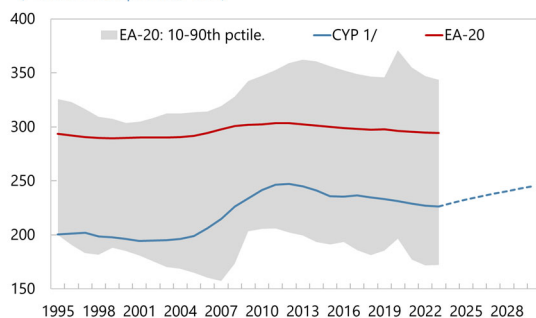
Cyprus's capital-stock-to-GDP ratio has been steadily declining since its peak at around 250 percent of potential GDP in 2012 to about 230 percent in 2023. On the other hand, the EA capital stock has remained relatively stable over the last 30 years, standing at around 290 percent in 2023. When comparing Cyprus to other EA countries, all countries with higher GDP per employee possess a significantly higher net capital stock per employee. This suggests that Cyprus will need to accumulate more capital to converge to higher-income peers. Moreover, capital accumulation played an important role in income convergence since 1995 among other EA countries.

Capital Stock

Capital stock has been on a declining path since the 2013/14 crisis and is well below EA20 aggregate level.

Real Capital Stock

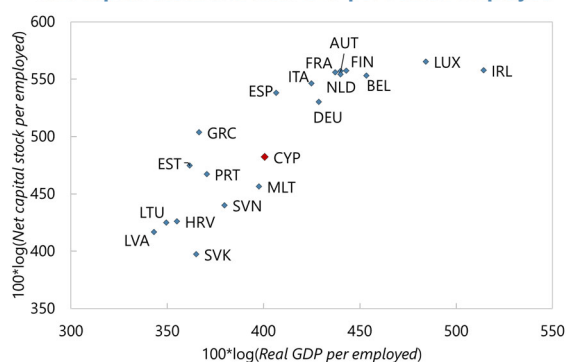
(Percent of real potential GDP)



Sources: AMECO, Cystat, Haver Analytics, and IMF staff calculations.
1/ post-2024 = projected

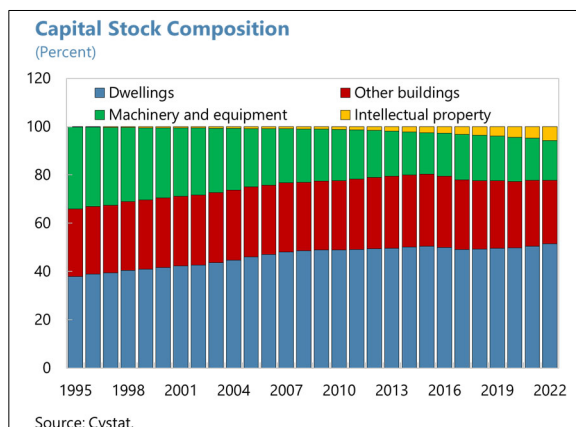
Countries with higher GDP per employed person than Cyprus have significantly higher capital stock.

Net Capital Stock and Real GDP per Person Employed



Sources: AMECO, Cystat, Haver Analytics, and IMF staff calculations.

6. The composition of the capital stock has remained relatively stable over the past 30 years. Notably, the share of machinery and equipment capital goods has decreased from 34 percent in 1995 to 17 percent in 2022. This decline is likely related to the decreasing share of manufacturing in favor of services, which is also consistent with the increasing share of intellectual property products. The share of capital in the form of buildings increased until the 2013-14 crisis and has remained broadly stable since then.



7. Going forward, lower corporate borrowing costs should support capital accumulation and growth. The NFC interest rate premium relative to the EA average has been steadily declining since its peak in 2012 of around 375 basis points to approximately 50 basis points now. The narrowing of the spread and recent sovereign credit rating upgrades reflect improvements in fiscal sustainability, greater financial sector resilience, continuing progress on resolving legacy NPLs, and improvements to the judicial system.

8. This sharp decline in interest rate spreads implies that the capital stock is below potential. A “Tobin’s Q”-based model² suggests that the cost of capital is significantly below its marginal return, suggesting that investment will continue to increase, raising the capital stock to its potential of around 255 percent of GDP. This, in turn, will raise the level of GDP by 11 percent. In reaching the estimated potential capital level, capital’s contribution to annual growth will increase from an average of 1.5 percentage point during 2016-2023 to about 2 percentage points over the next ten years.

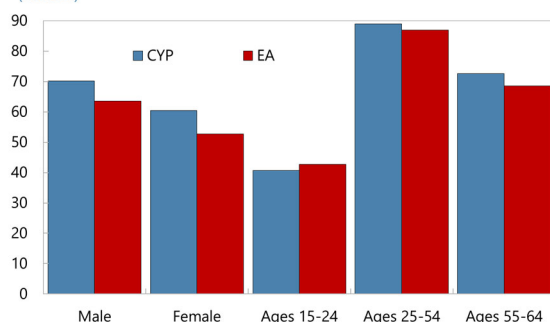
9. Further implementation of structural reforms and the continuation of prudent macroeconomic stabilization policies are critical for achieving this capital-driven growth. To maintain a low and stable interest rate premium, it is imperative to make progress on structural reforms pertaining to the judiciary system (see Annex VI) and to uphold macroeconomic and financial sector policies that reinforce overall economic stability. Additionally, reforms in the energy sector aimed at reducing energy costs and enhancing energy security will further support investment and growth by lowering production costs.

² The model compares the present value of investment costs and the present value of investment returns. Investment costs are influenced by the borrowing interest rates of NFCs, while investment returns are determined by a Cobb-Douglas production function. The potential capital stock represents the level of capital at which the present value of investment costs is equal to the present value of investment returns.

Figure 1. Cyprus: Labor Force Participation, Unemployment, and Migration

Compared to the EA, participation is relatively high for men and women, but a gender gap persists...

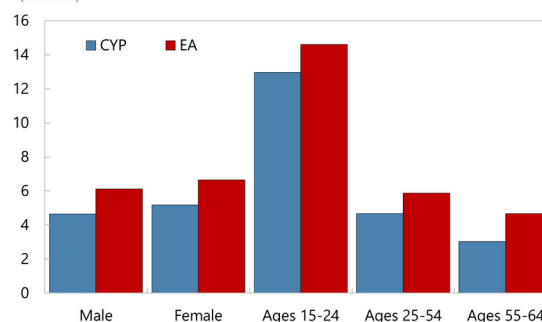
Participation Rate by Gender and Age, 2024 1/
(Percent)



Sources: Eurostat and Haver Analytics.
1/ gender participation rates = ages 15+

...and unemployment is lower across all categories of age and gender, except youth unemployment.

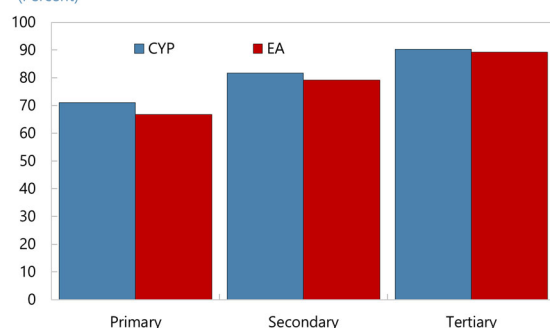
Unemployment Rate by Gender and Age, 2024 1/
(Percent)



Source: Eurostat.
1/ gender unemployment rates = ages 15-74

Participation among individuals with primary education (or below) show greatest difference to EA...

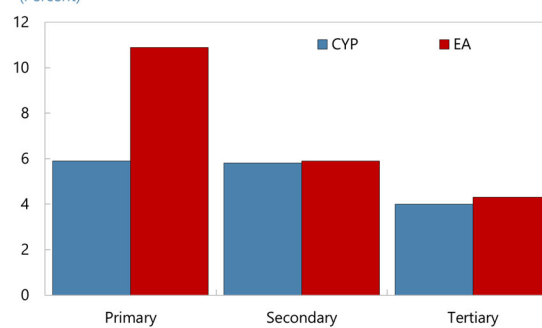
Participation Rate by Educational Attainment, 2023 1/
(Percent)



Source: Eurostat.
1/ ages 20-64

...and unemployment is lower for those with a primary education.

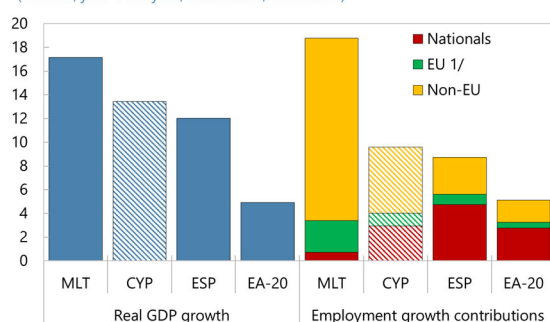
Unemployment Rate by Educational Attainment, 2024 1/
(Percent)



Source: Eurostat.
1/ ages 20-64

GDP growth in the EU has occurred in tandem with employment growth through migration...

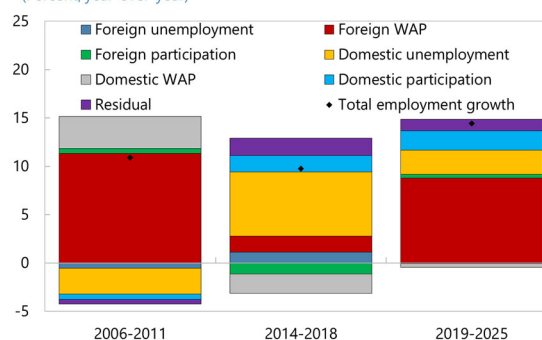
Real GDP Growth and Employment Growth Contributions
(Percent, year-over-year, cumulative, 2022-2024)



Sources: Eurostat, Haver Analytics, and IMF staff calculations.
1/ excluding reporting country

...with an increase in the foreign working age population being the key contributor to employment growth since 2019.

Average Annual Employment Growth Composition
(Percent, year-over-year)

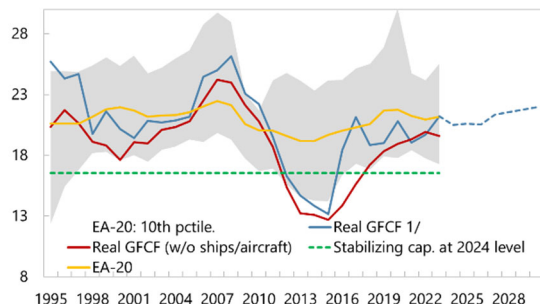


Sources: Eurostat and IMF staff calculations.

Figure 2. Cyprus: Gross Fixed Capital Formation, Capital Accumulation and Corporate Risk Premium

GFCF has only gradually recovered and remains below EA20 and pre-crisis levels.

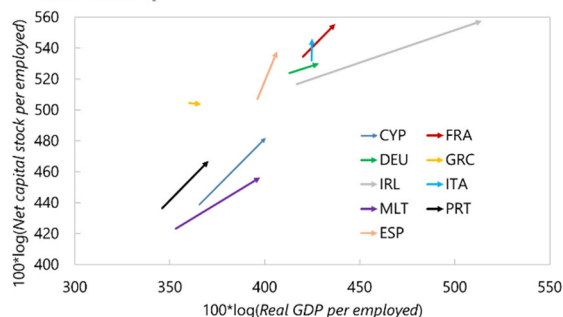
Real Gross Fixed Capital Formation
(Percent of real GDP)



Sources: AMECO, Cystat, Haver Analytics, and IMF staff calculations.
1/ post-2024 = projected

Capital accumulation has been an important driver of income convergence.

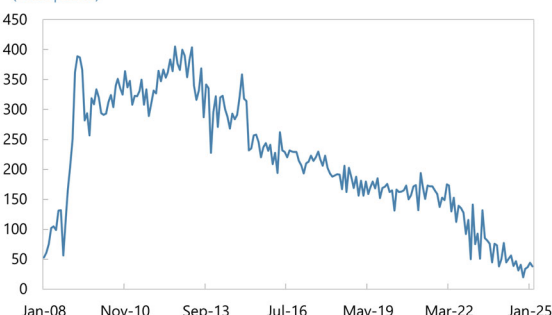
Net Capital Stock and Real GDP per Person Employed, 1996-2023 1/



Sources: AMECO, Cystat, Haver Analytics, and IMF staff calculations.
1/ lines start in 1996 and end in 2023

NFC interest rate premia have declined due to improving economic fundamentals...

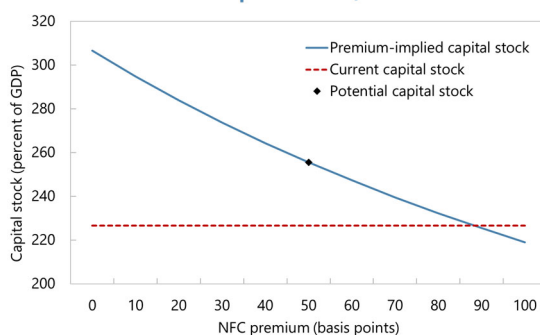
NFC Rates Premium 1/
(Basis points)



Sources: ECB, Haver Analytics, and IMF staff calculations.
1/ relative to EA

...which should stimulate investment and raise the capital stock.

NFC Premium and Capital Stock 1/

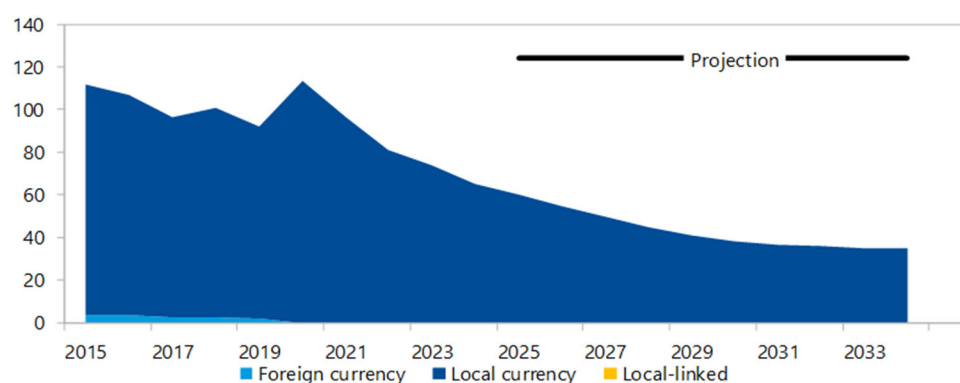


Sources: AMECO, Cystat, Haver Analytics, and IMF staff calculations.
1/ Tobin's Q approach

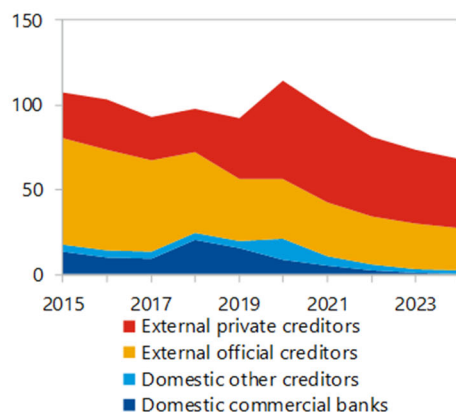
Annex II. Sovereign Risk and Debt Sustainability Framework

Table 1. Cyprus: Risk of Sovereign Stress

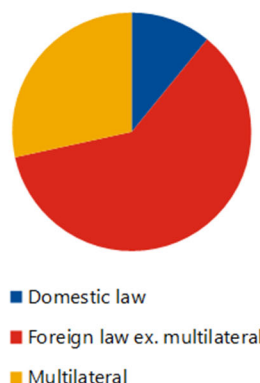
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is assessed to be 'low' on account of rapidly falling public debt, large primary fiscal surplus, robust growth, high cash buffers, and diminishing risks as NPLs have gradually moved out of the banking sector and economic volatility has reduced.
Near term 1/	...	...	...
Medium term	Low	Low	Medium term risks are judged to be low as large and sustained fiscal surpluses, robust growth, and favorable financing terms lower debt over the medium term. Debt remains manageable under a banking crises shock, supported by a benign debt stock composition, low gross financing needs (GFN) and sizable preexisting cash buffers.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test	Bank. Crisis	...	
Long term	...	Moderate	Long term spending pressures are moderate. Population ageing will require increased expenditures on pensions and health of around 1.2 percent of GDP annually by 2030, according to the European Commission Aging Report 2024. Climate change related spending is estimated between 0.6 – 2.2 percent of GDP, according to the authorities national energy and climate plan (NECP) and IMF staff calculations. Together these would require around 2.5 and 6 percent of GDP in fiscal space annually by 2030 and 2050, respectively. The risk is mitigated by strong starting fiscal balance and the authorities' recent track record of fiscal discipline.
Debt stabilization in the baseline			Yes
DSA Summary Assessment			
Cyprus's debt-to-GDP ratio has fallen to 65 percent of GDP in 2024, thanks to large primary surpluses, robust growth and favorable market conditions. The debt stock is well managed with an average maturity of about 7 years, no foreign currency debt, a limited share of floating interest rate debt on concessional basis. In addition, Cyprus has accumulated strong cash buffers exceeding 10 percent of GDP. The authorities plan to sustain primary surpluses over the medium term and debt is expected to decline further, thus building a buffer to meet longer term challenges. Risks have also declined, as NPLs have gradually moved out of the banking sector and economic volatility has reduced.			
Source: IMF staff.			
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.			
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.			

Figure 1. Cyprus: Public Debt Structure Indicators**Debt by Currency (Percent of GDP)**

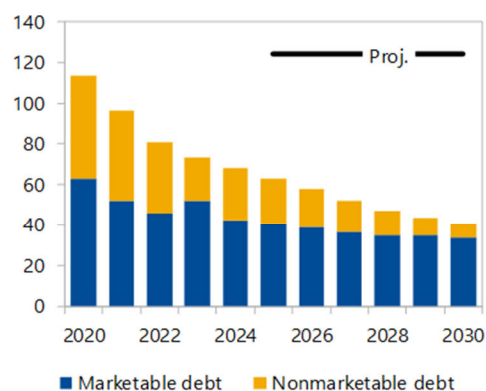
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)

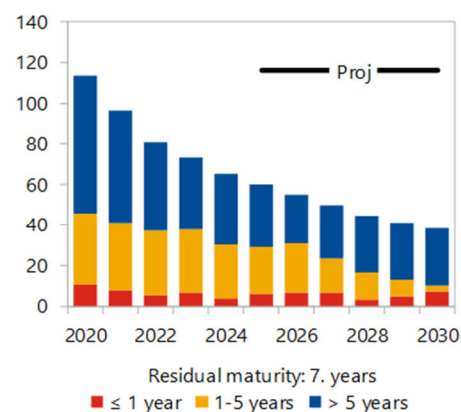
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (Percent)

Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)

Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)

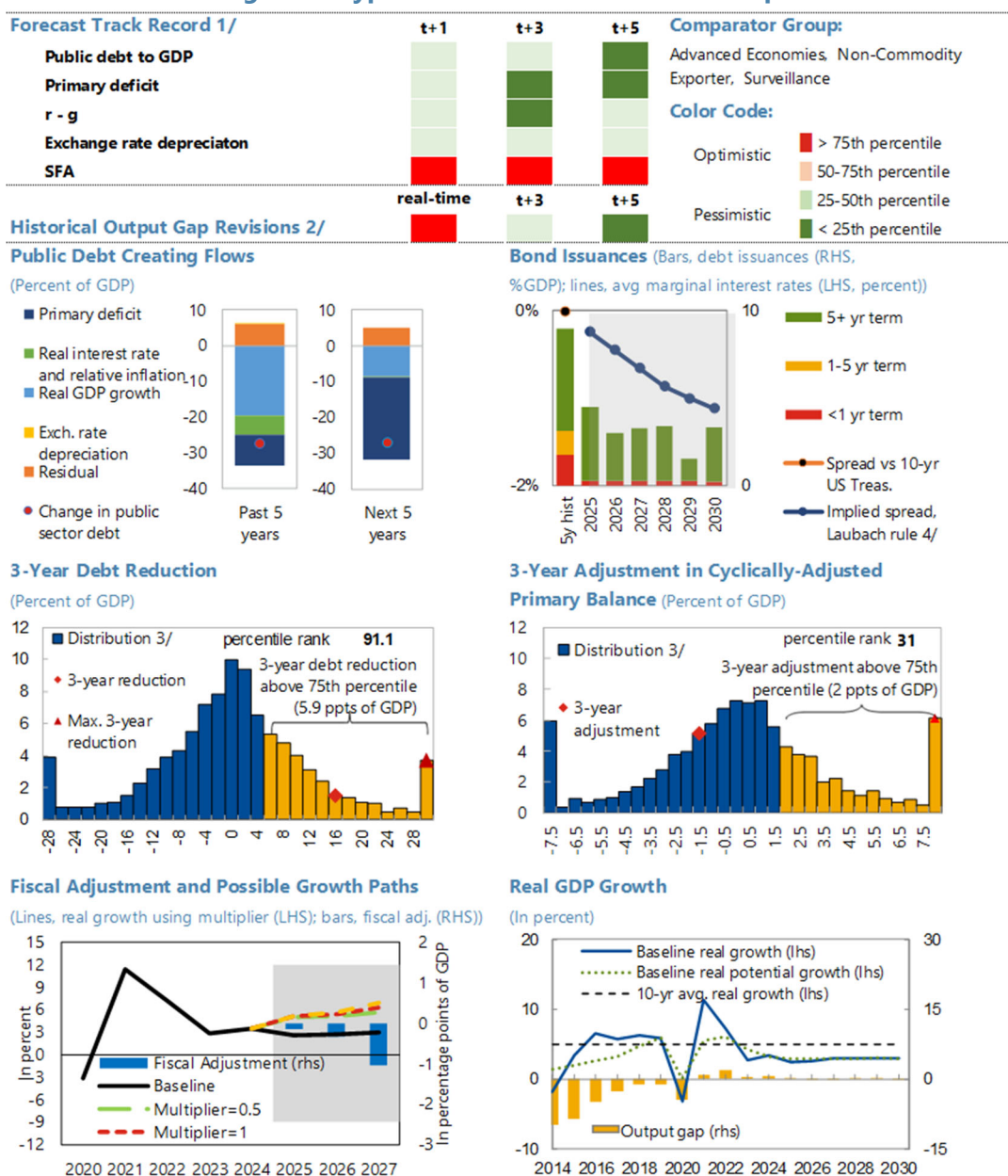
Note: The perimeter shown is general government.

Public debt is largely owed to non-residents, but with long maturities and wholly denominated in local currency. About a third is held by multilaterals, including the ESM, EIB, EC and ECB.

Table 2. Cyprus: Debt Coverage and Disclosures

Table 2. Cyprus: Debt Coverage and Disclosures										Comments					
1. Debt coverage in the DSA: 1/															
CG										GG	NFPS	CPS	Other		
1a. If central government, are non-central government entities insignificant?										n.a.					
2. Subsectors included in the chosen coverage in (1) above:															
Subsectors captured in the baseline										Inclusion					
CPS	NFPS	GG: expected	CG	1	Budgetary central government						Yes	Not applicable			
				2	Extra budgetary funds (EBFs)						Yes				
				3	Social security funds (SSFs)						Yes				
				4	State governments						No				
				5	Local governments						Yes				
				6	Public nonfinancial corporations						No				
				7	Central bank						No				
				8	Other public financial corporations						No				
3. Instrument coverage:										Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/	
4. Accounting principles:										Basis of recording		Valuation of debt stock			
										Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/	
5. Debt consolidation across sectors:										Consolidated		Non-consolidated			
Color code: chosen coverage Missing from recommended coverage Not applicable															
Reporting on Intra-Government Debt Holdings															
Issuer				Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total		
CPS	NFPS	GG: expected	CG	1	Budget. central govt		35						35		
				2	Extra-budget. funds							0			
				3	Social security funds							0			
				4	State govt.							0			
				5	Local govt.							0			
				6	Nonfin pub. corp.							0			
				7	Central bank							0			
				8	Oth. pub. fin. corp							0			
Total				0	0	35	0	0	0	0	0	35			
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.															
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.															
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.															
4/ Includes accrual recording, commitment basis, due for payment, etc.															
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).															
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.															
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.															
Public debt is consolidated at the general government level. Intra-governmental debt is significant as the social security funds hold 35 percent of GDP in central government debt. Public entities beyond the GG perimeter are not deemed a material fiscal risk. Government guarantees are not included in public debt.															

Figure 2. Cyprus: Realism of Baseline Assumptions



Realism tools suggest a reasonable outlook. Historically, projections have been broadly pessimistic, and debt has fallen much faster than expected. The anticipated change in debt over the next 5-years is comparable to the previous 5-years. The 3-year reduction is lower than the historical maximum 3-year reduction for Cyprus. And debt reduction is driven by an already high primary balance - which is reflected in the change in cyclically adjusted primary balance being well within the 75th percentile of the associated distribution- and the authorities' commitment to sustain fiscal surpluses. The cash balance is large and projected to grow further over the medium term providing additional buffer.

Source: IMF staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates).

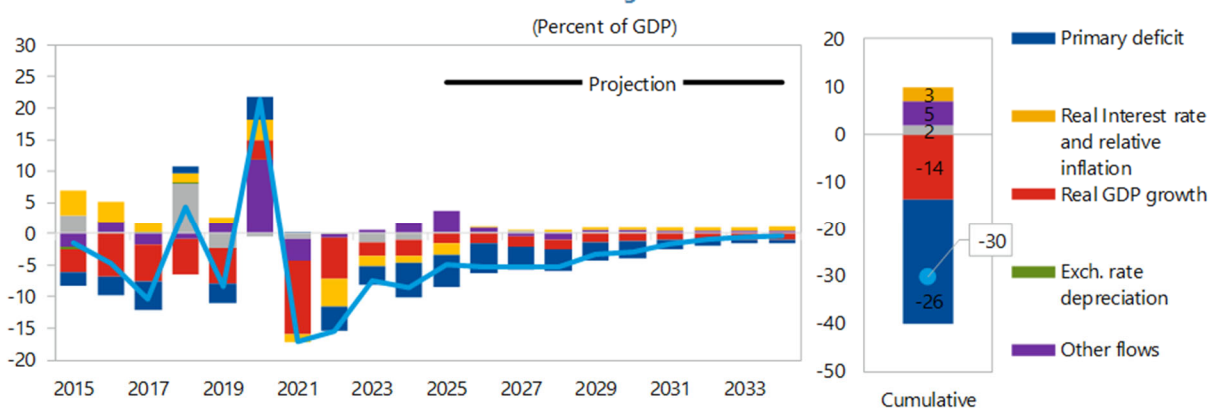
3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Table 3. Cyprus: Baseline Scenario

(Percent of GDP, unless indicated otherwise)

	Actual	Medium-term projection							Extended projection			
	2024	2025	2026	2027	2028	2029	2030		2031	2032	2033	2034
Public debt	65.1	60.2	54.9	49.7	44.5	41.2	38.3		36.6	35.7	35.1	34.7
Change in public debt	-8.5	-4.9	-5.3	-5.2	-5.2	-3.3	-2.9		-1.7	-0.9	-0.6	-0.4
Contribution of identified flows	-7.5	-5.2	-5.6	-5.6	-5.5	-3.6	-3.2		-1.7	-0.9	-0.6	-0.4
Primary deficit	-5.5	-5.2	-4.7	-3.7	-3.3	-3.1	-2.8		-1.4	-0.8	-0.6	-0.5
Noninterest revenues	44.2	44.6	44.2	43.2	43.1	43.2	43.1		43.1	43.1	43.1	43.1
Noninterest expenditures	38.7	39.5	39.5	39.5	39.8	40.1	40.3		41.7	42.3	42.5	42.6
Automatic debt dynamics	-3.6	-3.4	-1.5	-1.3	-1.1	-0.9	-0.8		-0.6	-0.4	-0.4	-0.3
Real interest rate and relative inflation	-1.1	-1.8	0.1	0.3	0.4	0.4	0.4		0.5	0.6	0.7	0.7
Real interest rate	-1.1	-1.8	0.1	0.3	0.4	0.4	0.4		0.5	0.6	0.7	0.7
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Real growth rate	-2.5	-1.6	-1.6	-1.6	-1.4	-1.3	-1.2		-1.1	-1.1	-1.0	-1.0
Real exchange rate	0.0	...	...	...	...	...	...		...	...	...	...
Other identified flows	1.6	3.3	0.7	-0.5	-1.0	0.4	0.4		0.4	0.4	0.4	0.4
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	-0.1	-0.1
Other transactions	1.7	3.4	0.7	-0.4	-1.0	0.5	0.5		0.5	0.5	0.5	0.5
Contribution of residual	-1.1	0.3	0.3	0.3	0.3	0.3	0.3		0.0	0.0	0.0	0.0
Gross financing needs	3.1	1.0	2.2	3.6	4.3	1.0	2.8		6.5	0.5	1.1	1.4
of which: debt service	8.7	6.3	7.0	7.4	7.7	4.2	5.7		8.0	1.4	1.8	1.9
Local currency	8.7	6.3	7.0	7.4	7.7	4.2	5.7		8.0	1.4	1.8	1.9
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Memo:												
Real GDP growth (percent)	3.4	2.5	2.7	3.0	3.0	3.0	3.0		3.0	3.0	3.0	3.0
Inflation (GDP deflator; percent)	3.5	4.7	1.6	1.5	1.5	1.5	1.6		1.6	1.6	1.6	1.6
Nominal GDP growth (percent)	7.1	7.3	4.3	4.5	4.5	4.6	4.6		4.6	4.6	4.6	4.6
Effective interest rate (percent)	1.9	1.8	1.8	2.0	2.2	2.4	2.6		2.9	3.3	3.5	3.6

Contribution to Change in Public Debt

Public debt is projected to decline further over the medium term, before stabilizing in the long term. The decline in debt will be driven by strong growth and primary surpluses. The latter will be gradually unwound as the fiscal space is consumed by long-term fiscal pressures related to the costs of ageing and climate change. Gross financing needs remain contained due to the primary surpluses, long debt maturity and a smooth amortization schedule.

Figure 3. Cyprus: Medium-Term Risk Assessment

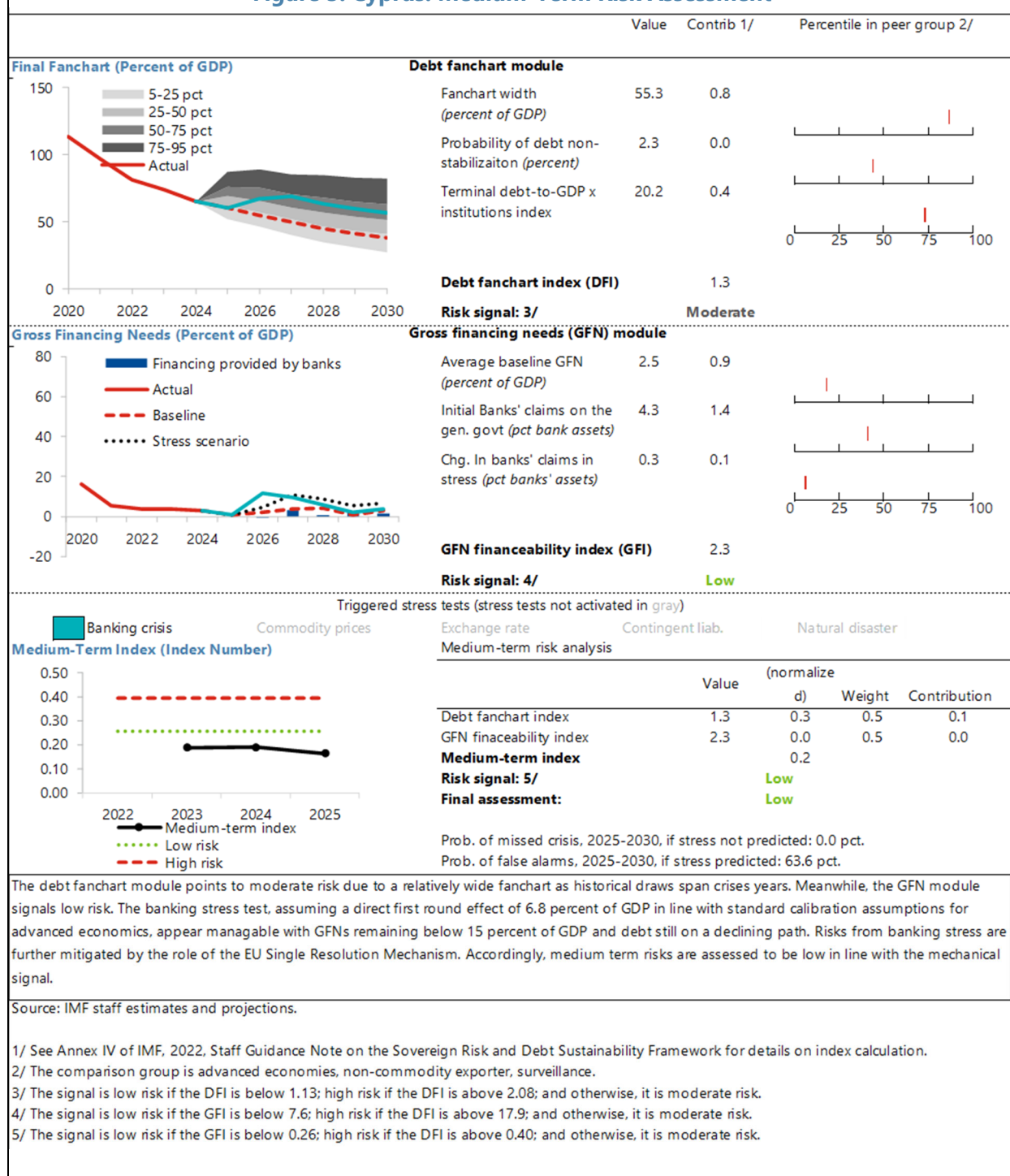


Table 4. Cyprus: Long-Term Risk Assessment: Large Amortization











Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Figure 4. Cyprus: Long-Term Risk Analysis

Long term fiscal pressures in Cyprus are moderate and can be fully absorbed by the currently available fiscal space, if preserved. Costs of ageing are expected to rise by 1.1, 2.9 and 4 percent of GDP annually by 2030, 2050 and 2070 respectively, according to the European Commission Ageing Report 2024. The main contribution comes from the gross increase in pension payments, which is expected to be partially offset by rising contributions. The increase in health and long-term care costs are small, given relatively modest changes in demography, and are expected to be offset by declining spending on education.

Long-term Cost of Ageing (Baseline) (Percent of GDP)							
	2022	2030	2050	2070	2022-30	2022-50	2022-70
Gross public pensions (1)	8.2	9.3	11	11.8	1.1	2.8	3.6
Public pension contributions	8.2	9	10	10			
Pension system balance 1/	0	-0.3	-1	-1.8	-1.1	-2.8	-3.6
Healthcare (2)	7.5	7.6	8.1	8.3	0.1	0.6	0.8
Long-term care (3)	0.2	0.2	0.3	0.3	0	0.1	0.1
Education (4)	5	4.9	4.4	4.5	-0.1	-0.6	-0.5
Total cost of ageing (1+2+3+4)	20.9	22	23.8	24.9	1.1	2.9	4

Sources: 2024 European Commission Ageing Report and IMF staff calculations.

1/ contributions minus gross expenditure

Climate-change related spending needs are highly uncertain. These mainly include investments in greening the power, transport, and residential sectors. The share of these spending needs to be covered by public finances adds another layer of uncertainty. For Cyprus, estimates of annual public spending needs required to achieve net zero by 2050 range from 0.6 to 2.2 percent of GDP annually.

Annual Required Climate Mitigation Expenditure by 2050 (Percent of GDP)			
	Total investments	of which: Public investments	Public sector share
NECP estimate, of which:	8.8	0.6	7.3
Power generation	0.8	0.0	
Energy storage	0.0	0.0	
Sustainable mobility	0.5	0.2	
Private transport	4.3	0.0	
Residential/commercial sector	2.9	0.3	
Industry	0.3	0.0	
IMF staff estimate			
Upper bound		2.2	
Lower bound		1.0	

Sources: NECP authorities and IMF staff calculations.

Government Guarantees Analysis

Government guarantees in Cyprus stood at 8.3 percent of GDP at end-2023 and have been steadily declining from 13.5 percent at end-2021. These include an asset protection scheme (APS) under which the government guarantees obligations by KEDIPES to compensate Hellenic Bank (HB) for 90 percent of losses on a portfolio of acquired NPLs, in return for an annual fee paid by HB. The remaining guarantees mainly back loans by public entities and banks, which for the most part are being regularly serviced. Of total guaranteed loans, 92 percent were performing at end-2022.

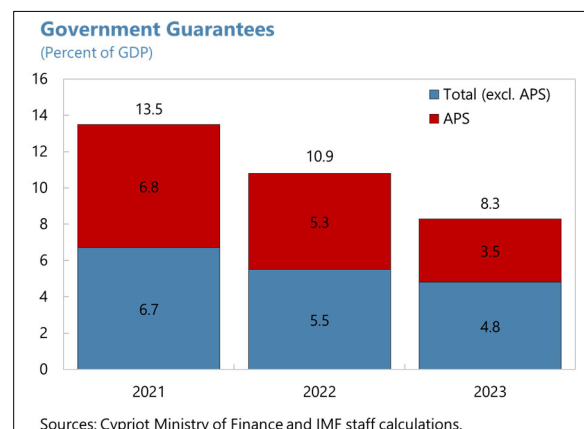


Figure 4. Cyprus: Long-Term Risk Analysis (concluded)

Outstanding Guarantees Composition, 12/31/2022				
	Amount (M€)	Percent of total amount	Number of guarantees	Percent of GDP
Loans	1,499	46.9	2,961	5.1
Corporate	15	0.5	52	0.0
Public interest entities	737	23.1	69	2.5
Local authorities	208	6.5	98	0.7
Retail	120	3.7	2,693	0.4
Banks	420	13.1	49	1.4
EC-Sure	38	1.2	1	0.1
EFSF debt	57	1.8	1	0.2
Asset protection scheme	38	1.2	2	0.1
Other	1,561	48.9	1	5.3
Total	3,193		2,966	10.9

Sources: Cypriot authorities and IMF staff calculations.

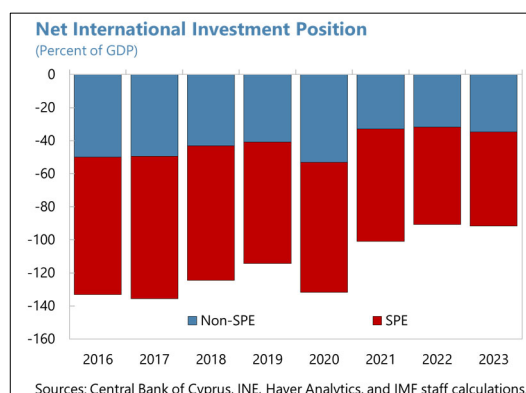
Annex III. External Sector Assessment

Overall Assessment: The external position of Cyprus in 2024 is assessed to be weaker than the level implied by fundamentals, while policies contributed positively. This assessment is underpinned by a forecasted improvement in the CA balance to -6.1 percent of GDP in 2024 from -9.7 percent of GDP in 2023. Looking ahead, the current account is expected to deteriorate slightly on the back of stronger imports resulting from higher domestic investment and consumption.

Potential Policy Responses: As oil is one of Cyprus's largest imports, the completion of major energy infrastructure projects (LNG terminal and Great Sea Interconnector), as well as investment in green energy, are important steps towards making Cyprus less susceptible to energy price shocks, resulting in a more resilient and stable CA. In addition, persistent saving-investment (S-I) deficits of households and NFCs are the key drivers of the CA deficit.¹ Despite a sharp improvement in the households savings rate (from 2.5 percent in 2017 to 9.9 percent in 2023), Cyprus's savings rate remains below the EA average. Repairing the balance sheets of household borrowers through the resolution of legacy NPLs would help raise household savings rates. Reforms that would raise productivity and enhance the business environment, such as enhancing judicial efficiency, would be beneficial to the economy and potentially improve the CA. Additionally, a prudent fiscal stance is important to avoid further exacerbating the S-I gap.

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) has improved gradually from -163 percent of GDP during the 2013/14 crisis to -83 percent of GDP in 2024Q3, driven in large part by valuation effects. Despite this trend, the NIIP is expected to worsen to approximately -120 percent of GDP in the medium term, as CA deficits continue. Both gross assets and gross liabilities peaked in 2019 (at 3,136 and 3,249 percent of GDP, respectively) and have been gradually declining, reaching 1,965 percent and 2,047 percent of GDP in 2024Q3.



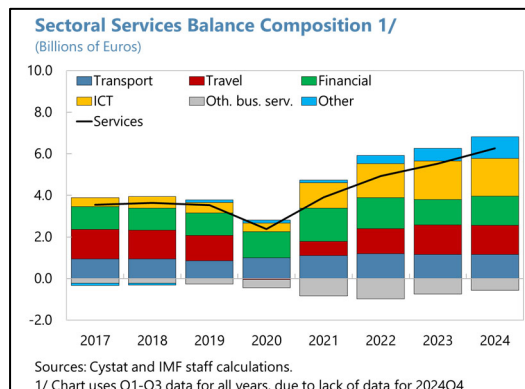
However, the larger stock of liabilities than assets weigh on the primary income balance. The NIIP, excluding Special Purpose Entities (SPEs), has increased to -30 percent in 2024Q3, with debt liabilities, excluding SPEs, at 177 percent of GDP.

Assessment. While both gross assets and gross liabilities have been declining, the NIIP remains in deficit and is expected to deteriorate slightly in the medium term. The NIIP deficit, excluding SPEs, is smaller and gradually improving over time (as a percent of GDP).

2024 (% GDP)	NIIP: -83	Gross Assets: 1,965	Debt Assets: 724	Gross Liab.: 2,047	Debt Liab.: 779
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Current Account

Background. The CA deficit has widened gradually since 2016 driven by a deteriorating net primary income balance (with large drops in the CA in 2020 and 2023 tied to ship imports by SPEs).² Since the pandemic, the Cypriot economy has seen a strong recovery of the services balance, from 17.4 percent of GDP in 2020 to 24.0 percent in 2024. The growth in services is driven by Cyprus's successful economic diversification and expansion into the ICT sector. However, the forecasted improvement in the overall CA in 2024 is also driven by lower goods imports, including ship imports. Looking ahead, stronger investment is expected to partially reverse this improvement.



Assessment. The External Balance Assessment (EBA) model estimates a CA norm of -3.3 percent of GDP, against an adjusted CA estimate of -5.9 percent of GDP. Policy gaps—reflecting deviations between current and desired policy settings in Cyprus relative to the rest of the world—contribute 3.9 percent, driven by prudent fiscal policy and slow private credit growth, compared to the rest of the world.

Model Estimates for 2024 (Percent of GDP)

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	-6.1	
Cyclical contributions (from model) (-)	-0.2	
Additional temporary/statistical factors (-)		
Natural disasters and conflicts (-)	0.0	
Adjusted CA	-5.9	
CA Norm (from model) 2/	-3.3	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	-3.3	
CA Gap	-2.7	6.4
o/w Relative policy gap	3.9	
Elasticity	-0.6	
REER Gap (in percent)	4.4	-10.7
1/ Based on the EBA-lite 3.0 methodology		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

Real Exchange Rate

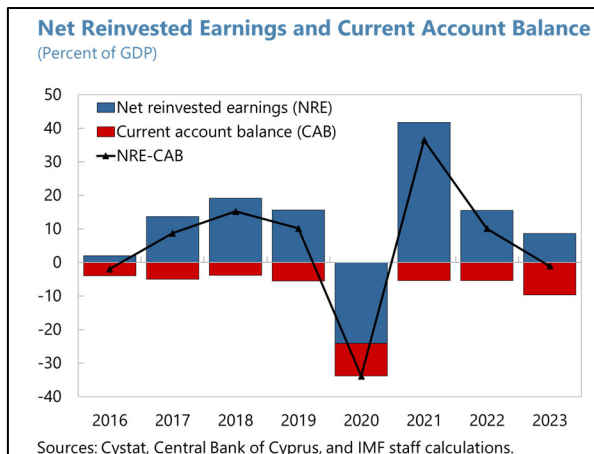
Background. After a period of stability in 2020 and 2021, the real effective exchange rate (REER) fluctuated during 2022–2024 period. Recent REER movements can be tied to movements in the euro against the dollar, with over 75 percent of variation in the Cyprus REER since 2010 explained by the volatility in the EUR/USD exchange rate.

Assessment. The REER gap derived from the IMF staff's CA gap assessment (with an estimated elasticity of -0.6) suggests a REER overvaluation of 4.4 percent in 2024, while the REER model suggests a gap of -10.7 percent (with a large contribution from the lower dependency ratio in Cyprus, relative to the rest of the world). Considering both model estimates and the uncertainties around them, a higher weight is placed on the CA model, which better reflects recent developments as compared to the REER model. Effects on the CA in the REER model can be lagged, given that the model's outputs are largely driven by slow-moving economic factors, while current external sector developments in Cyprus are highly dynamic.

Capital and Financial Accounts: Flows and Policy Measures

Background. Mirroring a widening of the CA deficit in 2023 and a forecasted improvement in the CA in 2024, net financial capital inflows increased to 8.5 percent of GDP in 2023 and are expected to decrease to 5.9 percent of GDP in 2024. The decline was driven by a decline in portfolio net outflows from 2023 to 2024. The widening in the CA account deficit has, historically, been more than compensated by the reinvestment of dividends back to Cyprus.

Assessment. With sizeable international financial ties, due to both high levels of external debt and high levels of negative FDI stock, Cyprus remains exposed to international financial market risks.



FX Intervention and Reserves Level

Background. The euro has the status of a global reserve currency.

Assessment. Reserves held by the EA are typically low relative to standard metrics, but the currency is free floating.

¹ See Annex V of the 2024 Cyprus Article IV Consultation.

² SPEs record ship purchases within Cyprus, for tax purposes. These ships are recorded as imports on the CA.

Annex IV. Risk Assessment Matrix

Risks	Likelihood	Expected Impact	Policy Responses
Conjunctural risks			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	High	Medium. The economy is open and integrated with the rest of Europe. A shock could spillover through reduced tourism inflows, weaker external demand and reduced foreign investments.	<p>Allow automatic stabilizers to work.</p> <p>Provide targeted support to the most vulnerable.</p> <p>Advance structural reforms and promote economic diversification, including at the EU level.</p>
Regional conflicts. Intensification of conflicts (e.g., in the Middle East and Ukraine) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	Medium	<p>High. Slowdown in economic activity.</p> <p>Decrease in FDI inflows.</p> <p>Increase in incoming refugees.</p>	<p>Allow automatic stabilizers to work.</p> <p>Diversify trade and investment relations.</p> <p>Continue to accumulate buffers and enhance resilience and confidence.</p>
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	Medium	High. Given high dependence on imported oil, higher prices would worsen external position, raise supply-side inflation, lower disposable income and discourage investments.	<p>Allow commodity prices passthrough but provide resources for temporary and targeted measures to shield the most vulnerable.</p> <p>Diversify energy sources and accelerate transition by completing energy infrastructure projects.</p>
Structural risks			
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	High	<p>Medium. Disruptions to trade and financial flows.</p> <p>Increased scarcity of foreign and domestic capital.</p> <p>Increased energy insecurity.</p>	<p>Deepen structural reforms to boost competitiveness, including promotion of the single market within the EU.</p> <p>Upgrade digital and physical infrastructure.</p> <p>Invest in human capital and labor skills.</p> <p>Bolster fiscal and financial buffers to enhance resilience.</p>

Risks	Likelihood	Expected Impact	Policy Responses
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	High	Medium. Disruptions to economic activity and the financial sector. Weakened confidence. Higher risk premia, tighter financial conditions and capital outflows.	Institute reforms which require organizations to track and effectively manage reliance on third-party IT providers, as well as upgrade ageing IT systems.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	Medium	Medium. Slower potential growth. Reduced fiscal space due to adaptation and transition costs. Higher financial sector risks and risk premia.	Monitor climate risks and develop contingency plans. Invest in adaptation and enable a framework for private sector participation. Adopt climate neutral policies and accelerate the energy transition.
Domestic risks			
Delays in implementation of structural reforms. Significantly slower-than-expected progress on structural reforms, including key RRP milestones.	Medium	Medium. Slower potential growth. Loss of RRP funding. Reduced confidence and higher risk premia.	Accelerate implementation of structural reforms.
Cyclical growth component higher than expected. Recent strong growth turns out largely cyclical.	Medium	High. Sharper slowdown than anticipated in coming years. Rebound in unemployment. Reversal of recent revenue buoyancy gains.	Avoid fiscal or financial loosening. Contain wage bill spending.

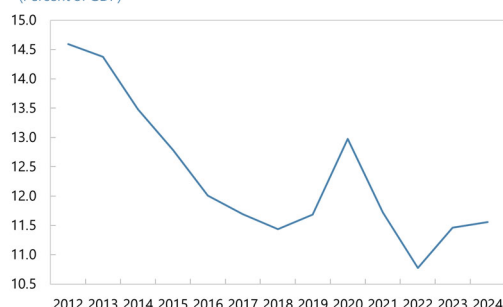
Annex V. Public Sector Wage Bill¹

Public sector wage bill consolidation has recently stalled but the wage bill remains large by European standards. This is mainly due to high average compensation per worker relative to country peers and the private sector. The sizable public-private wage premium constitutes an inefficient use of resources amid competing spending priorities and risks skill misallocation between the public and private sectors. The large wage premium is further exacerbated by insufficient wage differentiation by occupation and the unconditional annual increments.

1. Following a sizable consolidation after the 2013/14 crisis, the public sector wage bill has been on an upward trend in recent years. A slew of measures introduced in the wake of the crisis a decade ago, in the context of a comprehensive reform program, helped bring down the public sector wage bill from a peak of around 15 percent of GDP in 2012 to 11 percent in 2018 (Table 1). However, since then, most crisis-era measures either expired or were reversed. Nominal salary reductions were phased out between 2018 and 2023, and annual salary increases resumed in 2017. The COLA was reinstated in 2018 with a 50 percent partial indexation to inflation, which was revised upwards to 2/3 in 2023. A general increase in salaries amounting to 1.5 percent, on top of COLA, was granted in 2024 for the first time since 2009. Meanwhile, a hiring freeze has resulted in the ageing of the public sector workforce and an expansion in temporary hirings. As a result, the wage bill has risen again recently to around 12 percent in 2024.

After a large decline, the public sector wage bill picked up lately.

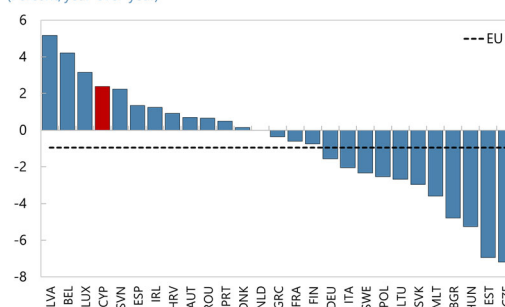
Public Sector Wage Bill
(Percent of GDP)



Sources: Cystat, Haver Analytics, and IMF staff calculations.

Civil servants' compensation growth has been among the highest in Europe in real terms between 2021–2023.

Real Net Avg. Compensation Change in Pub. Admin., 2021-23
(Percent, year-over-year)



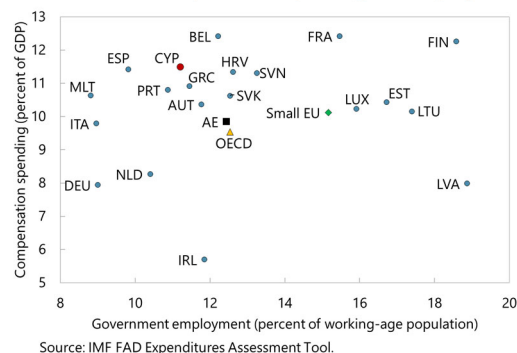
Sources: Eurostat and IMF staff calculations.

2. Average public sector compensation is high by European standards, underlying an inflated wage bill relative to peers. Cyprus's wage bill is larger than the averages for the EU and advanced economies (AE) globally. While government employment as a share of the working age population is below peers, average public sector compensation in Cyprus is above peers' averages, particularly once adjusted for relative income and purchasing power.

¹Prepared by Moheb Malak (EUR) and Céline Thévenot (FAD). The annex is a follow-up to FAD TA "Cyprus: Managing Government Employment and Compensation" published in November 2024.

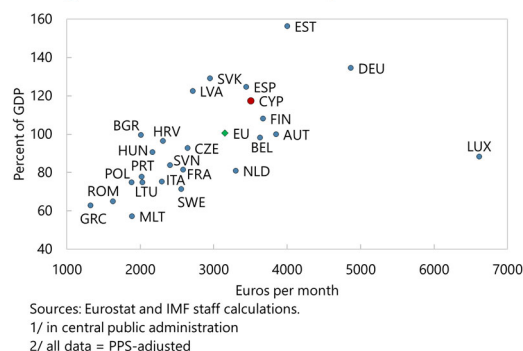
The wage bill in Cyprus is above EU and AE averages, while employment is below average.

Government Compensation Spending and Employment



Civil servant compensation in Cyprus is high relative to GDP per capita and purchasing power.

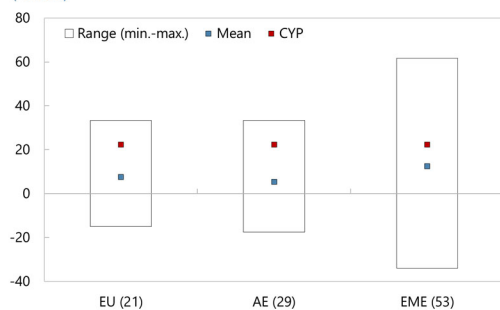
Average National Civil Servant Compensation, 2024 1/ 2/



3. The public-private wage premium is large. Public-sector compensation in Cyprus is estimated to be 27 percent higher than in the private sector, after controlling for education and other individual characteristics. The wage premium is one of the highest among European and AE peers. The premium exists in most public sector occupations and increases steadily with age, going from 15 percent for 20- to 34-year-olds to 35 percent for workers aged 50 and older.

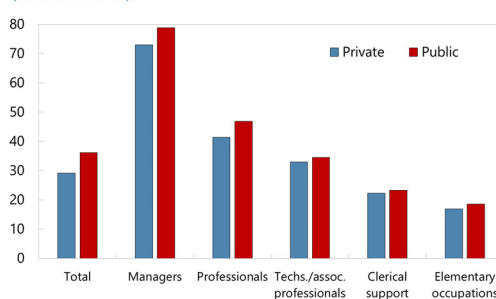
The public wage premium in Cyprus is very high by European and AEs standards.

Government Private Sector Compensation Premium, 2023
(Percent)



A large wage premium exists in most occupations.

Average Annual Earning by Sector and Occupation, 2022
(Thousands of PPS)



4. A high wage premium risks misallocation of fiscal resources and human capital. In theory, the public-private wage premium should be slightly negative, reflecting the non-monetary value from greater job and income security, more predictable working hours, and benefits often associated with public sector employment.² A high public-private wage premium may therefore constitute inefficient use of resources that could be used more productively elsewhere. At the same

² Thévenot, Céline, and Sébastien Walker. 2024. "How to Set Compensation for Government Employees." IMF How to Note 2024/003, International Monetary Fund, Washington, DC.

time, a high public wage premium distorts labor market dynamics and incentives by drawing high-skilled workers away from the private sector.

5. The compensation system rewards the level of education and tenure over skills or performance. The salary table of public employees is based on a combination of scales, largely representing different levels of education (for example, a diploma or a bachelor), regardless of the field or occupation. Every year, employees automatically and unconditionally advance one step in the salary scale receiving a base salary increase or “annual increment.”

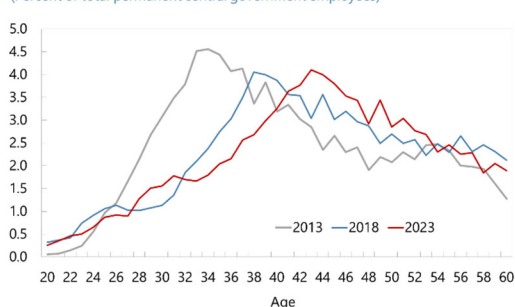
6. A lack of sufficient wage differentiation implies that some occupations are overpaid. The level of education is the key determinant of an employee’s pay scale, which does not provide sufficient wage differentiation by occupation and fails to reward scarce skills or specialized qualifications. For example, the main scale for bachelor’s degree holders encompasses about 32 percent of all permanent employees. It covers the full range of positions, including archive officers, radiotherapists, air traffic control officers, dieticians, and tax officers alike. Strong recruitment and retention rates, including among workers with highly demanded skillsets, coupled with broad wage uniformity, implies that less competitive occupations are likely overcompensated.

7. Annual increments exacerbate the wage premium at longer tenures and provide little performance incentive. An average public sector worker’s base pay grows by an estimated 2.6 percent annually—before accounting for the COLA—due to automatic advancement across the pay scale. During periods of economic slowdown, high public sector nominal wage growth is unlikely to be matched by the private sector, leading to a further widening of the wage premium. Additionally, the unconditional nature of salary increases lacks a mechanism to incentivize better performance, as is the case with conditional salary increases and promotions.

8. Amid an ageing workforce, annual increments will continue to inflate the wage bill. The public-sector workforce in Cyprus is ageing, reflecting both broad demographic trends and the impact of the historical hiring freeze. The median age of public workers increased from 42 to 45 years between 2013 and 2023. Nevertheless, the workforce remains younger than peers, suggesting this trend is likely to continue over the medium term. A continued rise in average tenure, which accompanies workforce ageing, puts pressure on the wage bill through the annual increments. Between 2018 and 2023, annual increments are estimated to have contributed one-third of the 3 percent total growth in basic pay. Going forward, annual increments are projected to contribute 0.7 percentage points annually out of the 4 percent per year projected basic pay growth, up to 2029.

The public sector workforce is ageing.

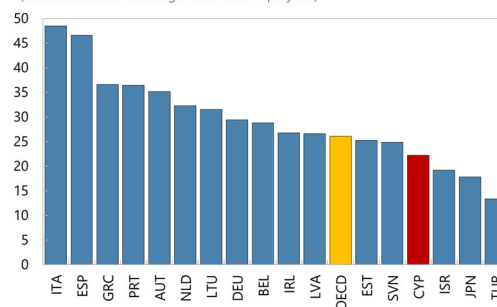
Central Government Workers by Age
(Percent of total permanent central government employees)



Sources: Cypriot Ministry of Finance and IMF staff calculations.

The workforce is younger than most AEs indicating room for further ageing.

Central Government Employees (Ages 55+), 2020
(Percent of total central government employees)



Source: OECD.

9. Moderation of pay increases and a review of the compensation system are warranted to contain wage bill growth. Given the already large public-private wage gap, the authorities should avoid measures that would further increase the gap. COLA indexation should not be increased further, and new ad hoc wage rises should be avoided. The compensation system would benefit from a review aiming to contain unconditional annual salary increases and promote more skill- and performance-based pay differentiation to enhance productivity.

Table 1. Cyprus: Wage Bill-Related Crisis Era Measures

List of measures	Detailed description	Expiry/phase-out date 1/
Measures affecting gross compensation of employees		
<i>Freezing the creation of new posts</i>	No new posts were created and an attrition based strategy was applied to the filling of posts that become vacant.	Modified in 2023 2/
<i>No granting of general increases</i>	No general increases were granted until 2024 when a 1.5 percent general increase was granted to all civil services, the first since 2009.	2024
<i>Freezing of annual increments</i>	The annual step progression of government employees through the salary table was suspended	2017
<i>Suspension and recalibration of COLA</i>	COLA was suspended for the years 2012 – 2017 to resume in 2018 at a lower frequency of adjustment (twelve months instead of six months) and a partial indexation of 50 percent of past year's inflation instead of full indexation previously.	Modified in 2023 3/
<i>Introduction of reduced entry level salary scales</i>	Employees hired starting 2012 received a 10 percent reduced salary relative to the starting salary of their salary scale for two years before advancing to the first step in their salary scale.	Ongoing
<i>Several types of allowances were abolished</i>		Ongoing
Measures affecting net compensation of employees		
<i>Salary reductions</i>	Progressive salary reductions were introduced in December 2012 and gradually increased until 2014.	2024
<i>Special contributions</i>	A progressive special contribution was applied to taxable earnings	2017
<i>Some allowances were subjected to taxation</i>		Ongoing
<i>Introduction of a medical care deduction</i>	Was replaced by a general health system (GHS) contribution in 2019	Modified in 2019
<i>Introduction of a gratuity contribution</i>		Modified in 2023

Sources: Ministry of Finance and historical IMF AIVs.

1/ Refers to the first year when the measure no longer applied.

2/ The freeze initially applied to entry and promotion posts but has been limited to vacant first entry posts only since November 2023.

3/ An agreement was made between the government and the labor unions to increase COLA indexation to two-thirds of inflation up from 50 percent.

Annex VI. The Judicial System and Economic Growth¹

An efficient judicial system is critical for reducing the cost of doing business, raising investor confidence, and capital deepening. But Cyprus faces long case disposition times and a backlog of cases, which are a drag on timely debt enforcement and insolvency proceedings. Recent reforms, including the establishment of a new Court of Appeal and a forthcoming Commercial Court, aim to address some of the shortcomings. But more can be done, such as further specialization of the judiciary, hiring more judges and support staff, and upgrading physical infrastructure of the courts.

1. An effective debt enforcement and insolvency framework is crucial for fostering economic stability and growth. In Cyprus, this hinges crucially on improving the efficiency of the judicial system. Investors—foreign and domestic—are more likely to invest in a jurisdiction where disputes related to their investments can be resolved quickly. Banks are also likely to extend credit or offer better terms on loans if their claims can be easily resolved in the event of default. Moreover, the borrowers may have stronger incentives not to default if they face a credible threat of timely court resolution.

2. Improving the efficiency of the judiciary is also vital for effectively addressing NPLs. While significant progress has been made in removing legacy NPLs from the banking sector balance sheet, many of these loans (about 60 percent of GDP) remain in the economy in Credit Acquiring Companies' (CACs). A more efficient judiciary would facilitate resolution of these legacy NPLs through courts or by imposing credible threat of speedy court action. This improvement would not only facilitate the redeployment of related collateral assets and increase the implicit value of collateral, but also enable the reallocation of credit to more productive uses.

Efficiency of Courts in Support of Long-term Growth

3. An effective judicial system is critical for supporting long-term economic growth. Research highlights the multifaceted channels through which timely resolution affects sustained economic development (Deseau et al., 2025; Djankov et al., 2008). These channels include lowering borrowing costs and credit market deepening, attracting FDI inflows, and promoting a dynamic business environment:

- Borrowing costs and credit market deepening: Better debt enforcement makes recovery of unsecured claims more robust and increases the intrinsic value of collateral. This in turn encourages financial intermediaries to extend credit on better terms, fostering deeper credit markets (Bae and Goyal, 2009). Findings indicate that effective judicial systems are associated with lower interest rates, facilitating access to capital for entrepreneurs and businesses (Laeven and Majnoni, 2005). Additionally, strong legal frameworks that support debt enforcement and protect creditor rights facilitate banking sector development and support growth through higher investment and productivity (Levine, 1998).

¹ Prepared by Amira Rasekh (LEG) and Adam Remo (EUR).

- Attracting FDI inflows: Countries with robust judicial systems are more likely to experience increased FDI inflows as investors seek assurance that their claims will be processed effectively and without delays (Benassy-Quere et al., 2007 and Lorenzani and Lucidi, 2014).
- Promoting a dynamic business environment: Strong legal institutions contribute to larger firm sizes and higher churn rates, indicative of a vibrant entrepreneurial ecosystem (Beck et al, 2006, Lorenzani and Lucidi, 2014, García-Posada and Mora-Sanguinetti, 2013). A dynamic market characterized by innovation and competition leads to increased productivity, as effective judicial systems correlate positively with economic performance (Chemin, 2020). An effective court system makes it easier for businesses to start and compete in the market because it lowers the costs of entering (thanks to better access to financing) and exiting (through an efficient insolvency process). This, in turn, leads to economic growth and job creation.

4. Studies indicate the economic importance of an effective judiciary on growth. Deseau et al, 2025 estimate that a 1 percent increase in access to justice, as proxied by the number of judges per capita, corresponds to a 0.25 percentage point increase in real GDP per capita growth over five years. Additionally, Kapopoulos and Rizos, 2023, estimate that improving the case clearance rate by 10 percent is associated with an approximate 0.4 percentage point increase in real GDP per capita growth. These findings highlight the critical role that judicial efficiency plays in driving economic performance, suggesting that investments in enhancing the judicial system could yield substantial benefits for overall economic growth.

Efficiency of Courts in Cyprus

5. Despite progress in recent years, the courts remain a significant bottleneck for debt enforcement and insolvency proceedings.² Inefficient court procedures and ineffective enforcement of court decisions slow down debt enforcement and insolvency proceedings.³ The disposition time for civil and commercial litigation in Cyprus at second-instance courts is the longest among EU peers. The disposition times for non-criminal cases at the first-instance level are also the longest, although they have been gradually decreasing. The clearance rate for cases has remained at or below 100 percent, indicating an increasing backlog rather than a reduction in the number of cases pending before the courts.

² The analysis draws on data about judiciary from European Commission for the Efficiency of Justice (CEPEJ) which are currently available up to 2022. The next section discusses several important reforms initiated in 2023 which should improve efficiency of the courts over time.

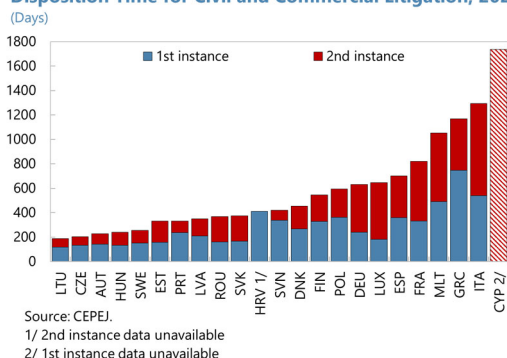
³ For background, see Rendak (2017).

Disposition Times

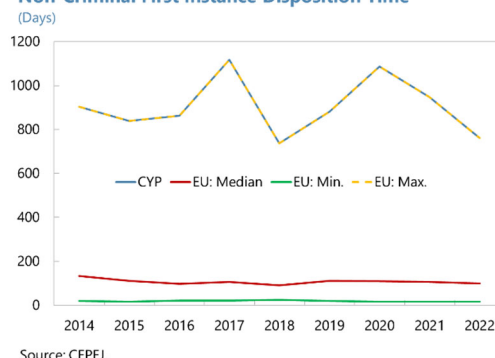
Cyprus has longest disposition time among EU countries...

...on both 1st and 2nd instance levels.

Disposition Time for Civil and Commercial Litigation, 2022

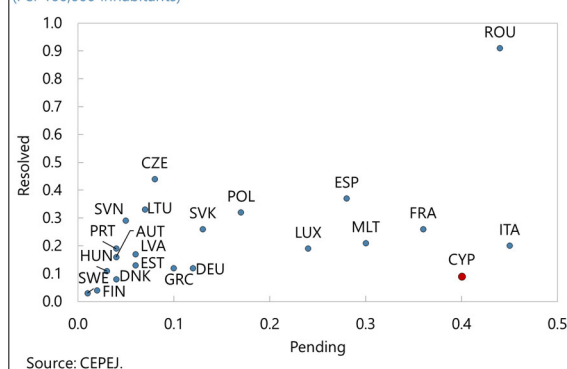


Non-Criminal First Instance Disposition Time



6. Performance metrics reveal existing inefficiencies that extend beyond the high volume of legacy cases from the crisis. While the influx of cases resulting from the 2013/14 crisis congested the courts, this has been compounded by the courts' low efficiency. Cyprus has one of the lowest rates of resolved cases per judge among EU peers, as well as the lowest ratio of resolved cases to pending cases. Several factors have affected the efficiency of the courts, including the lack of specialization, low number of judges and non-judicial staff, the legacy of outdated civil procedure rules, and the limited use of technology in case management and court proceedings.

2nd Instance Non-Criminal Resolved & Pending Cases, 2022



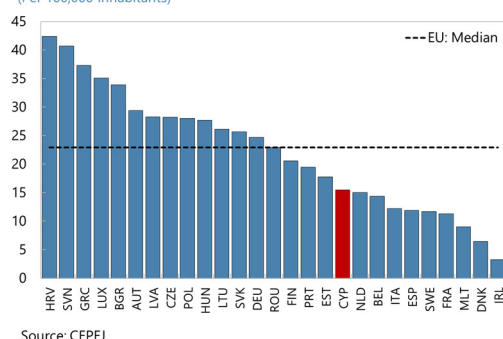
7. There is no specialization of judges in commercial matters, and while the number of judges per capita has recently increased, it remains relatively low. There is no split between civil and criminal law matters and judges rotate between the two areas and within various civil law branches. Judges are hired from lawyers with experience of six years and above. Anecdotal evidence suggests that hiring judges is challenging, despite Cyprus having a broad base of lawyers in its buoyant professional services sector. This hiring difficulty persists even though the relative salaries of judges are among the highest in the EU. Challenges cited include the lack of specialization of judges, heavy workload and frequent rotations across districts, uncertain career progression prospects for potentially specialized streams, and lower remuneration compared to the private sector. The number of non-judicial staff is low in absolute terms given the overall low number of judges.

Number of Judges and Judges' Salaries

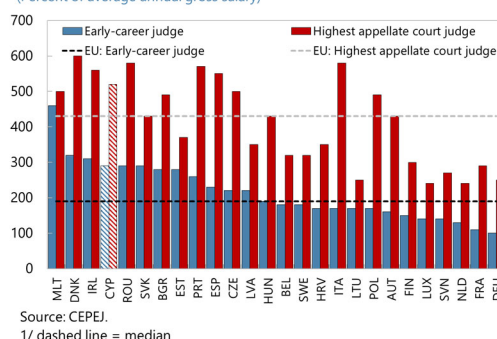
The number of judges remains low particularly considering the large backlog of cases...

Salaries of judges are on the higher end among EU countries.

Number of Professional Judges, 2022
(Per 100,000 inhabitants)



Annual Gross Salary for Judges, 2022 1/
(Percent of average annual gross salary)

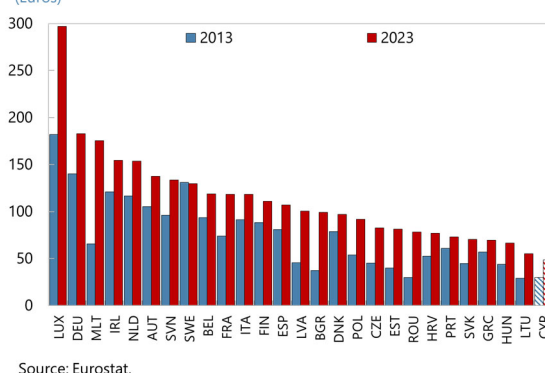


8. The effectiveness of the courts could also be enhanced through greater utilization of digital technology. The implementation of information systems in courts has been shown to improve efficiency (Palumbo et al., 2013). However, the use of digital technology in Cypriot courts lags that of their peers, particularly in the adoption and admissibility of distance communication technologies, electronic service of official court documents, and electronic case management systems. Previous attempts to address these digitalization gaps through the introduction of an e-Justice system have failed due to stability and operability issues, leaving these gaps unresolved.

9. The low number of support staff, lack of digitalization, and overall inefficiency of the courts are also reflected in the low expenditures on the judicial system. Cyprus has the lowest per capita expenditures on courts among EU peers. Improving court efficiency would likely require an increase in these expenditures, which would seem reasonable from a cross-country perspective.

Recent Reforms and Further Measures to Improve Court Efficiency⁴

Government Expenditure Per Inhabitant on Courts
(Euros)



10. In response to the shortcomings, Cyprus initiated a major and welcome reform of its court system in 2023. New levels of jurisdictions and courts were set up. A new Court of Appeal (operational since July 2023) is already handling civil appeals to help clear the backlog pending before the Supreme Court. A new first instance court: namely the Commercial Court, was established in 2022 for larger commercial disputes (generally above €2 million). The court—yet to become operational—will be staffed by five judges hired at the

⁴ The analysis hereinafter of the institutional framework for insolvency and creditor rights in Cyprus, particularly the court system, is conducted based on the World Bank's Principles for Effective Insolvency and Creditor and Debtor Regimes ("WB Principles").

rank of a court president (given the value of the claims it will handle) and is expected to adopt a fast-track procedure to handle all cases in a 9-12 month timeframe. When operational, the new Commercial Court will help alleviate the heavy case burden of the district courts and speed up the resolution of large commercial claims.⁵

11. Importantly, a new set of rules on civil procedures was introduced to improve efficiency of the court proceedings. The rules—applicable to cases submitted as of September 2023—seek to address the issue of continuous postponements which delay proceedings and afford judges more flexibility and powers in structuring the debates and avoiding unnecessary delays.⁶ A backlog project is also on track to reduce the backlog of cases by certain proportions within specific timelines and is already outperforming the targets.⁷ The establishment of an Independent Court Service, to be responsible for the management and administration of the courts, is in the planning phase. Taken together, these reforms are all positive steps which should help reduce the backlog of cases and length of proceedings and speed up the processing of large commercial cases.

12. Looking ahead, additional measures could be taken to further enhance the efficiency of the court system to support debt enforcement and insolvency. Specifically:

- *Recruitment.* To address some of the recruitment challenges, as a first step, the handling of civil and criminal cases should be split between different groups of judges. This would support the work of district court judges by allowing them to specialize and build consistent expertise in one of the two areas. It would also widen the pool of potential candidates given that, as a practical matter, they are unlikely to have expertise in both areas. It would also give them more choice in terms of career track and specialization. As a next step, specialized commercial benches could be also established within the civil courts for commercial cases that do not meet the threshold for the Commercial Court.⁸
- *Operationalization of the Commercial Court and Extending Specialization to Appeals Level.* Efforts are needed to speed up the operationalization of the newly established Commercial Court, including by establishing a premises for the court, and filling the five vacancies for commercial judges. Establishment of commercial benches at the appeals level would ensure the efficient processing of large commercial claims also at the second instance level. It would also provide a career track for specialized commercial law judges and prospects for progression, which would in turn attract more candidates for specialized roles and support recruitment.

⁵ Cyprus Rule of Law Reports for 2023 and 2024.

⁶ Among the main features are greater case management powers for judges (rather than the parties) including the possibility of limiting the right to appeal against interim orders and introduction of several EU civil law instruments (e.g. small claims procedure). Cyprus Rule of Law Reports for 2022, 2023 and 2024.

⁷ These targets are part of the Recovery and Resilience Plan for Cyprus. Cyprus Rule of Law Report for 2024.

⁸ WB Principles D1.2 and D1.5. See also Article 25 of Directive 2019/1023 on restructuring and insolvency (“the Directive”) and Garrido et al (2021), p.31.

- *Training.* It is essential that both recruitment and specialization efforts be supported by regular and tailored training programs for judges, including new hires. These training programs would aid in sharpening their technical expertise and specializing them further based on business needs (e.g. in complex areas as insolvency law). They would also make it possible to tap a wider pool of candidates across different levels of experience and practice areas for recruitment. Such trainings would complement the already existing onboarding training for new judges on judgecraft.
- *Enhancing support staffing and ensuring adequate budget.* The availability of adequate support staffing levels to judges has a direct impact on the capacity of the court and timely processing of cases as it allows judges to focus their limited time on core legal issues rather than administrative tasks. In this respect, it is important that support staff be aptly qualified (e.g. background in law where needed) to be able to provide meaningful support, and that staffing levels are actively managed and adjusted as needed. The planned independent court service could play a useful role in ensuring effective court management and adequate support to judges.
- *Digitalization of court procedures.* Digitalization of justice can play a key role in enhancing the effectiveness and quality of the system by streamlining processes, reducing administrative burdens, improving access to information for stakeholders, and allowing the proper monitoring and tracking of complex cases, as it is often the case with enterprise insolvency proceedings. Digitalization can also allow more room for quantitative analysis on court performance and enable more accurate and timely assessments of institutional capacity.

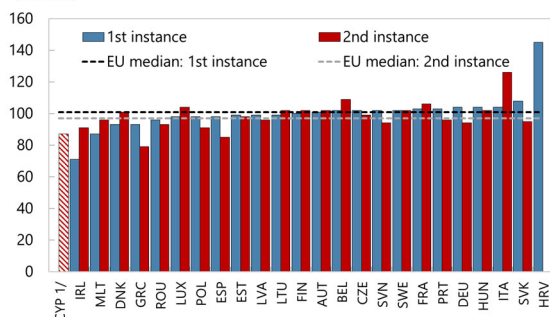
13. Continued efforts to ensure procedural efficiency. The recent reform of the rules on civil procedures is a very welcome step and the feedback from all stakeholders on the rules themselves has been positive (although it might be somewhat early to judge how the new rules are working, particularly given that cases submitted prior to September 2023 are still under the old rules). Going forward, it will be important to monitor the implementation of the new rules to ensure that they are achieving their desired effect in terms of limiting the room for postponement and delaying tactics by parties. Relatedly, consideration could be given to assigning different groups of judges to deal with cases subject to the new rules (versus the old rules). This may give judges more capacity to acquaint themselves with the new procedures and process cases more quickly. Ultimately, the goal should be to avoid the buildup of a new backlog of cases that are subject to the new rules while the old backlog is being processed.

Figure 1. Cyprus: Efficiency and Staffing of the Courts

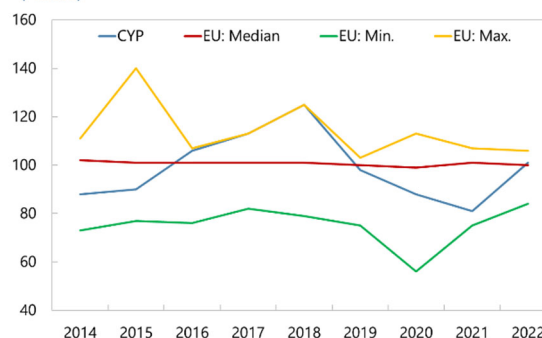
Clearance rate has been among the lowest among EU countries, but...

...there has been some improvement on the 1st instance level.

Civil/Commercial Case Litigation Clearance Rate, 2022 (Percent)



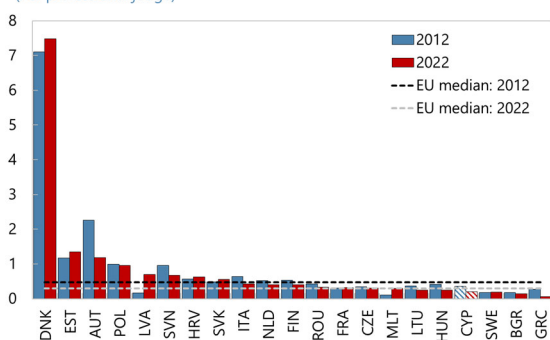
Non-Criminal First Instance Clearance Rate (Percent)



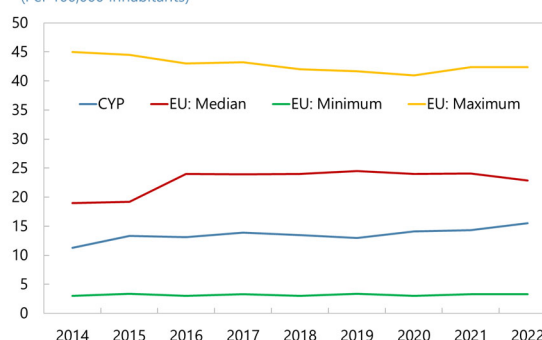
Number of incoming cases does not seem to contribute to the long disposition times and low clearance rates.

Number of judges remains relatively low despite some improvements in recent years.

Number of Incoming First Instance Non-Criminal Cases (Per professional judge)



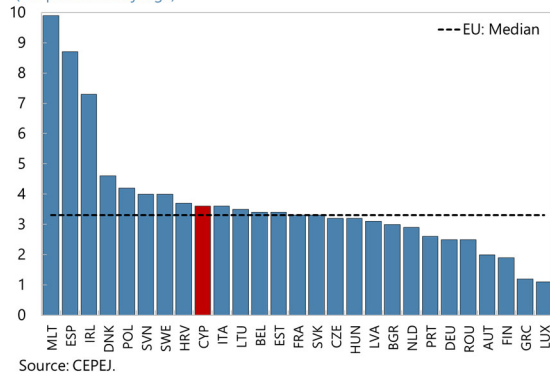
Number of Professional Judges (Per 100,000 inhabitants)



Non-judge court staff is also low although the proportion to judges seems adequate.

Filling judge vacancies has been difficult despite the large pool of lawyers to draw upon.

Average Number of Non-Judge Staff (Per professional judge)



Number of Professional Judges (Per lawyer)

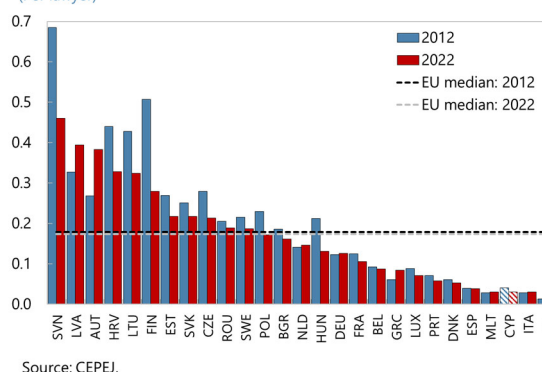
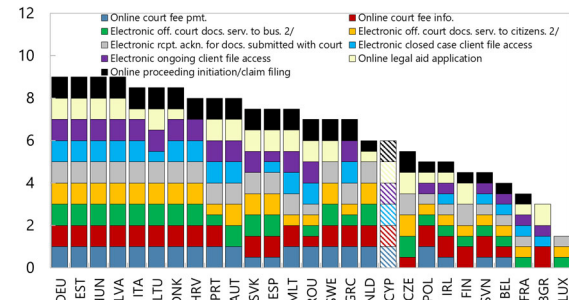


Figure 2. Cyprus: Digital Technology Use in Courts

Digitalization of court proceedings processing could be improved...

Digital Soln. Avail. to Initiate/Follow Case Proceedings, 2023 1/
(0-9, 9 = highest digital solution availability)



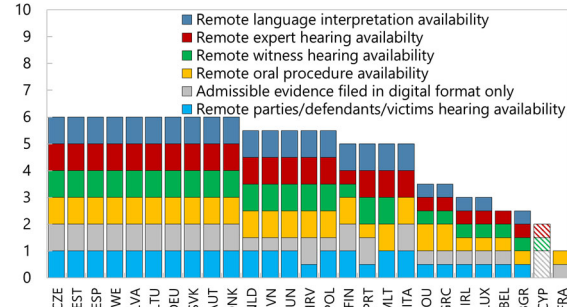
Source: CEPEJ.

1/ for civil and commercial cases

2/ when procedure not initiated by served

...as well as use of digital technology in those proceedings.

Digital Technology Availability in Court Proceedings, 2023 1/
(0-6, 6 = highest digital technology availability)



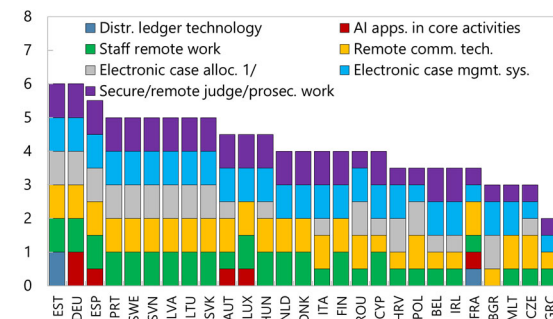
Source: CEPEJ.

1/ for civil and commercial cases

Overall use of digital technology by courts could improve...

Court Digital Technology Use, 2023

(0-6, 6 = highest court digital technology use)



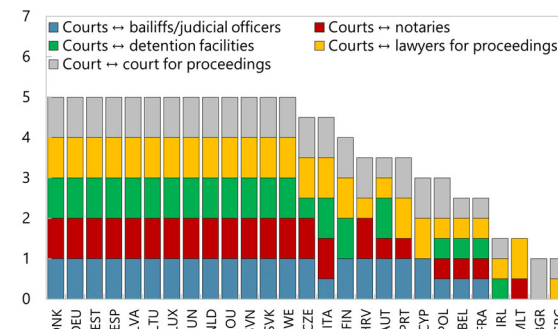
Source: CEPEJ.

1/ with automatic distribution based on objective criteria

...including electronic communications with external parties.

Court Secure Electronic Communication Availability, 2023

(0-6, 6 = highest secure electronic communication availability)



Source: CEPEJ.

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Annex VII. Previous Article IV Recommendations

Past Policy Recommendation	Policy Actions
Fiscal Policies	
Continue large primary surpluses until public debt falls comfortably below 60 percent of GDP.	2024 primary surplus was 5.6 percent of GDP maintaining public debt on a firm declining trajectory.
Prioritize capital expenditures over current expenditures.	Capital expenditures to GDP ratio declined to 3.5 percent in 2024. After increasing CoLA adjustment in 2023, the wages have further increased due to a 1.5 percent general salary increase in 2024.
Allow VAT exemptions and electricity subsidies to expire as planned.	VAT exemptions and electricity subsidies were extended until the end of 2025 instead of expiring in 2024 as envisaged.
Update the inventory of public entities, establish a comprehensive ownership policy and formalize a transparent institutional structure for SOE board nominations.	Work in this area is ongoing. The Ministry of Finance developed an action plan, benefitting from the IMF TA, which will be presented to the Council of Ministers for approval.
Financial Sector Policies	
Allow the foreclosure framework to operate without further amendments.	The foreclosure framework and the new mortgage-to-rent scheme are operational and should accelerate reduction in legacy NPLs.
Continue strengthening the AML/CFT enforcement framework.	Work in this area is ongoing. A draft bill to extend the definition of obliged entities for AML/CFT supervision to include professional services in the real estate sector is at public consultations stage. Law establishing a National Sanctions Implementation Unit at the Ministry of Finance to provide guidance to businesses concerning sanctions compliance was submitted to the Parliament at the end of April 2025.
Structural Policies	
Implement judicial sector reform.	More judges were hired, top-tier courts were restructured, and a Court of Appeal was established. However, more needs to be done as the backlog of court cases remains large, disposition times are very long, and physical and technological infrastructure require upgrading (hindering also progress on resolving legacy NPLs).

Past Policy Recommendation	Policy Actions
Address skill mismatches by focusing on digital education and attracting skilled labor, including third-country nationals, to address labor shortages.	A strategy to attract and domicile foreign talent is being implemented but more progress is to be made on increasing share of STEM graduates and enhancing digital education.
Accelerate energy infrastructure projects to enhance energy security and support the green transition.	The Great Sea Interconnector and the LNG terminal projects are delayed due to contractual issues. Electricity market liberalization was postponed by one year.
Implement green taxation by introducing a broader carbon tax.	Implementation of carbon taxes has been delayed pending further social dialogue and is now planned in late 2025.
Develop an adaptation strategy to address potential climate risks, including early warning systems and coastal protection measures.	Cyprus is advancing its National Adaptation Strategy and Action Plan by enhancing early warning systems and implementing coastal protection measures that integrate nature-based solutions and infrastructure initiatives to address climate-related challenges.

Annex VIII. Data Issues

Table 1. Cyprus: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	B	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	B	A		
Consistency			A	B		A	
Frequency and Timeliness	A	A	A	B	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness Indicators.</p>							
A	The data provided to the Fund is adequate for surveillance.						
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.						
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.						

Rationale for staff assessment. Staff assess the data provided to the Fund to be adequate for surveillance with no major data weaknesses affecting staff's analysis of macroeconomic and financial risks. External Sector Statistics are published with a relatively long lag (3 months after quarter end), and are occasionally delayed and can include large revisions. The data published on services trade is relatively granular, but data on the trade in goods is highly aggregated. External Sector Statistics are complicated by the large and complicated volume of data associated with the substantial Special Purpose Entities (SPEs) sector and FDI-associated transfers. External Sector Statistics excluding SPEs (which better reflect real economic activity) are shared with the Fund with an additional lag of several months. However, authorities have shown a willingness to readily address data requests from the Fund demonstrating their commitment to engage on these issues.

Changes since the last Article IV consultation. None.

Corrective actions and capacity development priorities. None.

Use of data and/or estimates different from official statistics in the Article IV consultation. No data or estimates different from official statistics were used.

Other data gaps. None.

Table 2. Cyprus: Data Standards Initiatives

Cyprus subscribes to the Special Data Dissemination Standard (SDDS) since December 2009 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Table 3. Cyprus: Common Indicators Required for Surveillance (as of February 13, 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Cyprus ⁸	Expected Timeliness ^{6,7}	Cyprus ⁸
Exchange Rates	Current	Current	D	D	D	D	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Jan-25	Feb-25	M	M	M	M	1W	3W
Reserve/Base Money	Jan-25	Feb-25	M	M	M	M	2W	2W
Broad Money	Jan-25	Feb-25	M	M	M	M	1M	1M
Central Bank Balance Sheet	Jan-25	Feb-25	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	Jan-25	Feb-25	M	M	M	M	1M	1M
Interest Rates ²	Current	Current	D	D	D	D	...	NA
Consumer Price Index	Mar-25	Apr-25	M	M	M	M	1M	1W
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	2024: Q3	Jan-25	Q	Q	A	Q	2Q	3M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Nov-24	Jan-25	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2024: Q3	Jan-25	Q	Q	Q	Q	1Q	1M
External Current Account Balance	2024: Q3	Jan-25	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Dec-24	Feb-25	M	M	Q	Q	1Q	1Q
GDP/GNP	2024: Q3	Dec-24	Q	Q	Q	Q	1Q	70D
Gross External Debt	2024: Q3	Jan-25	Q	Q	Q	Q	1Q	1Q
International Investment Position	2024: Q3	Jan-25	Q	Q	Q	Q	1Q	1Q

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



CYPRUS

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 13, 2025

Prepared By

European Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS	2
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FUND RELATIONS

(As of March 31, 2025)

Membership Status: Joined December 21, 1961; Article VIII

General Resources Account:	SDR Million	Percent of Quota
Quota	303.80	100.00
IMF's Holdings of Currency	218.75	72.00
Reserve Tranche Position	85.06	28.00

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	423.98	100.00
Holdings	426.82	100.67

Outstanding Purchases and Loans: None

Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	May 15, 2013	Mar 6, 2016	891.0	792.00
Stand-By	Jul 16, 1980	Jul 15, 1981	8.5	8.5

Projected Payments to the Fund (SDR millions; based on existing use of resources and present holdings of SDRs)

	Principal	Charges/Interest	Total
2024	0	0.00	0.00
2025	0	0.00	0.00
2026	0	0.00	0.00
2027	0	0.00	0.00
2028	0	0.00	0.00

Exchange Rate Arrangements:

The currency of Cyprus is the euro. The exchange rate arrangement of the euro area is free floating. Cyprus participates in a currency union (EMU) with 19 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies. Cyprus has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, other than restrictions maintained

solely for security reasons, which have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

Last Article IV consultation, Post-Program Monitoring discussions, and program relations:

Article IV. Cyprus is currently on a standard 12-month consultation cycle. The last Article IV consultation was concluded on May 25, 2024 (IMF Country Report No. 24/137).

EFF. Cyprus's three-year, SDR 891 million (293 percent of current quota) Extended Arrangement under the Extended Fund Facility (EFF) was approved by the IMF Executive Board on May 15, 2013. The total amount drawn was SDR 792 million (260.7 percent of quota). The EFF arrangement was coordinated with the European Stability Mechanism (ESM), which disbursed €6.3 billion. The ninth (and penultimate planned) review was completed on January 23, 2016 (IMF Country Report No. 16/26). The EFF arrangement was cancelled by the authorities on March 7, 2016—approximately two months before it was scheduled to expire. The cancellation coincided with the expiration of the three-year ESM program.

PPM and repurchases. The Fund initiated Post-Program Monitoring (PPM) on March 18, 2016. Board consideration of the Third PPM discussions was concluded on June 3, 2019 (IMF Country Report No. 19/151). An early repurchase on July 11, 2017 reduced outstanding Fund credit to Cyprus to SDR 570 million (187.5 percent of quota), which is below standard PPM-eligibility thresholds. The Board approved a one-year PPM extension on August 2, 2017, June 4, 2018, and June 3, 2019. Cyprus repaid early its remaining balance of EFF credit in February 2020, and successfully exited the Fund's PPM.

Safeguards. A safeguards assessment was finalized in August 2013 in the context of an EFF arrangement approved in May 2013. The assessment found a weak governance framework at the CBC and a strained balance sheet, given the large emergency liquidity assistance (ELA) exposure. The CBC addressed most of the recommendations made in the areas of audit and control oversight, financial reporting transparency, and internal audit. The CBC continues to publish its audited financial statements in a timely manner. Legislative efforts currently underway are expected to address the remaining safeguards recommendations to strengthen the central bank's governance and financial autonomy.

Technical Assistance:

Department	Purpose	Date
FAD	Revenue administration	October–November 2014
FAD	Revenue administration	January–February 2015
FAD	Functional review of Ministry of Finance	February 2015
FAD	Government guarantees	February 2015
MCM	Cooperative credit sector restructuring	February–March 2015
FAD	Public financial management	March 2015
STA	Balance of payments	March–April 2015

FAD	Public financial management	August 2015
MCM	NPL management	August–September 2015
MCM	Macro-financial modeling	September 2015
MCM	NPL management	September 2015
FAD	Public financial management	September–October 2015
MCM	Financial aspects of reunification	November 2015
FAD	Revenue administration	November–December 2015
MCM	Central bank governance	December 2015
STA	Statistical aspects of reunification	December 2015
FAD	Fiscal aspects of reunification	December 2015
MCM	Financial aspects of reunification	December 2015
MCM	Financial aspects of reunification	January 2016
MCM	Financial aspects of reunification	February 2016
STA	Statistical aspects of reunification	February 2016
FAD	Fiscal federalism workshop	February 2016
FAD	Fiscal aspects of reunification	February–March 2016
MCM	Debt management	March 2016
FAD	Public financial management	March–April 2016
MCM	Financial aspects of reunification	April 2016
FAD	Revenue administration	April–May 2016
STA	Statistical aspects of reunification	May 2016
MCM	Cooperative credit sector restructuring	May 2016
MCM	Financial aspects of reunification	May 2016
MCM	Cooperative credit sector restructuring	June–July 2016
MCM	Financial aspects of reunification	June–July 2016
FAD	Revenue administration	October 2016
FAD	Spending review	October 2016
FAD	Fiscal aspects of reunification	November 2016
STA	Sectoral Accounts and Balance Sheets	January 2017
FAD	Revenue administration	March 2017
FAD	Spending review	April–May 2017
MCM	Financial stability	July 2017
MCM	NPL management	July 2017
MCM	Macro-prudential policy	September 2017
LEG	Insolvency legal framework workshop	September 2017
FAD	Spending review	September–October 2017
FAD	Revenue administration	October 2017
MCM	NPL management	November 2017
MCM	Financial stability	December 2017
FAD	Revenue administration	December 2017
FAD	Spending review	February 2018

LEG	Legal framework for NPL resolution	March 2018
FAD	Spending review and public financial management	September 2018
MCM	Debt Portfolio Risk Management	November 2018
FAD	Policy Based Budget	September 2019
LEG	Judicial Training Workshop on Insolvency	December 2019
MCM	Stress Testing	December 2020
MCM	Debt and Cash Management	December 2020
STA	Property Price Statistics	April-May 2021
RES	Residential Property Price Valuations	March-April 2023
FAD	SOE governance	March 2023
STA	Property Price Statistics	June 2023
MCM	Debt Management	February 2024
FAD	Public Wage Bill	June 2024
MCM/LEG	Legal Framework for Public Debt Management (virtual)	February 2025
MCM/LEG	Legal Framework for Public Debt Management	April 2025

Two FAD long-term resident advisors provided technical assistance on public financial management (from February 2014 to October 2016) and on revenue administration (from July 2015 to December 2016).