

Key messages:

- **GDP growth rate slowdown:** 3.9% in 2018, down from 4.5% in 2017.
- **Increase of public debt** by 1.66 bil. euros (8.0% of GDP) to 104.2% of GDP in order to inject liquidity to the state controlled Cyprus Cooperative Bank. To fall to 97.2% by the end of 2019.
- **Primary surpluses** projected to remain between 4.0-5.0% of GDP until 2022 accommodating reduction of debt.
- **Government payroll setting mechanism** has not been agreed. Government payroll cost amongst higher in the EU. Risk of procyclical policies. Budget surpluses increase pressures for more government expenditure.
- **Very high private debt** (over 250% of GDP) with over 50% non-performing loans. Steps taken to reform the insolvency and foreclosure framework and the slow legal system.

Macroeconomic outlook

The economy of Cyprus expanded by 3.9% in real terms in 2018 and GDP exceeded the pre-crisis level. The positive outlook is primarily driven by consumption and the increased activity in the construction, services and tourism sectors. This will boost employment and reduce unemployment. The current account balance is close to 7% indicating lack of competitiveness. Need for structural reforms to preserve the positive momentum.

Short term fiscal outlook

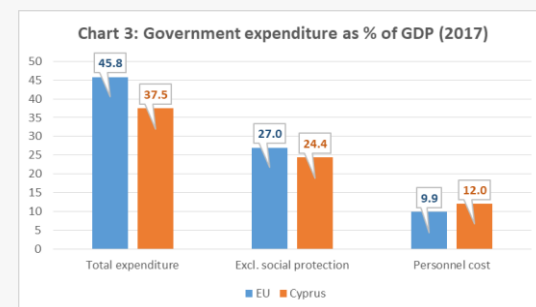
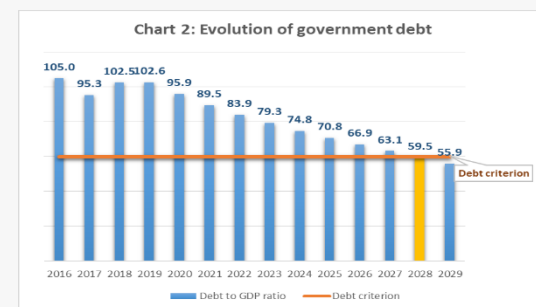
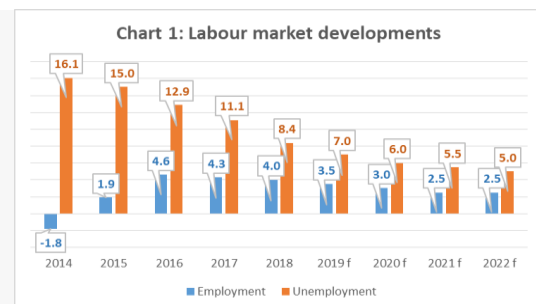
The favourable macroeconomic environment has contributed to the over performance of the fiscal targets and the compliance with the national and the European fiscal frameworks. The cyclically adjusted primary balance was -3.3 in 2018 due the cash liquidity injection to the Cyprus Cooperative bank and is expected to be to be 3.8% in 2019 and remain positive. Signs of increasing government payroll expenditure at a higher rate than that of GDP.

		Medium term Objective							
		2017		2018		2019		2020	
		MoF		EC		MoF		EC	
GDP	Constant prices	19,649	20741.956	20,742	21,704	21,599	22,667	22,470	
General Government balance	€ mil.	354	-996	-996	651	648	589	629	
	% GDP	1.8	-4.8	-4.8	3.0	3.0	2.6	2.8	
Output gap	% GDP	1.0	1.9	2.4	2.9	3.9	3.3	4.2	
Cyclical correction	50% output gap	0.5	1.0	1.2	1.5	2.0	1.7	2.1	
Structural correction *	% GDP	0.0	8.0	8.0	0.0	0.0	0.0	0.0	
Structural balance	% GDP	1.3	2.2	2.0	1.6	1.1	1.0	0.7	
	IMF projection	1.4	1.5		1.1		1.3		

* Government support to the Cyprus Coop Bank €1.66 bil.

Fiscal framework and national fiscal rules

The MTO has been set at 0% and no deviation is expected over the short to medium term. Debt is expected to decline at a higher than required rate on strong government revenue and GDP growth rates.



Key indicator forecast

		2017	2018	2019 f	2020 f	2021 f
Real GDP growth rate	[% y-to-y]	4.5	3.9	3.8	3.4	3.0
Output gap	[%]	0.3	1.9	2.9	3.3	3.5
GG Structural balance	[% of GDP]	1.6	2.4	1.5	0.8	0.6
GG balance	[% of GDP]	1.8	-4.8	3.0	2.6	2.4
GG debt	[% of GDP]	95.8	102.5	95.7	89.1	83.0
GG revenue	[% of GDP]	39.7	39.7	40.7	40.9	40.6
GG expenditure	[% of GDP]	37.9	44.5	37.7	38.3	38.2

Source: Stability Programme 2019-2022