

Macroeconomic Outlook

March 2024

Ministry of Finance



OUTLINE

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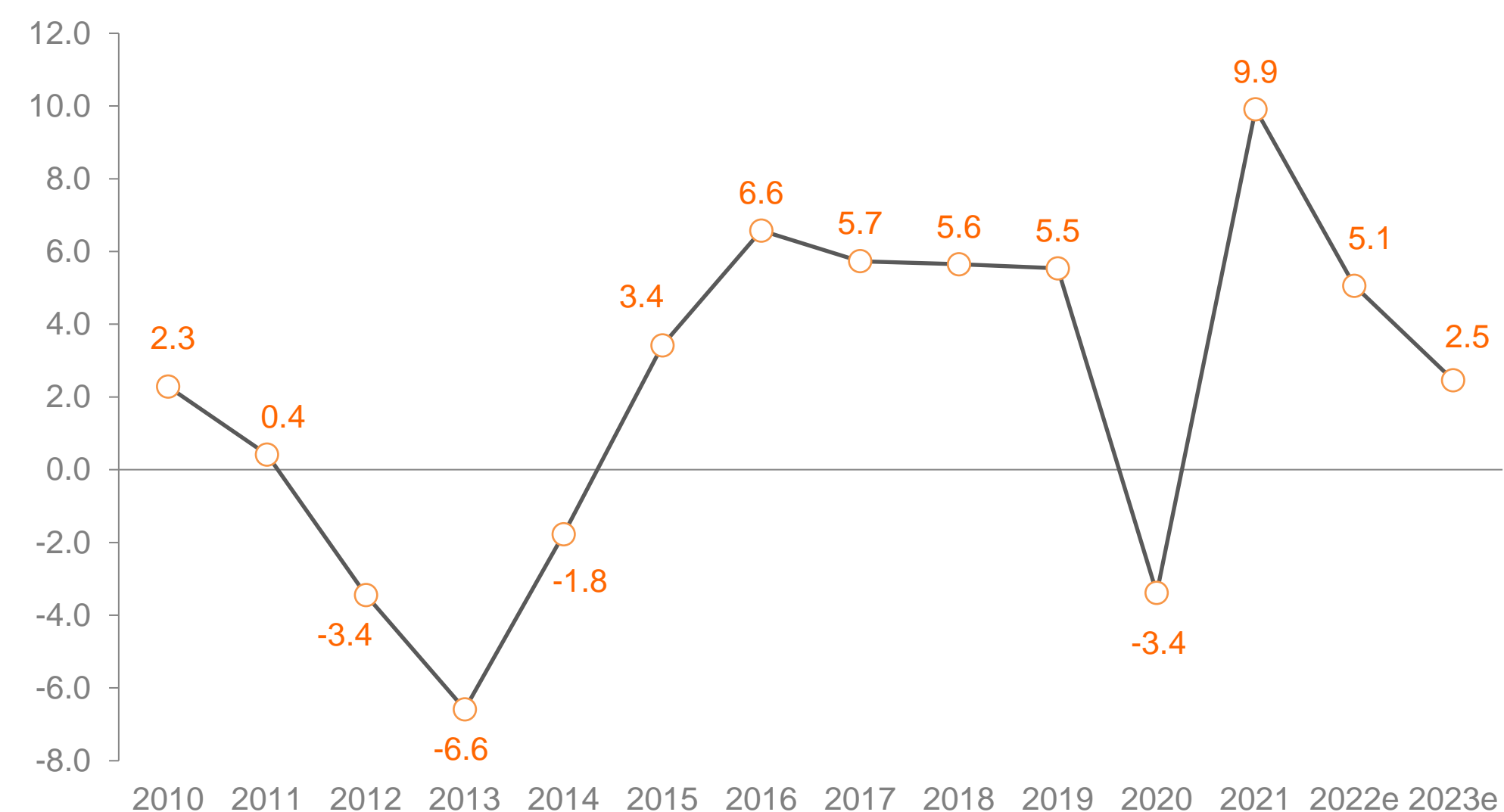




OVERVIEW OF MAIN MACRO VARIABLES

- **Economic activity** in 2021-2022 recovered strongly following the COVID-19 pandemic (GDP returned end 2021Q1) by 9.9% and 5.1% respectively. 2023 growth by 2.5% point to a continued resilience and flexibility, amid the war/sanctions. Growth is among the highest among member states and significantly higher than the EA/EU average (CY 2.5% in 2023 vs. EA/EU around 0.5% y-o-y %).
- **Labour market** developments showed resilience and flexibility. Unemployment rate in 2023 decreased significantly (6.1%) with still high level of vacancies. Limited impact from ongoing war. But, the market is less tight now given the employment growth deceleration. Wage demand is still moderate and productivity levels are rising.
- **Inflation** is decelerating following to the gradual correction in oil prices, the normalization of food prices and the monetary policy tightening.
- The **current account** deficit worsen in 2023/9m compared to 2022/9m mainly due to increases in mobile transport equipment and elevated imports for home consumption and to a lesser extend by lower increase in services surplus (impact of sanctions).

	<i>annual % change</i>				
	2019	2020	2021	2022	2023
GDP growth (constant prices)	5.5	-3.4	9.9	5.1	2.5
Government consumption	12.4	10.6	7.9	2.7	1.6
Private consumption	3.9	-6.8	5.6	8.5	4.2
Gross fixed capital formation	6.9	4.7	-0.1	7.8	19.5
Exports	8.7	2.2	21.6	13.6	-1.5
Imports	9.5	3.1	15.4	18.3	5.1
HICP (%)	0.5	-1.1	2.3	8.1	3.9
Productivity growth	1.7	-2.3	6.6	2.0	1.0
Employment growth (persons, %)	3.8	-1.2	3.2	3.0	1.5
Compensation per employee (%)	4.4	-0.5	4.3	1.1	5.6
Unemployment rate (Labour Force Survey)	7.1	7.6	7.5	6.8	6.1
Current Account Balance (% of GDP)	-5.6	-10.0	-6.1	-7.9	...



Current situation

NATIONAL ACCOUNTS

Expenditure Side

Investment and private consumption are the main growth drivers.

Production

Growth from all NACE activities except professional services & financial and insurance activities. In 2023 the main contributors were Hotels & Restaurants, Construction, Wholesale & retail trade, Administrative activities, Information and communication and Transportation and storage.

Economy Diversification

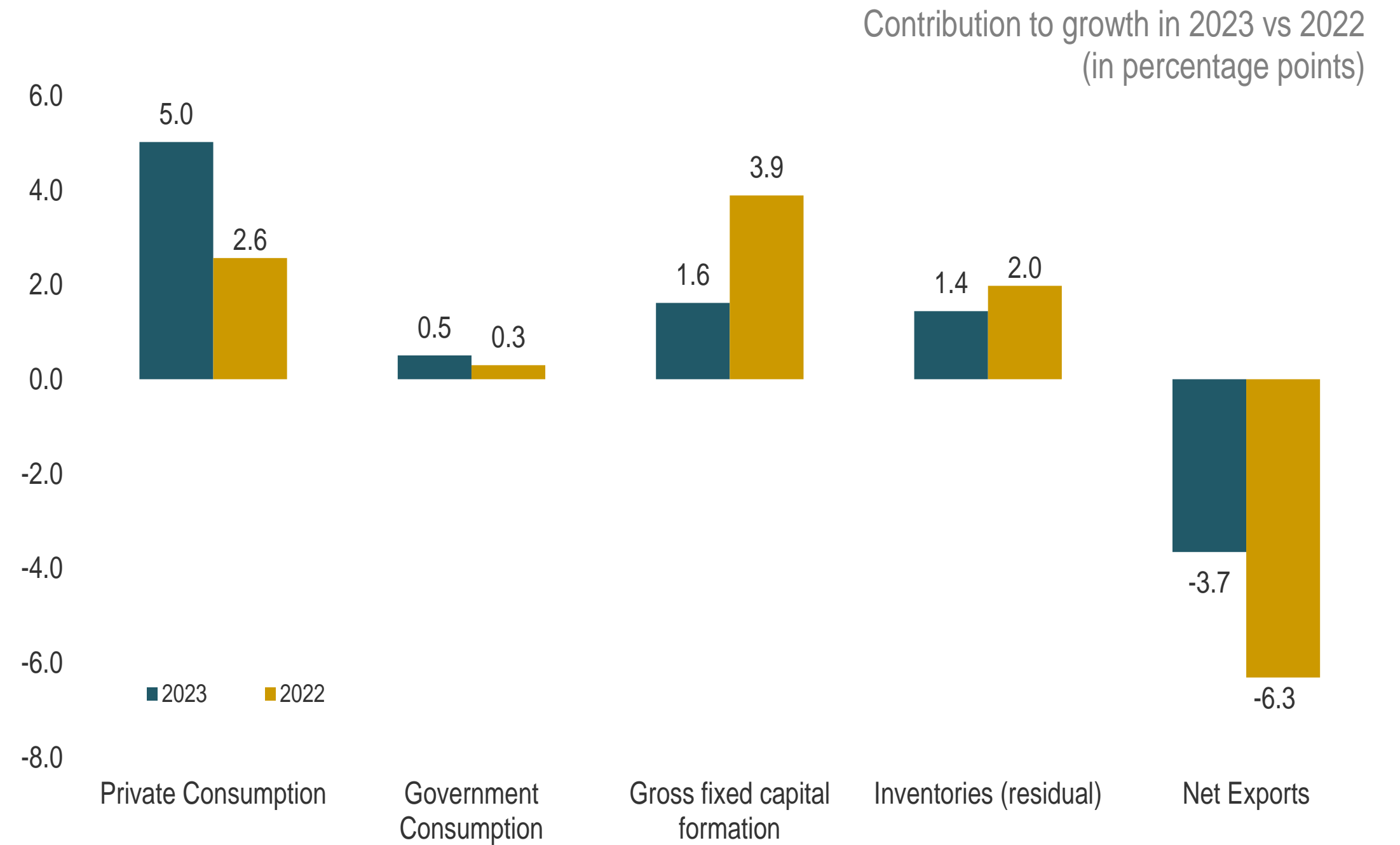
- *Tourism - 5.3% in 2022*
- *Shipping – 3.8% in 2021*
- *ICT – 9.6% in 2022*



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2023 EXPENDITURE SIDE

- In terms of **domestic demand**, compared with 2022, public consumption increased by 1.6% and private consumption increased by 4.2%. Gross fixed capital formation increased by 19.5% over the same period. In terms of **external demand**, exports decreased by 1.5% while imports increased by 5.1% compared with 2022.
- Growth** was mainly driven by investment and private consumption. Net exports contributed negatively (due to lower non-tourist services exports and growth in imports due to robust domestic demand).

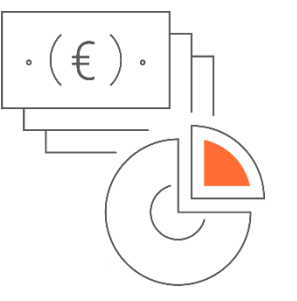


2023 PRODUCTION SIDE

- From a **sectoral point** of view, growth in 2023 is positive and widespread with negative contribution only from the sectors “Financial and insurance activities” and “Professional, scientific and technical activities”.
- The **positive growth rate** is mainly attributed to the sectors: “Hotels and Restaurants”, “Construction”, “Wholesale and retail trade; repair of motor vehicles and motorcycles”, “Administrative and support service activities”, “Information and communication” and “Transportation and storage”.



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ECONOMY DIVERSIFICATION

- Cyprus is **well diversified** within the services
- The contribution of **Tourism industry** to GDP was about 7.0% in 2019. The contribution of tourism industry to GDP is estimated that lies between 4.8% (in 2010) and 7.9% (in 2017). For the years after 2019, the contribution of Tourism industry to GDP lies between 1.1% (in 2020) and 5.3% (in 2022).
- **Non-tourist** services have risen over time, from 47.4% in 2000 to 54.7% in 2010 and 61.3% in 2023.

	(shares)	2000	2010	2019	2020	2021	2022	2023
Gross Domestic Product at volume measures								
A. Agriculture, forestry and fishing		4.4	2.3	1.9	1.9	1.7	1.7	1.7
B. Mining and quarrying		0.4	0.3	0.1	0.1	0.2	0.1	0.2
C. Manufacturing		8.5	5.7	6.2	6.3	5.7	5.5	5.5
D. Electricity, gas, steam and air conditioning supply		1.2	1.5	0.7	0.7	0.6	0.6	0.6
E. Water supply; sewerage, waste management and remediation activities		0.6	0.6	0.7	0.7	0.7	0.7	0.7
F. Construction		7.7	8.3	7.4	7.3	6.7	6.2	6.2
G. Wholesale and retail trade; repair of motor vehicles and motorcycles		9.4	11.4	11.8	12.0	13.0	12.9	13.0
H. Transportation and storage		7.3	7.5	6.8	5.5	5.5	5.5	5.6
I. Accommodation and food service activities		8.4	5.2	6.0	2.0	3.9	5.0	5.5
J. Information and communication		2.7	3.6	7.7	9.5	10.1	11.2	11.5
K. Financial and insurance activities		6.9	8.9	6.0	8.1	8.4	8.2	7.9
L. Real estate activities		9.2	9.4	9.8	10.2	9.5	9.1	9.0
M. Professional, scientific and technical activities		6.3	7.5	8.8	9.2	8.6	8.4	8.0
N. Administrative and support service activities		1.7	1.6	2.6	2.4	2.6	2.7	2.8
O. Public administration and defence; compulsory social security		11.4	10.9	9.2	9.6	8.5	8.2	8.1
P. Education		6.5	6.6	6.4	6.9	6.4	6.2	6.1
Q. Human health and social work activities		4.1	3.9	4.4	5.0	5.0	4.8	4.8
R. Arts, entertainment and recreation		1.3	1.7	1.8	1.3	1.5	1.6	1.5
S. Other service activities		2.1	1.9	1.6	1.3	1.3	1.3	1.3
T. Activities of households as employers		0.4	1.2	0.9	0.9	0.8	0.8	0.7

Source: Cystat, MoF calculations



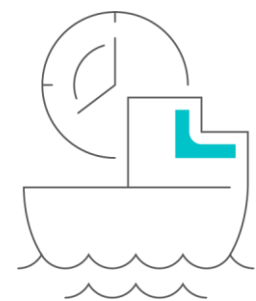
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ECONOMY DIVERSIFICATION - TOURISM

- **Tourism revenue** is distributed directly and indirectly to various sectors of the economy; Directly, it is distributed mainly to Accommodation and food service activities (NACE “I”), Retail trade activities (NACE “G47”), Transportation (NACE “49.3”), Cars’ rental activities (NACE “N77.1”), Arts-entertainment and recreation (NACE “R”) and indirectly to almost all other sectors of economy.
- In the absence of Tourism Satellite accounts, the measurement of tourism contribution to Gross Domestic Product (GDP) cannot be adequate, for the reason that revenue itself is not the proper variable to compare with GDP; GDP is calculated as the sum of value added of all the sectors of the economy plus taxes minus subsidies. On the other hand, Tourism revenue is very close to the concept of output. Unfortunately, Tourism value added cannot be distinguished from the value added of economic sectors that are affected by the tourism revenue either directly or indirectly.
- An internal exercise for the year 2019, using the analytical data of supply and use tables and applying the necessary assumptions, showed that the contribution of Tourism industry to GDP was about 7.0%. Expanding the results of this study to the previous years, the contribution of tourism industry to GDP is estimated that lies between 4.8% (in 2010) and 7.9% (in 2017). For the years after 2019, the contribution of Tourism industry to GDP lies between 1.1% (in 2020) and 5.3% (in 2022). It should be noted that for the period 2020-2022, covid-19 precautionary measures had a significant negative impact on tourism industry.





ECONOMY DIVERSIFICATION - SHIPPING

- Shipping activity includes the **ship owning** and **ship management** sectors, as well as the activities of companies offering services auxiliary to shipping (e.g. cargo handling charges, storage and warehousing, packing and repacking, towing, pilotage and navigational aid for carriers, cleaning performed in ports on transport equipment and salvage operations). For the ship owning part, National Accounts in cooperation with the Central Bank of Cyprus produce estimates of output and value added based on the population of ships for which the economic owner is a company registered in the Business Registrar of Cyprus. For the identification of the economic owner of a vessel, data from the IHS Fairplay registry and the Deputy Ministry of Shipping (former Department of Merchant Shipping) is used. In practice, a large number of vessels are registered in Cyprus Registrar in order to benefit from the favorable taxation system (ship tonnage tax instead of corporate tax). Regarding ship management activities, the estimates of output and value added are primarily based on a semi-annual survey conducted by the Central Bank of Cyprus. Then the results of the said survey are further analysed and grossed-up to the whole population by the Structural Business Statistics division of Cystat.
- The table below shows the value added of **ship owning & ship management sector** and its contribution to the total economy between 2016 and 2021.

Year	2016	2017	2018	2019	2020	2021
Total Economy Gross Value Added (GVA)	16,646.5	17,740.5	18,891.9	20,327.7	19,670.8	22,056.0
Ship owning & ship Management Value Added	798.3	795.2	899.4	875.4	770.7	839.9
% Contribution to the total economy	4.8%	4.5%	4.8%	4.3%	3.9%	3.8%





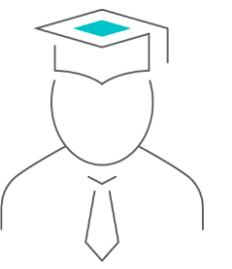
ECONOMY DIVERSIFICATION - ICT

- ICT sector consists of activities mainly in **NACE “J” (Information and Communication)**. The source for the production of these estimates is the annual economic survey that is conducted by the Structural Business Statistics division of Cystat. The contribution of NACE “J” to the total economy is presented in the following table.
- As it can be seen, the contribution of **Information and Communication** activities to the total economy, increases through the years and reached its maximum value (9.6%) in 2022.

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Economy Gross Value Added (GVA)	622.6	642.6	619.4	688.9	737.6	756.3	969.2	1,154.5	1,237.9	1,440.2	1,713.2	2,007.2	2,334.6	2,463.7
Value Added of Information and Communication activities	17,160	17,649	17,294	16,038	15,323	15,715	16,646	17,740	18,892	20,328	19,671	22,056	24,445	26,172
% contribution to the total economy	3.6%	3.6%	3.6%	4.3%	4.8%	4.8%	5.8%	6.5%	6.6%	7.1%	8.7%	9.1%	9.6%	9.4%

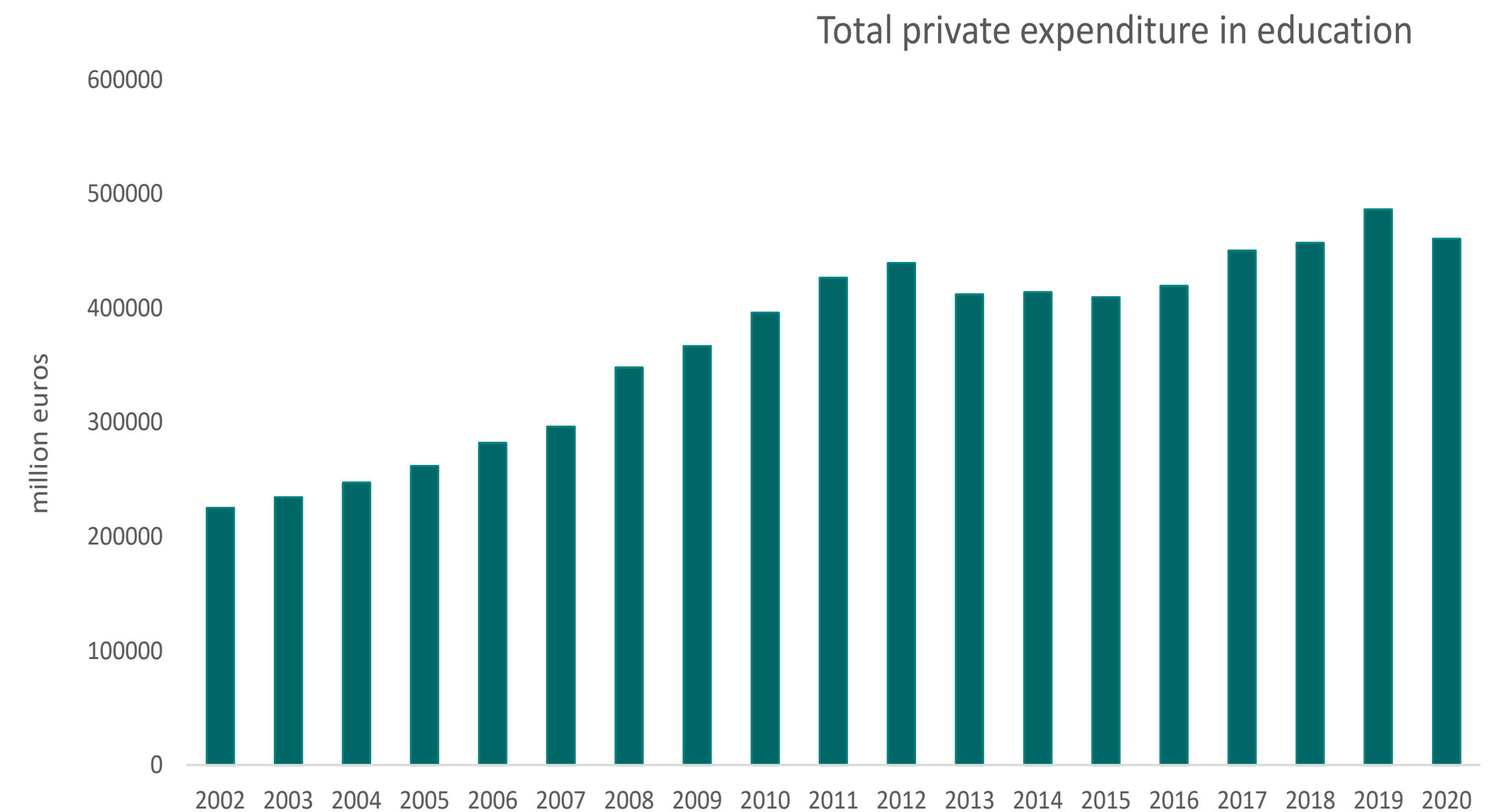
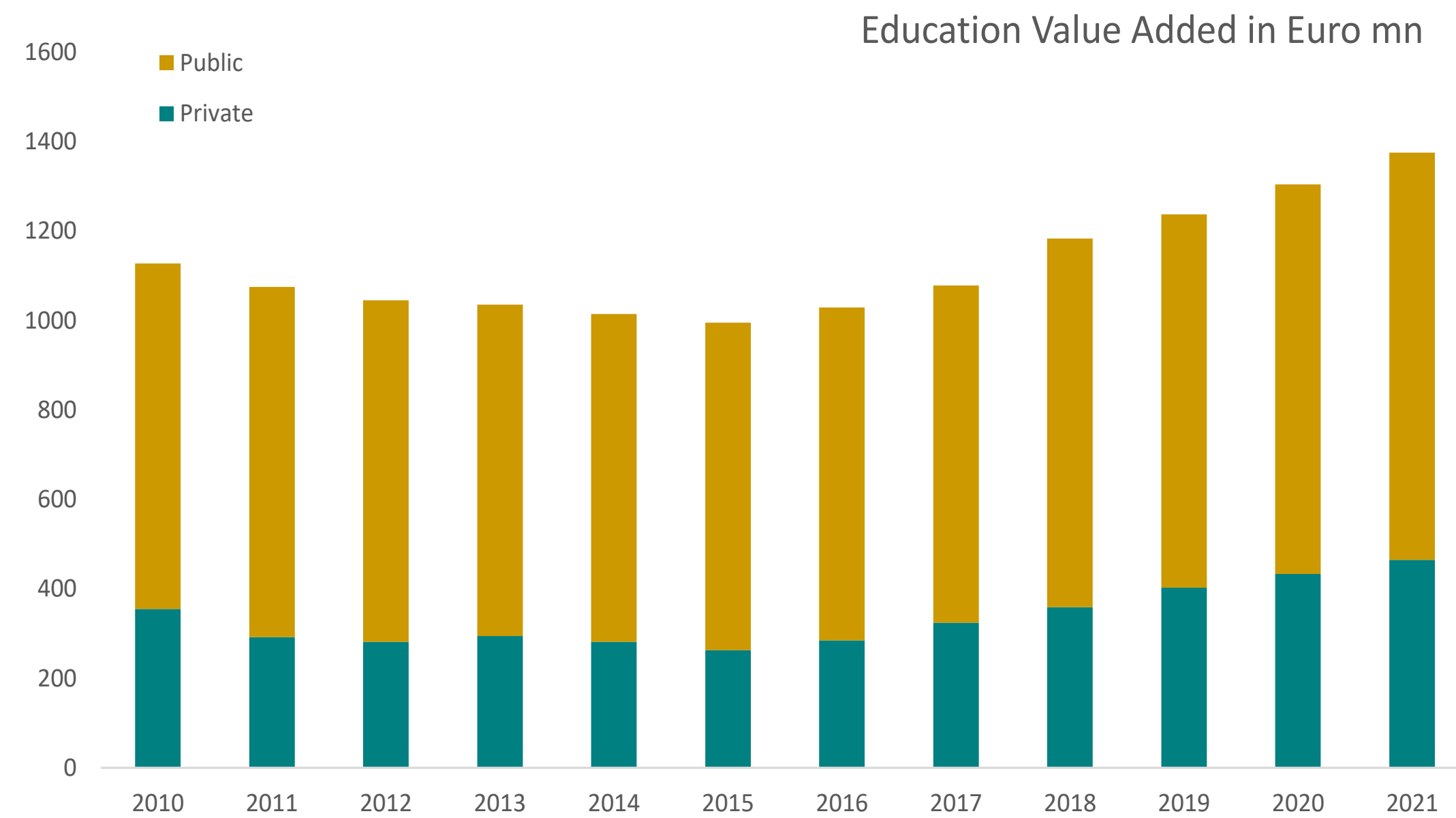


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EDUCATION – PRIVATE EDUCATION

- Private education is offered at all levels in Cyprus.
- Private schools are registered with the Ministry of Education and Culture which approves their curricula and is responsible for their supervision.
- The “Education sectors” shows a stable increase as of 2015 following the general increase in education.

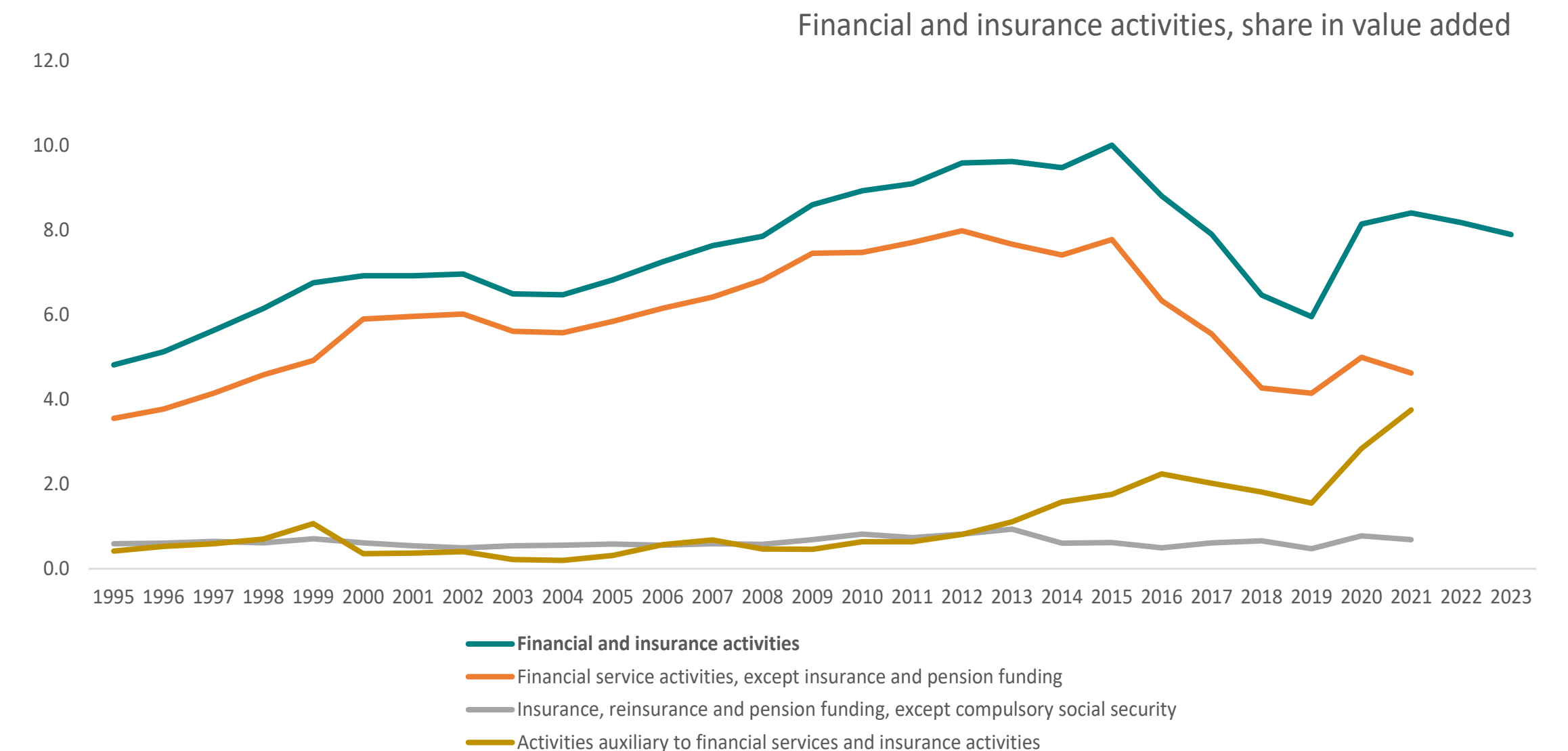
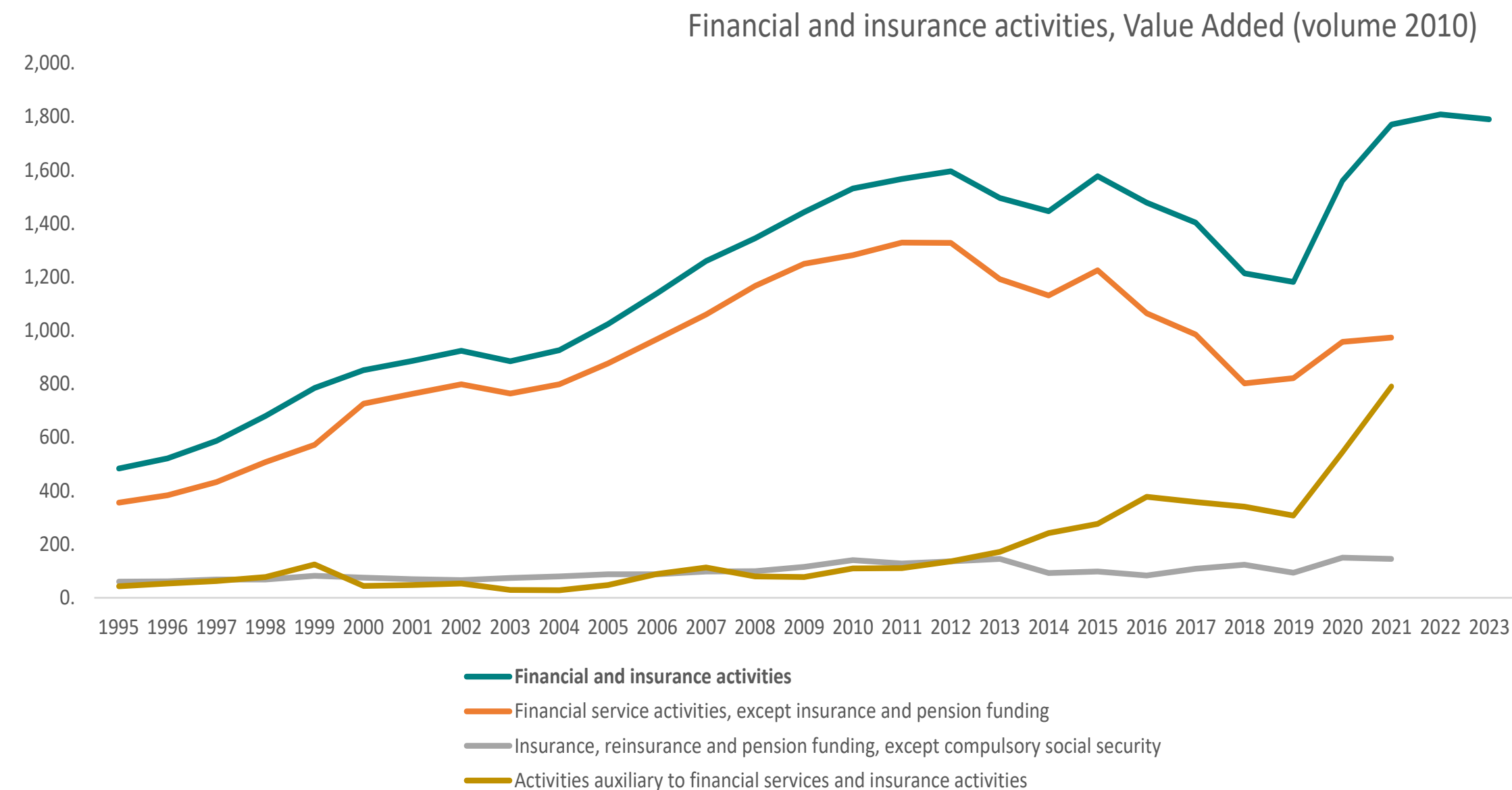


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FINANCIAL AND INSURANCE ACTIVITIES

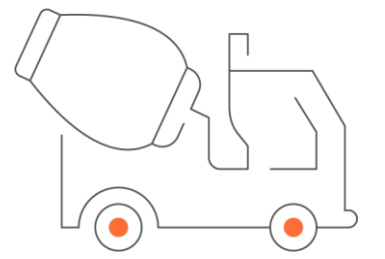
- Sector's K share to growth is around 8% in recent years and it is among the highest
- Sector K is divided in 3 categories: *K64: Financial service activities, except insurance and pension funding, K65: Insurance, reinsurance and pension funding, except compulsory social security and K66: Activities auxiliary to financial services and insurance activities.*
- The “Financial service activities” category is the biggest one and was driving the increase until 2015 and the decrease until 2018. In 2019-2021 the sector was mainly driven by the category “Activities auxiliary to financial services and insurance activities”. The “insurance” part’s path is relatively stable.



Source: Cystat, MoF calculations

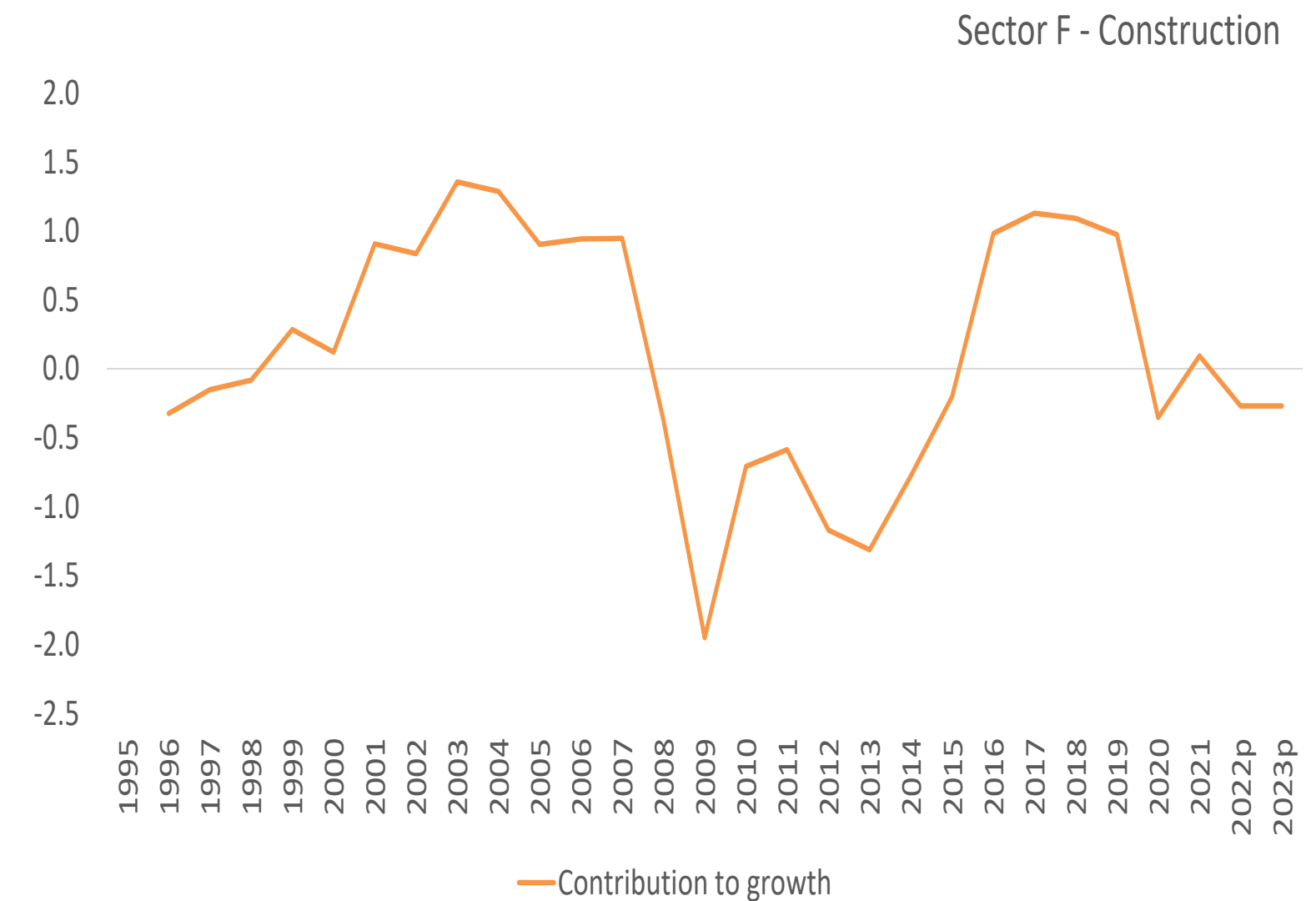
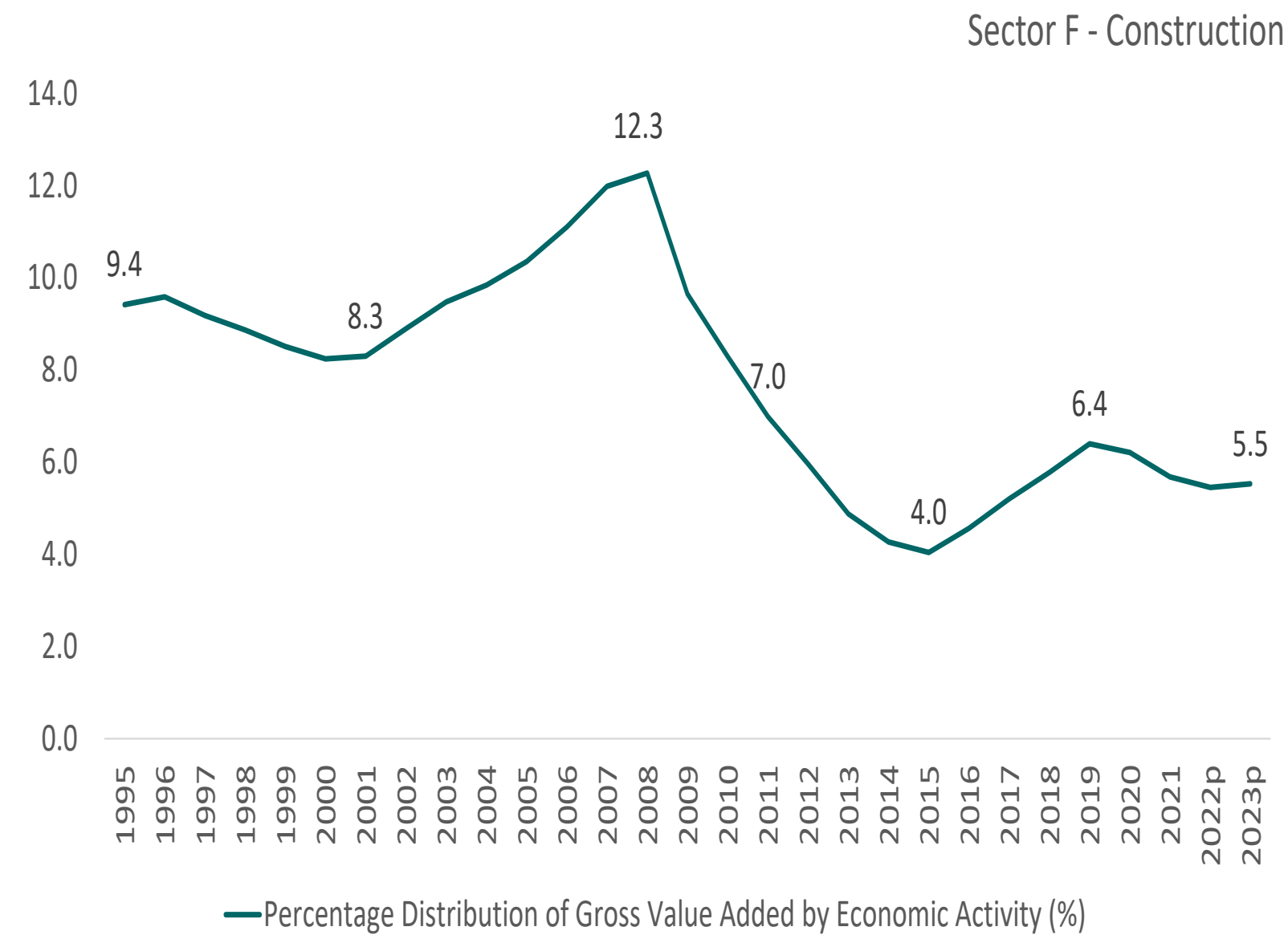
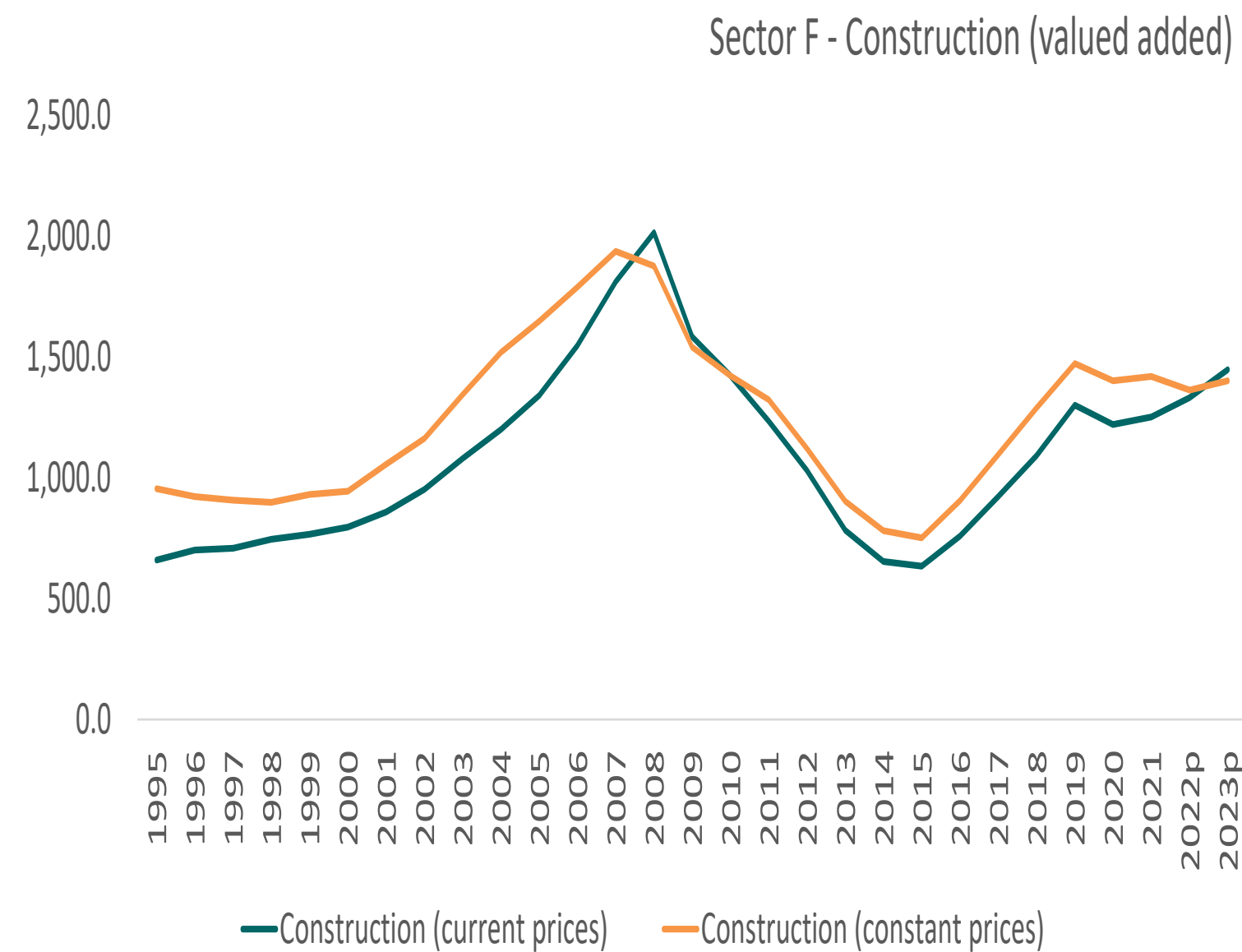


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CONSTRUCTION

- Sector F, Construction, is another significant sector in the economy. It was increasing until the peak in 2007-2008, where the property prices also picked, and then followed a gradual decline until 2015 following the negative growth rates period 2009-2014 and picked up in 2015 along with the economy which return to positive growth rate.
- It was increasing again until 2019 and the positive path was disrupted by the covid pandemic, the war in Russia which have caused an increase in the international prices of energy and construction materials along with the disruptions in the supply chain.



Source: Cystat, MoF calculations



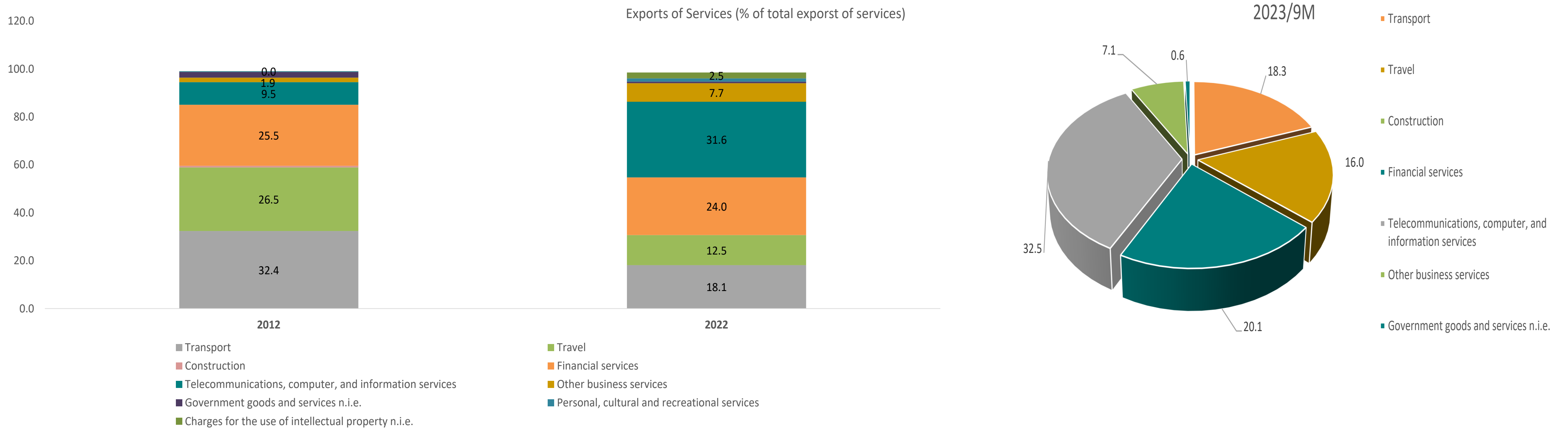
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EXPORTS DIVERSIFICATION - SERVICES

- Exports of services are well diversified in 2023/9m
 - Telecommunications, computer, & information services (ICT, 32.5%)
 - Financial Services (20.1%)
 - Transport (18.3%)
 - Travel (16.0%)

- Exports of services have evolved over time
 - ICT increased to **32.5%** in 2023/9m from 16.3% in 2017 and **7.4%** in 2010
 - Financial Services to **20.1%** in 2023/9m from 28.4% in 2017 and **29.6%** in 2010
 - Transport to **18.3%** in 2023/9m from 24.9% in 2017 and **34.8%** in 2010
 - Travel to **16.0%** in 2023/9m from 23.5% in 2017 and **23.1%** in 2010



Source: CBC, MoF calculations

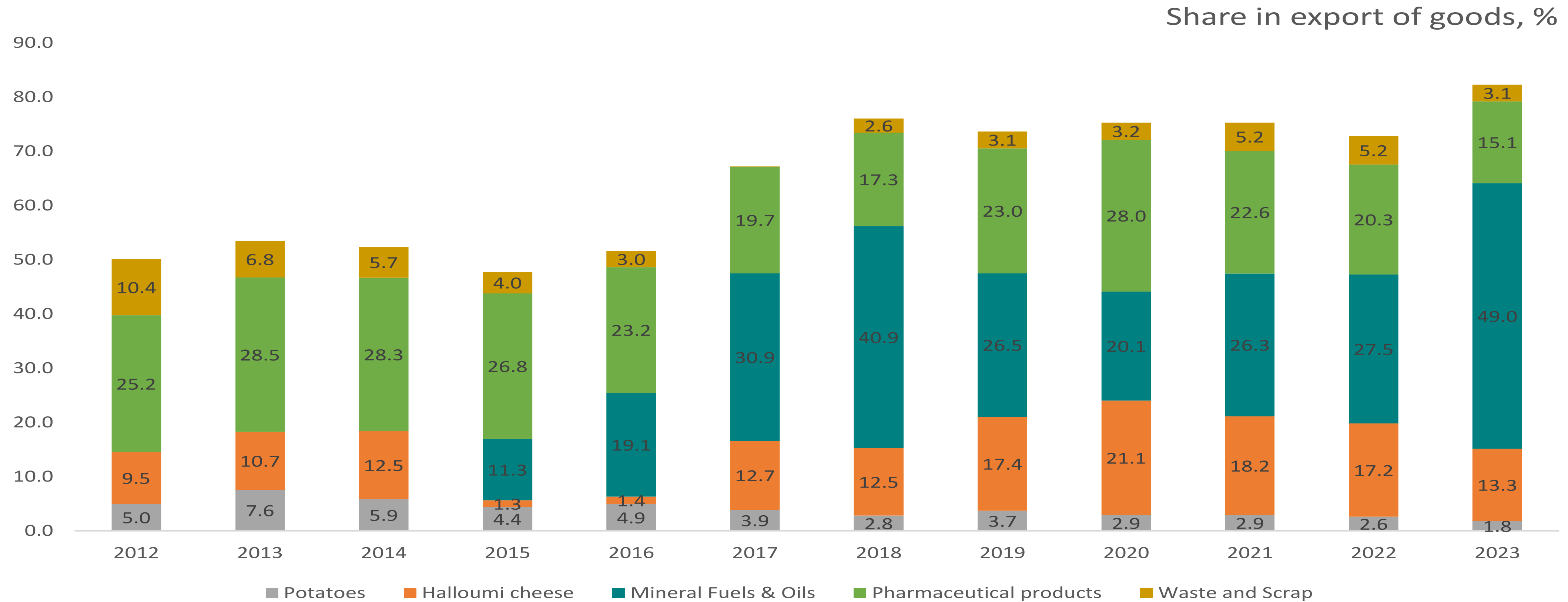


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EXPORTS DIVERSIFICATION - GOODS

- The main categories in exports of goods are mainly potatoes, halloumi cheese, mineral fuels& oils, pharmaceuticals, and waste and scrap.

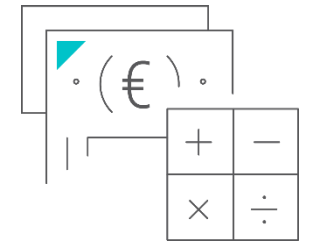


Source: Cystat, MoF calculations



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Current situation



Investment - Consumption

- *Major investment projects*
- *RRF*
- *Consumption indicators*
- *Soft Indicators*

Labour market

- *Employment*
- *Unemployment*
- *Wages*
- *Vacancies*

Tourism

- *Tourist arrivals*
- *Revenues*
- *Per person and per day*
- *Geographical breakdown*

Construction – Real Estate

- *Construction Indices*
- *Property market indices*

Inflation - HICP

- *Headline*
- *Core*
- *By category*

Monetary – External Statistics

- *Loans and deposits*
- *New loans*
- *BoP*
- *NIIP*

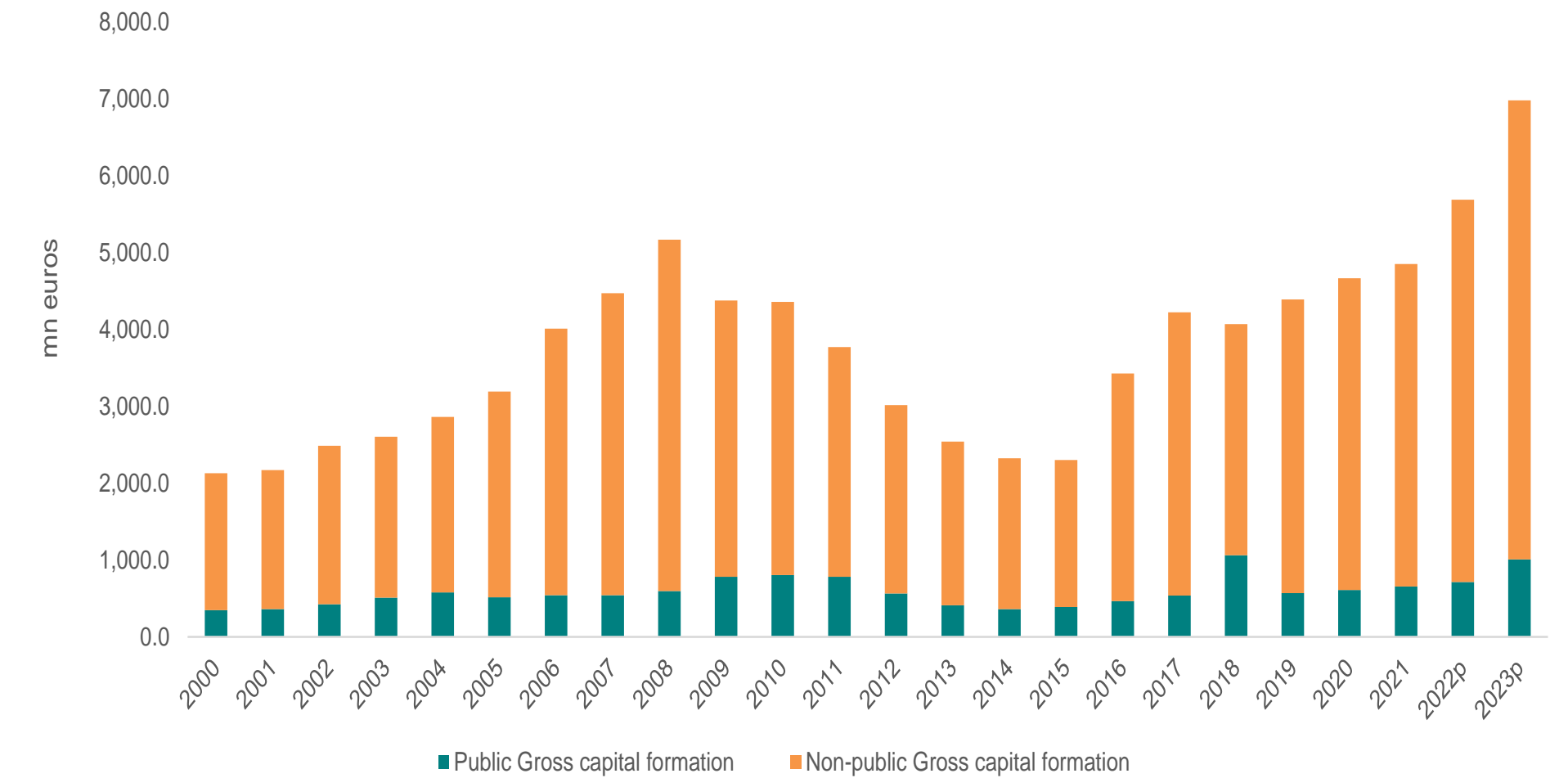




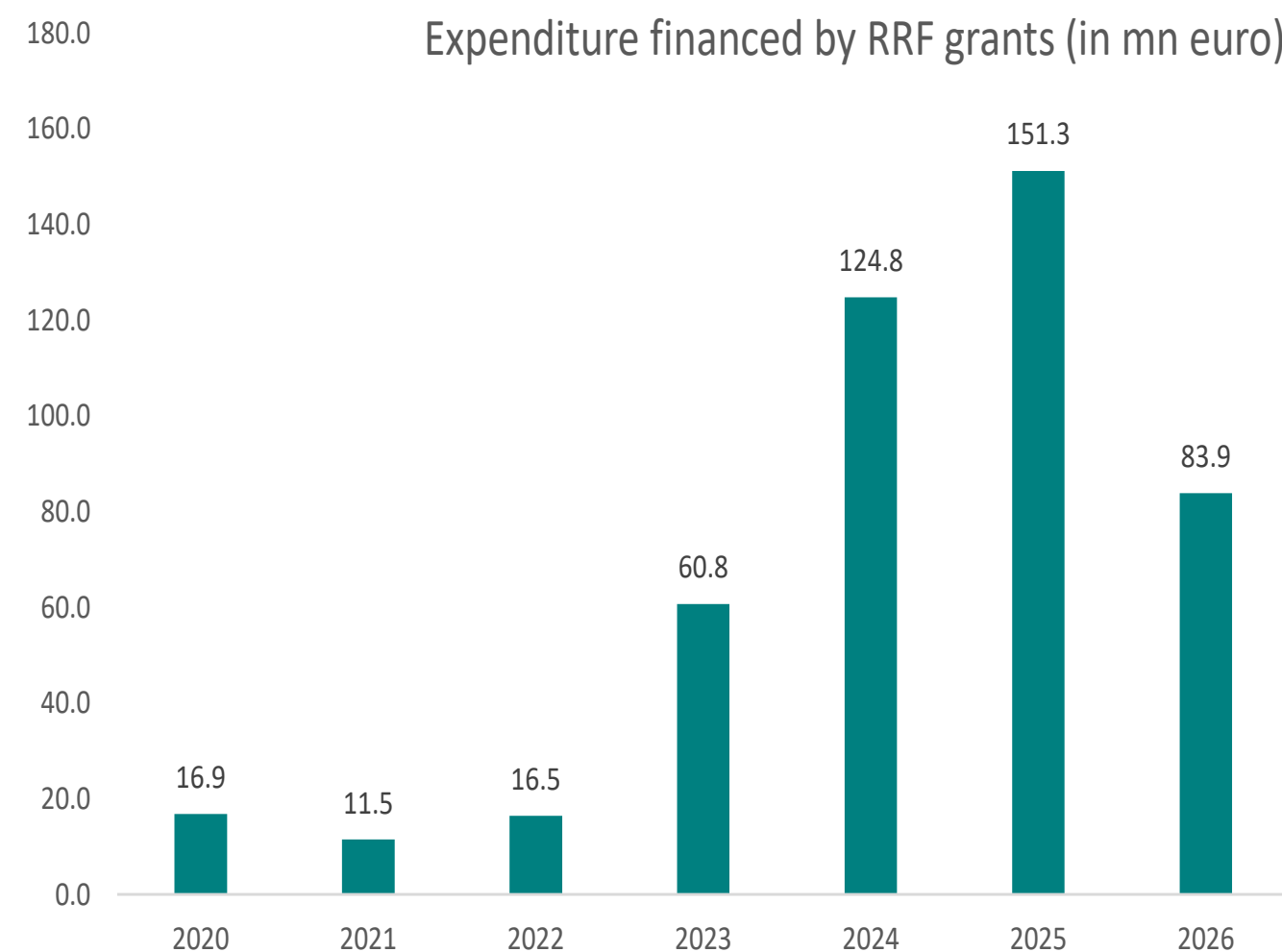
INVESTMENT

- In 2023, the main contributor to growth were the government and housing related investments.
- Going forward, there are significant private investment projects (non residential) in the pipeline contributing positively to growth.
- Projects in the context of the **Recovery and Resilience Plan (RRP)** which aim to support digital and green development and also reform projects are supporting investment. The total impact to GDP is around 7% for 2021-2026, around 1.2% per year. In the macro baseline, MoF incorporated an impact of 0.8%.
- Commission’s assessment is in the Appendix

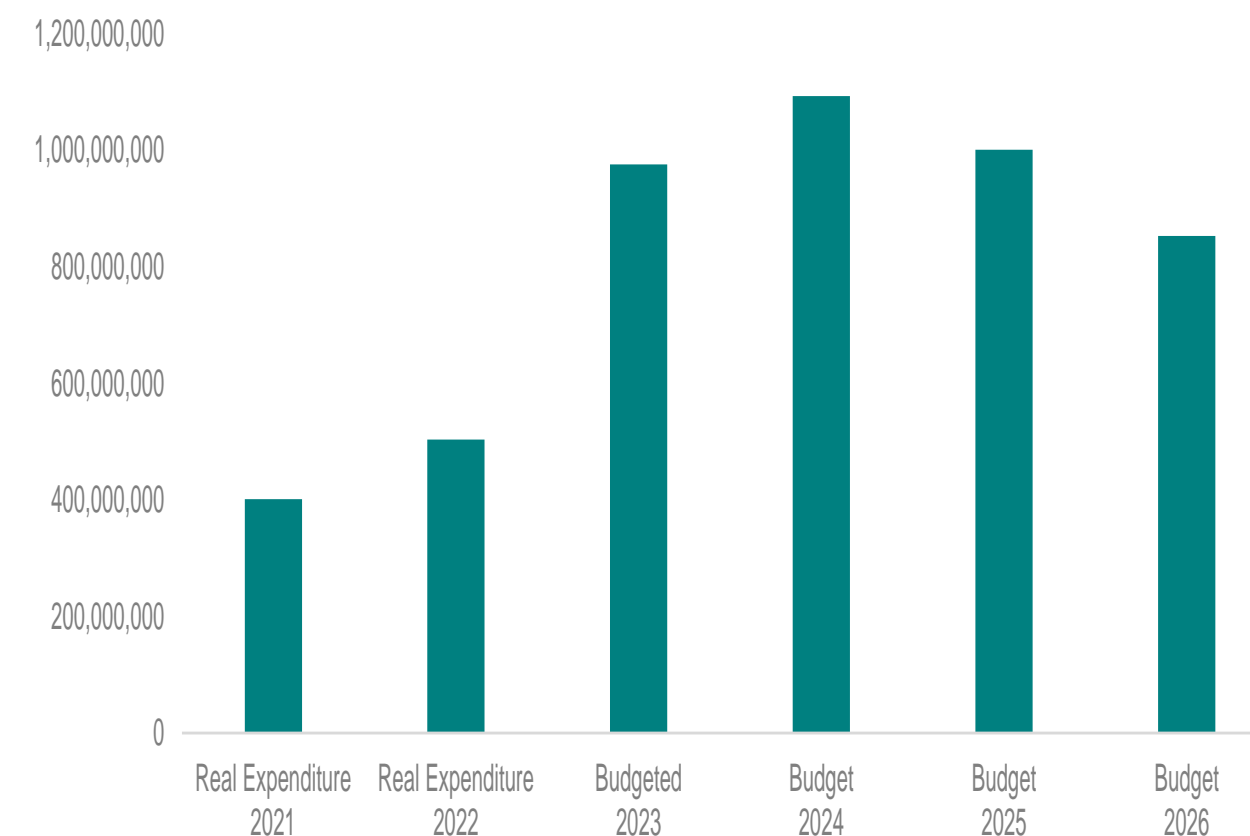
Breakdown of GFCG in public and non-public



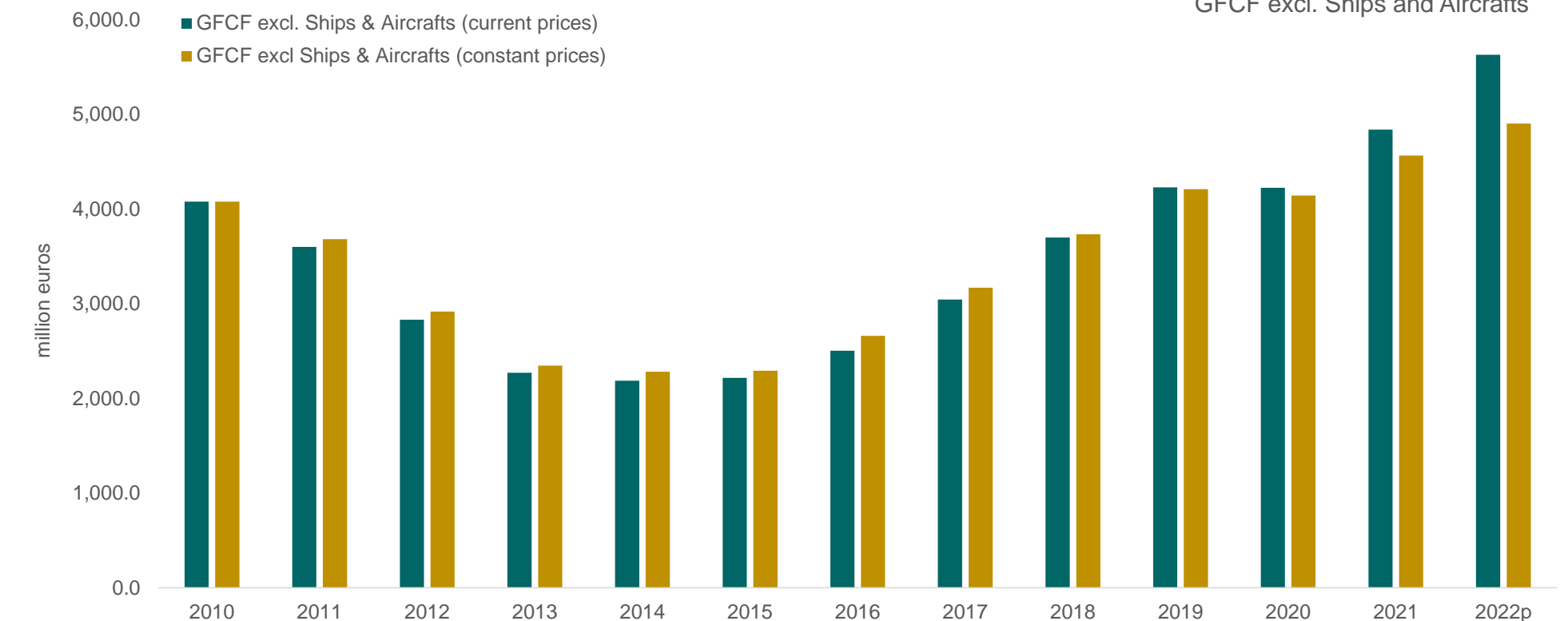
Expenditure financed by RRF grants (in mn euro)



Public Investments



GFCF excl. Ships and Aircrafts



Source: Cystat, MoF calculations



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- The Impact Assessment report was prepared by the ERC of the University of Cyprus.
- Under the Recovery and Resilience Plan (RRP), Cyprus is expected to draw significant funds totaling around 1,2 bln euro in the period 2021-2026. The economic impact assessment of the Cypriot RRP has provided estimates of the Plan's macroeconomic impact in the short, medium and long term. The analysis adopts several complementary methods and techniques – a Production Function approach, econometric models, and an Input-Output framework – to obtain multiple perspectives on the potential impacts.
- The effects of the measures included in the RRP of Cyprus on output and employment are assessed for the short-term (2 years ahead), medium-term (5 years ahead) and long-term (20 years ahead) periods. The results show that the RRP can increase the level of the Cyprus GDP by about 3% two years ahead and by around 7% five years ahead compared to the baseline scenario (non-implementation of the Recovery Plan). In the short-term, GDP increase is caused by 69.5% directly from RRP investments, by 10.6% from an increase in productivity (reforms) and by 19.9% from additional employment. In the medium-term, RRP measures contribute to GDP increase by 56.6%, productivity by 23.5% and additional employment by 19.9%, relative to the baseline scenario.
- Growth stimulated by the RRP is expected to be maintained in the long run: GDP levels are expected to be 16.5% higher 20 years ahead (i.e. in 2041) compared to a scenario without RRP implementation. Around 60% of this increase comes from productivity improvements relative to the baseline scenario if all reforms foreseen in the RRP are realised.
- Focusing on the period of the implementation of the Plan, the 7% increase in GDP, relative to the baseline scenario, implies on average an additional 1.2 percentage points of GDP growth per year during 2021-2026. During the same period, the Plan increases employment by more than 2.5%, or by around 11.000 new jobs, which can significantly reduce Cyprus's unemployment rate.
- **Model simulations conducted by the Commission using the QUEST model (see related slide in the Appendix) show that the economic impact of the NGEU in Cyprus could lead to an increase of GDP of between 1.1% and 1.8% by 2026. After 20 years, GDP could be 0.6% higher. Spill overs account for a sizable part of the effect. According to these simulations, this would translate into up around 3,000 additional jobs. Cross border (GDP) spill overs account for 0.5 percentage points in 2026.**



Policy area/domain:

Promoting Competitiveness Objectives:

- The Cypriot economy is on the way to transition to a new era. The conditions remain challenging, and the effects of the pandemic on the economy evident. Taking this into account, the introduction of a series of measures that gives new impetus to growth is crucial. The current circumstances present a unique opportunity to encourage and implement necessary structural reforms to improve the business environment and enhance the entrepreneurial appetite and competitiveness of enterprises that will have a positive impact on the resilience and growth of the Cyprus economy.
- The boosting of investment and entrepreneurial activity is recognised as one of the main drivers of job creation and acceleration of economic activity, while the development of business activity based on knowledge, technological upgrading, digitalisation and innovation strengthens the competitiveness of all enterprises in the country. Enterprises must be innovative, adaptive to new technologies and trends to effectively ensure their successful entry into international markets. At the same time, procedures for licensing need to be streamlined and become more transparent, both for strategic and other projects. Easy access to adequate finance is also a fundamental precondition for realising the above, especially for start-ups and innovative companies.
- This Component includes the implementation of a series of reforms and targeted investments aiming to tackle the multifaceted challenges that the Cyprus business environment faces, and enhance its competitiveness, productivity and resilience to external factors and international developments. The measures under this Component are synergizing with other components, especially the ones under Priority Axis 3 for strengthening the resilience and competitiveness of the economy.
- The proposed reforms and investments champion the “Modernise” flagship through the implementation of significant digitalisation projects such as the Integrated Information System for the Registrar of Companies and Official Receiver, while key investments like the Digital Upgrade Scheme and the Equity Fund are included to support SMEs in building the required capacity for the transition to digitalisation. “Power up” flagship is also indirectly promoted through the opportunities provided to SMEs to access financing and consultancy services covering, among others, energy efficiency measures.



Reforms and investments: Towards a simplified, investment friendly business environment

- Reform 1: Facilitation of Strategic investments
- Reform 2: Enhancing Fast-Track Business Activation Mechanism
- Reform 3: Modernisation of the Companies Law
- Investment 1: Integrated Information system for the Registrar of Companies and Official Receiver

Supporting SMES competitiveness and enhancing access to finance

- Reform 4: Design and establish a National Promotional Agency
- Reform 5: Strategic Investor of the Cyprus Stock Exchange
- Reform 6: Incentives to promote mergers & acquisitions
- Investment 2: Creation of a Regulatory Sandbox to enable FinTech
- Investment 3: Consulting services for SMEs
- Investment 4: Scheme for the digital upgrade of enterprises
- Investment 5: Support extroversion and openness of Cyprus firms to international trade
- Investment 6: State funded equity fund
- Investment 7: Loan subsidisation for new business loans

Total estimated budget to be funded through the RRP: €78,4 mn





MAJOR INVESTMENT PROJECTS

- There are so far 27 private investments coming up (see the next 3 slides). They are in the areas of energy, retail, tourism, pharmaceuticals, education and health.
- Some projects are completed while others are still under construction, with conservative estimates of their impact included in the baseline projections. Hence, not the full amount of around €5 billion relates to upside risks.

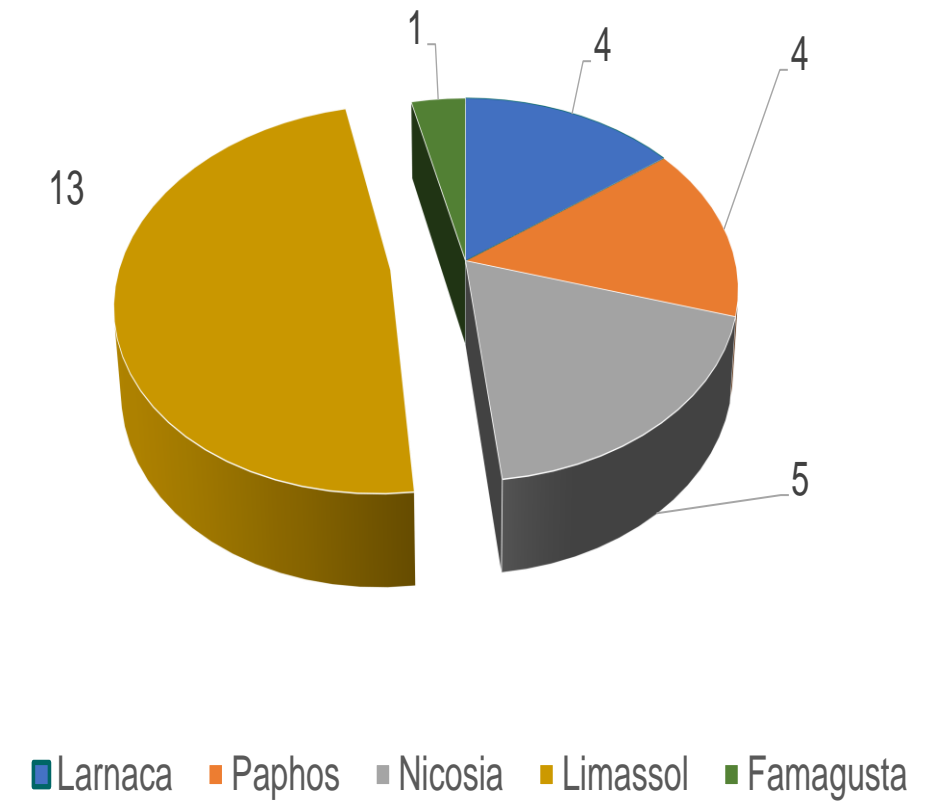
Geographically

- 13/27 are located in Limassol and 5 in Nicosia

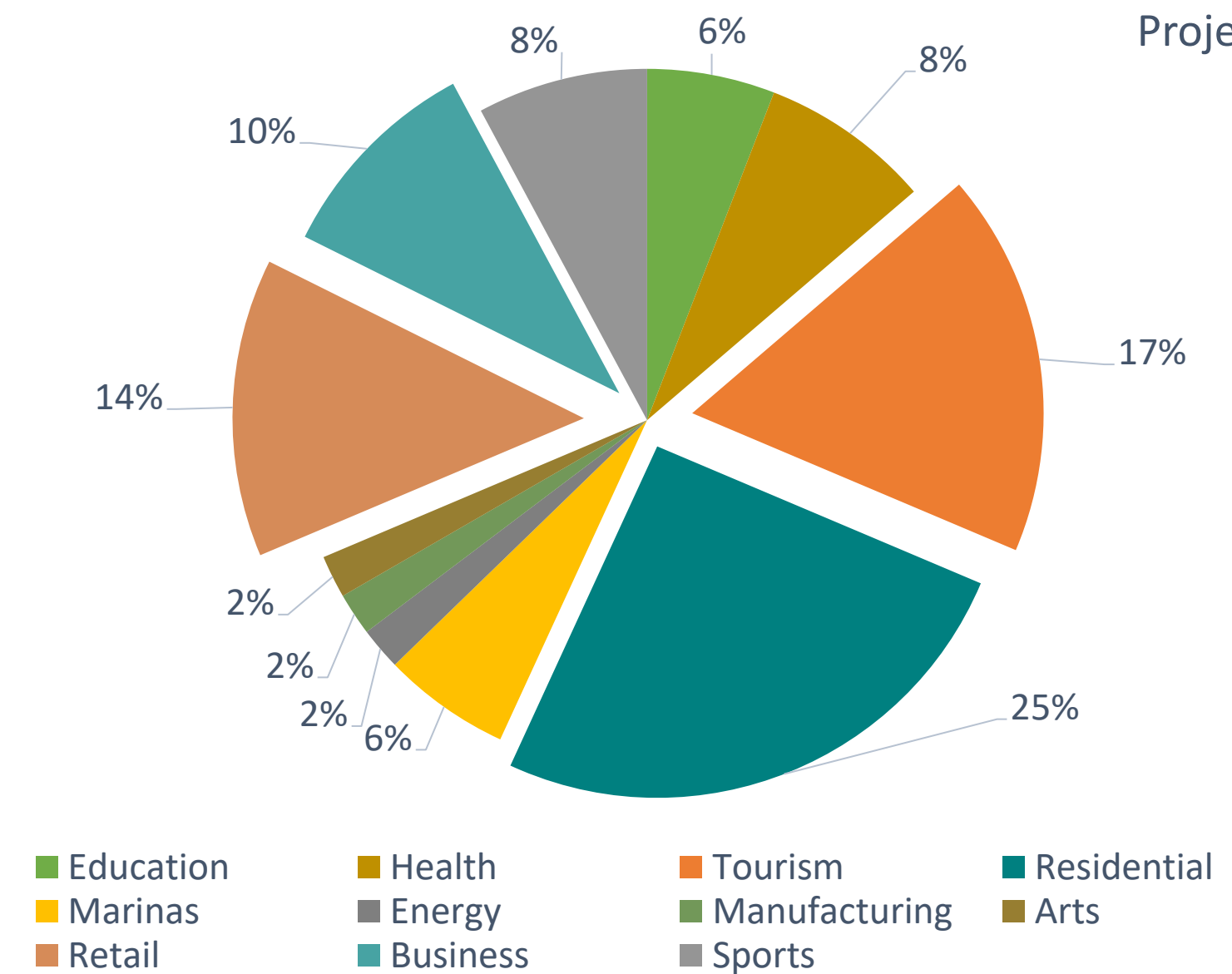
By type

- 13 involve residential
- 9 are tourism related
- 7 retail and business related (each)
- 4 education, marinas, sports, health related (each)
- 1 manufacturing and energy (each)

Geographical distribution of projects



Projects by type



MAJOR INVESTMENT PROJECTS (1/3)

	Project	Area	Cost	Timeline	Description
1	University of Beirut-Mediterraneo	Paphos	€29 million	The university will welcome its first students in September 2023	University
2	Land of Tomorrow (Petrolina Group)	Larnaca	> €1 billion	Applications for planning permits will be submitted within May. Once the permits are secured, the execution of the project will begin over a ten-year horizon.	A sustainable mixed-use seaside development that will include green spaces, spaces for businesses, residences and a hotel. This project is beyond the development of the Larnaca marina and port (€1,2 billion).
3	Hadassah Health Park in Nicosia	Nicosia/Limassol	€90 million	2024	Hospital (which will join NHS) and University Medical School in Nicosia (Hebrew University) and Diagnostic Center. Seven residential buildings with apartments for sale, offices, shops and a specialized hotel type unit.
4	Big development by Emerland Real Estate Ltd	Limassol	€24 million	Construction is expected to start in 2023 and be completed by March 2025.	Residential buildings, swimming pools, outdoor entertainment areas, landscaping and additional communal facilities.
5	Multi-purpose development	Agia Fyla/Limassol	€856 million	Two Phases. Phase A will be completed in 2025, while Phase B, which will be implemented gradually, will be completed in 2039.	Private educational institution (Kindergarten, Primary and Secondary Level Education, in connection with a Boarding School) with a maximum number of 2000 students and 500 rooms. Small Rehabilitation Center. Center for Research and Innovation.
6	Sunset Gardens	Limassol	€30 million	End of 2023	Residential unit (apartments of one, two or three bedrooms, distributed over a total of four floors), with private parking spaces and additional facilities – such as swimming pools, playgrounds, etc.
7	Aroundtown SA, acquired a shareholding in the joint venture Kition Ocean Holdings	Larnaca	More than €1,2 billion	The 1st phase of the project started with the maintenance of the dock. At the end of the year or the beginning of the next, the yacht club will be built, the renewal of the floating docks and the deepening and expansion of the marina will follow. Completion in the next 5-6 years	Kition Ocean Holdings has undertaken and is implementing the grandiose project of the development of the marina and port of Larnaca.
8	Paphos Marina	Paphos	+€250 million, (€100 million port facilities & €150 million land development)	In autumn, the Deputy Ministry of Tourism will be ready to announce the tender for finding consultants who will prepare the terms of the international tender for finding investors who will undertake the execution of the project	The master plan of the project includes mansions, apartments, restaurants, bars, shops, cafes, while the marina will be able to accommodate 600 boats and repair services will be offered. The project includes commercial and residential developments of 30 thousand square meters, office spaces of 2 thousand square meters to serve the needs of the marina and approximately 850 parking spaces.
9	Investment in the old SODAP winery in Limassol - The new space will be called the IT Quarter and will be a city within the city	Limassol	€32 million	The foreign investor recently bought the old winery	It is intended to combine residence, work, and at the same time offer all the services of a shopping center of international standards on the beachfront of Limassol. The investor plans a modern development with high-rise buildings and other high-end facilities, with offices and luxury apartments with sea views and mixed-use commercial spaces. The initial plans include, among others, a kindergarten, school, museums and galleries, sports facilities, public square, parks and green zones, with direct access to the sea.
10	Limassol Greens (500 villas and 250 apartments in the new resort)	Limassol	€500 million	Limassol Greens, which is under construction, is expected to welcome its first customers around the end of 2024 and the first golfers in early 2025.	It will include an international standard 18-hole golf course, 500 3-6-bedroom villas and 250 apartments. It also includes commercial facilities, shops, restaurants, cafes, wellness center, gym, tennis and basketball courts, outdoor areas and playgrounds.



MAJOR INVESTMENT PROJECTS (2/3)

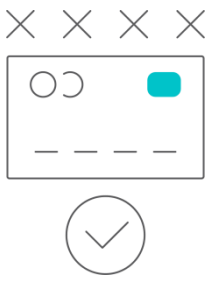
	Project	Area	Cost	Timeline	Description
11	PEC – Power energy Cyprus	Mari Area	€200 million	By summer of 2024	The first private conventional power station. The 260 MW Power Station will contribute to the reduction of electricity cost for end-users and will serve the Group plan for becoming a leading Energy Supplier in the Island.
12	Mixed use project in Limassol Avenue	Nicosia	>€60 million	Currently it's in the stage of study	5 floor building, 13 thousand m ² It will include offices, apartments, restaurants, healthcare
13	2 towers in Landmark hotel area	Nicosia	€70 million	Under construction	2 buildings, one residential with 17 floors and 53 apartments and one for offices 16 floors and a private square
14	New green hotel in Mouttagiakka	Mouttagiakka	€8 million	Proposed	4* Hotel, 5 floor, 54 rooms
15	New mall in Limassol by Atterbury Europe	Limassol	n/a	Starts in 2024	The proposed Mall of Limassol will offer retail solutions in the Limassol area that are missing from the market.
16	Parklane	Limassol	€45 million	Project execution time two years after securing the required permits.	Construction and operation of two multi-storey residential buildings and execution of additions to the existing Parklane Hotel, which is located in Limassol Tower.
17	The “home” of Cypriot football	Kornos	€16 million	The Environmental Impact Assessment (EIA) for the construction and operation of the new National Sports Center of CFA has been put out for public consultation until 12/8/2023.	The sports center will include a main match stadium with a capacity of 1,500 seats, three auxiliary training pitches, a hostel for athletes, and auxiliary facilities (storage rooms, changing rooms, a medical center, a gym, conference rooms, etc.).
18	Neocleous Tower	Limassol	€24 million	Construction of the Neocleous Tower will begin by the end of 2020 and will last 2.5 years.	The height of the 25-storey tower, will be 120 meters. Most of its area will be occupied by offices, as well as business centers, conference halls, apartments, cafes, gym and garden. Four floors will be built at the underground level – there will be a parking lot for 110 cars.
19	Neon Mall of Pafos	Paphos	€9 million	Construction duration of the project is estimated at 15 months after securing the necessary permits.	The proposed development concerns the construction and operation of the shopping center Neon Mall of Paphos, on the site of the existing defunct shopping center in the parish of Agios Theodoros.
20	Paralimni marina	Famagusta	€100 million	According to the schedule it will be fully completed in the summer of 2024, with the first phase ready at the end of 2023.	With its full completion, will be able to host 300 boat berths while with the completion of the 1st phase of the project, at the end of 2023, it will be able to accommodate 150 boats. It will also consist of 195 residential units, the majority of them apartments, as well as 27 spaces for commercial use, such as restaurants, cafes, bars and shops. During the 1st phase of the project, a total of 44 residential units and the commercial zone will be delivered.



MAJOR INVESTMENT PROJECTS (3/3)

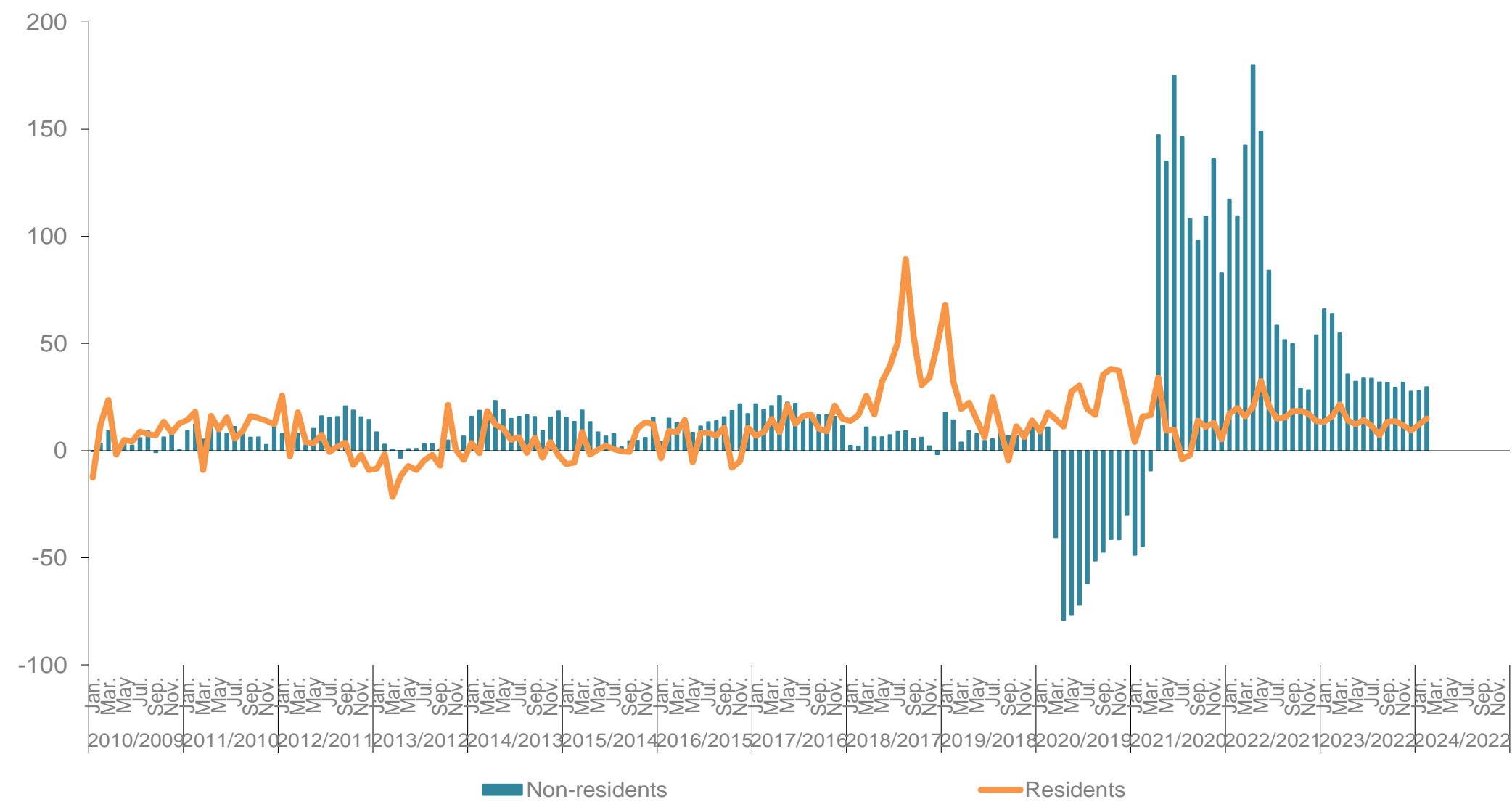
	Project	Area	Cost	Timeline	Description
21	Leonardo Club Latsi	Polys Chrysohous - Paphos	€20.500.000	Construction works are expected to start within 2023 and be completed in 2.5 years.	Tourist building, consisting of organized tourist apartments with 480 beds. The tourist development consisting of 18 Blocks, eleven of which are for tourist use, five are for public use, one is a control point and the other is a sports area with an underground supporting area.
22	"Komitis Eco Village"	Peristerona - Nicosia	€98.3	The developer has submitted an environmental study to the Department of the Environment and the development is under public consultation.	Construction and operation of a retirement village, a geriatric care and rehabilitation center as well as a nursing school. It will include the following strategic uses: -Modern Geriatric Care and Monitoring center -Health Rehabilitation Center -Nursing School
23	Berengaria Luxury Boutique Hotel	Nicosia	€35	The rescue work with the static reinforcement and upgrade has been completed, while the interior renovation work and the construction of apartments and villas in the surrounding area are expected to proceed at the beginning of 2024. Completion of the monumental project is expected within 2026	Restoration works of the hotel, which will bear the name "Berengaria Luxury Boutique Hotel". The Berengaria Hotel will consist of 30 rooms, of which 6 will be suites, 12 connected rooms and the remaining 12 standard rooms, 14 apartments, a state-of-the-art spa, as well as 13 townhouses and 9 independent villas in the surrounding area.
24	Silicon Park	Agios Athanasios Limassol	€35	The project is under study, an application for land separation has also been submitted, as well as separate applications for each individual development / building that falls under the Spatial Plan under study.	The development will consist of a total of 5 high-rise buildings, while in total, 205 residential apartments are included in the project. At the same time, the project includes landscaped areas, outdoor parking spaces and an internal vehicle transportation network.
25	By Pharmabelle Ltd	Ipsonas - Limassol	€7	The execution of the project will take 18 months from its start, after the necessary permits are secured.	The project concerns the construction and operation of the new factory facilities for the manufacture of pharmaceutical products, specifically single or multiple dose inhalers.
26	Engle Pine Golf Resort	Limassol	€500	Continues in 2024	Golf integrated residential Luxury Resort with Hotel and Spa. The resort is aimed at offering a true feeling of mystery, excitement, and remoteness from everyday life. Total land size of 1,717,521 m ² and a total 205,000 m ² of covered areas. Five-Star Boutique Hotel (80 deluxe rooms), Championship Golf Course. A Unique Shopping Experience, 700 Villas in Individual Plots, 300 Villas, Townhouses, Apartments in Unified Developments.
27	:flow	Ayios Nicolaos - Limassol		According to the schedule, construction work is expected to begin in the third quarter of 2024, and the project is expected to be completed by the third quarter of 2027.	It will consist of four five-story residential buildings and a seven-story building intended for offices and shops on the ground floor. The project will feature a plethora of amenities including a swimming pool, green spaces, playground as well as a gym, yoga room, spa, lobby and reception areas, all designed for the well-being of residents.





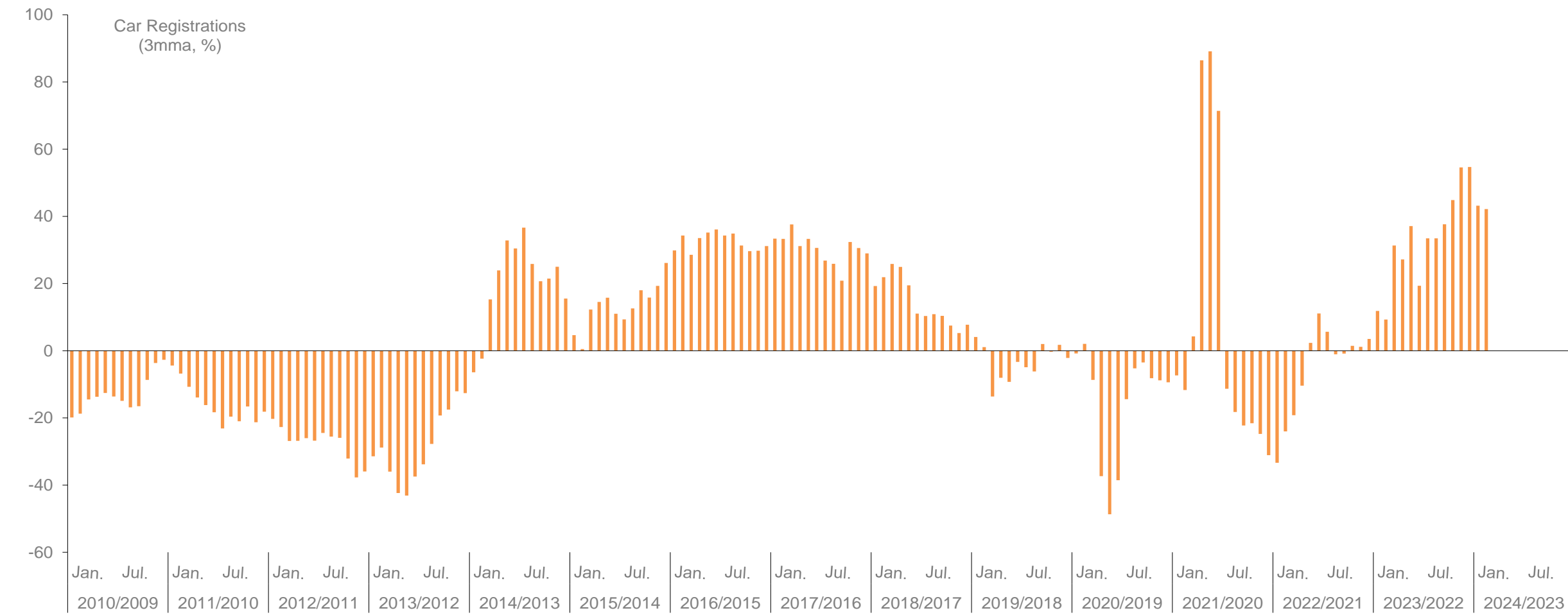
CONSUMPTION

- According to recent (hard) data, private consumption continues to be resilient



Source: JCC

Source: Cystat, JCC, MoF calculations



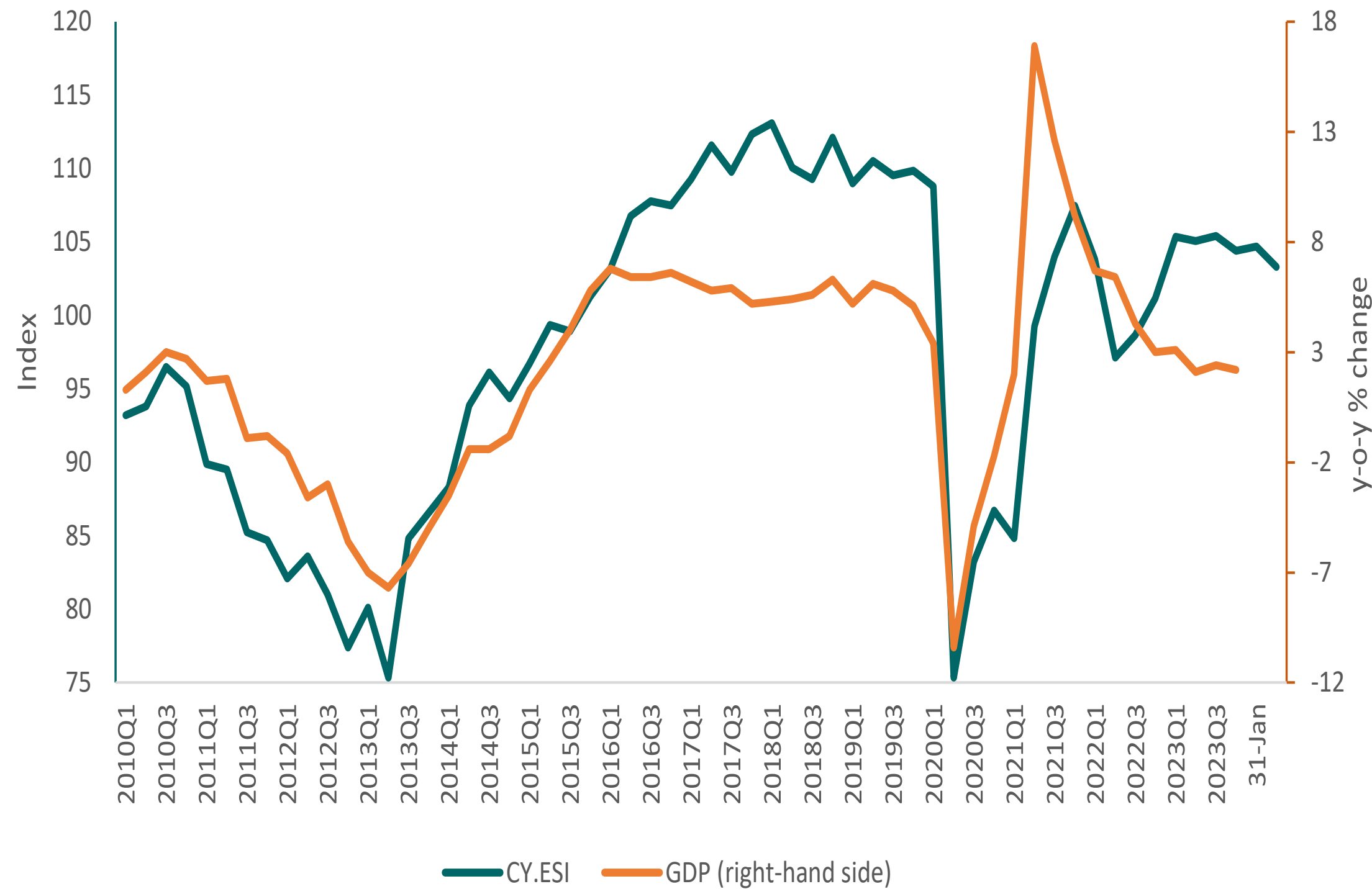
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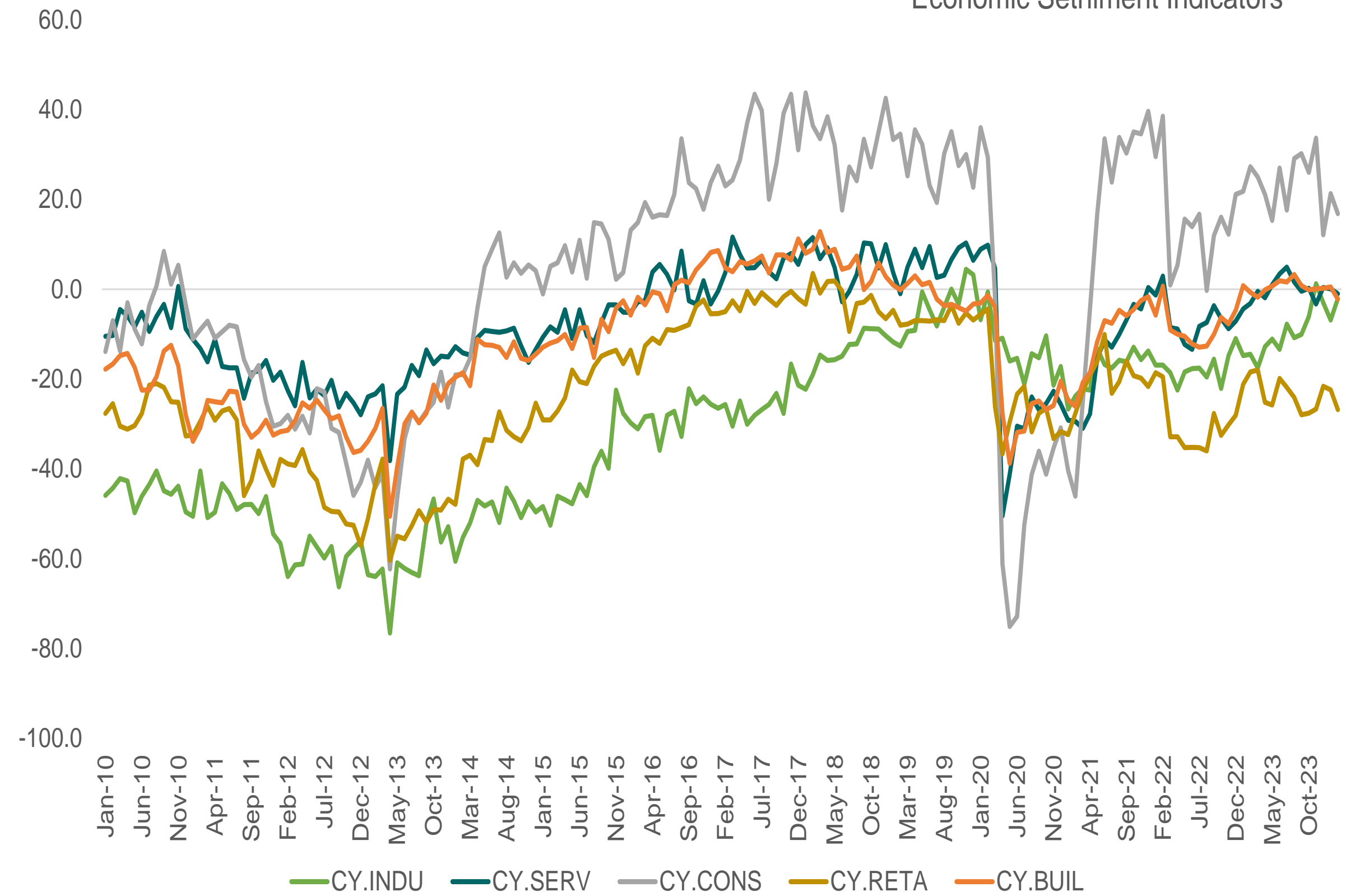
SOFT DATA – ECONOMIC SENTIMENT INDICATORS (BCS)

BCS soft data show a deterioration in 2022 but in 2023-24 point to stabilization

GDP growth vs ESI (SA data)



Economic Setniment Indicators



Source: Cystat, CyERC, MoF calculations

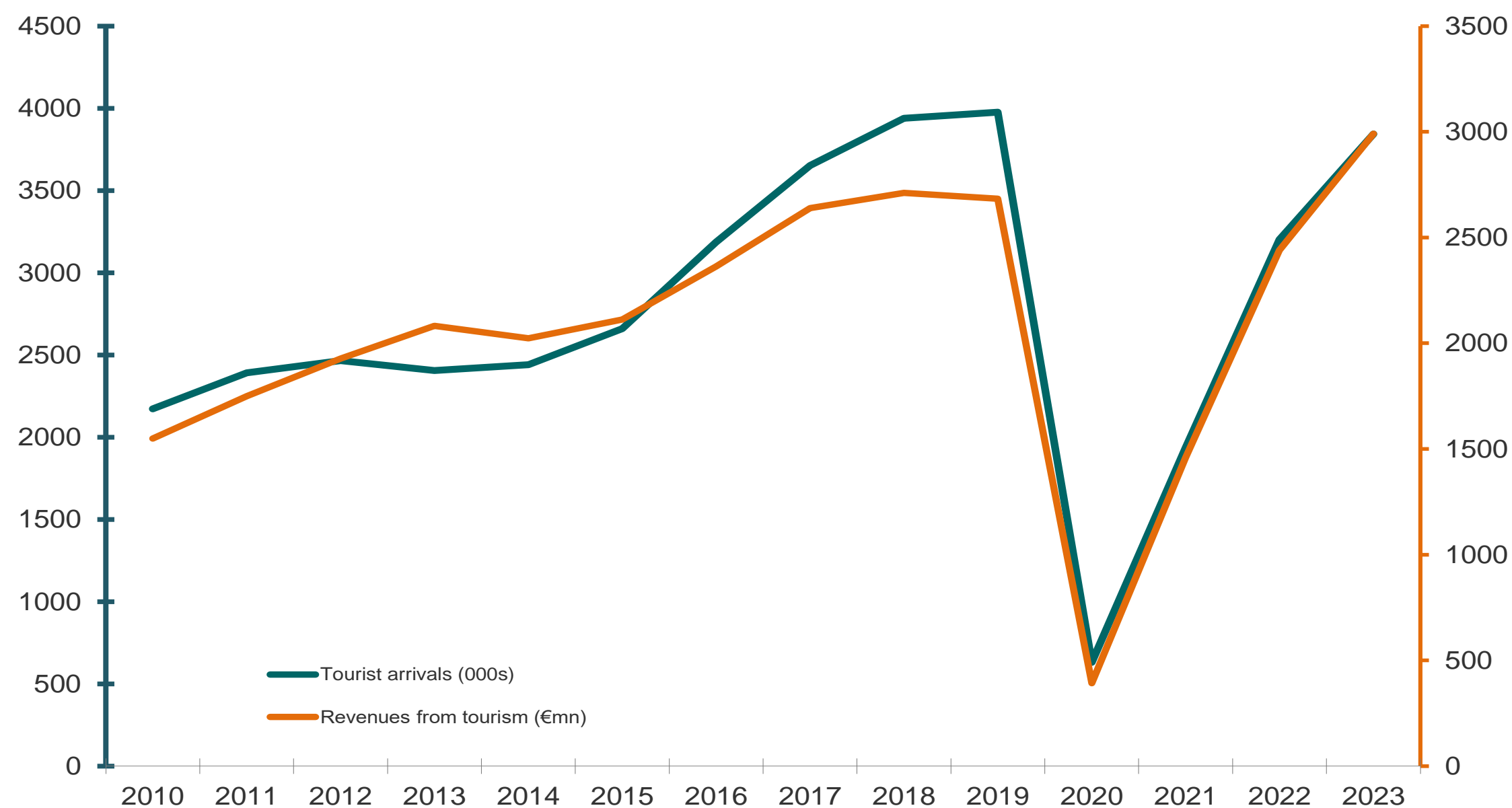


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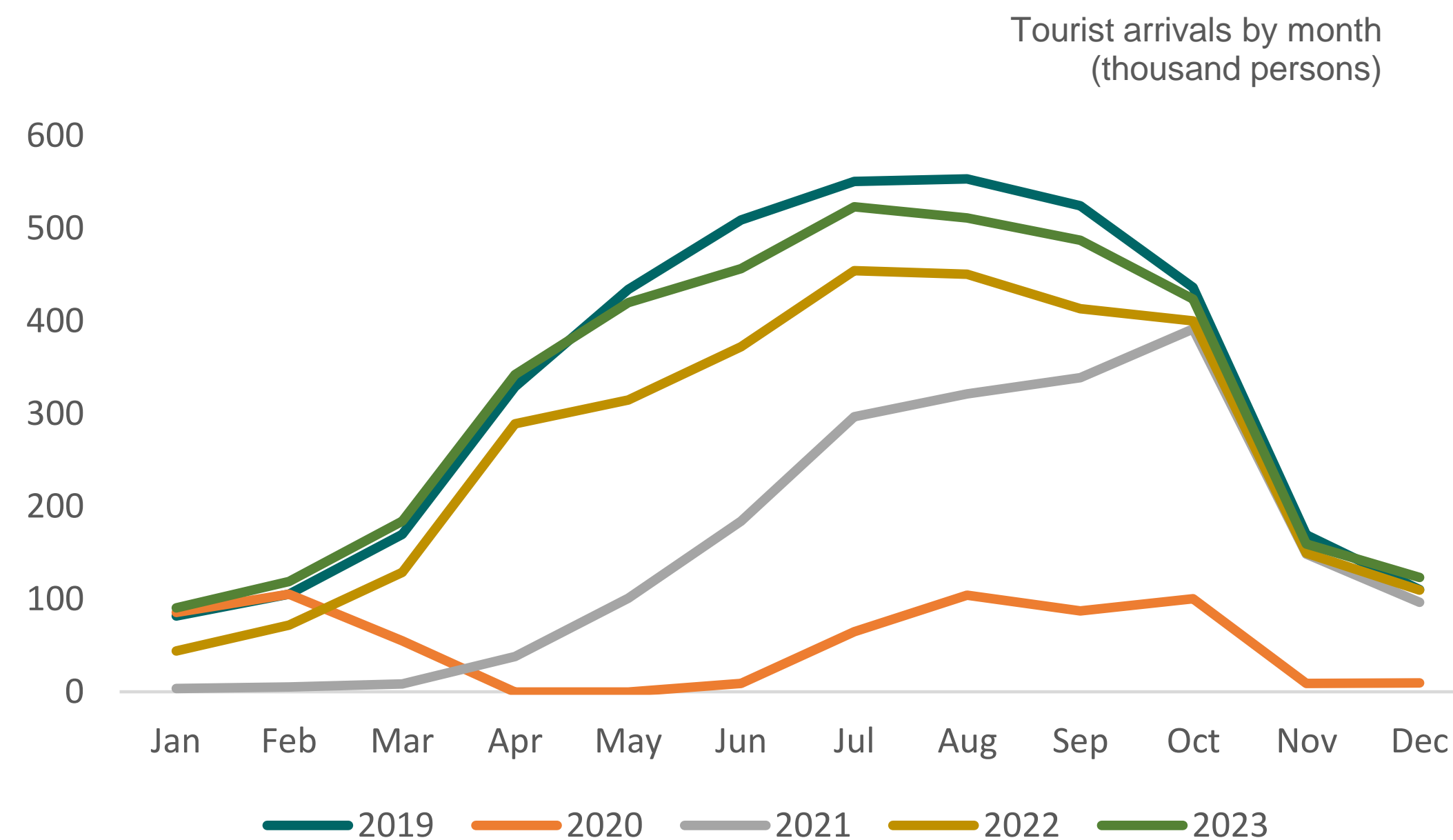


Tourist Arrivals and Revenues

- Following the loss of the Russian market, 2022 performed better than expected and reached 80% of pre-pandemic levels. Revenues at 91% levels of 2019. The gap was filled by the EU markets which recorded an increase. In 2023 arrivals at 96.7% of 2019 and revenues at 111.5% of 2019 levels.
- The arrivals of tourists reached 87.961 in January 2024 compared to 90.549 in January 2023, recording a decrease of 2.9%.



Source: Cystat



Source: Cystat

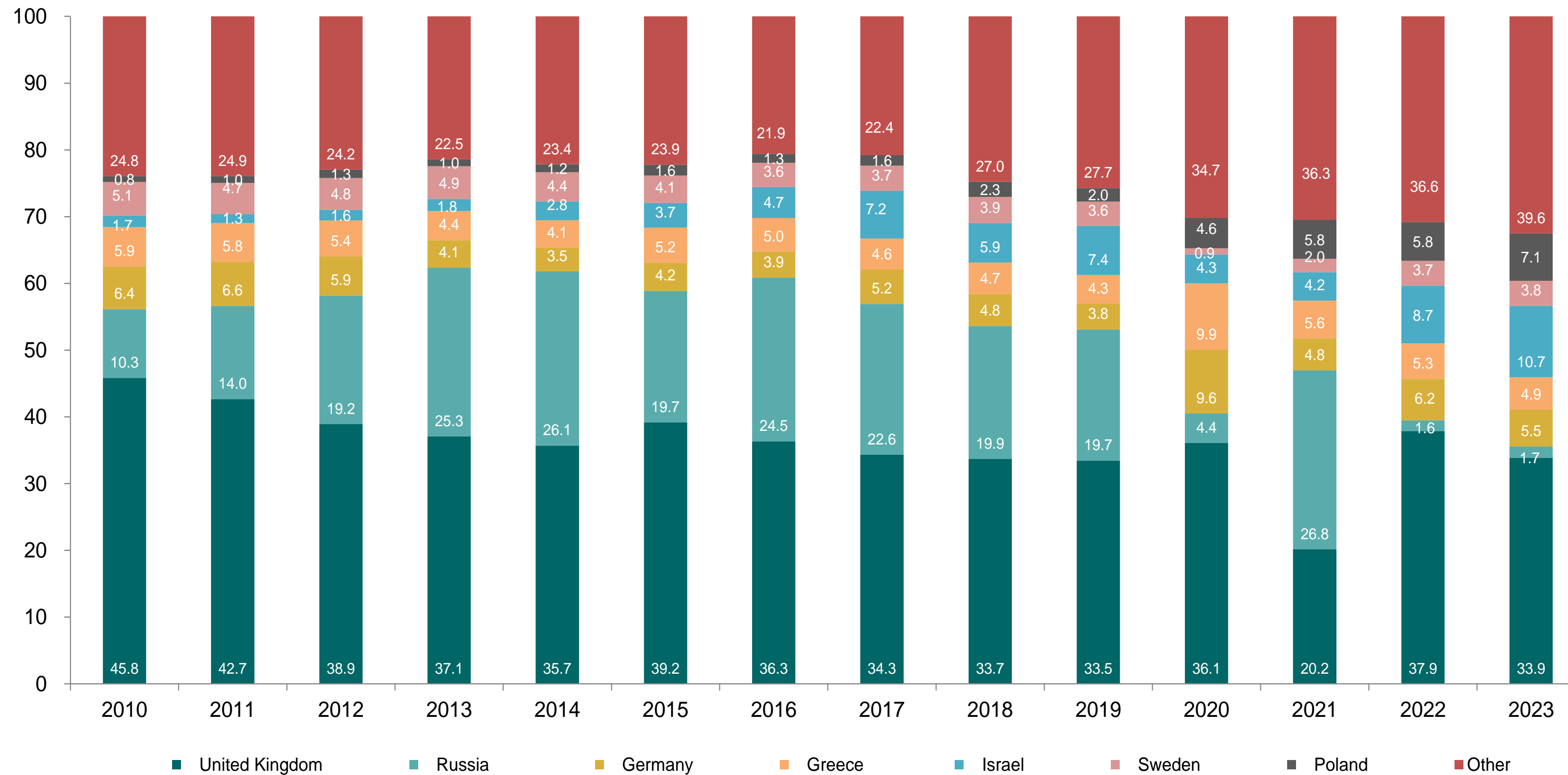


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Tourist Arrivals – Share to total



The main markets for tourist arrivals are the UK, Israel, Germany, Poland and Sweden. By the increase of the category others we see the diversification over time and gains from other EU countries.



Source: Cystat

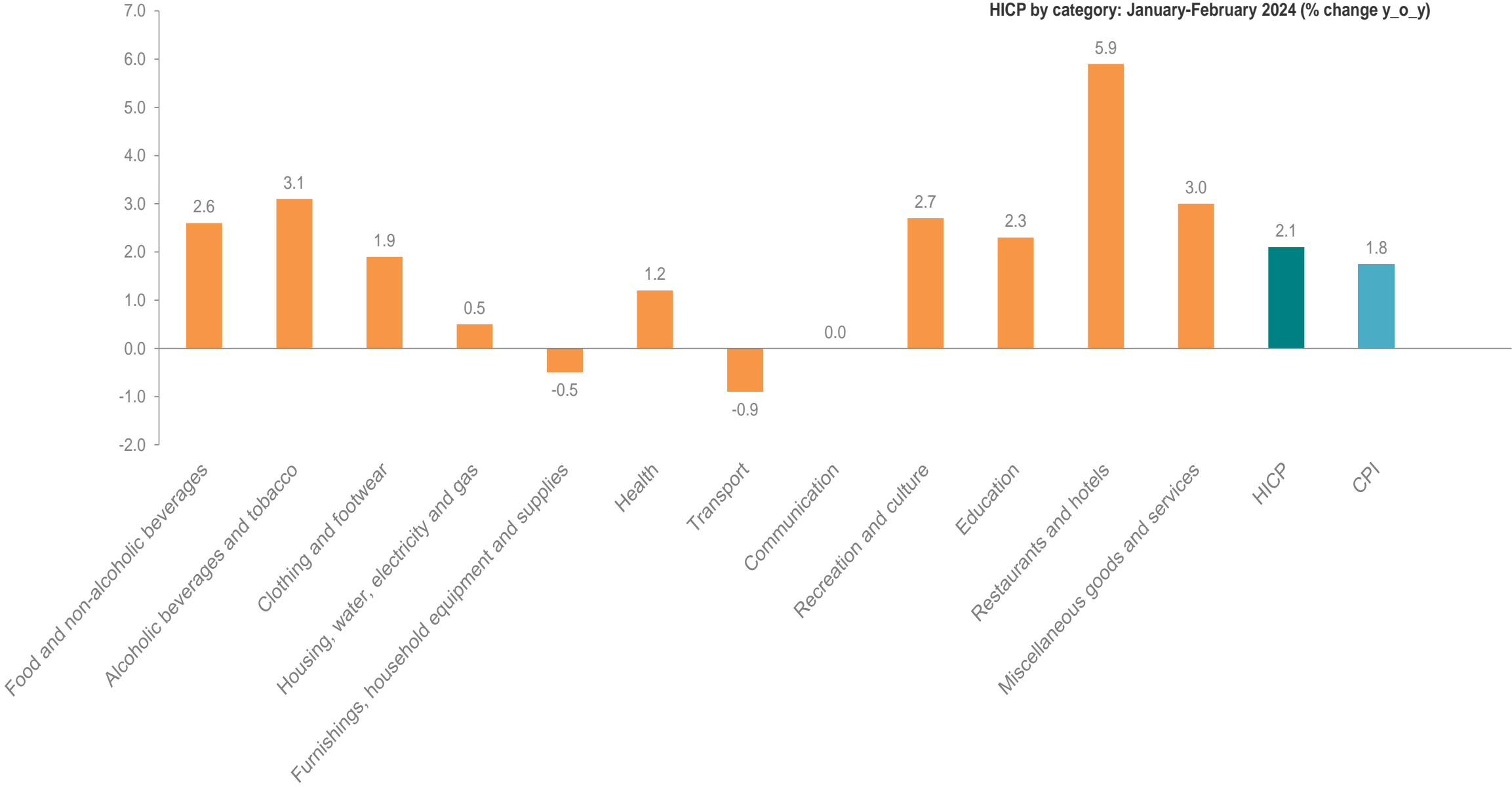
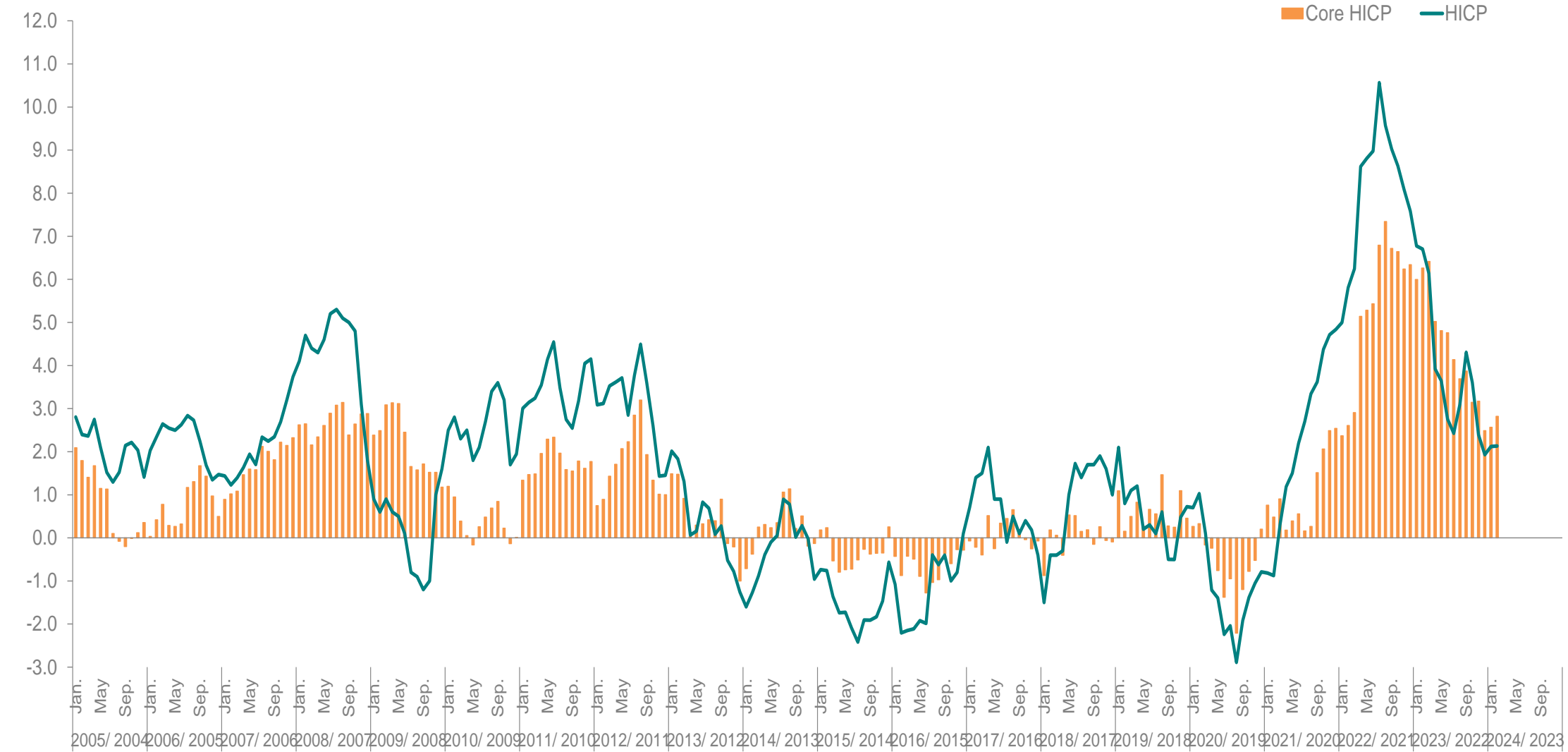


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HICP INFLATION

- Gradual deceleration in prices since August 2022 (peak 10.6% July 2022).
- Substantial deceleration in 2023, HICP at 3.9% and core HICP at 4.4%, mainly driven by a drop in energy prices and lower services inflation growth. Deceleration continues in 2024 (2.1% in January-February 2024).
- Ongoing geopolitical tensions have upward pressures in both headline and core HICP.



Sources: Cystat and Eurostat

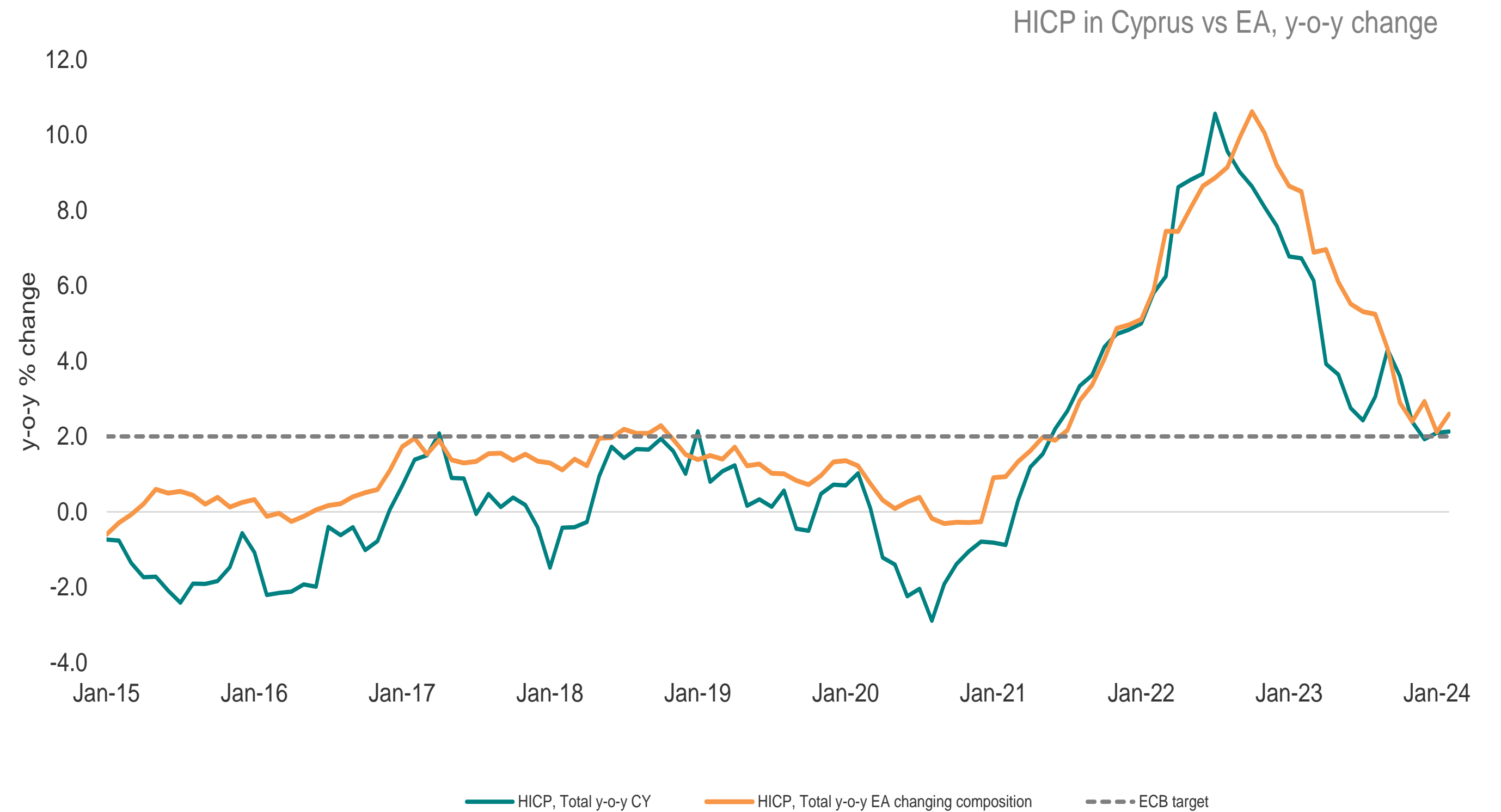


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HICP INFLATION



- *HICP y-o-y deceleration faster in Cyprus compared with the EA, but still above the ECB target of 2%.*
- *There are some still external inflationary drivers due to the consequences of the war between Russia-Ukraine.*
- *On the domestic inflationary drivers, it's the still strong and resilient economic activity, the relatively strong demand (for both goods and services), the moderate increase in wages and as well the higher corporate profit margins.*



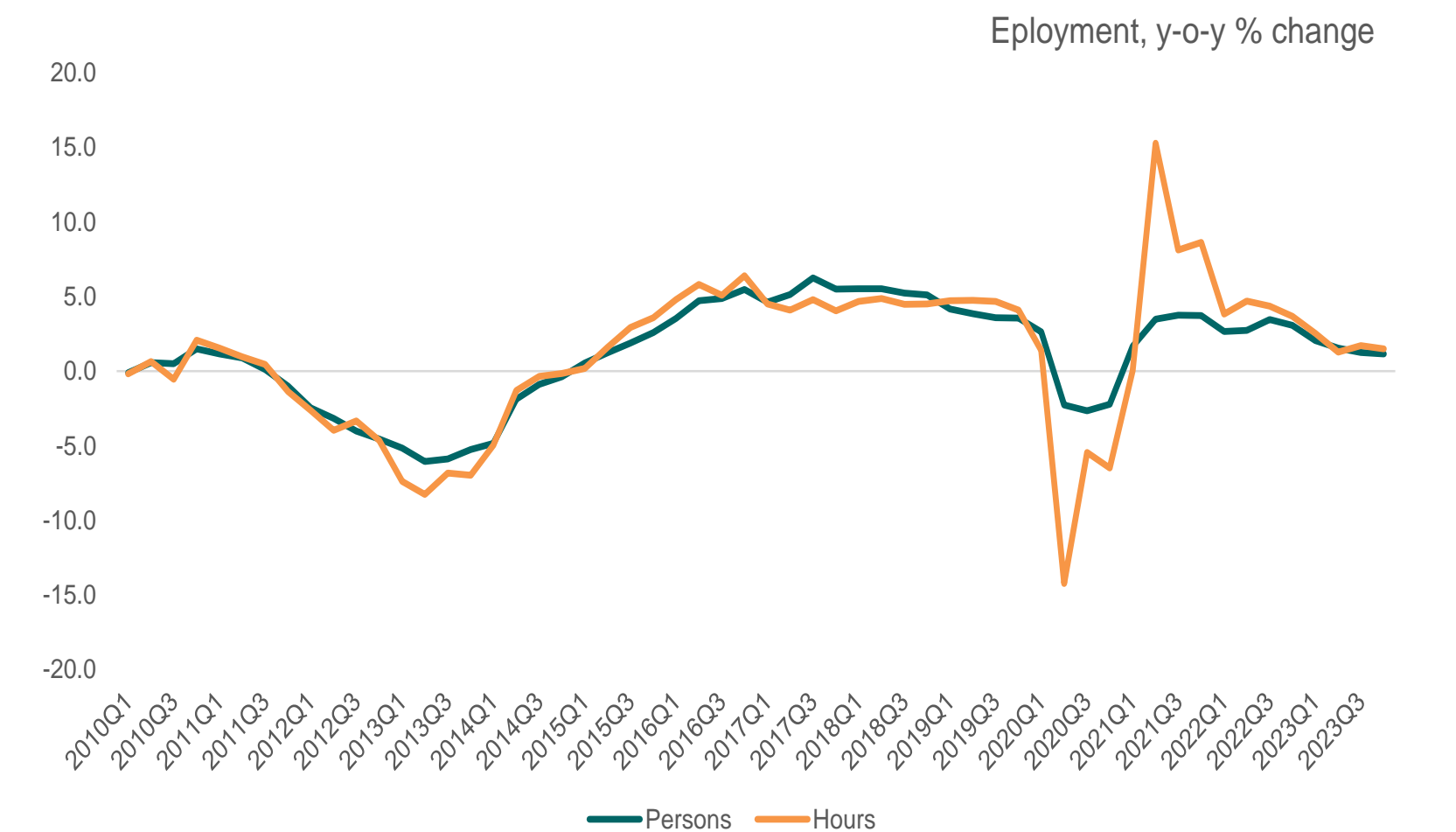
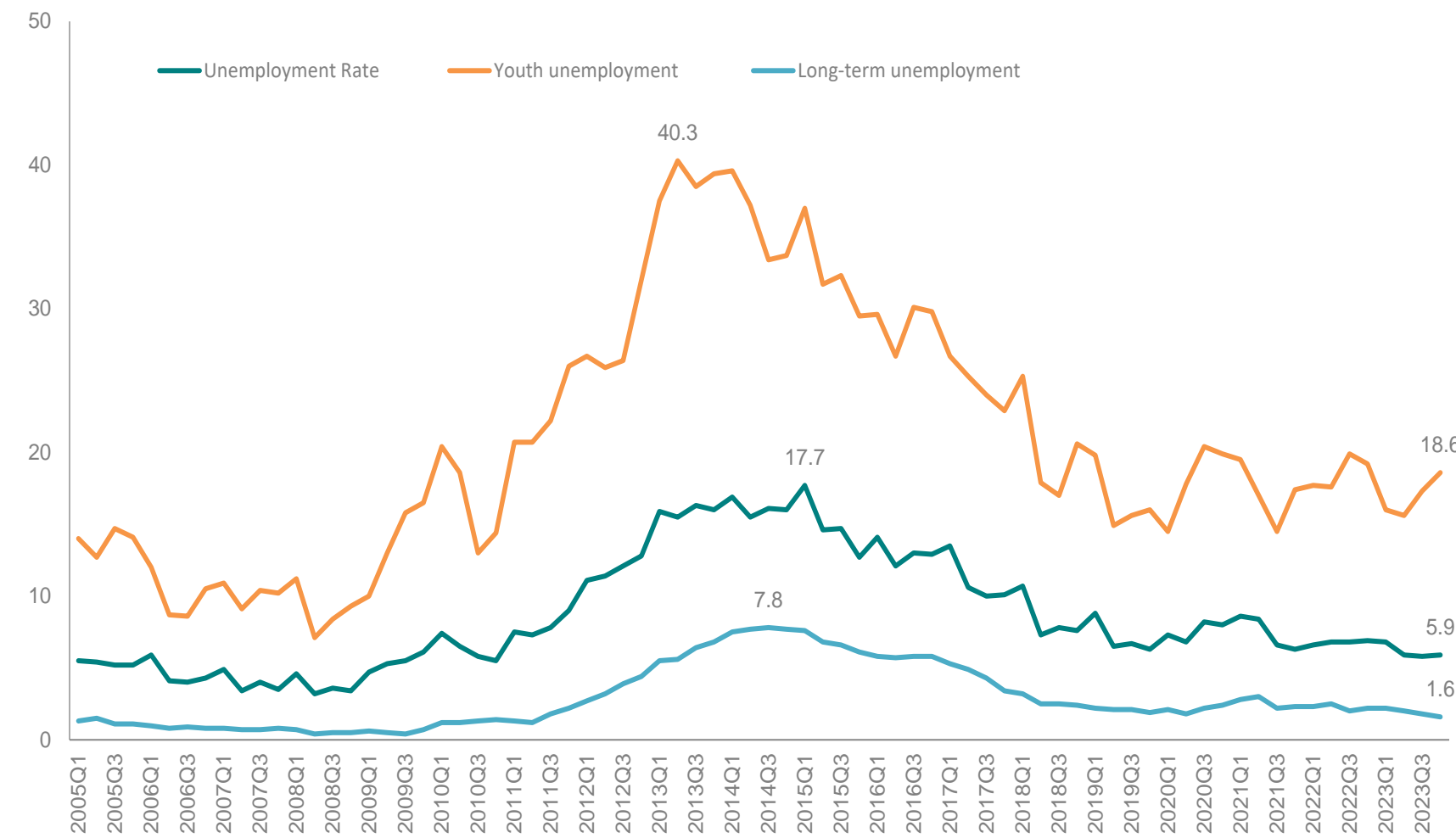
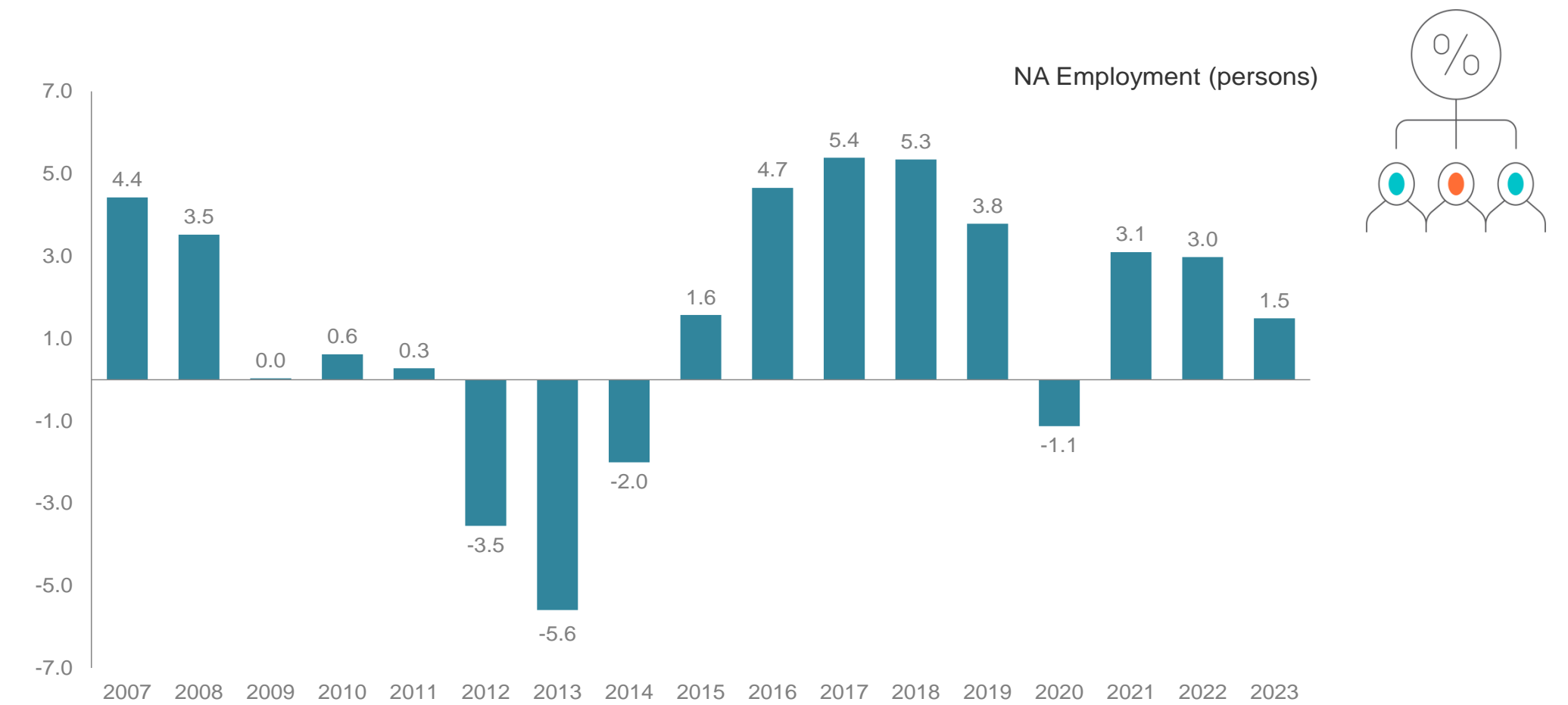
Sources: Cystat and Eurostat



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Labour Market

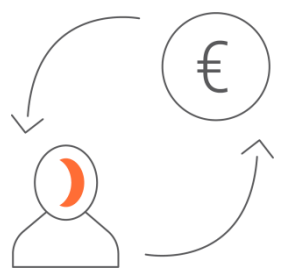
- Data on the labour market indicate a continued resilience in the sector, in line with expectations. Employment (in persons) increased by 1.5% in 2023 while the unemployment rate dropped significantly to 6.1%.
- The most affected segment of the population is youth unemployment, although it has been on a downward trend since the 3rd quarter of 2013 falling to 16.9% in 2023 from a peak of 40.3% in the 2nd quarter of 2013.



Source: Cystat

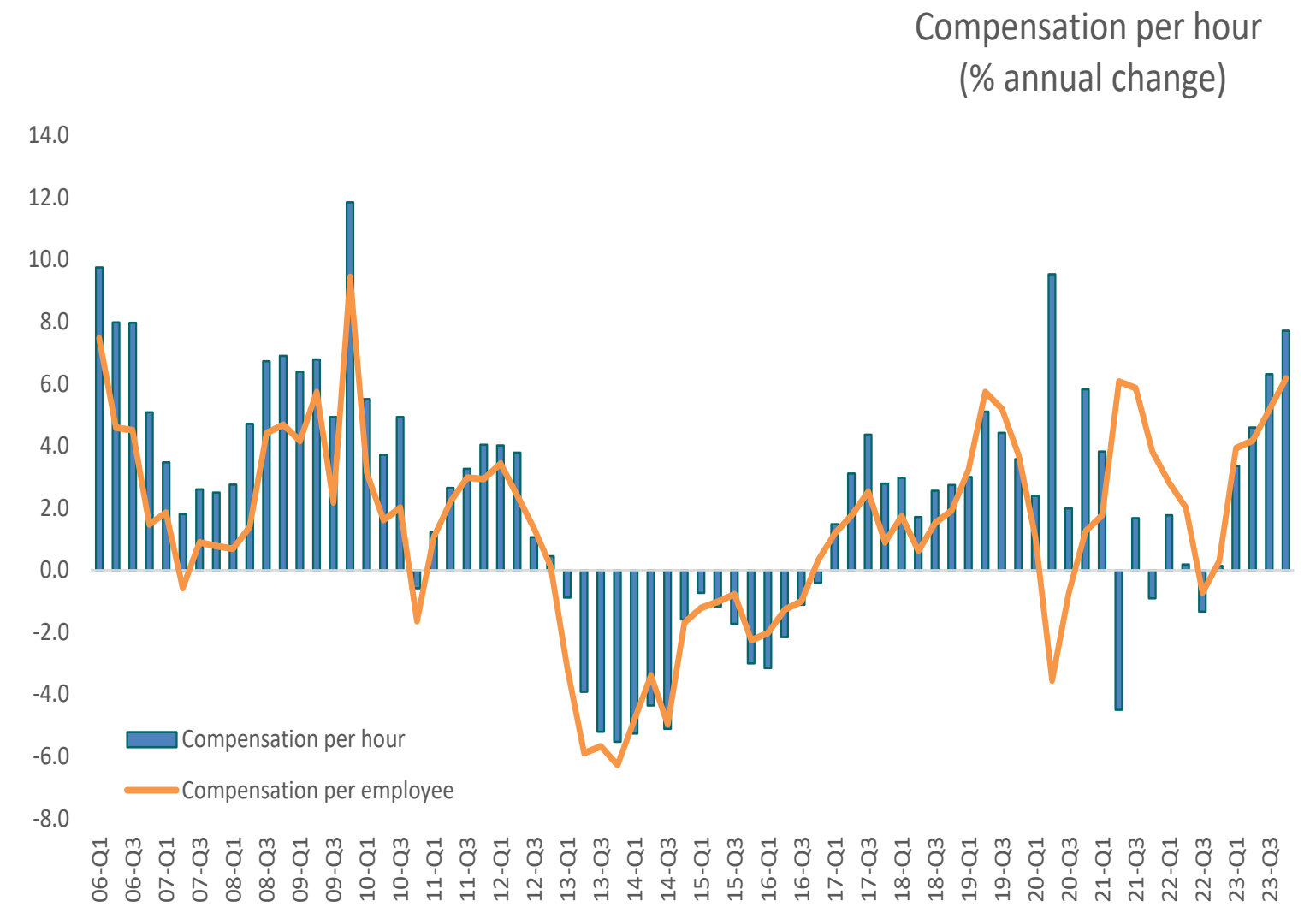
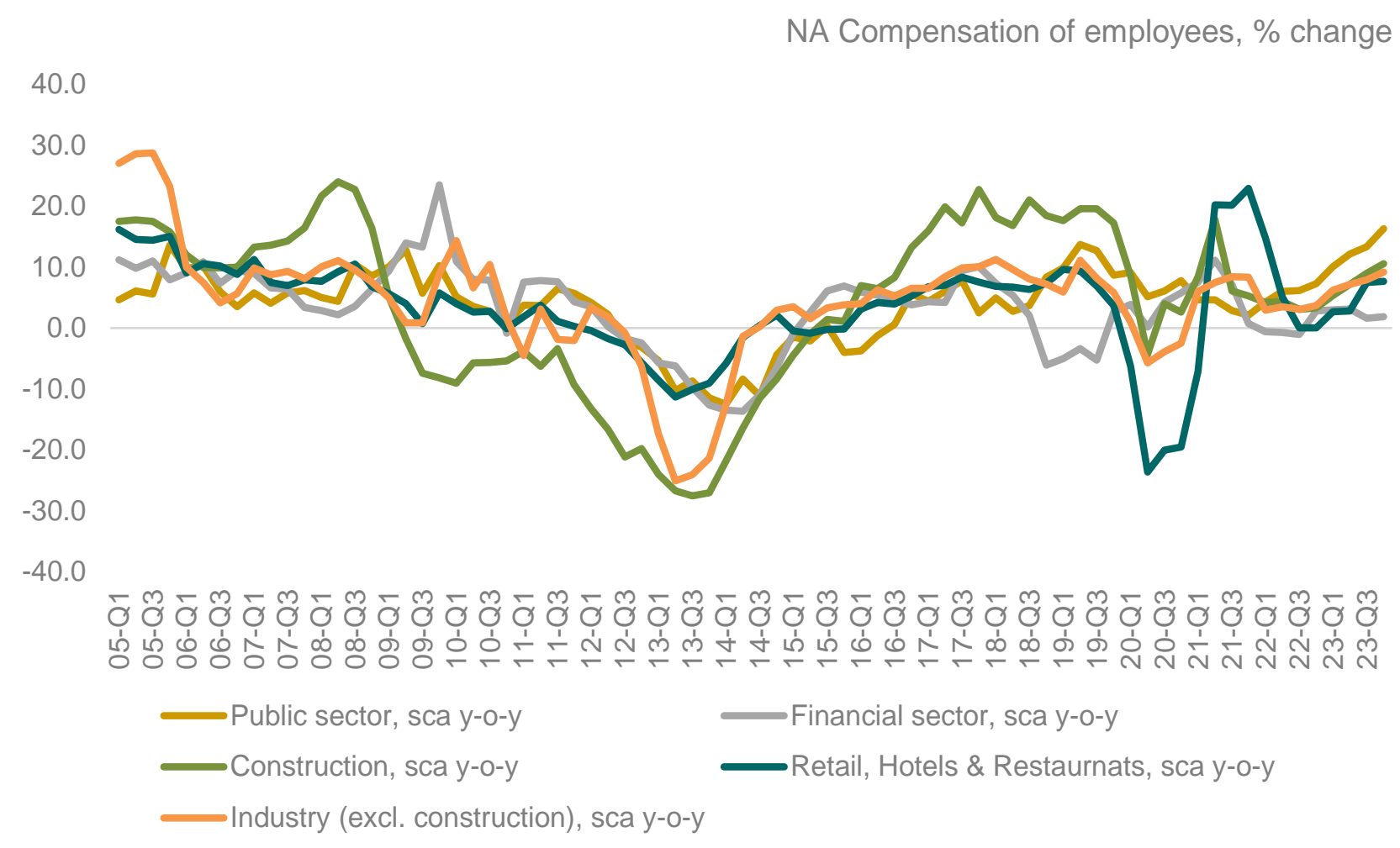
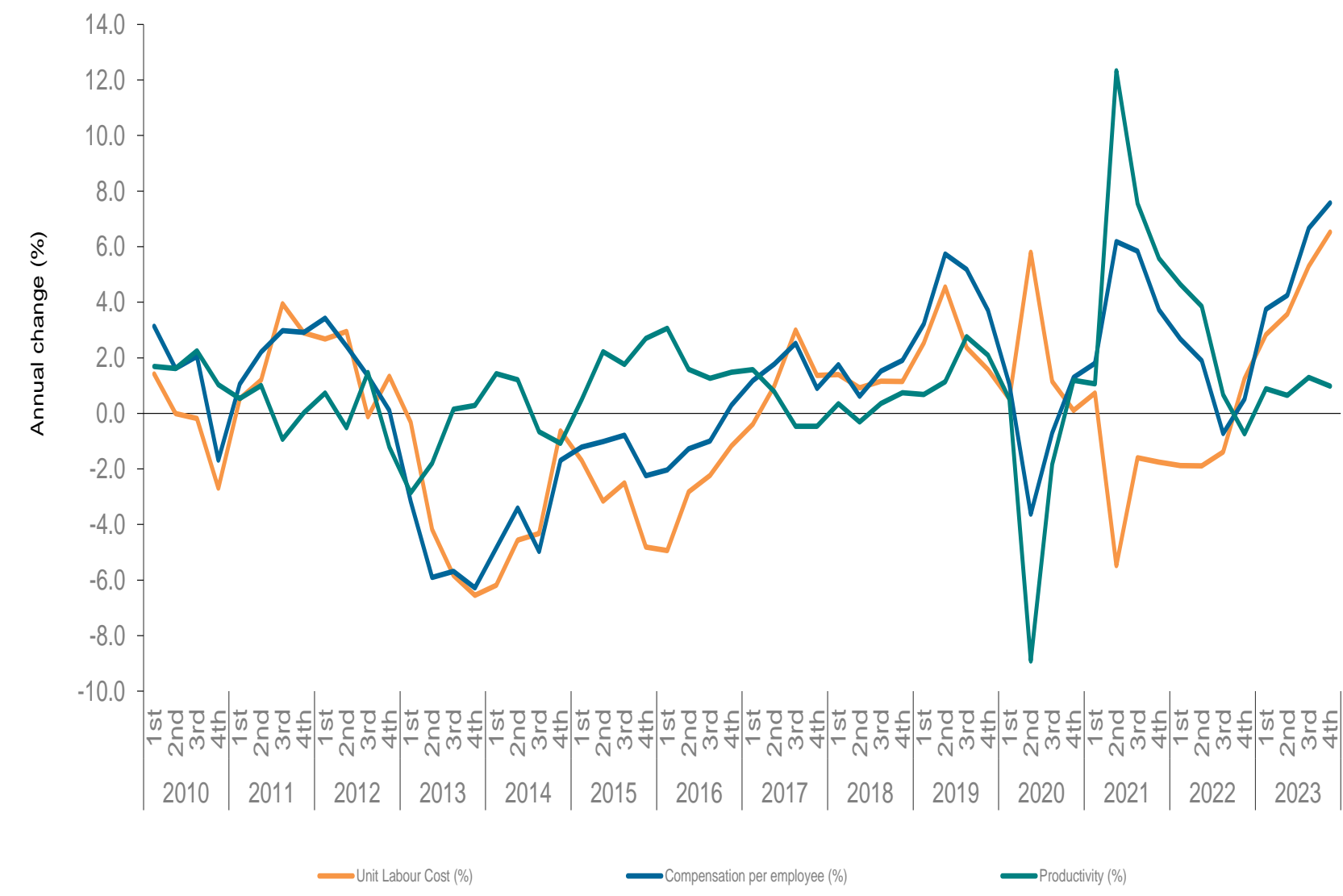


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WAGE DEVELOPMENTS

- Wages (compensation per employee) show recovery follow the pandemic with the increase in hours per employee
- Wage growth in 2023 was mainly from the sectors O-Q (public services) driven by wage indexation due to COLA and the final restitution in wage-cuts from the MoU period.



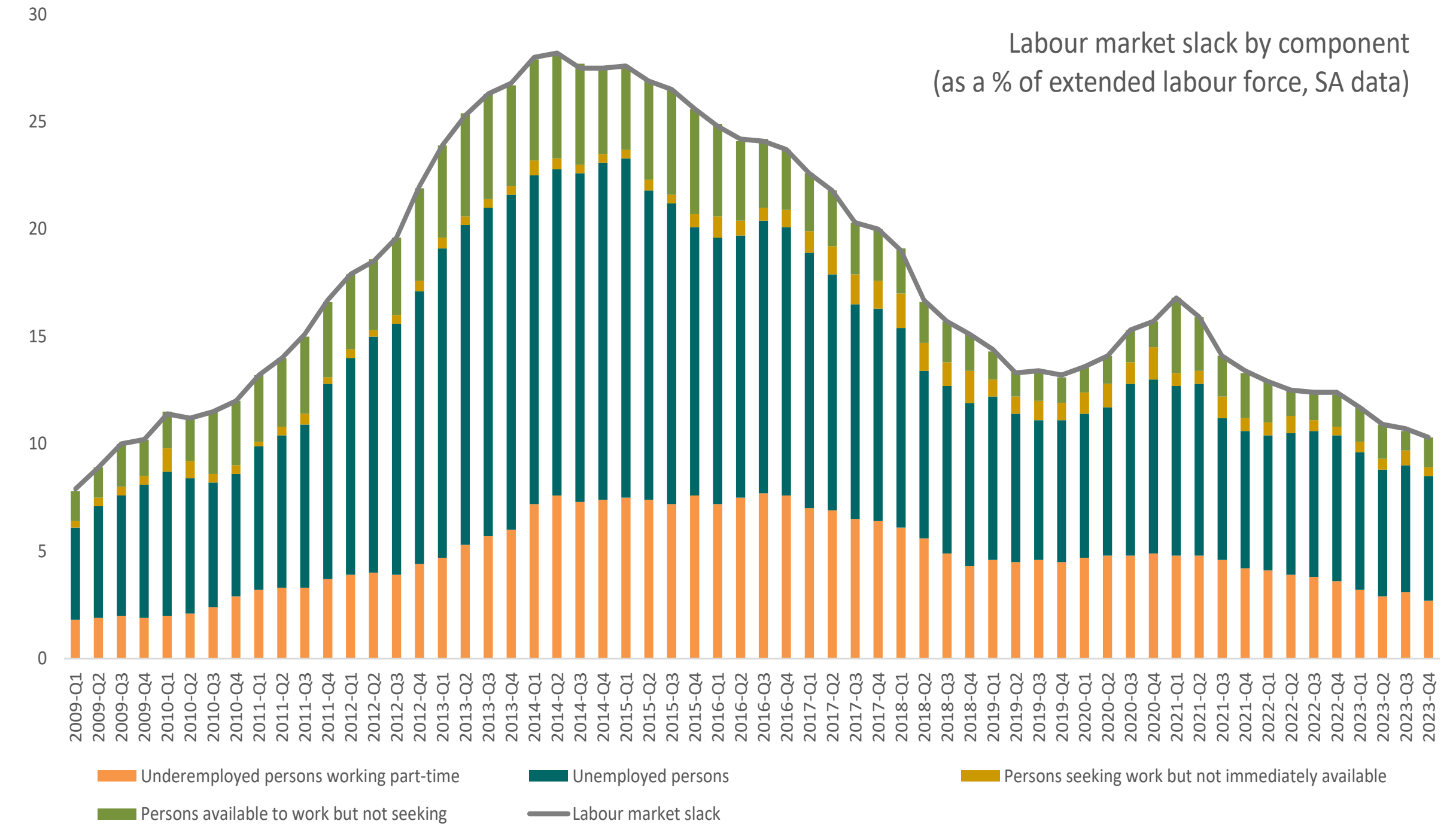
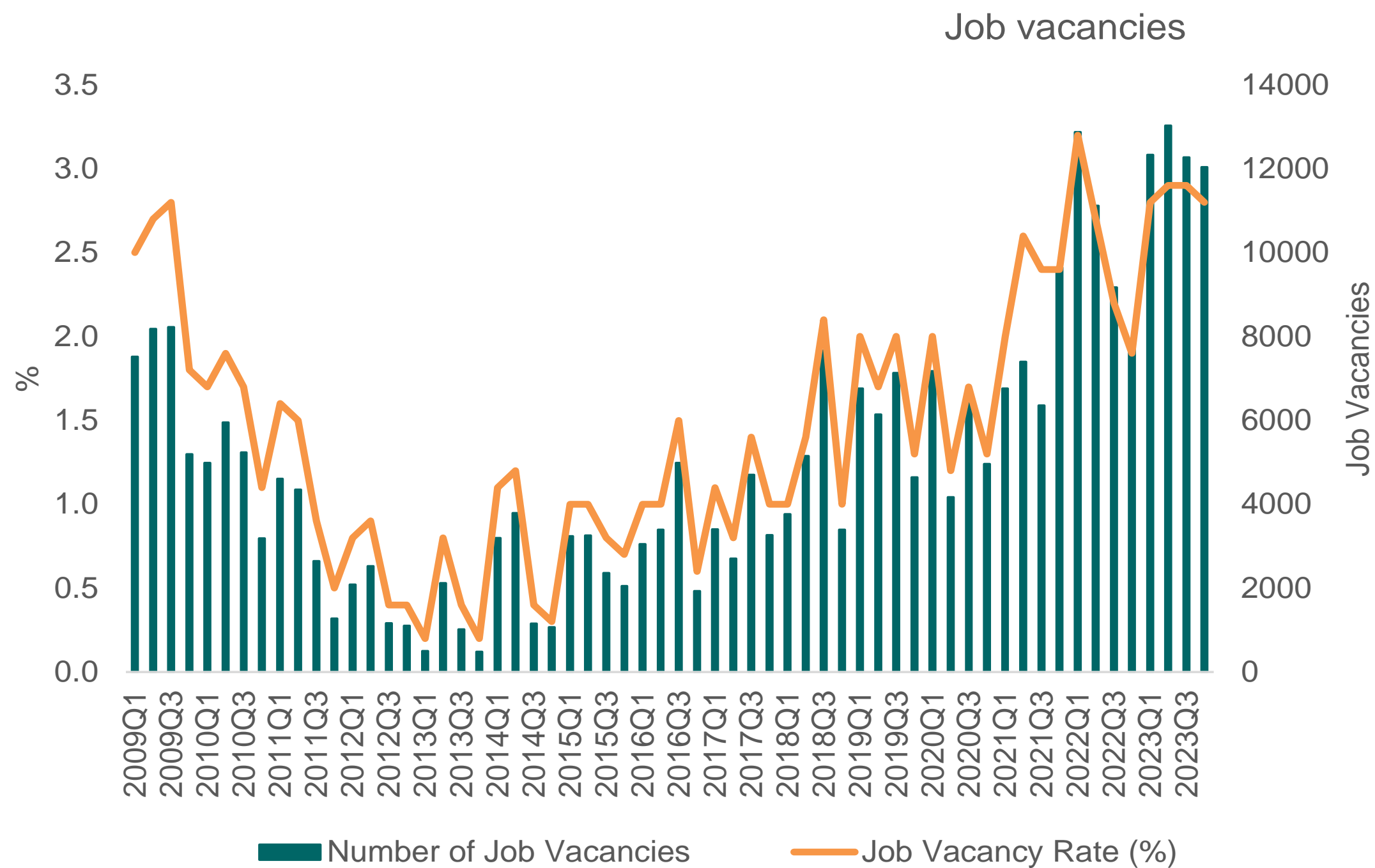
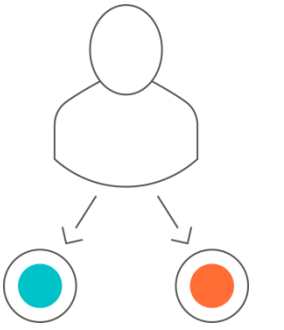
Source: Cystat



MINISTRY OF FINANCE

VACANCIES

- Tight labour market as seen by the elevated **job vacancies** in 2022-2023 but less tight than before. Employment and unemployment rates still below the pre 2008 crisis average (4.5%).
- There is some hidden slack remaining as can be seen from discouraged workers and unemployed part time workers.



Source: Cystat



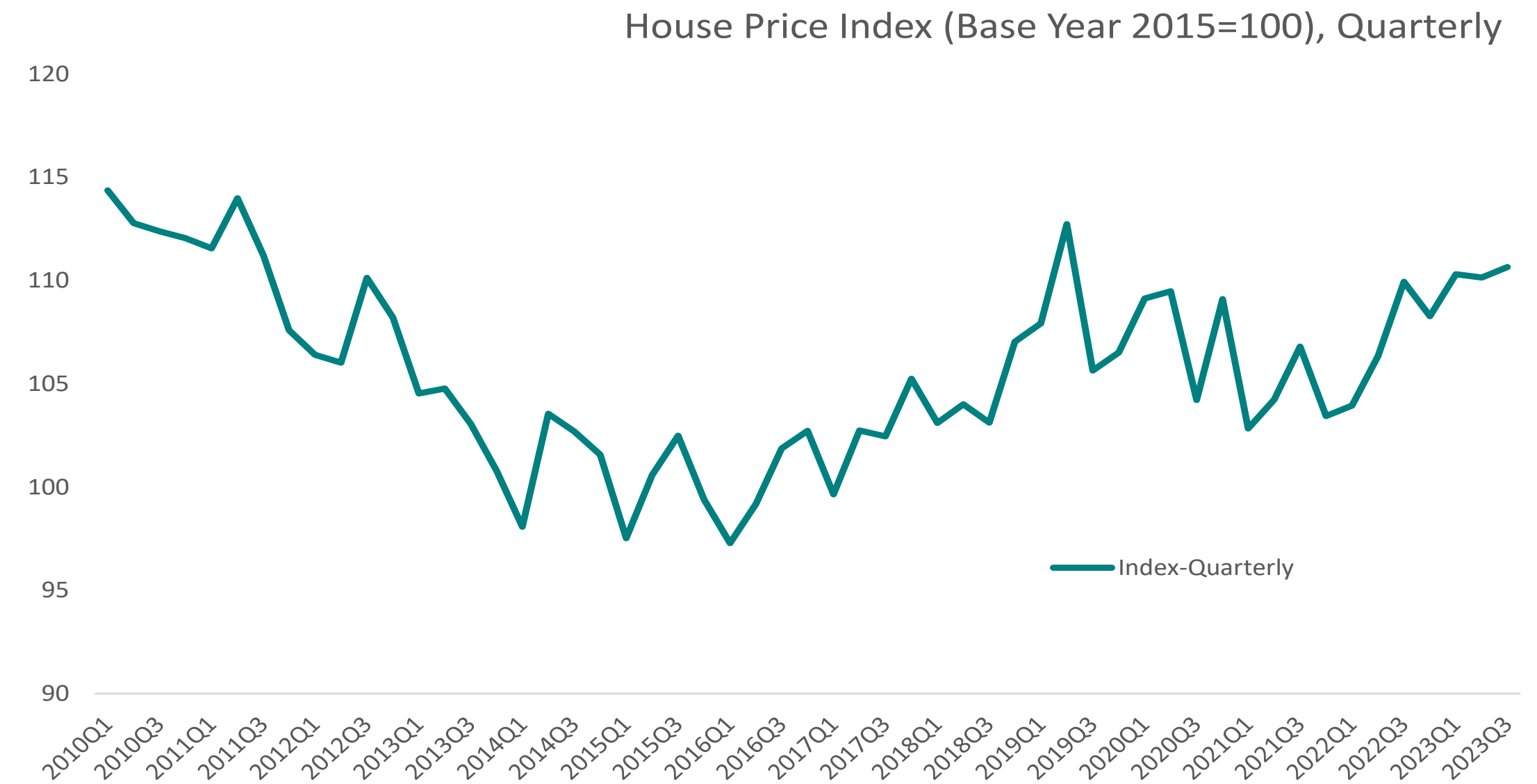
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HOUSE PRICE INDEX (HPI)

- The HPI compared to the first quarter of 2023, the HPI decreased by 0.4% while compared to the Index of the corresponding quarter of 2022, the Index increased by 3.2%.
- House Price Index (HPI) is a quarterly index which measures the change in the average prices of residential dwellings. It captures all types of residential properties, both new and existing. The land component of the residential property is included.

	Q3 2022	Q4 2022	Q1 2022	Q2 2023	Q3 2023
HPI (2015=100)	109.95	108.27	110.31	110.15	110.65
Quarterly change (%)	3.4	-1.5	1.9	-0.1	0.4
Annual change (%)	2.9	4.7	6.1	3.6	0.6



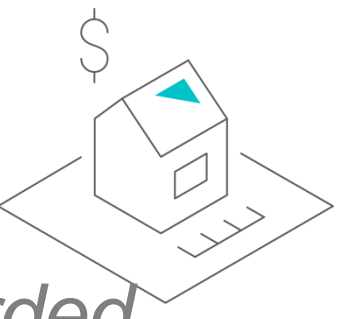
Source: Cystat



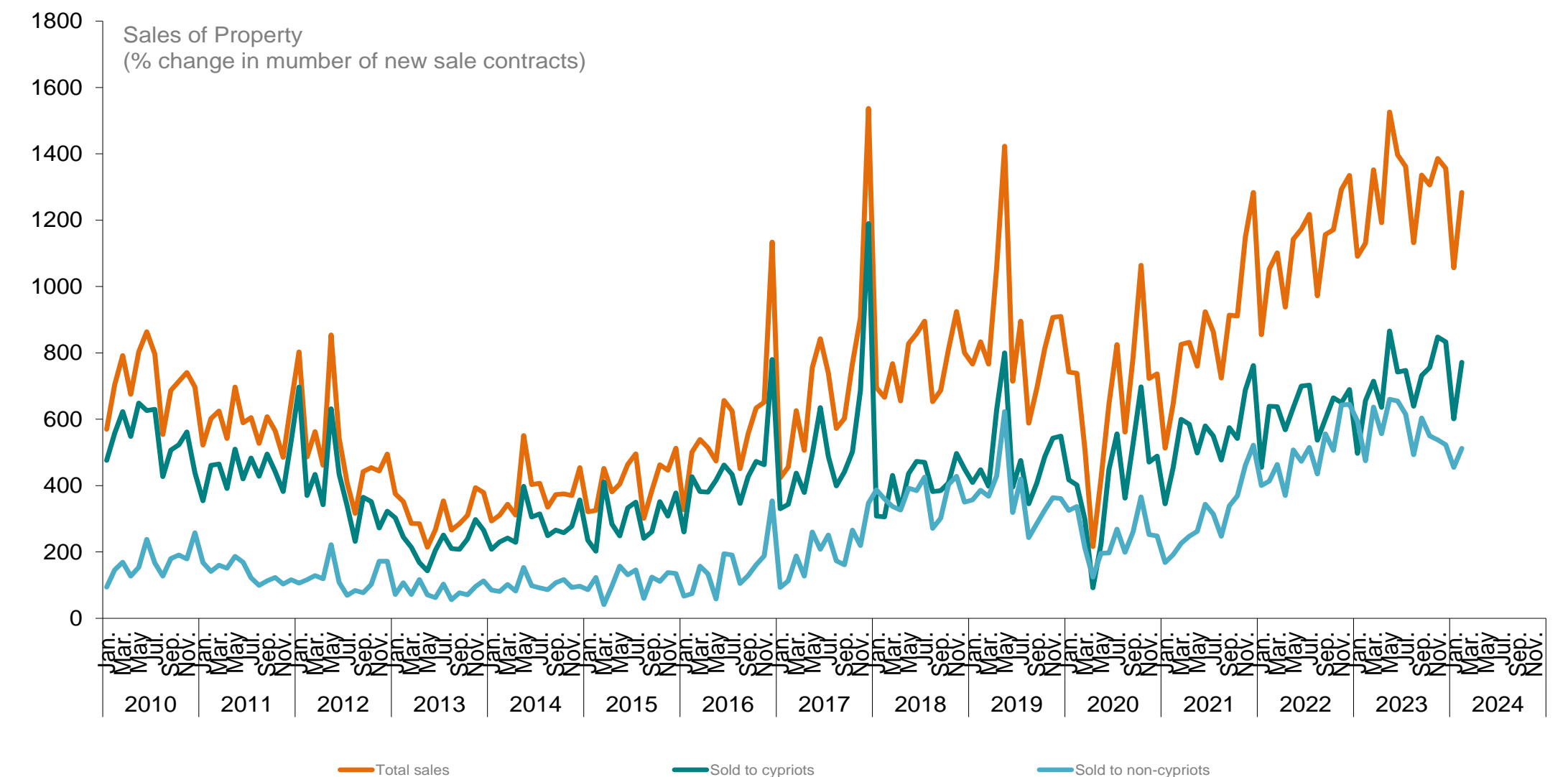
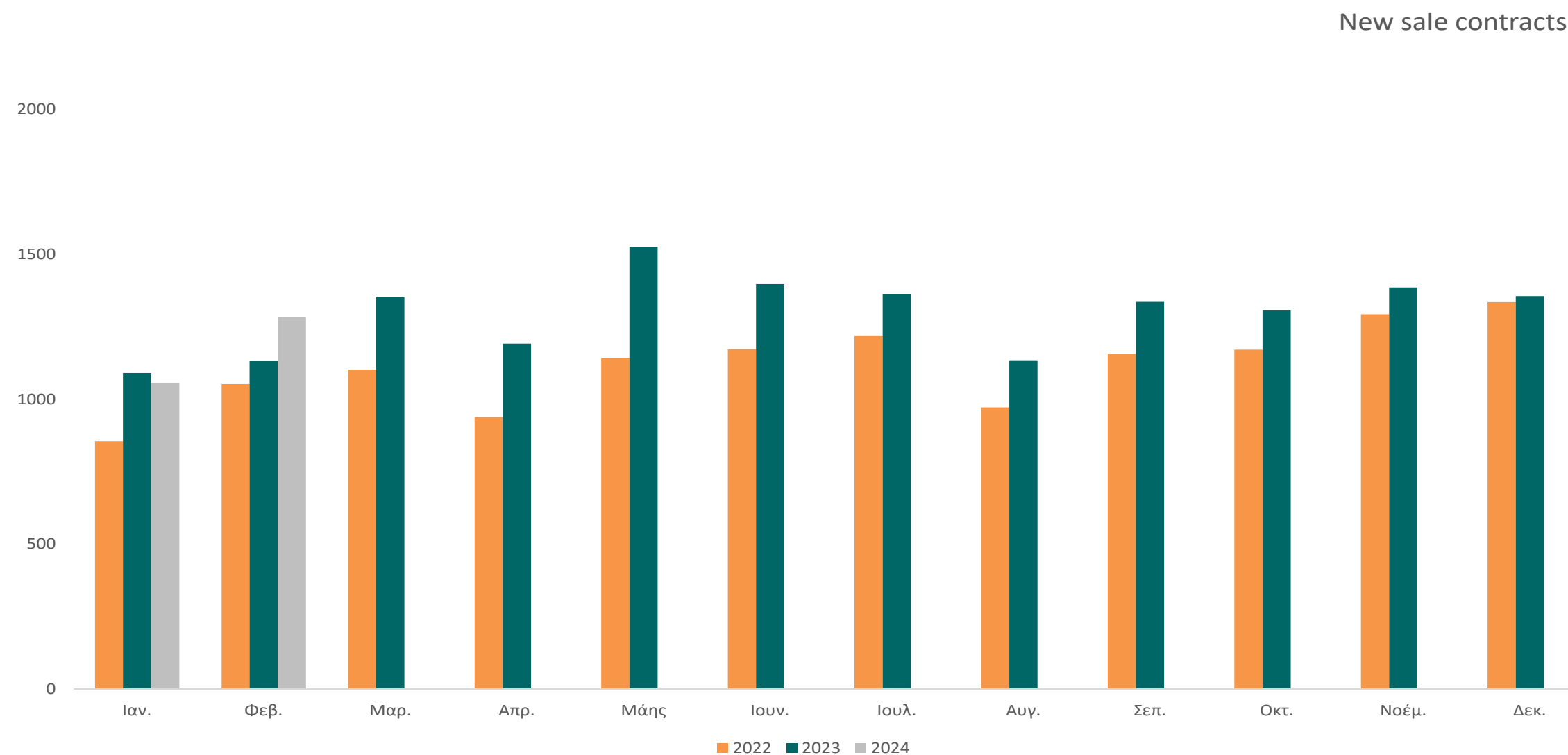
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Property Market



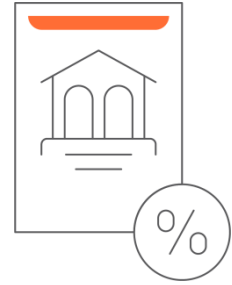
- In 2023 the total value of building permits increased by 16.4% and the total area by 4.3%. The number of dwelling units recorded an increase of 12.2%.
- Price index was increasing until April 2022, peaked in February 2023, but is on a decelerating path since. All subcategories recorded a deceleration while “metallic products” recorded a decrease
- The number of transactions in the real estate market recorded an increase on an annual basis (+16.1% in 2023/2022, + 5.3% in 2024/2m).
- The number of sales contracts during the period under review reached its maximum level over the past fifteen years.
- Local buyers account for the largest share of transactions, while foreign buyers attained the biggest annual increase in sales contracts.



Source: Department of Lands and Surveys

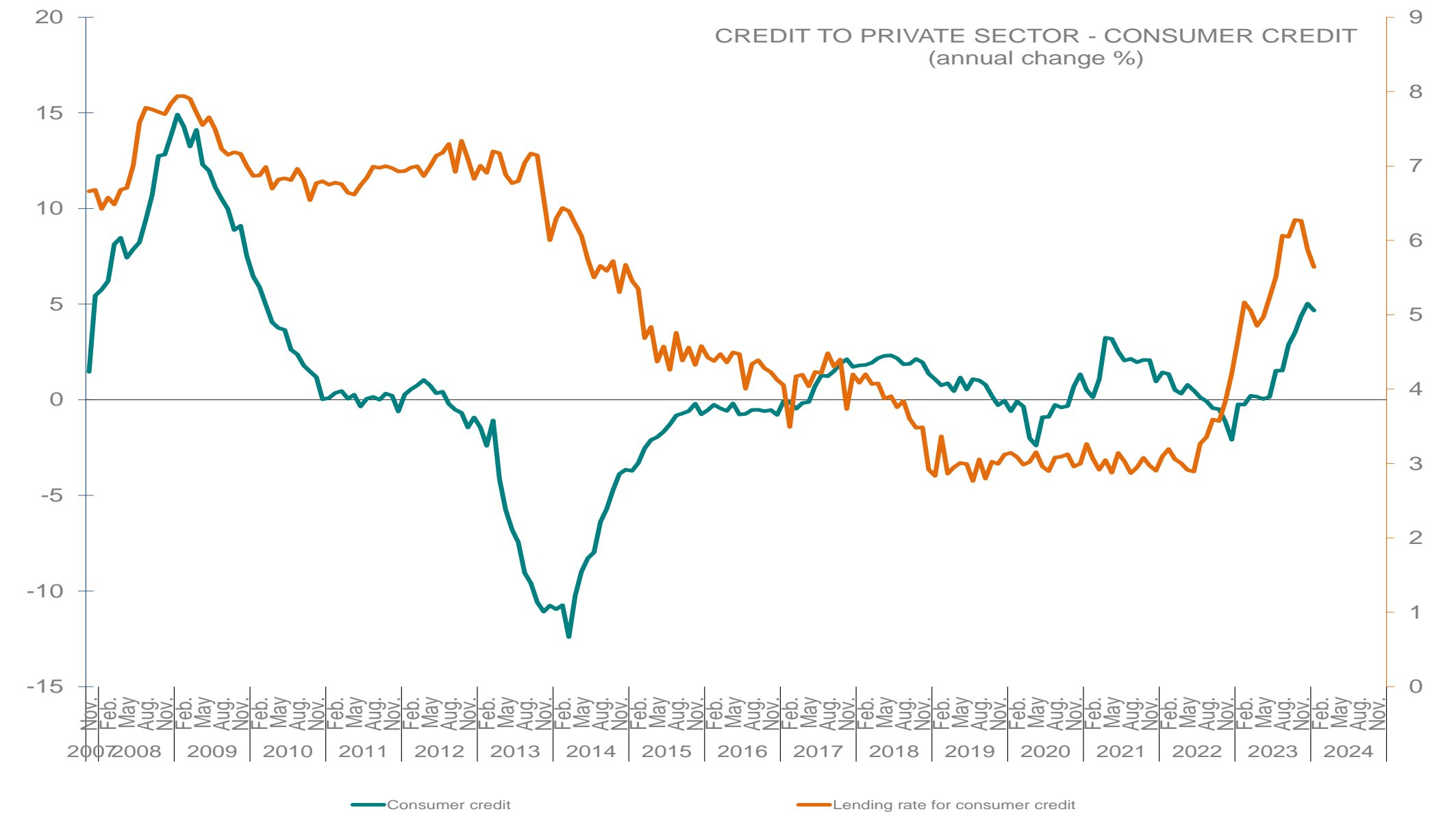
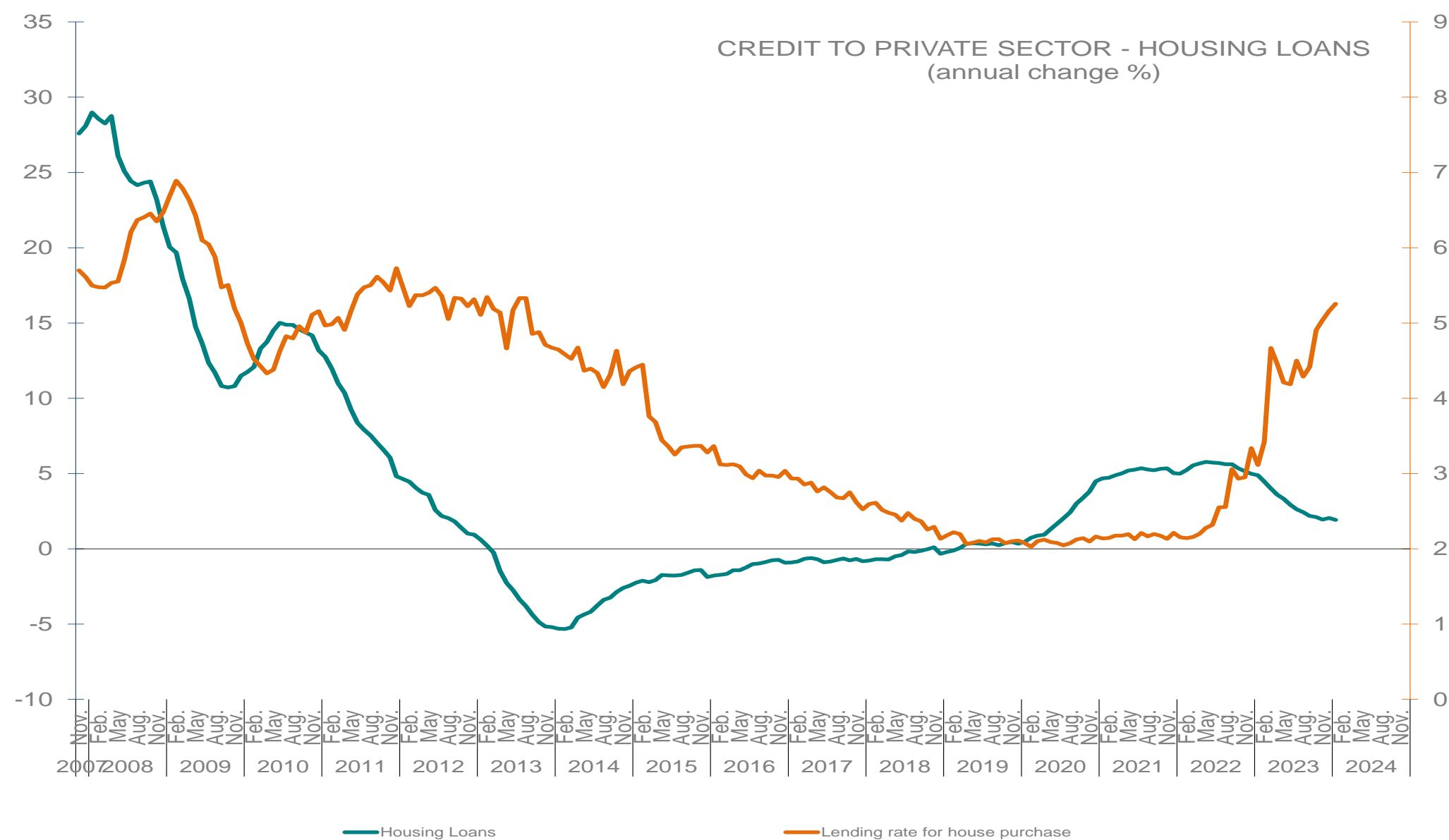


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Monetary developments - Credit: Housing Loans & Consumer credit

- Domestic private sector credit growth has been contracting since the 2nd half of 2022 and turned negative in April 2023 onward. This was mainly due to the tighter financial conditions and the increasing cost of living.
- Domestic private sector deposits growth accelerated in the 1st half of 2023 due to robust economic growth while the increase moderated in the 3rd quarter of 2023.
- Gradual upward trend in lending rates since the 2nd half of 2022, further increases in 2023, while deposit rates are still low



Source: CBC



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MFI ¹⁾ Volumes of PURE NEW LOANS (euro-denominated) ²⁾³⁾ to Euro area residents (€ mln)						
		Households ⁴⁾			Non-financial corporations	Total
		Consumer credit	Housing loans	Other lending		
2015						
Total	534.8	83.1	271.1	180.6	1152.4	1687.2
Average	44.6	6.9	22.6	15.1	96.0	140.6
2016						
Total	867.5	119.4	546.5	201.6	1491.3	2358.7
Average	72.3	10.0	45.5	16.8	124.3	196.6
2017						
Total	1087.4	170.7	721.0	195.7	2141.2	3228.7
Average	90.6	14.2	60.1	16.3	178.4	269.1
2018						
Total	1214.2	161.8	868.5	184.0	1928.7	3142.9
Average	101.2	13.5	72.4	15.3	160.7	261.9
2019						
Total	1219.5	161.2	876.4	181.9	1983.7	3203.2
Average	101.6	13.4	73.0	15.2	165.3	266.9
2020						
Total	1074.0	149.3	783.4	141.4	1330.0	2404.0
Average	89.5	12.4	65.3	11.8	110.8	200.3
2021						
Total	1394.5	149.2	1121.2	124.2	1544.3	2938.8
Average	116.2	12.4	93.4	10.3	128.7	244.9
2022						
Total	1416.1	155.3	1177.9	83.0	1856.1	3272.2
Average	118.0	12.9	98.2	6.9	154.7	272.7
2023						
Total	1348.0	230.0	1015.7	102.3	1921.2	3269.2
Average	112.3	19.6	84.1	8.6	155.8	268.1
Jan-23						
Total	93.2	11.9	76.0	5.3	56.2	149.3
Average	93.2	11.9	76.0	5.3	56.2	149.3
Jan-24						
Total	95.8	19.7	71.7	4.4	123.9	219.7
Average	95.8	19.7	71.7	4.4	123.9	219.7

1) Monetary Financial Institutions (MFIs) sector excluding the Central Bank of Cyprus (CBC).

2) It includes loan transfers between CY MFIs.

3) Excluding revolving loans and overdrafts, convenience and extended credit.

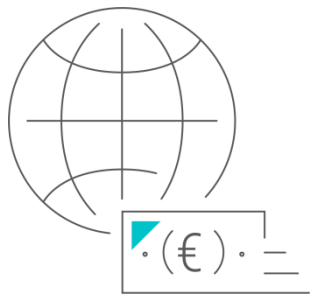
4) Including non-profit institutions serving households.

Source: CBC

- Total new lending, for NFCs and HHs, increased in January-December 2023.
- New lending to NFCs held up well in 2023 due to high working capital financing needs.
- New lending to HHs is being moderated since the 2nd half of 2022, due to the decline in new housing loans that are adjusting to the conditions of higher interest rates and inflation and as well uncertainty about future developments in the economic environment.

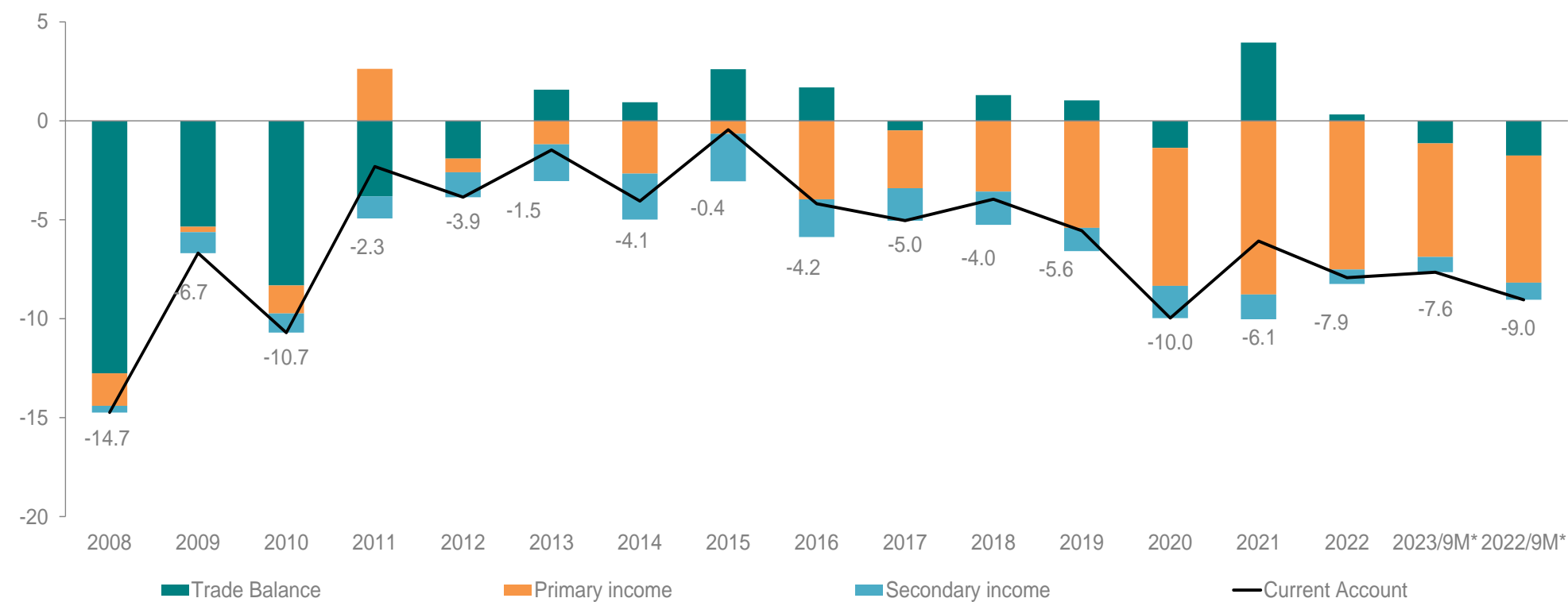


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CURRENT ACCOUNT

- The current account (CA) balance of Cyprus recorded an worsening, with the deficit increasing to €2,688.3 mn (-9.0% of GDP) in 2023/9M, from €2,124.2 mn (-7.6% of GDP) in 2022/9M.
- This was mainly due to the trade deficit in goods (due to a significant size transaction of mobile transport equipment and increased imports for home consumption in 2023Q1) and to a lesser extent to a lower increase in the services surplus (financial services were impacted from the sanctions).
- The deterioration in the primary income account in recent years is related to the expansion of service exports (especially ICT-related exports) due to the foreign companies that have settled on the island and which send profits abroad.



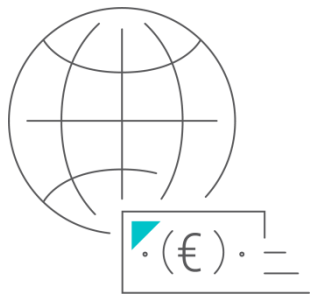
EUR mil	2019	2020	2021	2022	2022-9M	2023-9M
Current account balance	-1,287.8	-2,201.6	-1,513.5	-2,202.7	-2,124.2	-2,688.3
as a % of <u>annual</u> GDP	-5.6%	-10.0%	-6.1%	-7.9%	-7.6%	-9.0%
Balance on goods and services	239.0	-301.8	986.8	88.3	-315.8	-520.7
as a % of <u>annual</u> GDP					-1.1%	-1.7%
Primary income	-1,253.5	-1,539.1	-2,187.2	-2,087.7	-1,593.7	-1,909.5
Secondary income	-273.4	-360.7	-313.1	-203.4	-214.8	-258.1
as a % of <u>annual</u> GDP					-6.5%	-7.3%

EUR mil	2019	2020	2021	2022	2022-9M	2023-9M
Balance on goods and services	239.0	-301.8	986.8	88.3	-315.8	-520.7
Goods balance	-4,631.5	-4,211.3	-4,398.4	-5,973.1	-4,869.5	-5,663.2
Exports of Goods	3,079.7	2,969.0	3,693.3	4,581.5	3,015.1	3,044.7
Imports of Goods	7,711.2	7,180.3	8,091.7	10,554.6	7,884.5	8,707.9
Services balance	4,870.4	3,909.5	5,385.2	6,061.5	4,553.7	5,142.5
Exports of Services	14,648.5	14,851.0	18,594.3	21,817.2	16,238.7	16,646.4
Imports of Services	9,778.0	10,941.4	13,209.1	15,755.7	11,685.0	11,503.9

Source: CBC

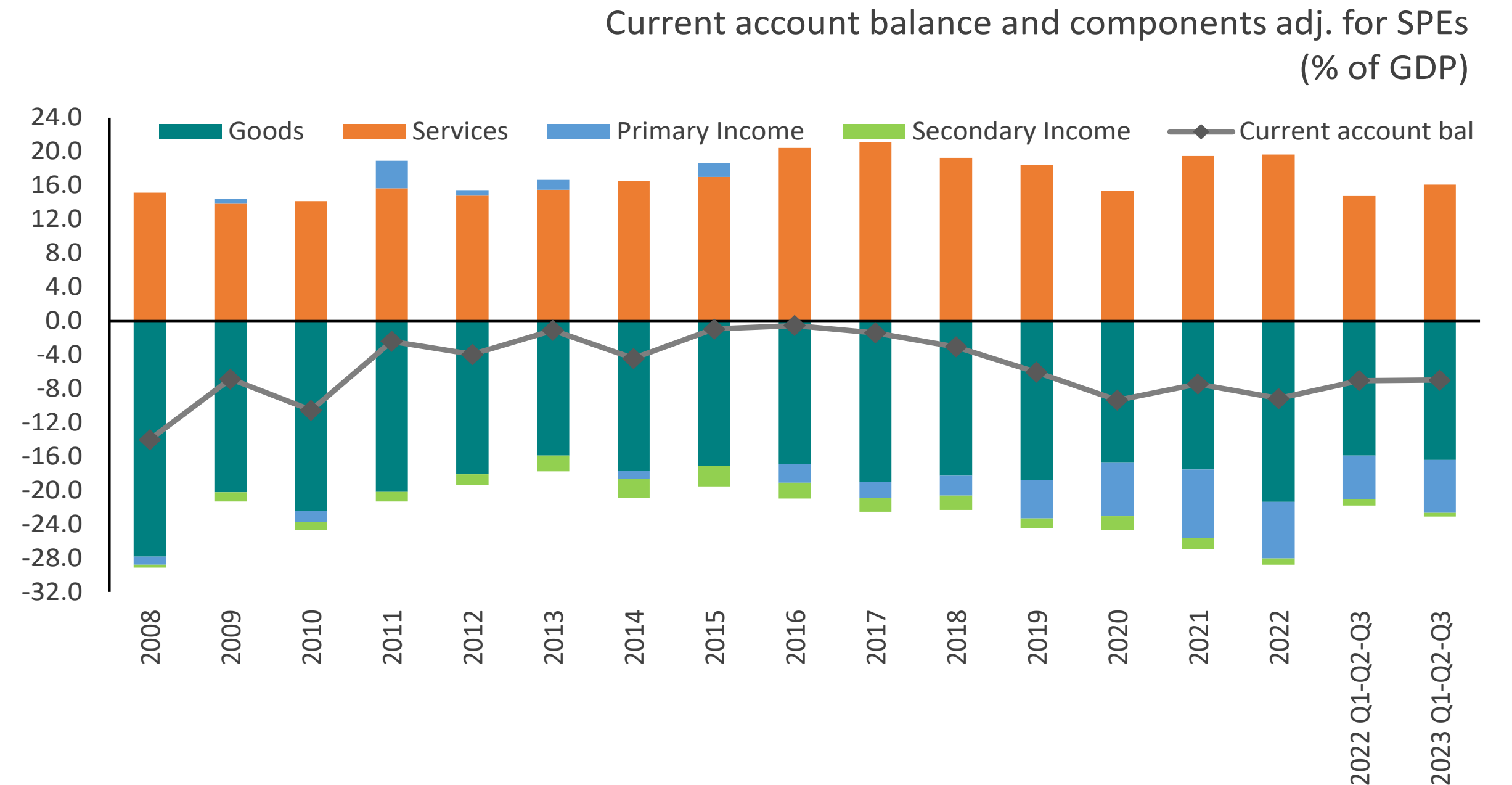
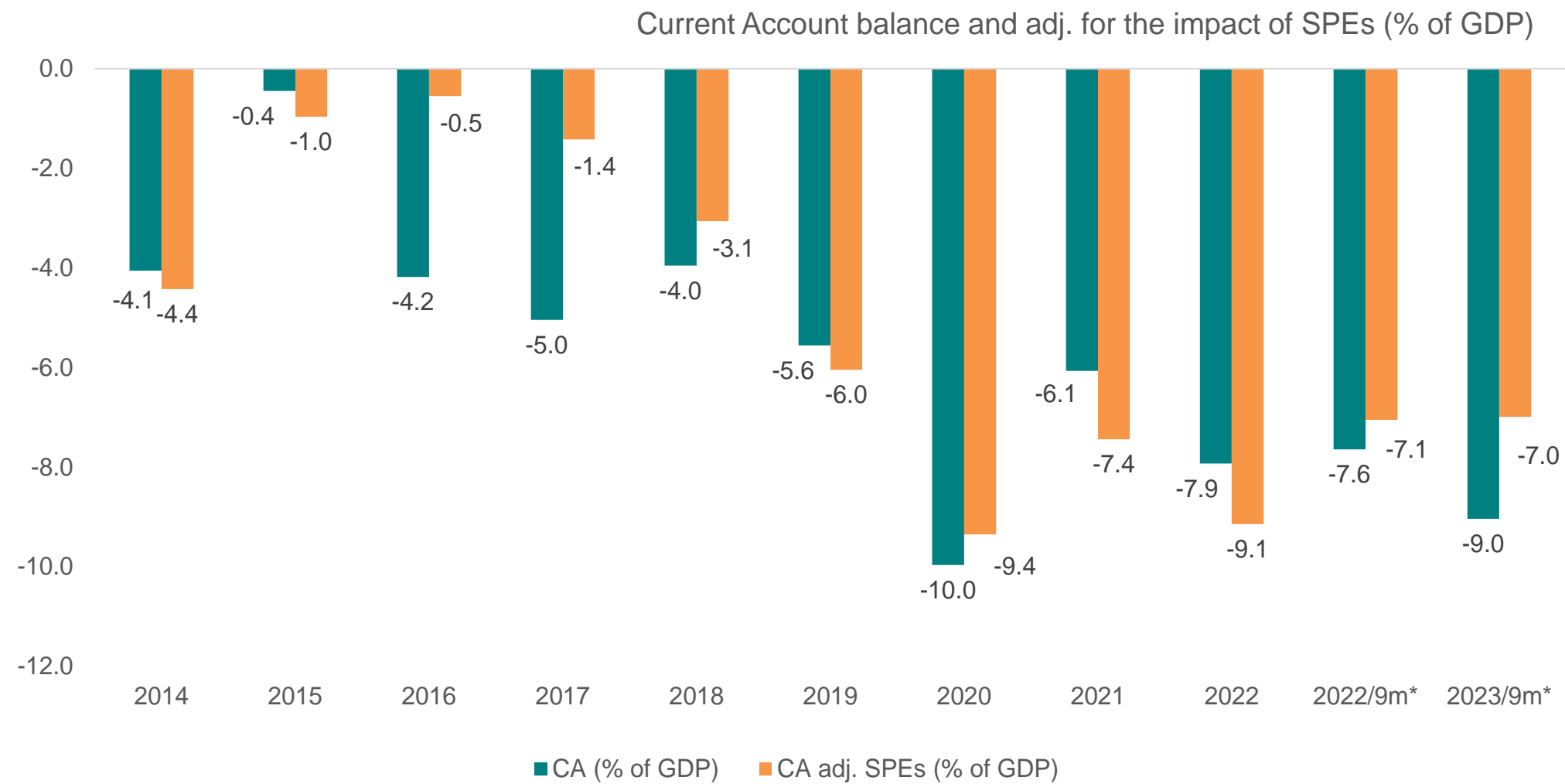


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CURRENT ACCOUNT

- Current Account deficit is significantly affected by the net transactions of mobile equipment (ships)
- The resulting deficit adjusted for the impact of Special Purpose Entities (SPEs) stood at 7.0% of GDP in 2023/9m, compared with a deficit of 7.0% of GDP in 2022/9m. This deterioration was due to price and quantity factors and is expected to subside in the future due to normalization.

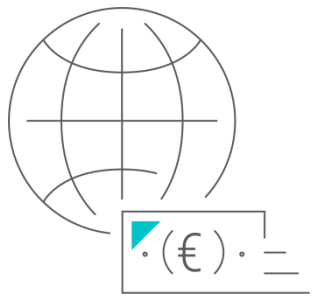


*For the 9m period, the annual GDP figures are used to derive the % to GDP ratio.

Source: CBC



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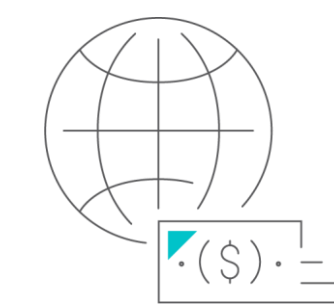


CURRENT ACCOUNT

Issue of sustainability:

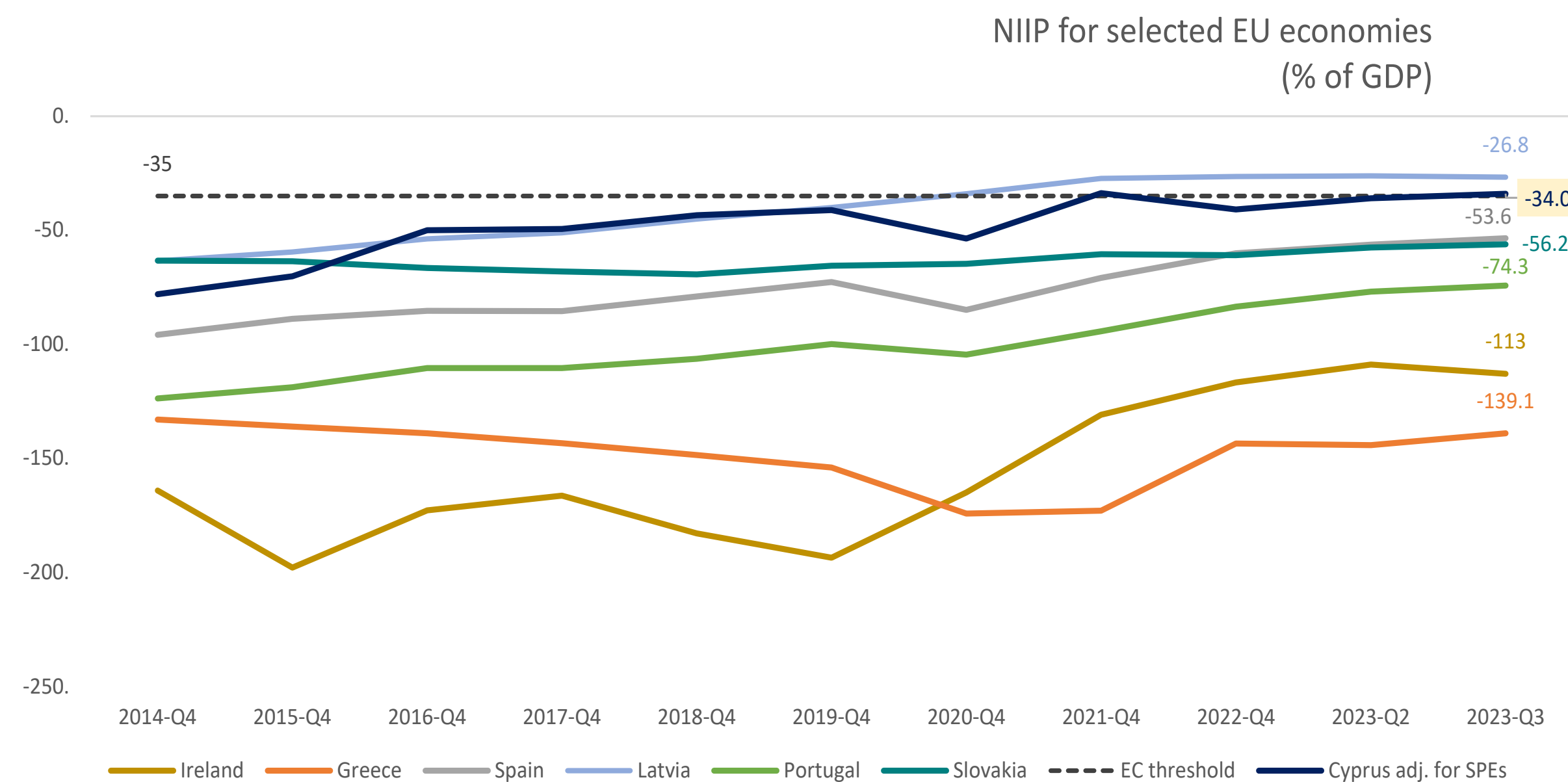
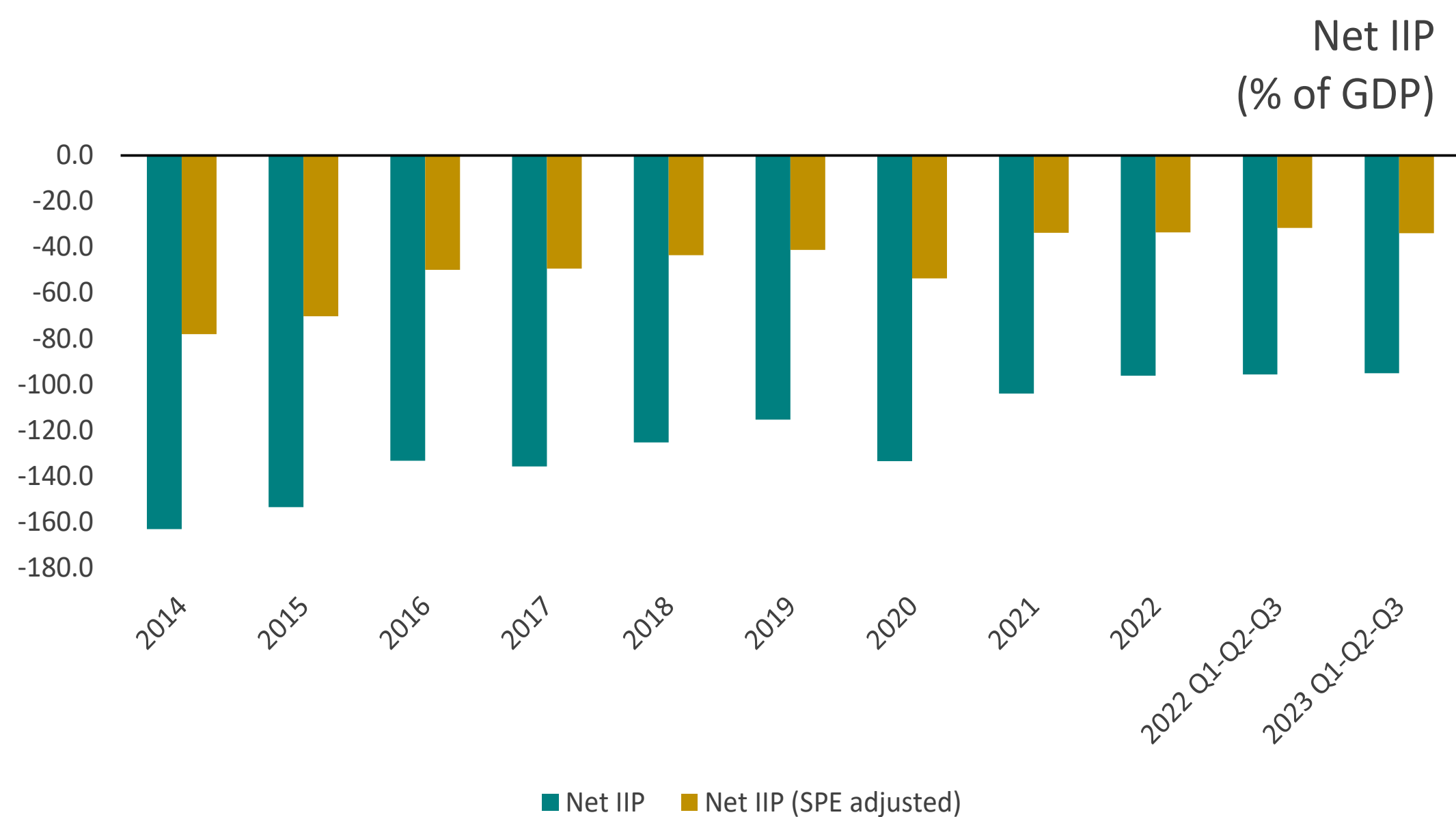
- *Taking into account the fact that the Cypriot economy in the coming years may continue to show growth in the areas of export services, mainly due to the production of companies of foreign interests, we do not expect significant improvement in income balance but it's expected to normalize over time. Government efforts are focused on improving the trade balance via policies i.e.*
 - *increasing tourist capacity, expanding tourist season and adding new destinations*
 - *weaning off conventional fuels consistent with green transition policies*
 - *emphasis on companies of Cypriot interests that will be able to contribute to the increase of exports of products and services as well as in the Primary and Secondary (light industry) sectors.*





INTERNATIONAL INVESTMENT POSITION

- The IIP in 2023Q3 presented a net liability position of 95.0% of GDP. With the corresponding data being adjusted for the impact of SPEs, IIP recorded a net liability position of 34.0% of GDP. The negative net IIP is thus driven mainly by SPEs.
- Adjusted for the impact of SPEs is below to the scoreboard's threshold of 35%, which though is ad hoc and atheoretical. Also, adjusted for SPEs compares favourably with other EA countries.



Source: Eurostat

Source: CBC

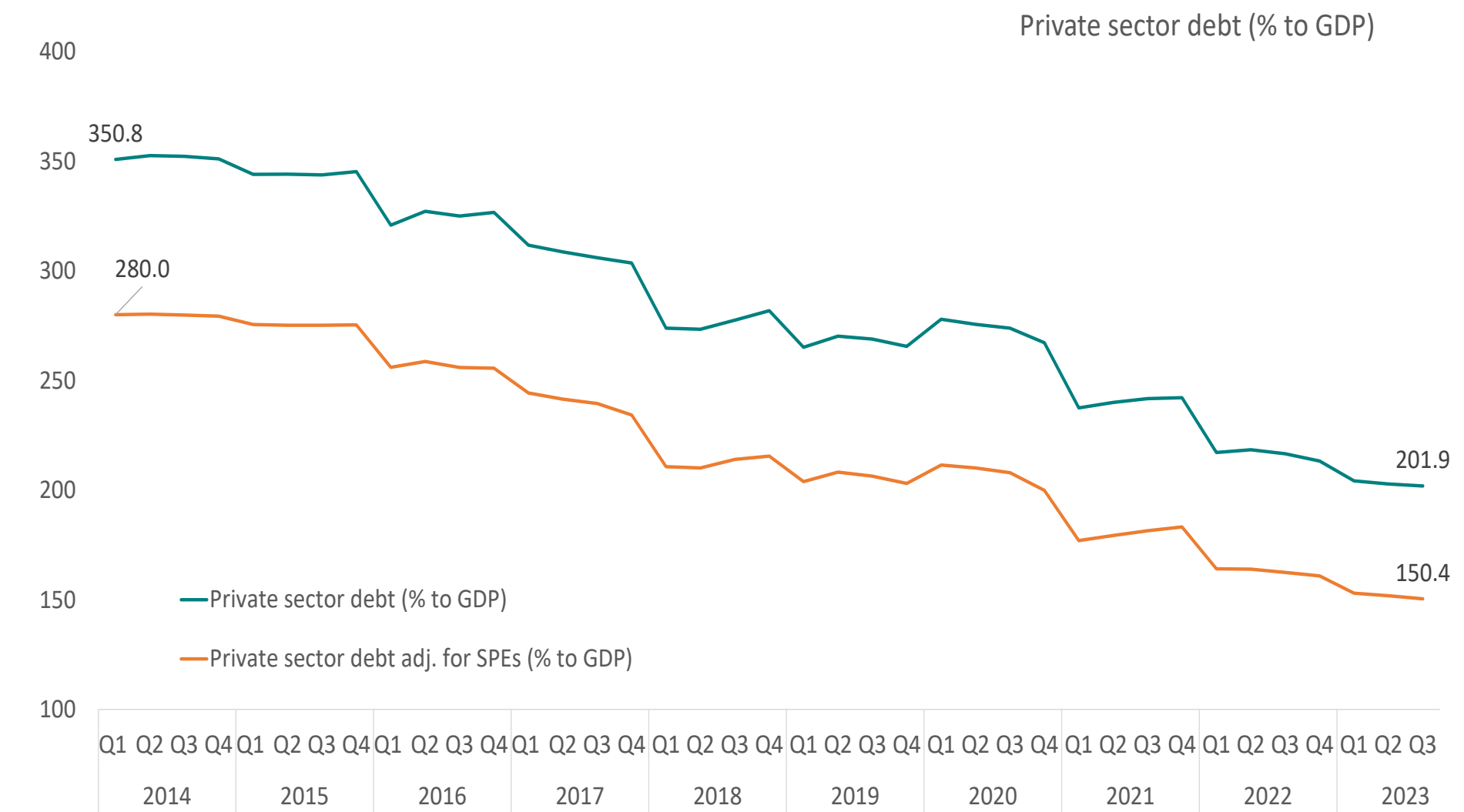
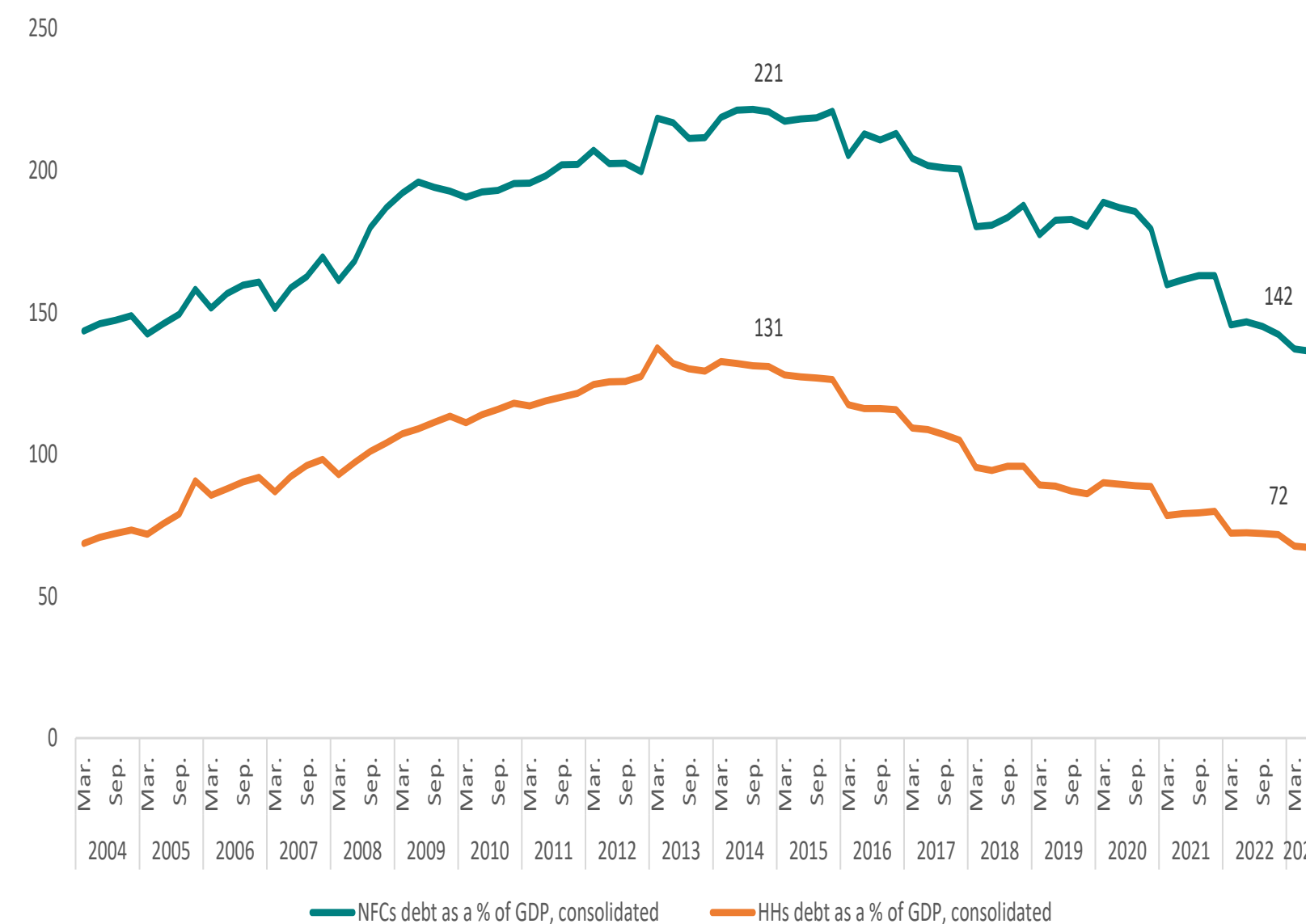
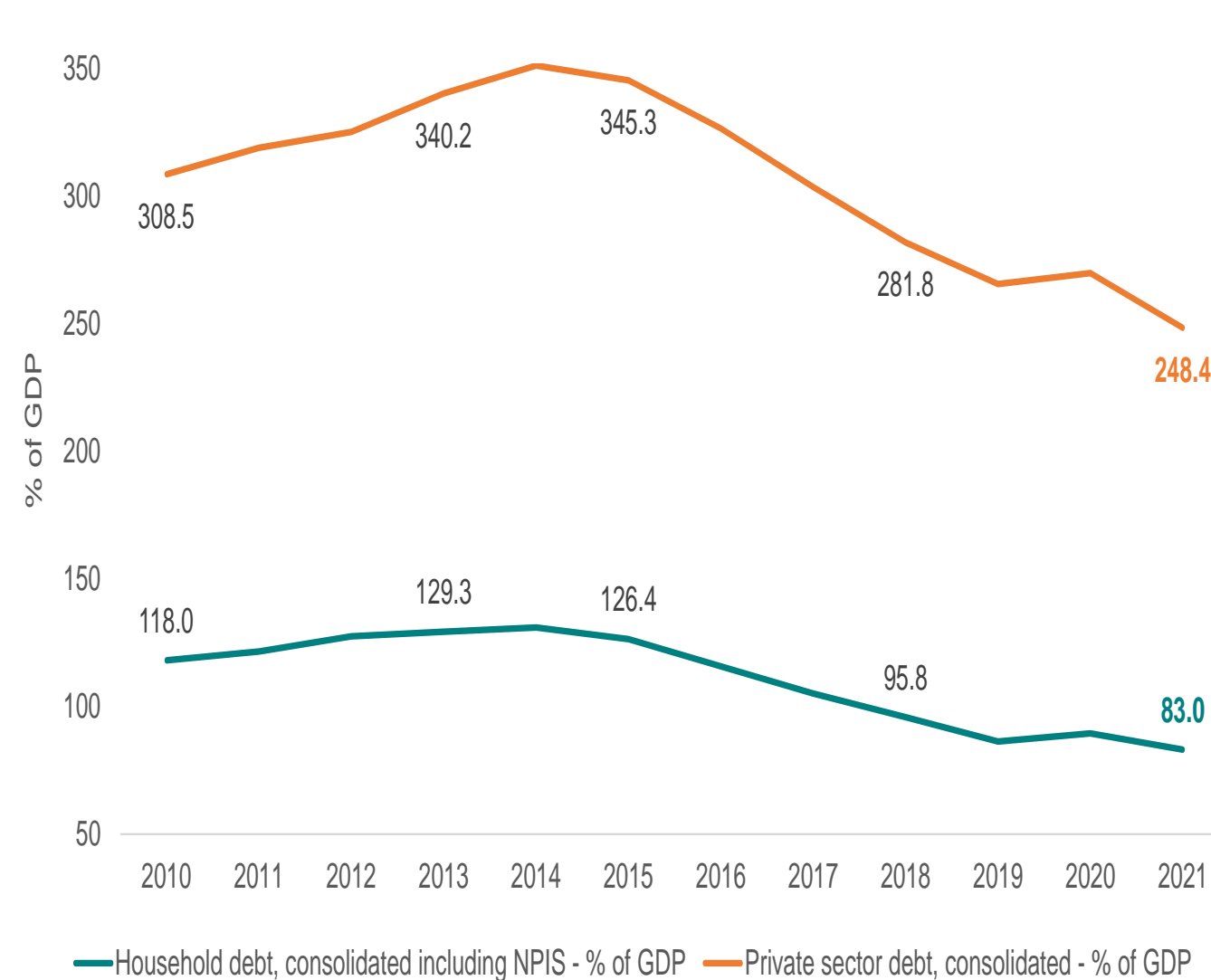


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PRIVATE SECTOR INDEBTEDNESS



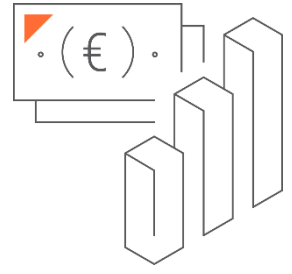
- The ratio of PNFS debt to GDP is on a downward trajectory since 2015. The only exception was 2020 when it recorded an increase due to the contraction of the economy. From 352% in March 2015 it has reduced to 210% in June 2023 due to the increases in GDP and write-offs.
- On NFCs and HHs debt to GDP ratio, there is an overall downward trend.
- Adjusting the data for SPEs, the private sector debt in 2023Q3 is at 150.5% from 280% in 2014Q1.
- No capital market



Source: CBC



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PROSPECTS 2023-2026

“Draft Budgetary Plan 2024 (October 2023)”

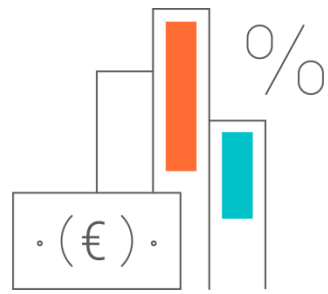


PROSPECTS 2023-2026

- *Going forward, according to the baseline macroeconomic scenario as presented in the DBP 2024, growth in the medium term is expected to continue on a positive path, albeit at a decelerated pace. The deceleration is attributed to the expected deterioration of the external economic environment and to the impact of the continued rise of energy prices, coupled with the increases in interest rates, that will put a pressure on both domestic and external demand.*
- *Over the period 2024-2026, growth is expected to stabilize, with real GDP growth projected at 2.9%, 3.1% and 3.2% respectively.*



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MEDIUM-TERM FRAMEWORK

	2019	2020	2021	2022 ^e	2023 ^e	2024 ^f	2025 ^f	2026 ^f
Real GDP (%)	5.5	-3.4	9.9	5.1	2.5	2.9	3.1	3.2
Unemployment rate	7.1	7.6	7.5	6.8	6.1	5.8	5.3	5.0
Inflation rate (HICP)	0.5	-1.1	2.3	8.1	3.9	2.5	2.0	2.0

f = MoF (DBP 2024)



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OUTPUT GAP (1/3)

- With the technical support of the Directorate General for Economic and Financial Affairs (DG ECFIN), the EU's Output Gap Working Group (OGWG) has been responsible, over the last 20 years, for the development of the EU's Commonly Agreed Methodology.
- The Group is mandated to ensure technically robust and transparent potential output and output gap indicators and cyclically adjusted budget balances in the context of the Stability and Growth Pact. The group should as appropriate develop progressively the commonly agreed method for calculating output gaps. This is particularly important in view of the 2005 agreements on the Stability and Growth Pact.
- The Commonly Agreed Methodology (CAM) for calculating potential output and output gaps which is described in the following reference:

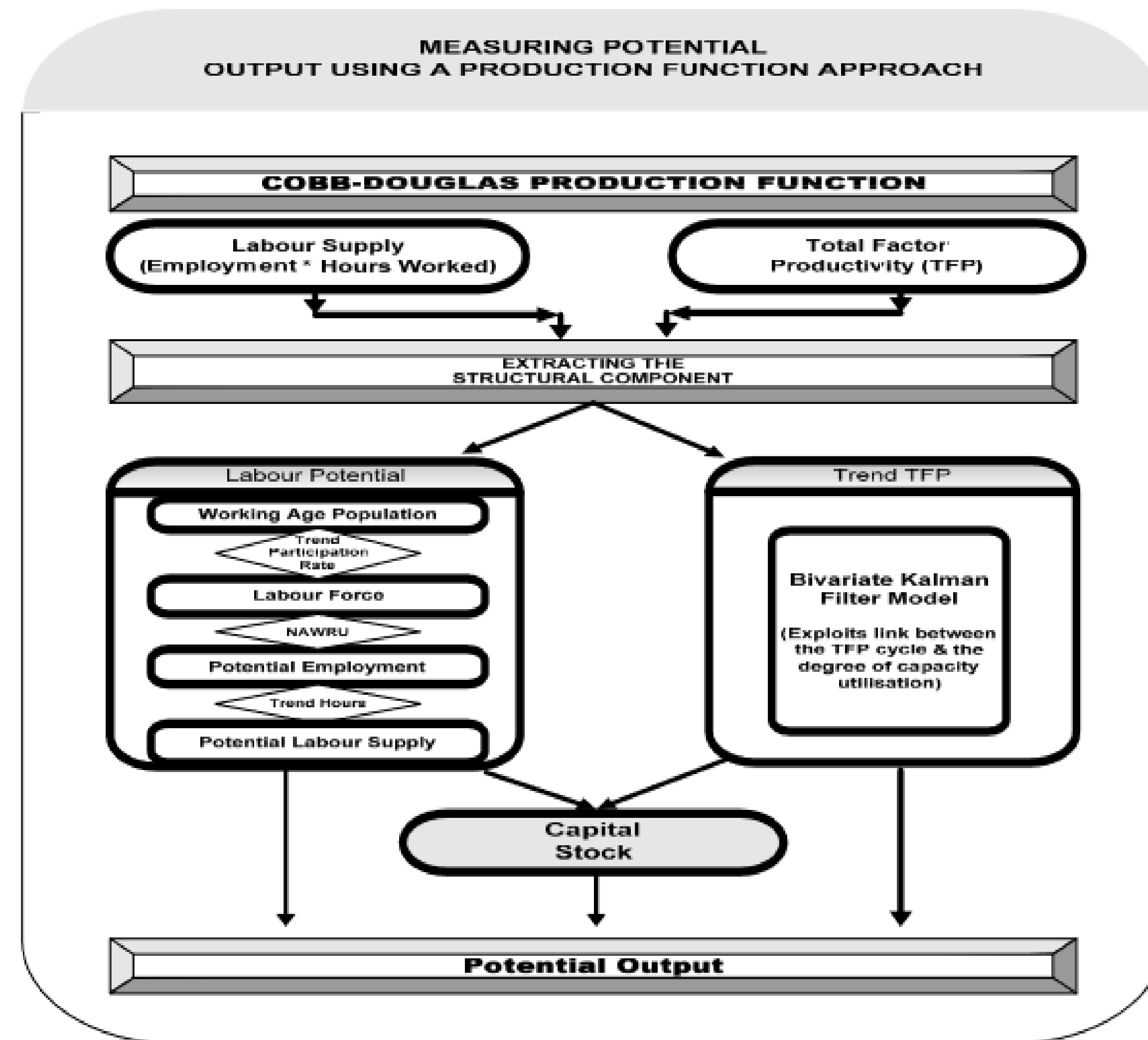
"The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps", Havik et al. (2014) European Commission Economic Paper 535 | November 2014.



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OUTPUT GAP (2/3)

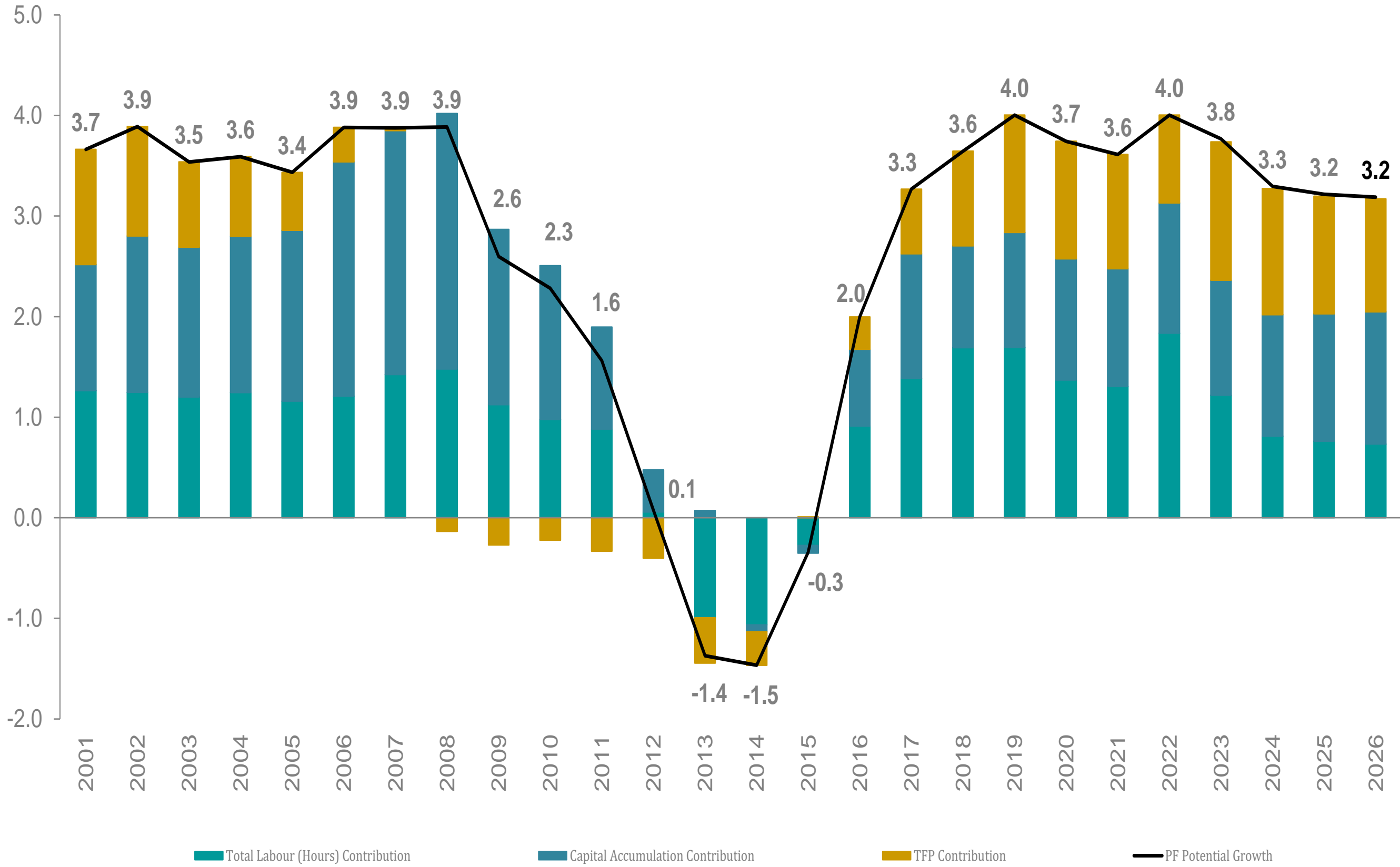
- Instead of making statistical assumptions on the time series properties of trends and their correlation with the cycle, the **production function** approach makes assumptions based on economic theory. This latter approach focuses on the supply potential of an economy and has the advantage of giving a more direct link to economic theory but the disadvantage is that it requires assumptions on the functional form of the production technology, returns to scale, trend technical progress (TFP) and the representative utilisation of production factors.
- As shown in the diagram, with a **production function**, potential GDP can be represented by a combination of factor inputs, multiplied with the technological level or total factor productivity (TFP). The parameters of the production function essentially determine the output elasticities of the individual inputs, with the trend components of the individual production factors, except capital, being estimated. Since the capital stock is not detrended, estimating potential output amounts therefore to removing the cyclical component from both labour and TFP.



OUTPUT GAP (3/3)

- MoF’s potential output is on average 3.4% over the period 2023-2026 and reaches 3.2% in 2026.

	PF Potential Growth	Total Labour (Hours) Contribution	Capital Accumulation Contribution	TFP Contribution
2020	3.7	1.4	1.2	1.2
2021	3.6	1.3	1.2	1.1
2022	4.0	1.8	1.3	0.9
2023	3.8	1.2	1.1	1.4
2024	3.3	0.8	1.2	1.3
2025	3.2	0.8	1.3	1.2
2026	3.2	0.7	1.3	1.1



f = MoF (DBP 2024)

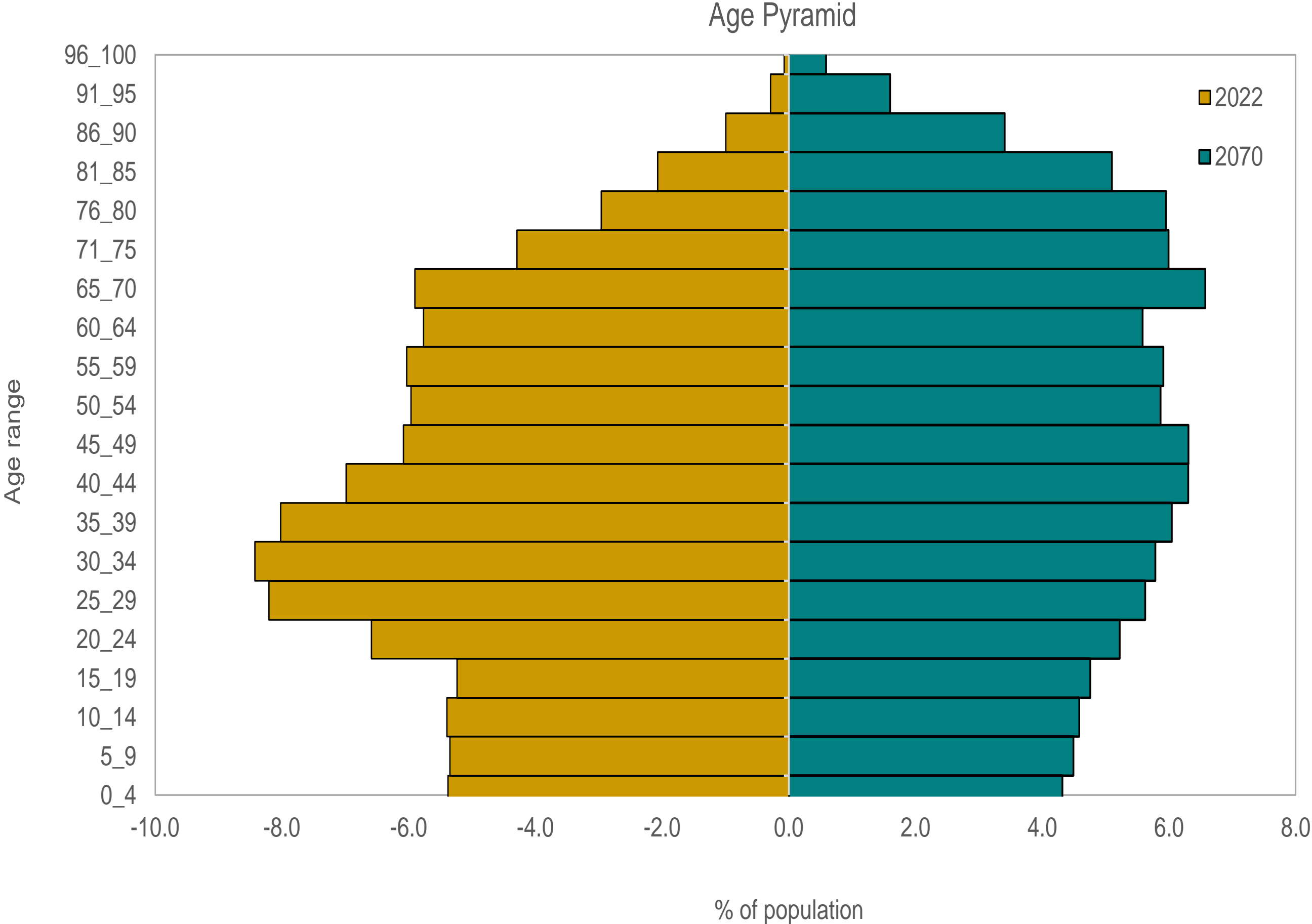


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AGEING IMPACT

- According to the Census, the total population on the 1st October 2021 was 923.272 persons. An increase of 9.9% was recorded compared to the results of the 2011 Census (840.407 persons).
- From Europop 2023, population is expected to increase from 0.9 million in 2022 to 996.715 in 2070. The fertility rate is expected to increase from 1.37 in 2022 to 1.51 in 2070, still below the natural rate for population replacement (2.1). Life expectancy at birth is expected to increase from 80.5 to 86.8 for men and from 84.6 to 90.3 for women.
- Regarding ageing, the ratio of population 65+ over the total population is increasing from 16.6% in 2022 to 29.1% in 2070. The dependency ratio (the ratio of pop 0_14 + pop 65+ / pop 15_64) is a demographic indicator that gives an insight into the number of people of non-working age, compared with the number of those of working age. This ratio increases from 48.6% in 2022 to 74.2% in 2070. This ratio affects the pension projections.

	2022	2025	2030	2040	2050	2060	2070
Population on 1 st January	904,705	941,765	957,744	973,876	982,420	992,236	996,715
Fertility	1.37	1.38	1.40	1.43	1.46	1.49	1.51
Life expectancy at birth -males	80.5	81.1	81.8	83.2	84.4	85.6	86.8
Life expectancy at birth - females	84.6	85.1	85.8	87.0	88.1	89.2	90.3
Net migration	18,198	1,320	40	951	1,672	2,064	2,281



- Health care expenditures also depend on the age-related expenditure profiles depending on the assumption made about the population's health status.



AGEING IMPACT - UNDERLYING ASSUMPTIONS & PROJECTION METHODOLOGIES

- *To assess the long-term sustainability of public finances in the EU Member States, the ECOFIN Council mandated the Economic Policy Committee (EPC) to update its comprehensive long-term budgetary projections by the summer of 2024. The update of the Ageing Report, a joint report by the EPC and the European Commission (DG ECFIN), should be based on new population projections by Eurostat. The report is prepared by the EPC's Ageing Working Group (AWG). The 2024 Ageing Report is the eighth edition and will be published in spring 2024.*
- *The Ageing Report's long-term economic and budgetary projections are a unique exercise, covering the EU Member States and Norway up to 2070. The report provides a vast set of comparable and internally consistent information for all countries. These give insight in the timing of population ageing, its economic implications and the associated budgetary challenges. Such pressures are already manifest in many countries and are expected to accelerate as large cohorts of baby boomers retire, life expectancy continues to rise and fertility rates remain low from a historical point of view.*
- *Being a joint EPC-Commission product, the Ageing Report provides a shared assessment between the Member States and the Commission on how ageing costs might develop in the future. The projections are therefore a cornerstone of various surveillance processes at the EU level. They inform the coordination of economic policies, in particular the European Semester, the Recovery and Resilience Facility, fiscal surveillance, and the assessment of the sustainability of public finances.*



https://economy-finance.ec.europa.eu/document/download/ea60b7c2-1b91-4e28-b651-2385d589e8c4_en?filename=ip257_en_1.pdf

And

https://economy-finance.ec.europa.eu/document/download/ed4a2c74-e35d-48ca-80fc-092a021bddf8_en?filename=Ageing_Report_2024-Country_fiches_1.xlsx



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CLIMATE CHANGE IMPACT



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CLIMATE CHANGE AND EFFECTS ON THE CYPRIOT ECONOMY (1/3)

- *The MoF has signed this year a Research Cooperation Agreement with the Center for Economic Research (CyERC) of the University of Cyprus titled "Climate Change and Effects on the Cypriot Economy".*
- *The purpose of this research paper is to assess the possible effects of climate change on the GDP and the potential growth rate, in critical sectors of the economy (tourism, agriculture, shipping), public finances and more generally in the prospects and the development model of Cyprus.*
- *Due to the importance of the topic of climate change and its effects, the MoF in its basic forecasts should also take into account possible external shocks and risks, from the uncertainty caused by climate change with a long-term horizon.*
- *The duration of the Agreement is three years (2023-2025), it will be completed in three stages and the final study will be delivered in December 2025.*



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CLIMATE CHANGE AND EFFECTS ON THE CYPRIOT ECONOMY (2/3)

ECONOMIC IMPACTS OF CLIMATE CHANGE: A REVIEW

- *The review report refers to the first stage of the project “Impact of climate change on the Cypriot Economy”, which presents a comprehensive review of the interactions between climate and the economy.*
- *It describes the various channels through which climate change impacts the economy and public finances, focusing on two primary categories of climate risks: physical risks (encompassing extreme weather events and gradual global warming) and transition risks (associated with climate change policies, such as the shift towards a low-carbon economy).*
- *Drawing from a rich body of climate-related literature, the report provides a foundational understanding of these impacts and also presents some quantitative results for Southern Europe and Cyprus. It further discusses strategies for climate change mitigation and adaptation, Cyprus's climate characteristics, environmental regulations, and the importance of green budgeting.*
- *Thus, the report can serve as a primary source of information for policymakers and stakeholders addressing the challenges of climate change to the Cypriot economy and its public finances, while highlighting the areas that need further investigation in this project.*



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CLIMATE CHANGE AND EFFECTS ON THE CYPRIOT ECONOMY (3/3)

ECONOMIC IMPACTS OF CLIMATE CHANGE: A REVIEW

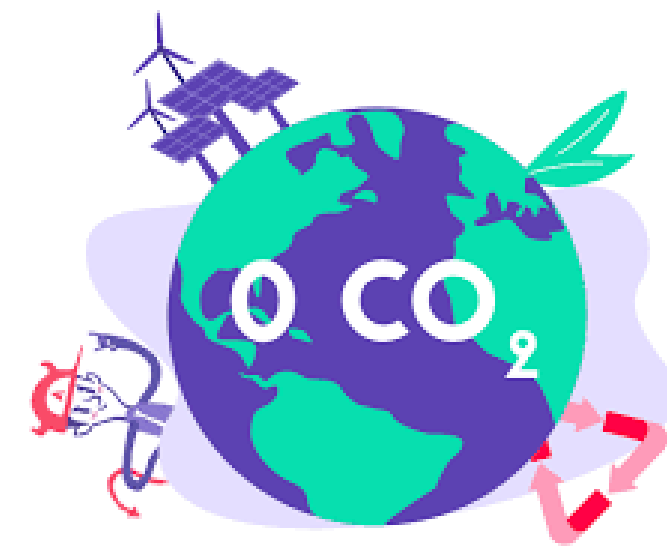
- *To assess the economic and fiscal impact of climate change, the channels through which climate affects the economy and public finances should be explored. To explore this relationship climate risks are classified in two types: physical risks and transition risks. Physical risks involve damage from extreme weather events and gradual global warming, while transition risks stem from policies to address climate change, like transitioning to a low-carbon economy.*
- *The impact of physical and transition climate risks on the economy involves various mechanisms affecting both supply and demand. On the supply side, extreme weather events can damage land and physical capital and reduce labour productivity particularly in outdoor sectors like construction due to high temperatures. Further, the transition to a low-carbon economy poses a challenge, balancing the need to mitigate future climate damages with immediate costs, which can divert resources from productive investments, affecting economic growth. On the demand side, private consumption and investment may decline due to reduced household wealth, weakened firm balance sheets, and increased uncertainty. Transitioning to a low-carbon economy can disrupt high-carbon industries, leading to significant investment decreases, and government investments in low-carbon technologies may inadvertently displace private investments ('crowding-out' of private investments).*



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SUMMARY: POTENTIAL IMPLICATIONS OF “FIT-FOR-55” FOR THE CYPRIOT ECONOMY (1/2)



- *New ETS for heating & transport fuels could increase cost of living modestly (1.4% in low-income to 0.6% in high-income households) assuming ETS prices of the Commission’s Impact Assessment*
- *Gradual decline in air transport activity by 15% by 2030 due to ETS, Energy Tax Directive, ReFuel EU Aviation
1.7% decline in GDP; 2.6% decrease in employment (10,000 jobs) in hotels, restaurants, retail trade assuming full effect of all three legislative changes; using input-output and tourist expenditure data*
- *4% increase in consumer prices due to environmental policies in shipping (ETS, Fuel EUMaritime, Energy Tax Directive)*





SUMMARY: POTENTIAL IMPLICATIONS OF “FIT-FOR-55” FOR THE CYPRIOT ECONOMY (2/2)

- *No serious distributional issues in heating/transport fuels from Energy Tax Directive – but serious fiscal implications.
Findings are in line with Commission’s Impact Assessment*
- *Electrification of transport affects ~12,000 jobs in NACE sectors 45 & 47.3 – vehicle and fuel sales and maintenance
Some of these jobs may be at risk*
- *Cost increases in energy-intensive industries affect 17,000 direct + 18,000 indirect jobs (NACE sectors 10,11,12,20,21,22)
Small risk for most of these jobs, but re-skilling will be needed*





PATH OF THE CYPRIOT ECONOMY TO CLIMATE NEUTRALITY ENERGY SCENARIOS, ECONOMIC IMPACTS AND POLICY PROPOSALS



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FROM 2023 FIT-FOR-55 TARGETS TO THE 2050 CLIMATE NEUTRALITY GOAL



- *They performed a detailed study (English summary [here](#)), in preparation of the updated long-term low-emission strategy of the Republic of Cyprus*
 - *Not yet approved by the Government*
- *They started from the draft revised NECP submitted to the European Commission in July 2023 (projections up to 2030).*
- *They simulated a climate neutrality scenario and sensitivity cases with our energy models.*
- *They also outlined the main macroeconomic fiscal uncertainties / challenges on the way to net zero carbon emissions*



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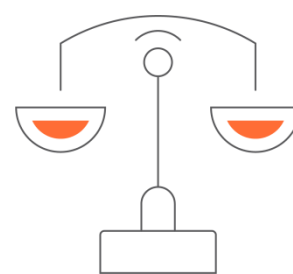


MAIN FINDINGS OF NET ZERO REPORT

- *Net zero will require serious investment from the public and private sectors. Public investment should absorb ~1% of GDP each year to 2050, twice as much as public funds provide for climate today.*
- *These investments can be beneficial for the economy and society and in the medium term can free up resources to be reinvested in the economy. However, important challenges lie ahead that call for swift policy action.*
- *To put the country on a climate-neutral path, all public policies should, already today, be aligned to orient investments towards the net-zero emissions target in 2050. Delays in the green transition will be more costly to the Cypriot society.*



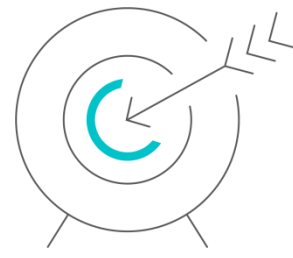
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RISKS TO THE OUTLOOK

- *Russia's war on Ukraine and sanctions*
- *War in Israel-Hamas*
- *Banking sector (sector consolidation, NPL portfolio sales) +/-*
- *Adverse developments in the external environment*
- *Confidence effects +/-*
- *GHS public health expenses, if not spent efficiently then risk of derailment of public finances*
- *Oil and gas developments constitute an upside risk*





POLICY CHALLENGES – STRUCTURAL REFORMS

- *NPLs*
- *Judicial reform*
- *Local Authorities reform*



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Thank you

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STATISTICAL APPENDIX



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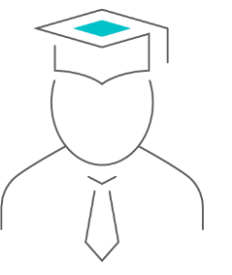
MAIN INDICATORS

<i>annual % change</i>	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
GDP growth (constant prices)	2.3	0.4	-3.4	-6.6	-1.8	3.4	6.6	5.7	5.6	5.5	-3.4	9.9	5.1	2.5
<i>Government consumption</i>	0.7	1.6	-2.4	-4.8	-7.5	1.4	0.2	1.8	3.6	12.4	10.6	7.9	2.7	1.6
<i>Private consumption</i>	4.9	-0.9	-2.8	-7.0	0.0	3.1	5.1	4.8	5.1	3.9	-6.8	5.6	8.5	4.2
<i>Gross fixed capital formation</i>	-1.4	-11.7	-19.5	-15.7	-7.4	-1.8	49.5	21.2	-4.9	6.9	4.7	-0.1	7.8	19.5
<i>Exports</i>	6.3	7.0	-0.6	1.1	6.3	8.9	7.2	11.0	7.2	8.7	2.2	21.6	13.6	-1.5
<i>Imports</i>	10.8	-2.6	-3.6	-4.6	7.7	8.1	10.2	14.3	4.3	9.5	3.1	15.4	18.3	5.1
<i>GDP deflator</i>	1.9	1.6	1.7	-0.9	-1.3	-0.8	-0.6	1.0	1.0	1.3	-1.4	2.7	6.1	4.6
Tourist arrivals (000's)	2,173.0	2,392.2	2,464.9	2,405.4	2,441.2	2,659.4	3,186.5	3,652.1	3,938.6	3,976.8	631.6	1,936.9	3,201.1	3,845.7
Tourist arrivals (%)	1.5	10.1	3.0	-2.4	1.5	8.9	19.8	14.6	7.8	1.0	-84.1	206.7	65.3	20.1
HICP (%)	2.6	3.5	3.1	0.4	-0.3	-1.5	-1.2	0.7	0.8	0.5	-1.1	2.3	8.1	3.9
Productivity growth	1.7	0.1	0.1	-1.1	0.2	1.8	1.8	0.3	0.3	1.7	-2.3	6.6	2.0	1.0
Employment growth (persons, %)	0.6	0.3	-3.5	-5.6	-2.0	1.6	4.7	5.4	5.3	3.8	-1.1	1.2	2.9	1.5
Compensation per employee (%)	1.1	2.3	1.7	-5.3	-3.6	-1.3	-0.9	1.5	1.5	4.4	-0.5	4.3	1.1	5.6
Unemployment rate (Labour Force Survey)	6.3	7.9	11.8	15.9	16.1	14.9	12.9	11.1	8.4	7.1	7.6	7.5	6.8	6.1
Resource Balance (% of GDP)	-8.3	-3.8	-1.9	1.6	0.9	2.6	1.7	-0.5	1.3	1.0	-1.4	4.0	0.3	...
Current Account Balance (% of GDP)	-10.7	-2.3	-3.9	-1.5	-4.1	-0.4	-4.2	-5.0	-4.0	-5.6	-10.0	-6.1	-7.9	...
Credit to private sector (end of period, %)	7.4	6.7	1.6	-6.2	0.2	-1.5	-8.2	-0.4	0.4	0.3	3.3	1.7	0.2	-0.9



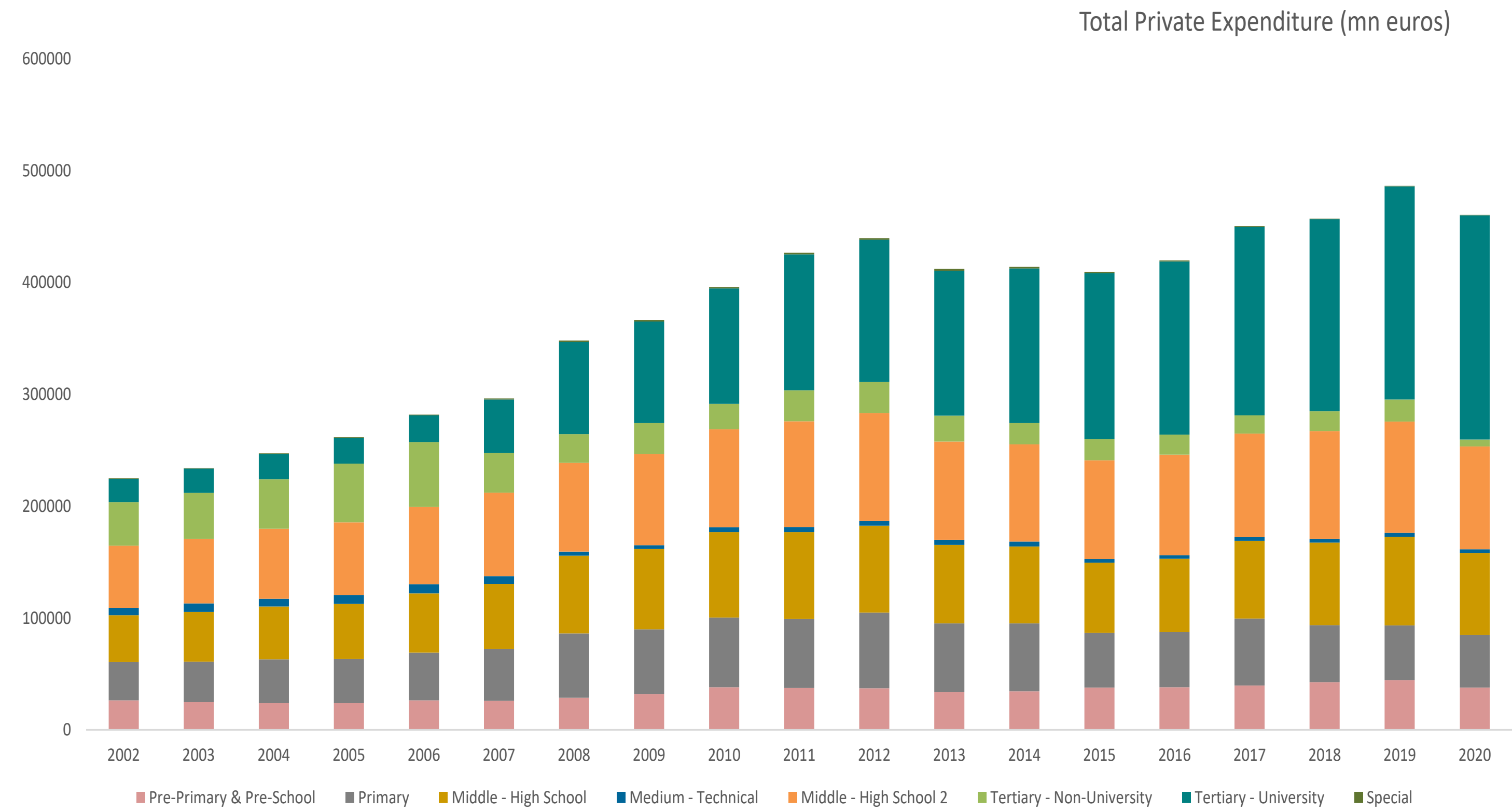
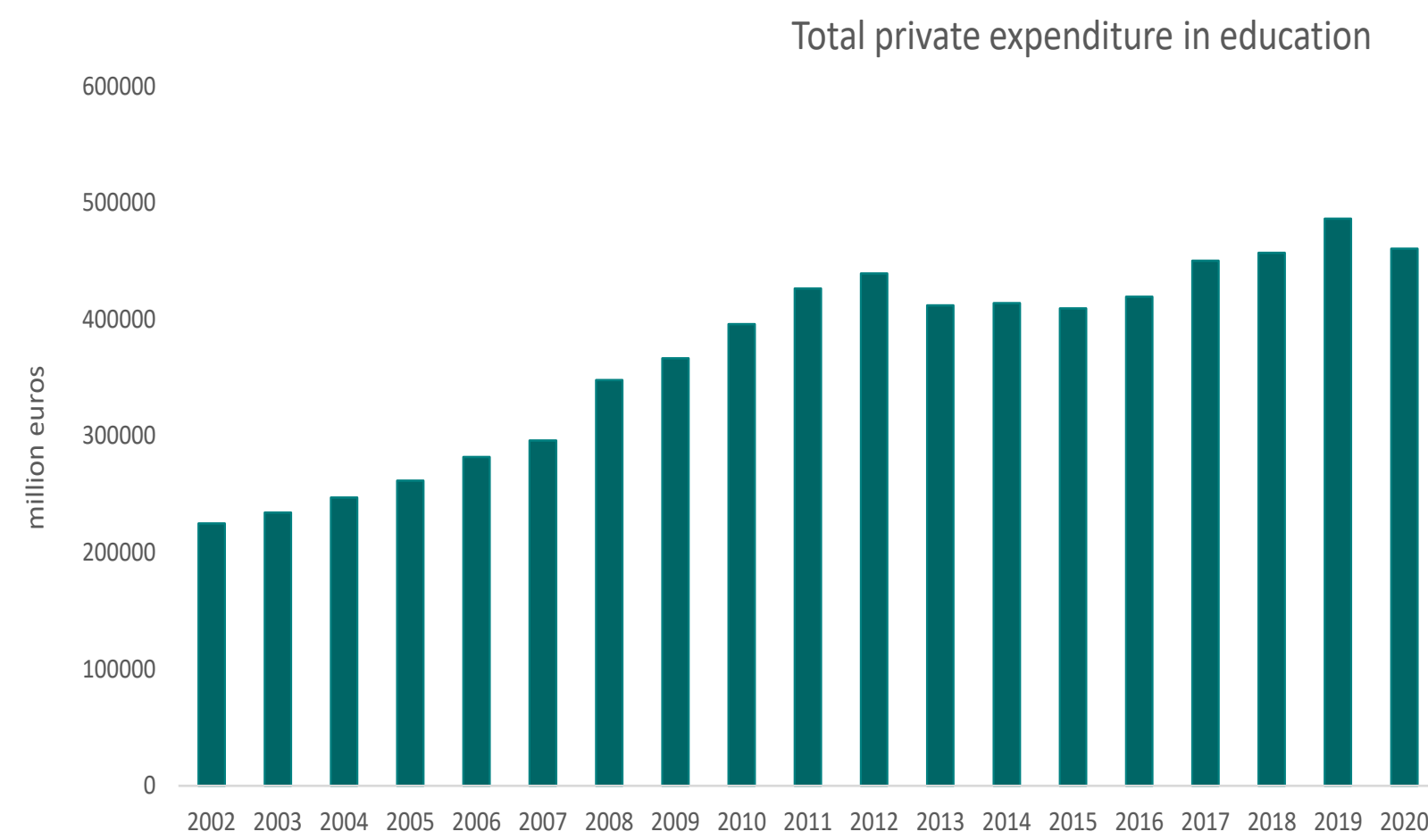
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EDUCATION – PRIVATE EDUCATION

- Education by level



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EXPORTS DIVERSIFICATION - GOODS

- Main categories 2021-2023 (around 92% of the total)
 - main category is mineral fuels and oils
 - next two are pharmaceutical and dairy products (halloumi cheese)

Domestic Exports, shares to total	2021	2022	2023
Meat and edible meat offal.	1	1	0
Fish & crustacean, mollusc & other aquatic invertebrate	2	2	1
Dairy prod; birds' eggs; natural honey; edible prod nes	19	18	14
Edible vegetables and certain roots and tubers.	3	3	2
Edible fruit and nuts; peel of citrus fruit or melons.	1	1	1
Prep of vegetable, fruit, nuts or other parts of plants	2	2	2
Beverages, spirits and vinegar.	1	1	1
Salt; sulphur; earth & ston; plastering mat; lime & cem	1	1	1
Mineral fuels, oils & product of their distillation; etc.	26	27	49
Pharmaceutical products.	23	20	15
Plastics and articles thereof.	2	2	1
Natural/cultured pearls, precious stones & metals, coin etc.	1	2	1
Iron and steel.	2	3	1
Copper and articles thereof.	1	1	1
Machinery, boilers, mechanical appliances, engines, pts	3	3	2
Electrical machinery equip parts thereof; sound recorder etc.	2	2	1
Unclassified trade	2	4	2

Source: Cystat, MoF calculations



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HOUSE PRICE INDEX – DEFINITION

Definition

House Price Index (HPI) is a quarterly index which measures the change in the average prices of residential dwellings. It captures all types of residential properties, both new and existing. The land component of the residential property is included.

Data Source

The data source used for both, indices and weights, is the Department of Lands and Surveys, Ministry of Interior. The data cover all areas which are under the control of the government of the Republic of Cyprus.

Data Compilation

The data are stratified into two strata; old and new dwellings. For each stratum a rolling window hedonic regression model is used in order to calculate the sub-indices. Then, the sub-indices are weighted based on the sum of the value of the properties of each stratum in the previous year.

Base Year

The base year is 2015=100.

[House price and sales index \(prc_hpi_inx\) \(europa.eu\)](https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&plugin=1&code=prc_hpi_inx)



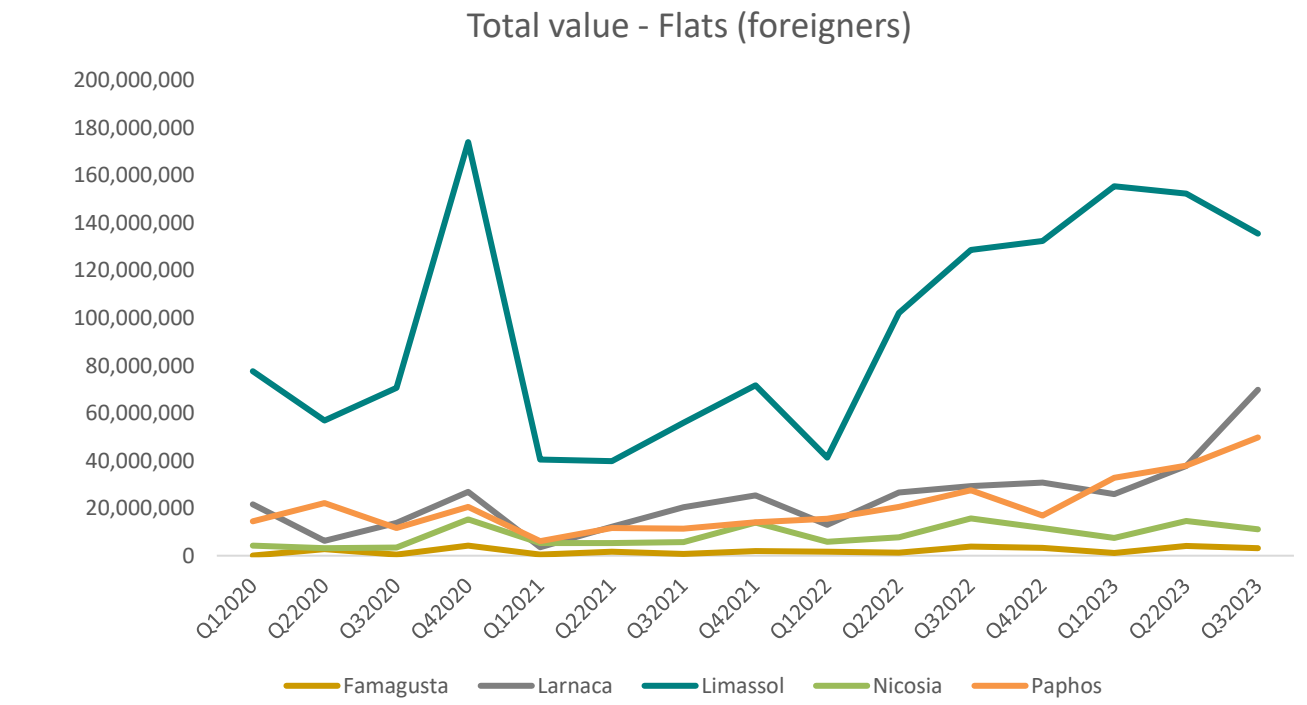
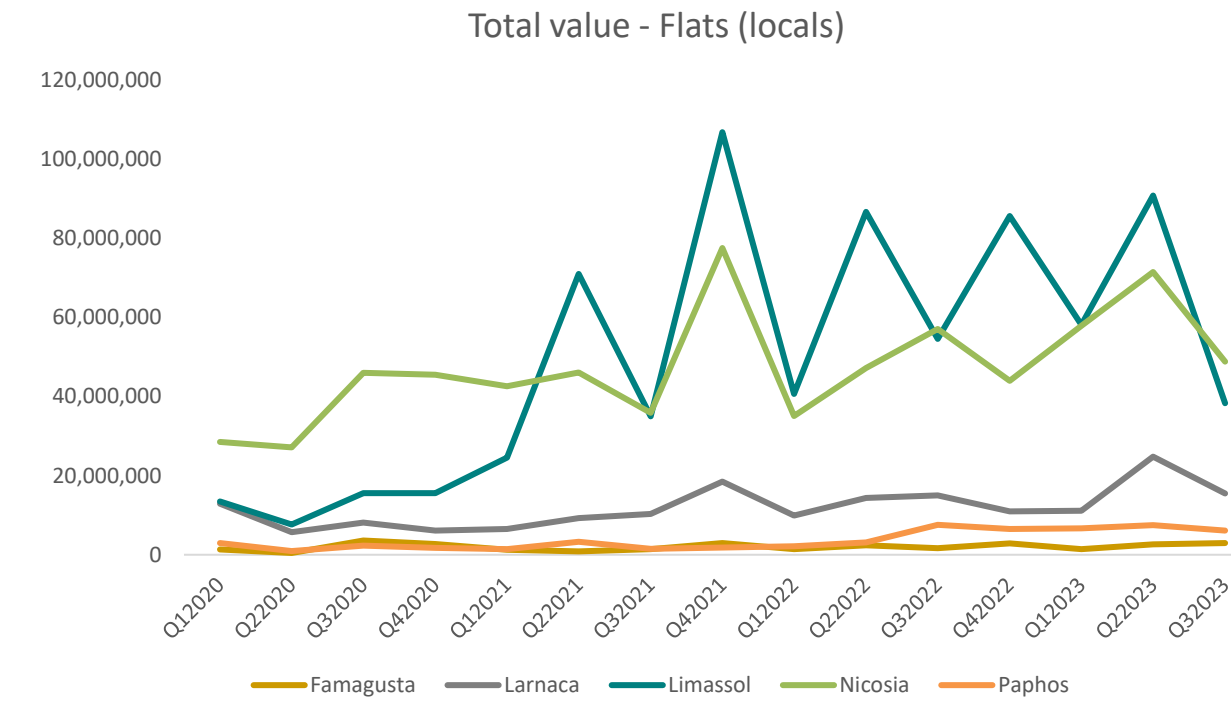
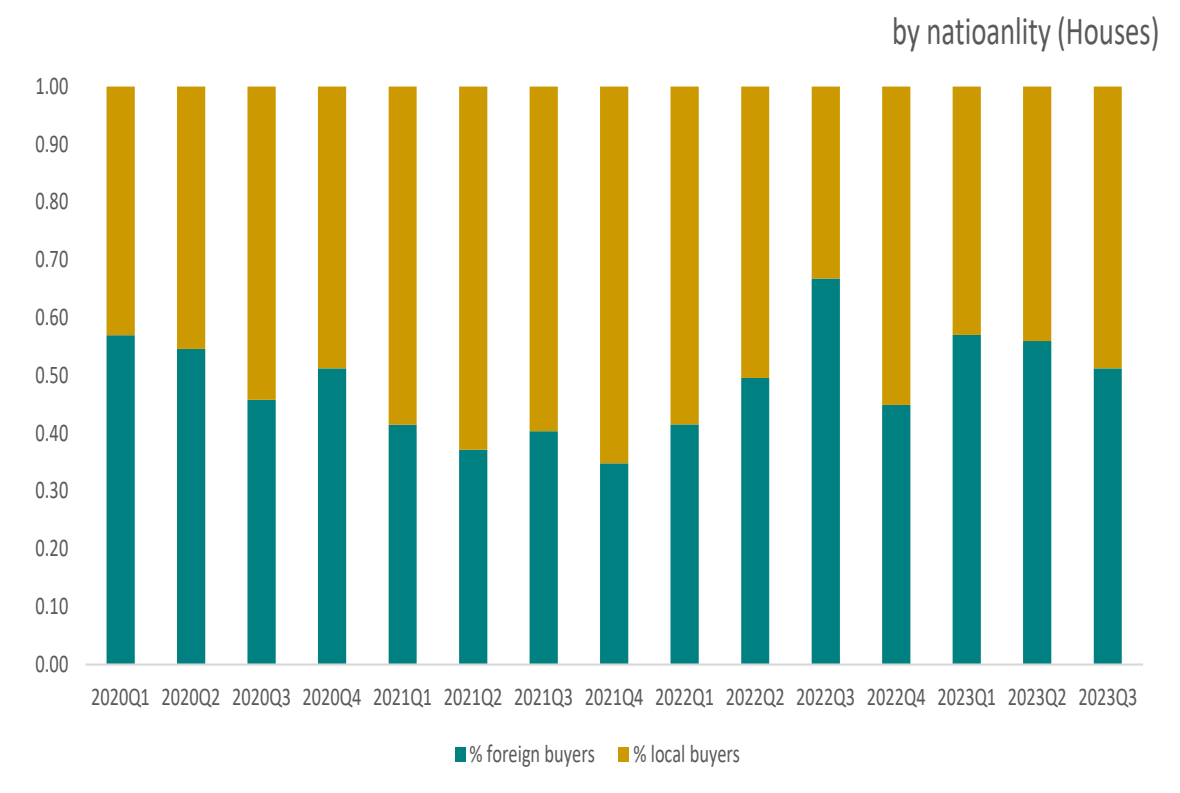
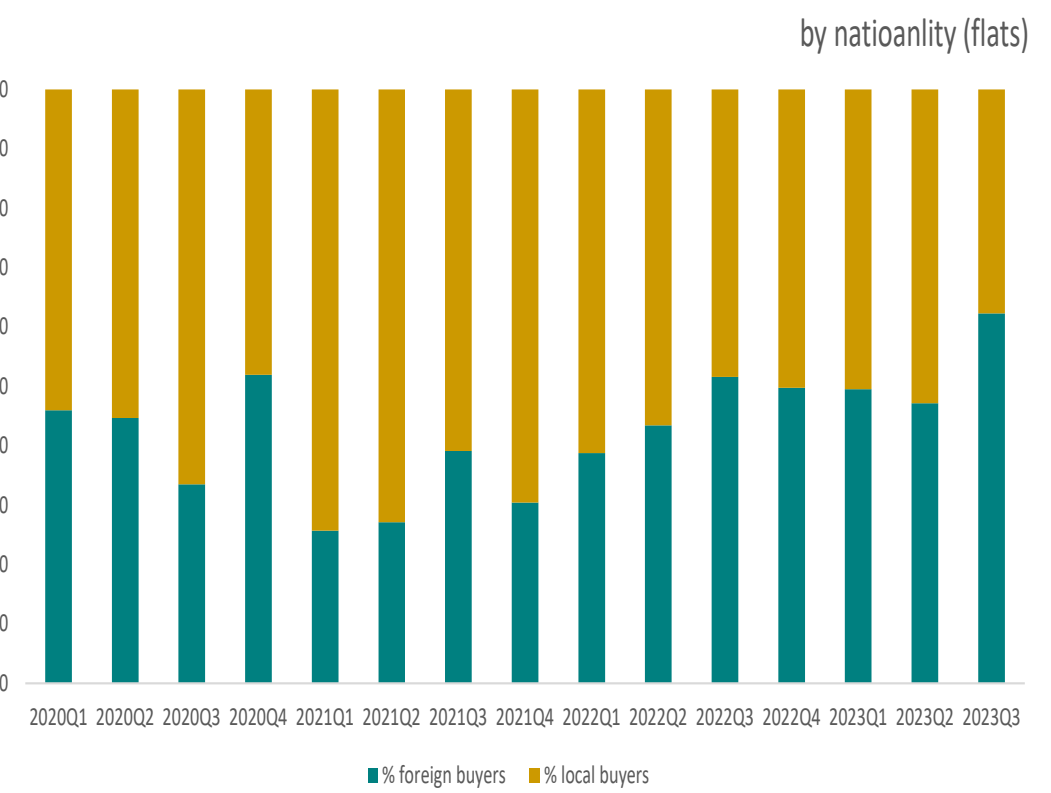
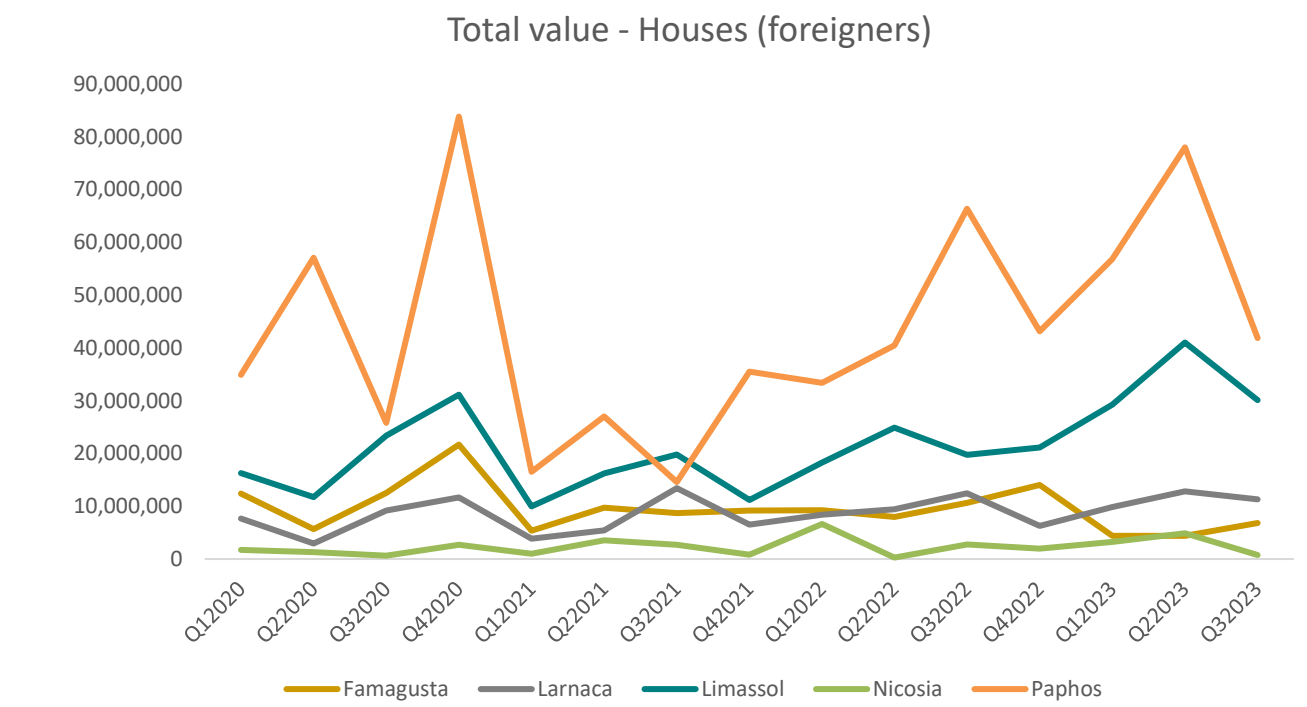
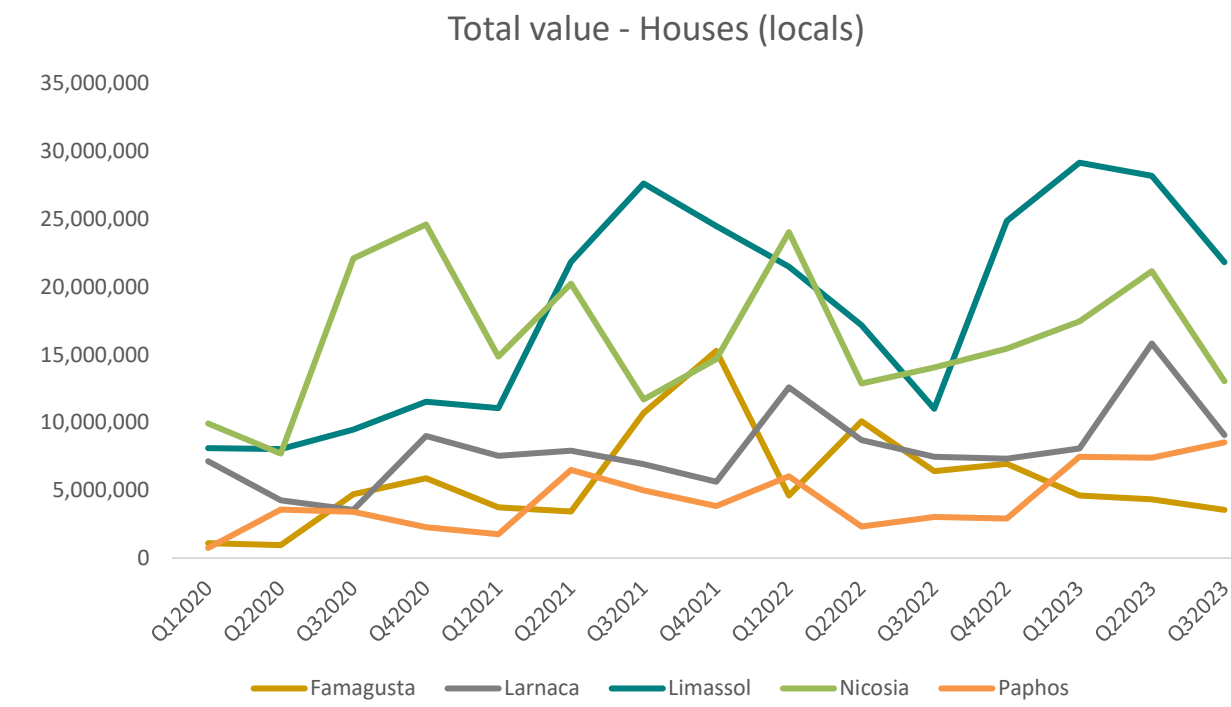
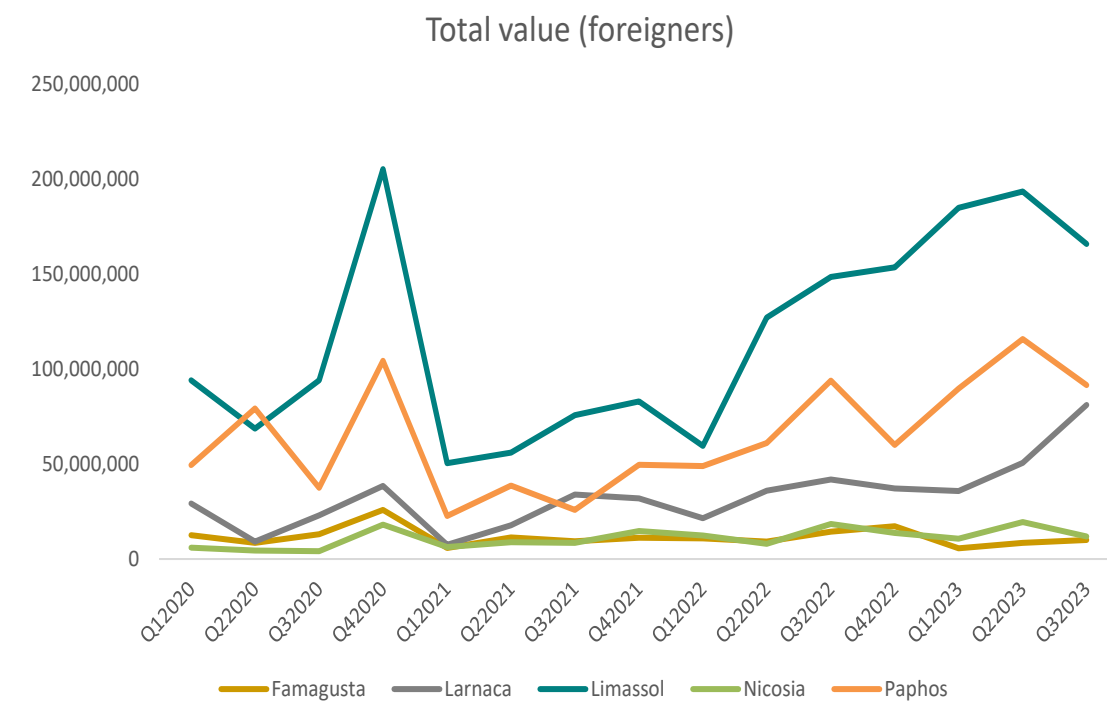
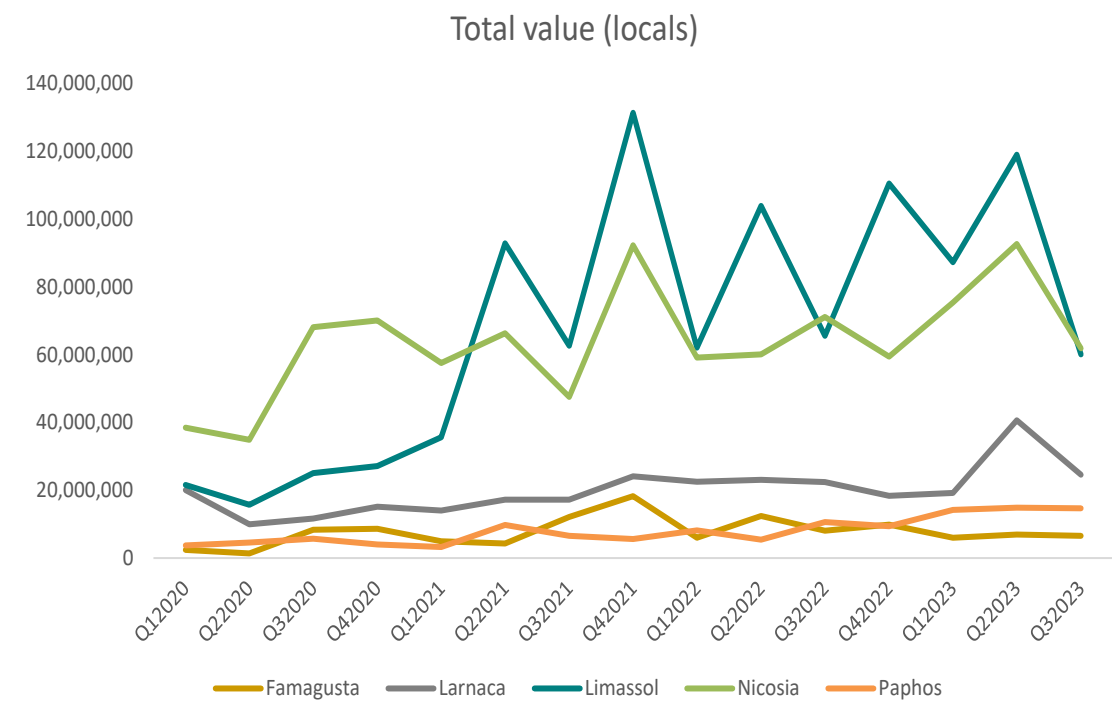
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HOUSE PRICE INDEX – BY DISTRICTS AND TYPE



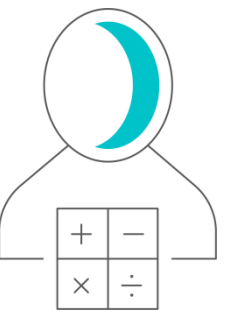
- Price pressures in Limassol, Larnaca and Paphos, but will smooth over time when supply meets demand



Cystat

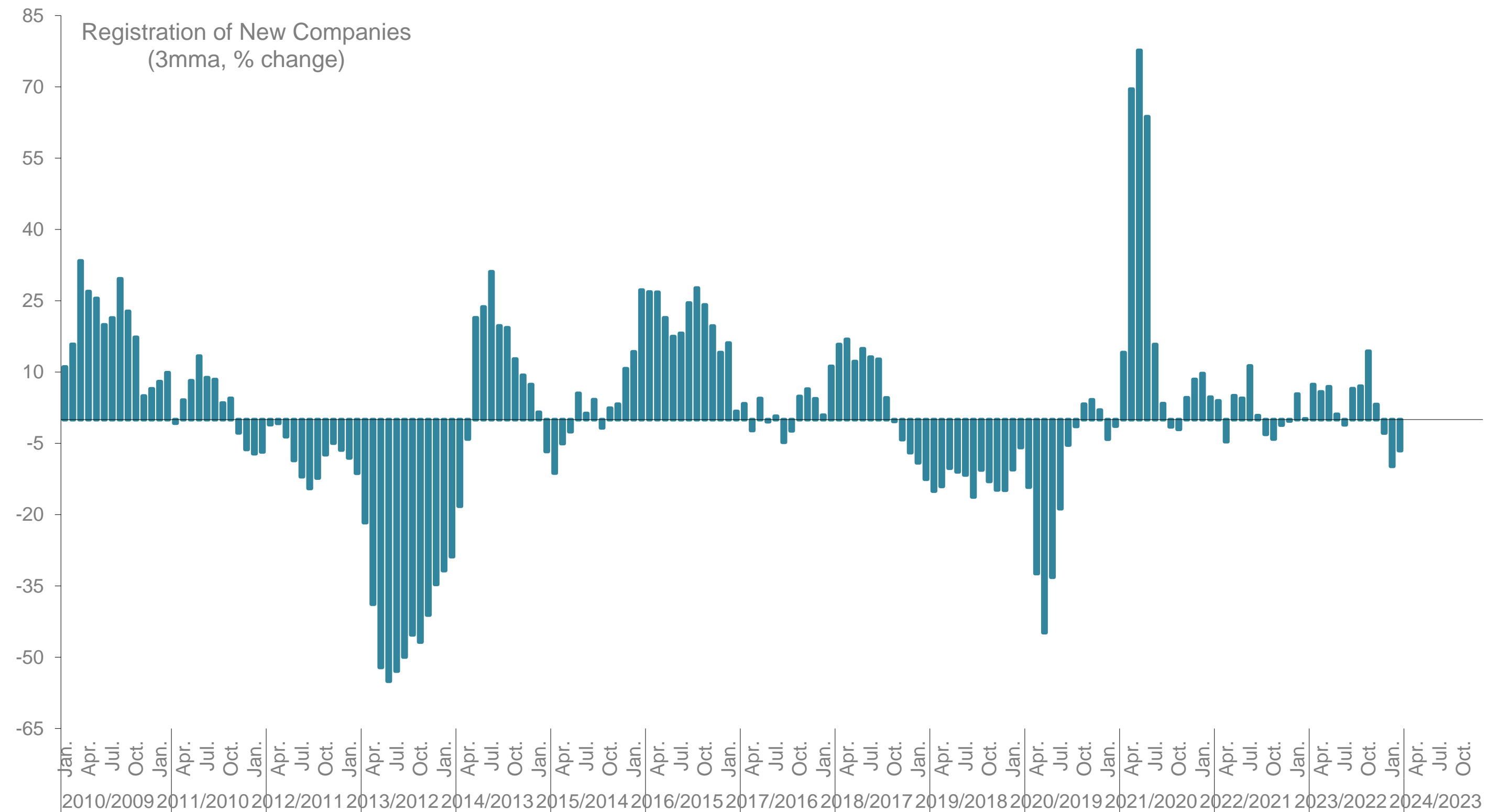


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Registration of new companies

- Improvement in economic activity – inflow of new companies
- 12.925 new companies were registered compared with 12.650 in 2023 compared with 2022 (+2.2%) and for 2024/2m 2229 compared with 1995 (+11.7%).



Source: Department of Registrar of Companies and Official Receiver



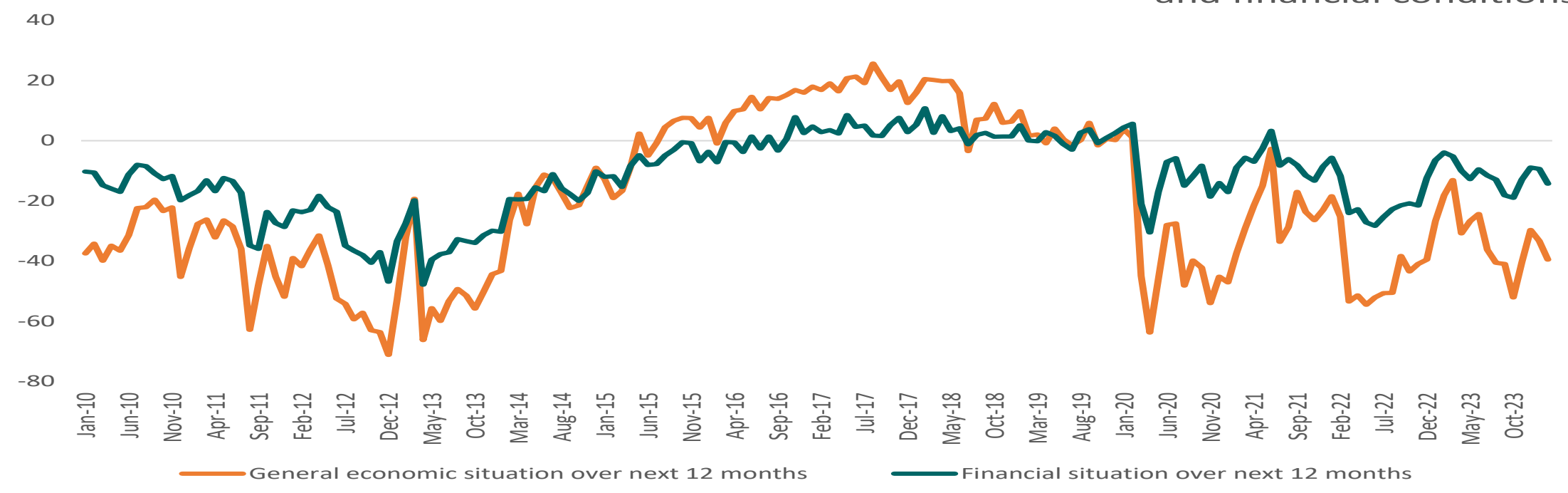
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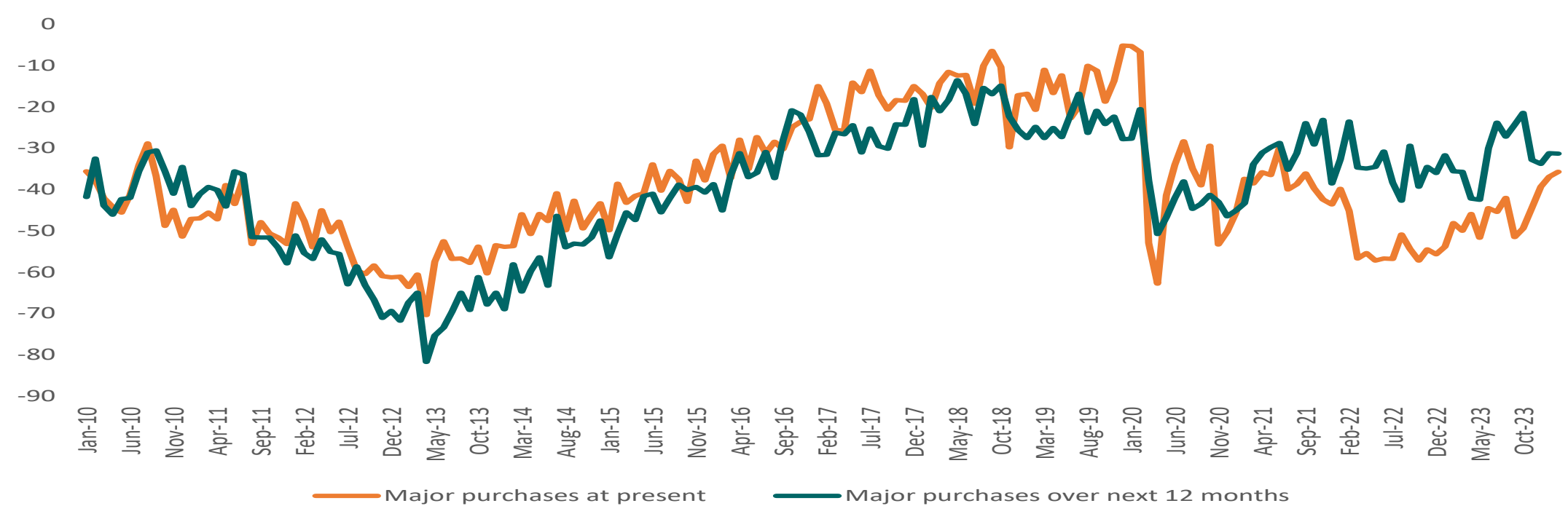
SOFT DATA – Consumers

Weakening in consumer confidence, resilience over major future purchases, rise in saving intentions and increasing inflation expectations

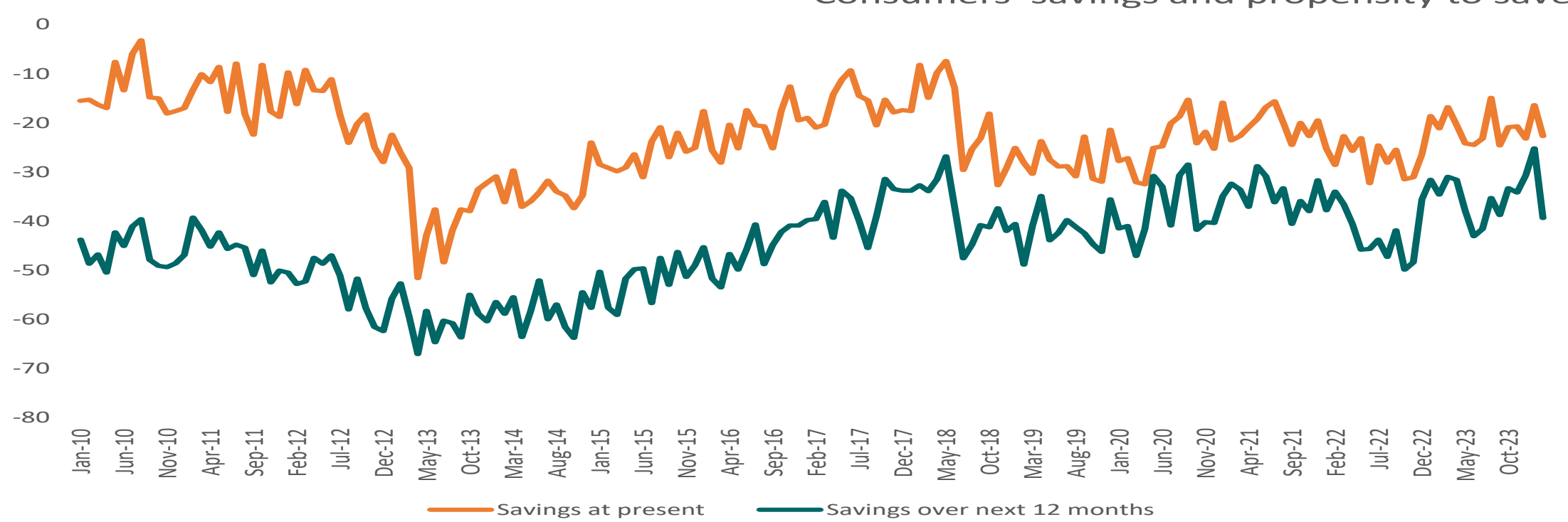
Consumers' assessments of future economic situation and financial conditions



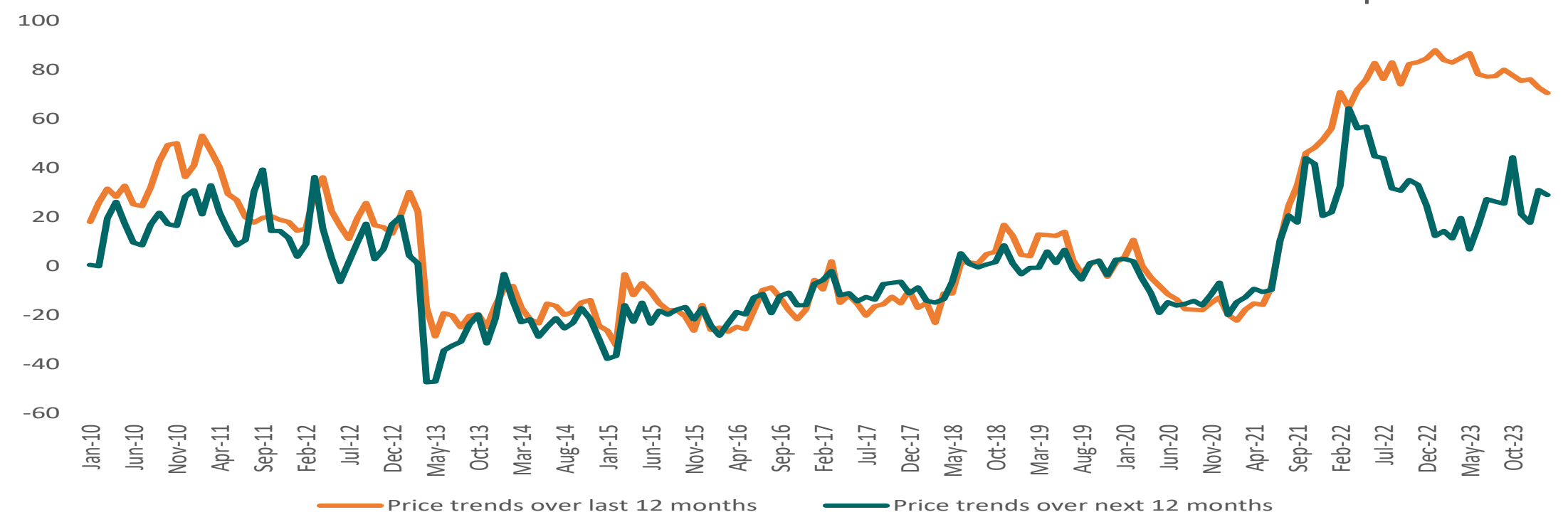
Consumers' assessments of major purchases



Consumers' savings and propensity to save



Consumers' inflation expectations



Source: CyERC, MoF calculations



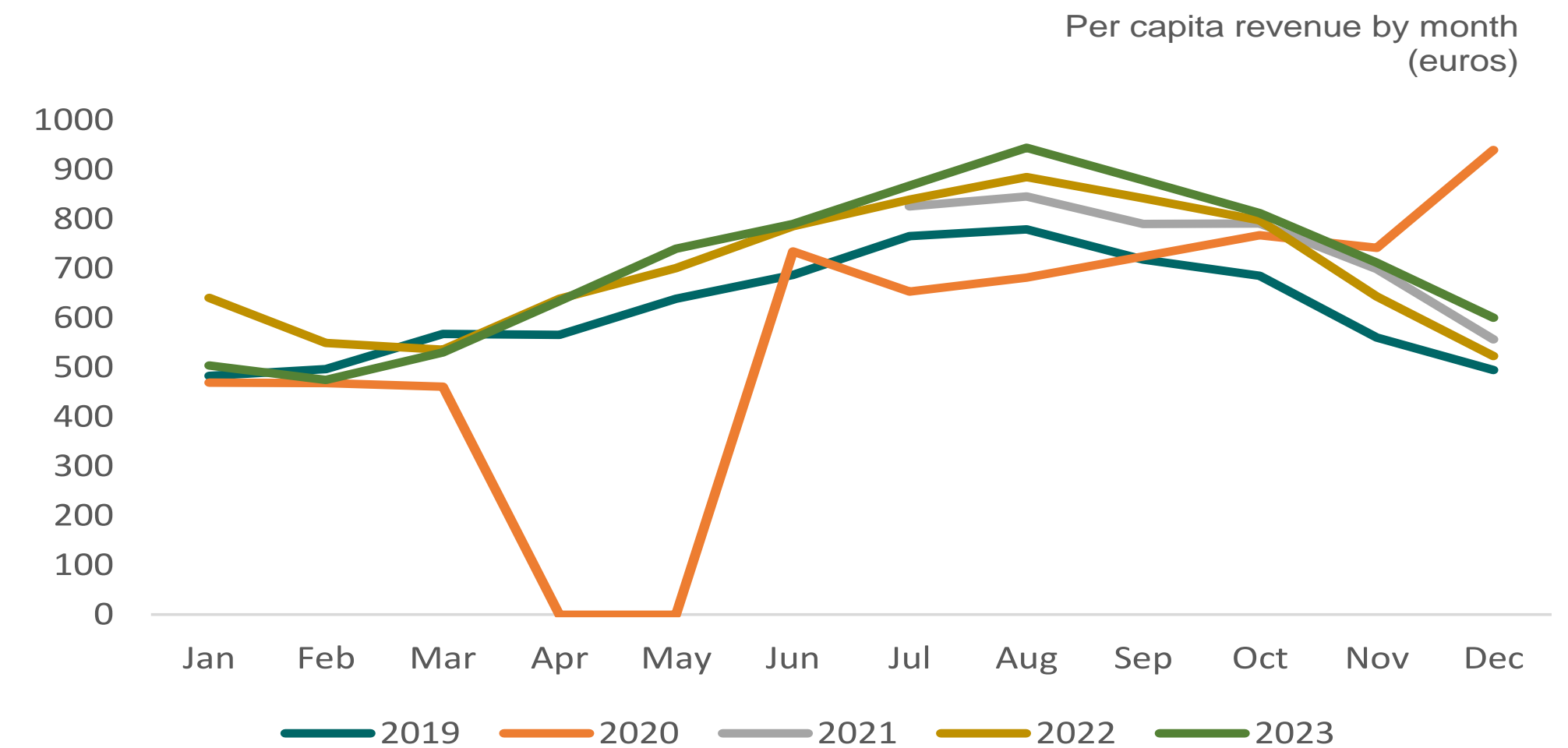
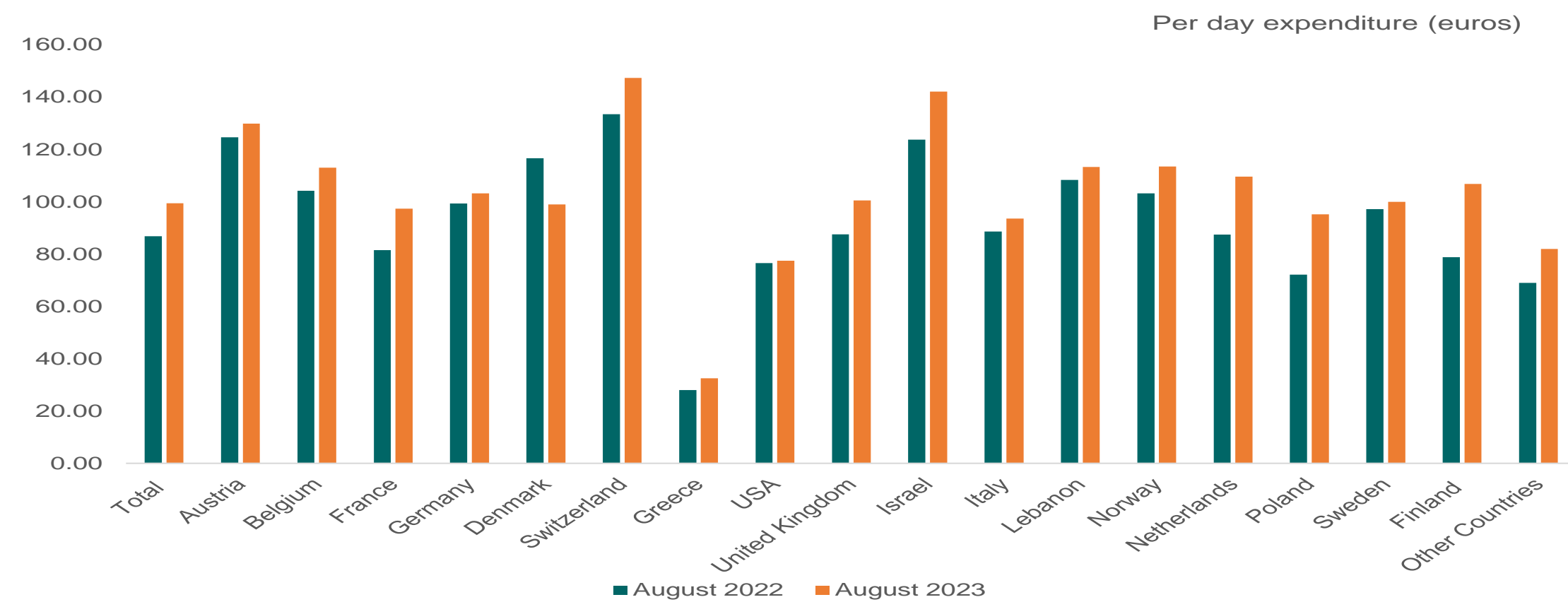
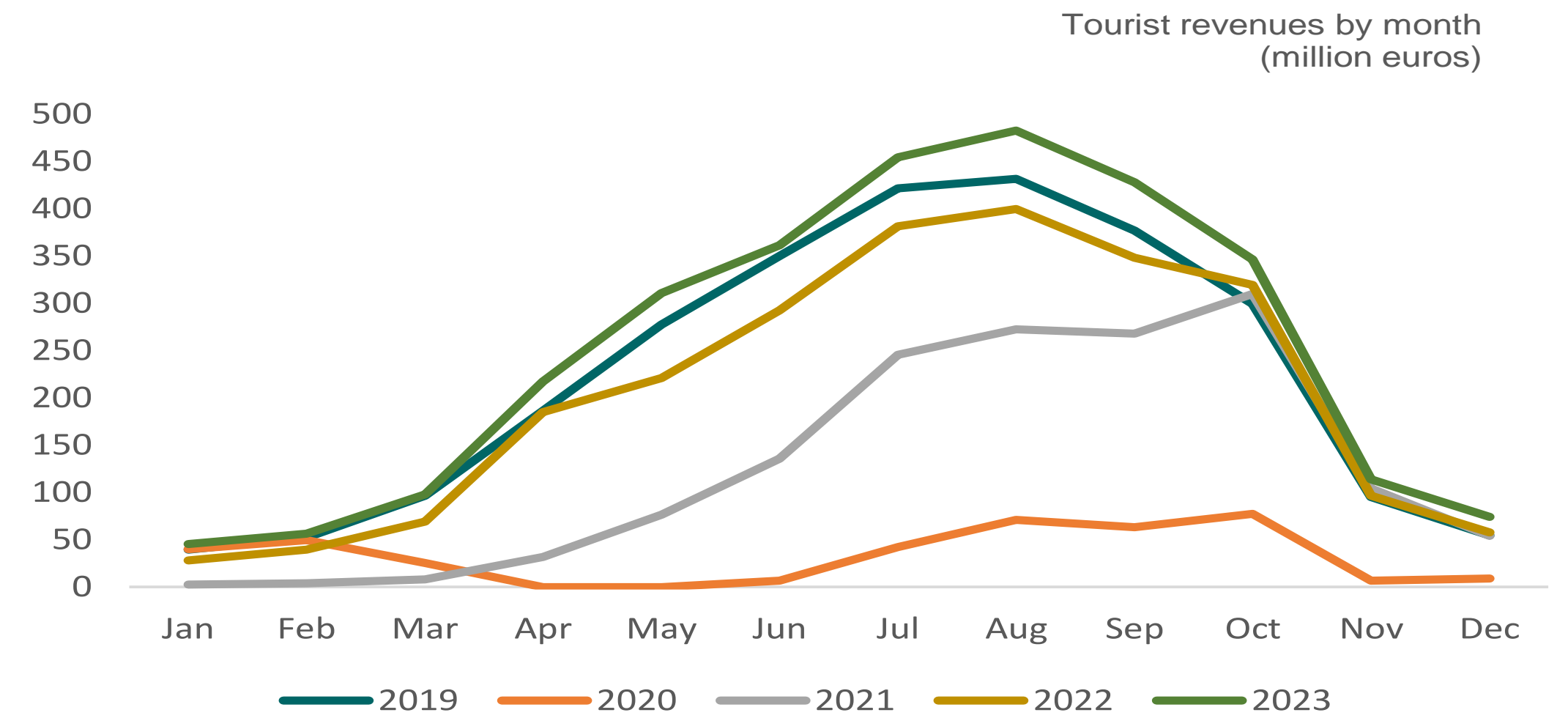
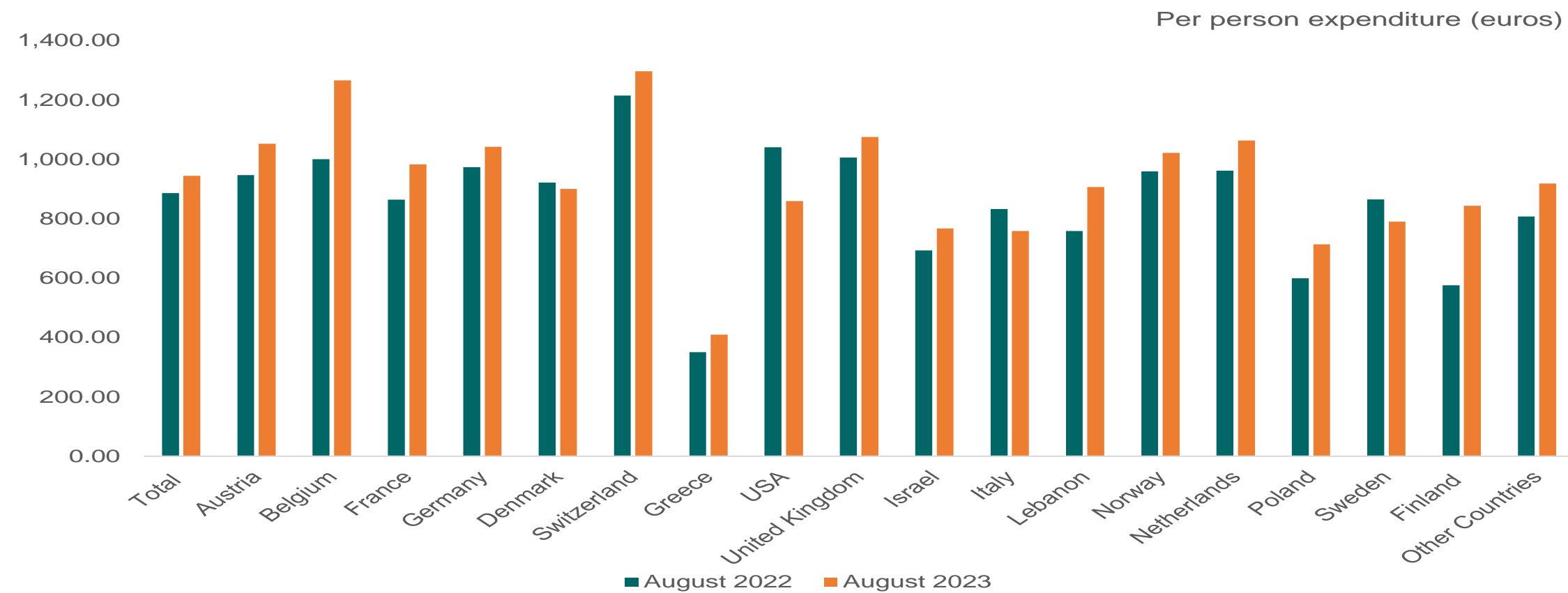
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Revenues and per capita spending

Higher spenders, besides Israel, in Jan-Aug 2023 are Lebanon, Austria, Switzerland and Norway.



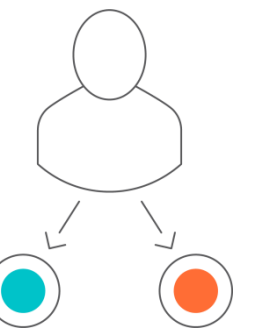
Source: Cystat



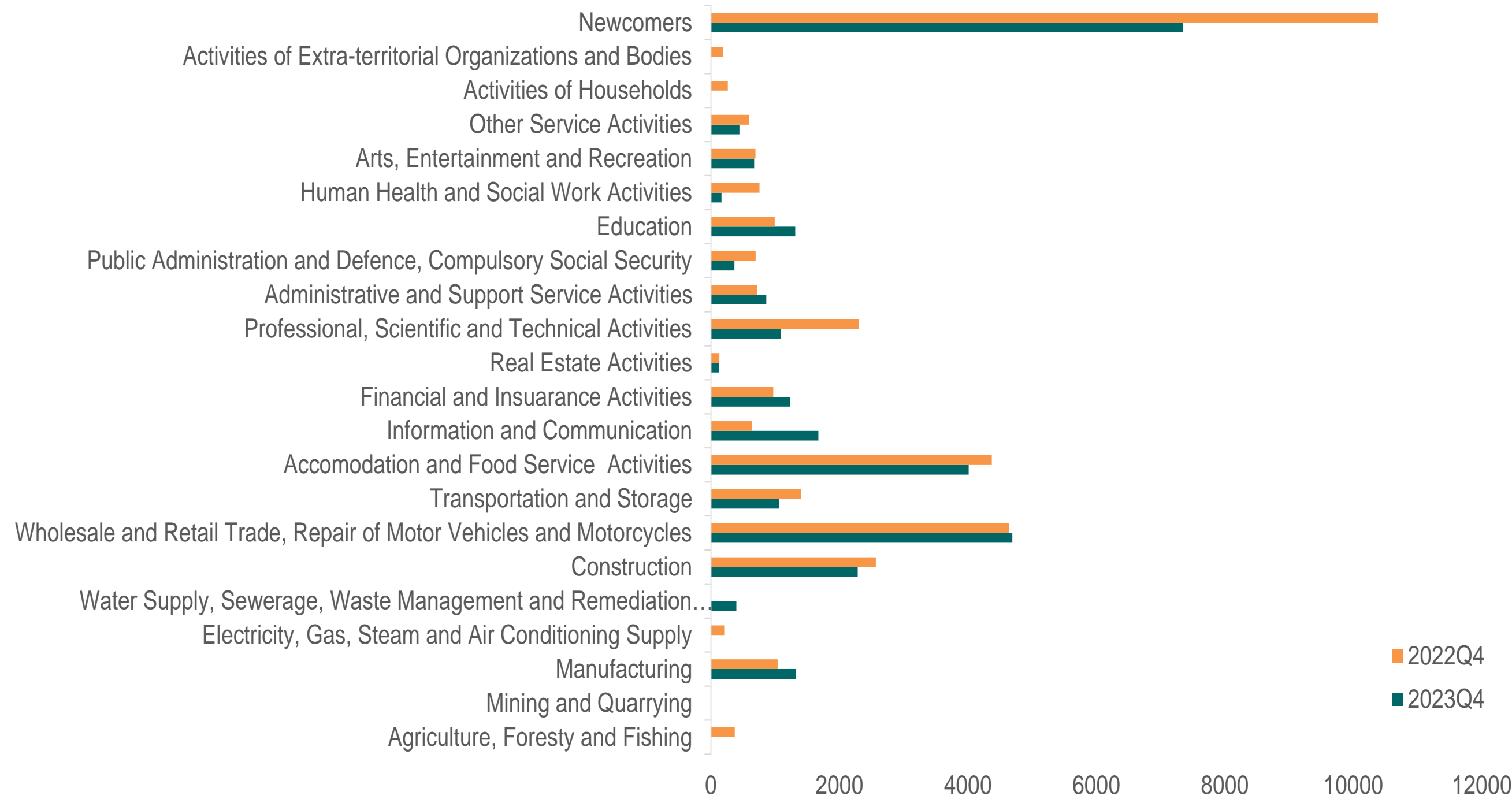
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Labour market

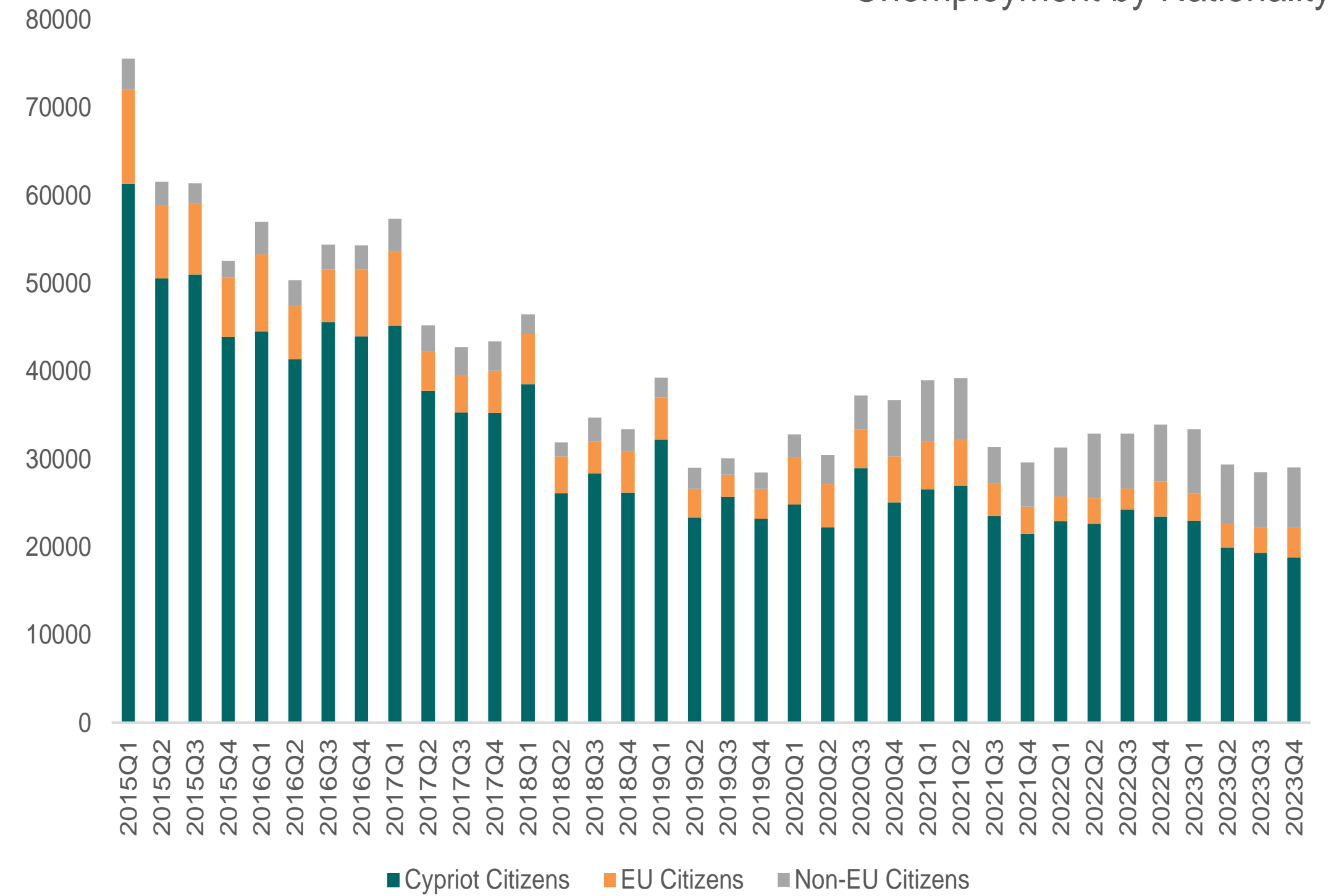
- Increase in foreign labour, especially from non-EU countries due to the “headquartering”



Unemployment by Economic Activity



Unemployment by Nationality

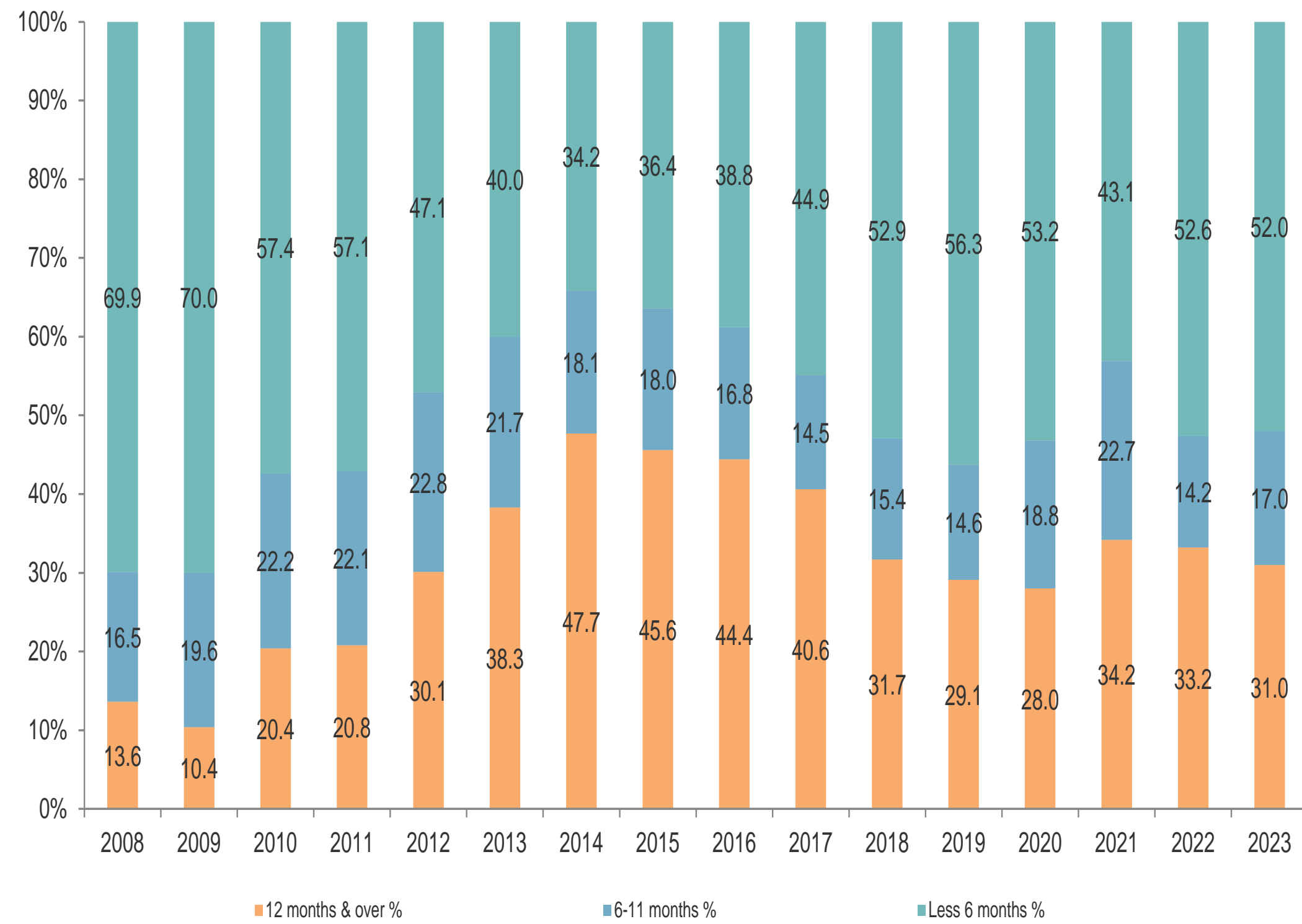
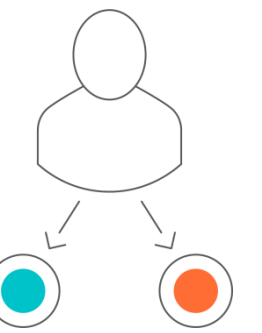


Source: Cystat



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Unemployed by duration and age, %

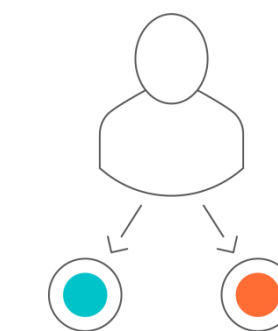


Source: Cystat



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Labour Market - vacancies



Nace Rev.2	Economic Activity	Number of Job Vacancies			% Change	
		Q4 2022	Q3 2023	Q4 2023	Q4 2023/ Q3 2023	Q4 2023/ 2022
B	Mining and Quarrying	10	4	3	-25,0	-70,0
C	Manufacturing	471	869	624	-28,2	32,5
D	Electricity, Gas, Steam and Air Conditioning Supply	32	6	4	-33,3	-87,5
E	Water Supply, Sewerage, Waste Management and Remediation Activities	93	79	90	13,9	-3,2
F	Construction	353	749	980	30,8	177,6
G	Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles	1.158	2.304	2.659	15,4	129,6
H	Transportation and Storage	340	527	511	-3,0	50,3
I	Accommodation and Food Service Activities	1.415	2.058	1.469	-28,6	3,8
J	Information and Communication	234	629	483	-23,2	106,4
K	Financial and Insurance Activities	515	466	413	-11,4	-19,8
L	Real Estate Activities	8	90	43	-52,2	437,5
M	Professional, Scientific and Technical Activities	736	1.001	1.122	12,1	52,4
N	Administrative and Support Service Activities	408	808	970	20,0	137,7
O	Public Administration and Defense, Compulsory Social Security	727	753	695	-7,7	-4,4
P	Education	849	950	894	-5,9	5,3
Q	Human Health and Social Work Activities	304	680	531	-21,9	74,7
R	Arts, Entertainment and Recreation	80	102	57	-44,1	-28,8
S	Other Service Activities	88	199	490	146,2	456,8
	Total	7.821	12.274	12.038	-1,9	53,9

Source: Cystat

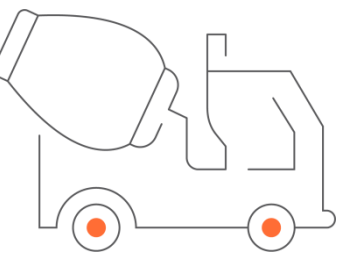
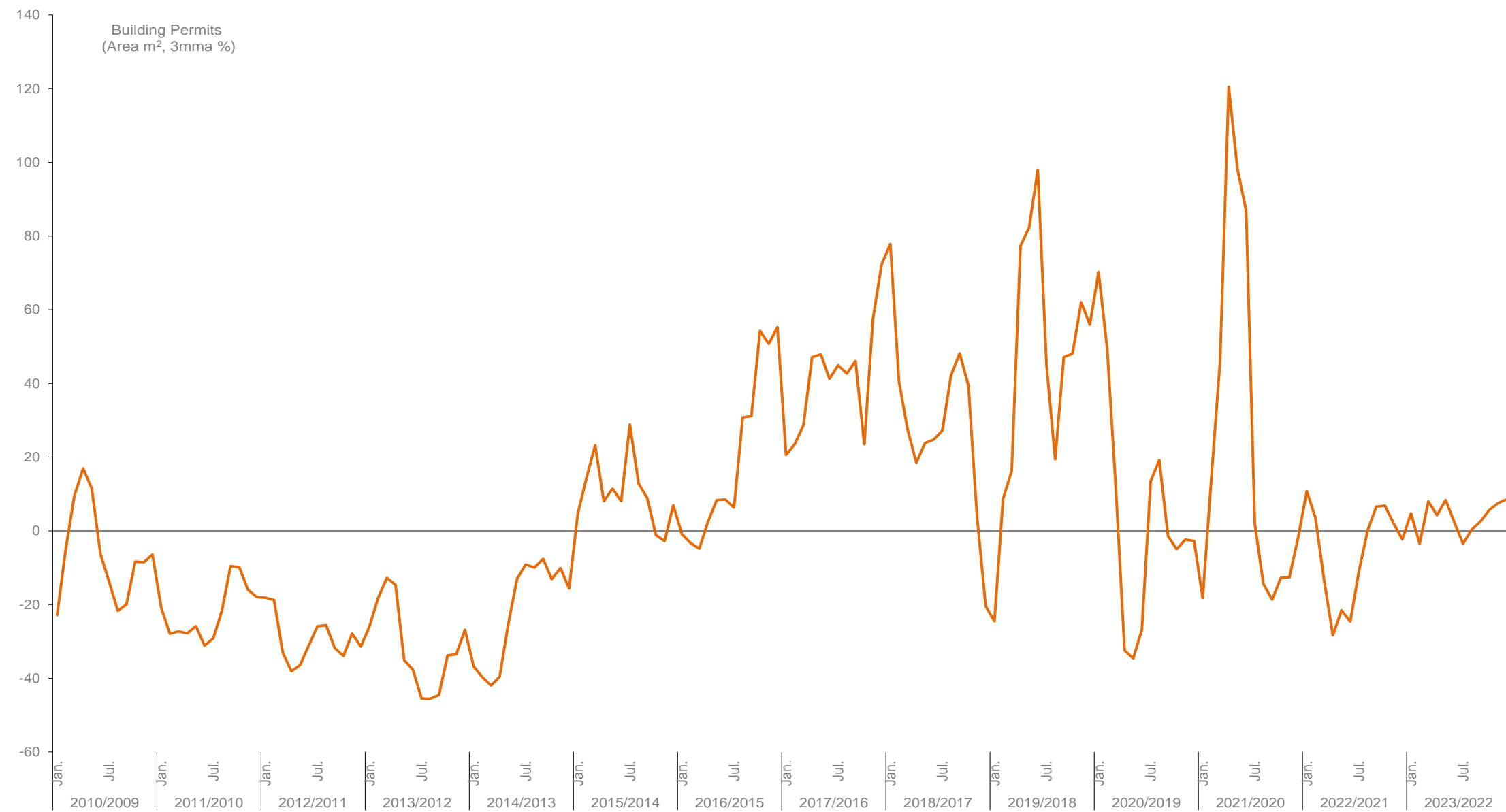


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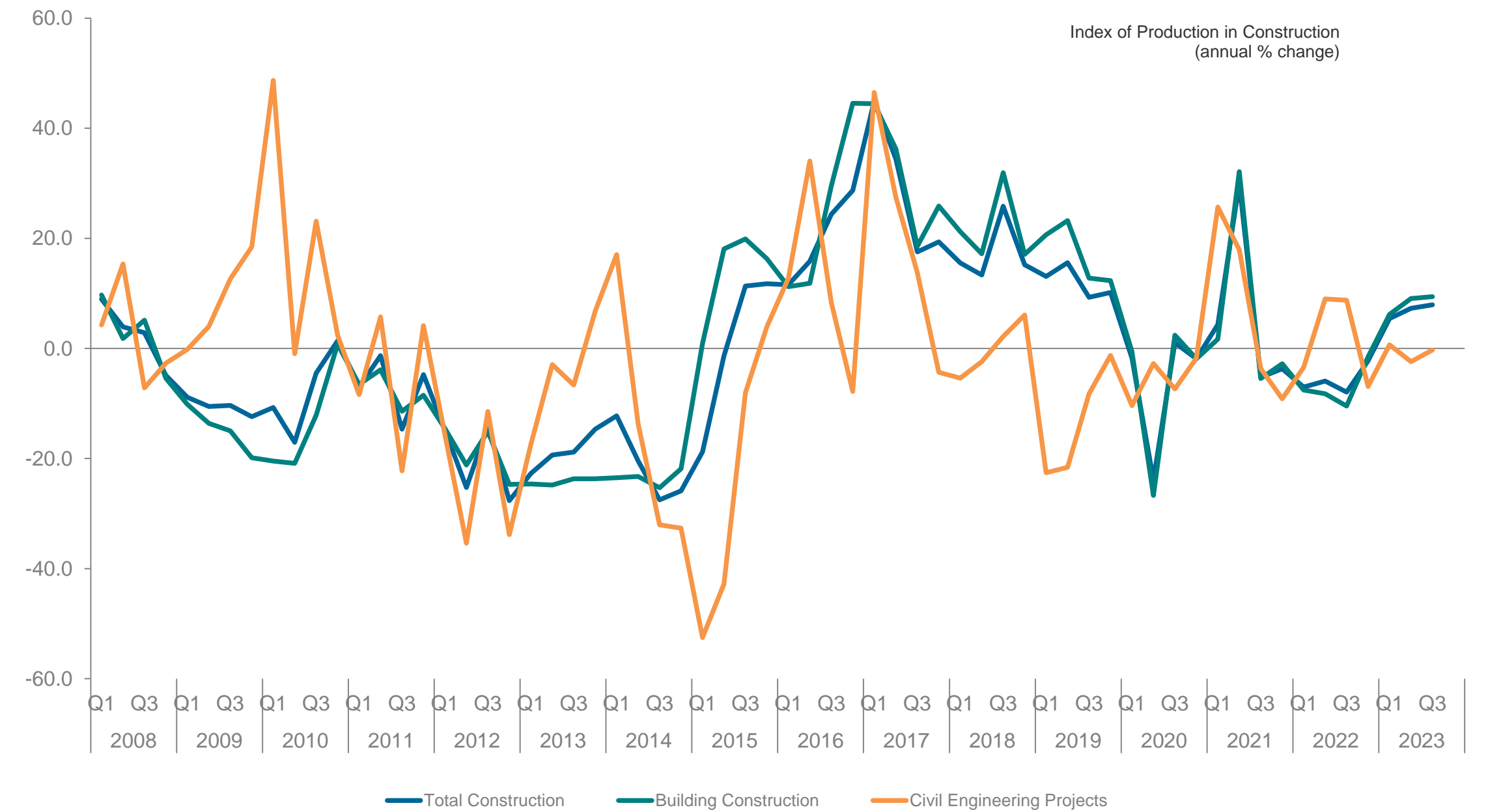
BUILDING PERMITS

- In 2023 the total value of these permits increased by 16.4% and the total area by 4.3%. The number of dwelling units recorded an increase of 12.2%.
- Building permits constitute a leading indicator of future activity in the construction sector.



INDEX OF PRODUCTION IN CONSTRUCTION

In 2023Q3, the index increased by 7.9% over 2022Q3 (by type of project, an increase of 9.4% was observed for buildings and a decrease of 0.3% for civil engineering projects).



Source: Cystat



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Construction materials

- Price index was increasing until April 2022, peaked in February 2023, but is on a decelerating path since
- All subcategories recorded a deceleration while “metallic products” recorded a decrease



Source: Cystat

Percentage Change %	Nov 2023 / Dec 2023	Dec 2023 / Dec 2022	Jan-Dec 2023 / Jan-Dec 2022
Minerals	0.23	13.98	18.52
Mineral products	0.26	5.8	9.38
Products of wood, insulation materials, chemicals and plastics	-0.05	0.45	3.5
Metallic products	0.32	-7.39	-6.32
Electromechanical products	-0.38	-0.14	2.65
General Index	0.14	0.45	2.91



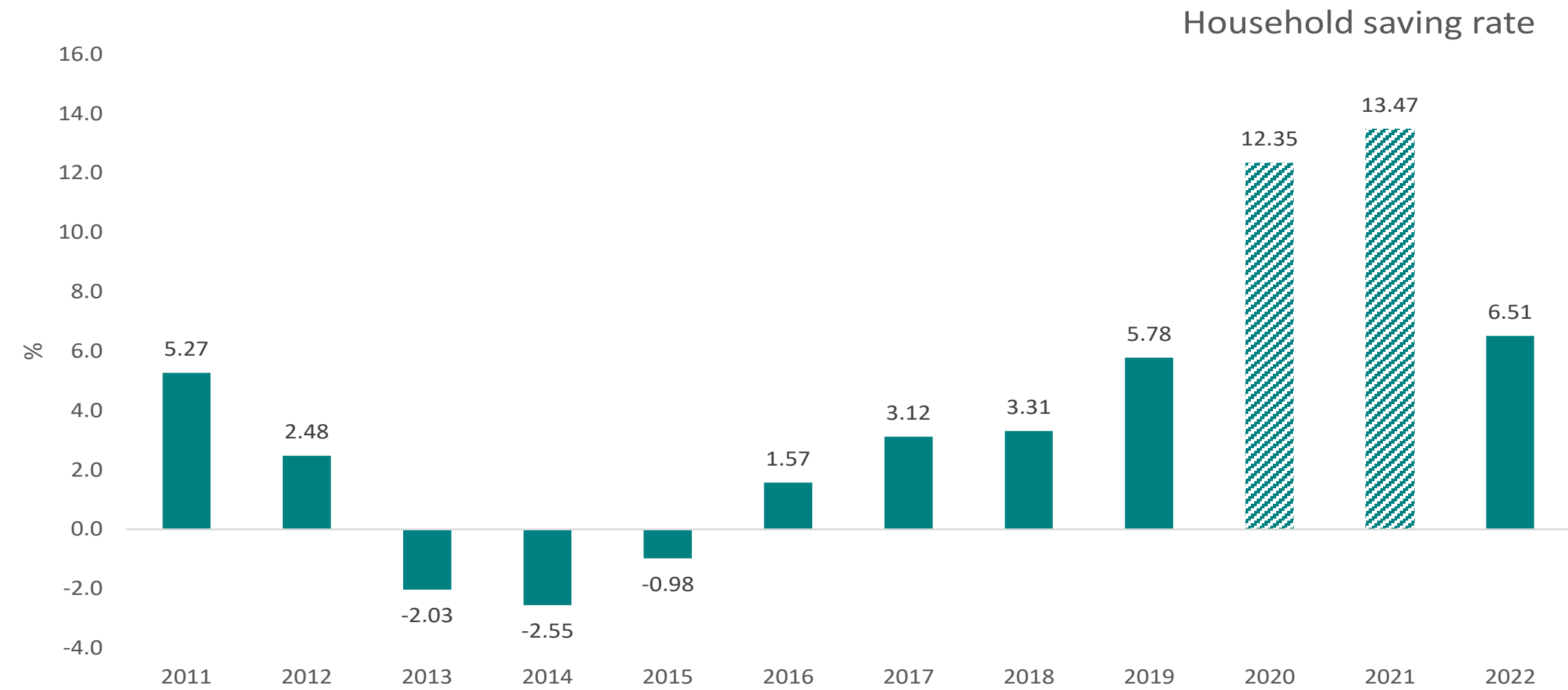
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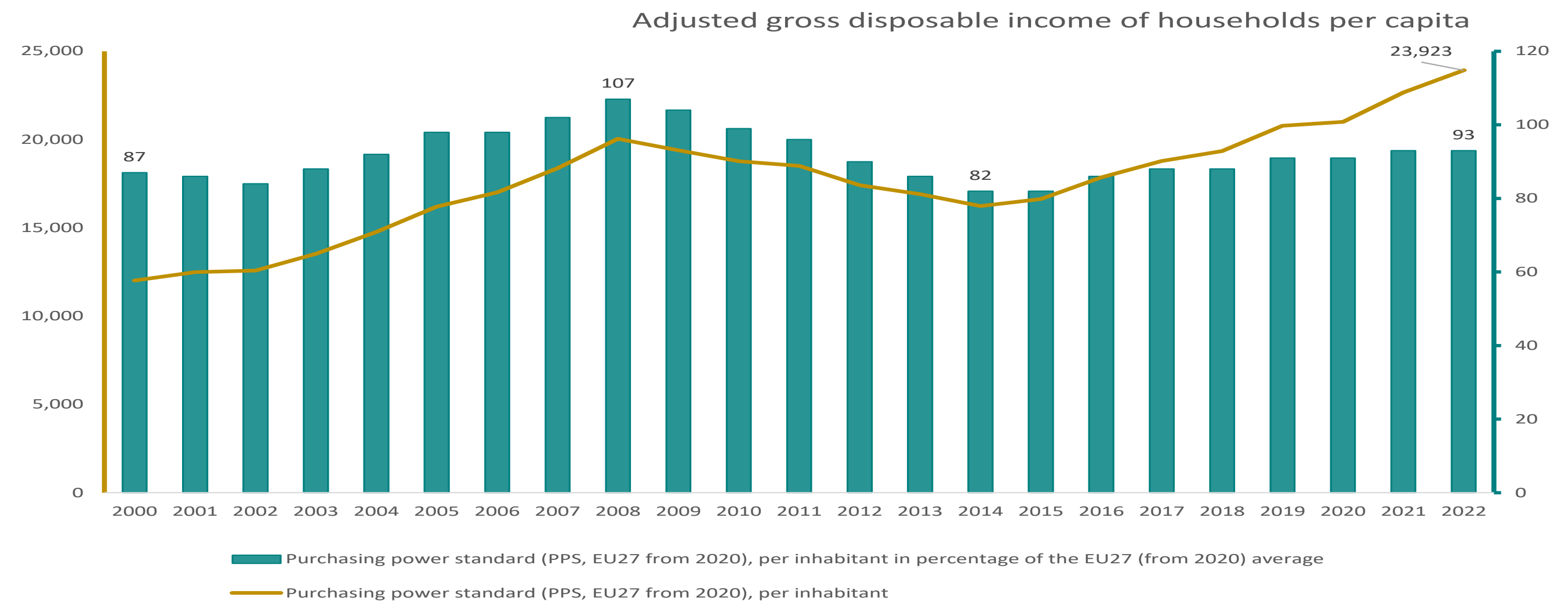
Savings rate

- Household saving rate following the return to positive growth rates followed the improvement of the economy.
- In 2020-2021 due to COVID and restrictions in movement/travel, households consumed less and saved more.
- In 2022 the savings rate returns to pre crisis levels and continues the previous path



Adjusted gross disposable income of households per capita

- The indicator reflects the **purchasing power of households** and their ability to invest in goods and services or save for the future, by accounting for taxes and social contributions and monetary in-kind social benefits. It is calculated as the adjusted gross disposable income of households and Non-Profit Institutions Serving Households (NPISH) divided by the purchasing power parities (PPP) of the actual individual consumption of households and by the total resident population. The values are also offered as an index calculated in relation to the European Union average set to equal 100. If the index of a country is higher than 100, this country's level of adjusted gross disposable income of households per person is higher than the EU average and vice versa.





Box 2: Stylised NGEU impact simulations with QUEST - Cyprus

Model simulations conducted by the Commission using the QUEST model show that the economic impact of the NGEU in Cyprus could lead to an increase of GDP of between 1,1% and 1,8% by 2026.³² After 20 years, GDP could be 0,6% higher. Spill overs account for a sizable part of the effect.

According to these simulations, this would translate into up around 3,000 additional jobs. Cross border (GDP) spill overs account for 0,5 percentage points in 2026, showing the value added of synchronised expenditure across Member States (line 2). Even assuming that half of the expenditure is not productive still leads to a significant impact (line 3).³³

Table 6: QUEST simulation results (%-deviation of real GDP level from non-NGEU case, linear disbursement assumption over 6 years)

Scenario	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2040
Baseline	1,0	1,5	1,5	1,6	1,7	1,8	1,4	1,1	1,1	1,1	0,6
<i>of which spill over</i>	0,5	0,5	0,5	0,5	0,5	0,5	0,4	0,3	0,3	0,2	0,1
Low productivity	0,7	1,1	1,0	1,0	1,0	1,1	0,7	0,3	0,4	0,4	0,3

Source: European Commission

This stylised scenario does not include the possible positive impact of structural reforms, which can be substantial. A model-based benchmarking exercise shows that undertaking structural reforms that would result in halving the gap vis-à-vis best performers in terms of indicators of structural reforms could raise Cyprus' GDP by 8% in 20 years' time, compared to 11% for the EU average³⁴.

Due to the differences in the assumptions and methodology the results of this stylised assessment cannot be directly compared to the numbers reported in chapter 4 of Cyprus' plan.

← MoF's the total impact to GDP is around 7% for 2021-2026, around 1.2% per year. In the macro baseline, MoF incorporated an impact of 0.8%.

