European Commission

ISSN 2443-8014 (online)

Post-Programme Surveillance Report

Cyprus, Autumn 2024

INSTITUTIONAL PAPER 298 | NOVEMBER 2024

EUROPEAN ECONOMY

Economic and Financial Affairs

European Economy Institutional Papers are important reports analysing the economic situation and economic developments prepared by the European Commission's Directorate-General for Economic and Financial Affairs, which serve to underpin economic policy-making by the European Commission, the Council of the European Union and the European Parliament.

DISCLAIMER

The views expressed in unofficial documents do not necessarily represent the views of the European Commission.

LEGAL NOTICE

Neither the European Commission nor any person acting on behalf of the European Commission is responsible for the use that might be made of the information contained in this publication.

This paper exists in English only and can be downloaded from https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en.

Luxembourg: Publications Office of the European Union, 2024

PDF ISBN 978-92-68-17456-2 ISSN 2443-8014 doi:10.2765/966254 KC-BC-24-025-EN-N

© European Union, 2024
Reuse is authorised provided the source is acknowledged. The reuse policy of European Commission documents is regulated by Decision 2011/833/EU (OJ L 330, 14.12.2011, p. 39). For any use or reproduction of material that is not under the EU copyright, permission must be sought directly from the copyright holders.

CREDIT
Cover photography: © iStock.com/benslimanhassan

European Commission
Directorate-General for Economic and Financial Affairs

Post-Programme Surveillance Report

Cyprus, Autumn 2024

EUROPEAN ECONOMY

Institutional Paper 298

ACKNOWLEDGEMENTS

This Post-Programme Surveillance assessment was prepared in the Directorate-General for Economic and Financial Affairs of the European Commission under the guidance of Declan Costello, Deputy Director General, Luc Tholoniat, Director, Maarten Masselink, Head of Unit for Cyprus, and Monika Sherwood, Deputy Head of Unit for Cyprus.[1]

Contributors: Polona Cigoj, Sotirios Giannoulis, Anne Michels, Mona Papadakou and Angeliki Paritsi from the Directorate General for Economic and Financial Affairs, and Rainer Wichern, Marios Christodoulou and Marcus Sonntag from the Directorate General for Financial Stability, Financial Services, and Capital Markets. Editorial assistance was provided by Patricia Bernardos Schepers.

The report was prepared in liaison with staff from the European Central Bank (ECB)[2]. Staff from the European Stability Mechanism (ESM) also provided comments.

This report reflects information available and policy developments that have taken place until 31 October 2024. Therefore, the macroeconomic and budgetary projections, including those underlying the debt sustainability analysis, are in line with the Commission 2024 autumn forecast released on 15 November 2024 (with a cut-off date of 31 October 2024).

Comments on the report are welcome and should be sent, by mail or email, to:

Maarten Masselink

European Commission

Directorate-General for Economic and Financial Affairs

Head of Unit responsible for Cyprus

B-1049 Brussels

E-mail: ECFIN-F1-PPS-CYPRUS@ec.europa.eu.

(1) The executive summary of this report was adopted as Commission Communication C(2024)9069 on 25 November 2024. The rest of the report reflects the findings of the staff working document SWD(2024)696 accompanying that communication.

(2) European Central Bank (ECB) staff participated in this mission and the drafting of this report, in accordance with the ECB's competences, and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

EXECUTIVE SUMMARY

The 17th post-programme surveillance mission to Cyprus took place from 30 September to 7 October 2024. This mission involved European Commission staff in liaison with European Central Bank (ECB) staff. European Stability Mechanism (ESM) staff participated on aspects relating to the ESM's Early Warning System.

The macroeconomic outlook remains strong, while risks remain from the geopolitical situation. Growth in the first half of 2024 accelerated to 3.7% year-on-year and is expected to maintain momentum over the coming years. It is forecast to be broad based, driven by stronger investment spending as well as rebounding net exports. The continuing recovery in household purchasing power is expected to support private consumption and a rebound in the household saving rate. Inflation is projected to decline further, hovering around the ECB price stability target of 2% over the medium term. Unemployment is approaching its lowest point in over a decade, yet labour shortages appear limited thanks to the influx of foreign workers and increased participation of nationals. The current account deficit is set to narrow, but remain high, mainly linked to deficits on the primary income account. Downside risks related to geopolitical tensions exist, and warrant vigilance.

The fiscal outlook remains positive with significant budgetary surpluses and a declining debt-to-GDP ratio. The general government budget surplus is expected to increase to 3.5% of GDP in 2024 driven by a strong increase in revenue that more than offsets the higher expenditure driven by public wages, pensions and the health system. The public debt-to-GDP ratio is decreasing fast and is expected to be 56.7% at the end of 2026. As required by the new European economic governance framework Cyprus presented in mid-October its medium-term fiscal-structural plan.

The Cypriot banking sector demonstrated resilience in the face of ongoing economic and geopolitical challenges. So far this year, the sector has maintained a strong level of profitability similar to last year, driven primarily by solid interest income performance. Deposits have continued to grow, and lending activity remains buoyant, despite the uncertainties created by geopolitical tensions for both lenders and borrowers. Non-performing exposures have decreased further, with all key asset quality metrics showing improvement. The increases in new consumer lending and the levels of renegotiated loans are notable, however, borrowers' repayment capacity remains high. Banks, and the Central Bank of Cyprus (CBC), are maintaining vigilance over operational risks arising from geopolitical events, including the threat of cyber-attacks and the impacts of climate change.

Reforms introduced last year, such as the Mortgage-to-Rent scheme and the revamped foreclosure process, are being implemented. Interest in the Mortgage-to-rent scheme has exceeded expectations. The foreclosure process has operated without interruption in the first nine months of 2024 and serves as a credible threat to borrowers, increasing NPL repayments.

Cyprus retains the capacity to service its debt. Prudent fiscal policies and strong economic growth were the main drivers of the reduction in the public debt-to-GDP ratio, and projections indicate continued improvements over the coming years. According to the debt sustainability analysis, Cyprus is assessed to face low risks in the short and long term and medium risks in the medium term. Government financing needs for 2024 and beyond remain low. The debt servicing capacity of Cyprus remains unaffected driven by the relatively long maturity of the debt portfolio, large cash buffers and the continuously declining debt ratio. The first loan repayment to the ESM is scheduled for 2025. Cyprus continues to enjoy a favourable market perception with continued investment grade upgrades and a positive outlook by all major credit-rating agencies.

CONTENTS

1. INTRODUCTION 1

2. MACROECONOMIC DEVELOPMENTS 2

3. PUBLIC FINANCE DEVELOPMENTS 4

4. FINANCIAL SECTOR DEVELOPMENTS 6

5. SOVEREIGN FINANCING AND CAPACITY TO REPAY 13

A1. MAIN MACROECONOMIC INDICATORS 15

A2. DEBT SUSTAINABILITY ANALYSIS 16

LIST OF TABLES

4.1. Soundness indicators for the banking sector in Cyprus 10
A1.1. Main macroeconomic indicators 15
A2.1. Debt sustainability analysis - Cyprus 18
A2.2. Heat map of fiscal sustainability risks - Cyprus 18

LIST OF GRAPHS

4.1. Evolution of total capital ratio and NPL ratio 9

1. INTRODUCTION

Staff from the European Commission, in liaison with staff from the European Central Bank (ECB), undertook from 30 September to 7 October 2024 the 17th post-programme surveillance mission to Cyprus. Staff from the European Stability Mechanism (ESM) participated in these meetings on aspects related to the ESM's Early Warning System. Under post-programme surveillance, the Commission carries out regular review missions to euro area countries that have had a financial assistance programme. The mission aims to assess the economic, fiscal and financial situation to ensure the Member State maintains its capacity to service its debt ([3]).

Following a request by Cyprus on 25 June 2012, a three-year economic adjustment programme was agreed between the Cypriot authorities and the European Commission, the ECB and the International Monetary Fund (IMF) on 2 April 2013. Cyprus exited its economic adjustment programme in March 2016. The programme included an ambitious reform agenda and measures designed to decisively address the financial, fiscal, and structural challenges facing the Cypriot economy to return to a sustainable growth path. It provided financial assistance of up to EUR 10 billion (the ESM provided up to EUR 9 billion and the IMF contributed around EUR 1 billion). Cyprus eventually used EUR 7.3 billion (EUR 6.3 billion from the ESM and EUR 1 billion from the IMF). Cyprus fully repaid its IMF loan in February 2020.

This report reflects information available on, and policy developments until, 31 October 2024. The macroeconomic and budgetary projections (including those underlying the debt sustainability analysis) are in line with the Commission's 2024 Autumn Economic Forecast released on 15 November 2024 (with a cut-off date of 31 October 2024).

([3]) Under Regulation (EU) No 472/2013, post-programme surveillance will continue until at least 75% of the financial assistance received under the programme has been repaid. Under the current repayment schedule, it will last until 2030.

2. MACROECONOMIC DEVELOPMENTS

Economic growth continued its momentum in the first half of 2024, with real GDP expanding by 3.7% year-on-year. Private consumption surged at the end of 2023 supported by dynamic employment growth and a continuous recovery in consumer purchasing power as inflation moderates and nominal wages increase. Investment excluding the registration of ships and aircraft, grew by 4.8% year-on-year and in total by 4.5% in the first half of the year, driven mainly by the positive sentiment in construction and ongoing completion of large non-residential private sector projects. Strong foreign demand for services, notably sea transport and tourism, but also of financial and other business services, led to a solid export performance and reversing the contribution of the trade balance from negative to positive. The continuous growth in sea transport despite the slowdown in trade aggregates in the euro area, indicates that Cyprus is expanding its geographical reach in global markets while also increasing its penetration in growing shipping markets, particularly in sustainable green shipping sectors.

The outlook for economic growth remains positive, mainly supported by investment and net exports. According to the Commission's Autumn 2024 economic forecast, real GDP growth is projected at 3.6% in 2024, and to remain high over the forecast period, at 2.8% in 2025 and 2.5% in 2026. Investment is expected to benefit from the acceleration of actions financed under the Recovery and Resilience Plan. Additionally, anticipated monetary easing is likely to further stimulate investment spending, especially in the services sector, which cites financial constraints as key challenges since the beginning of the interest rate hike cycle. Despite the economy's high import dependence, service exports are projected to grow, supported by a favourable outlook for tourism and an ongoing rapid growth in the ICT sector. Freight transport is also set to continue its solid performance.

Risks to the outlook remain tilted to the downside. Due to ongoing geopolitical tensions companies and individuals from affected areas relocated investments to Cyprus, seen as a safe heaven for investments given its location and EU membership. On the other hand, the geopolitical tensions could potentially affect supply chains and raise production costs, which warrants greater vigilance. They could also impact the tourism sector, an important contributor to the country's external balance, which has only recently recovered from past shocks. Despite the projected decrease in international oil and electricity prices, energy prices remain a source of risk due to the country's high energy dependence and limited integration with the European electricity market.

Labour market performance remains robust, marked by high employment growth. In the first half of 2024, employment grew by 2.1% year-on-year, while the unemployment rate dropped by one percentage point compared to the same period last year to its lowest level since before the global financial crisis. Employment growth was particularly strong in tourism-related sectors, as well as in the public sector. The job vacancy rate ([4]) is on the rise, showing that there are more job openings relative to the available workforce. This aligns with the projected outlook of solid growth in the forecast period. Linked to this, the government's headquartering policy, aimed at attracting international companies to establish regional or global headquarters in Cyprus, has brought a considerable number of skilled professionals into the economy. According to the Commission's autumn 2024 forecast, employment growth is expected to reach 1.9% in 2024 and then to recede to around 1.3% in 2025 and 1.2% in 2026. The unemployment rate is expected to decrease to 4.9% in 2024 and decline further to 4.5% in 2026.

([4]) The job vacancy rate is typically used as an indicator for labor market tightness.

Growth in wages has been strong. This is partly due to the inflation indexation mechanism that applies to broad sectors of the economy and the increase in social security contributions. Growth in compensation per employee is expected to reach 4.4% in 2024 and remain significantly above inflation in 2025 and 2026. This translates into increasing real wages over the forecast period. The wedge between nominal wage growth and productivity growth is expected to narrow over the same period, leading to slower growth in unit labour costs. Nonetheless, Cyprus's unit labour cost outlook is projected to remain below that of the euro area, which could be positive for exports going forward.

Inflation continues to decrease. The Harmonised Index of Consumer Prices (HICP) dropped to 1.6% in October 2024, from 3.6% a year earlier. The decline reflects falling energy prices, the relatively high-interest rate environment, and diminishing base effects. Core inflation is moving broadly in line with headline inflation, recording 2.9% in October. According to the Commission's Autumn 2024 forecast, inflation is set to hover around 2.0% over the coming years, in line with anticipated decreases in energy prices.

The current account deficit is expected to remain high. The economy's high import component, together with the large primary income outflows from the repatriation of profits of foreign-owned corporates contribute to a high current account deficit. Those net income outflows stem from non-reinvested profits of corporates which constitute the growing bulk of foreign direct investment (FDI) liabilities to the rest of the world. FDIs are attracted by the overall friendly tax regime and are only partly channelled to productive investments that diversify output, increase productivity and boost competitiveness. A significant portion of FDI involves Special Purpose Entities (SPEs) with virtually no contribution to output and employment, but with a very large contribution to external and internal debt. A disproportionate share of FDI liabilities may also imply risk of aggressive tax planning and therefore, targeted measures set out in the national recovery and resilience plan are crucial to ensure a sustainable framework for the economy's business model. On the upside, positive trends in financial and other businesses, tourism, sea freight transport services and ICT exports boosted the trade balance in the first quarter.

3. PUBLIC FINANCE DEVELOPMENTS

Cyprus's fiscal situation and outlook are positive. The general government surplus was 2% of GDP in 2023, down from 2.6% in 2022. However, this was only due to the one-off retroactive payment of EUR 360 million (1.1% of GDP) to the social security fund of civil servants, which statistically burdens revenue and expenditure in 2023. Developments in the first half of 2024 showed a continued further improvement and the budget surplus, which is expected to be 3.5% for the entire year 2024. This strong fiscal performance is primarily driven by sustained high revenue growth, offsetting expenditure increases. Budgetary surpluses are expected to remain elevated over the medium-term.

Revenue increases are broad-based, driven by both policy and macroeconomic developments. The buoyant growth, of more than 10%, of revenue from social security contributions over the first half of 2024 was positively impacted by a higher social contribution rate introduced at the start of the year, as well as higher employment and higher wages. The latter also supported personal income tax revenue. The dynamic economic situation also bolstered corporate income tax revenue, in particular, in the banking and ICT sectors. Corporate income tax revenue also benefited from the resolution of case backlogs. Overall income tax revenue are expected to increase by around 11% in 2024, mainly thanks to corporate taxes which are set to increase by almost 14%. Taxes on production and imports, including VAT, are also growing strongly (more than 10%) despite price increases have been easing. Total revenue are expected to increase by around 10% in 2024 (excluding the impact of the statistical treatment of the payment to the new civil servants pension fund, see above) .

Higher public wages and social spending have been driving public expenditure increases in 2024. The automatic wage indexation to inflation([5]), combined with higher social contributions for civil servants significantly raised the spending for compensation of employees over the first half of 2024. This came after a strong increase of almost 13% in the public sector wage bill in 2023. Higher health expenditures, pension increases and state's higher contributions to the social security fund increased further social transfers. Large infrastructure projects and the accelerated implementation of the RRP and other EU funded projects are the main drivers of public investment spending. Total expenditure is set to increase by around 9% in 2024 (excluding the impact of the payment to the new civil servants pension fund, see above).

Overall, the general government budget balance is projected to remain in surplus and the public debt-to-GDP ratio is on a declining path over the coming years. The Commission's autumn 2024 forecast is projecting the general government surplus of Cyprus to be 2.7% of GDP in 2025 and 2026. The projected moderation of the surplus is mainly driven by the revenue side as public revenue increases are set to ease in line with incomes and consumption. The debt-to-GDP ratio is forecast to continue declining and drop to 61.4% in 2025 and 56.7% in 2026, driven by continued high nominal GDP growth and significant primary surpluses (see also Section 5 on sovereign financing and the debt sustainability analysis in Annex 2).

([5]) Cyprus has in place an automatic cost-of-living allowance indexation on wages in place (COLA). Under the scheme, the wages and salaries of employees in the public sector and about 30% of the private sector covered by collective agreements are adjusted every January for a year-on-year percentage change (only if positive) in the consumer price index (CPI), excluding any increases in consumption taxes, and only if GDP rose during the second and third quarters of the previous year. The adjustment coefficient increased to 66.7% as of 1 June 2023 (from 50% previously) following a renewed collective agreement in May 2023 among the social partners. Cyprus's authorities estimate the additional wage cost for the public sector from the COLA coefficient to be around 0.25% in 2024. At the same time, higher wages in the economy would suggest higher labour income tax and social security contribution revenue.

Risks to the fiscal outlook mainly arise from the implementation of large investment projects. In particular the construction of a liquified natural gas terminal at Vasiliko Bay, which is delayed and could imply budgetary costs of up to 1% of GDP linked to state guarantees or additional investment costs for the continuation of the project. Additionally, the Great Sea Interconnector project may temporarily impact government accounts, depending on the statistical treatment of Cyprus's participation in the construction consortium. At the same time, contingent fiscal risks from the financial sector have been alleviated. Other risks related to budget execution remain limited. Expenditure overruns cannot be ruled out if ad hoc decisions to increase inelastic expenditures (such as wages) persist. On the other hand, revenue developments could continue to surpass expectations, driven by the inflow and expansion of foreign companies in dynamic sectors (in particular ICT). Moreover, the efforts of Cypriot authorities to improve tax administration are expected to yield positive results in the coming years. As required by the new economic governance framework, Cyprus presented in mid-October its medium-term fiscal-structural plan. By the cut-off date of this report (31 October 2024), the plan was under assessment by the Commission.

4. FINANCIAL SECTOR DEVELOPMENTS

4.1. Banking sector developments

Profitability

Cypriot banks were able to maintain the high profitability levels achieved in the previous year, supported by a sustained high level of net interest income. Profits ([6]) of the Cypriot banking sector in the first half of 2024 amounted to EUR 603 million, only slightly below the EUR 608 million in the first six months of 2023 ([7]). A decline in net fee and commission and dividend income was more than offset by a rise in net interest income. Interest income reached EUR 1 431 million in the first half of 2024 (up from EUR 1 074 million for the corresponding period in 2023) and originated from both the banks' excess liquidity placed with the ECB as well as loans' -still- wide lending spread ([8]) as deposit rates climbed only slowly. Net fee and commission income dropped by EUR 4 million and dividend income fell by EUR 64 million. Despite efforts to diversify income, banks remain highly dependent on net interest income. Although profitability is expected to decline from recent highs as interest rates return to normal levels, banks are still expected to maintain solid earnings. Impairments declined compared to the corresponding period of the previous year. Staff costs stabilised at around 50% of the total operating expenses while other administrative expenses rose only marginally compared to the same period in 2023. As a result of improving profitability, the cost-to-income ratio remained low at 35%, with the annualised return-on-equity at 21.3%. Both metrics compare favourably with the corresponding EU averages of 53.8% and 10.2%, respectively.

Minimum requirements (risk-based capital, leverage and resolution requirements)

The capital position of Cypriot banks strengthened further in June 2024, with all regulatory requirements met. Strong profitability enhanced the sector's high quality capital buffers, leading Common Equity Tier 1 (CET1) and Total Capital ratios 105 bps and 101bps higher comparing to December 2023, at 22.5% and 26.77%, respectively. These are the highest levels ever recorded and among the highest across the EU. The banking system's buffer availability (level of capital above Pillar 2 guidance) at 9.2% shows that the banking sector is well-positioned to absorb unexpected losses and provides banks with significant strategic flexibility, including the option of returning capital to shareholders. However, the introduction of dividend payout plans should follow a conservative approach and consider a return of profits to their historical average. The aggregate leverage ratio stood at 8.9% in June 2024, up from 8.0% in December 2023, also well above the minimum requirement of 3% and the EU average of 5.8%. In addition, in September 2024, all banks operating in Cyprus that are subject to the minimum requirement for own funds and eligible liabilities (MREL) were in compliance with their final targets.

Deposits and liquidity

Cypriot banks have abundant liquidity and thus little incentive to increase deposit rates to attract additional deposits. The banking system continues to enjoy a comfortable liquidity

---

([6]) Includes the results of all local authorised credit institutions, subsidiaries of foreign banks and branches of foreign banks.

([7]) Central Bank of Cyprus, June 2024, Aggregate Cyprus Banking Sector Data

([8]) ECB Data Portal lending margins in Cyprus

coverage ratio which stood, in June 2024, at 332% and a net stable funding ratio of 184% ([9]), both substantially above the 161% and 130% EU average. At the same time, the sector's loan-to-deposit ratio stood at 45%, less than half the EU average of 95%. There was little pressure on banks to compete for deposits and therefore banks were able to keep deposit rates for households and non-financial corporations (NFCs) at low levels. In June 2024, Cypriot banks' total deposits amounted to EUR 53 376 million, up from EUR 52 156 million in December 2023([10]). Cypriot banks held 32% of their assets at the central bank deposit facility and 42% were loans and advances, compared to the EU average of 12% and 63% respectively ([11]). This allocation is attributed to the high return currently earned on placements with the Eurosystem. However, it points to some structural challenges in expanding lending activities.

Lending

The banks' lending business remained steady compared to the previous year despite continued high interest rates. In the first half of 2024, pure new loans to households and NFCs amounted to EUR 1 670 million, compared to EUR 1 735 million in the same period in 2023. New loans to households for house purchases, consumer, and other lending, amounted to EUR 689 million, up by EUR 28 million (or 4.3%) compared to the same period in 2023. This expansion was driven by an increase in loans for house purchases and consumer lending, but partially offset by a drop in other lending. This trend continued in the third quarter of the year. The growth in consumer loans is partly attributed to the rise in living costs and should be monitored.

Demand for business loans is moderating amid tightening lending standards. New loans to NFCs reached EUR 981 million by June 2024, 8.7% lower than the amount for the same period in 2023. The cooling in demand for business loans in the first two quarters of 2024 can be attributed to elevated interest rate levels, expectations of future monetary easing, and reduced financing needs amidst growing uncertainty about the impact of geopolitical risks on the business environment, prices, and overall investor confidence. On the supply side, according to the CBC Bank Lending Survey ([12]), during the same period banks tightened their lending standards for businesses. Nevertheless, in July and August lending to NFCs accelerated and bringing the total amount for the year to August to EUR 1 355 million This reversed the previous trend and marked a 2.3% increase compared to the same period in 2023. The survey showed that credit demand was positively impacted by the need to finance working capital and fixed investments and that the level of interest rates continued to be a drag on loan demand.

Asset quality

Asset quality continued to improve in the first half of 2024 despite the challenging macroeconomic environment. The stock of non-performing loans (NPL) declined further to EUR 1 669 million in June 2024 from EUR 1 892 million in December 2023, corresponding to an

([9]) European Banking Authority Risk dashboard – Q2 2024

([10]) Central Bank of Cyprus, June 2024, Aggregate Cyprus Banking Sector Data

([11]) European Banking Authority Risk dashboard – Q2 2024

([12]) See Central Bank of Cyprus, July 2024, Bank Lending Survey

NPL ratio of 6.9%, compared with 7.9% in December 2023 ([13]) ([14]). The NPL coverage ratio also improved, increasing by 5 ppts to 55%, standing above the EU average. Additionally, the amount of unprovided NPLs dropped to EUR 751 million, the lowest observed so far. This improvement in asset quality has led to a significant reduction in the cost of risk over the past year, bringing the cost of risk below the EU average for the first time. The overall loan quality has seen improvements across both NFCs and households with Stage 2 exposures falling to EUR 2 000 million (down from EUR 2 300 million in December 2023). The share of Stage 2 loans of 7.6% compares favourably with the EU average of 9.3% ([15]). In addition, the IFRS 9 stage migration matrix, shows that the amount of loans transferred to lower stages exceeded those migrated to higher stages. This indicates an overall improvement in asset quality.

Less significant institutions (LSIs) continue to face challenges with the resolution of their legacy NPLs. LSIs in the country carry on average a higher share of NPLs on their balance sheets than those of the larger, systemic banks ([16]). Their aggregate NPL ratio stood at 21% in June 2024, unchanged from December. LSIs rely predominantly on organic measures to reduce NPLs, which implies a more protracted resolution process that weighs on their performance.

The amount of renegotiated loans remains high, despite a decrease. Data ([17]) indicate that loan renegotiations peaked during the second half of 2023, when interest rates rose rapidly, suggesting that they were motivated by households and NFCs seeking to secure better financing conditions within or across banks. Despite a reduction in the total monthly amount of renegotiated loans, the overall level, for both households and NFCs, remained elevated in 2024 compared to earlier periods. As the financing conditions driving the earlier surge have eased, the expectation is for fewer renegotiations going forward. Both NFCs and households continue to show strong debt repayment capacity, easing concerns of renegotiations. The CBC is monitoring these developments.

([13]) The NPL ratio here excludes loans and advances to central banks and credit institutions. It is different to the NPL ratio in the European Semester Cyprus Report, which includes loans and advances to central banks and credit institutions and was 3.6% in Q1 2024, compared with the EU average of 1.9%.

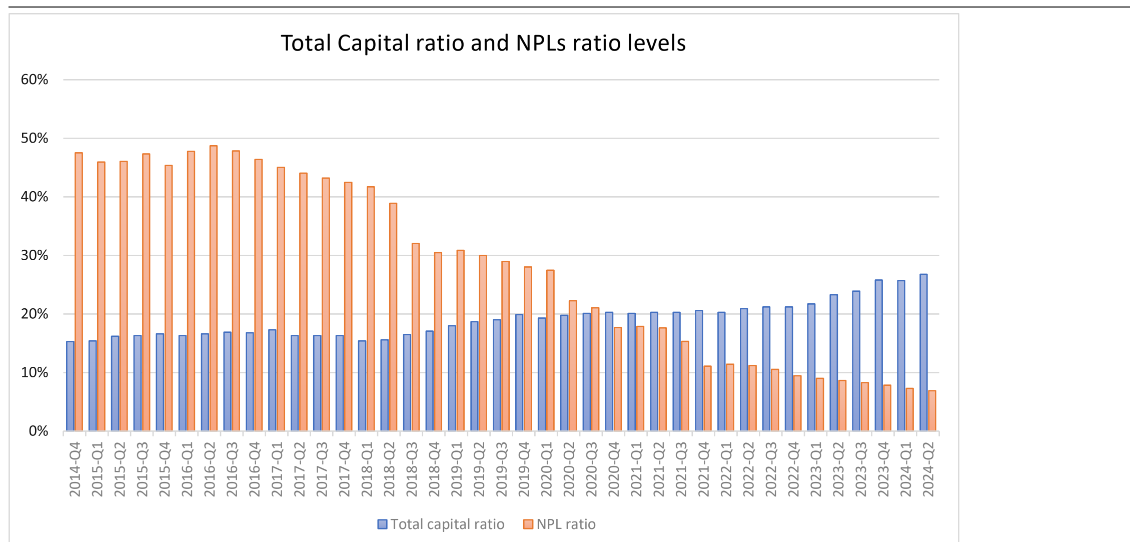
([14]) See Central Bank of Cyprus, Central Bank of Cyprus - Aggregate Cyprus Banking Sector Data.

([15]) European Banking Authority Risk dashboard – Q2 2024

([16]) While the smaller banks make up around 10% of the total gross loans and advances in the banking sector, they hold a disproportionately high share of NPLs, accounting for about 29% of the total stock of NPLs.

([17]) See Central Bank of Cyprus, June 2024, Monetary Financial Statistics.

Graph 4.1: **Evolution of total capital ratio and NPL ratio**



Source: Central Bank of Cyprus.

Risks to financial stability and macroprudential oversight

Macrofinancial risks from balance sheet stress in the non-financial private sector remain even though they have eased this year. Household and NFC debt remained stable in nominal terms, but declined relative to GDP largely thanks to nominal GDP expansion helped by both real growth and inflation. Households continue to be exposed to persistently high consumer prices and increased debt service payments; yet, their finances are supported by average earnings growth that has been above inflation since early 2023.

Risks remained elevated but have also moderated for the most vulnerable business sectors. A quantitative analysis by the Central Bank, which focused on the risk profiles of individual business sectors shows that risks continue to be elevated in the hospitality sector. This sector has a high level of debt and saw its income slashed during the pandemic but this effect has now been offset. In addition, this sector often has yearly repayment schedules for loans, which could create additional vulnerabilities. Construction, real estate activities and trade have similar risk profiles, but a more favourable repayment profile. These sectors (hospitality, construction and real estate and trade), accounted for more than 60% of total lending to NFCs in 2023. Overall, the risks have abated somewhat in the past six months as liquidity buffers in the mentioned sectors have improved.

Emerging risks, including geopolitical, climate, and cybersecurity threats, are difficult to predict and assess, making it essential for banks to remain vigilant. Geopolitical risks, physical risks arising from climate events as well as transition risk are at the forefront of the banks' risk mitigation efforts and are closely monitored by the central bank. Moreover, cyber-attacks have become more frequent, and banks are heavily investing in their IT infrastructure.

Banks' exposure to the real-estate sector remains high but has declined. Cypriot banks still have high exposures to the property sector, as 64% of loans to households and NFCs are collateralised by real estate. However, asset quality metrics do not show signs of deterioration from previous years. Commercial real estate (CRE) and residential real estate (RRE) prices

continued their upward trajectory in 2024. The house-price-to-income ratio does not show signs of overvaluation in the RRE market, although there are signs of regional overheating in certain provinces such as Limassol. In terms of CRE, yields for all property types are close to their historical average, ensuring adequate revenue generation to cover interest expenses. The CBC anticipates the growth in real estate prices to slow but remain positive, a base scenario that mitigates revaluation and collateral risk.

Table 4.1: **Soundness indicators for the banking sector in Cyprus**

	2016	2017	2018	2019	2020	2021	2022	2023				2024	
	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Mar	Jun	Sept	Dec	Mar	Jun
NPLs*, all loans (EUR billions)	23.8	20.6	10.3	9.0	5.1	3.0	2.3	2.2	2.1	2.0	1.9	1.8	1.7
NPLs*, all loans (% of total)	47.2	43.7	30.3	27.9	17.7	11.0	9.5	9.0	8.7	8.3	7.9	7.3	6.9
NPLs*, loans to NFCs (% of total)	56.4	50.3	33.2	24.5	14.5	8.1	8.0	7.6	7.3	7.2	6.6	6.2	5.9
of which, restructured non-performing (%)	25.8	22.8	14.4	10.8	6.4	4.0	3.9	4.0	3.9	4.0	3.7	3.4	3.3
of which, restructured performing (%)	9.4	8.6	6.8	4.5	3.1	10.7	11.4	9.5	6.5	5.7	4.5	3.8	3.3
NPLs*, loans to households (% of total)	56.0	53.9	37.6	35.2	23.7	14.7	12.1	11.7	11.2	10.6	10.2	9.3	8.7
of which, restructured non-performing (%)	20.1	19.7	17.1	15.7	10.4	6.2	4.7	4.5	4.2	3.9	3.7	3.3	3.0
of which, restructured performing (%)	7.7	8.3	7.1	4.8	4.6	3.7	2.9	2.6	2.5	2.3	2.2	2.1	2.0
Coverage rate (Impairments / NPLs)*	40.3	45.9	49.6	55.2	46.2	42.7	47.5	48.8	50.4	50.3	49.5	53.3	55.0
Cost-to-income ratio	52.6	53.6	62.5	72.3	63.7	71.9	69.4	33.5	32.9	33.3	32.8	30.5	35.0
Lending margin on new loans	2.0	1.9	2.6	2.8	2.8	2.7	3.2	4.7	3.8	3.6	3.3	3.2	3.0
Common Equity Tier 1 ratio	15.9	14.9	15.1	17.4	17.7	17.7	17.8	17.3	19.0	19.5	21.3	21.5	22.5
Return on equity (annualised)	1.7	-11.2	6.1	3.4	-3.9	0.3	4.8	25.0	24.9	24.1	24.6	21.6	21.3

(*) The figures cover local operations of all banks in Cyprus. Figures exclude loans and advances to central banks and credit institutions.

Source: Central Bank of Cyprus, European Central Bank.

The CBC closely monitors macroprudential risks and maintains a rather tight macroprudential stance by employing capital-based and borrower-based measures. With effect from 2 June 2024, the countercyclical capital buffer (CcyB) has been 1.0%. In April 2024, the CBC published a revised policy for the designation of other systemically important institutions (O-SIIs) and methodology for the determination of the O-SII buffer, which resulted in adjustments of this buffer for several O-SIIs ([18]). In addition, the CBC employs borrower-based measures and has set maximum limits for Loan-to-Value (LTV) and Debt-Service-To-Income (DSTI) metrics, which depend on the type of property and/or the currency of the loan, respectively.

4.2. Other financial sector topics

KEDIPES

KEDIPES ([19]) continues working out its portfolio, while its management recalibrated the business plan to reflect recent trends in performance. During the first 9 months of 2024, KEDIPES repaid an additional EUR 240 million of state aid ([20]), bringing the total amount repaid to EUR 1 400 million since 2018. Cash inflows were boosted by the receipts from the sale of Project

([18]) Central Bank of Cyprus - O-SII capital buffer for Other Systemically Important Institutions - Credit institutions.

([19]) KEDIPES is the state-owned asset management company that was established in 2018 as the residual entity of the former state-owned Cyprus Cooperative Bank (CCB) whose performing part was sold to Hellenic Bank.

([20]) KEDIPES's business plan targets the full repayment of the state aid granted amounting to EUR 3.5 billion.

Ledra [21] to the Bank of Cyprus that was concluded last December. The observed trends in performance, as well as the lessons learned from the Ledra transaction, prompted the management of KEDIPES to proceed with a recalibration of the business plan [22]. The recalibrated business plan envisages higher reliance on organic resolution, a work-out method for NPLs where KEDIPES historically overperformed, but fewer portfolio sales. This updated strategy in the resolution of the NPL portfolio will result in more gradual deleveraging and thus will require the prolongation of the business plan until 2030 [23]. However, this does not deviate from the key target of full repayment of the State aid of EUR 3 547 million.

Structural reforms

Interest in the Mortgage-to-Rent scheme exceeded expectations, and its implementation is now underway. The scheme [24] was launched in December 2023. The government expanded the legal remit of KEDIPES to allow it to manage the scheme. The scheme was open for applications until 6 September 2024 and was subsequently extended by another month until 31 October as the interest among eligible participants exceeded initial estimates. Before the extension, 3095 applications had been received from almost all banks and credit acquiring companies (CACs). The scheme is being rolled out, with applications screened for compliance with its technical criteria, while property due diligence is also underway. The first properties are expected to be taken into ownership before the end of 2024. Until now, KEDIPES has set aside EUR 80 million for this purpose.

The foreclosure framework was safeguarded in December 2023, but it is too early to fully assess its application. The passing of a package of legislative amendments in December 2023 has expedited the foreclosure process and broadened the role of the Financial Ombudsman. Along with the implementation of the Mortgage-to-Rent scheme around the same time, this has settled the foreclosure debate of recent years. The new reforms aim to strike a balance between protecting genuinely vulnerable borrowers and preventing system abuse by strategic defaulters. However, lenders have not yet fully resorted to foreclosures as a resolution tool and therefore it is difficult to quantify the full impact at this stage. In the first nine months of 2024, the pace of foreclosure initiations for non-cooperative borrowers was slow, but anecdotal observation suggests that debtors have increased their NPL repayments or sought settlements in higher numbers before auctions are initiated. The expedited foreclosure process reduces uncertainty over recovery time and value, and serves as both a deterrent to strategic defaulters, thereby improving payment discipline and a mechanism to preserve the asset quality of borrowers.

Capital market

The Cypriot capital market plays a limited role in financing local firms, with banks serving as the primary source of funding for corporates. Cyprus's market funding ratio stands at a mere 22.8%, significantly lower than the EU average of 50.8%, although it has been

[21] Project Ledra consisted of 57 reperforming loans with gross book value of EUR 58.4 million that were sold for EUR 56.5 million to the Bank of Cyprus.

[22] The recalibrated business plan has been approved by the Boards of KEDIPES and by the Board of SEDIPES.

[23] The initial business plan runs until 2027.

[24] The scheme targets NPLs collateralised by a primary residence with a market value of up to EUR 250 000 and is subject to strict eligibility requirements.

steadily increasing in recent years. Compared to other EU countries, Cyprus's equity market is relatively small, featuring only a few listed companies and, overall, low trading volumes. The bond market is tapped mostly by the government but not very often by corporates. In contrast, the investment fund industry is expanding, driven by efforts from the Cyprus Securities and Exchange Commission (CySEC) to create a dynamic and internationally competitive sector. Private equity and venture capital also play a limited role in the market. The Cypriot Recovery and Resilience Plan includes at least four measures aimed at boosting the capital market, which need to be completed by Q2 2026. A developed capital market could offer alternative investment opportunities for households with increasing disposable income. However, to achieve this, there is a need to encourage greater participation also from retail investors, including through the promotion of financial literacy.

5. SOVEREIGN FINANCING AND CAPACITY TO REPAY

The general government debt-to-GDP ratio has been decreasing at a fast pace over recent years and is projected to continue its downward path in 2024 and in the following years. At the end of 2023, the debt-to-GDP ratio stood at approximately 73.6% of GDP, recording a cumulative decline of 40 percentage points since its peak in 2020. Cyprus's general government debt ratio is forecast to continue declining, to 66.4% of GDP in 2024, 61.4% in 2025 and 56.7% in 2026, as the fiscal position and nominal GDP growth are expected to remain strong. The debt ratio is projected to continue decreasing beyond 2026 (see the Commission's debt sustainability analysis (DSA) Annex 2).

In 2024, the total gross financing needs (GFN) are low amounting to EUR 1.5 billion (4.5%) of GDP. They comprise of refinancing demands, which mostly relate to a 7-year bond worth EUR 1 billion (3%) and an early repayment of EUR 150 million for an existing Euro Medium Term Notes (EMTN) due in 2028.The main source of financing has been bonds from the EMTN market. For 2025 and 2026, GFN are estimated at EUR 1.1 billion (3.1% of GDP) and EUR 1.1 billion (around 3% of GDP), respectively.

Cyprus maintains a strong cash position, limiting short-term refinancing risks. Its cash reserves represented approximately EUR 3.8 billion (11% of GDP) at the end of August 2024 and cover broadly three times the gross financing needs for the next 12 months.

The public debt maturity profile is relatively long, limiting short-term risks. The average maturity of total debt was 7 years in July 2024 and the share of debt that needs to be refinanced within 1 year has fallen to 5.7%. In respect to debt distribution, 33% of debt is based on a floating interest rate, which is mostly made up of ESM loans ([25]), while a significant portion of debt (28%) is held by the ECB under the asset purchase programmes. With Cypriot current and new stock of debt being issued in euro, there are no exchange rate risks.

The heightened interest rate environment in the last two years increased the cost of issuing new long-term debt. The higher borrowing costs on the primary markets have so far slightly increased the weighted average cost of debt, increasing it to 1.7% in July 2024 from 1.58% in 2022. However, it has been kept at consistently low levels since its peak in 2012. Interest payments as a percentage of government revenue have been on a declining path since 2012 and as of 2023 they stood below EA average levels. At the beginning of October 2024, the yield of the Cyprus 10-year bond stood at around 3% and the spread on the 10-year German Bund stood at around 0.75%, continuing a decreasing trend since 2022.

Credit-rating upgrades continued throughout 2024 confirming Cyprus's investment grade status and maintaining the outlook positive by all major credit-rating agencies. Further investment grade upgrades by S&P and Fitch (June 2024) were driven by sound fiscal policies and resilient growth, moderate interest burden and the strengthening financial position of Cypriot banks, which have long weighed on Cyprus's creditworthiness. The S&P and Fitch credit ratings for Cyprus improved to BBB+, with the next scheduled rating reviews taking place in December 2024, while Moody's (next scheduled rating review in November 2024) and DBRS's ratings stand at Baa2 and BBB(high) respectively. In September and June, DBRS and Moody's both

([25]) The ESM interest payments on the floating-rate debt rely on a blended interest rate, calculated based on the funding and operational costs of the ESM.

assigned a positive credit outlook to Cyprus. All major credit-rating agencies now give a positive credit outlook and rank Cyprus at least two notches above the highest non-investment grade.

Cyprus is scheduled to repay its debt to the ESM over the period 2025-2031. The country's total outstanding debt to the ESM is EUR 6.3 billion, representing around 20% of Cyprus's GDP and constituting approximately 27% of total public debt. The repayment process will start in 2025 with an initial instalment of EUR 0.35 billion, followed by annual repayments averaging EUR 0.99 billion until the debt is fully settled by 2031.

Cyprus maintains the capability to service its debt. According to the DSA, Cyprus faces low fiscal sustainability risks in both the short and long term, while in the medium term, risks appear to be medium. Cyprus benefits from substantial cash reserves and continued high primary surpluses, which serve to alleviate possible considerations arising from increased borrowing and refinancing costs.

ANNEX 1

Main macroeconomic indicators

Table A1.1: **Main macroeconomic indicators**

	2020	2021	2022	2023	2024	2025	2026
Real economy			*(percent change)*				
Real GDP	-3.2	11.4	7.4	2.6	3.6	2.8	2.5
Domestic demand incl. inventories	-2.0	6.3	9.2	4.3	3.0	2.2	2.0
Private consumption expenditure	-6.1	5.9	9.8	6.0	3.2	2.1	2.0
Government consumption expenditure	10.9	7.5	4.6	2.2	0.1	1.5	2.1
Gross fixed capital formation	6.0	1.9	9.0	11.1	4.9	3.2	1.8
Exports of goods and services	1.6	26.2	23.8	0.1	7.7	3.5	2.4
Imports of goods and services	3.3	19.6	26.6	1.7	7.2	2.9	1.9
Contribution to growth			*(percentage points)*				
Domestic demand (excl. inventories)	-1.0	5.5	8.1	6.0	3.0	2.2	1.9
Foreign trade	-1.2	5.0	-1.4	-1.6	0.6	0.7	0.5
Changes in inventories	-1.0	0.9	0.6	-1.8	0.0	0.0	0.0
Inflation			*(percent change)*				
GDP deflator	-1.2	3.0	6.7	3.8	3.5	2.3	2.2
HICP	-1.1	2.3	8.1	3.9	2.2	2.1	2.0
Labour market			*(percent change, unless otherwise stated)*				
Unemployment rate (% of labour force)	7.6	7.5	6.8	5.8	4.9	4.7	4.5
Employment	-0.4	2.9	4.0	1.4	1.9	1.3	1.2
Compensation per employee	0.5	4.6	7.3	5.0	4.4	3.0	2.8
Labour productivity	-2.9	8.2	3.2	1.2	1.6	1.5	1.2
Unit labour costs	3.5	-3.4	4.0	3.8	2.8	1.5	1.5
Public finance			*(percent of GDP)*				
General government balance	-5.6	-1.6	2.6	2.0	3.5	2.7	2.7
Total revenue	40.4	41.0	40.6	43.9	43.8	43.2	42.5
Total expenditure	45.9	42.6	37.9	41.9	40.2	40.4	39.8
General government primary balance	-3.5	0.1	4.0	3.3	4.7	3.8	3.7
Gross debt	113.6	96.5	81.0	73.6	66.4	61.4	56.7
Balance of payments			*(percent of GDP)*				
Current external balance	-9.7	-5.4	-5.4	-9.5	-9.2	-8.4	-8.2
Ext. bal. of goods and services	-1.4	4.7	3.2	1.3	2.1	3.1	4.1
Exports goods and services	79.6	90.8	102.2	97.0	98.9	99.5	99.5
Imports goods and services	81.0	86.1	99.0	95.8	96.8	96.4	95.4
Memorandum item			*(EUR bn)*				
Nominal GDP	22.4	25.7	29.4	31.3	33.6	35.4	37.1

Source: European Commission, European Economic Forecast Autumn 2024.

ANNEX 2

Debt Sustainability Analysis

This annex assesses fiscal sustainability risks for Cyprus over the short, medium and long term. It follows the multi-dimensional approach of the European Commission's 2023 Debt Sustainability Monitor, updated based on the Commission 2024 autumn forecast.

1 – Short-term risks to fiscal sustainability are low overall. The Commission's early-detection indicator (S0) does not signal major short-term fiscal risks (Table A2.2) ([26]). Government gross financing needs are expected to remain around 6% of GDP over 2025-2026 (Table A2.1, Table 1).

2 – Medium-term fiscal sustainability risks are medium.

Under the DSA baseline, debt is projected to decline significantly over the medium term, reaching around 34% of GDP in 2035 (Graph 1 and Table 1) ([27]). The debt reduction is supported by the assumed sizeable structural primary surplus (excluding changes in cost of ageing) of 2.8% of GDP as of 2025. This appears ambitious compared with past performance, suggesting limited fiscal room of manoeuvre ([28]). The debt decline also benefits from a still favourable but declining snowball effect of around 1 pp. of GDP annually on average over 2026-2035, which has also been supported by the expected impact on potential growth of Next Generation EU (NGEU) and other large investments.

The baseline projections are stress-tested against four alternative deterministic scenarios to assess the impact of changes in key assumptions relative to the baseline (Graph 1). Under the *historical structural primary balance (SPB) scenario* (i.e. the SPB returns to its historical 15-year average of 1% of GDP) the debt ratio would be about 12 pps. of GDP higher than under the baseline in 2035. Under the *adverse interest-growth rate differential scenario* (i.e. the interest-growth rate deteriorates by 1 pp. compared with the baseline), the debt ratio would be higher than under the baseline by 4 pps. of GDP in 2035. Under the *lower structural primary balance scenario* (i.e. the projected cumulative improvement in the SPB over 2023- 2024 is halved) the debt ratio would be higher than under the baseline by about 3 pp. in 2035. Finally, under the *financial stress scenario* (i.e. interest rates temporarily increase by 1 pp. compared with

([26]) The S0 is a composite indicator of short-term risk of fiscal stress. It is based on a wide range of fiscal and financial-competitiveness indicators that have proven to be a good predictor of emerging fiscal stress in the past.

([27]) The assumptions underlying the Commission's 'no-fiscal policy change' baseline include in particular: (i) a structural primary surplus, before changes in ageing costs, of 2.8% of GDP from 2025 onwards; (ii) inflation converging linearly towards the 10-year forward inflation-linked swap rate 10 years ahead (which refers to the 10-year inflation expectations 10 years ahead); (iii) the nominal short- and long-term interest rates on new and rolled over debt converging linearly from current values to market-based forward nominal rates by T+10; (iv) real GDP growth rates from the Commission 2024 spring forecast, followed by the EPC/OGWG 'T+10 methodology projections between T+3 and T+10 (average of 1.8%); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper 279, April 2024). For information on the methodology, see the 2023 Debt Sustainability Monitor (European Commission, Institutional Paper 271, March 2024). Note that the anchoring of the structural primary balance on the first forecast year (T+1) as opposed to the second forecast year (T+2) implies that several projected variables, including debt, budget balance and GDP, for T+2 (in this case 2026) can differ from the Commission 2024 autumn forecast.

([28]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past. Technically, this consists in looking at the percentile rank of the projected SPB within the distribution of SPBs observed in the past in the country, taking into account all available data from 1980 to 2023.

the baseline) government debt ratio would be broadly unchanged compared with the baseline in 2035.

The stochastic projections indicate medium risk, pointing to the moderate sensitivity of these projections to plausible unforeseen events ([29])**.** These stochastic simulations indicate a 14% probability that the debt ratio will be higher in 2029 than in 2024, implying low risks given the initial debt level. At the same time, the uncertainty surrounding the baseline debt projections is high, as the difference between the 10th and 90th debt distribution percentiles points) is high. There is a 80% probability that the debt ratio will lie in a large range of 46 pps. of GDP in 2029 (Graph 2).

3 – Long-term fiscal sustainability risks are low. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort to stabilise debt (S2 indicator) and bring to 60% of GDP (S1 indicator) over the long-term ([30]). This assessment is driven by the very favourable initial budgetary position, which is, however, (partly) offset by the projected increase in ageing costs. These results are conditional on the country maintaining a high structural primary surplus over the long term.

The S2 indicator points to low risk. The indicator shows that, relative to the baseline, the SPB would only need to improve by only 1 pps. of GDP in 2025 to ensure debt sustainability over the long term. This result is underpinned by significant ageing costs (contribution of 3.4 pps. of GDP), which are partly offset by a very favourable initial budgetary position (-2.9 pps. of GDP). Ageing costs are primarily driven by the projected increase of public pension expenditure (2.3 pps. of GDP) (Table A2.1, Table 2). ([31])

The S1 indicator also points to low risk. The S1 indicator signals that no consolidation effort is needed to bring debt to 60% of GDP by 2070. This result is driven by the very favourable initial budgetary position (contribution of -2.9 pps. of GDP), which is only partly offset by ageing costs (2.5 pps. of GDP) (Table 2).

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to the still heightened interest rate environment, geopolitical risks, Cyprus' negative net international investment position and risks to the budget balance due to implementation challenges of some large investment projects that may lead to

([29]) The stochastic projections show the joint impact on debt of 10,000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

([30]) The S2 fiscal sustainability indicator measures the permanent SPB adjustment in 2025 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the permanent SPB adjustment in 2025 needed to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both the S1 and S2 indicators, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6 % of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See the 2023 Debt Sustainability Monitor for further details.

([31]) The pension reform includes measures aiming to preserve adequacy and intergenerational equity, including by increasing the effective retirement age and contributions to the pension system, while minimising the impact on the tax wedge on labour.

additional budgetary costs. On the other hand, risk-mitigating factors include low gross-financing needs, the long maturity of the debt portfolio with low and falling share of short-term public debt, substantial cash reserves, continued credit rating upgrades, relatively stable financing sources (with a diversified investor base) and the euro denomination of debt.

Table A2.1: **Debt sustainability analysis - Cyprus**

Table 1. Baseline debt projections	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Gross debt ratio (% of GDP)	**81.0**	**73.6**	**66.4**	**61.4**	**57.0**	**52.8**	**49.5**	**46.3**	**43.4**	**40.9**	**38.7**	**36.8**	**35.1**	**33.6**
Changes in the ratio	-15.5	-7.3	-7.2	-5.0	-4.3	-4.2	-3.3	-3.2	-2.9	-2.5	-2.2	-1.9	-1.7	-1.4
of which														
Primary deficit	-4.0	-3.3	-4.7	-3.8	-3.3	-2.9	-2.4	-2.3	-2.1	-1.9	-1.7	-1.4	-1.3	-1.0
Snowball effect	-10.9	-3.7	-3.8	-2.2	-1.9	-1.4	-0.9	-0.9	-0.8	-0.7	-0.6	-0.5	-0.4	-0.4
Stock-flow adjustments	-0.6	-0.3	1.2	1.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs (% of GDP)	4.3	2.6	4.6	5.8	6.8	5.8	6.1	5.5	4.7	4.7	2.4	2.4	2.2	2.2

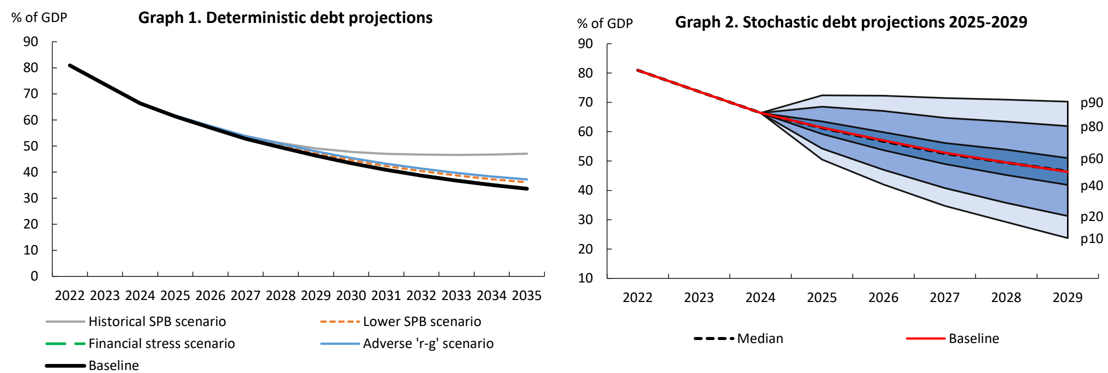


Table 2. Breakdown of the S1 and S2 sustainability gap indicators

			S1	S2
Overall index (pps. of GDP)			**-0.3**	**1.0**
of which				
	Initial budgetary position		-2.9	-2.4
	Debt requirement		0.0	
	Ageing costs		2.5	3.4
	of which	*Pensions*	2.3	2.9
		Health care	0.4	0.7
		Long-term care	0.1	0.1
		Others	-0.3	-0.4

Source: European Commission services.

Table A2.2: **Heat map of fiscal sustainability risks - Cyprus**

Short term	**Medium term - Debt sustainability analysis (DSA)**								**Long term**		
			Deterministic scenarios								
Overall (S0)	**Overall**		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress	**Stochastic projections**	**S2**	**S1**	**Overall** (S1 + S2)
LOW	**MEDIUM**	Overall	**LOW**	**LOW**	**LOW**	**LOW**	**LOW**	**MEDIUM**	**LOW**	**LOW**	**LOW**
		Debt level (2035), % GDP	33.6	47.1	36.1	37.2	33.8				
		Debt peak year	2025	2025	2025	2025	2025				
		Fiscal consolidation space	24%	34%	24%	24%	24%				
		Probability of debt ratio exceeding in 2029 its 2024 level						14%			
		Difference between 90th and 10th percentiles (% GDP)						46.5			

(1) Debt level in 2035. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the baseline. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2029 its 2024 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) the difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

Source: European Commission services.

EUROPEAN ECONOMY INSTITUTIONAL PAPERS SERIES

European Economy Institutional Papers series can be accessed and downloaded free of charge from the following address: Publications (europa.eu).

.

Titles published before July 2015 can be accessed and downloaded free of charge from:

- http://ec.europa.eu/economy_finance/publications/european_economy/index_en.htm
  (the main reports, e.g. Economic Forecasts)

- http://ec.europa.eu/economy_finance/publications/occasional_paper/index_en.htm
  (the Occasional Papers)

- http://ec.europa.eu/economy_finance/publications/qr_euro_area/index_en.htm
  (the Quarterly Reports on the Euro Area)

GETTING IN TOUCH WITH THE EU

In person

All over the European Union there are hundreds of Europe Direct Information Centres. You can find the address of the centre nearest you at: http://europa.eu/contact.

On the phone or by e-mail

Europe Direct is a service that answers your questions about the European Union. You can contact this service:

- by freephone: 00 800 6 7 8 9 10 11 (certain operators may charge for these calls),
- at the following standard number: +32 22999696 or
- by electronic mail via: http://europa.eu/contact.

FINDING INFORMATION ABOUT THE EU

Online

Information about the European Union in all the official languages of the EU is available on the Europa website at: http://europa.eu.

EU Publications

You can download or order free and priced EU publications from EU Bookshop at: http://publications.europa.eu/bookshop. Multiple copies of free publications may be obtained by contacting Europe Direct or your local information centre (see http://europa.eu/contact).

EU law and related documents

For access to legal information from the EU, including all EU law since 1951 in all the official language versions, go to EUR-Lex at: http://eur-lex.europa.eu.

Open data from the EU

The EU Open Data Portal (http://data.europa.eu/euodp/en/data) provides access to datasets from the EU. Data can be downloaded and reused for free, both for commercial and non-commercial purposes.

Publications Office
of the European Union