

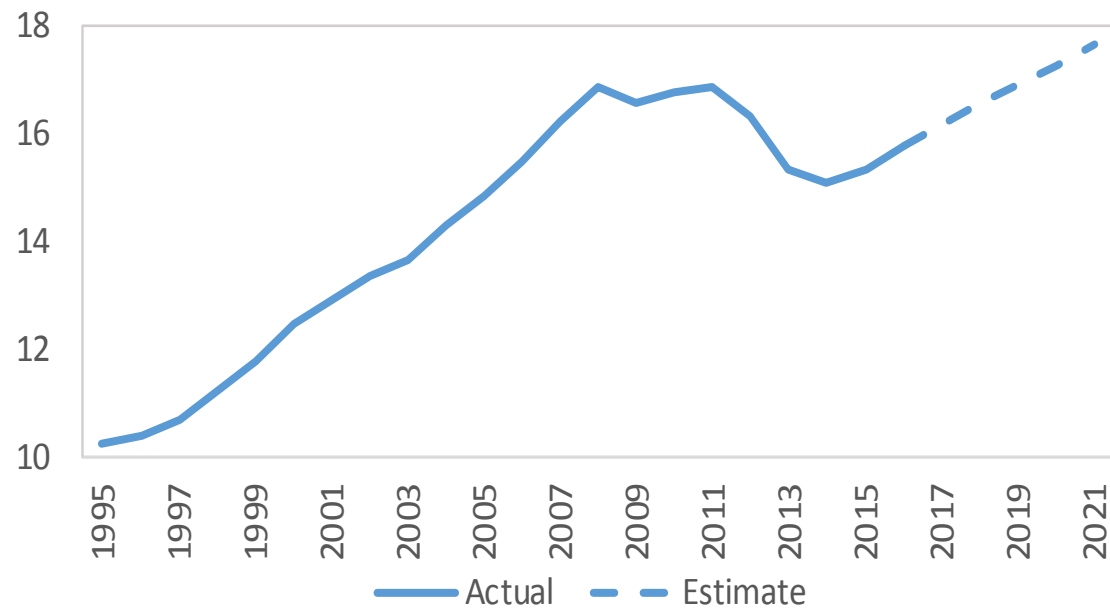
The Cyprus Economy: from Recovery to Sustainable Growth



Vincenzo Guzzo
Resident Representative in Cyprus

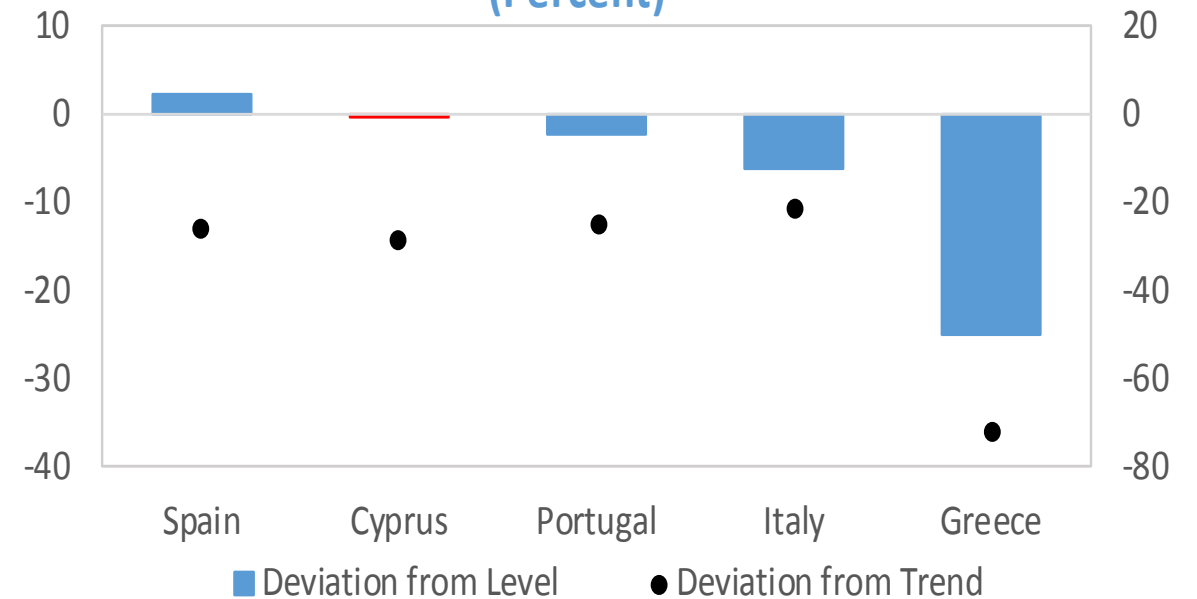
Growth momentum remains strong

Cyprus: Real GDP (€ billion)



Source: CySTAT, IMF staff estimates

Deviation from Pre-Crisis Level and Trend (Percent)

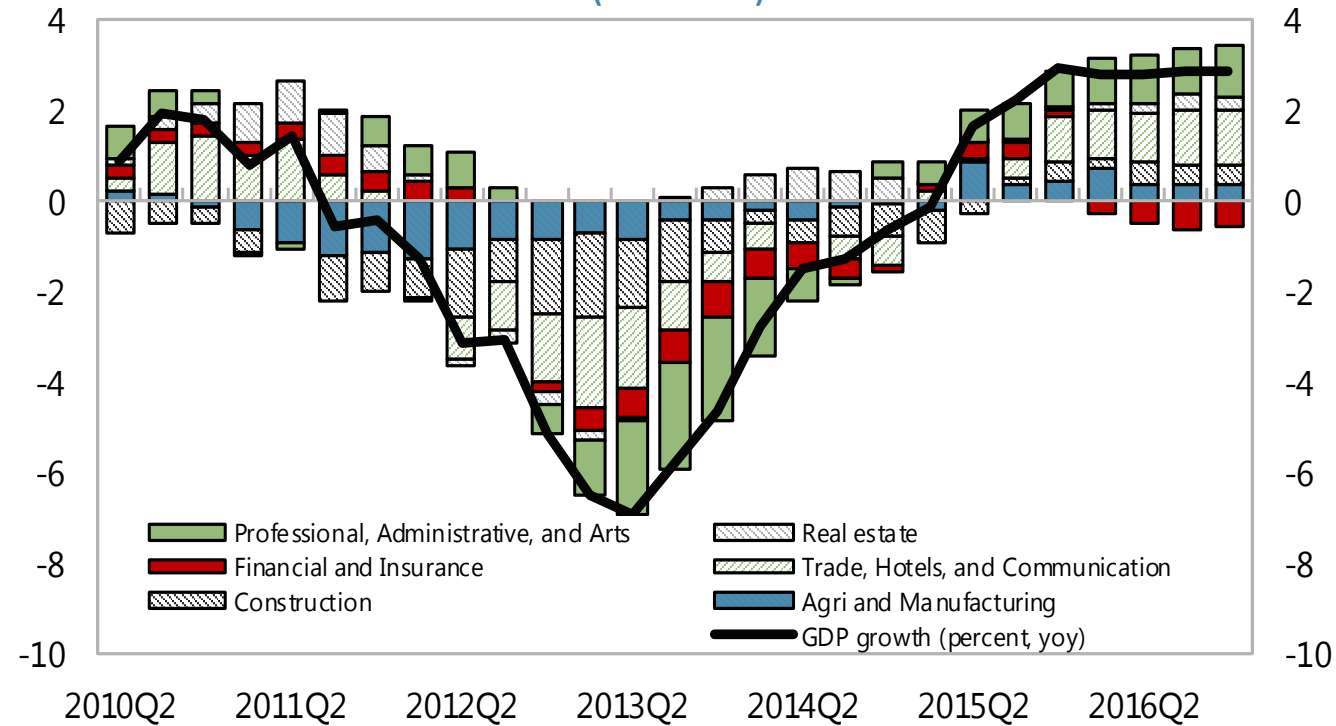


Source: IMF staff estimates

Note: data are percentage differences of IMF World Economic Outlook estimates for 2017 from pre-crisis levels and trends. Levels are 2007 data. Trends are linear regression trends fitted using data for 1996-2005.

Nearly all sectors contribute to the recovery

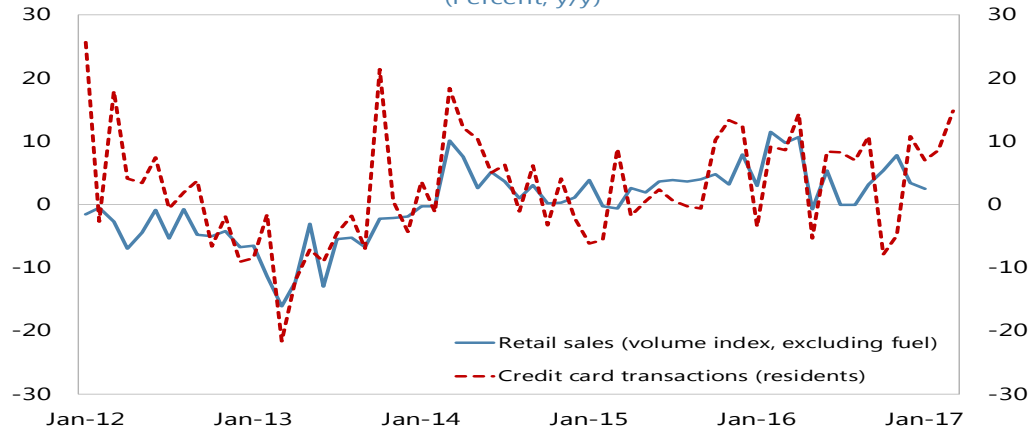
Cyprus: Contributions to GDP Growth
(Percent)



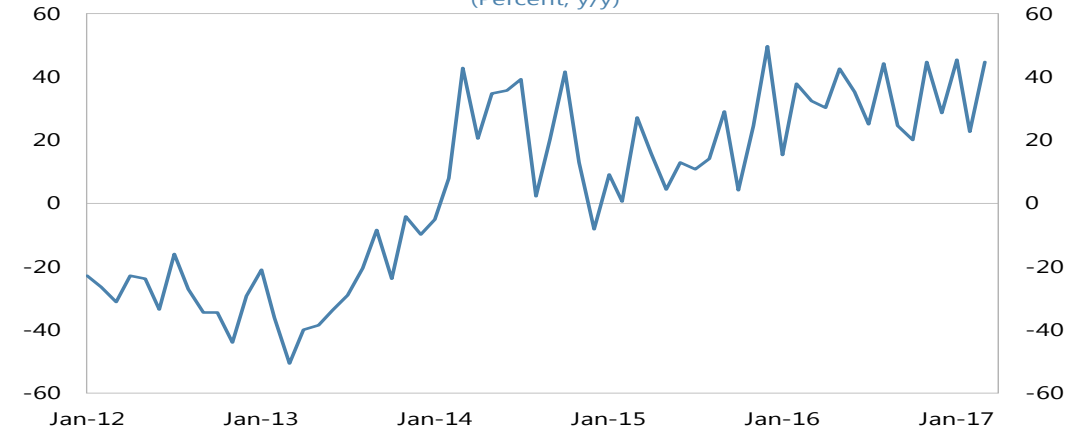
Source: CySTAT, IMF staff estimates

Indicators point to broad-based expansion

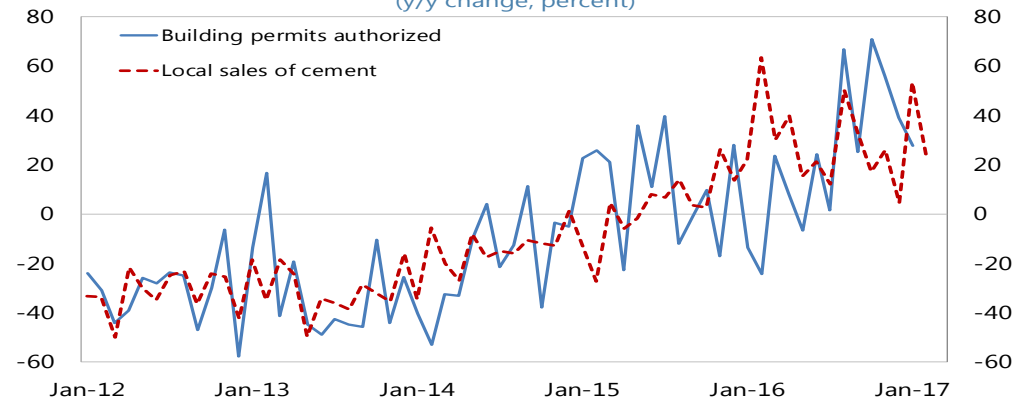
Cyprus: Retail sales and credit card transactions
(Percent, y/y)



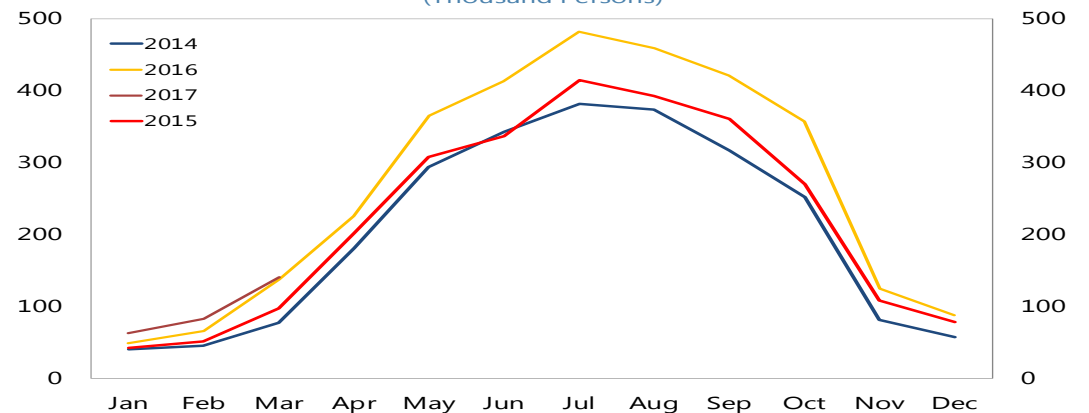
Cyprus: Registration of motor vehicles
(Percent, y/y)



Cyprus: Construction
(y/y change, percent)



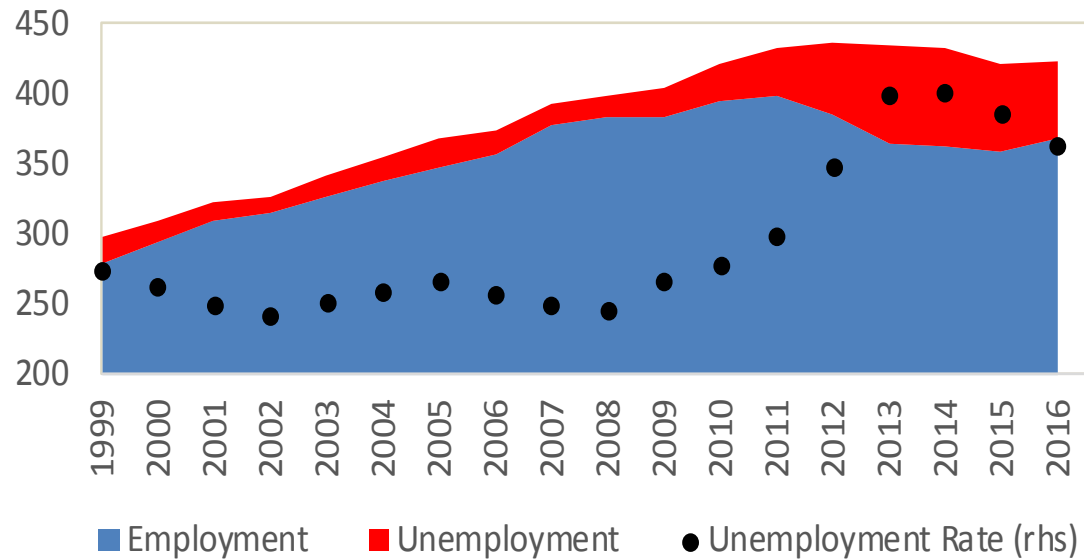
Cyprus: Tourist arrivals
(Thousand Persons)



Source: CySTAT, JCC Payments and IMF staff estimates

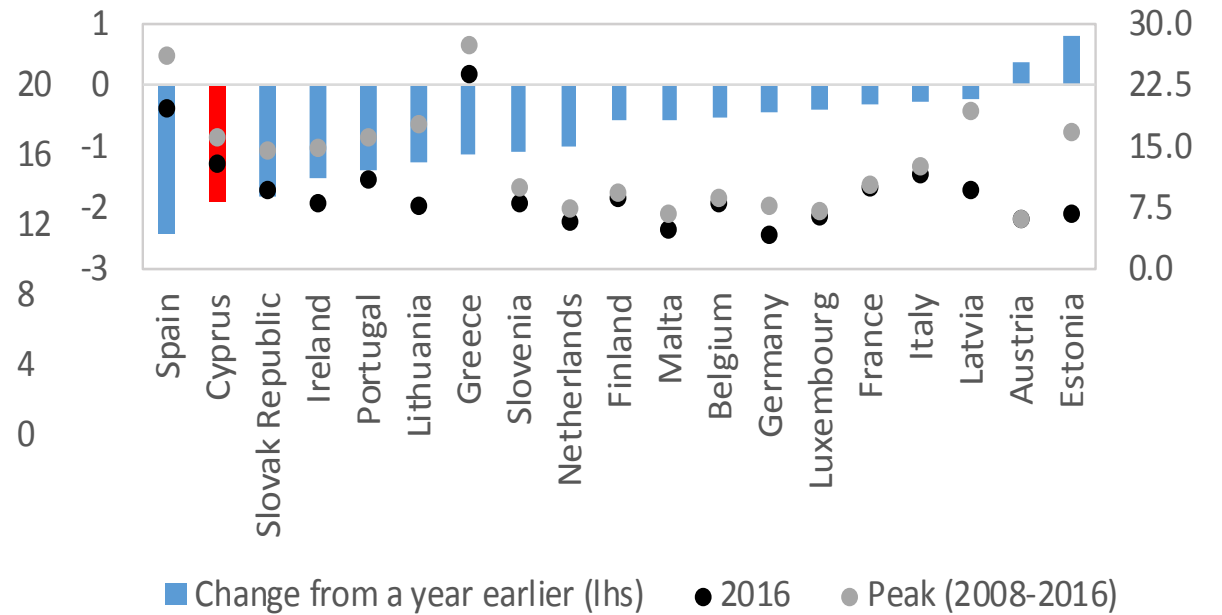
Jobs are being created

Cyprus: Labor Force (thousands) and Unemployment Rate (Percent of Labor Force)



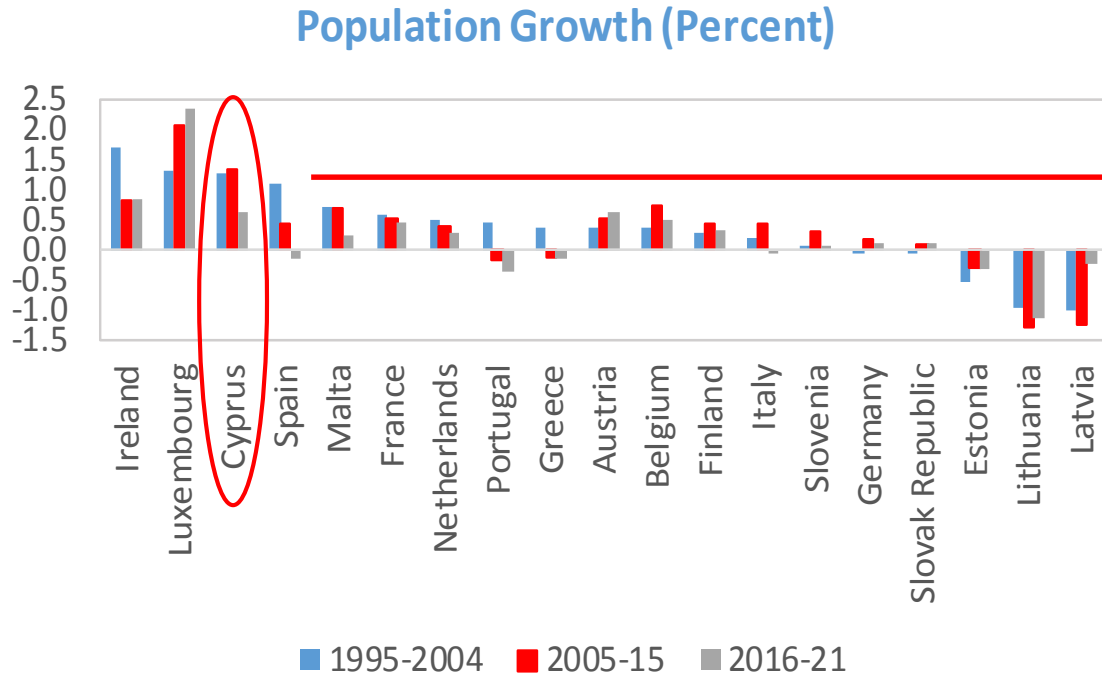
Source: CySTAT

Unemployment Rate (Percent of Labor Force)

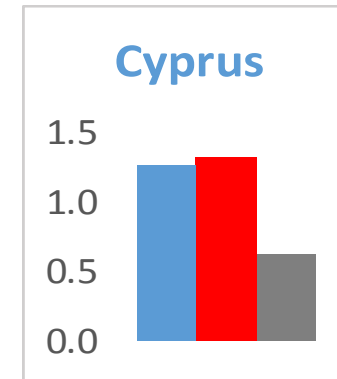


Source: Eurostat, IMF staff estimates

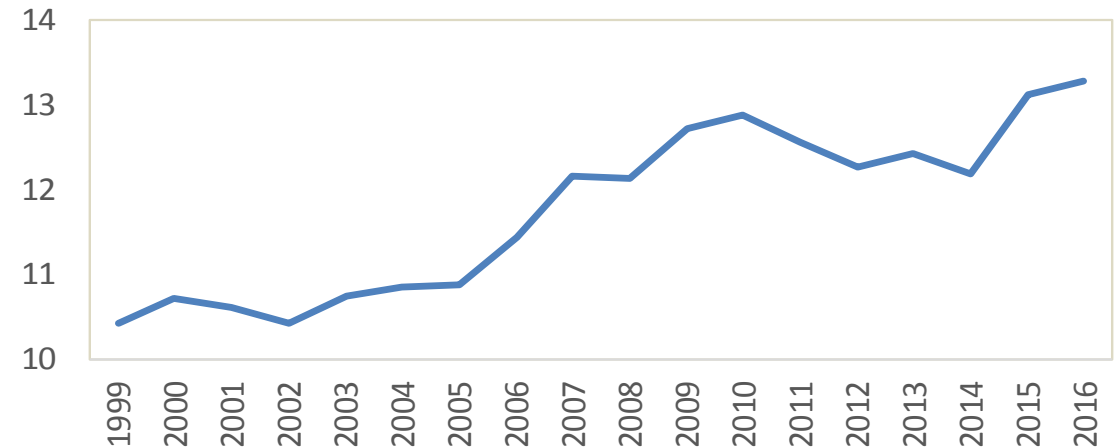
Structural challenge #1: demographics are not favorable



Source: IMF staff estimates



**Cyprus: Share of Workers Aged 55-64
(Percent of Labor Force)**



Source: CySTAT

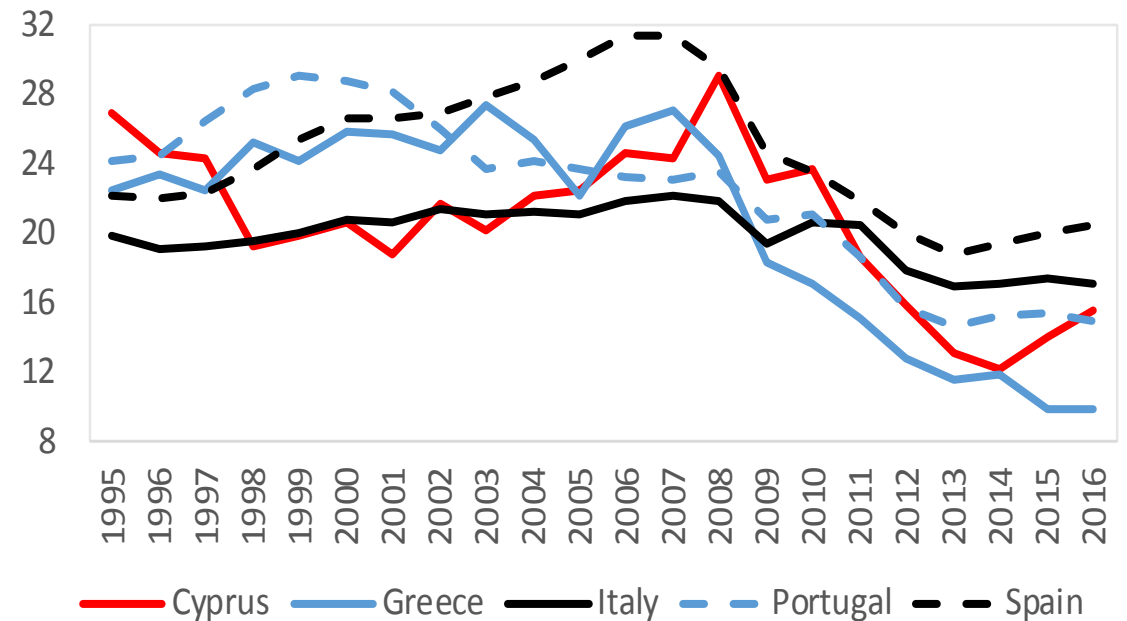
Structural challenge #2: productivity has slowed down; investment share has shrunk

Employment and Labor Productivity
(Percent Change)



Source: IMF staff estimates

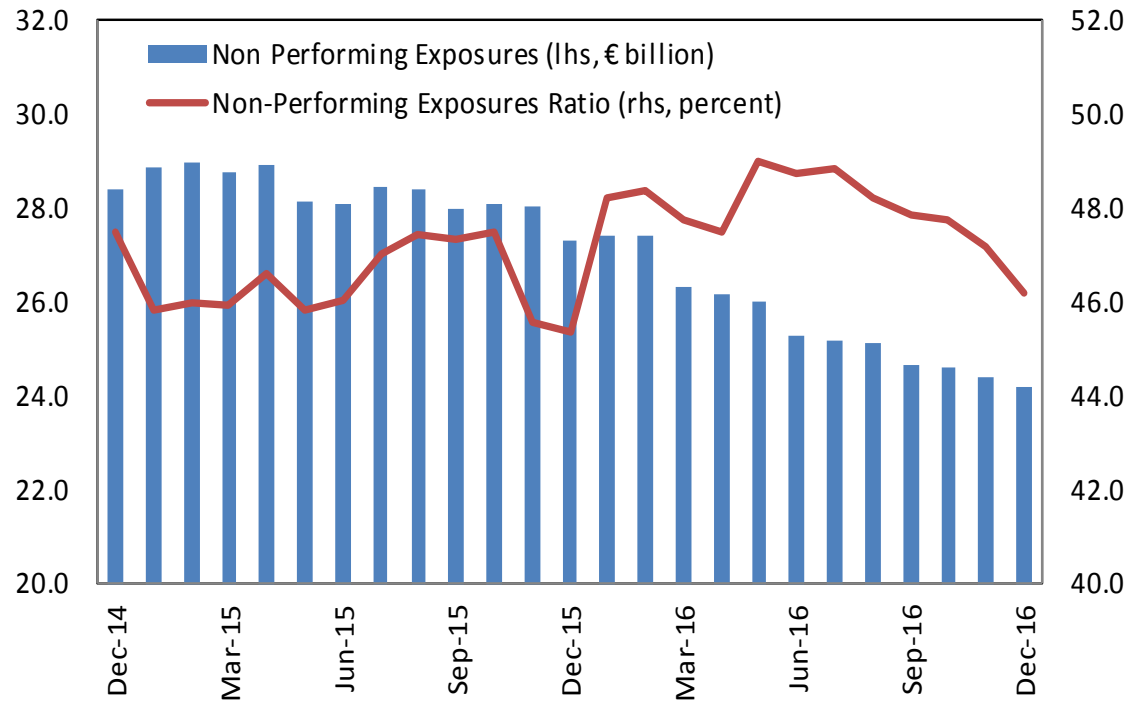
Total Investment (Percent of GDP)



Source: IMF staff estimates

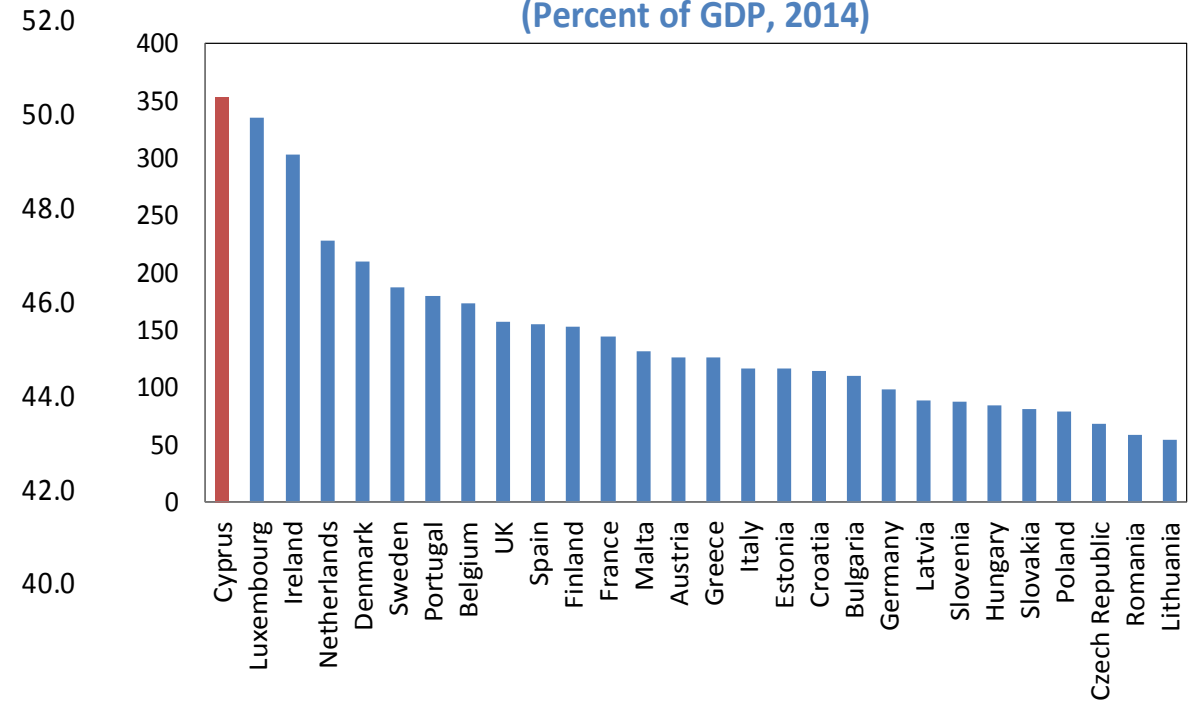
Restructuring has gained momentum, but NPLs remain very high

Cyprus: Non-Performing Exposures



Source: Central Bank of Cyprus

Private Sector Debt, Consolidated (Percent of GDP, 2014)



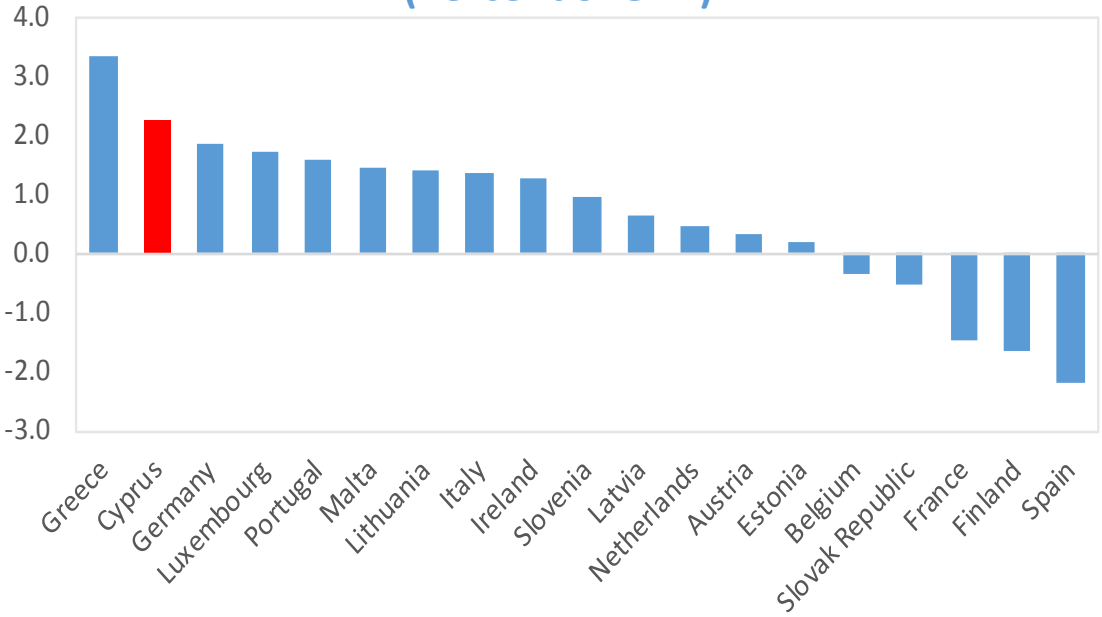
Source: Eurostat

Policy priority #1: accelerate NPL workouts

- Banks should be further encouraged not to defer restructuring in the expectation that future increases in output and property prices would autonomously improve recovery rates
- They should focus on durable and sustainable loan work-outs
- It is important that newly-issued bank lending, which is providing welcome support to the economy, is underpinned by robust lending policies, strong business plans from borrowers and close monitoring of credit risk

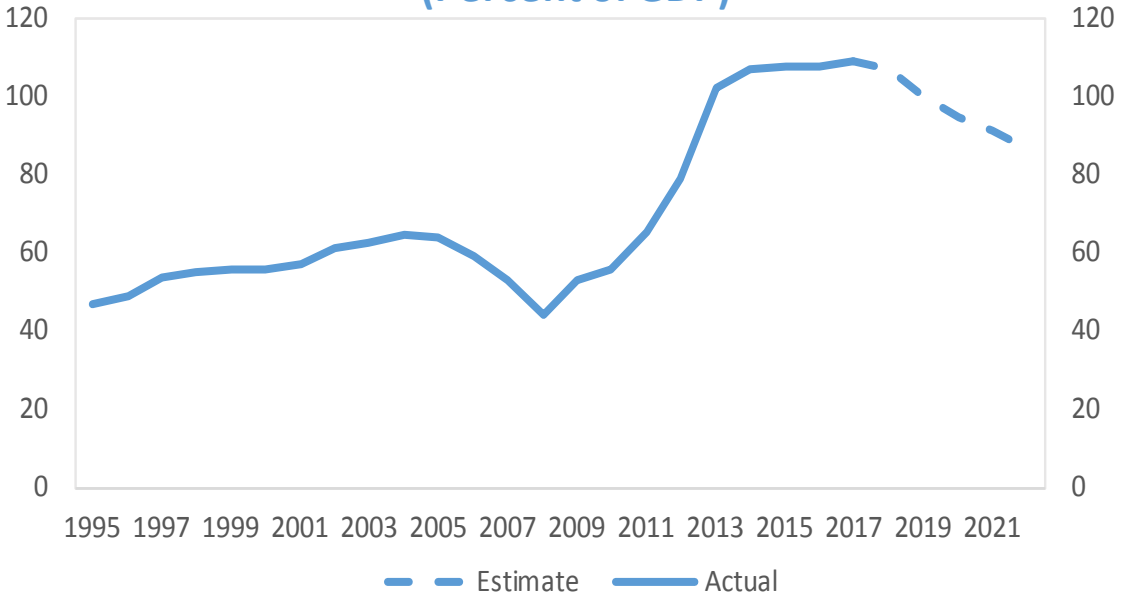
The primary surplus is sizeable, but public debt remains high

Primary Fiscal Balances, 2016
(Percent of GDP)



Source: IMF staff estimates

Cyprus: Gross Public Debt
(Percent of GDP)



Source: Eurostat

Policy priority #2: frontload public debt reduction

- Accelerating public debt reduction would help direct additional resources to growth-enhancing investment, thus supporting potential output
- Targeting a primary surplus of 3 percent of GDP for the next several years while saving any over-performance would help create a prudent buffer and safeguard the downward trajectory of debt in the event of adverse shocks
- Guarding against fiscal slippages, including from the envisaged national health service as well as from wage and social benefit spending, will also be essential

Policy priority #3: reinvigorate structural reforms

- Advancing the reform agenda would increase capacity to cope with external shocks and create sustainable job opportunities by improving the business environment
- Focus should be on expediting judicial reform to strengthen legal enforcement of commercial claims and speed up court procedures and on streamlining business procedures to attract new investment
- Completing pending reforms in the areas of revenue administration and public financial management and adopting the package of civil service reform bills would also help safeguard public finances over the medium term
- Restarting the privatization program would also contribute to lowering public debt, while increasing economic efficiency

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Thank you