JUNE
2023

CYPRUS

ECONOMIC & FINANCIAL OUTLOOK

ECONOMIC RESEARCH DIVISION

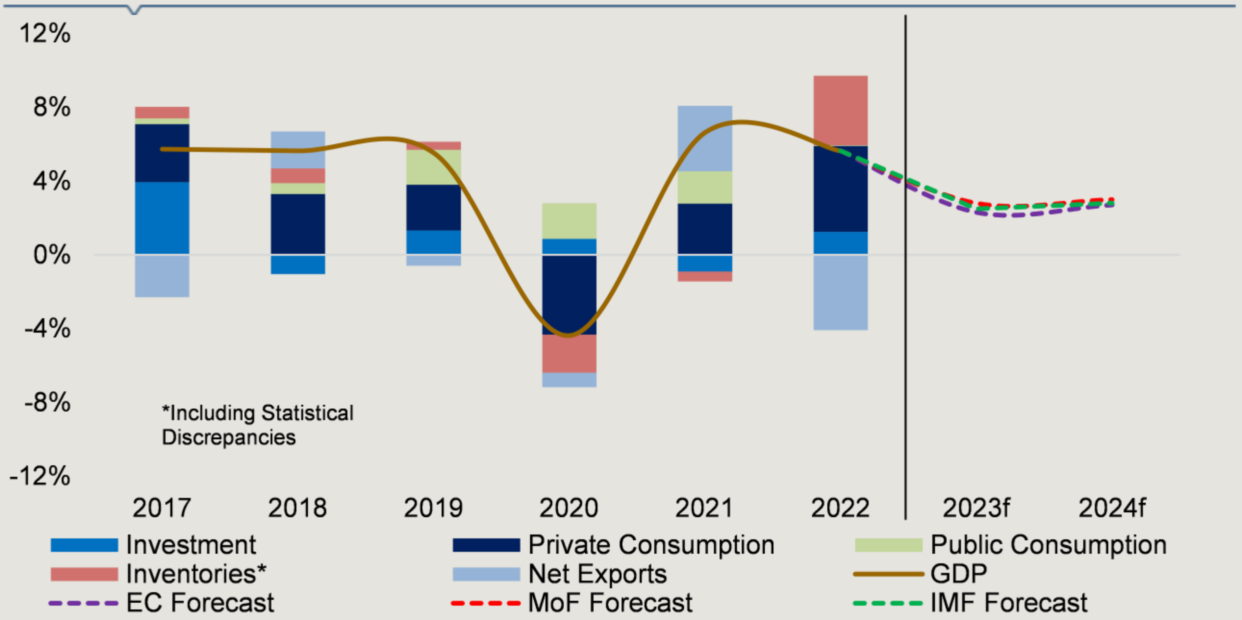
The resilience of the Cypriot economy to external shocks was evident in the strong expansion of the economic activity recorded in 2022, as real gross domestic product (GDP) increased by 5.6%, marking the sixth highest growth rate in EU-27. Growth was mainly driven by domestic demand, especially private consumption. Growth momentum is maintained in Q1 2023, as GDP increased by 3.4% on an annual basis, on the back of strong investment growth. Going forward, economic activity in Cyprus is expected to slow down in the coming quarters, due to still high inflation, tighter financial conditions and geopolitical uncertainty. Real GDP in 2023, however, is projected to grow at a stronger pace compared to EU-27 and euro area averages. Risks to the outlook are mostly tilted to the downside, related to the uncertain external environment. On the upside, the implementation of the national Recovery and Resilience Plan (RRP) is expected to support investment and therefore economic activity. The fiscal position, which deteriorated drastically in 2020, is estimated to improve from 2022 onwards, with positive primary balances and a further de-escalation of the debt-to-GDP ratio.

Economic activity continued to recover in Q1 2023, following robust growth in 2022

In 2022, the Cypriot economy surpassed initial growth expectations, although the war in Ukraine blurred the outlook, due to the country's strong economic ties with Russia, particularly in exports of services and Foreign Direct Investment (FDI). Real GDP increased by 5.6% in 2022 (Q1 2022: 6.3% y-o-y, Q2 2022: 6.4% y-o-y, Q3 2022: 5.5% y-o-y and Q4 2022: 4.4% y-o-y), higher than the euro area and EU-27 averages (3.5%). Turning to GDP components, private consumption continued to recover (7.7%), contributing 4.7 pps to the overall real GDP expansion, driven by the post pandemic pent-up demand and the significant gains in employment, which supported households' disposable income. Inventories (incl. statistical discrepancies) posted the second largest contribution to GDP growth equal to 3.8 pps (Graph 1). Gross fixed capital formation increased by 6.6% in 2022, contributing 1.3 pps to real GDP growth. Investment in intellectual property products rose by 32.1%, followed by investment in transport equipment (15.3%), while investment in dwellings and total machinery and equipment and weapons systems increased by 6% and 4.8%, respectively. On the contrary, investment in other buildings and structures declined by 7.1%. Public consumption rose marginally by 0.1%, with an almost zero contribution to growth. Finally, net exports made

GRAPH 1

Demand-side contributions to GDP growth



Source: Cystat, EC Spring 2023 Economic Forecast, IMF WEO April 2023, Ministry of Finance Stability Programme April 2023, Alpha Bank ERD calculations a negative contribution to GDP growth (4.1 pps), as the rise of imports outpaced exports' growth. In particular, imports of goods and services increased by 18.8%, with imports of goods leading the way, growing by 25.7%, while imports of services rose by 14.4%. Exports of goods and services rose by 13.7% in 2022, with exports of goods increasing by 23.6% and exports of services increasing by 11.6%, mainly driven by the stronger -than expected- recovery of tourism.

From the supply side, GVA growth was mainly driven by: Information and Communication (+15%), Wholesale and Retail Trade-Transportation and Storage-Accommodation and Food Service Activities (+13.8%), and Financial and insurance activities (+5.2%). All sectors of economic activity recorded positive annual growth rates in 2022, except for Construction (-2.2%).

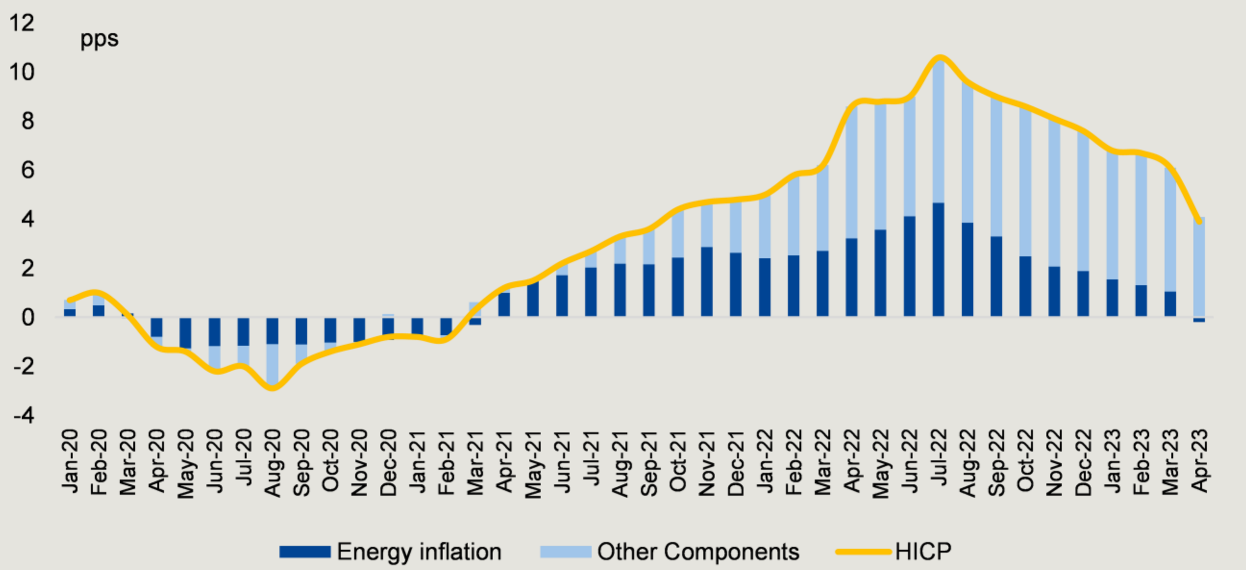
In Q1 2023 real GDP increased by 3.4% y-o-y, with gross fixed capital formation being the main driver, while net exports counterbalanced GDP expansion to some extent. More specifically, investment increased in total by 56% y-o-y contributing 11.2 pps to growth. As per the investment categories, transport equipment was sixfold compared to Q1 2022, machinery, equipment and weapons systems rose by 219%, whereas dwellings increased by 10.2%. On the contrary, investment in other buildings and structures declined by 5.5%. Inventories had a positive contribution to GDP growth equal to 3.8 pps. Private and public consumption increased by 5% and 4.2% y-o-y, contributing 3 and 0.8 pps to the overall real GDP expansion. Net exports made a negative contribution to GDP growth, equal to 15.5 pps. Imports of goods and services increased by 19.2%, with imports of goods leading the way, growing by 42.3%, while imports of services rose by 3.5%. Exports of goods and services rose by 2.4% in Q1 2023, with exports of goods increasing by 3% and export of services increasing by 2.3%.

Despite the strong economic activity, the Cypriot economy is expected to be negatively affected by geopolitical uncertainty, coupled with high inflation and interest rates hikes. According to recent forecasts, growth momentum is expected to weaken in the current year and pick up in 2024. In particular, the European Commission (Economic Forecast, Spring 2023), the IMF (World Economic Outlook, April 2023) and the Ministry of Finance (Stability Programme, April 2023), forecast GDP growth of 2.3%, 2.5% and 2.8%, respectively in 2023 and between 2.7%-3%, in 2024, above the euro area and EU-27 averages for both years.

Risks to the outlook are mostly skewed to the downside, primarily linked to the Russia-Ukraine war. The duration and intensity of the war, as well as the magnitude of the impact on European economies, particularly on Cyprus' main trading partners, is expected to determine, to a large extent, the country's growth path in 2023. Another risk for the Cypriot economy arises from the tighter monetary policy by European Central Bank (ECB), which has raised its key interest rates by 375 basis points since July 2022. The ECB could raise key interest rates further in the event of persistently high inflation, raising the cost of borrowing for the government, households and businesses and suppressing consumption and investment. On the positive side, the implementation of the national Recovery and Resilience Plan (RRP) is expected to boost economic activity, particularly investment. The plan foresees the absorption of EUR 1 billion (3.7% of 2022 GDP in current prices) in grants and EUR 0.2 billion (0.7% of 2022 GDP in current prices) in loans and is expected

GRAPH 2

Contributions to HICP inflation: Energy and non-energy components



Source: Eurostat, Alpha Bank ERD calculations to mobilize additional private investment. In addition, the relocation of foreign companies to Cyprus, as a result of the “Strategy for Attracting Businesses and Talent” in effect from January 2022 onwards, is expected to positively affect the economy. The Strategy includes a series of actions and reforms in several areas of intervention, aiming to enhance Cyprus position as an international high-growth business center. Since the beginning of 2022 and up until end-September, the Civil Registry and Migration Department received more than 9,000 applications from foreign companies, especially in the ICT sector.

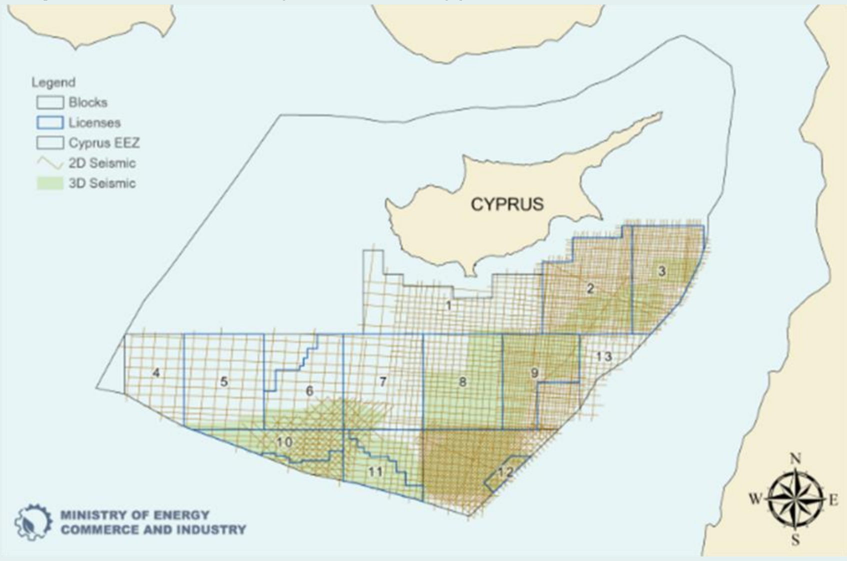
Energy prices, inflation developments and short-term outlook

Inflation in Cyprus, as measured by the Harmonized Index of Consumer Prices (HICP), accelerated from the second half of 2021 onwards, as the economy recovered from the pandemic and disruptions to supply chains remained. Energy prices have skyrocketed in 2022, following Russia’s invasion of Ukraine, fuelling inflation. Russia had a dominant position in the global energy markets and was Europe’s main gas supplier before the war. HICP inflation in Cyprus peaked at 10.6% in July 2022 and decelerated from August onwards, reaching 3.9% in April 2023 (Graph 2). Average inflation for 2022 was 8.1%, with 3.1 pps (≈38%) attributed to energy inflation. In the euro area, respectively, average harmonized inflation in 2022 was 8.4%, with 3.8 pps (≈45%) attributed to energy inflation. Cyprus does not import natural gas from Russia, but is heavily dependent on oil and petroleum products, which accounted for 83% of the country’s total energy supply in 2021. The deceleration of inflation in Cyprus since August 2022, is mainly attributed to lower oil prices and base effects in energy prices. It should be mentioned that Brent crude oil price has declined by 30% since the end of July

Box 1: Cyprus has the potential to become a regional energy hub

Russia's invasion of Ukraine caused major hardships and global energy market disruptions. The EU has been at the core of the energy crisis due to its high dependence on Russian gas flows. As a result, the EU presented the REPowerEU Plan, aiming at reducing the EU's dependence on Russian fossil fuels and tackling the climate crisis. These objectives can be achieved through energy savings, diversification of energy supplies and the accelerated roll-out of renewable energy. The EU’s intention to end dependency on Russian fossil fuels is an opportunity for Cyprus to obtain a leading role in energy issues at the wider Southeast Mediterranean region. Cyprus has granted exploration licenses to the majority of its offshore blocks (2,3,5,6,7,8,9,10 and 11, Graph 3) in its formally declared exclusive economic zone (EEZ) and one exploitation license to block 12 (“Aphrodite”). Hydrocarbon licenses have been granted to some of the world’s leading oil companies, such as ENI, TotalEnergies, ExxonMobil, Qatar Petroleum, etc. Block 12 has an estimated gas reserve of 4.5 trillion cubic feet (tcf), which was declared commercial in 2015. In block 10 the discovery represents a natural gas resource of approximately 5 to 8 tcf, while in December 2022, the Ministry of Energy, Commerce and Industry declared that the drilling in block 6 showed, according to preliminary estimation, a gas resource of 2 to 3 tcf. At the same time, Cyprus cooperates with Israel, Egypt -countries that have already discovered large reserves of natural gas- as well Greece in energy projects, such as the EuroAsia Interconnector, the EuroAfrica Interconnector and EastMed pipeline.

Graph 3: Seismic Surveys Offshore Cyprus



Source: Ministry of Energy, Commerce and Industry, Hydocarbons Service

The implementation of energy projects and the exploitation of Cyprus energy deposits could transform the country into an energy hub in the Eastern Mediterranean region, enhancing the EU's security of energy supply. Alongside, it would contribute towards maximizing State revenues and boost the country’s economy. The main challenge for Cyprus is the smooth implementation of its energy policy, given Turkey’s disputes on Cyprus’ rights to an exclusive EEZ and its offshore hydrocarbon deposits.

2022 (as of 17.05.2023). However, high energy prices have passed through other HICP components, such as services. As a result, core inflation (excluding energy and unprocessed food) increased from 1% in 2021 to 5.3% in 2022, while decelerated gradually to 5% in April 2023.

Inflation in Cyprus is expected to moderate significantly in the coming months, much faster than in the euro area. According to the European Commission Economic Forecasts (*Spring 2023*), HICP in Cyprus is expected to increase by 3.8% on average in 2023, which is the second lowest forecast among EU Member States and lower than the euro area average (5.8%). The Ministry of Finance (Stability Programme 2023-2026, April 2023) forecasts HICP to increase by 3.2% in 2023. Cyprus applies a wage indexation system whereby every January wages and salaries are adjusted to 50% of the evolution of consumer prices. This system includes public sector employees and private sector employees covered by collective agreements. The evolution of consumer prices implies an automatic increase of 4.36% for wages and salaries in 2023, whereas part of this increase is expected to be passed on to prices. For 2024, inflationary pressures are expected to ease further, with the European Commission and the Ministry of Finance forecasting HICP to increase by 2.5%.

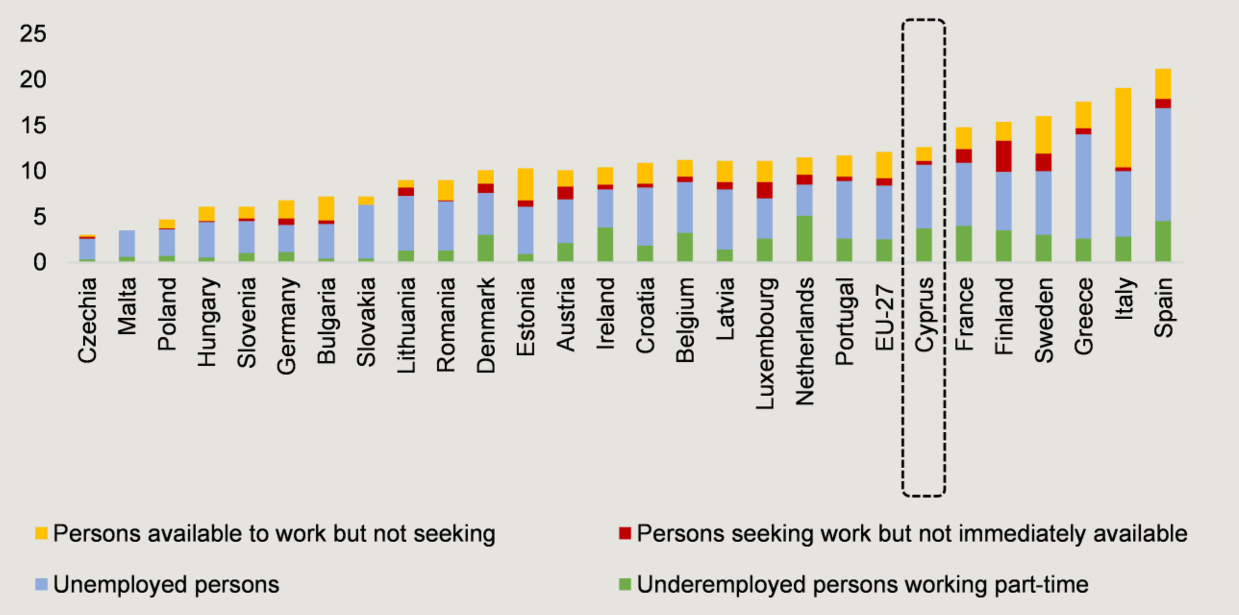
Favourable labour market developments

The labour market has shown resilience in 2022, in line with robust economic growth. Employment increased by 2.9% in 2022, while the unemployment rate averaged to 6.8% (euro area: 6.7%), following a slight upward trend from April 2022. The (seasonally adjusted) unemployment rate stood at 6.8% in March 2023 compared to 7.2% in the previous month. Future labour market prospects remain favourable; the Ministry of Finance (April 2023) estimates the unemployment rate to stand at 6.5% in 2023 and decline further to 5.8% in 2024. Employment growth is set to moderate in 2023 (1% based on MoF projections), in line with slowing GDP growth. It is noted that as of January 1st, 2023, the statutory minimum wage in Cyprus rose to EUR 940 for full-time employment (from EUR 924) and is in effect for employees with at least six months of continuous employment in the same company.

The labour market slack refers to the sum of all unmet employment demands (as a percentage of the extended labour force) and includes four groups: 1) Unemployed persons, 2) Underemployed persons working part-time, 3) Persons available to work but not seeking and 4) Persons seeking work but not immediately available. According to the latest data from Eurostat, the labour market slack in Cyprus stood at 12.5% in Q4 2022, slightly above EU-27 average (12.1%, Graph 4). This is the second lowest percentage since Q4 2010 (12.3%) and 15.6 pps below the peak in Q2 2014 (28.1%). The increase in the utilization of human resources is mainly due to the decrease in the unemployment rate which accounts for the largest proportion of the labour market slack, however the other groups also registered an improvement. It was noted that during the containment measures (lockdown), many unemployed persons, for various reasons, stated that they were not available to work and, as a result, became part of the population outside the labour force (2020/2019: +2.3%, according to Eurostat data). This trend inversed since 2021, while in 2022 population outside the labour force decreased by 4.8%.

GRAPH 4

Q4 2022: Labour market slack in EU-27 (% of extended labour force 15-74 years)



Source: Eurostat

Job vacancy rate (ındustry, construction and services) decreased to 1.9% in Q4 2022 from 2.2% in Q3 2022, the lowest rate since Q4 2020. Accommodation and food service activities (3%) recorded the highest job vacancy rate and Construction (0.9%) and Real estate activities (0.2%) the lowest. The number of job vacancies was around 7.8 thousand in Q4 2022 from 9.2 thousand in Q3 2022.

Cyprus benefited from the implementation of the SURE programme (Support to mitigate Unemployment Risks in an Emergency), an emergency programme of the European Commission for the subsidisation of jobs and the unemployed, amounting to EUR 100 billion. The aim of the mechanism was to provide financial assistance to EU Member States facing financial distress caused by the Covid-19 crisis, to finance part-time work or similar measures, to protect workers and the self-employed and, thereby reduce unemployment and loss of income. Cyprus received EUR 632 million under the SURE programme, with the latest and final disbursement taking place on December 14, 2022 (EUR 29 million).

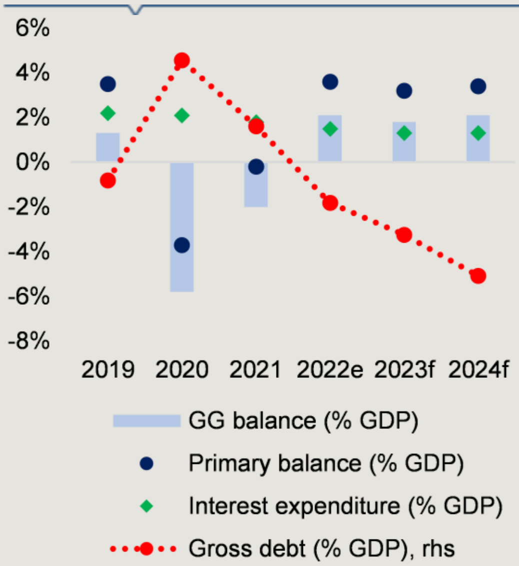
Public finance remains sound

After the fiscal disruption in 2020, attributed to the outbreak of Covid-19 pandemic, the fiscal stability has returned since 2021. The General Government (GG) balance recorded a substantial improvement in 2021, as it remained in deficit of 2% of GDP (EUR 482 million, ESA basis), compared to a deficit of 5.8% of GDP in 2020 (EUR 1,275 million). The GG deficit was recorded despite the recovery of the economy in terms of GDP in 2021, as the one-off government's measures (≈3% of GDP) to tackle the effects of the pandemic weighed on the budget balance. The primary balance, according to the European Commission (*Economic Forecast, Spring 2023*), remained in negative territory in 2021 (0.2% of GDP), from a larger deficit in 2020 (3.7% of GDP).

Fiscal developments in 2022 were notably positive, signalling a further improvement in public finances. According to data by CYSTAT, in 2022 a fiscal surplus of EUR 570 million was recorded (2.1% of GDP), while the primary surplus stood at EUR 975 million (3.6% of GDP). Total revenues increased by 13.7% (EUR 1,363 million), to a total of EUR 11,322 million, on the back of robust growth and high inflation. Taxes on production and imports increased by 16.9% (EUR 572 million), taxes on income and wealth increased by 15.5% (EUR 387 million) and social contributions increased by 13.4% (EUR 368 million). On the other side, total expenditure increased by 3% (EUR 311 million), to a total of EUR 10,751 million, mainly due to the rise by 7.8% (EUR 240 million) on social transfers, by 18.1% on intermediate consumption (EUR 189 million) and by 5.1% on compensation of employees (EUR 154 million). The fiscal outlook remains positive despite the expected slowdown in economic activity. In Q1 2023, the fiscal surplus stood at EUR 324 million, compared to a surplus of EUR 240 million in the corresponding period of 2022. According to the European Commission (*Economic Forecast, Spring 2023*), the GG surplus and the primary surplus are forecast to reach 1.8% and 3.2% of GDP in 2023 and 2.1% and 3.4% of GDP in 2024 (Graph 5), respectively, on the assumption that energy-related fiscal measures remain moderate.

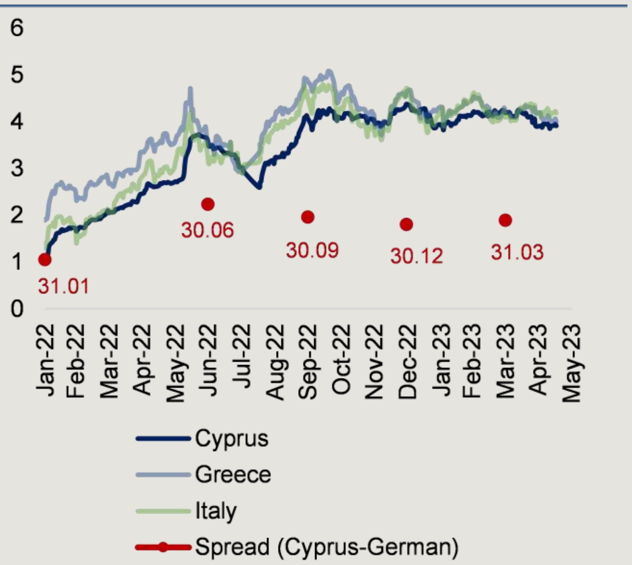
GRAPH 5

Positive fiscal outlook



GRAPH 6

Cypriot 10Y bond yield followed international trends



Sources: Cystat, European Commission Spring 2023 Economic Forecast, Bloomberg

The public debt-to-GDP ratio declined to 101.2% in 2021, from 113.8% in 2020 when it peaked. The decrease of 12.6 pps was attributed to the improved primary balance, the use of cash buffer accumulated since the beginning of the pandemic (numerator effect), as well as the significant increase of the nominal GDP (denominator effect). These factors, coupled with the phasing out of pandemic fiscal support led to a further decline in the public debt-to-GDP ratio to 86.5% in 2022. According to the European Commission (*Economic Forecast, Spring 2023*), the public debt-to-GDP ratio is expected to decline to 80.4% and 72.5% in 2023 and 2024, respectively.

The profile of Cyprus' public debt is favourable in terms of gross financing needs. In 2022 the gross financing needs were estimated to be EUR 1.7 billion (*European Commission Post-Programme Surveillance Report, November 2022*), which were met by the January 2022 issuance of a EUR 1 billion 10-year bond and the primary surplus. Regarding 2023 and 2024, Cyprus is projected to record primary surpluses as already mentioned, which will help maintain the gross financing needs at relatively low levels. In particular, gross financing needs are expected to reach EUR 1 billion in 2023 (3.4% of GDP) and EUR 1.6 billion in 2024 (5.3% of GDP) (*European Commission Post-Programme Surveillance Report, Spring 2023*). It is noted that based on the European Commission, the average remaining maturity of debt decreased to 7.3 years in 2022, from 7.6 years in 2021. In addition, Cyprus has EUR 6.3 billion of outstanding loans to the European Stability Mechanism (≈27% of total debt) and will start to repay in 2025. Regarding interest rate distribution, about 70% of the debt is in fixed rates and 30% in floating rates. The Debt Sustainability Analysis (DSA) of European Commission (Spring 2023) concludes that Cyprus faces low fiscal sustainability risks in the short-term.

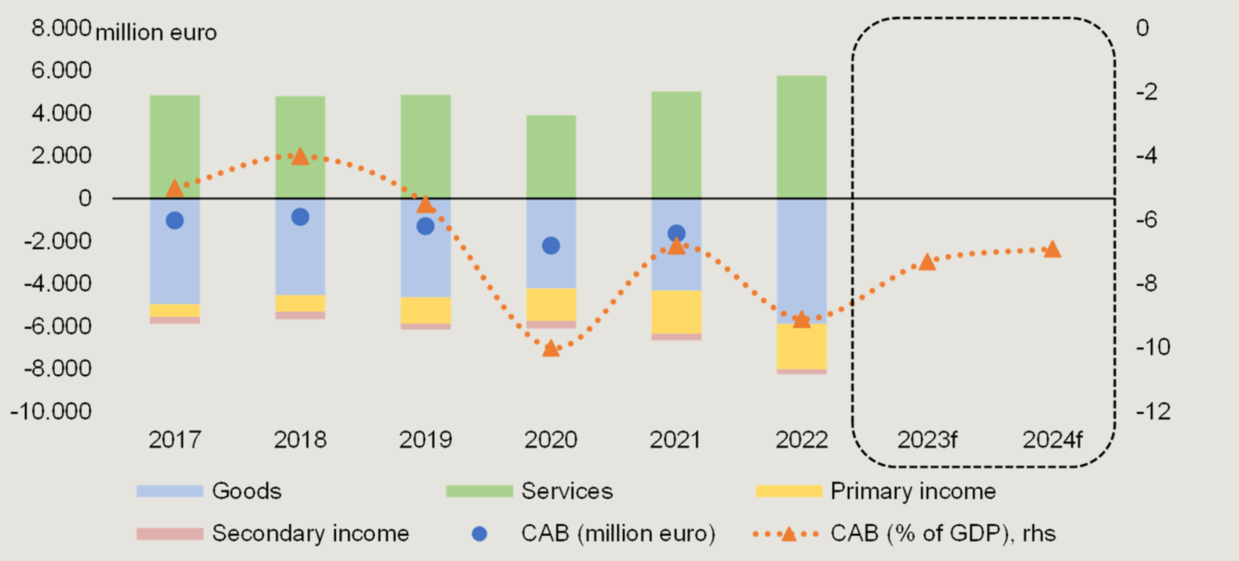
Cyprus faced favored financing conditions when accessing markets from mid-2020, due to ECB policy. In March 2020, the ECB activated a non-standard monetary policy measure as a response to Covid-19 called the Pandemic Emergency Purchase Programme (PEPP). From the beginning of the programme until March 2023, the ECB has purchased around EUR 2.5 billion of Cypriot government bonds cumulatively. However, government bond yields have risen significantly since the beginning of 2022, following international trends (Graph 6). High inflation, de-anchored inflation expectations, uncertainty arising by the Russian invasion of Ukraine and interest rates hikes by the ECB led to higher yields. However, the difference between the Cypriot 10-year government bond yield and the German 10-year government bond yield (spread) has remained relatively stable in recent months. Higher yields imply higher re-financing cost and servicing cost for the floating rate debt portion.

Cyprus continues to benefit from an 'investment grade' credit rating. In 2022 (S&P and DBRS) and March 2023 (Fitch), three out of four credit rating agencies upgraded their debt rating by one notch, at BBB with stable outlook which is two notches within the investment grade area. Moody's credit rating however is one notch below investment grade (Ba1) with positive outlook.

In April 2023, Cyprus issued a EUR 1 billion inaugural Sustainable 10-year fixed-rate bond. The coupon rate was 4.125%, while the final demand exceeded EUR 12 billion, representing the largest orderbook achieved in a single-tranche syndicated transaction by Cyprus since the sovereign's return to the international bond markets in June 2014. It was also the second largest orderbook on record for a Sustainable benchmark issued by a Eurozone sovereign (*MoF, Public Debt Management Office, 4th April 2023*).

GRAPH 7

Current Account Balance (CAB) and its Components



Sources: Central Bank of Cyprus, European Commission Spring 2023 Economic Forecast

Cyprus is facing vulnerabilities relating to its external balance

According to Central Bank of Cyprus preliminary balance of payments (BoP) data for 2022, the current account deficit widened to EUR 2.5 billion in 2022 (9.1% of GDP) from EUR 1.6 billion in 2021 (6.8% of GDP). This deterioration is attributed to the increase in trade deficit (by EUR 1.6 billion), due to higher oil prices and import demand and, to a lesser extent, the primary income (by EUR 117 million). Furthermore, the depreciation of euro against the US dollar in 2022 (≈6%) resulted in a further increase in international oil prices when denominated in euro. In contrast, the increased surplus in services (by EUR 763 million), on the back of tourism recovery, and decreased deficit in secondary income (by EUR 95 million) partly offset the deterioration of the current account balance. According to the European Commission (*Economic Forecast, Spring 2023*), the current account deficit is forecast to narrow to 7.3% of GDP in 2023 and 6.9% of GDP in 2024 (Graph 7).

Tourism recovers amid uncertainty

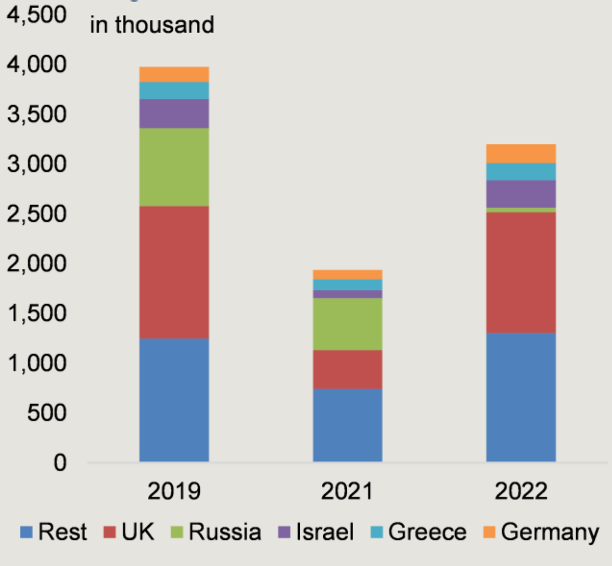
Tourism has been on an upward trend for a long time, being a key economic driver of the Cypriot economy with significant spillover effects into other sectors, such as transport and trade. 2019 was a milestone year, as tourist arrivals rose to a record high of 3.98 million. In addition, the travel and tourism sector accounted for 13.7% of GDP and 14% of total employment in 2019, according to estimates from the World Travel and Tourism Council. The Covid-19 pandemic caused an unprecedented collapse both in terms of arrivals and revenues. In 2021, tourism recovered partially, reaching almost half of the pre-pandemic levels (49% of 2019 tourist arrivals and 56% of 2019 revenues).

The Russia-Ukraine war and the subsequent sanctions imposed on Russia by the EU, have clouded the outlook for Cypriot tourism, as Russia has consistently been one of Cyprus' two largest tourism markets. In 2019, before the outbreak of the Covid-19 pandemic, tourist arrivals from Russia made up about 19.7% (782 thousand) of total tourist arrivals, just behind the UK (33.5%, 1,331 thousand) and markedly above Israel (7.4%, 294 thousand), Greece (4.3%, 172 thousand) and Germany (3.8%, 152 thousand). In 2021 tourist arrivals from Russia (26.8%, 519 thousand) exceeded those of the UK (20.2%, 391 thousand), while in 2022 tourist arrivals from Russia made up just 1.4% (45.3 thousand) of total tourist arrivals (Graph 8). Despite this negative development, the tourism sector outperformed expectations in 2022, with arrivals reaching 3,201 thousand (+65.3% y-o-y), 80% of 2019 levels. The losses from the Russian tourist market were partially covered from other countries, such as Poland, Germany, France, Denmark, Hungary and Austria. Tourism revenues increased to EUR 2.4 billion in 2022 (+61.2%), reaching around 91% of 2019 revenues. In Q4 2022, tourism revenues exceeded those of Q4 2019 by 5.5%.

In January-April 2023, tourist arrivals increased by 38% y-o-y, exceeding the respective 2019 levels by 7%. The outlook for Cypriot tourism is quite positive and reaching 2019 levels the current year as a whole is likely. Risks to the outlook are mainly related to the evolution of inflationary pressures in the main tourist markets. The erosion of the purchasing power of potential travelers along with higher transportation costs could

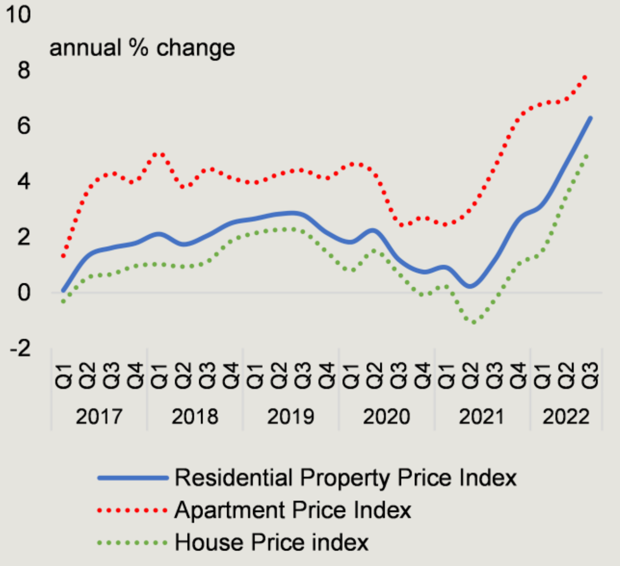
GRAPH 8

Distribution of tourist arrivals



GRAPH 9

House and apartment price indices



Source: CYSTAT, Central Bank of Cyprus

hamper the country's attractiveness as a tourist destination. Despite the uncertainty, efforts to upgrade the quality of the tourism product continue through reforms and investments. According to the Ministry of Finance (*National Reform Programme 2023*), the main RRP reforms and investments to be implemented concern the enhancement of the added value of the tourism sector with emphasis on the countryside, mountainous and remote areas, the enrichment of the tourism product in rural, mountainous and remote areas and the promotion of circular economy in hotel establishments.

Real estate market remains resilient

Another main pillar of the Cypriot economy is the real estate market, including construction and real estate activities. In 9M 2022, the residential property price index (RPPI) increased by 4.7% on an annual basis, at an accelerating pace during the year (Q1 2022: 3.2% y-o-y, Q2 2022: 4.7% y-o-y and Q3 2022: 6.3% y-o-y, Graph 9). Apartment prices and house prices recorded an annual increase of 7.3% and 3.4% in 9M 2022. The acceleration in residential property price increases is mainly attributed to rising construction costs (Price Index of Construction Materials: +17.2% in 2022). In particular, according to an analysis by the Central Bank of Cyprus (*Residential Property Price Index, 2022 Q2)*, the rise in construction costs is the main driver of residential property price increases since mid-2021 onwards; if it hadn't been for the aforementioned increases in construction costs, the RPPI would have recorded negative annual growth rates, ceteris paribus. Turning to the regional breakdown of the index, residential property prices in Paphos registered the largest annual increase (7.1%) in 9M 2022, followed by Famagusta (6.1%), Limassol (5.9%), Nicosia (2.8%) and Larnaca (2.5%).

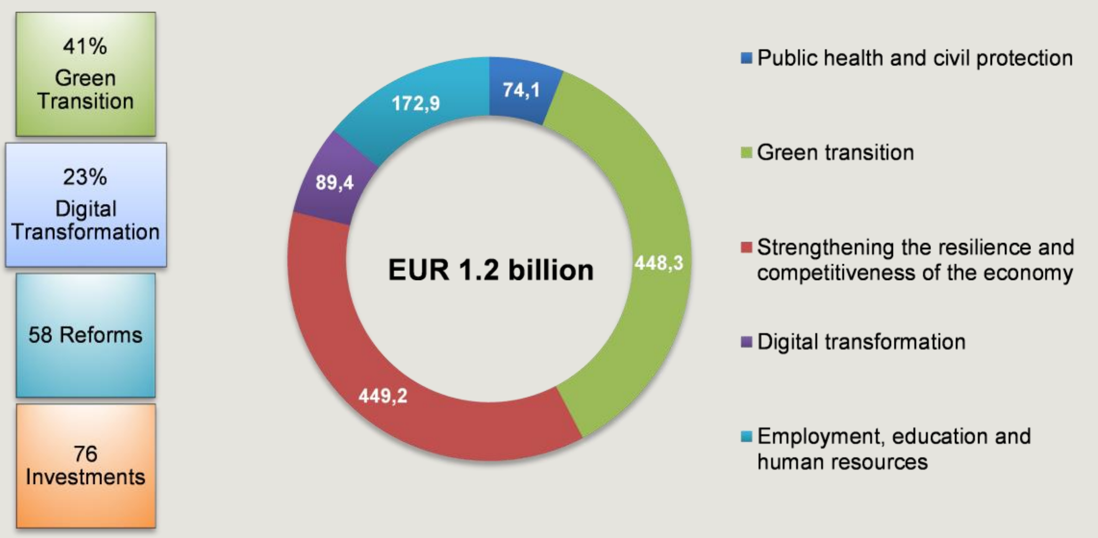
Construction activity shows signs of moderation. In 2022, construction activity retreated in terms of number of building permits (-6.9%) and area (m^2) (-6.3%), while remained stable in terms of value. The number of building permits declined across all regions (Paphos (-13.5%), Nicosia (-8.3%), Limassol (-6.2%) and Larnaca (-5.7%)), with the exception of Famagusta (19.2%).

The RRP and other EU funding programmes support the economic outlook

The Cypriot RRP entails important measures aimed at accelerating green (41% of the funds) and digital transitions (23% of the funds), strengthening the resilience of the economy and the country's human resources for economic, social and environmentally sustainable long-term growth and prosperity. The plan is expected to address the majority of long-standing challenges in the areas of energy efficiency and production, digitalization, transport, waste and water management, health, labour market, education, research and innovation, business environment and competitiveness. The plan foresees the absorption of EUR 1 billion in grants and Euro 0.2 billion in loans (in current prices) to support the implementation of 76 investments and 58 reforms by 2026. Funds under the RRP will be allocated across the following policy pillars: Public health and civil protection (EUR 74.1 million), Green transition (EUR 448.3 million), Strengthening the resilience and competitiveness of the economy (EUR 449.2 million), Digital transformation (EUR 89.4 million), Employment, education and human resources (EUR 172.9 million) (Graph 10). In September 2021, the EC disbursed EUR

GRAPH 10

Cyprus RRP at a glance



Source: 'Cyprus Tomorrow' plan

157 million in pre-financing to Cyprus, while in December 2022 a second payment of EUR 85 million was disbursed, as the country achieved all milestones related to the installment.

In addition, Cyprus is expected to receive funds from other EU funding programmes, such as "THALIA", a multi-annual, multi-fund development programme totalling EUR 1.8 billion, of which around EUR 1 billion comes from the EU Cohesion Policy Funds, while the remaining EUR 0.8 billion is the national contribution. The programme aims to create a robust and competitive economy through investments (e.g., green, digital), under conditions of full employment and social cohesion. The implementation of reforms in the context of RRP and "THALIA" is expected to mobilise additional investment resources, boosting economic activity in the medium and long term.

Annual data	2018	2019	2020	2021	2022	Annual % Changes
GDP at constant prices 2015 (annual % change)	5.6	5.5	-4.4	6.6	5.6	
Private Consumption	5.1	3.9	-6.8	4.5	7.7	
Public Consumption	3.6	12.0	11.5	9.0	0.1	
Gross Fixed Capital Formation	-4.9	6.9	4.5	-4.2	6.6	
Exports of Goods and Services	7.2	8.7	2.2	13.5	13.7	
Imports of Goods and Services	4.3	9.5	3.2	9.0	18.8	
National CPI, (annual % change, period average)	1.4	0.3	-0.6	2.4	8.4	
Unemployment Rate (%, period average)	8.4	7.1	7.6	7.5	6.8	
G.G. Balance (% of GDP)	-3.6	1.3	-5.8	-2.0	2.1	
G.G. Primary Balance (% of GDP)	-1.1	3.5	-3.7	-0.2	3.6	
G.G. Gross Debt (% of GDP)	98.6	90.8	113.8	101.2	86.5	

Business Environment	2022	2022			*Latest available data*	(annual % changes)
		Q2	Q3	Q4		
Economic Activity (annual % change)						
Volume Index in Retail Trade (excl. automotive fuel)	2.6	2.4	2.8	4.1	8.1 (Jan.-Mar. 23)	
Registration of Motor Vehicles	-2.7	10.8	-2.0	2.8	29.5 (Jan.-Mar. 23)	
Construction Activity (area in m2)	-6.0	-23.6	4.9	-0.8	0.9 (Jan.-Feb. 23)	
Industrial Production Index	1.3	3.6	-1.5	-1.1	0.0 (Jan.-Feb. 23)	
Confidence indicators						
Economic Sentiment Indicator (ESI)	100.5	97.5	99.1	101.5	103.5 (Apr. 23)	
Index of Bus. Expect. in Industry	-6.9	-11.1	-6.1	-7.7	-2.9 (Apr. 23)	
Index of Bus. Expect. in Services	15.2	10.4	9.3	16.9	21.3 (Apr. 23)	
Index of Consumer Confidence	-30.4	-34.5	-32.9	-30.3	-25.3 (Apr. 23)	
Credit Growth (% annual change, period end)						
Private Sector	-0.1	3.1	1.6	-0.1	-0.5 (Mar. 23)	
Non-financial corporations	-1.7	4.3	1.3	-1.7	-2.1 (Mar. 23)	
Individuals	2.3	2.6	2.6	2.3	1.9 (Mar. 23)	
- Consumer Loans	-1.4	0.7	-0.1	-1.4	-0.4 (Mar. 23)	
- Housing Loans	4.7	5.3	5.2	4.7	3.8 (Mar. 23)	
Prices and Labour Market						
National CPI, (annual % change, period average)	8.4	9.2	9.5	8.5	3.7 (Apr. 23)	
Residential Property Price Index (annual % change)		4.7	6.3		6.3 (Q3 22)	
Unemployment Rate	6.8	6.8	6.8	6.9	6.9 (Q4 22)	
GDP at constant prices 2015 (annual % change)	5.6	6.4	5.5	4.4	3.4 (Q1 23)	
Private Consumption	7.7	7.9	8.8	7.2	5.0 (Q1 23)	
Public Consumption	0.1	0.3	3.2	-2.4	4.2 (Q1 23)	
Gross Fixed Capital Formation	6.6	31.2	6.6	-2.2	56.0 (Q1 23)	
Exports of Goods and Services	13.7	16.7	9.8	5.8	2.4 (Q1 23)	
Imports of Goods and Services	18.8	26.3	19.4	8.4	19.2 (Q1 23)	

Sources: Eurostat, Cystat, Central Bank of Cyprus, Ministry of Finance

1/ Provisional historical figures for real GDP in 2021 and 2022.

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