



CYPRUS

June 2026

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CYPRUS

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 2026 Article IV consultation with Cyprus, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 17, 2026 consideration of the staff report that concluded the Article IV consultation with Cyprus.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 17, 2026, following discussions that ended on May 4, 2026, 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 27, 2026
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Cyprus.

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 2026 Article IV Consultation with Cyprus

FOR IMMEDIATE RELEASE

- Despite higher energy prices and lower tourism arrivals, Cyprus's economy remains resilient, with strong growth and fundamentals.
- Strong fiscal performance and falling public debt create room for a gradual and growth-friendly fiscal easing—focused on high-quality investment and efficiency gains. Financial sector soundness should be preserved and credit deepening supported.
- Sustaining strong growth requires reforms to boost productivity and investment, including through a more efficient judiciary, a better-skilled workforce, wider use of digital technologies, and progress on energy sector reforms.

Washington, DC – June 23, 2026: On June 17, 2026, the Executive Board on of the International Monetary Fund (IMF) completed the Article IV Consultation for Cyprus.¹ The authorities have consented to the publication of the Staff Report prepared for this consultation.²

Cyprus's economy continues to perform strongly, with 2025 growth among the highest in the EU, supported by robust domestic demand and strong services exports, particularly ICT and tourism. Inflation declined last year, reflecting favorable energy and goods price developments, but has started to pick up as higher energy prices linked to the war in the Middle East feed through. Tourism is also showing signs of softening. Fiscal performance has remained strong, with continued surpluses and public debt declining below 60 percent of GDP. The financial sector is sound, with strong capital and liquidity buffers and improving asset quality.

Growth is expected to moderate this year as higher energy prices and geopolitical tensions weigh on real incomes, tourism, and confidence. Inflation is projected to rise in the near term before easing. Risks are tilted to the downside, notably from a more prolonged war in the Middle East, tighter global financial conditions, and weaker external demand. Medium-term prospects are more balanced supported by strong fundamentals and reform momentum.

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.

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 Assessment³

Executive Directors commended Cyprus's continued strong macroeconomic performance and resilience, with sustained growth, fiscal surpluses, and declining public debt despite a challenging external environment. Directors cautioned however that near-term risks are tilted to the downside—including from geopolitical tensions and higher energy prices—and that structural vulnerabilities persist. They encouraged the authorities to preserve fiscal sustainability and to press ahead with structural reforms to boost productivity and support long-term growth.

Directors commended the authorities' strong fiscal performance, which has rebuilt buffers and put public debt on a firm downward path. They agreed that, as policy space expands, any fiscal easing should be gradual and well-calibrated to avoid overheating, while preserving buffers for rising spending pressures related to ageing, defense, and infrastructure needs. Directors stressed the importance of improving the efficiency of spending and taxation, prioritizing high-quality public investment and maintaining discipline in public wage growth. Measures to support households should be temporary and well targeted. Directors welcomed the recent comprehensive tax reform and the proposal to build financial assets in the social security fund.

Directors agreed that the banking sector remains sound, supported by strong capital and liquidity buffers and improving asset quality. At the same time, they considered that significant exposure to real estate and remaining legacy NPLs outside the banking sector warrant continued vigilance. Noting that credit intermediation remains subdued, Directors stressed the need to preserve an effective foreclosure framework, strengthen insolvency processes, and improve judicial efficiency to support the resolution of distressed assets, deepen credit markets, and foster investment. They also emphasized the importance of strengthening risk monitoring frameworks and advancing AML/CFT supervision.

Directors concurred that continued implementation of structural reforms is key to raising productivity and supporting long-term growth. Priorities include addressing skills mismatches, strengthening human capital and AI readiness, improving the business environment, and enhancing judicial efficiency. Directors stressed that advancing energy sector reform is critical to reducing costs, strengthening energy security, and supporting the green transition. Timely implementation of measures under the EU-funded Recovery and Resilience Facility would also be important.

³ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Table 1. Cyprus: Selected Economic Indicators, 2022–2031

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	<i>Projections</i>									
Real Economy	(Percent change, unless otherwise indicated)									
Real GDP	8.7	3.6	3.9	3.8	2.6	3.0	3.0	3.0	3.0	3.0
Domestic demand	8.8	6.6	2.9	1.4	4.4	3.5	3.3	3.0	2.8	2.8
Consumption	8.1	5.2	3.4	3.0	2.7	2.6	2.7	2.8	2.8	2.2
Private consumption	8.9	6.0	4.0	3.3	2.9	2.5	3.0	3.0	3.0	3.0
Public consumption	5.5	2.9	1.6	2.0	1.7	2.7	1.6	1.9	2.2	2.5
Gross capital formation	11.5	12.0	0.8	-4.6	11.2	6.9	5.5	4.0	2.5	2.5
Foreign balance 1/	0.2	-2.9	1.2	2.6	-1.6	-0.4	-0.3	0.0	0.3	0.3
Exports of goods and services	27.8	-1.6	5.7	5.0	3.3	5.5	4.1	4.1	4.0	4.0
Imports of goods and services	28.8	1.2	4.6	2.5	5.0	6.1	4.4	4.1	3.9	4.0
Potential GDP growth	6.7	4.8	3.7	3.6	3.4	3.2	3.0	3.0	3.0	3.0
Output gap (percent of potential GDP)	1.7	0.6	0.8	1.0	0.1	0.0	0.0	0.0	0.0	0.0
HICP (period average, seasonally-adjusted)	8.1	3.9	2.3	0.8	3.5	1.5	2.0	2.0	2.0	2.0
HICP (end of period, seasonally-adjusted)	7.6	1.9	3.1	0.1	3.2	2.0	2.0	2.0	2.0	2.0
GDP deflator	6.2	5.6	3.1	1.1	4.0	1.9	2.2	2.3	2.2	2.2
Unemployment rate (percent, period average)	6.2	5.7	4.8	4.4	4.6	4.7	4.7	4.7	4.7	4.7
Employment growth (percent, period average)	5.0	2.8	1.5	3.6	0.7	0.8	0.8	0.8	0.8	0.8
Labor force	4.0	2.3	0.4	3.1	1.0	0.9	0.8	0.8	0.8	0.8
Public Finance	(Percent of GDP, unless otherwise indicated)									
General government balance	2.7	1.7	4.1	3.4	2.3	2.6	2.5	2.4	2.2	2.0
Revenue	40.4	42.3	42.4	43.6	42.3	41.8	41.3	40.8	40.7	40.5
Expenditure	37.7	40.6	38.3	40.2	40.0	39.2	38.8	38.4	38.4	38.5
Primary Fiscal Balance	4.0	2.9	5.4	4.5	3.5	3.7	3.6	3.4	3.3	3.1
General government debt	80.3	71.1	62.8	55.0	50.5	46.2	42.2	38.4	35.5	32.4
Balance of Payments										
Current account balance	-6.9	-9.7	-8.2	-6.4	-8.2	-8.3	-8.6	-8.7	-8.5	-8.4
Trade Balance (goods and services)	3.6	2.0	3.6	5.7	4.6	4.2	3.9	4.0	4.2	4.4
Exports of goods and services	104.7	96.4	97.0	97.6	97.7	99.6	100.4	101.0	101.8	102.5
Imports of goods and services	101.1	94.4	93.4	91.9	93.1	95.5	96.5	97.0	97.6	98.1
Goods balance	-19.5	-22.7	-19.9	-19.4	-20.9	-21.8	-22.1	-22.2	-22.3	-22.3
Services balance	23.1	24.8	23.5	25.1	25.5	25.9	26.0	26.2	26.4	26.7
Primary income, net	-9.6	-10.5	-10.8	-11.1	-11.8	-11.3	-11.3	-11.5	-11.5	-11.6
Secondary income, net	-0.9	-1.3	-1.0	-0.9	-1.0	-1.1	-1.2	-1.2	-1.2	-1.3
Capital account, net	0.1	0.1	-0.6	-0.2	0.2	0.1	0.1	0.1	0.1	0.1
Financial account, net	-4.4	-7.6	-7.8	-6.4	-8.1	-8.2	-8.5	-8.6	-8.5	-8.4
Direct investment	-17.9	-31.9	-14.7	-23.3	-15.3	-15.8	-16.3	-16.5	-16.7	-16.7
Portfolio investment	14.3	11.3	13.6	8.7	13.5	14.1	14.3	14.7	14.8	14.9
Other investment and financial derivatives	-1.1	13.1	-6.9	8.1	-6.2	-6.5	-6.5	-6.8	-6.6	-6.5
Reserves (+ accumulation)	0.3	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Program financing 2/	0.0	0.0	0.0	-1.0	-2.6	-2.5	-2.3	-2.3	-1.9	-2.0
Errors and omissions	2.4	2.1	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Saving-Investment Balance										
National saving	13.5	12.2	12.3	13.6	12.6	13.3	13.5	13.5	13.5	13.5
Government	5.8	6.6	7.6	8.3	7.0	6.7	6.3	5.9	5.6	5.4
Non-government	7.7	5.7	4.7	5.3	5.6	6.6	7.2	7.6	7.9	8.1
Gross capital formation	20.4	22.0	20.5	20.0	20.9	21.6	22.1	22.2	22.1	21.9
Government	3.1	4.9	3.5	4.9	4.7	4.1	3.8	3.5	3.4	3.4
Private	17.2	17.1	17.1	15.2	16.2	17.5	18.3	18.7	18.7	18.6
Foreign saving	-6.9	-9.7	-8.2	-6.4	-8.2	-8.3	-8.6	-8.7	-8.5	-8.4
Memorandum Item:										
Nominal GDP (billions of euros)	29.6	32.4	34.8	36.5	38.9	40.8	43.0	45.3	47.6	50.1
Structural primary balance	3.4	2.5	5.1	4.2	3.5	3.7	3.6	3.4	3.3	3.1
External debt	868.1	744.6	674.1	639.5	599.0	564.4	529.8	498.6	468.2	440.1
Net IIP	-97.4	-92.4	-84.1	-80.8	-83.9	-88.1	-92.3	-96.2	-99.9	-103.3
APSP oil price (\$ per barrel) 3/	96.4	80.6	79.2	67.7	99.4	74.6	74.2	73.9	73.7	73.3

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

3/ Average of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil prices based on the Adverse Scenario assumptions from April 2026 World Economic Outlook



CYPRUS

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

May 27, 2026

KEY ISSUES

Recent Developments and Outlook: Growth remained strong in 2025, supported by robust domestic demand and services exports. Inflation fell last year, reflecting favorable supply-side developments. But following the war in the Middle East, inflation has rebounded on higher energy prices; activity is expected to moderate. Since labor market tightness limits further gains from employment, sustaining longer-term growth will depend on investment and productivity enhancing reforms—especially improving judicial efficiency, strengthening skills and digital/AI readiness, and advancing energy-sector reforms and infrastructure.

Fiscal Policy: Fiscal performance remains strong and public debt has fallen below 60 percent of GDP, supported by continued surpluses and strong growth. As policy space expands with declining debt, any fiscal easing should be gradual and geared toward strengthening long-term growth, while preserving room for rising spending pressures. Policy priorities are to improve tax and spending efficiency, prioritize high-productivity public investment (including for the energy transition), and avoid costly and distortionary measures that weaken targeting or reduce flexibility.

Financial Sector Policy: The banking sector is sound and resilient, with strong liquidity and capital buffers. Credit growth has resumed, but financial intermediation remains subdued and the system is highly concentrated, underscoring the importance of reforms that reduce frictions to efficient lending. Recent proposals risk weakening the foreclosure framework, delaying the resolution of legacy NPLs, and undermining credit deepening. Continued monitoring of the financial sector's significant exposure to real estate is warranted, even as housing market momentum has cooled.

Structural Policies: Sustaining strong medium-term growth requires reforms to boost productivity and support investment, including by addressing skills mismatches and strengthening digital capabilities. Improving judicial efficiency is a key factor in supporting investment, as it facilitates debt enforcement and insolvency resolution, while also reducing barriers to credit deepening and competition. Advancing energy sector reforms and key infrastructure projects is critical to lowering costs and improving energy security. And continued strengthening and streamlining of AML/CFT supervision—particularly beyond the banking sector—would help guard against reputational risks.

Approved By:

Mark Horton (EUR)
and Jacques Miniane
(SPR)

The 2026 Article IV Consultation mission was held in Nicosia during April 22–May 4, 2026. The team comprised Alex Pienkowski (head), Irina Bunda, Martin Andres Caruso Bloeck, and Adam Remo (all EUR). Nina Stoyanova (Advisor to the Executive Director) attended some of the meetings. Carlos Acosta (LEG) and Valentina Semenova (MCM) joined some meetings virtually. Sharon Smith-Tohu and Ayse Battal (both EUR) supported the mission from IMF HQ. 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	5
OUTLOOK AND RISKS	10
POLICY DISCUSSIONS	12
A. Fiscal Policy: Improve Tax and Spending Efficiency	12
B. Financial Sector Policies: Balancing Growth and Resilience	18
C. Structural Policies: Raising Potential Growth	21
STAFF APPRAISAL	25
BOXES	
1. Macroeconomic Forecasts and Policy Advice to Manage a Severe Scenario	11
2. The National Solidarity Fund (NSF) and the 2025 Replenishment Scheme	15
3. The 2025–26 Tax Reform	17
FIGURES	
1. Real Sector Developments	28
2. Labor Market Developments	29
3. Fiscal Developments	30
4. Financial Conditions and Credit	31
5. Real Estate Market Developments	32
6. Corporate Vulnerabilities	33

TABLES

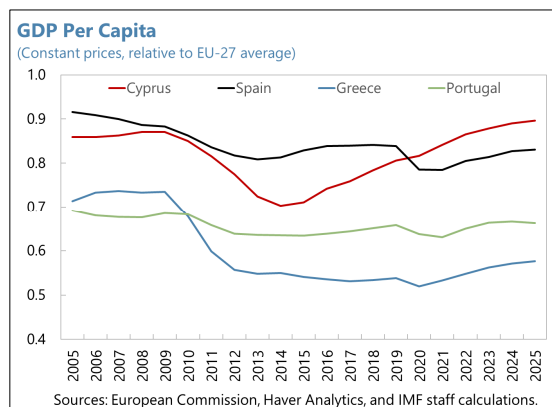
1. Selected Economic Indicators, 2022–31	34
2. Fiscal Developments and Projections, 2022–31	35
3. General Government Financing Requirements and Sources, 2022–31	36
4. Balance of Payments, 2022–31	37
5. Financial Soundness Indicators, 2016–25	38

ANNEXES

I. Sovereign Risk and Debt Sustainability Framework	39
II. External Sector Assessment	45
III. Risk Assessment Matrix	48
IV. The Redistributive Efficiency of Social Transfers	51
V. The Impact of Artificial Intelligence on Cyprus's Labor Market	57
VI. Previous Article IV Recommendations	66
VII. Data Issues	68

CONTEXT

1. Cyprus has experienced an impressive recovery from the 2013 crisis. Cyprus recorded among the highest growth in the EU in recent years and GDP per capita relative to the EU has fully recovered since the crisis. The labor market is strong, and the financial sector has restored healthy profitability and buffers. In recent years, the economy has been resilient to a volatile external environment, supported by growth from tourism and ICT. The war in the Middle East will weigh on activity, with the extent of this headwind depending crucially on its duration and scale. Some vulnerabilities remain, particularly related to still-large legacy NPLs outside of banks, a relatively dormant banking sector, an inefficient judiciary, and an oil-dependent energy sector.

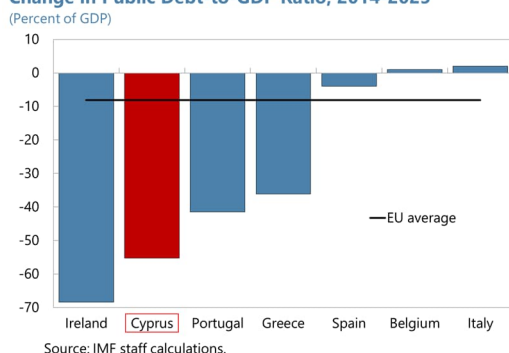


2. The recovery was made possible by exceptional strides in fiscal management. In 2014 the fiscal balance stood at almost -9 percent of GDP, but improved to 2 percent by 2017, supported by the IMF and EU programs. Public debt declined from over 110 percent of GDP in 2014 to below 60 percent in 2025. In Europe, only Ireland experienced such a large decline in public debt. Strong fiscal performance was instrumental in reinforcing economic stability and investor confidence as reflected in the gradual improvement in credit ratings and decline in spreads to the pre-crisis levels.

Background

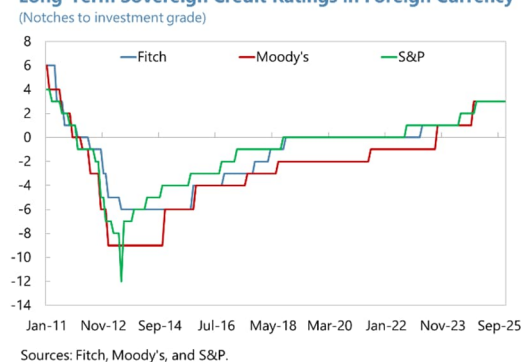
With debt falling below 60 percent of GDP in 2025, Cyprus's consolidation effort is exceptional.

Change in Public Debt-to-GDP Ratio, 2014-2025
(Percent of GDP)



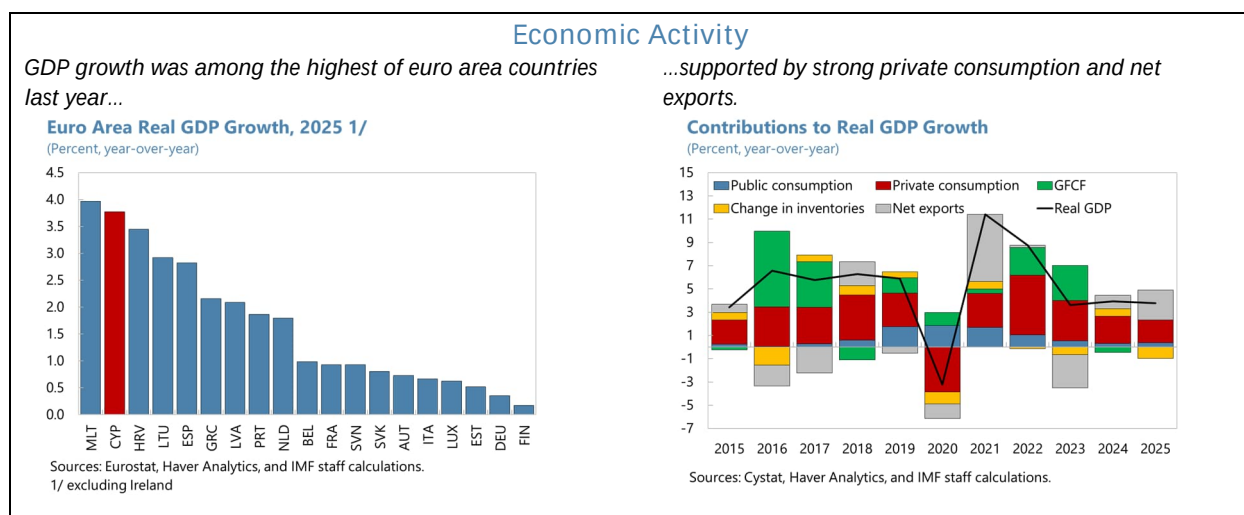
This and resolving other crisis-legacy issues helped Cyprus regain its investment-grade ratings.

Long-Term Sovereign Credit Ratings in Foreign Currency
(Notches to investment grade)



RECENT ECONOMIC DEVELOPMENTS

3. Strong growth continued in 2025, again among the highest in the EU. Growth was 3.8 percent last year, driven by robust private consumption and supported by high employment, strong real wage growth, and declining interest rates (Figure 1). Export-oriented services, particularly ICT, were also important drivers of growth. And tourism has been resilient to previous geopolitical tensions and weaknesses in major source markets, with solid growth in arrivals and revenues in 2025. Once imports of maritime ships are excluded, investment showed signs of recovery in 2025, supported by monetary loosening. The economy has withstood headwinds from global trade uncertainty and geopolitical tensions.



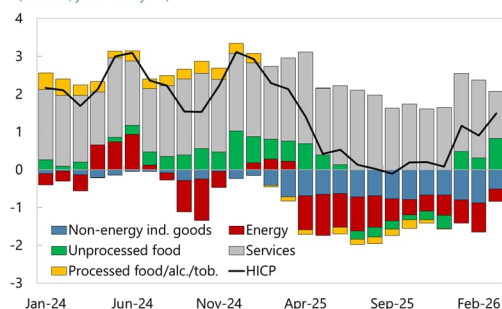
4. Inflation dropped to 0.8 percent in 2025, lowest in Euro Area (EA), driven by supply factors. Goods inflation was -2 percent in 2025 with price declines in all types of goods, driven by imported inflation. This reflected large declines in international oil prices and an appreciation of the euro against the dollar. Energy inflation also fell due to a temporary reduction of the VAT rate from 19 to 9 percent on household electricity consumption effective from April 2025.¹ Services inflation remained above the EA average at 4.3 percent pointing to strong domestic demand consistent with the positive output gap, tight labor market, and strong tourism flows. The “Flash estimate” of year-over-year inflation in April was 3 percent, showing an initial effect of higher energy prices and the impact of the spread of foot-and-mouth disease on food prices.

¹ The VAT rate was further reduced from 9 to 5 percent from March 2026 until March 2027.

Inflation

Headline inflation was well below 2 percent driven by energy and goods prices...

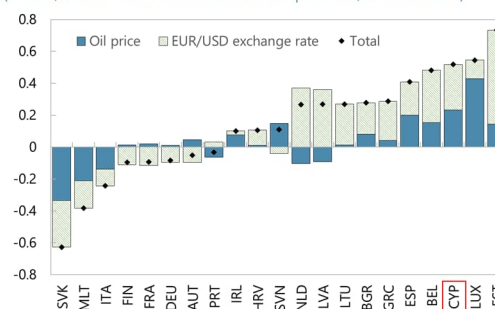
HICP Inflation
(Percent, year-over-year)



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

...reflecting Cyprus's high inflation pass-through from international oil prices and €/€ exchange rate.

Oil Price and EUR/USD Exchange Rate Pass-Through to Inflation
(Percent, effect of 1 s.d. oil increase and EUR depreciation, relative to EA19)



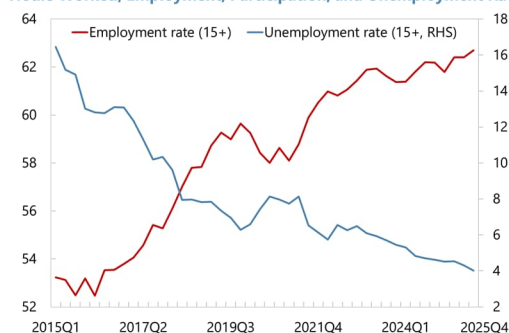
Sources: Eurostat, Haver Analytics, and IMF staff calculations.

5. Labor market tightness has continued with both falling unemployment and elevated job vacancies. Unemployment has continued to fall, reaching 4 percent in 2025Q4, below staff's estimate of the equilibrium rate (Figure 2). Real wage growth has been high, 3.5 percent year-over-year, well above the EA average. Vacancies have slightly abated since their peak in 2024Q3 but remain elevated, especially in services.

Labor Market

The labor market continues to be tight...

Hours Worked, Employment, Participation, and Unemployment Rates



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

...and labor shortages continue, particularly in services.

Labor as Production Limiting Factor 1/
(Percent)

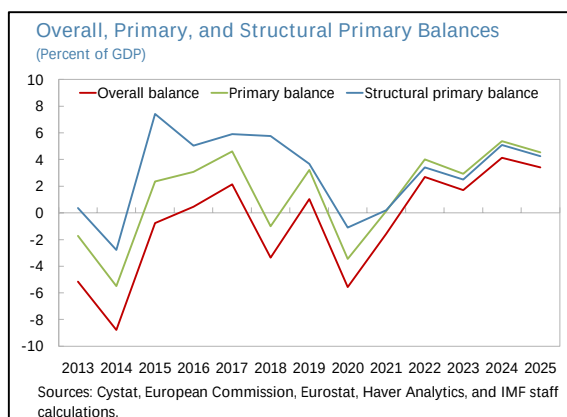


Sources: European Commission and Haver Analytics.

1/ estimated based on European Commission's Business and Consumer Survey data

6. Despite some loosening in 2025, the fiscal surplus remained high. The fiscal balance narrowed to 3.4 percent of GDP in 2025 from 4.1 percent in 2024 (Figure 3). While revenue growth remained strong, it was moderated by lower indirect taxes because of lower inflation, normalization in construction and real estate activities, and a continuation of "cost-of-living crisis" VAT exemptions

and reduced rates.² Spending increases were driven mainly by an acceleration in EU-funded investment as the Recovery and Resilience Facility (RRF) enters its final phase, as well as higher wages and social transfers. Strong growth, the large fiscal surplus, and a draw-down of (still high) cash buffers led public debt to fall to 55 percent of GDP. Risks to public debt sustainability are assessed as low (Annex I).

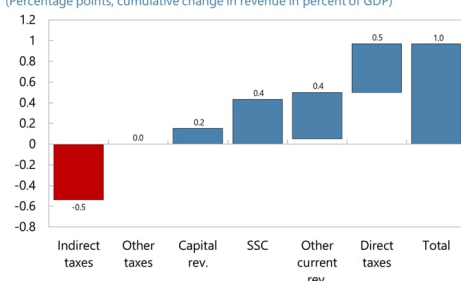


Fiscal Sector

Revenue performance improved in 2025 ...

Drivers of Revenue Change, 2024-25

(Percentage points, cumulative change in revenue in percent of GDP)

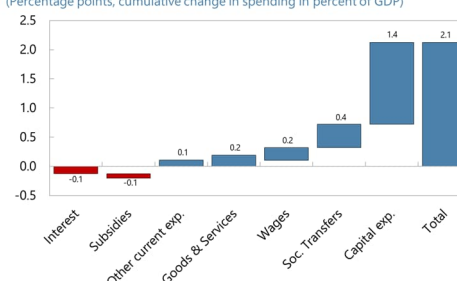


Sources: Cystat, Haver Analytics, and IMF staff calculations.

... while spending increases were driven by investment.

Drivers of Expenditure Change, 2024-25

(Percentage points, cumulative change in spending in percent of GDP)



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

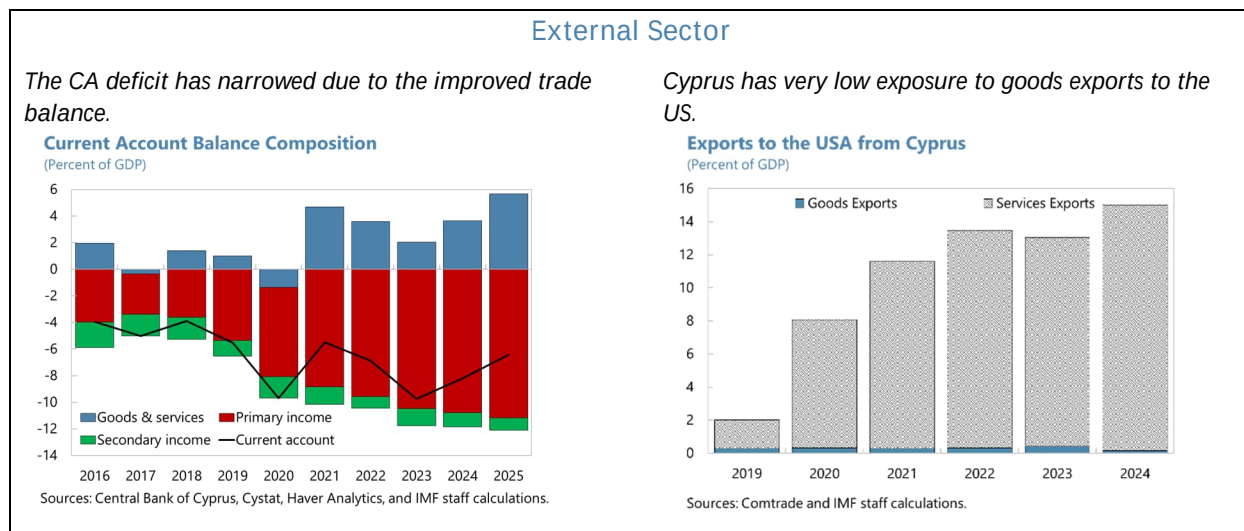
7. Progress in securing RRF funds has strengthened, but a significant portion is yet to be disbursed. Cyprus has received around €0.6 billion in RRF disbursements to date (including a partial fifth payment), bringing total disbursements to 58 percent of the total grant envelope. The final deadline for the implementation of remaining investments and reforms is end-August 2026 (to secure full disbursement by year-end), suggesting that a sizeable share of remaining financing may not be secured.

8. The external current account deficit narrowed in 2025 to 6.4 percent of GDP. The trade balance improved due to an expansion in net service exports, mainly related to ICT, use of intellectual property, and tourism, and contained goods imports, reflecting the normalization of ship imports. Primary income outflows continued to weigh on the balance, although a large part of these payments are being reinvested. Given that these liabilities are not debt-creating, the risk of a “sudden-stop crisis” is limited.³ More recently, Cyprus has been insulated from the direct impact of higher US tariffs as goods trade with

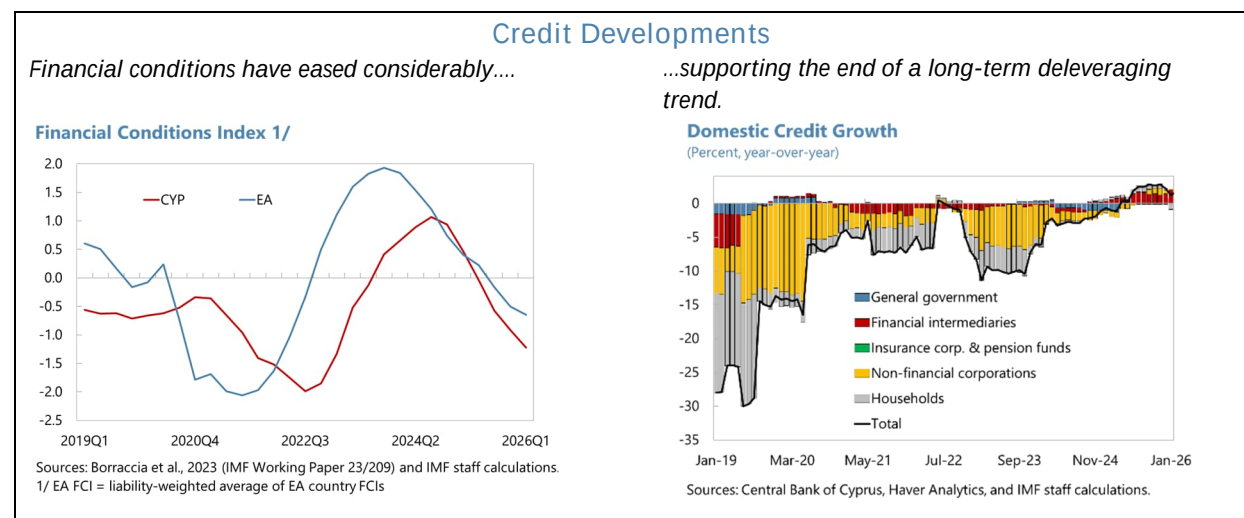
² This includes: i) a temporary zero VAT rate on selected essential goods until end-2026; ii) a temporary reduced VAT rate of 9 percent on household electricity, until end-March 2027; and iii) a reduced 5 percent VAT rate for the construction and renovation of buildings used for educational purposes (permanent measure).

³ See Annex V of the 2024 Article IV report.

US is minimal. The external position is assessed to be weaker than the level implied by desirable policies and fundamentals (Annex II).



9. The easing of financial conditions continued in 2025 in line with the EA. Lending rates have been declining and domestic credit growth turned positive after a prolonged period of deleveraging following the 2013 crisis (Figure 4). High levels of legacy NPLs outside the banking sector—mostly mortgage arrears held by Credit Acquiring Companies (CACs)—have declined only modestly from €19.9 billion in 2023 to €18.2 billion in December 2025 (around 50 percent of GDP).



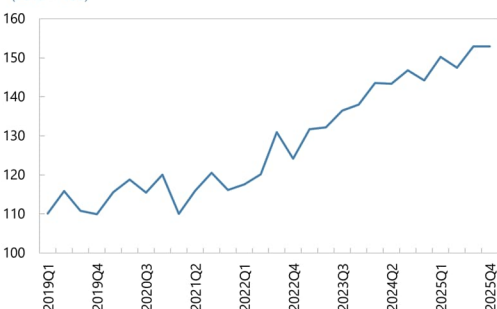
10. The housing market appears to have stabilized with steady transactions and prices. House price growth has moderated since 2024 and property sales growth has been broadly stable since 2022 (Figure 5). Both metrics point to cooling momentum, easing concerns about house price overvaluation.

Real Estate Market

House price growth has eased ...

House Price Index

(2015 = 100)

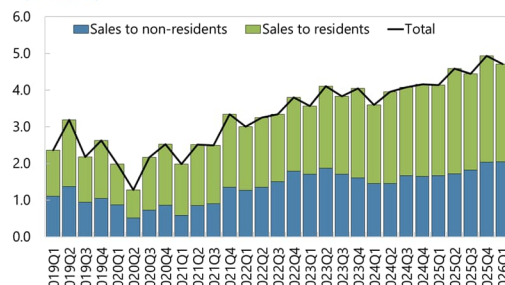


Source: Cystat.

... and property sales growth appears to have stabilized.

Property Sales

(Thousands)



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

11. The banking sector is well-capitalized and highly liquid. Solvency is high, liquidity ratios large, and profits strong, although profits have declined with falling interest rates. The NPL ratio has continued to decline through organic resolution (rather than NPL sales) and an increase in performing loans. The corporate sector remains robust (Figure 6).

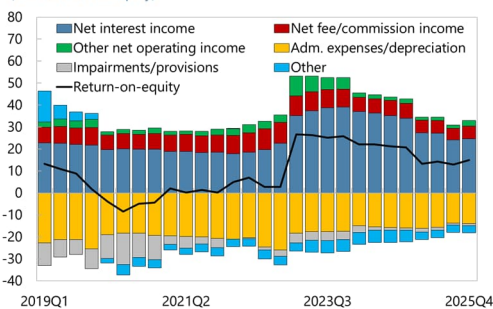
Banking Sector

Bank profits have declined with falling interest rates.

Capital and liquidity remain high, and NPL ratios have fallen closer to EU peers.

Banking Sector Profitability

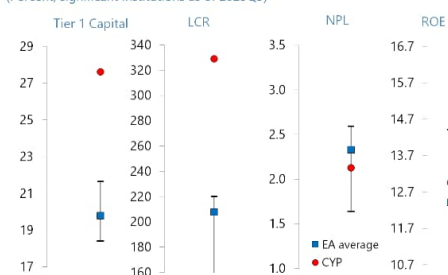
(Percent of total equity)



Sources: EBA and IMF staff calculations.

Profitability, Capitalization, Liquidity, and NPL Ratios 1/ 2/

(Percent, significant institutions as of 2025Q3)



Sources: EBA, ECB, Haver Analytics, and IMF staff calculations.

1/ whiskers correspond to the 25th and 75th percentiles

2/ NPL ratio=gross non-performing loans and advances/total gross loans and advance

OUTLOOK AND RISKS

12. Inflation will increase in coming months, while growth is expected to moderate. The recent jump in oil prices related to the war in the Middle East will lead to higher inflation, expected to average 3.5 percent in 2026 and decelerate below 2 percent in 2027 as oil prices normalize. Consistent with the 2026Q1 outturn, growth this year will moderate to 2.6 percent on the back of higher energy prices, a temporary decline in tourism, and some cyclical slowdown. Private consumption growth will ease as wage and employment expansion slow. This should be partly offset by stronger investment growth due to improved country fundamentals, and in the longer term, structural reforms, especially in energy.⁴ Growth will remain at potential (~3 percent) in the medium-term.

Selected Economic Indicator Forecasts, 2025-2028				
	2025	2026	2027	2028
(Percent, year-over-year)				
Real GDP	3.8	2.6	3.0	3.0
HICP (period average, SA)	0.8	3.5	1.5	2.0
(Percent of GDP)				
General government balance	3.4	2.3	2.6	2.5
General government debt	55.0	50.5	46.2	42.2
Current account balance	-6.4	-8.2	-8.3	-8.6
Nominal GDP (billions of euros)	36.5	38.9	40.8	43.0
Sources: Central Bank of Cyprus, Cystat, Eurostat, Haver Analytics, and IMF staff calculations.				

13. Near-term risks are tilted to the downside; medium- to long-term risks are balanced. The major near-term risk is a more prolonged war in the Middle East, which would further raise inflation and damage growth, especially from tourism (Box 1, Annex III). A slowdown in major economic partners would be disruptive; and an increase in trade barriers or an escalation of trade conflicts could weigh on growth especially if it spills over into services trade and investment flows. Cyber-risks could disrupt financial systems and harm confidence. Over the medium to long term, global geopolitical fragmentation and infrastructure constraints may weigh on growth, while Cyprus's expansion into new digital-economy industries holds significant upside potential.

Authorities' Views

14. The authorities also expect growth to decelerate and inflation to rise in the near term, and see the medium-term outlook as favorable. They project growth to slow to 2.7 percent this year before stabilizing at 3 percent thereafter, broadly in line with staff's views. The authorities see weaker tourism as the main drag on activity, alongside softer domestic demand from higher energy prices and elevated uncertainty. They see the inflation outlook as more uncertain, with forecasts ranging from 2.5 to 4.5 percent, depending on assumptions, energy pass-through estimates, and the impact to core inflation. A weaker current account is anticipated owing to higher energy import costs and lower tourism receipts. The authorities emphasized that risks remain high and that the outlook hinges on a timely easing of regional tensions.

⁴ See Annex I of the 2025 Cyprus Article IV Consultation

Box 1. Cyprus: Macroeconomic Forecasts and Policy Advice to Manage a Severe Scenario

Intensification of the war in the Middle East would lead to a sharp spike in inflation and a marked deceleration of growth. This assessment draws on the April 2026 IMF WEO Severe Scenario, which assumes a more protracted war. Extended hostilities would exacerbate global supply disruptions, triggering a spike in oil and gas prices. These developments would amplify second-round inflationary pressures, while risk-off episodes in global financial markets would prompt a tightening of financial conditions worldwide, further constraining growth prospects.

The energy price shock and tourism downturn would weigh heavily on growth and inflation. Higher energy costs would cause strong inflationary pressures in Cyprus's oil-dependent economy, eroding real household incomes.

The tourism sector would face significant headwinds, as tourist arrivals from Israel and Lebanon would decline sharply; exposure to other Middle Eastern markets is limited. Other sectors, such as shipping, would experience negative spillovers, further constraining growth.

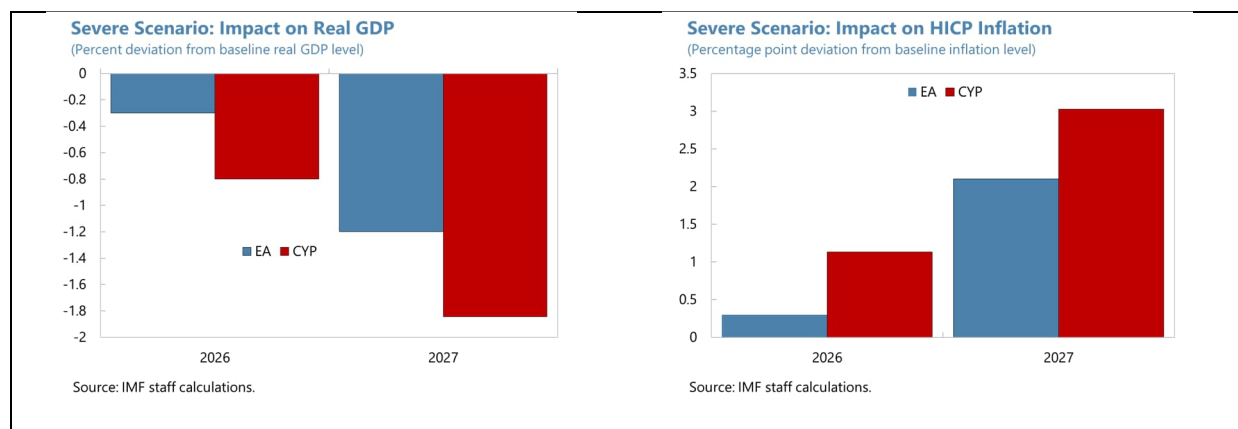
Fiscal and external positions would deteriorate compared to the baseline. In the short term, higher inflation would support government revenues, but weaker real activity reduces the tax base, while wage indexation and other price rises increase expenditure. Thus, the fiscal balance would deteriorate during 2026–27. The external balance would worsen significantly with higher energy import bills and weakened tourism.

Cyprus is well positioned to weather such a shock thanks to strong fundamentals, allowing policies to focus on sustaining growth and protecting vulnerable groups. Cyprus enters this shock from a position of strength, with robust growth, low inflation, a high primary surplus, and a financial sector characterized by ample capital and liquidity buffers. The core policy advice remains unchanged: pursue gradual, high-quality fiscal easing to support long-term growth while preserving fiscal sustainability; maintain macroprudential measures to safeguard financial stability; and advance structural reforms, particularly in energy, to enhance long-term resilience and competitiveness. Support to protect vulnerable households from energy price shocks should rely on well-targeted and temporary transfers, avoiding broad-based or distortionary measures such as VAT reductions, cuts in fuel excise duties, or broad subsidies. Across-the-board wage adjustments should also be avoided as they risk fueling second-round inflationary effects; instead, compensatory support should be delivered through existing social assistance programs, be temporary and well targeted, and be phased out as inflationary pressures ease.

Severe Scenario: Selected Economic Indicators, 2025-27

	2025	2026	2027
(Percent, yoy, unless otherwise indicated)			
Real GDP growth	3.8	1.7	1.9
HICP inflation (period average)	0.8	4.6	4.5
Fiscal balance (percent of GDP)	3.4	2.0	1.9
(Percentage point deviation from baseline)			
Real GDP growth	0.0	-0.8	-1.1
HICP inflation (period average)	0.0	1.1	3.0
Fiscal balance (percent of GDP)	0.0	-0.3	-0.7

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



POLICY DISCUSSIONS

A. Fiscal Policy: Improving Tax and Spending Efficiency

Strong fiscal performance has rebuilt buffers and put public debt on a firmly declining path, creating room for a gradual fiscal easing. However, some fiscal space should be preserved for rising long-term pressures, while focus should also be on improving the efficiency of revenue and spending to support sustainable growth.

15. The fiscal stance is projected to loosen in 2026. The overall balance is expected to decline to 2.3 percent of GDP driven in part by discretionary measures to counter higher energy prices and a comprehensive tax reform (¶19). A neutral stance would be more appropriate given the positive output gap. However, the impact of the fiscal impulse—a 0.7 percentage point decline in the structural primary balance—on inflation is lessened by the fact that some measures reduce prices (e.g., VAT cuts) and part of the impulse is driven by changes in volatile grant revenues.

16. Going forward, as debt continues to fall, there is scope to reduce the fiscal surplus, but this easing should be carefully calibrated. Given rapidly falling debt, large cash buffers, and an eventual moderation of inflation, gradual fiscal loosening is appropriate. The authorities should anchor the medium-term primary balance around a debt stabilizing level of -0.5 percent of GDP, implying significant scope for loosening.⁵ However, it is important to ensure that fiscal easing is: (i) gradual to avoid overheating; (ii) used efficiently to support longer-term growth prospects; and (iii) designed to preserve fiscal space to defray rising long-term pressures from population aging, defense, and climate change. A more gradual fiscal loosening is preferable to a poor-quality easing.

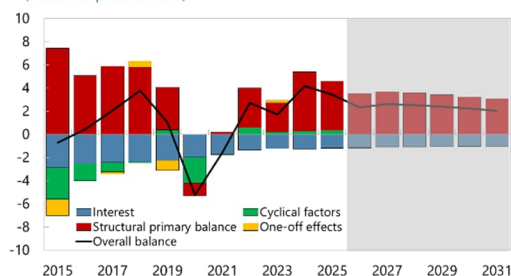
⁵This assumes a long-term debt level of around 40 percent of GDP, based on the analysis in Box 1 in the Cyprus 2024 Article IV report on “A Medium-Term Fiscal Anchor for Cyprus”.

Fiscal Projections

A limited easing of the structural primary balance is expected in the coming years...

Fiscal Balance Composition 1/

(Percent of potential GDP)



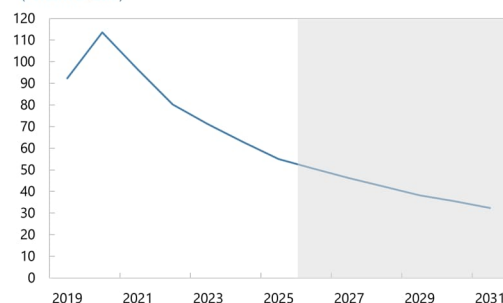
Sources: Cystat, European Commission, Eurostat, Haver Analytics, and IMF staff calculations.

1/ shaded area from 2026 onward indicates projections.

...leading debt to stabilize over the medium-term.

Public Debt 1/

(Percent of GDP)



Sources: Cypriot Ministry of Finance and IMF staff calculations.

1/ shaded area from 2026 onward indicates projections.

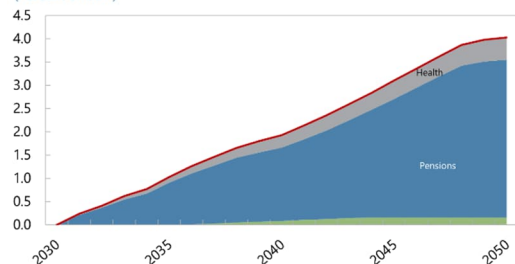
17. Further out, fiscal space will need to be preserved to meet high, rising, and long-lasting spending pressures. Between 2030–50, additional expenditures are estimated at around 4 percent of GDP, above the advanced European economies average. The interaction of already elevated public pensions, rising healthcare spending, and worsening demographics may lead to even sharper medium-to-long-term adjustment needs. Price indexation (spillovers from *Cost-of-Living Adjustment* (COLA) related wage setting) and other built-in mechanisms (guaranteed minimum pensions and supplements) may impede adjustment. To help frontload future pressures, the proposal to begin building financial assets in the Social Security Fund is welcome.

Europe: Long-Term Spending Pressures, 2030–50

Aging-related long-term spending pressures rise steadily by about 4 percent of GDP by 2050.

Long-Term Spending Pressures (Change Relative to 2030)

(Percent of GDP)



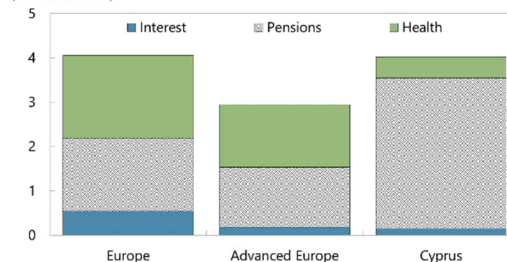
Sources: Eble et al., 2025 (IMF Departmental Paper 25/002), European Commission, and IMF staff calculations.

Note: Change in annual spending pressures beyond baseline over 2030–50. Baseline level: health and pensions 2023, interest at constant interest rate; climate and defense not included.

Pension costs are expected to account for a large share of projected spending.

Annual Spending Pressures (in 2050 relative to 2030)

(Percent of GDP)



Sources: Eble et al., 2025 (IMF Departmental Paper 25/002), European Commission, and IMF staff calculations.

Notes: Europe average excludes AND, BLR, ISR, KOS, RUS, SMR, TUR, and UKR.

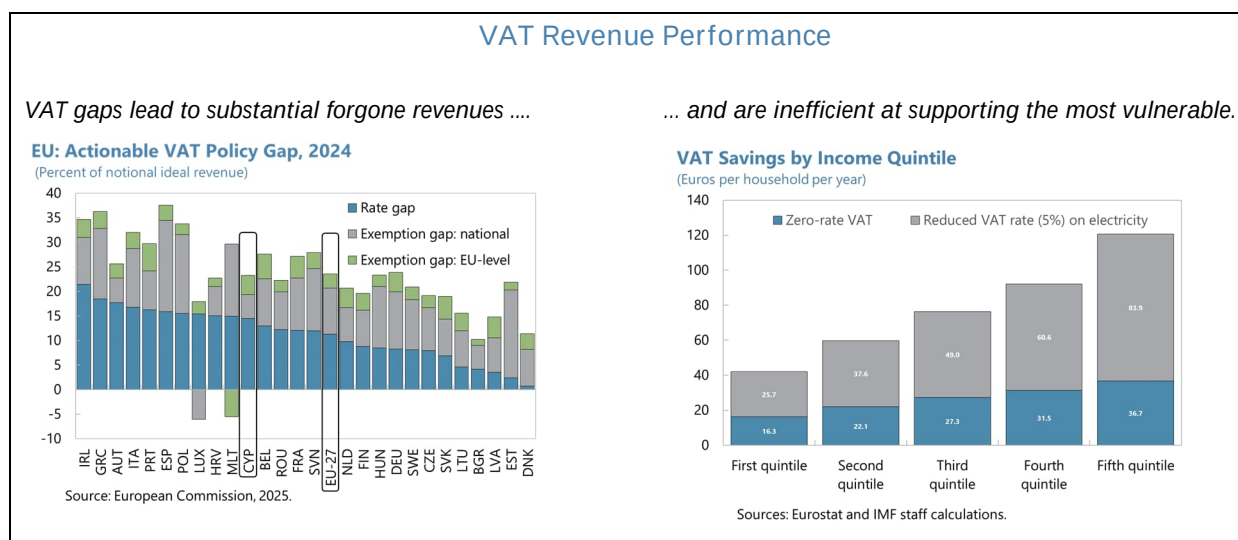
18. The composition of fiscal easing should prioritize boosting capital expenditure and improving spending efficiency, while avoiding costly, distortionary measures:

- *The use of consumption taxes for redistribution and cost of living relief should be reconsidered.*

Cyprus has high VAT collection efficiency but in recent years has increased the number of reduced-VAT-rate items. In April, in response to higher energy prices, this policy was extended. Such measures are costly, poorly targeted, and distortionary, and

Cyprus: Selected Measures to Address "Cost of Living Pressures" (2026)			
Measures	€ millions	% of GDP	Duration
Revenue	-53	-0.1	
VAT rate (9% → 5%) for electricity consumption	-28	-0.1	May 2026→Mar 2027
Zero VAT rate on various food items	-6	0.0	Apr→Sep 2026
Reduced excise on motor fuels (-8.33 cents/litre)	-19	0.0	Apr→Jun 2026
Expenditure	53	0.1	
Subsidisation of consumers' electricity bills	2	0.0	Apr 2026→Mar 2027
Grant to the Natural Gas Public Company	70	0.2	One-off
"Photovoltaics for all" scheme	-55	-0.1	2025 one-off unwind
Hotel industry wage subsidy (30%), airline support	7	0.0	Apr 2026
Farm input and foot-and-mouth disease subsidies	29	0.1	Apr→May 2026
Total	106	0.3	

should be rolled back. With inflation expected to pick up in the near term, pressures to extend these measures may intensify, but should be resisted. Instead, targeted and temporary transfers coupled with measures to improve energy efficiency and infrastructure are the most effective ways to protect vulnerable households. Reversing the 0 percent VAT rate on specific food items and the reduced 5 percent rate on electricity would recoup 0.2 percent of GDP in revenues. Redirecting this to targeted social transfers would reduce inequality by 6 times more than the recent tax-based measures.



- *The redistributive efficiency of social spending should be enhanced by reducing fragmentation and better targeting.* Cyprus's social safety net has significant potential to improve its redistributive efficiency by aligning with EU best practices (Annex IV). At present, support is targeted primarily towards insurance or compensatory objectives. Redistributive gains could be achieved by better targeting and stronger activation mechanisms, achieving lower inequality within a stable expenditure envelope.

- *The COLA-based indexation formula should not be revised again, and across-the-board salary increases should be avoided.* In 2025, the authorities agreed to gradually increase COLA indexation from two-thirds to full inflation indexation by July 2027. This will make wages less flexible, including in the public sector where wages are well above the private sector.⁶ Going forward, pay adjustment should be driven only by the COLA, with no additional discretionary increases that would further increase the public sector wage premium.
- *The National Solidarity Fund's (NSF) financing and compensation strategy should be clarified with any further financing weighed against opportunity costs.* Compensation paid by the NSF has been small relative to total eligible losses (Box 2). However, final compensation criteria lack clarity and there is uncertainty over the total cost of the scheme. These elements should be clearly articulated, with the opportunity cost of any additional resources carefully considered against other uses, including promoting sustainable growth and protecting vulnerable households.

Box 2. Cyprus: The National Solidarity Fund and the 2025 Replenishment Scheme

The NSF was established in 2013 following the banking crisis and the resolution of Bank of Cyprus and Laiki Bank, which imposed losses on uninsured depositors and investors. The fund was created to facilitate partial compensation of retail clients, primarily natural persons and some legal entities classified as retail clients (e.g., small businesses or family-owned companies). Professional or institutional investors (e.g., pension funds, investment funds, financial institutions) are excluded. Total losses from the two bank resolutions amounted to about €9 billion.

The NSF is financed through transfers from the state budget and gradually accumulated about €260 million by 2025. The NSF is primarily funded by transfers from the central government through annual budget allocations approved by parliament. There is no automatic funding mechanism and no predefined target for accumulated resources. The authorities have indicated that the timing and scale of resource allocations and subsequent compensation through the NSF depend on political decisions and fiscal considerations, including available fiscal space and compliance with medium-term fiscal targets.

Compensation from the NSF has not been legally mandated. Instead, payments are implemented through ad hoc replenishment schemes approved by the government and financed through the annual budget. The first replenishment was implemented in 2025. Potential claimants submitted applications through an electronic platform during December 2023–May 2024, resulting in 13,000 applications corresponding to roughly €2 billion in verified bail-in losses. This scheme covered only natural persons. Compensation parameters included a maximum payment of €100,000 per individual, with replenishment rates of 10 percent of losses related to Laiki Bank deposits and securities and 3.6 percent for Bank of Cyprus. The scheme was funded with €100 million from the NSF, with payments disbursed in batches as claims were verified; by September 2025 4,500 beneficiaries had received €44.4 million. Future replenishment schemes remain possible but would require new government decisions and budget allocations.

⁶ See Annex V on “Public Sector Wage Bill” in the Cyprus 2025 Article IV Staff Report.

- *To promote high quality public investment that supports long term growth, priority should be given to projects in energy, climate adaptation, digital infrastructure, and sustainable transport.* Public investment management—especially project quality and implementation capacity—should be enhanced. Capital spending floors in the budget could be employed to protect high quality investment (e.g., energy, health, transportation). R&D spending—both public and private—is less than a third of the EU average and could be expanded.
- *The recent comprehensive tax reform is welcome and should serve as a foundation for further improvements.* Many of the changes align with international best practice, including adopting the 15 percent global minimum corporate tax, abolishing a distortionary deemed-distribution mechanism, removing stamp duties and earmarking of defense funding, and strengthening compliance (Box 3). Further reforms should focus on base broadening (VAT, tax expenditures), reducing fragmentation in the taxation of capital income, implementing the postponed environmental tax reform, and strengthening recurrent property taxation. The reform is expected to have a negative impact on tax revenues this year (estimated at $\frac{1}{2}$ percent of GDP) mainly driven by changes to personal income tax (PIT) and dividends taxation. However, revenue recovery should materialize over time as corporate income tax (CIT) revenues will rise with a lag while nominal wage growth increases PIT revenues relative to fixed thresholds/brackets.

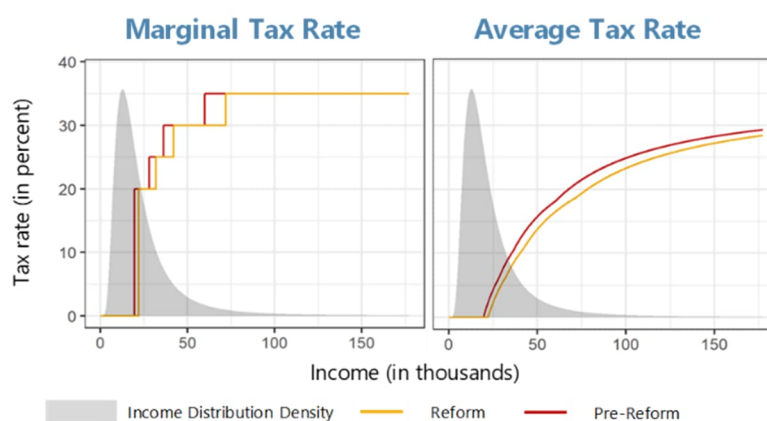
Authorities' Views

19. Despite some measures considered necessary to ease cost-of-living pressures this year, the authorities planned to continue reducing debt and building buffers. They noted that RRF implementation was progressing well, and they were confident of securing all funds this year, with one reservation regarding some reforms not yet completed as the deadline to complete all RRF milestones is end- August. They explained that recent cost-of-living measures were proportionate, had limited fiscal impact, were temporary, and did not undermine the steady decline in debt expected in coming years. To anticipate future age-related spending pressure, they noted that consideration was being given to building financial assets in the Social Security Fund, as part of a more comprehensive pension reform. Consideration was also being given to reducing social protection system fragmentation. They considered that the comprehensive tax reform corrected several distortions and imbalances in the previous system, and that any near-term revenue decline would be largely unwound in coming years as the system stabilizes.

Box 3. Cyprus: The 2025–26 Tax Reform

Cyprus implemented a major tax reform effective January 1, 2026. The reform—one of the most significant in two decades—aims to modernize the tax system, strengthen compliance, maintain attractiveness for investment, and align with evolving EU and OECD standards.

- The corporate income tax rate was increased from 12.5 to 15 percent, aligning with the OECD/G20 global minimum tax. The loss-carryforward period was increased from five to seven years, enhancing CIT neutrality. To simplify profit distribution rules, the reform abolished the deemed dividend distribution regime, under which undistributed profits were previously taxed as if paid out, and reduced the Special Defense Contribution on actual dividends from 17 to 5 percent.
- The Stamp Duty Law was repealed, removing a transaction tax on legal documents that discouraged formal contracting and investment. The taxation of crypto gains was clarified. A new 8 percent flat tax applies to gains from crypto assets, while tax losses from crypto assets are ring-fenced. Stock options granted under approved employer schemes are taxed at 8 percent, instead of previously being taxed as employment income (up to 35 percent in the top bracket), thus benefiting SMEs and tech employees.
- The tax-free personal income tax threshold was raised to €22,000, thus narrowing the tax base (about ½ of employees are exempt). PIT brackets were revised to partially account for the inflation and bracket creep and support middle income households, with marginal rates of 20, 25, 30, and 35 percent at progressively higher income levels. Mandatory filing was extended to all tax residents over the age of 25. New targeted and untargeted deductions were introduced for children and housing expenses (rent, mortgage interest, energy efficiency, renewables); the non-domicile regime was broadly preserved. A relatively low top PIT rate supports Cyprus's attractiveness to high skilled workers.

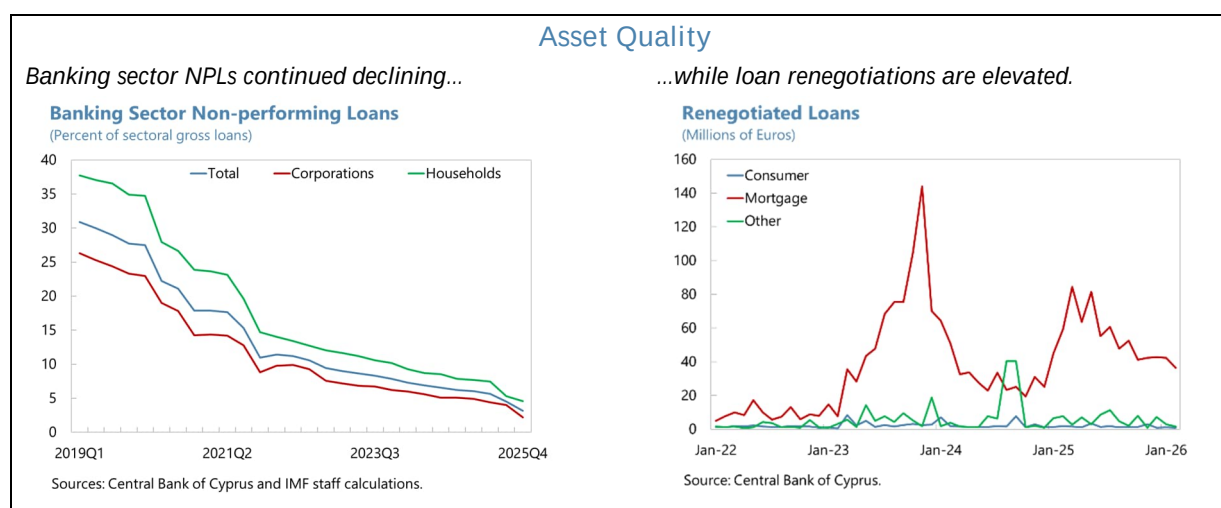


Sources: World Inequality Database, IBFD, and IMF staff calculations.

B. Financial Sector Policies: Balancing Growth and Resilience

The banking sector is resilient, with strong capital and liquidity buffers and improving asset quality. While risks appear contained, significant real-estate linkages warrant continued vigilance. And more structurally, legacy NPLs outside the banking system remain elevated and banking intermediation remains subdued in a highly concentrated system.

20. The banking sector appears resilient with some of the EU's highest solvency and liquidity ratios. NPLs have continued to decline and asset quality has improved with easing financial conditions and economic growth. The recent credit growth recovery is welcome. The uptick in loan renegotiations should be monitored, even if viewed as a sign of competition among lenders for high-quality borrowers. With the increase in the counter-cyclical capital buffer (CCyB) from 1 to 1.5 percent, effective from January 2026, macroprudential policy is appropriately calibrated. Given that capital and liquidity buffers are already high, any further tightening of the macro-prudential policy stance should be carefully weighed against the potential impact on credit growth and financial deepening.



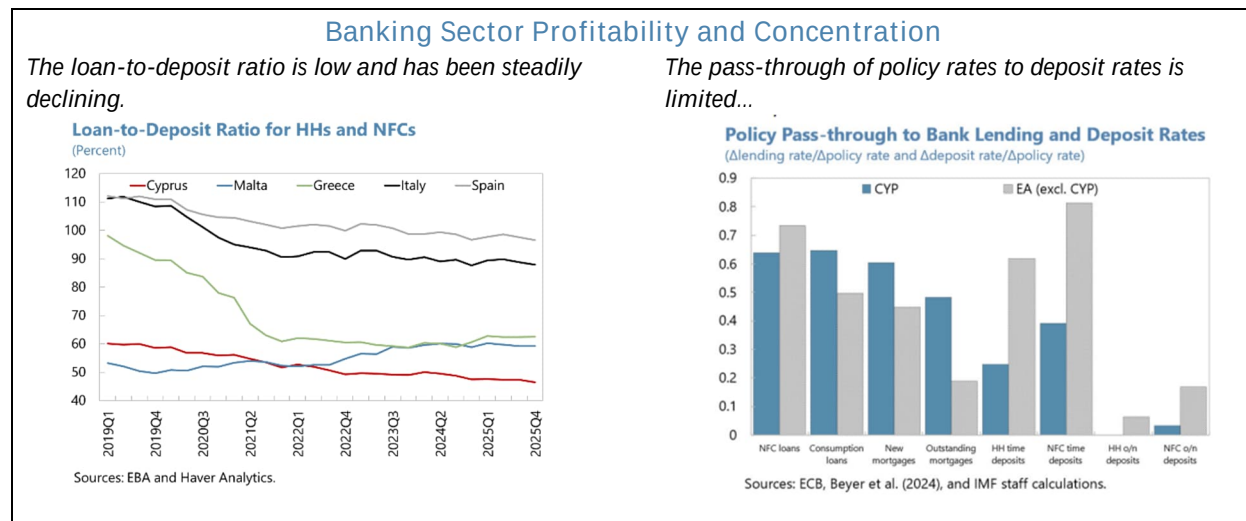
21. Systemic financial risks are contained. Sustained deleveraging among non-financial corporations (NFCs) and low overall credit levels limit the risk of severe macro-financial amplification. Non-bank financial institutions (NBFIs) serve a mostly stable and wealthy client base and hold geographically diversified assets, limiting direct spillovers to banks and the real economy. Housing market momentum has shown signs of cooling, easing concerns about overvaluation. However, bank exposure to real estate is significant, warranting continued vigilance. Exposure is both direct through mortgages and lending to NFCs in the sector and indirect through loans secured by real estate collateral. The risk monitoring framework should continue to develop to strengthen the assessment of vulnerabilities.

22. Despite strong recovery over the past decade, the banking sector shows limited dynamism. Credit intermediation by banks is subdued: the loan-to-deposit ratio is around

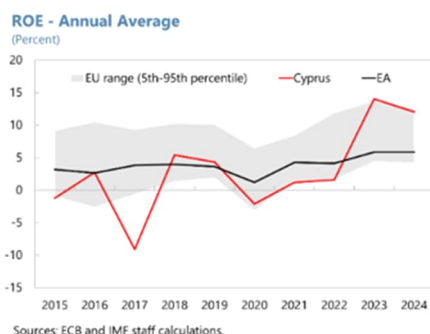
50 percent, compared to over 105 percent on average in the EU. Profits have been among the highest in Europe since 2023, as banks have high interest rate spreads and low pass-through of policy rates to deposit rates. Potential explanations for this lack of dynamism include:

- Concerns over credit enforcement of NPLs because of an inefficient judicial system and legal uncertainties surrounding the foreclosure framework.
- The relatively small size of the economy and high—and increasing with recent mergers—concentration in the banking sector. While alternative fintech institutions have started to penetrate the market, depositors have been reluctant to move away from the traditional banking sector.
- Friction within the EU banking union, including barriers to establishing deposit accounts in other EU countries and limits on establishing EU-wide investment products.
- Lingering risk aversion by depositors and banks from the 2013 crisis.

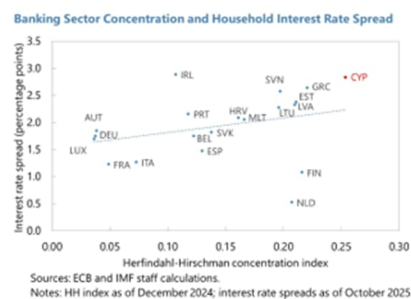
Efforts should focus on reducing frictions to efficient lending—particularly addressing judicial inefficiencies and eliminating uncertainty surrounding the foreclosure process that hinder collateral enforcement and resolution—to promote greater competition and credit deepening. Additionally, reducing barriers to cross-border operations and scaling via the EU Savings-Investment Union would support greater competition in the domestic market.



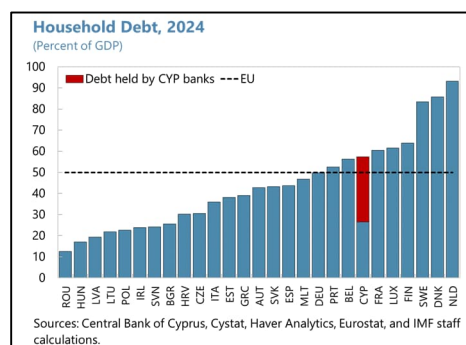
...supporting an increase in the ROE after the 2013 crisis.



Interest rate spreads and concentration in the banking sector are among the highest in EA.



23. Recent proposed changes to the foreclosure framework slowing NPL resolution would be a major setback. NPLs outside the banking sector amounted to €18.5 billion in June 2025 (51 percent of GDP); over 30 percent of household and NFC debt is held by CACs. Legislative measures to ease debt burdens among vulnerable households—such as the “mortgage-to-rent” scheme and “trapped buyers” legislation enacted in July 2025—should help restore household creditworthiness. However, progress in resolving NPLs remains slower-than-expected. Recent legislative proposals to the foreclosure framework create legal uncertainty and risk weakening payment discipline and the functioning of the framework as a credible deterrent. These proposals would reverse important progress made in recent years.⁷ The changes would not only encumber legacy NPL resolution but also weaken future credit deepening, investment, and growth. In the judicial sector—where slow processing of cases is a major impediment to NPL resolution—additional efforts are required to strengthen the institutional framework for insolvency and creditor rights and to improve court efficiency (¶130).



24. Continued improvement of the AML/CFT framework—including beyond the banking sector—is crucial to safeguarding against risks. The authorities should enhance implementation of AML/CFT safeguards and address gaps that undermine effectiveness. The new AML/CFT directive extends the scope of Central Bank of Cyprus (CBC) supervision beyond credit institutions. Following this change, further use of entity-level AML/CFT risk assessments across all obliged entities under CBC’s supervisory remit would help inform supervisory prioritization and intensity. The AML/CFT framework should be further adapted to the evolving regulatory landscape, including the establishment of the new EU Anti Money Laundering Authority (AMLA) and the phased introduction of Regulatory Technical Standards, including those on risk assessment. Consolidating AML/CFT supervision in a single authority could reduce fragmentation and ensure consistent standards and enforcement across all entities.

⁷ See Box 2 in the 2024 Cyprus Article IV Staff Report.

Authorities' Views

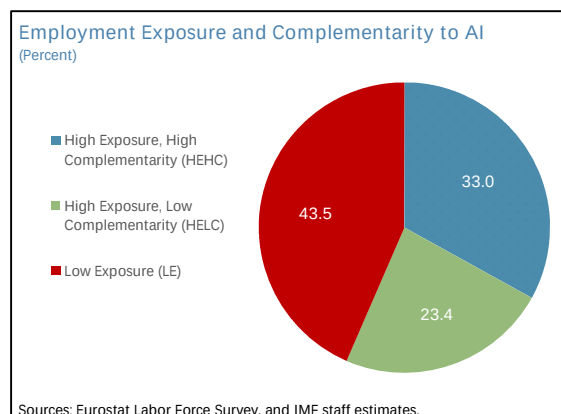
25. The authorities welcomed the continuation of credit expansion and viewed the financial sector as an important buffer. They highlighted that after a decade of deleveraging, credit finally began to expand, supported by strong growth and easing financial conditions. While they acknowledged that credit levels are expanding from a low base, they viewed the rate of growth as a sign of dynamism. They assessed credit expansion as broad-based and subject to high

standards. The authorities underscored the importance of preserving macro-financial stability, with capital buffers and ample liquidity in the banking sector serving to absorb negative shocks. The authorities attributed the lack of dynamism to structural factors, notably a preference for bank deposits that generate abundant system liquidity. They acknowledged that proposed changes to the foreclosure framework could weaken payment discipline, encourage lengthy litigation, and weaken credit creation. They agreed that improving efficiency of the judicial sector, especially in the context of reforms to the foreclosure process, would be an important driver of credit deepening. Additionally, they would like the banking sector to increase support for innovation and adjust business strategies to better handle growing competition from fintech and digital banks.

C. Structural Policies: Raising Potential Growth

While prudent macroeconomic policies and ongoing diversification have set the stage for sustained growth, continued structural reforms are needed to seize the opportunity. Focus should be on boosting human capital, addressing skill mismatches, strengthening AI readiness, improving judicial efficiency, and securing sustainable and affordable energy supplies.

26. Labor policies should prioritize upskilling, reskilling, and inclusive workforce development to manage AI impacts. Cyprus continues to outperform its peers in labor force participation despite modest remaining gender and age-related gaps.⁸ Shortages in services and high-skilled workers for the growing ICT sector could be filled by non-native workers. The labor market faces significant AI challenges and opportunities (Annex V). Fifty six percent of workers are highly exposed to AI, with notable disparities across gender, education, and nationality: women and highly educated individuals experience both greater exposure and displacement risk. Jobs in sectors like business administration, clerical, and ICT are particularly vulnerable; many lower-skilled roles will be less affected. To navigate this landscape, policies should emphasize upskilling and reskilling through embedding AI and digital

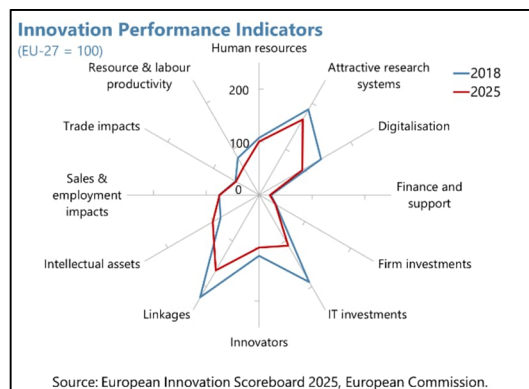


⁸ See Annex I on “Drivers of Growth: Capital and Labor” in the Cyprus 2025 Article IV Staff Report

competencies in education and lifelong learning. Special attention should be placed on protecting high-risk groups.

27. Cyprus should strengthen business policies to increase AI adoption and support innovation. Cyprus exhibits a striking contrast between high personal AI usage and low AI adoption within businesses, with less than 10 percent of companies integrating AI technologies. Sectoral exposure varies, with private firms in ICT, finance, and professional services facing the highest displacement risks; the public sector shows greater potential benefit from AI integration. Despite the launch of the National Digital Strategy 2020–25 and the Smart Specialization Strategy 2023–30, the IMF's AI

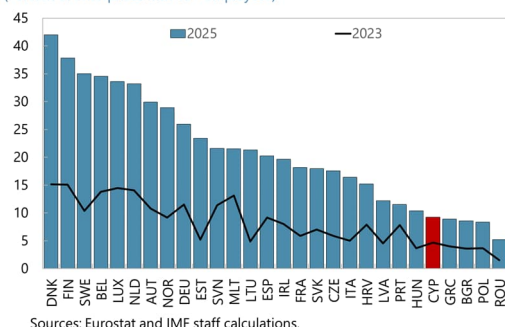
Preparedness Index indicates that Cyprus lags behind EU peers in innovation financing, human capital, and regulation, especially related to AI integration. Initiatives like the EU RRP and National AI Task Force are promoting AI adoption but more is needed. To foster efficient AI adoption, policies should target awareness-raising, support for AI adoption among SMEs, and leveraging innovation hubs. Strategic frameworks like the upcoming AI action plan and adoption of an efficient regulatory framework compliant with the EU AI regulation are needed to bolster digital infrastructure and create a favorable ecosystem for AI-driven growth in the business environment.



AI Use and Preparedness for its Adoption

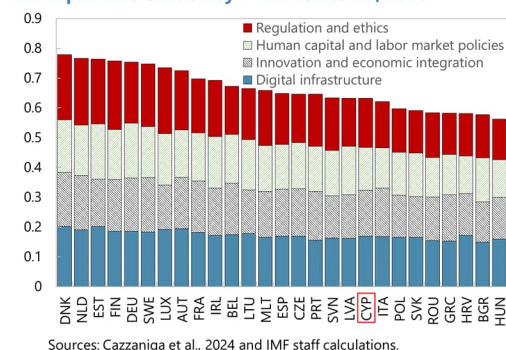
Use of AI by enterprises is low compared to EU peers...

Enterprises Using AI Technologies
(Percent of enterprises with 10+ employees)



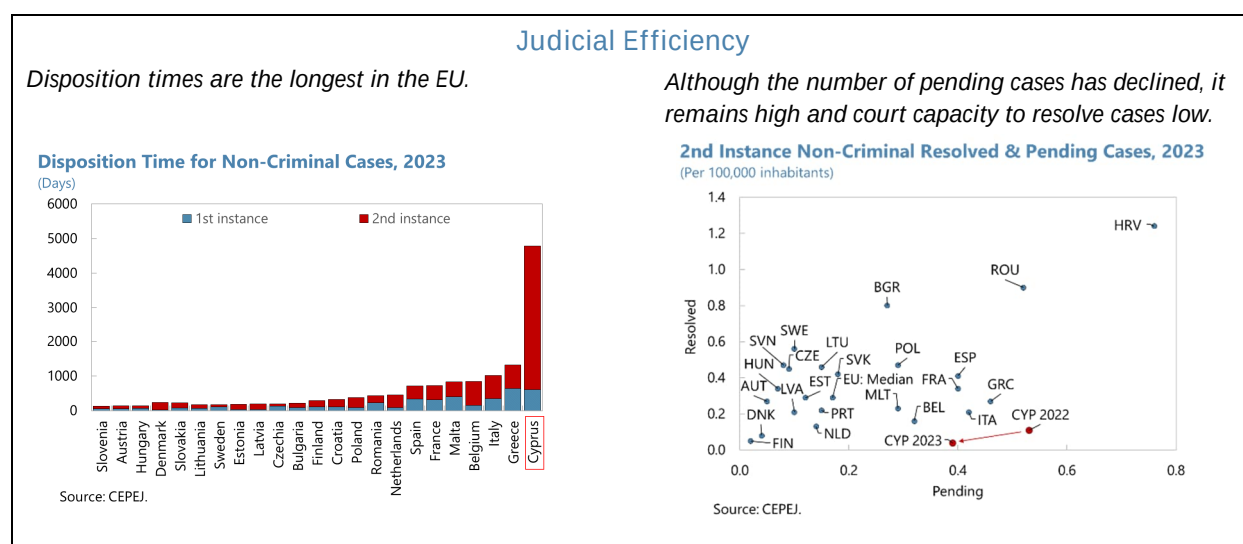
...potentially reflecting gaps in AI preparedness especially in human capital and labor market policies.

AI Preparedness Index by Pillar Across EU, 2023



28. R&D spending is low by European standards, just one-fifth of the EU average and the second lowest in the EU. Around $\frac{1}{3}$ is funded by the government. Higher government spending could be directed to building stronger university-industry links and improving access to risk capital for innovative firms. Efforts could also be made to strengthen R&D tax incentives, which do not cover early-stage innovative companies that would benefit from input-based incentives.

29. Despite welcome recent judicial reforms, further efforts are needed to enhance court efficiency.⁹ An efficient judicial system is essential for credit provision, investment, and growth. Cyprus faces long case disposition times and backlogs, limited judicial specialization, staffing shortages, and insufficient digitalization. These form a critical bottleneck hindering timely debt enforcement, insolvency proceedings, resolution of legacy NPLs, and credit intermediation and growth. The proposed changes to the foreclosure framework (§23) risk exacerbating the case delays and backlogs even further. Introducing new civil procedure rules and reducing cases backlog, together with other recent reforms, like the establishment of the Court of Appeal and the Commercial Court, mark progress, but further efforts are needed. These include: (i) providing more resources to the courts system to increase the number of judges and support staff; (ii) operationalizing the Commercial Court and extending specialization to appeals level; (iii) upgrading the case management system; (iv) deepening judge specialization by introducing a clear separation of civil and criminal cases, and (v) the creation of specialized commercial benches within civil courts.



30. Enhancing Cyprus's energy mix, connectivity, and market functioning is critical to securing supply, reducing costs, and supporting sustainable climate-aligned growth. Electricity is largely oil-powered and non-connected, leading to high costs and emissions. Key projects such as the Great Sea Interconnector (GSI) to Greece and an LNG terminal would diversify supply and lower costs. However, GSI construction remains uncertain and LNG terminal progress has stalled since 2024. The recent launch of a competitive electricity market with EU Target Model arrangements should improve efficiency, lower prices, and facilitate renewable energy integration, marking an important step toward integration in the EU energy market.

⁹ See Annex VI of the 2025 Cyprus Article IV Consultation

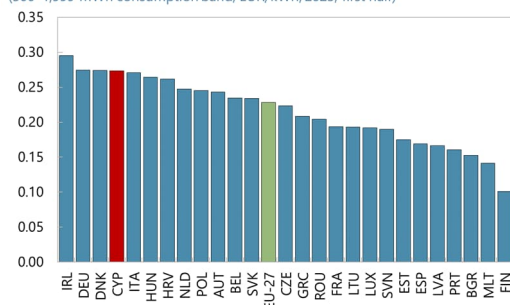
Energy Prices

Cyprus has among Europe's highest electricity prices

...due to a high share of costly oil-based production.

Electricity Prices for Non-Household Consumers

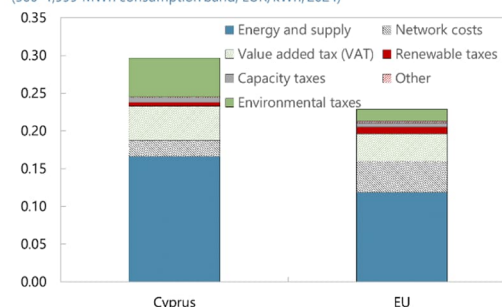
(500–1,999 MWh consumption band; EUR/kWh; 2025, first half)



Sources: Eurostat and IMF staff calculations.

Electricity Price Components - Non-Household Consumers

(500–1,999 MWh consumption band; EUR/kWh; 2024)



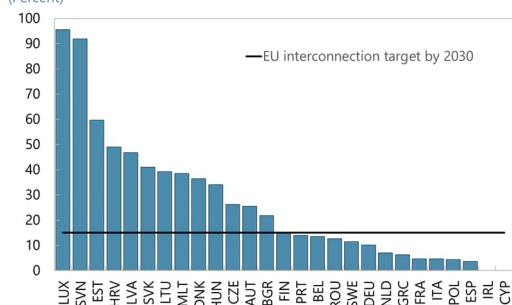
Sources: Eurostat and IMF staff calculations.

Cyprus lacks interconnection with the rest of EU.

Evidence shows that improving interconnection reduces price spreads.

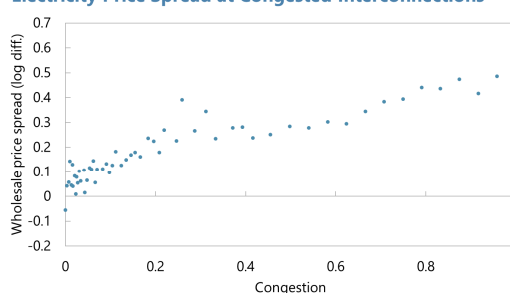
Electricity Interconnection in the EU (as of January 2025)

(Percent)



Source: European Commission.

Electricity Price Spread at Congested Interconnections



Sources: Bartolini et al., forthcoming (IMF) and IMF staff calculations.

Notes: Congestion is measured as the capacity-weighted monthly average share of hours with utilization above 90 percent.

Authorities' Views

31. The authorities agreed on the importance of structural reforms to raise potential growth through strengthening human capital, reducing skills mismatches, and supporting innovation. With labor markets tight and Cyprus near full employment, they emphasized easing labor shortages through a more flexible framework for employing non-EU nationals, alongside measures to support integration. They acknowledged digital skills gaps and highlighted training and reskilling efforts to support adaptation to technological change. The authorities viewed AI adoption as a key opportunity to raise productivity led by the private sector and supported by policies that foster innovation.

32. The authorities underscored that strengthening the judicial system is critical for investment, credit provision, and growth. They noted progress in reducing backlogs and advancing digitalization, while acknowledging continued capacity constraints. They indicated that operationalization of the Commercial Court would be deferred until at least the Admiralty Court becomes fully operational. They also noted that work is underway on an implementation plan for

the enhancement of the administrative capacity of the Court Service to improve court administration and efficiency.

33. The authorities emphasized that energy security and high energy costs are key challenges for competitiveness. They pointed to progress with the competitive electricity market and efforts to expand renewables, supported by grid reforms and investments in battery storage. They noted that an audit of the LNG terminal project has been completed and that a new tender for project completion is expected shortly, although completion is not expected before 2029. The authorities recognized the strategic importance of the GSI but reiterated concerns about financial viability, implementation risks, and geopolitical uncertainties, stressing the need for an economically sustainable framework.

STAFF APPRAISAL

34. Cyprus has shown impressive resilience, with growth remaining among the highest in the EU. This strong performance—supported by export-oriented services, particularly ICT and tourism—has been achieved despite multiple external shocks and heightened uncertainty. Fiscal performance has been exceptional: sustained surpluses since 2014 have reduced public debt from above 110 percent of GDP to below 60 percent in 2025, strengthening investor confidence. However, despite this track record and a favorable outlook, structural weaknesses persist—notably high legacy NPLs outside banks, limited credit depth in the banking sector, judicial inefficiencies, and a reliance on oil-based energy.

35. The outlook has weakened in the near-term, but medium-term prospects remain strong. Growth is projected to weaken to 2.6 percent in 2026, while higher oil prices are expected to push inflation to 3.5 percent, weighing on real incomes. Tourism has suffered but is expected to partly recover during the peak season. The external position is assessed to be weaker than the level implied by medium-term fundamentals and desirable policies. Near-term risks are tilted to the downside, notably from escalation of the war in the Middle East. In such a scenario, staff's core policy advice remains unchanged (Box 1). Continued structural reforms and expansion in the digital economy provide important upside potential.

36. While a neutral stance would be preferable in 2026, there is scope for fiscal easing over the medium term. Given the positive output gap, the projected fiscal loosening this year is sub-optimal, but is unlikely to significantly add to inflation pressures. Over the medium-term, however, a declining debt path and otherwise strong fiscal performance allows for a gradual, high-quality fiscal loosening. This easing should proceed gradually to avoid overheating while also accommodating rising spending pressures and ongoing investment needs.

37. Along this easing path, some fiscal space should be preserved to anticipate rising long-term spending pressures. Public spending is projected to increase significantly over the coming decades, driven mainly by population ageing through higher pension and healthcare costs, as well as by defense, climate, and infrastructure needs. As such, some fiscal space should be

preserved to address this over the longer term. In this respect, the proposal to begin building financial assets in the social security fund is welcome.

38. Fiscal policies should focus on growth-enhancing investment and efficient spending and taxation. Public wage growth should not exceed the COLA index, and broader pay increases should be avoided to prevent widening of the public-private wage gap. Clarifying the financing strategy of the NSF and assessing its fiscal costs would help contain risks. New spending or lower taxes should focus on supporting long-term growth. For example, priority should be given to high-quality public investment in energy, climate adaptation, digital infrastructure, and sustainable transport, all supported by strong public investment management. Zero and reduced VAT rates, excise duty cuts, and other price-based measures to mitigate energy-related inflation are costly, poorly targeted, and distortionary, and should be rolled back. Instead, targeted and temporary transfers coupled with measures to improve energy efficiency and infrastructure are the most effective ways to protect vulnerable households. The recent comprehensive tax reform is welcome and provides a solid basis for further improvements in the fiscal framework.

39. The banking sector is robust, supported by strong capital and liquidity buffers as well as improving asset quality. NPLs within banks continue to decline, and the recent increase in the counter-cyclical capital buffer reflects appropriately calibrated macroprudential policy. However, significant exposure of banks to real estate, both directly and indirectly, warrants ongoing vigilance, and further strengthening of risk monitoring frameworks is recommended. The recent tightening of the macroprudential stance will further strengthen resilience, with limited impact on credit provision. Going forward, macroprudential policy should remain carefully calibrated to preserve financial stability while supporting the continued recovery in credit growth.

40. Despite a recent recovery in credit, the banking sector shows limited dynamism. Credit intermediation remains subdued, with the loan-to-deposit ratio among the lowest in the EU. High profitability—driven by wide interest rate spreads and low pass-through of policy rates to depositors—contrasts with limited banking sector dynamism. Factors contributing to this include remaining frictions in resolving NPLs outside the banking sector, structural constraints related to market size and concentration, scarring from the 2014 crisis, and frictions within the EU banking union. Further reforms to improve judicial efficiency, reducing barriers to cross-border banking, and efforts to resolve legacy debt would help promote competition and deepen credit intermediation.

41. Proposed changes to the foreclosure framework will slow the resolution of legacy NPLs and limit credit deepening. Recent initiatives aimed at easing debt burdens among vulnerable households, such as the mortgage-to-rent scheme and trapped buyers' legislation, are expected to support NPL reduction. However, recently proposed changes to the foreclosure framework, including those widening the scope for challenging and delaying the foreclosure process, create legal uncertainty and risk weakening payment discipline and the function of the framework as a credible threat. All this would significantly slow resolution of legacy NPLs and weaken credit deepening, investment, and growth.

42. Further improvements to judicial efficiency are a priority to support investment, credit provision, and timely resolution of legacy NPLs. Despite recent reforms, long case disposition times, staffing shortages, insufficient digitalization, and limited specialization continue to hinder court performance. Priorities include providing additional resources for expanding the number of judges and support staff, and improving digital and physical infrastructure. Strengthening specialization including through accelerating the operationalization of the Commercial Court is also important.

43. Labor and business policies should increasingly focus on managing AI's labor market impacts while leveraging its growth potential. Cyprus continues to outperform peers in labor force participation, although gender- and age-related gaps persist. And targeted migration of non-EU nationals could help ease labor shortages, including in ICT, construction, and hospitality. AI exposure is high—particularly among women, highly educated workers, and in sectors such as business services, clerical work, and ICT—underscoring the need for strong upskilling, reskilling, and lifelong-learning frameworks to ensure an inclusive transition. Despite widespread personal use of AI, firm-level adoption remains low, especially among SMEs, reflecting gaps in innovation financing, skills, and the regulatory environment. Efforts should focus on improving digital infrastructure, supporting AI uptake by firms—especially SMEs—and strengthening active labor market policies to manage transition risks.

44. Advancing energy sector reform is critical to reducing costs, strengthening energy security, and supporting the green transition. Electricity generation remains heavily oil-based, and the system is not interconnected, contributing to high prices and emissions. The key energy projects—the GSI and the LNG terminal—continue to face delays. Progress on these projects together with improvements to the competitive electricity market framework would help lower costs, diversify supply, and facilitate renewable energy integration.

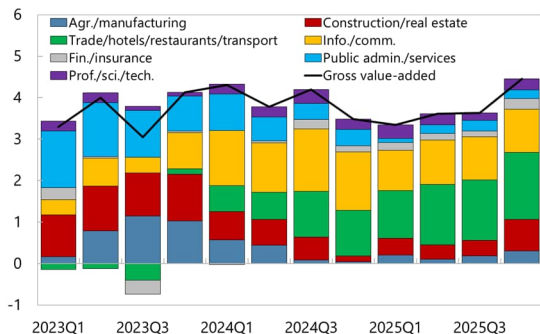
45. It is proposed that the next Article IV consultation with Cyprus take place on the standard 12-month cycle.

Figure 1. Cyprus: Real Sector Developments

GDP growth has been driven mainly by the ICT and tourism-related services...

Contributions to Value-Added Growth

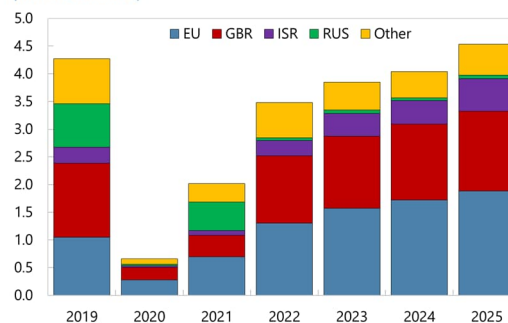
(Percent, year-over-year)



...as reflected in increasing tourist arrivals.

Tourist Arrivals

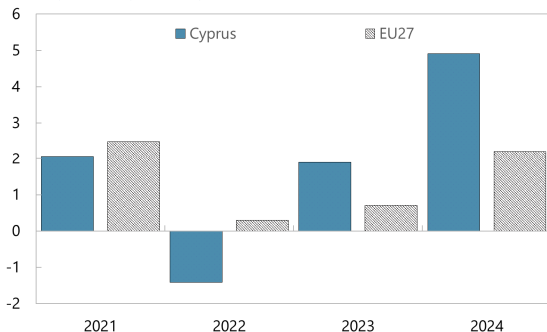
(Millions of tourists)



Private consumption has remained robust due to strong growth in disposable income...

Real Gross Disposable Income per Capita

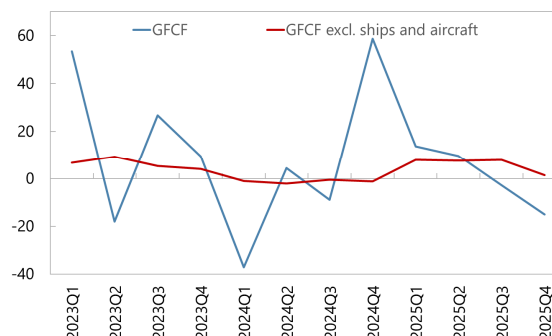
(Percent, year-over-year change)



...while investment growth excluding ships and aircraft has been recovering supported by monetary easing.

Gross Fixed Capital Formation

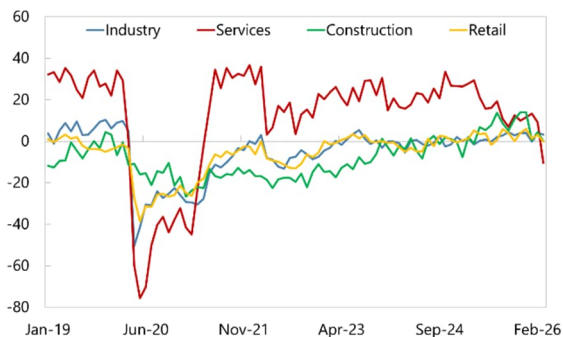
(Percent, year-over-year)



Recently, confidence in the service sector declined amid Middle East war-related tourism concerns.

Confidence Indicators

(Percent balance)



Inflation has rebounded, driven by energy and food prices.

Headline Inflation Contributions

(Percent, year-over-year)

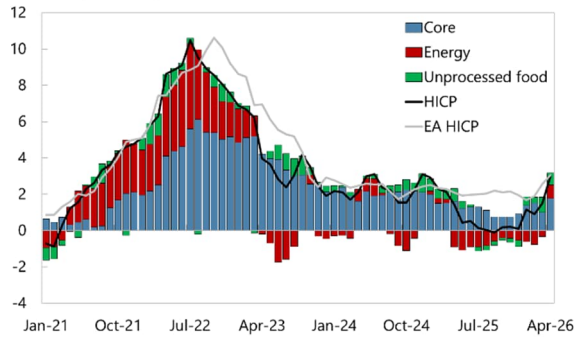


Figure 2. Cyprus: Labor Market Developments

The unemployment rate has continued to decline...

Unemployment Rate

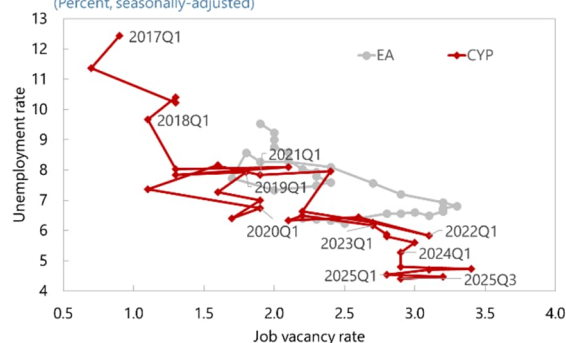
(Percent of total labor force, 15+ years old)



... the labor market remains tight...

Beveridge Curve

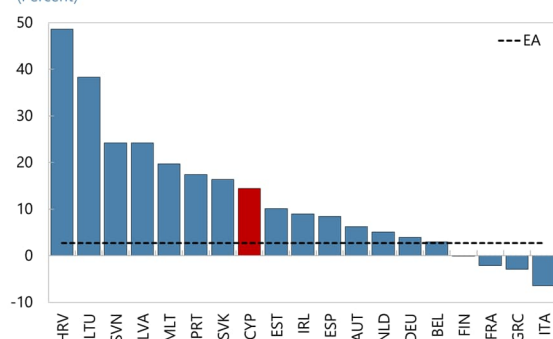
(Percent, seasonally-adjusted)



...and wage growth is above the EA average.

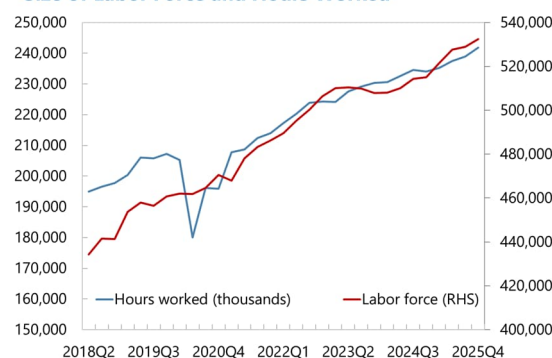
Change in Real Hourly Compensation, 2019Q1-2025Q4

(Percent)



The size of the labor force continues to increase...

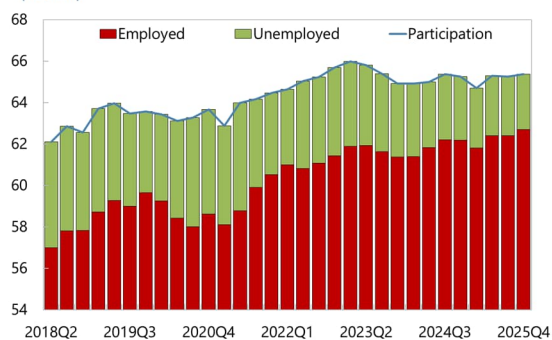
Size of Labor Force and Hours Worked



...but the participation rate has stabilized.

Labor Force Breakdown

(Percent)



Tourism and related services have contributed most to employment growth.

Sectoral Contributions to Employment Growth

(Percent, year-on-year)

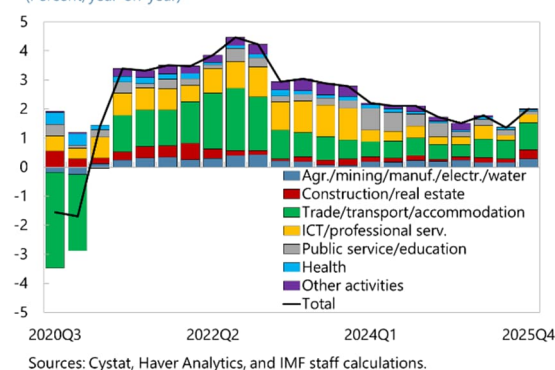


Figure 3. Cyprus: Fiscal Developments

Fiscal revenues grew strongly during 2022-24, outpacing GDP growth, before moderating in 2025.

General Government Revenue

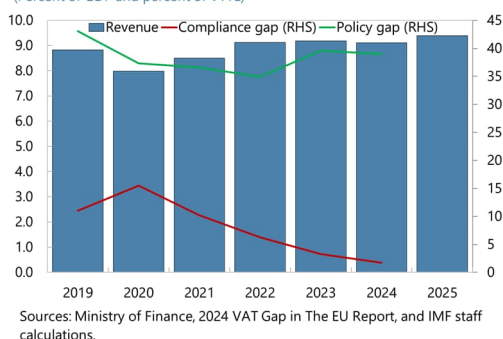
(Percent of GDP and percent, year-over-year)



VAT buoyancy increased sharply during 2022-24, driven by improved compliance and higher inflation.

Value-Added Tax (VAT)

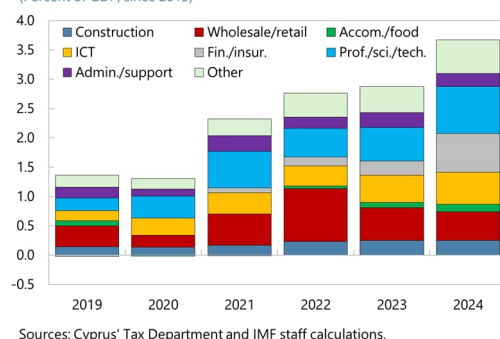
(Percent of GDP and percent of VTTL)



CIT revenues remained strong across sectors and through the clearance of backlog of tax arrears.

Cumulative Sectoral CIT Change Contributions

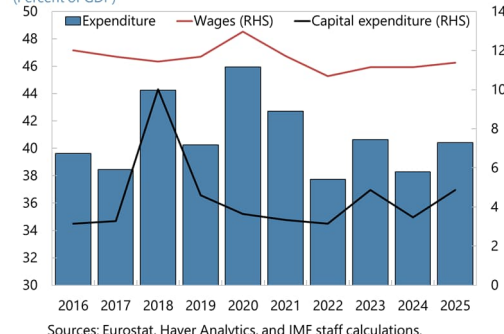
(Percent of GDP, since 2015)



Public spending to GDP has increased faster than revenues in 2025..

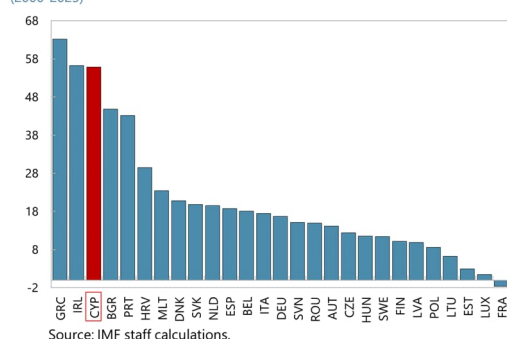
General Government Expenditure

(Percent of GDP)



The debt ratio fell quickly after 2021, driven by large primary surpluses, robust GDP growth...

EU Countries Ranked by Five-Year Debt-to-GDP Ratio Decline (2000-2025)



....and favorable financing conditions.

Benchmark Government Bond Yields (10-year)

(Percent)

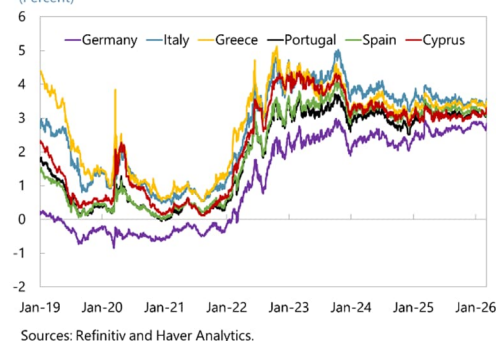
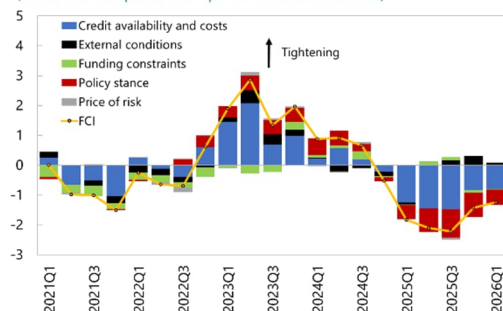


Figure 4. Cyprus: Financial Conditions and Credit

Financial conditions have eased...

FCI Changes

(Contribution to quarter-over-quarter first difference of FCI)

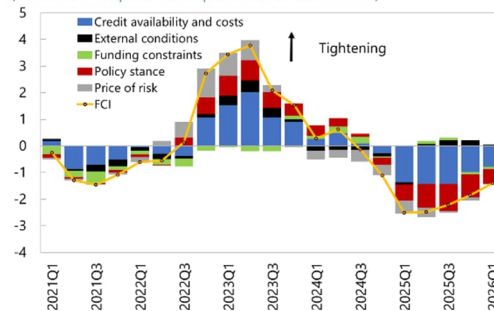


Sources: Borraica et al. (2023) and IMF staff calculations.

...including for households...

FCI Changes - Households

(Contribution to quarter-over-quarter first difference of FCI)

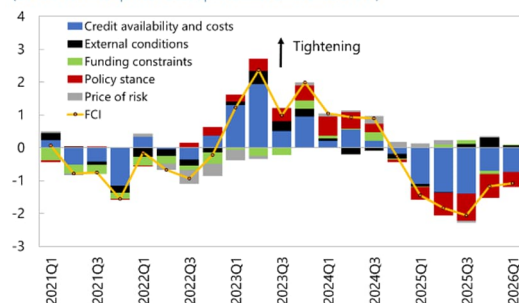


Sources: Borraica et al. (2023) and IMF staff calculations.

...and NFCs.

FCI Changes - Nonfinancial Corporations

(Contribution to quarter-over-quarter first difference of FCI)

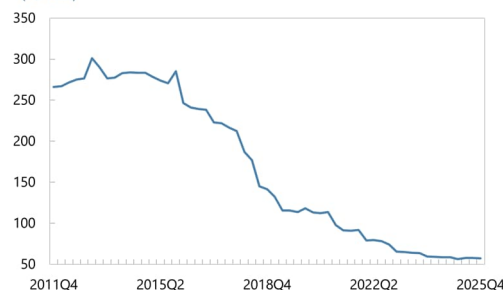


Sources: Borraica et al. (2023) and IMF staff calculations.

The credit-to-GDP ratio appears to be stabilizing after a steep fall over the last decade...

Credit-to-GDP Ratio 1/

(Percent)



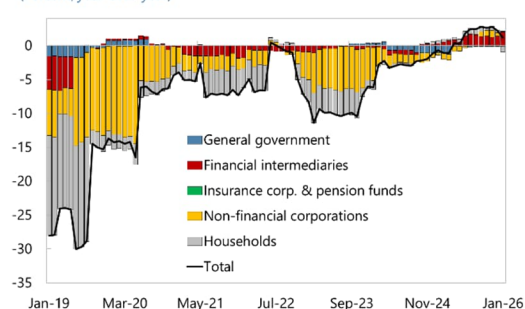
Sources: BIS, IFS, Haver Analytics, World Bank, and IMF staff calculations.

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)

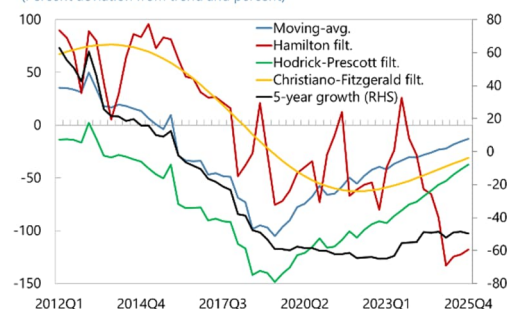


Sources: Central Bank of Cyprus, Haver Analytics, and IMF staff calculations.

...with credit gap estimates highly negative.

Credit-to-GDP Ratio Gap

(Percent deviation from trend and percent)



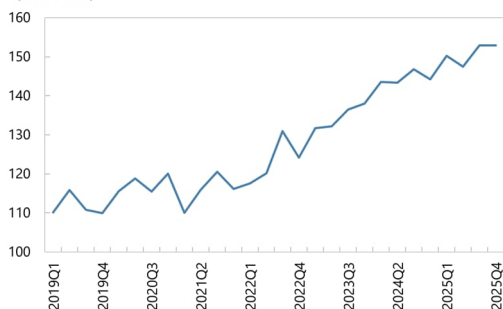
Sources: BIS, IFS, Haver Analytics, and IMF staff calculations.

Notes: Top three panels: For implementing Partial Least Square, we divide the sample into distinct time periods, each with its regression. The indices are then chained together. It is essential to note that absolute FCI levels may not be fully comparable to the early 2000s, given variations in available financial indicators. The final index chain covers most of the 2015–2023 period. 2025Q4 and 2026Q1 are forecasts.

Figure 5. Cyprus: Real Estate Market Developments

House price growth has abated...

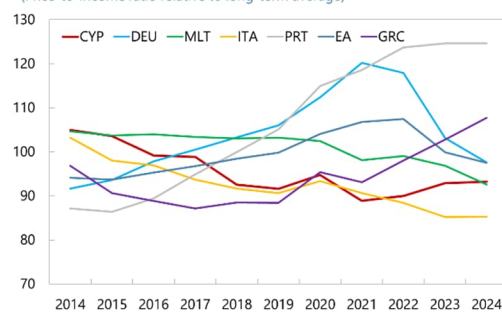
House Price Index
(2015 = 100)



Source: Cystat.

...and housing affordability metrics remain contained.

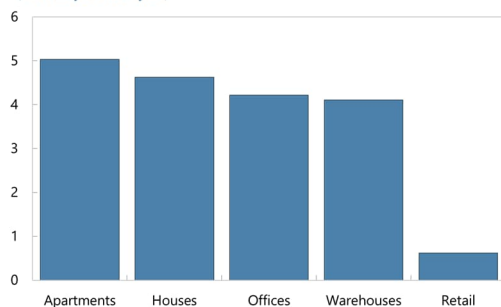
House Price-to-Income Ratio
(Price-to-income ratio relative to long-term average)



Source: Eurostat.

Apartments continued to lead increases in real estate prices...

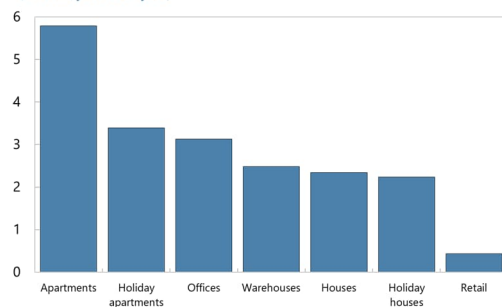
Property Market Price Growth by Type, 2025Q4
(Percent, year-over-year)



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

...and rents followed a broadly similar trend.

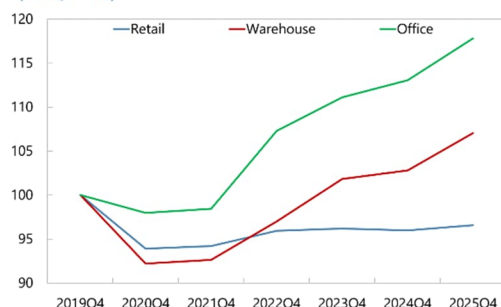
Rent Growth by Type, 2025Q4
(Percent, year-over-year)



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

Commercial real estate prices have increased in recent years.

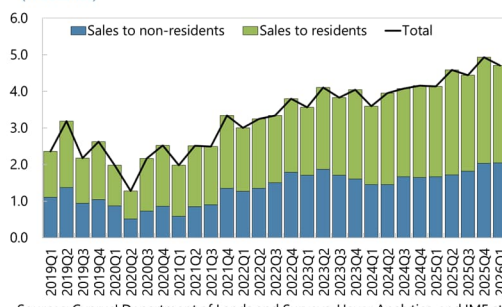
Commercial Real Estate Price Index
(2019Q4 = 100)



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

Property sales are growing at a steady rate.

Property Sales
(Thousands)



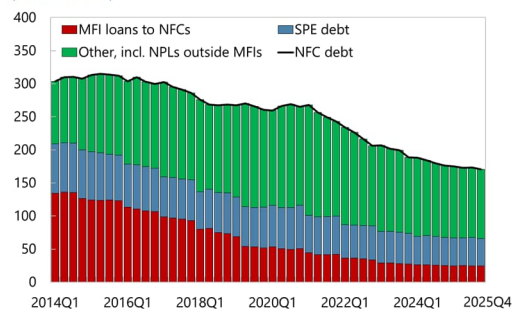
Sources: Cyprus' Department of Lands and Surveys, Haver Analytics, and IMF staff calculations.

Figure 6. Cyprus: Corporate Vulnerabilities

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

Non-Financial Corporation Debt

(Percent of GDP)

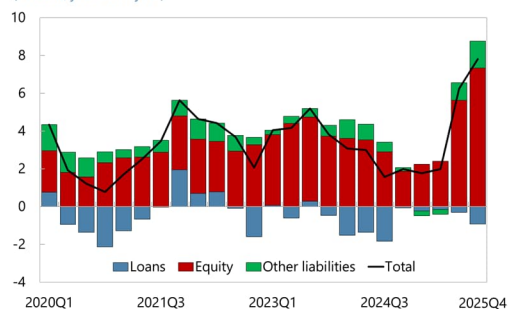


Sources: Central Bank of Cyprus, Eurostat, Haver Analytics, and IMF staff calculations.

Instead, equity liabilities have grown considerably...

Non-Financial Corporation Liabilities Growth Composition

(Percent, year-over-year)

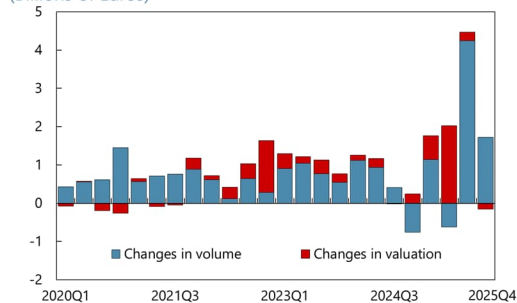


Sources: Eurostat and IMF staff calculations.

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

Non-Financial Corporation Change in Equity Liabilities

(Billions of Euros)

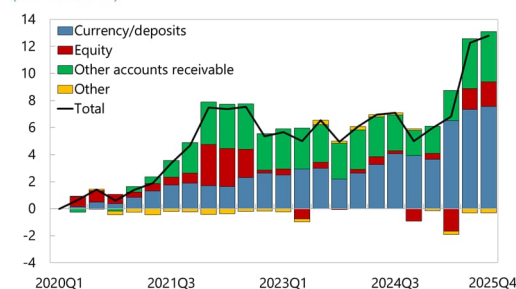


Sources: Eurostat and IMF staff calculations.

Financial assets have grown, especially cash holdings...

Non-Financial Corporation Cumulative Change in Assets 1/

(Billions of Euros)

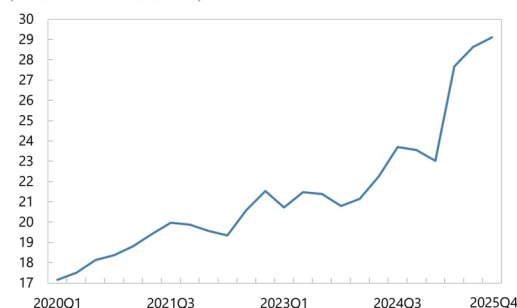


Sources: Eurostat and IMF staff calculations.
1/ since 2020Q1

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

Non-Financial Corporation Stock of Cash

(Percent of total debt liabilities)

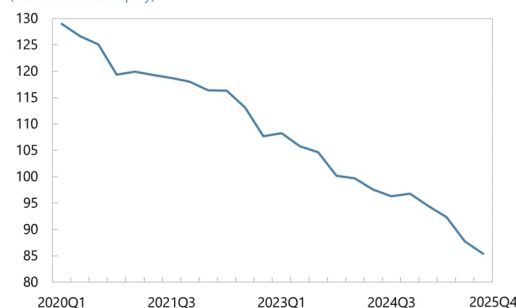


Sources: Eurostat and IMF staff calculations.

...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, 2022–31

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Projections									
Real Economy	(Percent change, unless otherwise indicated)									
Real GDP	8.7	3.6	3.9	3.8	2.6	3.0	3.0	3.0	3.0	3.0
Domestic demand	8.8	6.6	2.9	1.4	4.4	3.5	3.3	3.0	2.8	2.8
Consumption	8.1	5.2	3.4	3.0	2.7	2.6	2.7	2.8	2.8	2.2
Private consumption	8.9	6.0	4.0	3.3	2.9	2.5	3.0	3.0	3.0	3.0
Public consumption	5.5	2.9	1.6	2.0	1.7	2.7	1.6	1.9	2.2	2.5
Gross capital formation	11.5	12.0	0.8	-4.6	11.2	6.9	5.5	4.0	2.5	2.5
Foreign balance 1/	0.2	-2.9	1.2	2.6	-1.6	-0.4	-0.3	0.0	0.3	0.3
Exports of goods and services	27.8	-1.6	5.7	5.0	3.3	5.5	4.1	4.1	4.0	4.0
Imports of goods and services	28.8	1.2	4.6	2.5	5.0	6.1	4.4	4.1	3.9	4.0
Potential GDP growth	6.7	4.8	3.7	3.6	3.4	3.2	3.0	3.0	3.0	3.0
Output gap (percent of potential GDP)	1.7	0.6	0.8	1.0	0.1	0.0	0.0	0.0	0.0	0.0
HICP (period average, seasonally-adjusted)	8.1	3.9	2.3	0.8	3.5	1.5	2.0	2.0	2.0	2.0
HICP (end of period, seasonally-adjusted)	7.6	1.9	3.1	0.1	3.2	2.0	2.0	2.0	2.0	2.0
GDP deflator	6.2	5.6	3.1	1.1	4.0	1.9	2.2	2.3	2.2	2.2
Unemployment rate (percent, period average)	6.2	5.7	4.8	4.4	4.6	4.7	4.7	4.7	4.7	4.7
Employment growth (percent, period average)	5.0	2.8	1.5	3.6	0.7	0.8	0.8	0.8	0.8	0.8
Labor force	4.0	2.3	0.4	3.1	1.0	0.9	0.8	0.8	0.8	0.8
Public Finance	(Percent of GDP, unless otherwise indicated)									
General government balance	2.7	1.7	4.1	3.4	2.3	2.6	2.5	2.4	2.2	2.0
Revenue	40.4	42.3	42.4	43.6	42.3	41.8	41.3	40.8	40.7	40.5
Expenditure	37.7	40.6	38.3	40.2	40.0	39.2	38.8	38.4	38.4	38.5
Primary Fiscal Balance	4.0	2.9	5.4	4.5	3.5	3.7	3.6	3.4	3.3	3.1
General government debt	80.3	71.1	62.8	55.0	50.5	46.2	42.2	38.4	35.5	32.4
Balance of Payments										
Current account balance	-6.9	-9.7	-8.2	-6.4	-8.2	-8.3	-8.6	-8.7	-8.5	-8.4
Trade Balance (goods and services)	3.6	2.0	3.6	5.7	4.6	4.2	3.9	4.0	4.2	4.4
Exports of goods and services	104.7	96.4	97.0	97.6	97.7	99.6	100.4	101.0	101.8	102.5
Imports of goods and services	101.1	94.4	93.4	91.9	93.1	95.5	96.5	97.0	97.6	98.1
Goods balance	-19.5	-22.7	-19.9	-19.4	-20.9	-21.8	-22.1	-22.2	-22.3	-22.3
Services balance	23.1	24.8	23.5	25.1	25.5	25.9	26.0	26.2	26.4	26.7
Primary income, net	-9.6	-10.5	-10.8	-11.1	-11.8	-11.3	-11.3	-11.5	-11.5	-11.6
Secondary income, net	-0.9	-1.3	-1.0	-0.9	-1.0	-1.1	-1.2	-1.2	-1.2	-1.3
Capital account, net	0.1	0.1	-0.6	-0.2	0.2	0.1	0.1	0.1	0.1	0.1
Financial account, net	-4.4	-7.6	-7.8	-6.4	-8.1	-8.2	-8.5	-8.6	-8.5	-8.4
Direct investment	-17.9	-31.9	-14.7	-23.3	-15.3	-15.8	-16.3	-16.5	-16.7	-16.7
Portfolio investment	14.3	11.3	13.6	8.7	13.5	14.1	14.3	14.7	14.8	14.9
Other investment and financial derivatives	-1.1	13.1	-6.9	8.1	-6.2	-6.5	-6.5	-6.8	-6.6	-6.5
Reserves (+ accumulation)	0.3	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Program financing 2/	0.0	0.0	0.0	-1.0	-2.6	-2.5	-2.3	-2.3	-1.9	-2.0
Errors and omissions	2.4	2.1	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Saving-Investment Balance										
National saving	13.5	12.2	12.3	13.6	12.6	13.3	13.5	13.5	13.5	13.5
Government	5.8	6.6	7.6	8.3	7.0	6.7	6.3	5.9	5.6	5.4
Non-government	7.7	5.7	4.7	5.3	5.6	6.6	7.2	7.6	7.9	8.1
Gross capital formation	20.4	22.0	20.5	20.0	20.9	21.6	22.1	22.2	22.1	21.9
Government	3.1	4.9	3.5	4.9	4.7	4.1	3.8	3.5	3.4	3.4
Private	17.2	17.1	17.1	15.2	16.2	17.5	18.3	18.7	18.7	18.6
Foreign saving	-6.9	-9.7	-8.2	-6.4	-8.2	-8.3	-8.6	-8.7	-8.5	-8.4
Memorandum Item:										
Nominal GDP (billions of euros)	29.6	32.4	34.8	36.5	38.9	40.8	43.0	45.3	47.6	50.1
Structural primary balance	3.4	2.5	5.1	4.2	3.5	3.7	3.6	3.4	3.3	3.1
External debt	868.1	744.6	674.1	639.5	599.0	564.4	529.8	498.6	468.2	440.1
Net IIP	-97.4	-92.4	-84.1	-80.8	-83.9	-88.1	-92.3	-96.2	-99.9	-103.3
APSP oil price (\$ per barrel) 3/	96.4	80.6	79.2	67.7	99.4	74.6	74.2	73.9	73.7	73.3

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

3/ Average of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil prices based on the Adverse Scenario assumptions from April 2026

World Economic Outlook

Table 2. Cyprus: Fiscal Developments and Projections, 2022–31 1/
(Percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Projections									
Revenue	40.4	42.3	42.4	43.6	42.3	41.8	41.3	40.8	40.7	40.5
Current revenue	39.4	41.4	41.5	42.6	41.3	40.9	40.5	40.1	39.9	39.7
Tax revenue	23.5	23.8	24.4	24.5	23.4	23.4	23.3	23.2	23.1	23.0
Indirect taxes	13.7	13.7	13.5	13.0	12.8	12.8	12.8	12.7	12.7	12.7
Direct taxes	9.9	10.1	10.9	11.5	10.6	10.6	10.6	10.5	10.4	10.3
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	11.9	13.5	13.0	13.4	13.1	13.1	13.2	13.2	13.2	13.2
Other current revenue	4.0	4.1	4.0	4.7	4.7	4.3	4.0	3.7	3.6	3.6
Capital revenue	1.0	0.9	1.0	1.0	1.0	0.9	0.8	0.8	0.8	0.8
Expenditure	37.7	40.6	38.3	40.2	40.0	39.2	38.8	38.4	38.4	38.5
Current expenditure	34.6	35.8	34.8	35.4	35.3	35.1	35.0	34.9	35.0	35.1
Wages and salaries	10.7	11.2	11.2	11.3	10.9	11.1	11.1	11.2	11.2	11.2
Goods and services	4.4	4.2	4.2	4.4	4.5	4.4	4.3	4.3	4.3	4.3
Social transfers	15.6	15.2	15.3	15.5	15.4	15.5	15.6	15.6	15.7	15.7
Subsidies	0.5	0.5	0.5	0.4	0.5	0.4	0.3	0.3	0.3	0.2
Interest payments	1.3	1.2	1.3	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Other current expenditure	2.2	3.4	2.4	2.5	3.0	2.6	2.6	2.6	2.6	2.6
Capital expenditure	3.1	4.9	3.5	4.9	4.7	4.1	3.8	3.5	3.4	3.4
Capital transfers, payable	0.8	1.8	0.7	1.6	1.2	0.9	0.7	0.6	0.5	0.5
Gross capital formation less NFA disposal	2.4	3.1	2.8	3.3	3.4	3.2	3.1	2.9	2.9	2.9
Overall balance	2.7	1.7	4.1	3.4	2.3	2.6	2.5	2.4	2.2	2.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	2.7	1.7	4.1	3.4	2.3	2.6	2.5	2.4	2.2	2.0
Net financial transactions	2.6	1.6	4.0	3.2	2.2	2.4	2.3	2.2	2.0	1.8
Net acquisition of financial assets	-0.6	-0.5	0.3	-0.3	1.1	0.5	0.5	0.5	1.0	0.5
Currency and deposits	-0.6	-0.5	0.3	-0.3	1.1	0.5	0.5	0.5	1.0	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	-3.2	-2.1	-3.7	-3.5	-1.1	-1.9	-1.7	-1.7	-1.0	-1.3
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	-3.3	-2.2	-3.0	-2.1	1.5	0.6	1.1	0.8	0.9	0.6
Loans	0.1	0.1	-0.7	-1.4	-2.6	-2.6	-2.8	-2.5	-1.9	-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	1.7	0.6	0.8	1.0	0.1	0.0	0.0	0.0	0.0	0.0
Primary balance	4.0	2.9	5.4	4.5	3.5	3.7	3.6	3.4	3.3	3.1
Structural overall balance	2.1	1.3	3.8	3.1	2.3	2.6	2.5	2.4	2.2	2.0
Structural primary balance	3.4	2.5	5.1	4.2	3.5	3.7	3.6	3.4	3.3	3.1
Public debt	80.3	71.1	62.8	55.0	50.5	46.2	42.2	38.4	35.5	32.4
Public debt net of cash holding	71.6	62.4	53.1	46.0	41.0	36.7	32.7	28.9	25.5	22.4

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

1/ Accrual basis, unless otherwise indicated

Table 3. Cyprus: General Government Financing Requirements and Sources, 2022–31
(Millions of Euros, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Projections									
Gross borrowing needs	1,442	1,331	1,105	697	1,408	1,531	1,727	307	1,170	1,287
Overall deficit	-780	-519	-1,401	-1,175	-857	-972	-961	-977	-931	-894
Primary surplus	-1,187	-951	-1,874	-1,659	-1,349	-1,506	-1,539	-1,552	-1,549	-1,537
Interest payments	407	431	473	484	492	534	578	575	618	643
Amortization	2,222	1,850	2,506	1,872	2,265	2,503	2,688	1,284	2,100	2,181
Medium- and long-term	1,922	1,713	2,486	1,447	1,165	1,403	1,638	194	1,100	1,081
Foreign	1,098	1,104	2,115	1,278	1,122	1,367	1,620	178	1,087	1,081
Eurobonds	1,000	1,000	2,000	1,000	1,000	1,250	1,350	0	1,000	1,000
Other	98	104	116	278	122	117	270	178	87	81
Domestic	824	609	371	169	43	36	18	16	13	0
Short-term	300	137	20	75	100	100	50	40	100	100
EU and IMF	0	0	0	350	1,000	1,000	1,000	1,050	900	1,000
Stock-flow adjustment 1/	0	0	0	0	0	0	0	0	0	0
Gross financing sources	1,456	929	644	697	1,421	1,537	1,733	314	1,178	1,276
Privatization receipts	0	0	0	0	0	0	0	0	0	0
Market access	1,290	1,163	1,215	580	1,833	1,718	1,937	534	1,640	1,524
Medium- and long-term	1,153	1,143	1,140	480	1,733	1,668	1,897	434	1,540	1,424
Foreign	1,129	1,123	1,120	100	1,300	1,070	1,550	1,100	1,100	1,424
Domestic	24	21	20	380	433	598	347	-666	440	0
Short-term	137	20	75	100	100	50	40	100	100	100
EU and IMF	0	0	0	0	0	0	0	0	0	0
Use of deposits 2/	166	-234	-571	116	-413	-181	-204	-219	-462	-248
Net placement	-932	-687	-1,291	-1,292	-432	-785	-751	-750	-460	-657
Medium and Long Term Debt	-769	-570	-1,346	-967	568	265	259	240	440	343
Domestic securities	-800	-588	-96	211	391	562	329	-683	427	0
Eurobonds	0	0	-1,000	-1,000	200	-250	150	1,000	0	324
Domestic loans	0	-1	-255	0	0	0	0	0	0	0
Foreign loans	31	19	4	-178	-22	-47	-220	-78	13	19
Short term (net increase)	-163	-117	55	25	0	-50	-10	60	0	0
EU and IMF	0	0	0	-350	-1,000	-1,000	-1,000	-1,050	-900	-1,000
Memorandum item:										
Cash holding (eop)	2,596	2,829	3,400	3,284	3,696	3,877	4,081	4,300	4,762	5,011
General government debt (eop)	23,813	23,076	21,848	20,086	19,654	18,870	18,118	17,368	16,908	16,251
General government debt (eop, percent of GDP)	80.3	71.1	62.8	55.1	50.5	46.2	42.2	38.4	35.5	32.4
General government net debt (eop, percent of GDP) 3/	71.6	62.4	53.1	46.1	41.0	36.7	32.7	28.9	25.5	22.4

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, 2022–31
(Percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Projections									
Current Account Balance	-6.9	-9.7	-8.2	-6.4	-8.2	-8.3	-8.6	-8.7	-8.5	-8.4
Trade Balance (Goods and Services)	3.6	2.0	3.6	5.7	4.6	4.2	3.9	4.0	4.2	4.4
Goods Balance	-19.5	-22.7	-19.9	-19.4	-20.9	-21.8	-22.1	-22.2	-22.3	-22.3
Exports	17.0	13.6	11.8	11.2	10.7	10.7	10.6	10.5	10.5	10.5
Imports	36.4	36.3	31.7	30.6	31.6	32.4	32.7	32.8	32.8	32.8
Services Balance	23.1	24.8	23.5	25.1	25.5	25.9	26.0	26.2	26.4	26.7
Exports	87.7	82.8	85.2	86.4	87.0	89.0	89.8	90.5	91.2	92.0
Imports	64.7	58.1	61.7	61.3	61.4	63.1	63.8	64.3	64.8	65.4
Primary Income	-9.6	-10.5	-10.8	-11.1	-11.8	-11.3	-11.3	-11.5	-11.5	-11.6
Secondary Income	-0.9	-1.3	-1.0	-0.9	-1.0	-1.1	-1.2	-1.2	-1.2	-1.3
Capital Account	0.1	0.1	-0.6	-0.2	0.2	0.1	0.1	0.1	0.1	0.1
Financial Account (- financing)	-4.4	-7.6	-7.8	-6.4	-8.1	-8.2	-8.5	-8.6	-8.5	-8.4
Direct Investment	-17.9	-31.9	-14.7	-23.3	-15.3	-15.8	-16.3	-16.5	-16.7	-16.7
Portfolio Investment	14.3	11.3	13.6	8.7	13.5	14.1	14.3	14.7	14.8	14.9
Financial Derivatives	-0.7	-0.2	1.5	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2
Other Investment	-0.4	13.3	-8.4	8.4	-6.0	-6.3	-6.2	-6.6	-6.4	-6.3
Reserves (+ accumulation)	0.3	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omission	2.4	2.1	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current Account Balance, adjusted for SPEs 1/	-8.6	-9.4	-8.4	-7.3	...	...	...	...	...	...
Program Financing 2/	0.0	0.0	0.0	-1.0	-2.6	-2.5	-2.3	-2.3	-1.9	-2.0
Private Net Capital Flows 3/	-11.7	-8.0	-10.4	-7.9	...	...	...	...	...	...
o/w Portfolio Investment	14.6	11.8	11.9	7.2	...	...	...	...	...	...
o/w Other Investment	-7.6	12.4	-9.1	8.5	...	...	...	...	...	...
o/w MFIs	1.0	2.1	4.6	6.7	...	...	...	...	...	...
o/w Non-MFIs	-8.6	10.3	-13.7	1.9	...	...	...	...	...	...
Gross External Debt	868.1	744.6	674.1	639.5	599.0	564.4	529.8	498.6	468.2	440.1
o/w Short-term Debt	204.7	178.2	165.4	158.8	145.3	135.3	125.7	116.7	108.6	101.1

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, 2016–25 1/
(Percent, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Capital Adequacy										
Total capital ratio	16.8	16.3	17.4	19.9	20.4	20.7	21.3	25.8	28.2	29.5
Tier I capital ratio	16.4	15.4	16.5	19.0	19.3	19.4	19.8	23.4	25.9	27.4
Asset Quality										
Non-performing loans (NPLs) to total gross loans	46.4	42.5	30.5	27.7	17.9	11.0	9.4	7.9	6.2	3.2
Non-performing loans (NPLs) to total gross loans (local operations) 2/	47.2	43.7	30.3	27.6	17.9	11.0	9.4	7.9	6.2	3.2
Provisions to NPLs	42.1	47.2	51.6	54.6	49.7	49.0	52.6	55.4	64.2	77.5
Restructured loans classified as NPLs to total NPLs	40.8	40.9	44.8	45.0	44.3	49.6	44.6	45.1	44.5	38.7
Earnings and Profitability										
Return on assets 3/	-0.3	-1.1	0.2	0.3	-0.3	-0.1	0.3	2.0	1.8	1.4
Return on equity 3/	1.7	-11.2	6.1	3.4	-3.9	0.3	4.8	24.4	19.7	11.6
Net interest income to gross income ratio	75.7	72.6	66.6	67.6	70.4	68.8	66.5	76.9	80.5	78.5
Net fees and commissions income to gross income ratio	14.5	16.7	18.9	20.4	20.5	24.3	24.8	14.4	14.3	16.1
Net interest margin	2.6	2.3	1.8	1.9	1.8	1.5	1.6	3.1	3.2	2.4
Liquidity										
Cash, trading and available-for-sale assets to total assets ratio	22.9	27.9	27.6	25.0	27.6	39.0	40.1	37.9	31.6	29.5
Others										
Total loans and advances to total assets ratio	69.1	64.1	54.6	53.8	51.0	42.5	40.1	39.1	42.4	44.4
Total deposits (other than from credit institutions) to total assets ratio	74.9	75.6	79.1	82.8	80.6	74.9	79.4	77.8	82.7	81.6
Sources: Central Bank of Cyprus, Haver Analytics, and IMF staff calculations.										
1/ 2025 data are as of end-Q3, except for asset quality indicators.										
2/ Local operations are confined to banks active in the local market, excluding overseas branches and subsidiaries of Cyprus-based banks.										
3/ Annual return. The last observation is the year-to-date return.										

Annex I. Sovereign Risk and Debt Sustainability Framework

Table I.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 crisis shock scenario, supported by a benign debt stock composition, low GFN and sizable preexisting cash buffers.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test	Bank. Crisis	...	
Long term	...	Moderate	Long term spending pressures beyond the baseline are moderate. Long term spending pressures already materializing are estimated to reach about 2.7 percent of GDP by 2030, 4.6 percent of GDP by 2040, and 6.7 percent of GDP by 2050 above baseline (EC, 2024, Eble et al., 2025). Population aging, through pensions and healthcare, account for the bulk of the increase (5.0 percent of GDP). The interaction of already elevated public pensions and healthcare spending (relative the EU average) and worsening demographics over time may lead to even sharper medium-to-long-term adjustment needs. These risks are mitigated by the strong starting fiscal position, the authorities' track record of fiscal discipline, and their commitment to continue reducing the public debt ratio to prudent levels over the long run.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Cyprus's debt-to-GDP ratio fell below the 60 percent of GDP threshold in 2025 (declining by about 59 percentage points from its 2020 peak), 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, and 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.

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.

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.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is an IMF arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

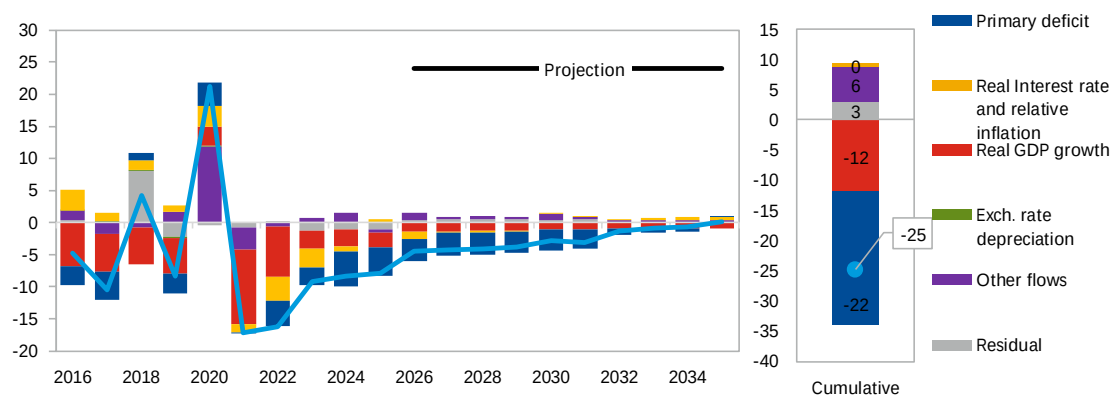
Table I.2. Cyprus: Debt Coverage and Disclosures

Public debt coverage and inclusion										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.															

Table I.3. Cyprus: Baseline Scenario
(Percent of GDP, unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	55.0	50.5	46.2	42.2	38.4	35.5	32.4	31.2	30.3	29.7	29.8
Change in public debt	-7.8	-4.5	-4.3	-4.1	-3.8	-2.9	-3.1	-1.3	-0.9	-0.6	0.1
Contribution of identified flows	-6.7	-5.0	-4.8	-4.6	-4.3	-3.3	-3.5	-1.3	-0.9	-0.6	0.1
Primary deficit	-4.5	-3.4	-3.6	-3.5	-3.4	-3.2	-3.0	-0.9	-0.7	-0.6	0.0
Noninterest revenues	43.6	42.3	41.8	41.3	40.8	40.6	40.5	40.5	40.5	40.5	40.5
Noninterest expenditures	39.1	38.9	38.1	37.7	37.4	37.4	37.4	39.5	39.8	39.9	40.5
Automatic debt dynamics	-1.8	-2.6	-1.5	-1.5	-1.4	-1.0	-1.0	-0.8	-0.6	-0.5	-0.4
Real interest rate and relative inflation	0.5	-1.2	-0.1	-0.2	-0.2	0.1	0.0	0.2	0.3	0.4	0.5
Real interest rate	0.5	-1.2	-0.1	-0.2	-0.2	0.1	0.0	0.2	0.3	0.4	0.5
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	-2.3	-1.4	-1.5	-1.3	-1.2	-1.1	-1.0	-0.9	-0.9	-0.9	-0.9
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	-0.4	1.0	0.4	0.4	0.4	0.9	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	-0.3	1.1	0.4	0.5	0.5	1.0	0.5	0.5	0.5	0.5	0.5
Contribution of residual	-1.1	0.5	0.5	0.6	0.5	0.5	0.5	0.0	0.0	0.0	0.0
Gross financing needs	1.5	3.0	3.2	3.6	0.2	1.9	2.1	4.7	4.8	4.6	5.2
of which: debt service	6.1	6.4	6.9	7.2	3.6	5.1	5.1	5.6	5.5	5.3	5.2
Local currency	6.1	6.4	6.9	7.2	3.6	5.1	5.1	5.6	5.5	5.3	5.2
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)	3.8	2.6	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Inflation (GDP deflator; percent)	1.1	4.0	1.9	2.2	2.3	2.2	2.2	2.2	2.2	2.2	2.2
Nominal GDP growth (percent)	4.9	6.6	4.9	5.3	5.4	5.2	5.2	5.2	5.2	5.2	5.2
Effective interest rate (percent)	1.9	1.7	1.7	1.8	1.9	2.3	2.3	2.7	3.1	3.5	3.9

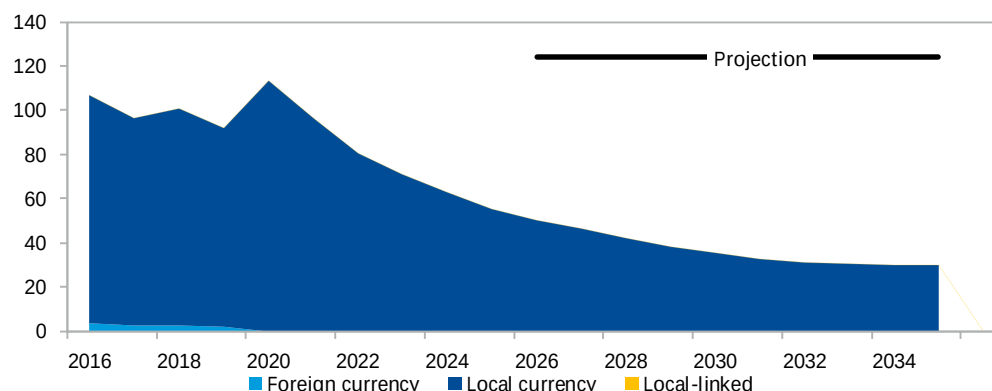
Contribution to Change in Public Debt
(Percent of GDP)



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.

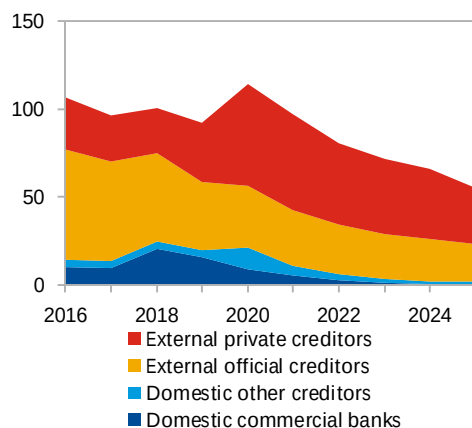
Figure I.1. Cyprus: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



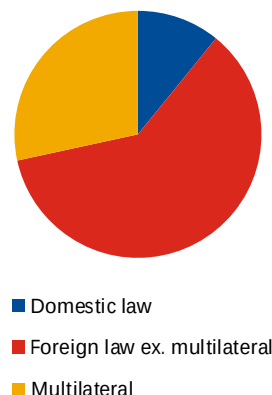
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



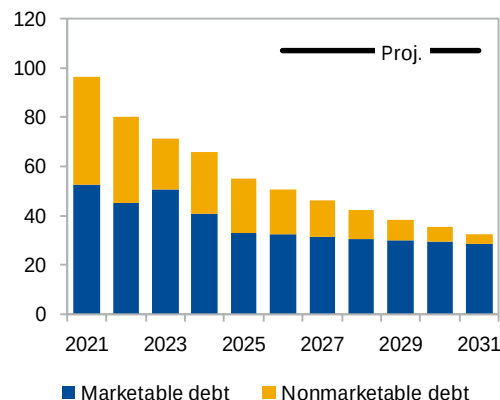
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2025 (Percent)



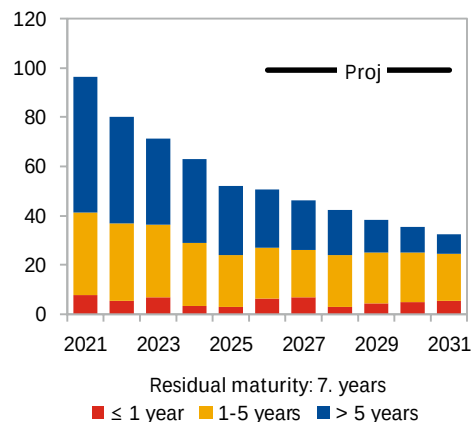
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

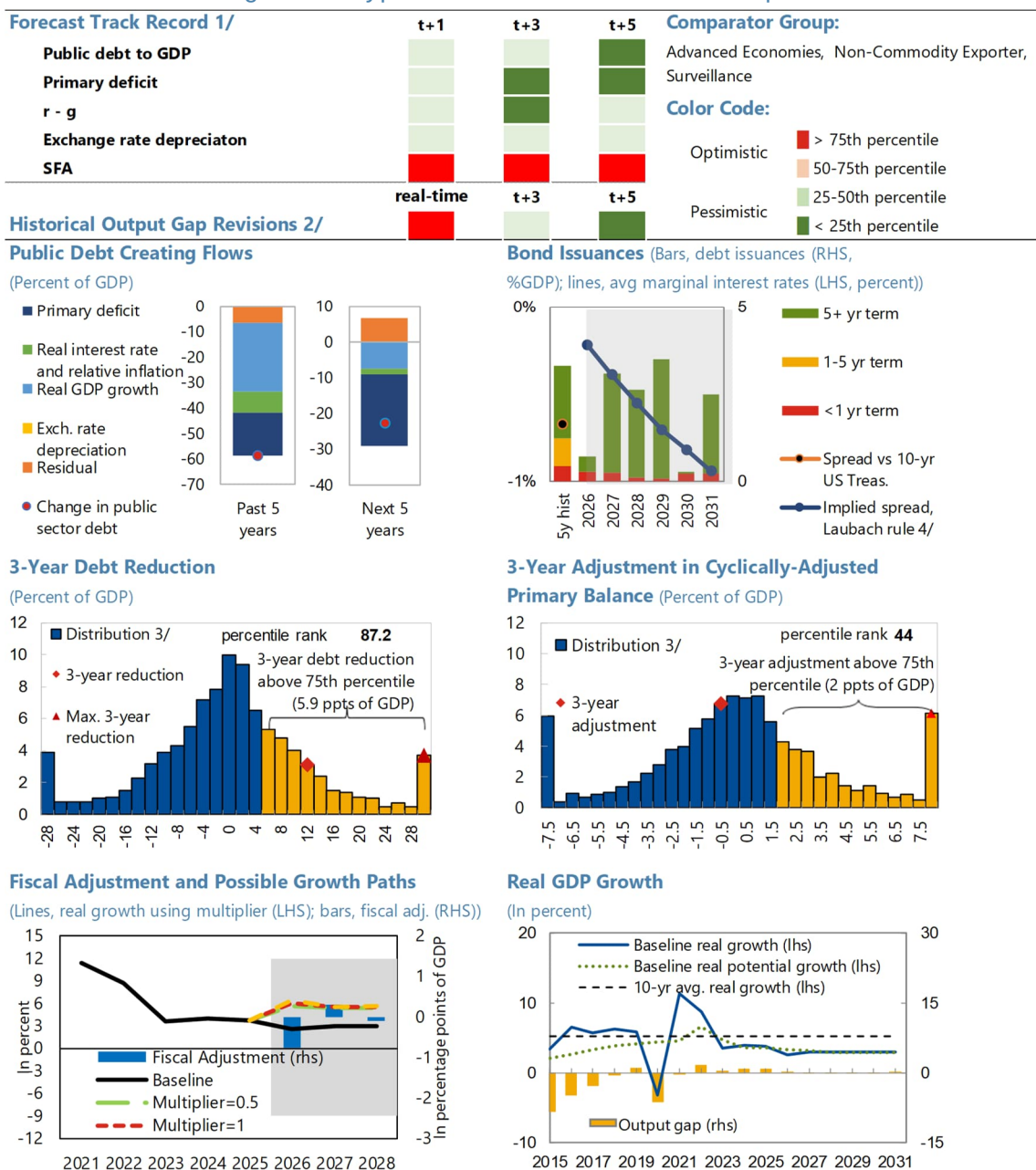
Public Debt by Maturity (Percent of GDP)



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.

Figure I.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

Source: IMF staff.

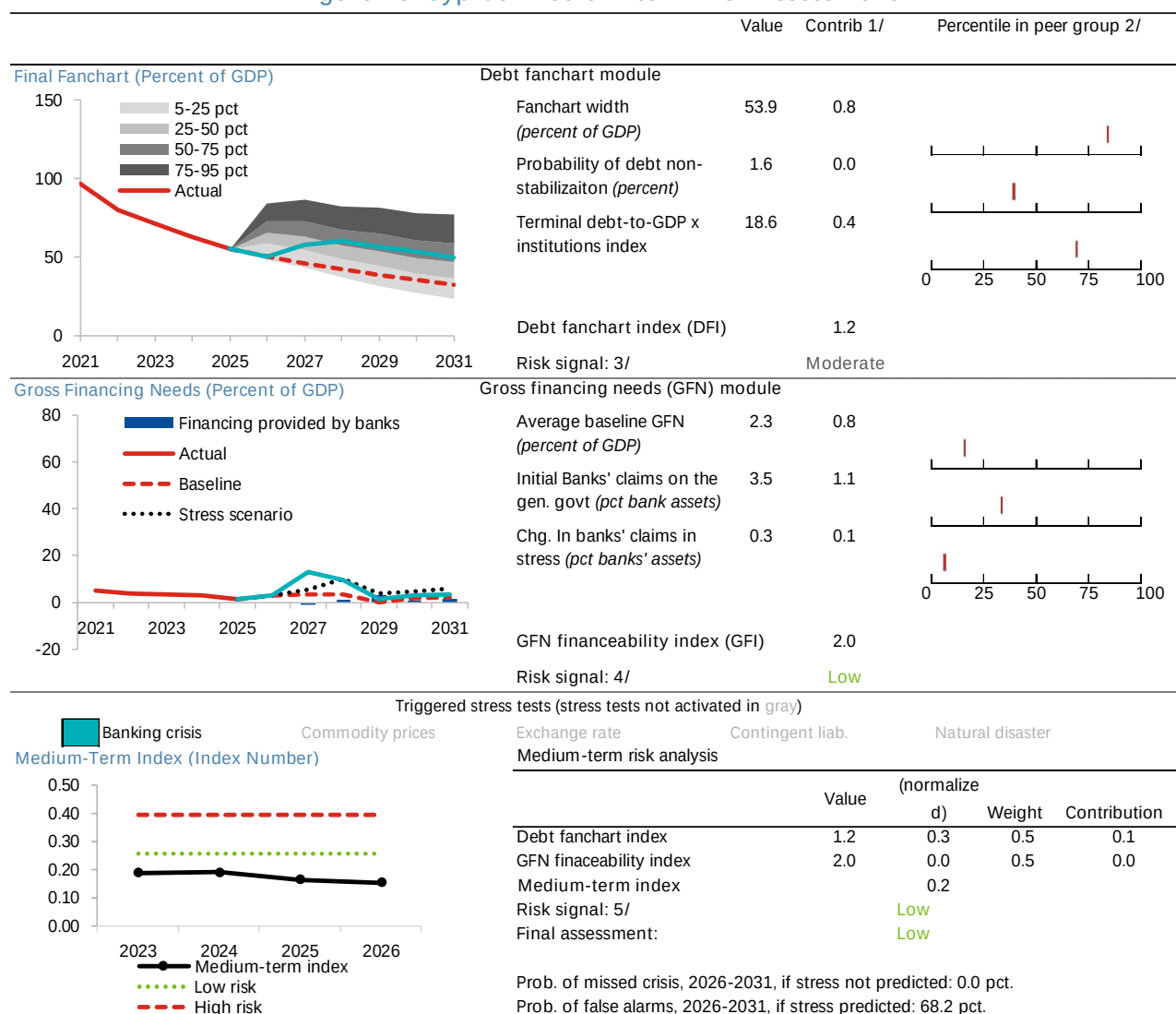
1/ Projections made in the October and April WEO vintage.

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.

Figure I.3. Cyprus: Medium-term Risk Assessment



The debt fanchart module points to moderate risk due to a relatively wide fanchart as historical draws span crises years. Meanwhile, the GFN module signals low risk. The banking stress test, assuming a direct first round effect of 6.8 percent of GDP in line with standard calibration assumptions for advanced economies, appear manageable with GFNs remaining below 15 percent of GDP and debt still on a declining path. Risks from banking stress are further mitigated by the role of the EU Single Resolution Mechanism. Accordingly, medium term risks are assessed to be low in line with the mechanical signal.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is advanced economies, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex II. External Sector Assessment

Overall Assessment: The external position of Cyprus in 2025 is assessed to be weaker than the level implied by fundamentals and desirable policies. This assessment is underpinned by a current account (CA) deficit of 6.4 percent of GDP (driven by the large negative primary income balance), as well as by the positive contribution of policies. Looking ahead, the current account is expected to deteriorate due to higher goods imports (linked to higher domestic demand) and the stabilization of services exports. The large negative net international investment position (NIIP) and associated sizable primary income outflows are potential vulnerability for Cyprus's economy reliant on external financing.

Potential Policy Responses: Reducing reliance on fossil fuels—through continued investment in green energy and infrastructure—is important for reducing Cyprus's dependence on energy imports and exposure to energy price shocks, strengthening the medium-term CA balance. Improvements to the judiciary are key to strengthening debt enforcement, resolution of legacy NPL issues and ultimately credit intermediation of the banking sector. This would lead to a more dynamic banking sector and credit deepening, which in turn would unlock domestically-financed growth and reduce the negative NIIP.

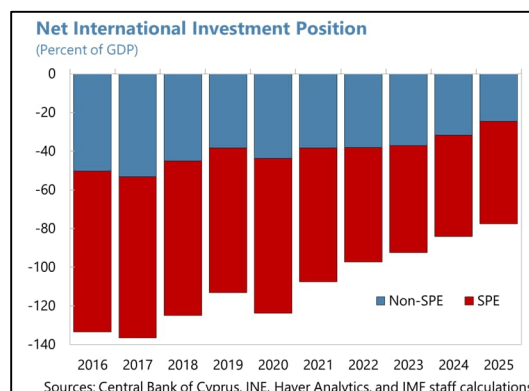
Foreign Assets and Liabilities: Position and Trajectory

Background. With strong economic growth, the NIIP has improved gradually from -164 percent of GDP immediately after the 2013 financial crisis to -77 percent of GDP in 2025. Despite this trend, the NIIP is expected to worsen to approximately -100 percent of GDP in the medium term as CA deficits continue. Both gross assets and gross liabilities peaked in 2019 (at over 3,000 percent of GDP) and have been gradually declining, reaching 1,660 percent and 1,738 percent of GDP in 2025, respectively.

However, the balance sheet unwinding slowed in 2025.

And the larger stock of liabilities than assets is a driver of the negative primary income balance, weighing on the CA. The NIIP excluding Special Purpose Entities (SPEs) has declined to -24 percent in 2025, with debt liabilities at 162 percent of GDP.

Assessment. Narrowing of negative NIIP position continued in 2025 – continuing the trend from 2019 to 2024. The strong and growing financial linkages between Cyprus and other countries should be closely monitored. The NIIP remains highly negative and is expected to decline slightly in the medium term as Cyprus continues to attract FDI to fuel growth. The NIIP of SPEs, although sizable, does not pose a risk for the economy as SPEs linkages to domestic economy are very limited. Non-SPEs NIIP is also significant but is affected by legacy NPLs portfolio which is largely foreign owned. As the legacy NPLs will get resolved the NIIP position will improve.

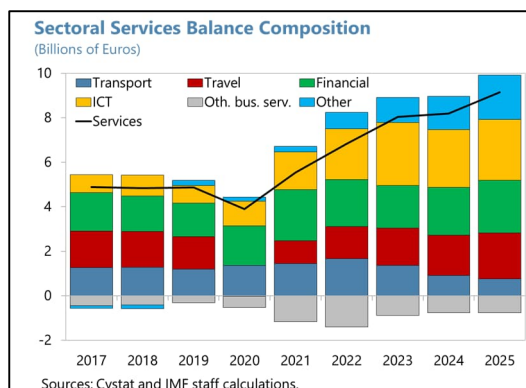


2025 (% GDP)	NIIP: -77	Gross Assets: 1,660	Debt Assets: 611	Gross Liab.: 1,738	Debt Liab.: 617
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Current Account

Background. The CA deficit has been widening gradually since 2015 driven by a deteriorating net primary income balance, which declined from -1 percent of GDP in 2015 to -11 percent of GDP in 2025 (large drops in the CA in 2020 and 2023 were tied to ships imports).¹

Cyprus has a structural trade deficit, including from its reliance on oil imports for transport and electricity. Since the pandemic, there has been a strong recovery of the services balance, from 17.4 percent of GDP in 2020 to 25.1 percent in 2025 as tourism has recovered and the ICT sector expanded after the successful launch of Cyprus's headquartering scheme. The improvement in



the CA in 2025 is supported by continued improvements in the services balance, as well as lower goods imports (despite of a slight deterioration of goods exports due to the normalization of merchanting activity). Looking ahead, growth in the services balance is expected to stabilize as the ICT sector matures. And high net international investment inflows are expected to partially reverse the recent CA improvement.

Assessment. The EBA model estimates a CA norm of -2.6 percent of GDP, against an adjusted CA estimate of -6 percent of GDP, considering cyclical contributions (-0.2). Policy gaps—reflecting deviations between current and desired policy settings in Cyprus relative to the rest of the world—contribute 3.2 percent, driven by more prudent fiscal policy and slow private credit growth, compared to the rest of the world.

Cyprus: Model Estimates for 2025 (Percent of GDP)

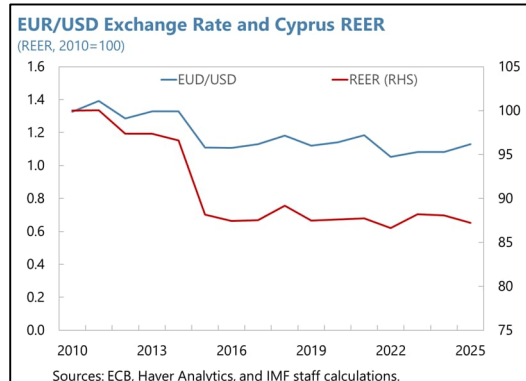
	CA model 1/ (in percent of GDP)	REER model 1/ (in percent of GDP)
CA-Actual	-6.4	
Cyclical contributions (from model) (-)	-0.2	
Additional temporary/statistical factors (-) 2/		
Natural disasters and conflicts (-)	-0.3	
Adjusted CA	-6.0	
CA Norm (from model) 2/	-2.6	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	-2.6	
CA Gap	-3.3	7.8
o/w Relative policy gap	3.2	
Elasticity	-0.6	
REER Gap (in percent)	5.5	-13.0

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

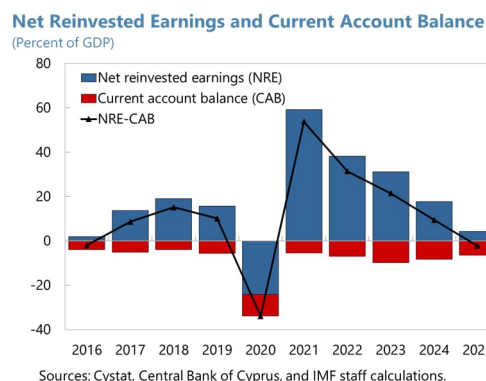
Background. After a period of stability in 2020 and 2021, the REER depreciated by 1.3 percent in 2022, appreciated by 1.9 percent in 2023 and lost ground again in 2024 (depreciating 1.3 percent). Recent REER movements can be tied to movements in the euro against the dollar, which have a correlation of 0.95 since 2010. The euro depreciated against the dollar from 1.10 in 2023 to 1.04 in 2024 but experienced a sharp appreciation to 1.12 EUR/USD in 2025.



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 5.5 percent in 2025, while the REER model suggests a gap of -13 percent (with a large contribution from the lower dependency ratio in Cyprus, relative to trading partners). Considering both model estimates—and putting a higher weight on the CA model, which better reflects more recent developments in the CA—staff's assessment is that the REER is moderately overvalued (in line with the CA model).

Capital and Financial Accounts: Flows and Policy Measures

Background. Mirroring the improvement in the CA in 2025, net capital inflows decreased to 6.4 percent of GDP in 2025 from 7.8 percent in 2024. During this period, FDI net inflows increased and portfolio outflows decreased. Other investment, on the other hand, declined. Historically the widening of the CA account deficit has, been more than offset by the reinvestment of earnings into Cyprus. However, the drop in reinvested earnings during the pandemic underscores the potential volatility in international financial flows.



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 euro area are typically low relative to standard metrics, but the currency is free floating.

¹ Companies record ship purchases within Cyprus, for tax purposes. These ships are recorded as imports in the current account.

Annex III. Risk Assessment Matrix

Risks	Likelihood	Expected Impact	Policy Responses
Global conjunctural risks			
Geopolitical Tensions and Intensification of Conflicts. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.	High	High Slowdown in economic activity. Decrease in FDI inflows. Increase in incoming refugees.	Allow automatic stabilizers to work. Diversify trade and investment relations. Continue to accumulate buffers to enhance resilience and confidence.
Protectionism and Trade Disruptions. Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.	High	Medium Worsening trade balance and import-driven inflationary pressures. Given the services-oriented export economy, the situation would become more severe if trade protectionism extends to services.	Allow automatic stabilizers to work. Provide targeted support to the most vulnerable. Advance structural reforms and promote economic diversification, including at the EU level. Promote the strengthening of the EU single market.
Commodity Price Volatility. Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	High	High Given high dependence on imported oil, higher prices would worsen external position, raise supply-side inflation, lower disposable income and discourage investments.	Allow commodity prices passthrough but provide resources for temporary and targeted measures to shield the most vulnerable. Diversify energy sources and accelerate transition by completing energy infrastructure projects.
Disorderly AI Correction. An abrupt revision in expectations of strong AI-led productivity gains causes a sharp market correction, investment decline, and wealth loss, which suppress demand and tighten financial conditions globally.	High	High Indirect economic shocks through reduced global demand, tighter financial conditions, and lower foreign investment, which could slow growth and increase labor market vulnerabilities.	Strengthen macroeconomic and financial stability frameworks. Maintain fiscal buffers to support counter-cyclical spending.

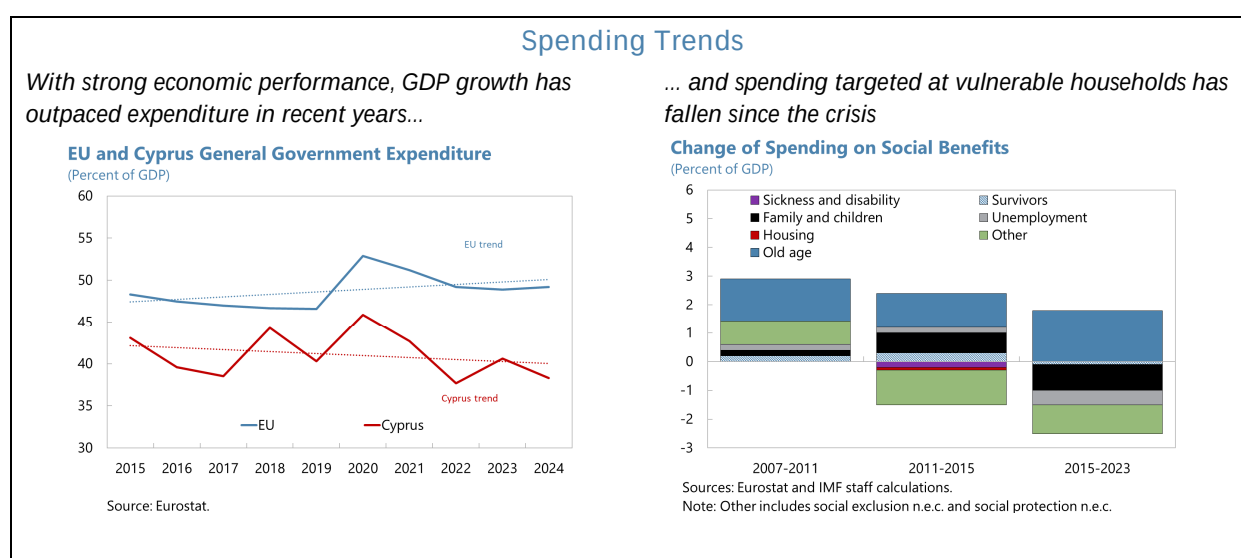
Risks	Likelihood	Expected Impact	Policy Responses
			Promote economic diversification to reduce external shocks. Maintain active labor market policies to support unemployment shocks. Foster resilient financial institutions through robust regulation. Increase oversight and risk assessment of NBFIs to prevent systemic vulnerabilities.
Global structural risks			
Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	High	Medium Risks to critical infrastructure, institutions, and financial systems that lead to disruptions to socio-economic activity and the financial sector.	Continue to enhance infrastructure and upgrade ageing IT systems to reduce cyber risks and strengthen preparedness. Pace AI adoption in line with capacity to manage risks and ensure adequate regulatory frameworks.
Climate Change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium	Medium Slower potential growth. Reduced fiscal space due to adaptation and transition costs.	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. Maintain fiscal buffers to preserve capacity for absorbing climate change-related costs.
AI Acceleration. Rapid AI adoption significantly improves productivity, boosts growth, and revives business dynamism. Realizing these gains requires complementary policies to manage energy constraints, scale critical inputs, and support labor market transitions.	Medium	Medium Rapid AI adoption could boost growth but may deepen workforce vulnerabilities without strong reskilling and transition support.	Develop and implement a national AI strategy aligned with EU frameworks. Strengthen digital and AI skills across all education levels. Expand reskilling and upskilling programs for affected workers.

Risks	Likelihood	Expected Impact	Policy Responses
			Support AI adoption in SMEs by removing barriers and fostering innovation. Promote active labor market policies to facilitate job transitions
Domestic risks			
Delays in implementation of structural reforms. Significantly slower-than-expected progress on structural reforms, including failure to fully implement RRP reforms.	Medium	Medium Slower potential growth. Loss of RRP funding. Reduced confidence and higher risk premia.	Accelerate the implementation of structural reforms.
Growing fiscal pressures. With public debt below 60 percent of GDP, fiscal discipline may be under pressure to increase social spending and wages, weakening progress in debt reduction and fiscal sustainability, especially if investment efficiency is low or structural reforms are delayed.	Medium	Medium Fiscal expansion leading to overheating in the near-term. Slowdown or reversal in public debt reduction, reducing fiscal space to respond to future shocks. Higher borrowing costs, lower investor confidence, and constrained funding for critical investments, ultimately weakening long-term economic growth.	Maintain a gradual and prudent fiscal easing path focused on high-productivity public investments. Enhance tax and spending efficiency to safeguard fiscal sustainability. Prioritize reforms that improve investment efficiency and public financial management. Contain wage growth aligned with productivity gains.

Annex IV. The Redistributive Efficiency of Social Transfers¹

Using a simple tractable metric of efficiency—reduction of inequality from non-old-age social transfers²—the redistribute efficiency of social transfers in Cyprus appears relatively low compared to peers. And social protection expenditure remains below pre-crisis levels. The benefit mix and payout structure—modest means-testing, high unemployment disbursements, and generous payments at higher incomes—delivers limited redistributive impact. Identifying opportunities could raise redistributive payoff while sustaining inclusive growth and preserving macroeconomic stability.

1. With strong recent economic performance, social spending as a share of GDP has declined. From 43 percent in 2015, total expenditure stood at 38 percent of GDP in 2024. Over the same period, “old-age” benefits increased to 12 percent of GDP from 10 percent, reflecting Cyprus’s aging population. Other social transfers declined from 6 to 4 percent of GDP. Spending has actually declined in real terms from €260 per inhabitant in 2015 to €224 per inhabitant in 2023 (2015 prices).



2. Spending and taxes have a comparatively small impact on inequality. Inequality and poverty rates in Cyprus are comparable to other European economies, even though Cyprus spends relatively little in non-old-age social protection. The Gini coefficient falls from 44 to 30 after taxes and transfers are included, with only 15 percent of the reduction attributable to non-old-age social protection transfers. After Malta, this is the least redistributive economy in Europe.

¹ Prepared by Valentina Semenova.

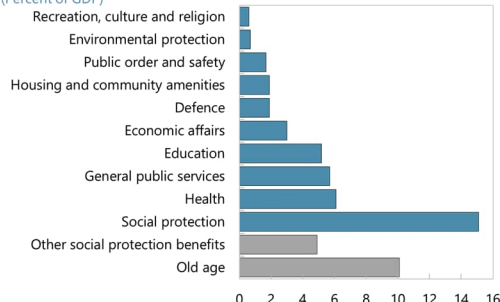
² We group pensions and survivor benefits under the broad category of “old-age”. This is consistent with SILC methodology, which groups together these benefits for several aggregate calculations.

The Redistributive Impact of Taxes and Transfers

Non-old-age benefits account for a relatively small proportion of social protection expenditure...

Cyprus General Government Expenditure by Function, 2023

(Percent of GDP)

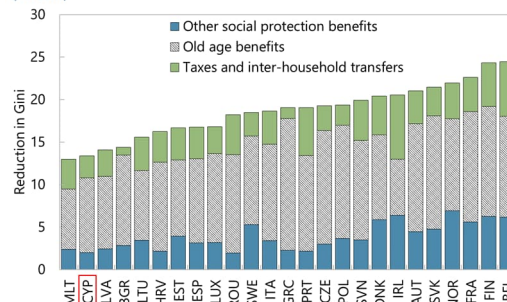


Sources: Eurostat and IMF Staff calculations.

...and have little redistributive impact.

Change in Gini Due to Benefits and Taxes, 2024

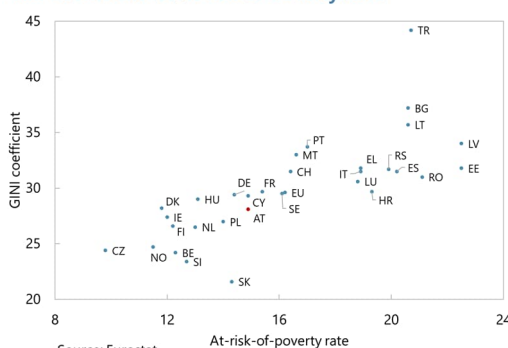
(Percent)



Sources: EU-SILC User Database and IMF staff calculations.

Inequality and poverty rates are comparable to other European countries...

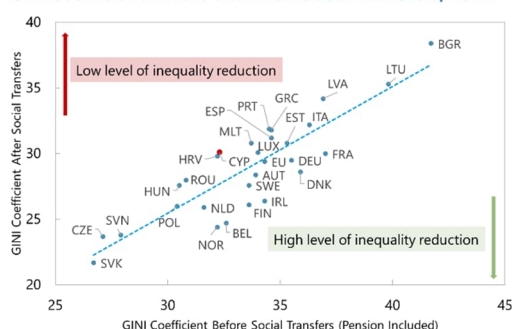
Gini Coefficient vs. At-risk-of-Poverty Rate



Source: Eurostat.

...but social transfers contribute less to inequality reduction than similarly-positioned countries.

Gini Coefficient Before and After Social Transfers, 2024



Source: Eurostat.

3. In addition, the redistribution that does occur is done in an inefficient manner. Spending efficiency is estimated by constructing a “spending efficiency frontier”—measured as the reduction in the Gini coefficient relative to per capita amount of non-old-age social transfers³ across countries (see *Pienkowski, Semenova, Stuart, & Lu, 2026* for details). In this measure, efficiency is studied from a perspective of redistribution rather than other objectives of social spending, consistent with fiscal incidence literature (e.g., *Lustig et al., 2025; Wang et al., 2025; Lustig, 2019; Kenworthy, 1998*). Countries with the highest levels of inequality reduction for a given level of transfers define the efficiency frontier. Cyprus’s spending efficiency is far from the frontier, and it is estimated to have a low efficiency score.

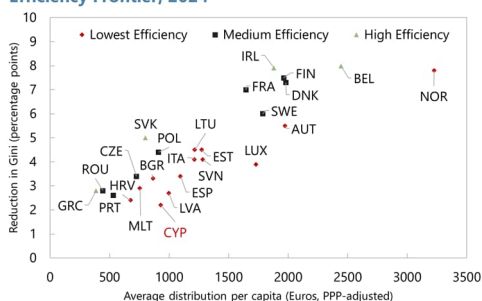
³ The average per capita transfer amount is calculated as the weighted average distribution across all SILC survey respondents. Importantly, this should not be interpreted as the average amount received, but rather an estimate of the average amount spent on disbursements.

Social Transfer Efficiency Frontier

Cyprus spends relatively little on non-old-age benefits and achieves a small Gini reduction ...

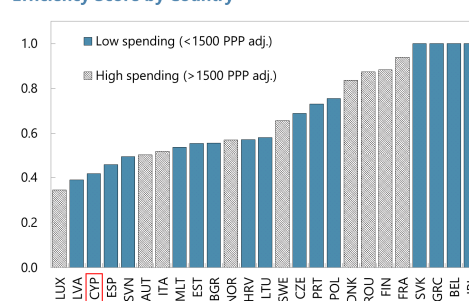
...placing Cyprus among the least efficient EU countries.

Efficiency Frontier, 2024



Sources: Eurostat, EU-SILC User Database, and IMF staff calculations.
Notes: Low spending <€1500 / High spending >€1500

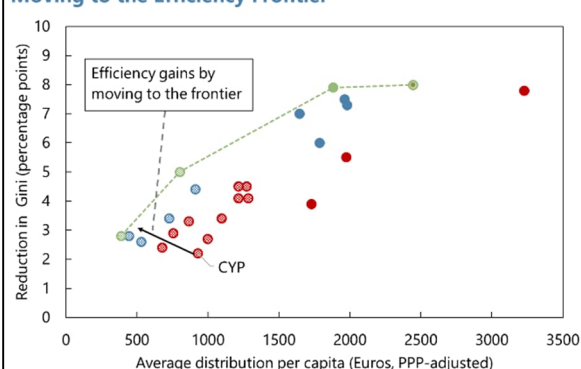
Efficiency Score by Country



Sources: EU-SILC User Database and IMF staff calculations.

4. Cyprus's position relative to the efficiency frontier implies relatively large potential savings or inequality reduction. As an indicative illustration, potential savings and Gini improvement are estimated by moving Cyprus diagonally to the frontier: simultaneously reducing spending and improving the rate of inequality reduction. Using this method, we estimate that Cyprus has the potential to save 1 percent of GDP, while simultaneously further reducing the Gini coefficient by 1 percentage point. Moving to the frontier can be interpreted as reallocating Cyprus's social transfers towards more redistributive benefits observed in best-performing peers, while scaling back lower-impact outlays. For Cyprus, this adjustment would imply convergence toward the outcomes achieved by more efficient comparators—such as Portugal or Greece—rather than raising overall spending.

Moving to the Efficiency Frontier



Sources: EU-SILC User Database and IMF staff calculations.

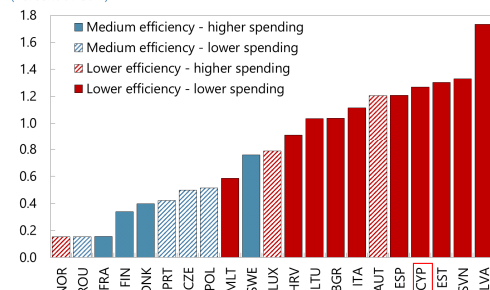
Potential Savings and Inequality Reduction

A low efficiency score implies high potential savings...

...or higher inequality reduction by moving to the frontier.

Savings by Moving to the Efficiency Frontier

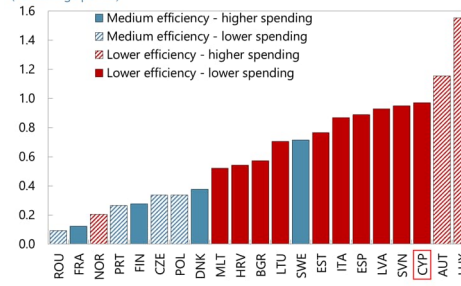
(Percent of GDP)



Sources: EU-SILC User Database and IMF staff calculations.

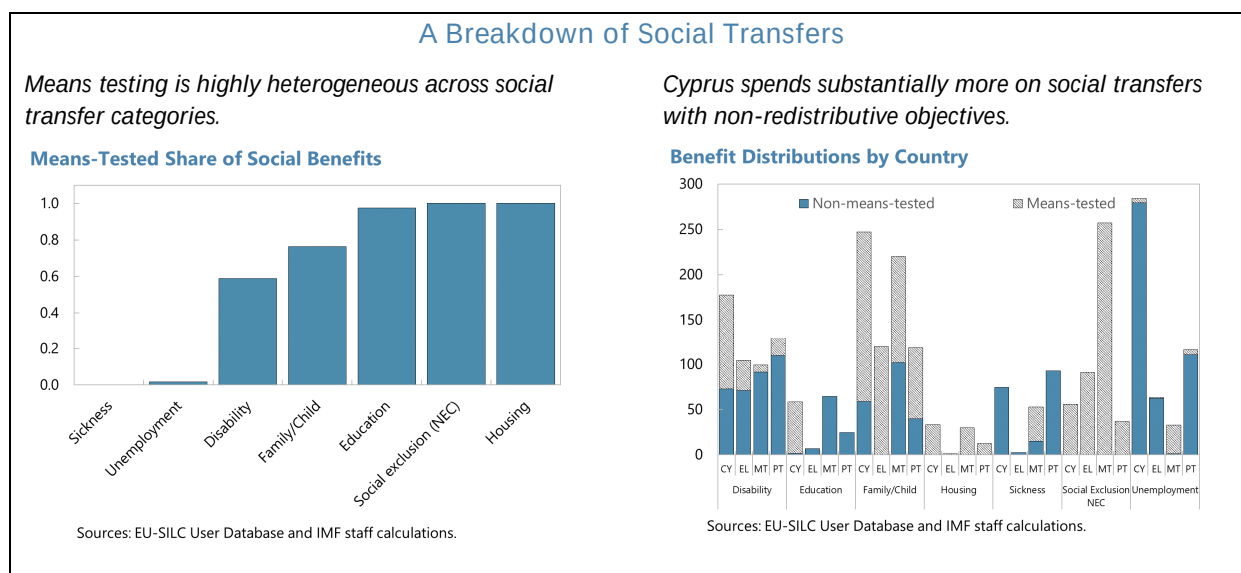
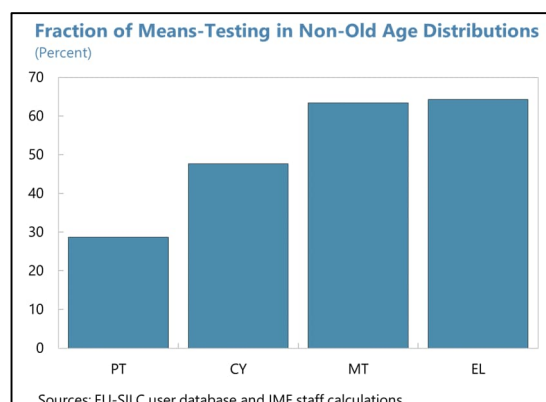
Gini Improvement by Moving to Efficiency Frontier

(Percentage points)



Sources: EU-SILC User Database and IMF staff calculations.

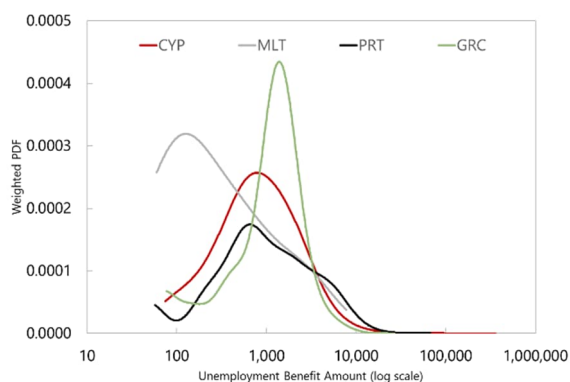
5. While roughly half of non-old-age transfers are means-tested in Cyprus, peer countries that sit closer to the efficiency frontier typically do more targeting. Means-testing is highly heterogeneous across benefit types: housing, social exclusion and education transfers are almost 100 percent means-tested. However, Cyprus distributes substantially more in non-redistributive benefits. In particular, Cyprus has some of the highest levels of per capita unemployment and disability transfers, which are typically instituted with insurance and consumption-smoothing objectives, rather than being explicitly redistributive. Both Greece and Malta, on the other hand, means-test over 60 percent of social transfers. Furthermore, they distribute more in social exclusion benefits—typically targeted at persistently economically and socially disadvantaged individuals.



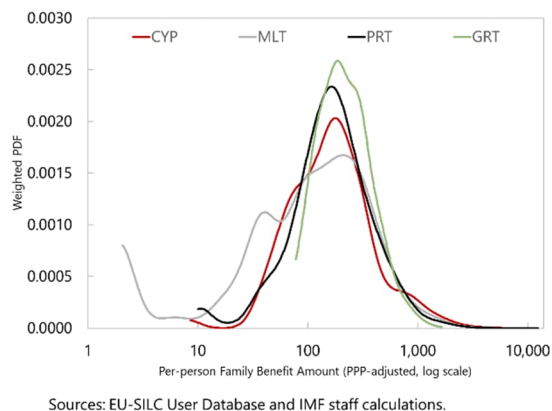
6. Social transfers in Cyprus are more “right skewed” than in peer countries, implying that a small share of recipients receive relatively large transfers. For both family and unemployment benefits, the mean transfer amount is above the median, pointing to concentration of spending in the upper tail. This is most apparent for unemployment benefits: the maximum observed transfer amount exceeds €300K, while the median transfer amount is relatively modest (about €2,600 PPP-adjusted, versus €3,800 in Malta and €4,700 in Portugal). Family benefits are less extreme but show a similar shape—Cyprus’s mean transfer amount (around €660) is more than double the median (about €300)—suggesting that high-value payments disproportionately drive average spending in key categories.

Estimated Probability Density Functions (PDF) of Family and Unemployment Benefits

Unemployment benefit disbursements in Cyprus are heavily skewed to the right...



... while family benefit amounts are more in-line with peers.



7. Cyprus could improve redistributive efficiency by introducing clearer caps within benefit categories, expanding means-testing where appropriate, and shifting marginal spending toward benefits with stronger distributional impact. Non-old-age social transfers remain below pre-crisis levels as a share of GDP. The composition of support is targeted primarily towards insurance or compensatory objectives, and away from benefits aimed at social inclusion. As fiscal space permits, refocusing and selectively expanding well-targeted support would strengthen equity and cohesion, with potential longer-run payoffs through improved human capital outcomes, greater social stability, and stronger automatic macro-stabilization.

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Annex V. The Impact of Artificial Intelligence on Cyprus's Labor Market¹

Artificial Intelligence (AI) is changing economies and jobs globally by improving productivity and altering roles. In Cyprus, personal use of AI is common, but business adoption and AI preparedness are low. Around half of workers are highly exposed to AI; some will benefit, while others face risk of job displacement, mainly in the private sector. Business administration, clerical, and ICT roles are most at risk. Women, highly educated individuals, and Cypriot citizens could benefit more from AI but, in some professions, face also greater displacement risk than men, lower-educated workers, and foreign nationals, highlighting AI's uneven impact on Cyprus's labor market.

1. AI represents a rapidly evolving technological frontier with adoption still in its early stages but accelerating steadily. As a potentially transformative innovation, AI holds significant promise to reshape productivity and labor structures across diverse sectors of the Cypriot economy. While the timing and magnitude of its impact are highly uncertain, understanding the differential effects on various industries and professions is crucial. This insight will be vital for crafting policies that harness AI's benefits sustainably, promoting economic and social outcomes that are positive for the Cypriot labor market.

AI Preparedness and Use in Cyprus

2. Cyprus is a leader in personal AI use but lags in AI readiness and digital skills. Cyprus has one of the highest shares of AI use by individuals among EU states albeit mostly for private purposes and comparatively less for work purposes. On the other hand, the IMF's AI Preparedness Index (AIPI)—measuring how countries are prepared to adopt, utilize, and navigate the economic impacts of AI—ranks Cyprus 19th out of 27 EU states.² Compared to the EU frontier, Cyprus is lagging the most in human capital and labor market policies although other AI preparedness dimensions—digital infrastructure, innovation and economic integration and regulation and ethics—show some gaps too. This reflects a lower level of digital skills of individuals, a smaller share of STEM graduates, and modest use of active labor market policies.

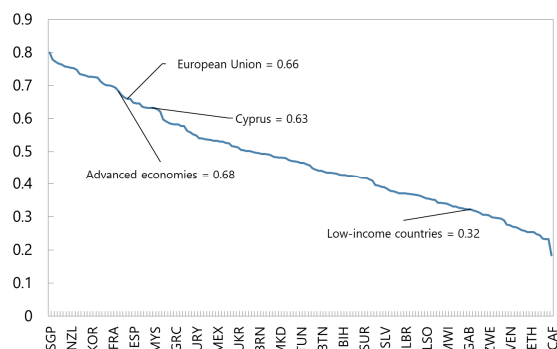
¹ Prepared by Adam Remo (EUR).

² The IMF's AIPI (Cazzaniga et al., 2024) assesses AI preparedness as of 2023 across 174 countries, based on a comprehensive set of macro-structural indicators that cover digital infrastructure; innovation and economic integration; human capital and labor market policies; and regulation and ethics. The index incorporates several perceptions-based indicators, reflecting individuals' subjective assessment and experiences. Therefore, the index should be seen as an indicative measure.

AI Preparedness and Usage by Individuals

Cyprus's AI preparedness is below the EU's average...

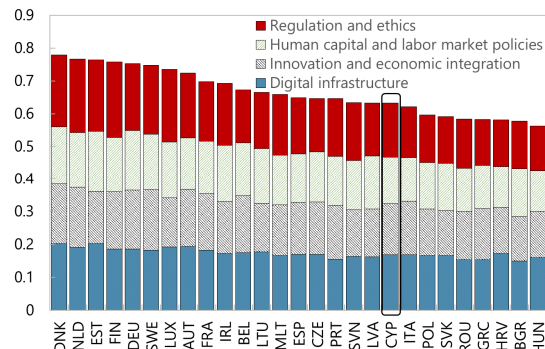
AI Preparedness Index Across Countries, 2023



Sources: Cazzaniga et al., 2024 and IMF staff calculations.

...with human capital and labor market policies preparedness particularly low.

AI Preparedness Index, 2023

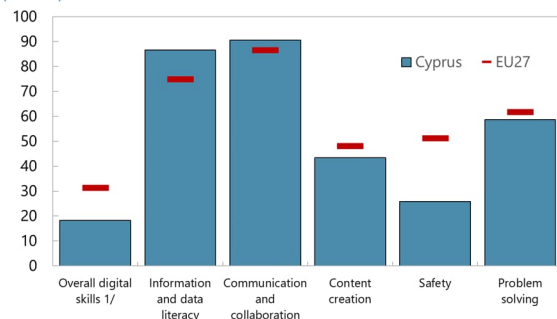


Sources: Cazzaniga et al., 2024 and IMF staff calculations.

Cyprus's population has below average advanced digital skills.

Individuals with Above-Basic Digital Skills, 2025

(Percent)



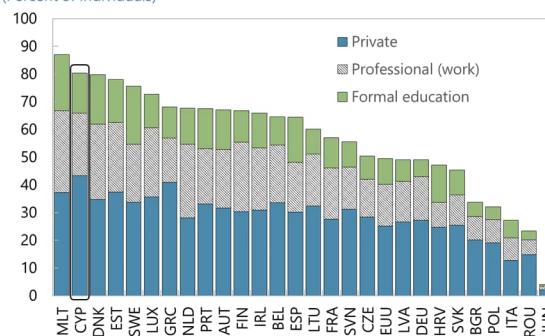
Sources: Eurostat and IMF staff calculations.

1/ refers to individuals with above-basic level in all five component domains.

AI usage by individuals is 2nd highest in EU albeit mostly for personal purposes.

Purpose of the Use of Generative AI Tools, 2025

(Percent of individuals)



Sources: Eurostat and IMF staff calculations.

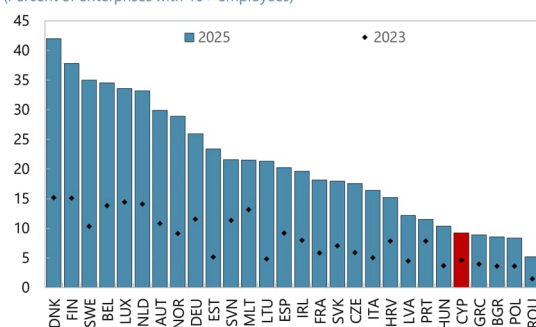
3. AI use by Cypriot companies is among the lowest in Europe. In 2025, less than 10 percent of Cypriot companies with 10 or more employees were using at least one AI technology. The use of AI increases with company size likely due to economies of scale and better capacity to implement AI tools. A significant AI usage gap relative to EU average is observed in enterprises of all sizes. The gap is also significant across all industries including those important for the Cypriot economy and those well situated to benefit from early AI adoption like ICT, trade, real estate, and professional, scientific and technical activities. These significant gaps exist despite Cypriot enterprises reporting constraints to AI adoption (in terms of costs, lack of expertise, legal consequences etc.) less often than their EU counterparts, which may point to less interest in AI adoption in Cypriot companies.

AI Use by Enterprises

AI use by Cyprus's enterprises is particularly low...

Enterprises Using AI Technologies

(Percent of enterprises with 10+ employees)

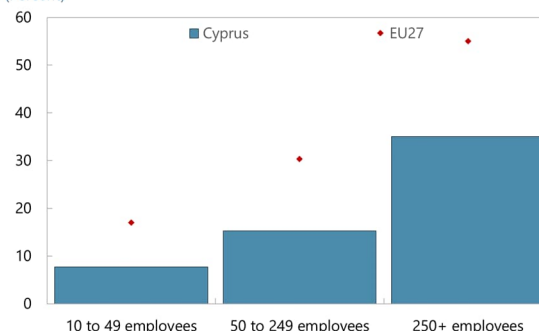


Sources: Eurostat and IMF staff calculations.

...across all firms' sizes...

Share of Enterprises Using AI by Size, 2025

(Percent)

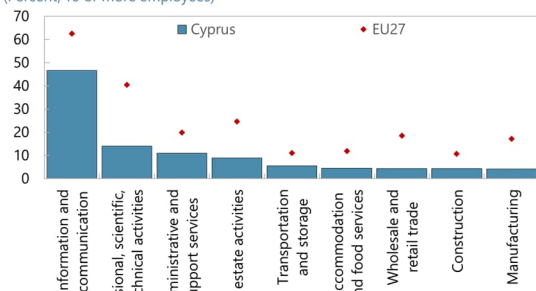


Sources: Eurostat and IMF staff calculations.

...and sectors of activity.

Enterprises Using at Least One of the AI Technologies, 2025

(Percent, 10 or more employees)

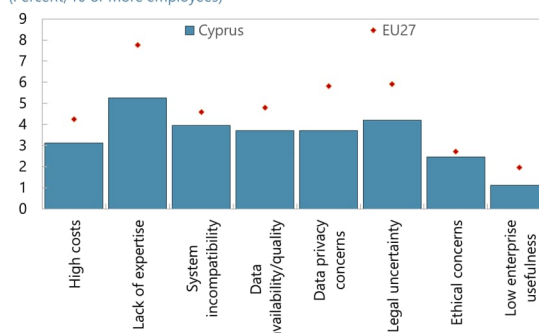


Sources: Eurostat and IMF staff calculations.

This is despite enterprises report obstacles to AI adoption less often than their EU peers.

Reasons for Not Using AI by Enterprises, 2025

(Percent, 10 or more employees)

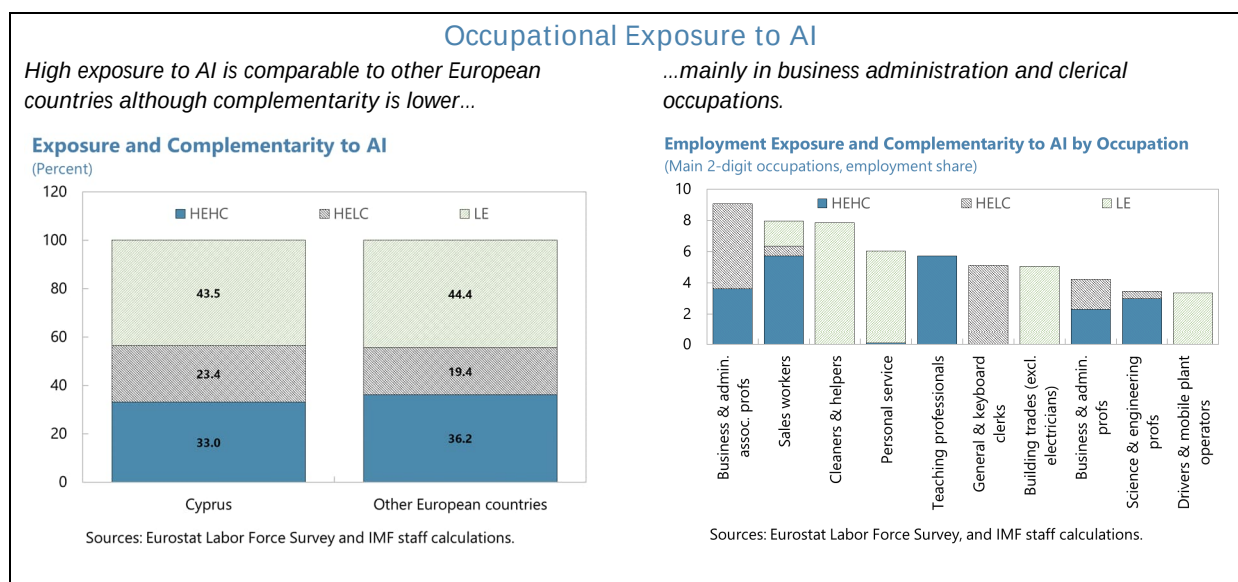
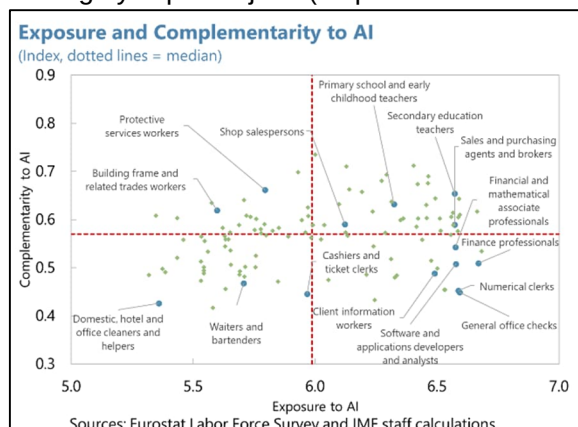


Sources: Eurostat and IMF staff calculations.

AI Impact on Labor Market

4. The impact of AI on labor depends on job exposure and complementarity to AI. Felten et al. (2021) developed a measure of occupational exposure to AI, linking AI applications to workplace skills and occupations using U.S. data. Building on this, Pizzinelli et al. (2023) incorporated the social, ethical, and physical contexts of occupations to assess whether AI is likely to complement or replace jobs. Based on this framework, occupations are classified into three categories: “High Exposure and High Complementarity” (HEHC), “High Exposure and Low Complementarity” (HELC), and “Low Exposure”. These classifications are applied to the 2023 EU Labor Force Survey, allowing an assessment of AI exposure and complementarity within the Cypriot workforce and a comparison to other European countries, across 119 occupations in 19 economic activities.

5. Cyprus shows somewhat greater vulnerability to AI-driven jobs displacement compared to other European countries. The share of highly exposed jobs (56 percent of the workforce) is comparable to other European countries and comes mainly from jobs in business and administration, sales, teaching, clerical occupations and science and engineering occupations. However, the risk of AI-driven job displacement is greater, as the share of highly exposed jobs with low complementarity (23 percent) is about 4 percentage points higher than other European countries and accounts mainly for occupations in business and administration, ICT and clerical professions. Finally, about 40 percent of the workforce is unlikely to be affected by AI due to low exposure, primarily those employed as cleaners and helpers, personal care workers, construction workers or drivers.



6. Private sector workers are more vulnerable to job displacement than those in the public sector. About 27 percent of the Cypriot private sector workforce faces a risk of job displacement, in contrast to only 10 percent of the public sector workforce. The private jobs most at-risk are in ICT, finance and insurance, professional, scientific and technical activities. On the other hand, public sector employees have much higher potential to benefit from adoption of AI (about 60 percent) compared to the private sector (about 25 percent). Public professions which can benefit the most are in education and health and social services.

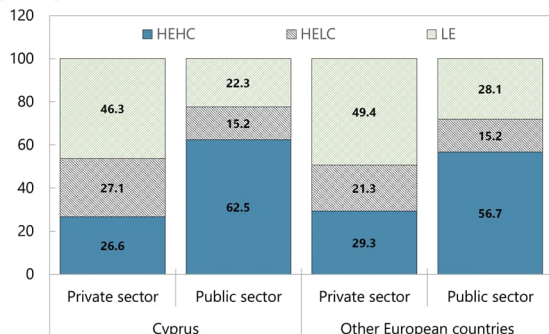
Sectoral Exposure to AI

Public sector is likely to benefit more from AI.

ICT, finance and insurance sector jobs are the most at risk.

Exposure and Complementarity to AI by Broad Sectors

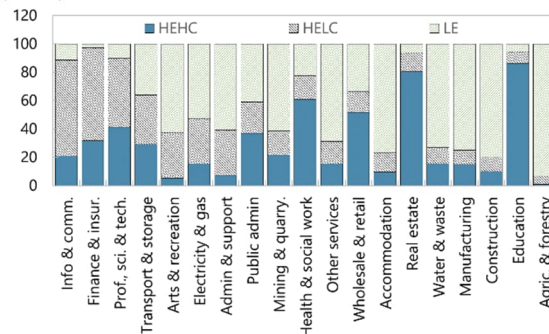
(Percent)



Sources: Eurostat Labor Force Survey and IMF staff calculations.

Exposure and Complementarity to AI by Sector

(Percent)



Sources: Eurostat Labor Force Survey and IMF staff calculations.

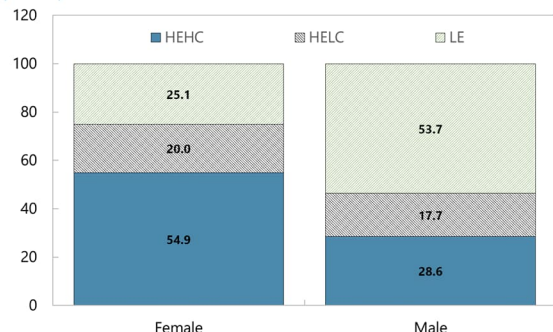
7. Women, highly-educated workers, and non-immigrants are expected to see more potential complementarities to AI but also face higher risk of job disruption.

- About 75 percent of female workers are highly exposed to AI compared to about 45 percent of males. The majority of female workers (55 percent) are in sectors with high complementarity like teaching, sales and health. However, about 20 percent are at risk of AI-driven job disruption, predominantly in business and clerical occupations. The male workforce has lower exposure to AI, as men are more likely to work in manual professions.
- Exposure to AI increases with education level. Workers with a tertiary education are highly exposed (about 80 percent). While about half of them are expected to benefit from AI, about one third are at risk of job displacement. On the other hand, workers with at most lower secondary education are little exposed to AI (about 10 percent).
- Cypriot citizens are anticipated to benefit more but also face higher risks from AI than foreign workers. This reflects the relatively high share of foreigners in tourism-related and other manual professions.

Exposure to AI by Demographic Groups

Women are likely to benefit more but also face higher risk of job displacement than men...

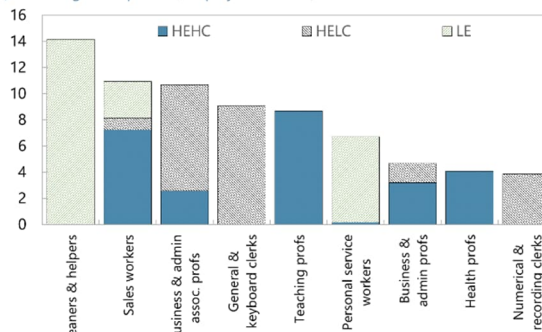
Gender - Employment Exposure and Complementarity to AI
(Percent)



Sources: Eurostat Labor Force Survey, and IMF staff calculations.

...due to their predominance in teaching, business administration and clerical professions.

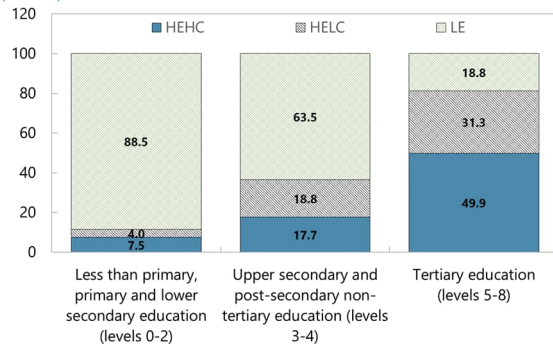
Main Occupations for Women
(Main 2-digit occupations, employment share)



Sources: Eurostat Labor Force Survey, and IMF staff estimates.

AI impact on workers is growing with their education level.

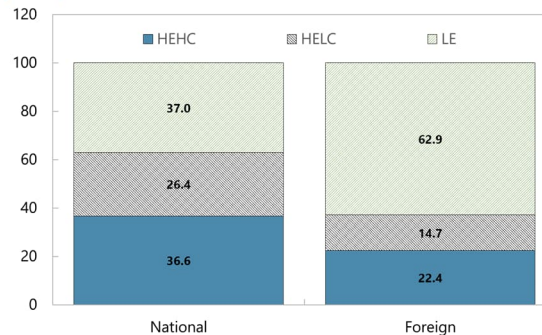
Education - Employment Exposure and Complementarity to AI
(Percent)



Sources: Eurostat Labor Force Survey and IMF staff calculations.

Foreigners are less exposed to AI due to their higher share in manual occupations.

Immigrant - Employment Exposure and Complementarity to AI
(Percent)



Sources: Eurostat Labor Force Survey, and IMF staff estimates.

Conclusions and Policy Considerations

8. AI adoption in Cyprus has been slow suggesting challenges but also opportunities from harnessing the new technology. Use of AI is high among the Cypriot population. However, its use in economic activities remains limited, which may point to gaps in AI preparedness. The exposure of the workforce to AI is broadly similar to that observed in other European countries, although risks associated with job displacement appear somewhat higher. These trends, especially among female and highly educated workers, underscore both opportunities and vulnerabilities confronting Cyprus as AI technologies become more prevalent across sectors.

9. To effectively harness the transformative potential of AI while managing the associated structural changes, a holistic national strategy is essential. The establishment of a National AI Task Force in January 2025 marked a significant and timely step toward coordinated policy action. Ongoing preparation of a national AI action plan presents a valuable opportunity to

lay the foundation for a comprehensive AI regulatory framework, aligned with forthcoming EU AI regulation. This plan should prioritize the design of targeted policies that facilitate productive AI adoption across sectors, while implementing measures to mitigate potential job disruptions, especially among vulnerable groups. Such a coordinated approach will be critical to ensuring that AI adoption delivers inclusive and sustainable benefits for the Cypriot economy and society.

10. To fully realize the benefits of AI and digital transformation, Cyprus should strengthen its focus on building a future-ready workforce. This will require systematic integration of digital and AI-related skills into all levels of the education system, ensuring that students are equipped with competencies essential for the evolving labor market. Tertiary education institutions, in particular, should become more agile and responsive to the rapidly changing skill demands driven by AI adoption, updating curricula in close collaboration with industry to maximize complementarity between human and AI capabilities. By fostering a culture of continuous learning and adaptability, Cyprus can better position its workforce to thrive alongside technological advancements and leverage AI for inclusive economic growth.

11. Given the rapid advancement and adoption of AI technologies, it is imperative for policymakers to closely monitor the evolving impact of AI on the labor market. Continuous assessment is needed to identify emerging trends in job displacement, particularly in professions such as clerical and business administration, as well as ICT roles, which are among those most exposed to automation. To effectively manage these structural changes, Cyprus should prioritize the expansion of reskilling and upskilling initiatives, enabling affected workers to transition toward professions with greater complementarity to AI or lower exposure to automation risks. This proactive approach will help mitigate adverse employment effects, foster labor market resilience, and support inclusive economic adaptation to technological transformation.

12. Supporting the adoption of AI technologies by companies, especially in SMEs, is necessary to fully harness the benefits of AI. To accelerate the productive use of AI in Cyprus, it is crucial to reduce hurdles for adoption by implementing a transparent and efficient regulatory framework compliant with the EU AI regulation. Clear guidelines can reduce uncertainty and foster responsible innovation, encouraging businesses to integrate AI technologies into their operations. Equally important is the development of a workforce equipped with AI-related skills, ensuring that companies have access to talent capable of maximizing the benefits of digital transformation. Special attention should be given to supporting small and medium-sized enterprises (SMEs), which often face greater barriers to implementing AI solutions due to resource constraints. In this regard, the Cyprus DIGital INNOvation Hub can serve as a strategic platform, providing targeted training, opportunities for AI adoption testing, and guidance on investment strategies. By leveraging such initiatives, Cyprus can help its business sector overcome implementation challenges and unlock the full potential of AI for economic growth.

13. There is significant opportunity for Cyprus to exploit AI in boosting productivity within the public sector. Compared to the private sector, the public sector exhibits both higher exposure to and complementarity with AI technologies, positioning it to benefit substantially from digital transformation. Strategic adoption of AI in government operations can reduce administrative

costs, streamline processes, and enable the expansion of modern, efficient public services. In this context, the government’s “AI in Government” funding program—which supports the development and real-world testing of AI prototypes aimed at addressing specific public-sector challenges—is a particularly welcome initiative. By leveraging such targeted efforts, Cyprus can accelerate the modernization of its public administration, enhance service delivery, and achieve greater value for citizens.

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Annex VI. Previous Article IV Recommendations

Past Policy Recommendation	Policy Actions
Fiscal Policies	
Maintain fiscal surpluses to prioritize public debt reduction to below 60% of GDP.	2025 primary surplus was 4.5 percent of GDP and debt declined significantly to 55 percent of GDP at the end of 2025.
Avoid discretionary fiscal easing that could lead to economic overheating.	Primary surplus narrowed in 2025 by 0.9 percent of GDP while discretionary measures (e.g., temporary reduction of VAT rate on households' electricity consumption) were limited.
Emphasize capital expenditures, especially for energy, climate and digital transition investments and resist expanding current spending such as public wage increases or untargeted social benefits.	Capital expenditures to GDP ratio increased to 4.9 percent in 2025 as RRF implementation accelerated ahead of the 2026 deadline. Nevertheless, current expenditures also increased to about 35 percent of GDP largely reflecting COLA adjustments and 2024 general salaries increase.
Avoid further increases in COLA indexation.	COLA indexation is set to gradually increase from 66 percent to 100 percent by January 2027 albeit with 4 percent cap on overall adjustment.
Financial Sector Policies	
Accelerate resolution of Non-Performing Loans (NPLs) through foreclosure frameworks and mortgage-to-rent schemes.	NPL ratio in the banking sector has been declining through organic means and increase in performing loans and stood at 1.6 percent in December 2025. Resolution of NPLs outside the banking sector has been more sluggish and proposed amendments to the foreclosure framework look likely to slow the process further. The mortgage-to-rent scheme is operational, with applications still being processed.
Strengthen Anti-Money Laundering (AML) frameworks and establish a National Sanctions Implementation Unit.	Amendments to the AML/CFT legislation were adopted in June 2025 extending the definition of obliged entities for AML/CFT supervision to include professional services in the real estate sector as well as crypto asset service providers. A new CBC Directive also extended AML/CFT requirement beyond credit institutions to all entities under CBC supervision. The new National Sanctions Implementation Unit at the Ministry of Finance was established by law to

Past Policy Recommendation	Policy Actions
	provide guidance to businesses on sanctions compliance.
Structural Policies	
Implement structural reforms to improve judicial efficiency, insolvency procedures, and creditor rights.	More judges were hired, top-tier courts were restructured, and the Court of Appeal and the Commercial Court were established although the latter is still not operational. However, more needs to be done as the backlog of court cases remains large, disposition times very long, and physical and technological infrastructure require upgrading (hindering also progress on resolving legacy NPLs).
Address labor market challenges by closing skill gaps by focusing on STEM and digital education.	A strategy to attract and domicile foreign talent is being implemented but more progress is to be made on increasing the share of STEM graduates and enhancing digital education.
Accelerate energy infrastructure projects and liberalization of the electricity market to enhance energy security, affordability and support the green transition.	The Great Sea Interconnector and the LNG terminal projects are delayed. Competitive electricity market was launched in October 2025 to promote competition among suppliers and improve accessibility of smaller (decentralized) renewable energy producers.

Annex VII. Data Issues

Table VII.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	Intersectoral 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		
			A		A		
Consistency			A	B		A	
Frequency and Timeliness	A	A	A	B	A		
Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.							
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.							
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 <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i> , January 2024, Appendix I).							
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.							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have 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 in Article IV consultations in lieu of official statistics available to staff. No data or estimates different from official statistics were used.							
Other data gaps. None							

Table VII.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 VII.3. Cyprus: Table of Common Indicators Required for Surveillance
(As of May 05, 2026)

	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 ⁷	Frequency of Reporting ⁷	Expected Frequency ^{7,8}	Announced Frequency ⁹	Expected Timeliness ^{7,8}	Announced Timeliness ⁹
Exchange Rates	2026-05-05	2026-05-05	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	2026-03	2026-04	M	M	M	M	1W	3W
Reserve/Base Money	2026-03	2026-04	M	M	M	M	2W	2W
Broad Money	2026-03	2026-04	M	M	M	M	1M	1M
Central Bank Balance Sheet	2026-03	2026-04	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	2026-03	2026-04	M	M	M	M	1M	1M
Total assets of other depository corporations ²	2026-03	2026-04	M	M	M	M	1M	1M
Total credit from other depository corporations ²	2026-03	2026-04	M	M	M	M	1M	1M
Interest Rates ³	2026-05-05	2026-05-05	D	D	D	...	...	...
Consumer Price Index	2026-03	2026-04	M	M	M	M	1M	1W
Revenue, Expenditure, Balance and Composition of Financing ⁴ -General Government ⁵	2025-12	2026-03	Q	Q	A	Q	2Q	3M
Revenue, Expenditure, Balance and Composition of Financing ⁴ -Central Government	2025-12	2026-03	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	2025-12	2025-12	Q	Q	Q	Q	1Q	1M
Total stock of General Government Debt ⁶	2025-12	2025-12	Q	Q	Q	...	4M	...
External Current Account Balance	2025-12	2026-04	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	2025-12	2026-04	Q	Q	M	M	8W	42D
GDP/GNP	2025-12	2026-04	Q	Q	Q	Q	1Q	70D
Gross External Debt	2025-12	2026-04	Q	Q	Q	Q	1Q	1Q
International Investment Position	2025-12	2026-04	Q	Q	Q	Q	1Q	1Q

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.

³ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

⁴ Foreign, domestic bank, and domestic non-bank financing.

⁵ The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. The total stock of general government debt is required for SDDS Plus countries and encouraged for SDDS and e-GDDS countries.

⁶ Including currency and maturity composition.

⁷ 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") semi-annual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁸ 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. Indicators that are not in the IMF Data Standards Initiatives are shown as "...".

⁹ 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

May 28, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS	2
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FUND RELATIONS

(As of March 31, 2026)

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	429.22	101.23

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
2026	0	0.00	0.00
2027	0	0.00	0.00
2028	0	0.00	0.00
2029	0	0.00	0.00
2030	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 20 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 29, 2025 (IMF Country Report No. 2025/117).

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).

**Statement by Mr. Jeroen Clicq, Executive Director for Cyprus
and Ms. Nina Stoyanova, Advisor to Executive Director
June 17, 2026**

On behalf of the authorities of the Republic of Cyprus, we thank the mission team, led by Mr. Alex Pienkowski, for the comprehensive report, the constructive and open discussions during the Article IV mission, and the valuable analytical work. The authorities broadly share staff's assessment of the current economic challenges, take note of the policy recommendations, which are consistent with their policy agenda, and appreciate the Fund's continued engagement.

Economic development and outlook

Cyprus's economy remains resilient despite multiple external shocks and heightened global uncertainty. Strong growth, combined with sustained fiscal surpluses and a steadily declining public debt ratio, has positioned Cyprus among the better-performing economies in Europe. GDP is projected to grow by around 2½ to 3 percent in 2026, significantly above the euro area average, supported by robust domestic demand, continued reforms, and stronger private sector participation. The country's EU Presidency delivered progress across key policy areas — including security and defense, digital and economic competitiveness, energy security, and EU enlargement — further reinforcing Cyprus's role as a trusted partner and investment destination within the European Union.

Cyprus's strategic location at the intersection of Europe, Asia, and Africa places the country at the frontline of regional geopolitical developments. This increases exposure to external shocks and security risks, while also strengthening its role as a key gateway for trade, energy, and investment flows between Europe and neighboring regions. The conflict in the Middle East has had a temporary but noticeable impact on the economy, contributing to higher energy and input costs. Heightened uncertainty and adverse risk perceptions have also dampened tourism dynamics. Should the conflict intensify across the region, its effects could become more widespread, particularly through higher import and energy costs and rising inflationary pressures. At the same time, the country faces key challenges, including high energy dependence, increasing climate-related risks, and the continued division of the island, underscoring the need for sustained reforms to strengthen resilience.

HICP inflation is projected to increase temporarily, ranging from 3 to 4½ percent in 2026, reflecting higher energy prices and global supply chain pressures. The labor market continues to demonstrate resilience and adaptability. The unemployment rate is expected to reach around 4½ percent in 2026, in line with an expected deceleration in employment growth owing to the Middle East war.

Cyprus's current account deficit narrowed substantially to 6.4 percent of GDP in 2025 but is projected to widen moderately through 2026 due to an external oil price shock and ongoing

profit repatriation by foreign-owned corporate entities. Thereafter, it is expected to gradually narrow in 2027 as services exports stabilize and external energy costs normalize.

Fiscal policy

Cyprus continues to maintain one of the strongest fiscal positions in the euro area, with prudent fiscal management contributing to the rebuilding of buffers and placing public debt firmly on a downward trajectory. The fiscal surplus is projected to remain robust at around 2.3 percent of GDP in 2026. Supported by strong nominal GDP growth and sizable cash buffers, public debt declined to 55 percent of GDP at end-2025, from 63 percent in 2024 and 77 percent in 2023, and is projected to fall further to around 50 percent by end-2026. Against this backdrop, the authorities agree with staff that available fiscal space should be used prudently to support targeted, high-return capital investment, while preserving buffers to address long-term pressures arising from population aging, defense needs, and climate change.

The comprehensive tax reform package introduced at the start of 2026 marks a major step in modernizing the tax system and lays a strong foundation for further improvements, as also recognized by staff. The reform constitutes the most extensive overhaul of the tax system in more than twenty years, aiming to enhance fairness, strengthen compliance, and preserve Cyprus's attractiveness as a competitive business and investment destination. Key measures include a higher tax-free threshold, expanded family and housing deductions, the abolition of deemed dividend distribution, lower taxation of actual dividends, the removal of most stamp duties, and an increase in the corporate tax rate to 15 percent in line with international standards. The reform is expected to support middle-income households, reduce administrative burdens, improve transparency, and align the tax framework with OECD and EU standards, while safeguarding fiscal sustainability.

Financial sector

The Cypriot financial sector has continued to strengthen its resilience, supported by solid capital buffers and improved asset quality. The banking system's solvency and liquidity indicators rank among the strongest in the European Union, underpinning overall financial stability. Credit institutions remain well capitalized, with Common Equity Tier 1 ratios exceeding 25 percent in 2025, reflecting robust profitability and prudent risk management. In addition, the increase in the countercyclical capital buffer to 1.5 percent, effective January 2026, further reinforces the system's robustness. Overall buffer availability remains well above regulatory requirements, enhancing the capacity to absorb potential shocks.

Significant progress has also been achieved in reducing non-performing loans through targeted policies, debt restructuring, and portfolio sales. As a result, the NPL ratio declined to a historically low level of 1.6 percent by end-2025, indicating continued improvement in asset quality. The authorities continue to monitor loan renegotiations closely and assess current trends

as broadly consistent with normal commercial dynamics. Meanwhile, lending activity has strengthened, with credit growth remaining robust into 2026 despite still relatively tight financial conditions. Banking sector profitability remains high, although it has begun to stabilize as net interest income moderates with the gradual pass-through of lower lending rates. Furthermore, Cypriot banks continue to manage their MREL targets effectively, maintaining strong compliance through prudent capital planning.

The state-backed mortgage-to-rent scheme continues to support vulnerable homeowners, while the Financial Ombudsman has assumed a more prominent role as an out-of-court dispute resolution mechanism, helping to reduce pressure on the judicial system. Moreover, the government continues implementing the National Solidarity Fund replenishment scheme, with partial compensation disbursed in 2025 to individuals affected by the 2013 banking crisis, including haircut depositors and securities holders, supported by a dedicated budget and an electronic verification platform. The foreclosure framework remains a key pillar for addressing legacy NPLs and ensuring payment discipline. In this context, the Parliament adopted in April 2026 a broad package of legislative amendments aimed primarily at strengthening borrower protection.

Digitalization is reshaping the delivery of financial services in Cyprus. As banks continue to reduce branch networks and physical staffing, they are accelerating the migration of retail clients to online and mobile platforms. Furthermore, fintech companies are gaining traction, contributing to the modernization of payment systems, lending processes, and financial planning. Further strengthening the AML/CFT framework, including beyond the banking sector, remains important to mitigate risks. Priorities include more effective implementation of safeguards, broader use of entity-level risk assessments across all entities supervised by the Central Bank of Cyprus, and continued adaptation to the evolving EU framework. Additional resources provided to the securities markets supervisor are expected to enhance the resilience of non-bank financial institutions.

Structural reforms

Structural reforms continue to advance across key areas, including digital transformation, green investment, and financial innovation, supporting sustainable and inclusive growth. In particular, the accelerated implementation of the National Recovery and Resilience Plan is expected to enhance innovation and competitiveness, supported by investments of around €1.2 billion, with a strong focus on sustainable development, digitalization, and human capital.

Energy remains a critical structural vulnerability given Cyprus's island characteristic, limited diversification of energy sources, and relatively high electricity costs. Therefore, strengthening connectivity with Europe is of strategic importance, notably through interconnection projects with Greece and Israel, alongside accelerated deployment of renewable energy. In this context, ongoing investments in solar and wind energy, as well as regional cooperation in gas

exploration, are expected to enhance energy security and reduce import dependence. At the same time, the authorities remain committed to modernizing the electricity grid, expanding storage capacity, and strengthening incentives for energy efficiency.

Climate change and increasing water stress pose medium-term risks, particularly for agriculture and tourism. Accordingly, continued investment in desalination, water management, and climate adaptation remains essential. In addition, the Green Cyprus Initiative is expected to support the adoption of green technologies and strengthen environmental sustainability.

Judicial reform has entered an important implementation phase. Following institutional restructuring, early progress is visible in reducing judicial workload, although further efforts are needed to address remaining backlogs. Continued judicial training and the modernization of digital systems will be key to improving efficiency over time.

To strengthen inclusion and long-term resilience, the authorities remain focused on **key socioeconomic challenges**, including still-elevated youth unemployment, which stood at 13.5 percent in 2025, skills mismatches that limit labor market integration, and regional disparities in income, job opportunities, and access to quality public services. In this regard, priorities include labor market reforms, expanded upskilling and vocational training — particularly in IT and green sectors, as well as increased female labor force participation and improved mobility. In parallel, the authorities are advancing efforts to strengthen AI readiness and foster an enabling environment for innovation-driven growth. At the same time, further progress in digital infrastructure and e-government is expected to reduce administrative burdens and enhance transparency.

In line with their commitment to transparency, the Cypriot authorities agree with the publication of the staff report and the accompanying documents.