

9. CYPRUS

Following a strong rebound of 5.5% in 2021, economic activity is expected to slow down to 2.3% in 2022 due to the negative impact of Russia's invasion of Ukraine and soaring inflation. The outlook is more positive for 2023, as tourism is expected to further recover and global energy prices to somewhat ease. Public finances are set to continue the improvement shown in 2021, with headline balance increasing from -1.7% in 2021 to -0.3% in 2022.

GDP growth to slow down in 2022

Real GDP increased by 5.5% in 2021, surpassing the 2019 pre-pandemic level. Both domestic and external demand contributed to growth. Domestic demand was supported by the fiscal stimulus and a successful vaccination campaign, which allowed a gradual lifting of restrictions. Exports of non-travel services, such as ICT, financial and professional services continued to expand strongly. However, the tourism sector recovered only partially: compared to 2019 levels, tourist arrivals reached 48.7%, while revenues were at 56.4%.

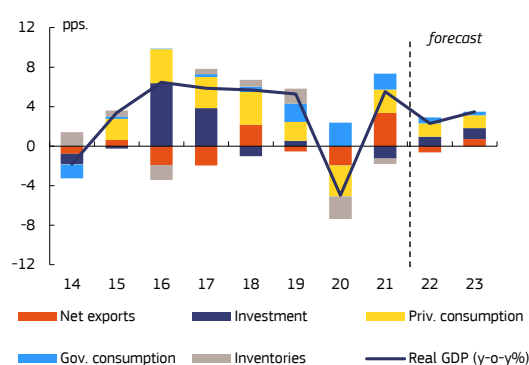
The Cypriot economy started 2022 on a strong footing, but Russia's invasion of Ukraine and the related sanctions are expected to impact economic activity, especially tourism and services exports, as Russia is an important market for both. High fuel prices and rising inflation present an additional challenge for the tourist sector. Alongside a drop in consumer confidence, high inflation will also impact private consumption and household investment in 2022. At the same time, government consumption is expected to decelerate significantly, as the pandemic support measures are progressively being phased out. Overall, real GDP is forecast to grow by 2.3% in 2022.

A stronger growth momentum is projected to resume in 2023, with 3.5% GDP growth, as tourism demand is expected to recover significantly and the delayed partial indexation of wages is set to support purchasing power. The implementation of the Cypriot RRP is expected to support investment over the forecast horizon.

Significant uncertainty and downside risks to the growth outlook remain, as the tourism sector and other export-oriented services

sectors are particularly vulnerable to external shocks.

Graph II.9.1: Cyprus - Real GDP growth and contributions



Unemployment is set to rise temporarily

The unemployment rate remained broadly stable in 2021 at 7.5%. Employment and vacancies were on the rise at the end of 2021, whereas the slowdown of economic activity is set to put brakes on the labour market later this year. In 2022, unemployment is forecast to somewhat increase to 7.8%, before resuming its decreasing trend in 2023 to 7.3%.

Inflation has increased

Headline inflation is on the rise and is expected to reach 5.2% in 2022, up from 2.3% in 2021. This is mainly due to exceptionally high oil prices, as Cyprus depends heavily on oil products. The prices of non-energy industrial products and food have also increased as a result of supply chain disruptions and the secondary impact from higher energy prices. In 2023, as energy prices are expected to somewhat moderate and supply side problems dissipate, inflation is projected at 2.7%.

Government deficit and public debt to decline

The general government deficit improved by more than 4 percentage points in 2021 to 1.7% of GDP on the back of strong economic growth.

In 2022, it is expected to further improve to 0.3% of GDP. Government expenditure is forecast to decrease with the phasing out of pandemic support measures such as health sector support schemes, wage subsidies and liquidity support to businesses. However, government revenues are expected to grow at a lower pace due to the less positive macroeconomic outlook.

For 2023, government revenues are projected to increase on the back of the economic recovery, while public expenditure is set to grow at a lower pace, allowing the budget deficit to decline to 0.2% of GDP.

Public debt decreased to 103.6% of GDP in 2021 on the back of high nominal GDP growth and thanks to cash reserves accumulated in the previous year. It is expected to decrease to 93.9% and 88.8% in 2022 and 2023, respectively.

Table II.9.1:

Main features of country forecast - CYPRUS

	2021			Annual percentage change						
	mio EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	23436.7	100.0		2.1	5.7	5.3	-5.0	5.5	2.3	3.5
Private Consumption	14541.0	62.0		2.4	5.1	3.0	-5.0	3.7	2.2	2.0
Public Consumption	4702.6	20.1		1.6	3.6	12.7	14.8	8.0	3.1	1.8
Gross fixed capital formation	4178.4	17.8		2.6	-4.9	2.9	0.0	-6.3	5.4	5.8
Exports (goods and services)	18984.8	81.0		3.0	7.3	7.5	-5.1	14.0	1.7	4.6
Imports (goods and services)	18734.6	79.9		3.5	4.3	8.3	-2.5	9.2	2.5	3.7
GNI (GDP deflator)	21864.5	93.3		2.3	5.0	4.1	-6.2	4.6	3.6	4.5
Contribution to GDP growth:										
Domestic demand				2.5	2.9	4.3	-0.8	2.7	2.9	2.8
Inventories				0.1	0.7	1.5	-2.3	-0.6	0.0	0.0
Net exports				-0.4	2.2	-0.5	-1.9	3.4	-0.6	0.7
Employment				1.5	5.3	3.8	-0.5	1.2	0.9	1.8
Unemployment rate (a)				8.3	8.4	7.1	7.6	7.5	7.8	7.3
Compensation of employees / head				1.9	1.5	4.4	-3.2	4.7	4.1	4.5
Unit labour costs whole economy				1.3	1.1	2.9	1.4	0.4	2.7	2.8
Saving rate of households (b)				3.5	3.3	5.7	8.0	5.3	2.1	3.3
GDP deflator				1.6	1.0	1.1	-1.1	2.7	4.5	3.2
Harmonised index of consumer prices				1.7	0.8	0.5	-1.1	2.3	5.2	2.7
Terms of trade goods				0.6	-1.4	-0.3	-0.8	-1.1	-1.8	0.0
Trade balance (goods) (c)				-22.9	-21.0	-20.1	-19.2	-18.3	-20.4	-21.4
Current-account balance (c)				-8.5	-3.9	-5.7	-10.1	-7.2	-8.8	-7.2
General government balance (c)				-3.0	-3.6	1.3	-5.8	-1.7	-0.3	-0.2
Structural budget balance (d)				2.4	2.4	-0.3	-4.6	-2.1	-0.4	-0.7
General government gross debt (c)				74.0	98.4	91.1	115.0	103.6	93.9	88.8

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.