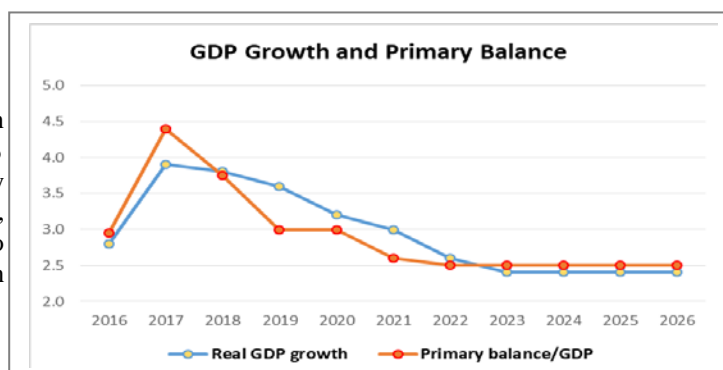


## Key messages:

- **GDP growth**, 3,9% for 2017 (3.8% 1<sup>st</sup> quarter 2018 and 4,0% last quarter of 2017)
- **Increase of public debt** by 2.35 billion euros (12.5% of GDP) to 110% of GDP in order to inject liquidity to state controlled Cyprus Cooperative Bank.
- **Primary surpluses** projected to remain at 3.0% of GDP for the medium term and with available cash buffers expected to reduce public debt to below 100% of GDP by 2020.
- **Government payroll setting mechanism** has not been agreed. Risk of returning to past ‘bad’ practices.
- **Deteriorating competitiveness.** Macroeconomic imbalances and other indicators point to lack of competitiveness. Slow or

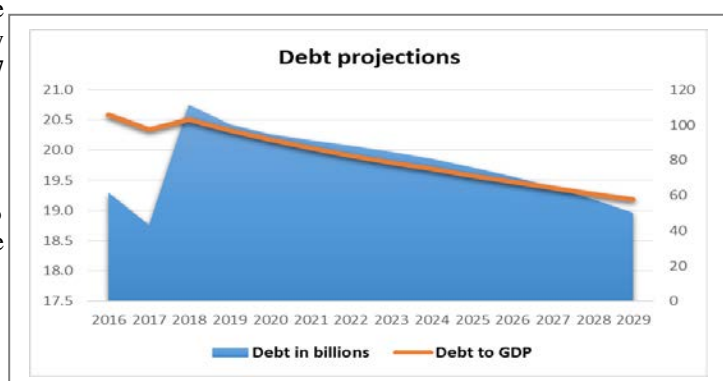
## Macroeconomic outlook

The economy of Cyprus expanded by 3.9% in real terms in 2017. For 2018-2019 it is expected to expand further by 4% on average. The positive outlook is primarily driven by consumption, the increased activity in the construction, services and tourism sectors. Employment is expected to increase by 3% and unemployment fall to below 10% in 2018. Inflation is expected to remain below 1%.



## Short term fiscal outlook

The favourable macroeconomic environment, in conjunction with the measures taken, has contributed to the over performance of the fiscal targets and the compliance with the national and the European fiscal frameworks. Primary balance expected to be close to 4% of GDP in 2018 (2017 4.4%).



## Medium-term fiscal outlook

During the latest Stability Program the MTO was set at 0.0% of GDP and it is expected to remain unchanged over the medium term. No deviation is expected from the MTO.

## Key indicator forecast

		2016	2017	2018 f	2019 f	2020 f	2021f	Source
Real GDP growth rate	[% y-to-y]	3.4	3.9	3.8	3.6	3.2	3.0	1
Output Gap	[%]	-0.9	1.1	2.4	2.9	2.9	2.8	1
GG balance – MoF est.	[% of GDP]	0.3	1.8	1.7	1.7	1.8	1.9	1
GG debt - MoF est.	[% of GDP]	106.6	97.5	105.6	100.0	94.6	88.0	1
GG structural balance - MoF est.	[% of GDP]	0.8	1.2	0.4	0.2	0.2	0.5	1
GG revenue	[% of GDP]	38.6	39.7	39.1	38.9	38.4	37.6	1
GG expenditure	[% of GDP]	38.3	37.9	37.4	37.2	36.6	35.7	1

1: Stability Program 2018