



SPRING REPORT

CYPRUS FISCAL COUNCIL 2019

SPRING REPORT MEDIA PRESENTATION

ΠΕΡΙΕΧΟΜΕΝΑ



FISCAL RULES



RISKS



MEASURES/ REFORMS

FISCAL RESULTS



FISCAL BALANCE/ DEBT



EXPENDITURE/ LIMITS



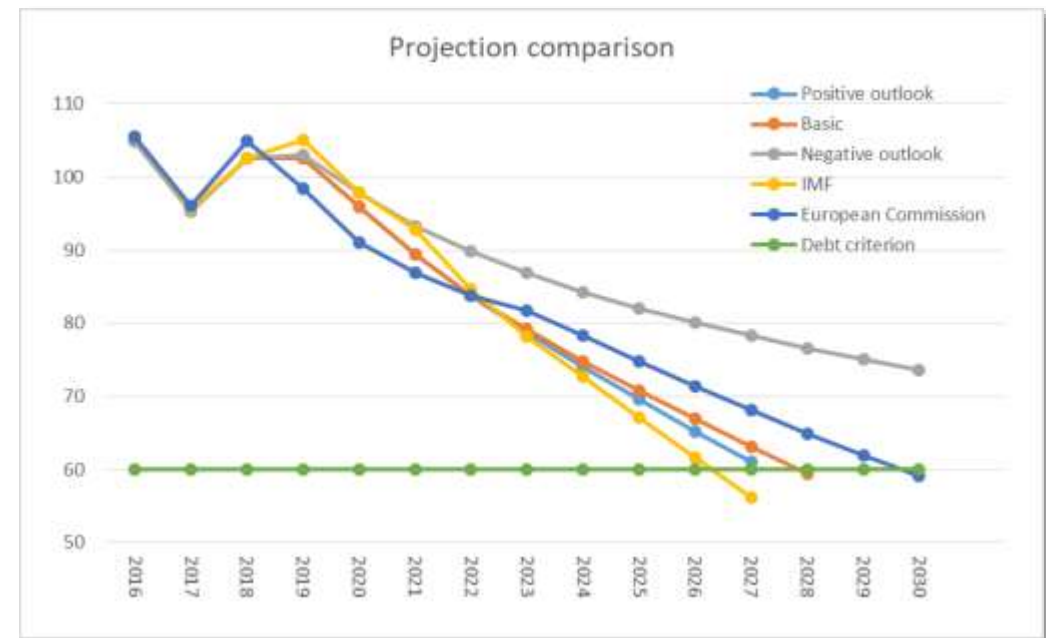
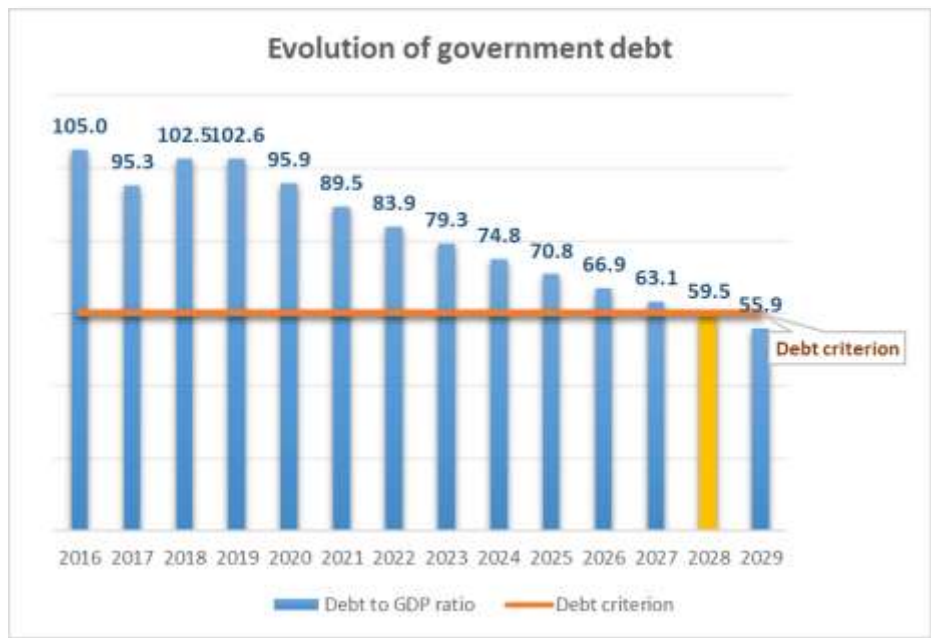
MACROECONOMIC PROJECTIONS

MEDIUM TERM OBJECTIVE



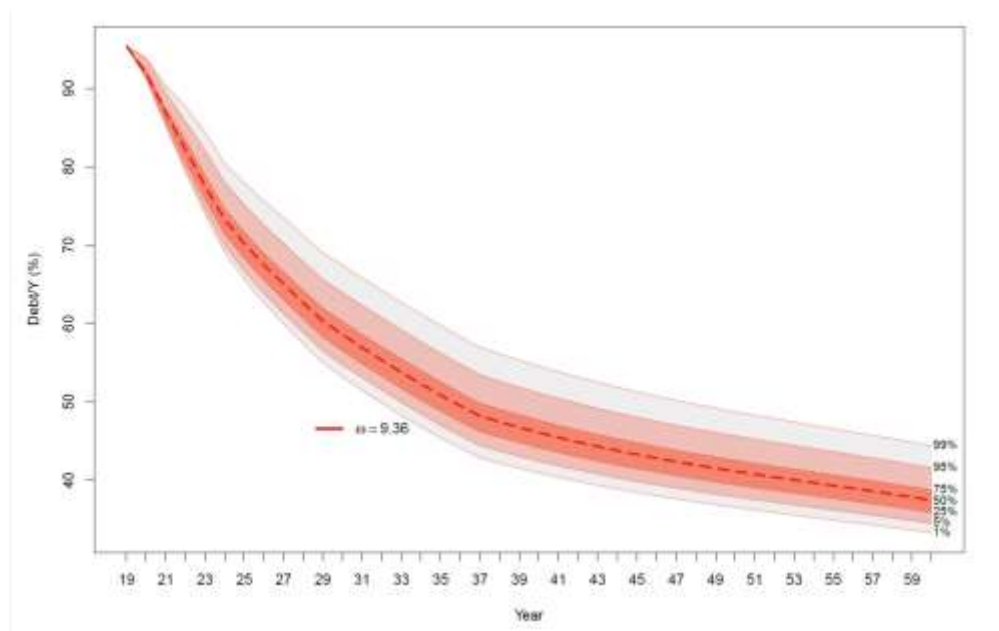
		Μεσοπρόθεσμος Δημοσιονομικός Στόχος/ Medium term Objective							
		2017		2018		2019		2020	
			Υπ.Οικ. / MoF	ΕΕ/ EC	Υπ.Οικ. / MoF	ΕΕ/ EC	Υπ.Οικ. / MoF	ΕΕ/ EC	
ΑΕΠ/GDP	Σταθερές τιμές € εκατ./ Constant prices € mil.	19,649	20742	20,742	21,704	21,599	22,667	22,470	
	Υπόλοιπο γενικής κυβέρνησης/ General Government balance	354	-996	-996	651	648	589	629	
	%	1.8	-4.8	-4.8	3.0	3.0	2.6	2.8	
Παραγωγικό κενό/ Output gap	%	1.0	1.9	2.4	2.9	3.9	3.3	4.2	
Κυκλική διόρθωση/ Cyclical correction	50% παραγωγικού κενού/ 50% output gap	0.5	1.0	1.2	1.5	2.0	1.7	2.1	
Διαρθρωτική διόρθωση/ Structural correction *	%	0.0	8.0	8.0	0.0	0.0	0.0	0.0	
Διαρθρωτικό υπόλοιπο/ structural balance	%	1.3	2.2	2.0	1.6	1.1	1.0	0.7	
	Πρόβλεψη ΔΝΤ/ IMF projection	1.4	1.5		1.1		1.3		
* Στήριξη Κυπριακής Συνεργατικής Τράπεζας με €1.66 δις/ Government support to the Cyprus Coop Bank €1.66 bil.									
Πηγές									
Υπουργείο Οικονομικών/ Ministry of Finance				Πρόγραμμα Σταθερότητας 2019-2022 / Stability Program 2019/2022					
Ευρωπαϊκή Επιτροπή/ European Commission				Εαρινές οικονομικές προβλέψεις / May economic forecasts					
Διεθνές Νομισματικό Ταμείο/ International Monetary Fund				World Economic Outlook Database, April 2019					

GOVERNMENT DEBT



GOVERNMENT DEBT – UNIVERSITY OF CYPRUS

Basic scenario



DSA Model and intervention

Sovereign Debt Vulnerabilities Analysis for Cyprus (August 2018), Andrea Consiglio University of Palermo, Palermo, Italy and Stavros A. Zenios University of Cyprus

The debt declining path projection is based amongst others on the assumption that the strong nominal GDP growth rate will continue for the foreseeable future. The two professors stress «the need to push for the necessary structural reforms in order to improve the competitiveness of the economy, so as to preserve these strong growth rates and most importantly to shield the economy from any internal and external future shocks».

FISCAL RISKS

- Government expenditure/ Government payroll
- Cyprus investment program (citizenship & property investment)
- Savings and pension adequacy
- Non performing loans
- General health scheme (GHS)
- Education (cost Vs quality)
- Justice system
- Bureaucracy / closed profession & sectors of the economy
- Government controlled entities (CCB, CYTA, EAC etc)
- External Environment
- Macroeconomic Imbalances (MIP / EC country report)
 - Current account balance
 - High public and private debt

CYPRUS' CITIZENSHIP-BY-INVESTMENT PROGRAM

COUNCIL'S POSITION

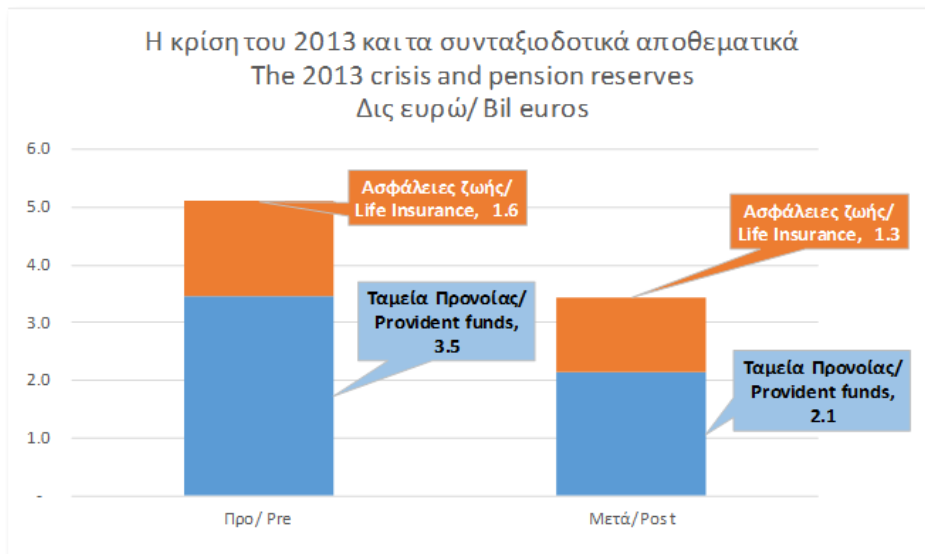
Increased investments/ activity through schemes such as the "granting of Cypriot citizenship by way of exception to foreign entrepreneurs / investors" have boosted the economy but should not be considered sustainable; they may also create risks and have a negative impact on other sectors. The creation of permanent expenditure, on the assumption that direct and indirect revenues from this sector will also be permanent, constitutes the main risk of fiscal derailment and could lead to breaching the 'Expenditure Benchmark Criterion'. In addition, as pointed out in previous reports and interventions, prolonged support for the sector will have a negative impact on other sectors of the economy, weakening their competitiveness.

MoF Study

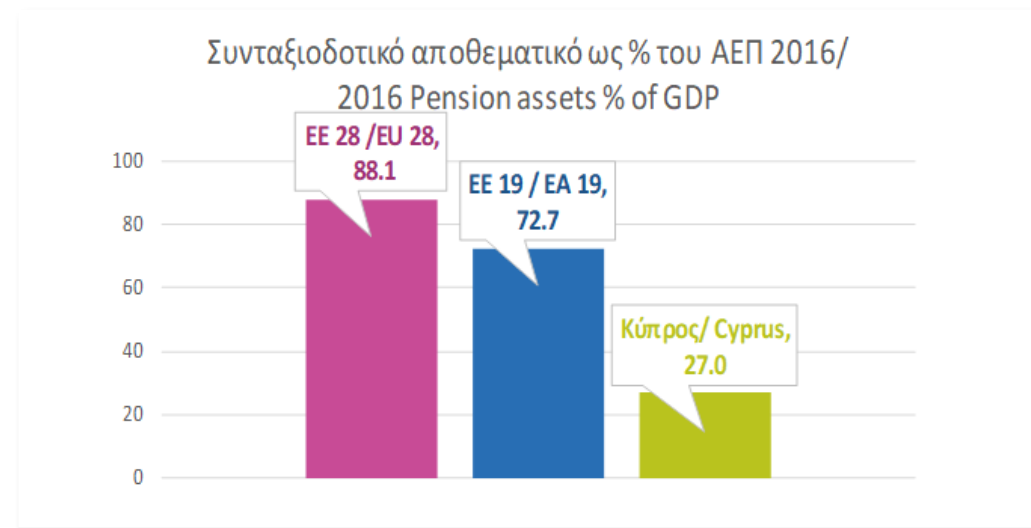
«The share of investments to the property / construction sector through the Program has increased substantially reaching 37.7% in 2018 from 19.5% in 2015».

In addition it is estimated that «one tenth of the cumulative GDP growth for the period 2016-2018 is attributed to the aforementioned program».

LOW SAVING RATE – LOW PENSION RESERVES

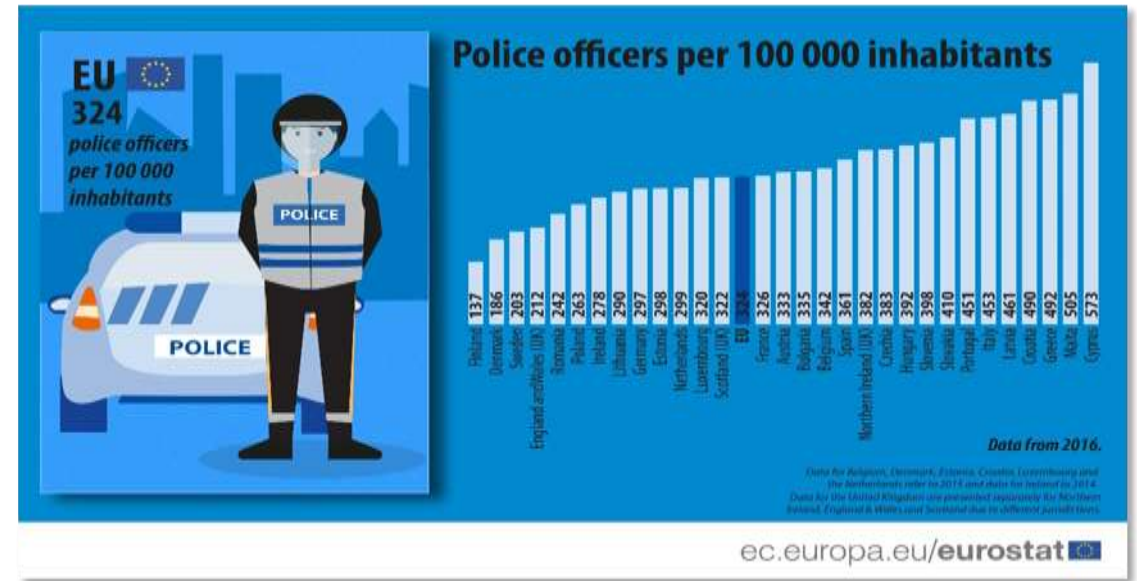
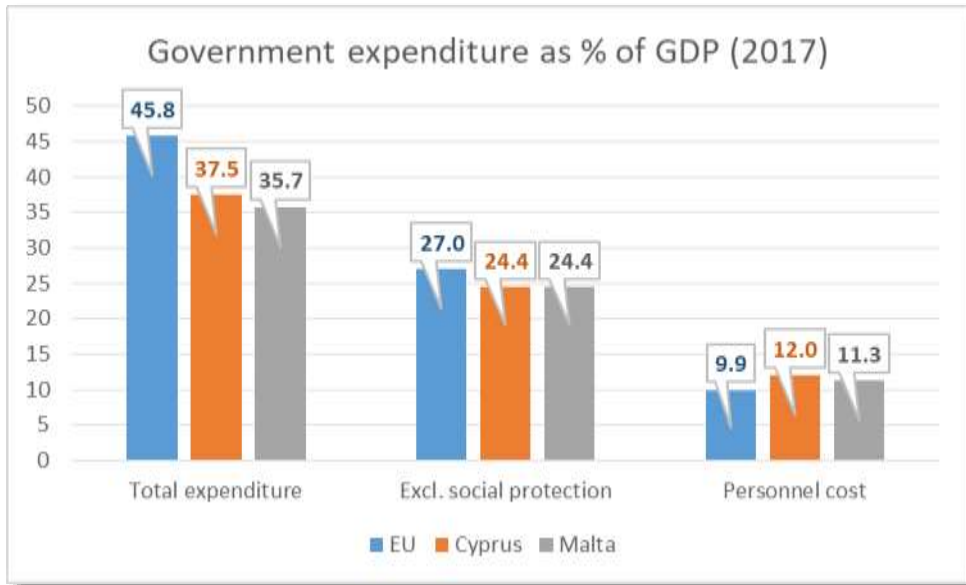


Πηγή/ Source: Σύνδεσμος Ασφαλιστικών Εταιρειών/ Insurance Association of Cyprus
<http://www.iac.org.cy/easyconsole.cfm/id/253>



Πηγή/ Source: Eurostat - European Commission
https://ec.europa.eu/eurostat/statistics-explained/index.php/Households_-_statistics_on_financial_assets_and_liabilities

GOVERNMENT EXPENDITURE



According to the Stability Program 2019-2022 the total government employee cost will start to increase at a rate higher than the nominal GDP growth rate. Until 2022, as per the Stability Program 2019-2022, it will reach 12.7% of GDP. This does not include the potential impact by the recent court decision (which is under appeal) regarding the measures taken in 2012. The court decided that the payroll cost reducing measures were unconstitutional.

REFORMS – REFORMS – REFORMS

▶ Compensation-setting mechanism in the government sector

▶ Justice system reforms (speed up procedures)

▶ Speed up the issuance of property title deeds

▶ Improvement of the framework in order to maximise the recovery of NPL's/ Including ex CCB properties under gov entity

▶ Pension system reforms / encourage savings

▶ Committing surpluses / reserves for covering future gross financing needs

▶ Limit and/ or remove obstacles (bureaucracy / closed professions - sectors)

▶ Control expenditure & contingent liabilities and improve performance of state controlled entities (GHS, CYTA, EAC etc)

▶ Value for money improvement (e.g. education, police etc).



Thank you

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