INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/192

CYPRUS

June 2023

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Cyprus, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 25, 2023, consideration of the staff report that concluded the Article IV consultation with Cyprus.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on March 28, 23023, with the officials of Cyprus on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 9, 2023.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Washington, D.C.

PRESS RELEASE

PR23/197

IMF Executive Board Concludes 2023 Article IV Consultation with Cyprus

FOR IMMEDIATE RELEASE

Washington, DC – **June 5, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Cyprus on a lapse-of-time basis. [2]

Cyprus's economy has been resilient to the fallout from Russia's invasion of Ukraine. Output grew by 5.6 percent in 2022, as pandemic-affected pent-up demand boosted consumption, tourist arrivals rebounded, and the ICT sector expanded. Employment recovered and unemployment dropped to a post-Cyprus-financial-crisis low. However, high energy prices contributed to inflation and a larger current account deficit. The fiscal surplus reached 2.3 percent of GDP and public debt declined strongly. Liquidity and capital adequacy ratios in the banking sector have remained high, and profitability improved. Private sector deleveraging continues to be hindered by the slow resolution of legacy non-performing loans (NPLs).

Growth is expected to slow to around 2½ percent in 2023, reflecting an erosion in household incomes, tighter financial conditions, and delayed impacts from sanctions against Russia. But growth is expected to average around 3 percent in the medium-term, supported by public and private investments, structural reforms, and further ICT expansion. High inflation will recede only gradually amid elevated inflation expectations and wage pressures. Tight fiscal policy this year will help contain price pressures from aggregate demand and the public debt ratio is on a firmly declining path. The external current account will improve moderately but remain in sizable deficit.

The outlook is uncertain with risks from an escalation of the war and a possible recession in Europe. Should inflation expectations rise further and the pass-through to wages intensify, inflation could be stickier than expected. Adverse macroeconomic developments could amplify financial risks given high private debt.

Executive Board Assessment

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under lapse-of-time procedures when the Board agrees that a proposal can be considered without convening formal discussions.

Growth will slow in 2023, facing headwinds from inflation and financial tightening. The rebound in tourism and expansion of the ICT sector is expected to continue, against headwinds from the tightening of financial conditions and persistent inflation pressures. Risks remain to the downside, including from a deeper slowdown in Europe. Growth is forecast to gradually pick up from 2024 and average 3 percent in the medium-term, supported by structural reforms under the RRP. The external position has been weaker in 2022 than implied by fundamentals and desirable policies and is set to strengthen only gradually.

A moderately contractionary fiscal stance in 2023 remains appropriate to contain price pressures and further reduce public debt. The 2023 budget—underpinned by prudent revenue projections and contained expenditures—generates a small negative fiscal impulse of 0.2 percent of GDP in 2023. This is commensurate with the need to contain inflation pressures and a further decline in the public debt-to-GDP ratio. Yet, fiscal policy should stand ready to respond if growth turns out weaker than expected, allowing automatic stabilizers to work, and through targeted and time-bound support measures—relaxing the fiscal stance only if significant slack emerges.

Decisions on wage indexation and support measures should be based on a holistic view on their macroeconomic impact. A fuller automatic adjustment of wages to inflation through the CoLA mechanism should be avoided. It would likely make inflation more persistent, adversely affect competitiveness, and reduce fiscal space. It would also reduce flexibility in response to future shocks. The guaranteed minimum income may need to be carefully recalibrated while strengthening its activation requirements.

The recent shocks have demonstrated that fiscal policy can be a powerful tool to foster resilience, and buffers should be rebuilt over the medium-term. Fiscal policy should aim at sustaining primary surpluses to reduce public debt over time, supported by a risk-based fiscal framework. As buffers are rebuilt, available fiscal space should be directed to productive investments for the green and digital transitions. Putting the NHS on a sound fiscal footing and strengthening governance and accountability of SOEs will help to stay the course with the planned fiscal path.

Despite improved bank resilience, risks remain. So far, higher policy rates have boosted bank profitability, but credit risks are likely to rise with financial tightening—especially given the high private sector indebtedness—and should be monitored. The initiation of a positive neutral CCyB rate will improve resilience, which would be enhanced by building larger buffers over time. Growth of NBFIs is contributing to diversification but requires stronger supervisory framework.

Steadfast implementation of policies to address legacy NPLs would facilitate their faster resolution and private sector deleveraging. The foreclosure framework should be implemented forcefully to address strategic defaulters. Banks should also proactively use all available tools to enable timely restructurings, supported by recent legislative progress. Continued efforts are needed to advance work on the newly envisaged hybrid/out-of-court restructuring procedure. The MtR scheme will help advance the resolution of NPLs from vulnerable borrowers, but efforts should be taken to minimize fiscal risks from the scheme. Further strengthening the AML/CFT framework will help address reputational risks.

Further structural reforms are key to unlock growth potential. Cyprus is well positioned to leverage its well-developed professional services and strategic location but streamlining immigration would help address labor market shortages, while related housing affordability concerns could be addressed by supply-side measures. Reforms in the RRP are critical for overcoming structural bottlenecks, especially by improving governance and future-proofing workers' skills though education system reforms, which could be usefully accelerated. Investments in digital infrastructure will support the digital transition.

A greener growth model is an important element of reforms. Cyprus aims to become emissions neutral by 2050. Integration into the regional electric grid and the expansion of renewables—together with a liberalization of the domestic electricity market—are key elements of this strategy and will also improve energy security, but require large public and private investments.

Cyprus: Selected Economic Indicators, 2020-2024

	2020	2021	2022	Projections 2023	Projections 2024
Output/Demand					
Real GDP	-4.4	6.6	5.6	2.5	2.8
Domestic demand	-3.6	3.0	9.8	2.6	2.9
Consumption	-3.0	5.0	6.7	2.1	2.8
Private consumption	-6.8	4.5	7.7	2.9	3.1
Public consumption	11.6	6.6	3.5	-0.3	1.8
Gross capital formation	-6.0	-5.2	23.9	4.2	3.4
Foreign balance 1/	-0.8	3.5	-4.1	0.4	-0.2
Exports of goods and services	2.2	13.6	14.3	6.6	3.3
Imports of goods and services	3.2	9.0	19.5	6.1	3.4
Potential GDP growth	-0.8	4.6	3.6	3.5	3.0
Output gap (percent of potential GDP)	-2.4	-0.5	1.4	0.4	0.3
Prices					
HICP (period average, percent)	-1.1	2.3	8.1	3.9	2.5
HICP (end of period, percent)	-0.8	4.8	7.6	2.7	2.3
Employment					
Unemployment rate (EU standard, percent)	7.6	7.5	6.8	6.5	6.2
Employment growth (percent)	0.2	3.4	1.2	1.1	1.2
Public Finance					
General government balance	-5.8	-1.7	2.3	2.1	1.9
Revenue	38.8	41.4	42.1	40.6	40.4
Expenditure	44.6	43.1	39.9	38.5	38.5
Primary Fiscal Balance	-3.6	0.1	3.8	3.5	3.3
General government debt	113.5	101.1	86.5	78.3	70.6
Balance of Payments					
Current account balance	-10.1	-6.8	-9.1	-7.9	-7.4
Trade Balance (goods and services)	-1.4	2.9	-0.4	0.5	0.8
Nominal GDP (billions of euros)	21.9	24.0	27.0	29.5	31.3

Sources: Statistical Service of the Republic of Cyprus, Central Bank of Cyprus, and IMF staff estimates.
1/ Contribution to growth (percentage points).

INTERNATIONAL MONETARY FUND

CYPRUS

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

May 9, 2023

KEY ISSUES

Context and outlook. Growth is projected to slow from 5.6 percent last year to 2½ percent this year. Recovery in tourism and an influx of foreign companies is set to continue, but elevated inflation and tighter financial conditions will weaken domestic demand. Price pressures—stemming from high energy prices in 2022—are expected to moderate but will persist for core inflation. Growth is projected to pick up over the medium-term, underpinned by investments and reforms in the Recovery and Resilience Plan (RRP).

Fiscal policy. Spending plans in the 2023 budget are expected to contribute to a moderately contractionary fiscal stance, which remain appropriate given inflation pressures. Should downside risks materialize, automatic stabilizers should be allowed to operate. New measures, if any, should be targeted, temporary, and not relax the fiscal stance unless substantial slack emerges. Fiscal prudence should be maintained over the medium-term to lower the debt burden further. As buffers are rebuilt, fiscal space should be directed to investments to support the green and digital transitions.

Financial sector policy. Comfortable capital and liquidity positions underpin bank resilience. However, against the background of still-high household and corporate sector indebtedness, the impact of rising interest rates on credit risks should be closely monitored. A gradual phasing in of the positive neutral countercyclical capital buffer will support a stable and resilient banking sector. The unperturbed implementation of the foreclosure framework remains vital for the resolution of legacy NPLs. Efforts to strengthen AML/CFT framework should continue.

Structural policies. Reforms in the RRP will enhance growth prospects by strengthening governance and the rule of law—notably by combating corruption and improving judicial services—and future-proofing workers' skills though education system reforms. This will be supported by investments in digital infrastructure. Streamlining immigration procedures and supply-side measures to improve housing affordability would further enhance competitiveness. Integration into the regional electric grid and the expansion of renewables will underpin energy security and greener growth but require significant investments.

Approved By
Mark Horton (EUR) and Boileau Loko (SPR)

The 2023 Article IV Consultation Mission was held in Nicosia during March 15–28, 2023. The mission team comprised Wojciech Maliszewski (head), Robert Beyer, and Pietro Dallari (all EUR), Nina Biljanovska (RES), Gabriela Elizabeth Conde Vitureira (MCM), and Amira Rasekh (LEG). Ms. Erika Paola Espinoza (EUR) supported the mission from headquarters. Luc Dresse (Alternate Executive Director) joined some of the meetings. The mission met with the Minister of Finance Makis Keravnos, Central Bank of Cyprus Governor Constantinos Herodotou, Deputy Minister to the President Irene Piki, Permanent Secretary of the Ministry of Finance George Panteli, and other senior officials, as well as with representatives of the private sector, labor unions, and academia.

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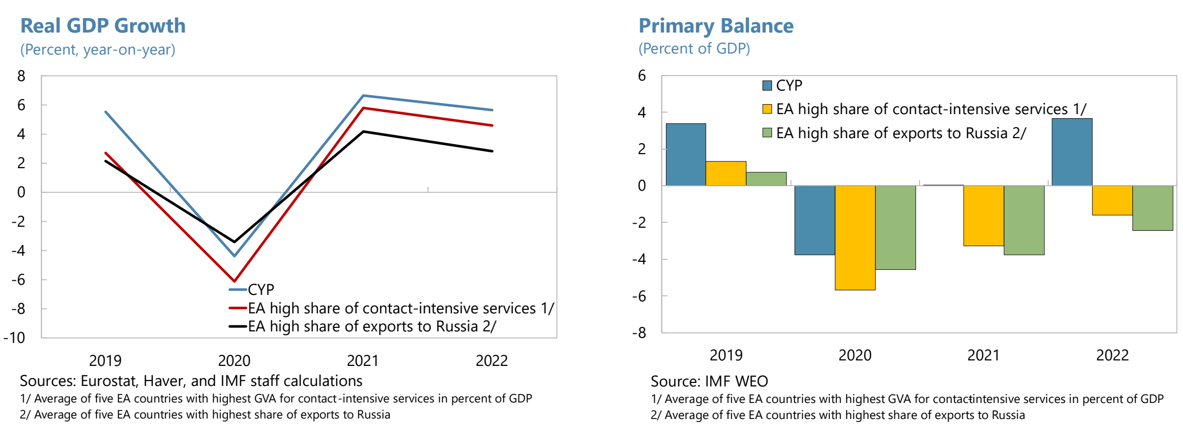
CONTEXT[1]

1. Helped by fiscal buffers, Cyprus's economy has proved resilient to the twin shocks of the pandemic and spillovers from Russia's war in Ukraine. The economy was vulnerable to both shocks because of high shares of contact-intensive services (a quarter of GDP) and pre-war exports to Russia (a tenth of GDP). The output contraction of about 4½ percent in 2020 (peak of the pandemic) was still relatively modest due to substantial public support, which, however, turned the primary fiscal balance from a surplus of 3½ percent of GDP in 2019 into an equally large deficit in 2020 and raised the public debt ratio to 113½ percent of GDP (Figure 1). Since the pandemic, contact-intensive services have recovered despite the collapse in tourism arrivals from Russia and Ukraine, and the fast-growing information and communication technologies (ICT) sector has continued attracting foreign investment. The strong rebound—against lingering supply constraints from the pandemic and high energy prices triggered by the war—has, however, contributed to inflation pressures.

2. The challenge for the new government is to continue rebuilding policy buffers and to reduce inflation pressures, while advancing on long-standing structural reforms. The new government took office in February and is committed to maintaining fiscal discipline and to structural reforms under the Recovery and Resilience Plan (RRP), including reforms to further strengthen governance, improve education, and green the economy. It also needs to tackle the slow resolution of legacy NPLs, which contribute to still-high private sector indebtedness and create vulnerabilities, especially in the ongoing financial tightening cycle. An uncertain parliamentary majority may constitute an obstacle to its effectiveness.

Figure 1. Cyprus: Real GDP Growth and Primary Balance



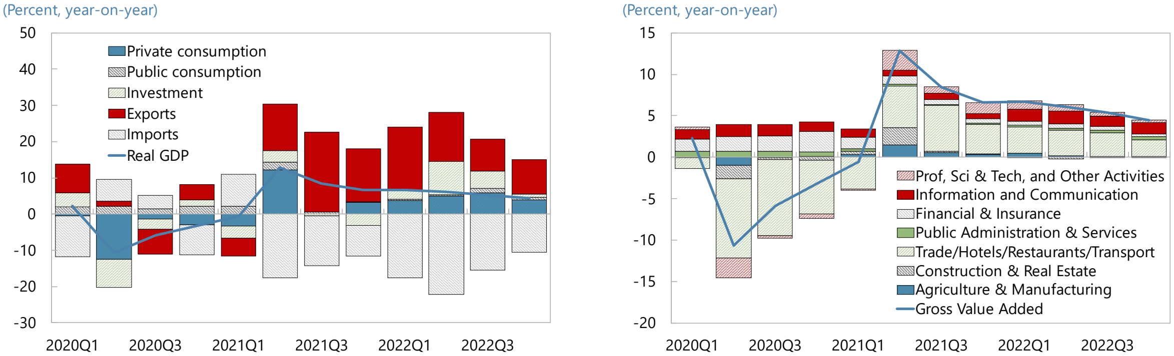
[1] This report does not cover areas of Cyprus not under the effective control of the Republic of Cyprus and assumes no change in status quo.

RECENT DEVELOPMENTS

3. **GDP expanded by 5.6 percent in 2022, but growth is now slowing** (Figure 2). Private consumption continued to recover, reflecting pent-up demand. Exports proved resilient despite the fallout from Russia's invasion of Ukraine (Annex VI): the war stopped tourism from both countries, yet a promotion campaign and pent-up demand for travel from other markets resulted in 3.2 million arrivals in 2022 (0.8 million short of the 2019 record) and strong bookings and arrivals so far this year. Export-oriented ICT and business services continued to expand, underpinned by foreign companies relocating to Cyprus. GDP growth slowed in the last quarter of 2022 and high-frequency indicators point to its stabilization at a lower level in the first months of this year.

Figure 2. Cyprus: GDP Growth

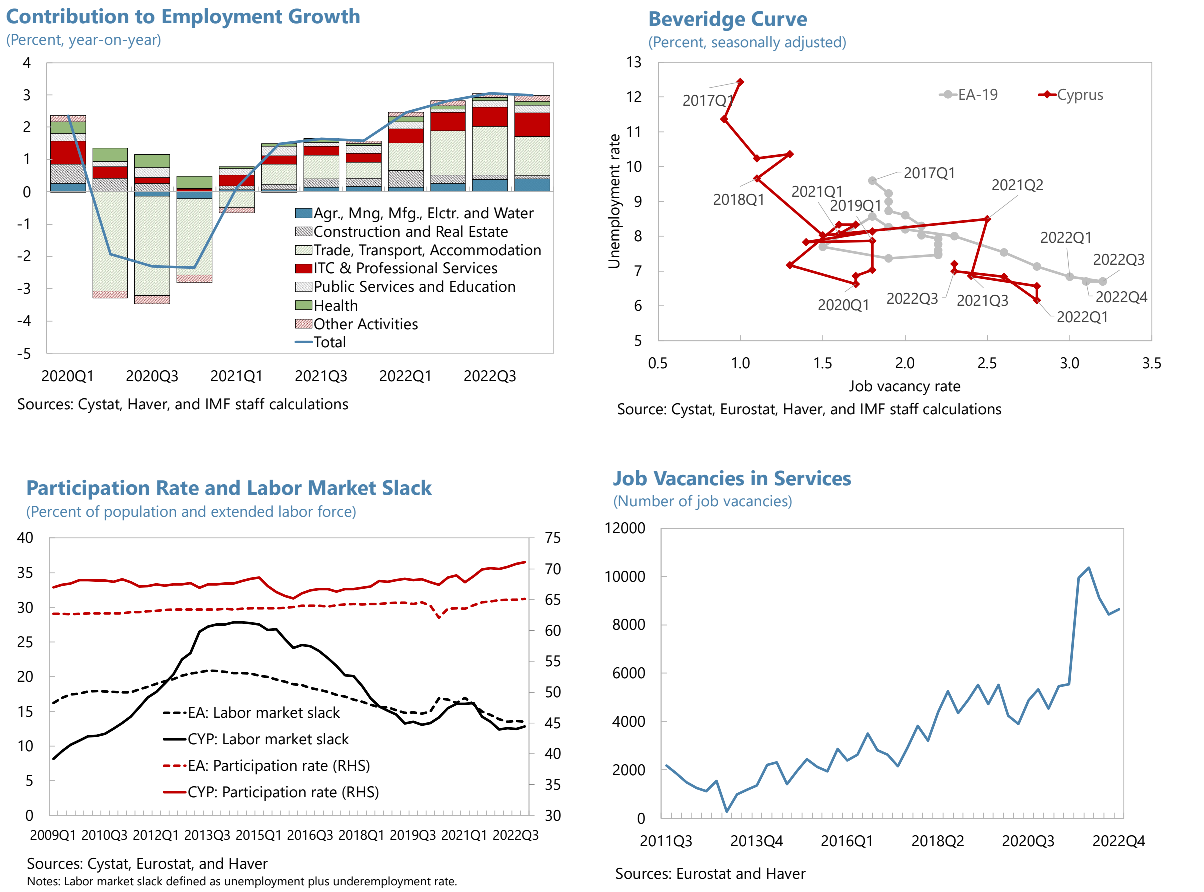
Contributions to GDP Growth (Percent, year-on-year) | **Contributions to Value Added Growth** (Percent, year-on-year)



Sources: Cystat, Eurostat, Haver, and IMF staff calculations | Sources: Cystat, Eurostat, Haver, and IMF staff calculations

4. **Despite some softening, the labor market has remained tight and the output gap positive** (Figure 3). The recovery led to a spur in vacancies followed by strong employment growth, driving unemployment to a post-financial-crisis low of around 6 percent in February 2022 and participation rate to a historic high. Relative to the euro area, overall labor market tightness slightly loosened most recently, but vacancies remain elevated in services and anecdotal evidence suggests that tourism faces difficulties attracting back workers who moved to other sectors during the pandemic (in response, restrictions on the employment of third country nationals have now been relaxed). Output gap is estimated at 1½ percent of potential GDP in 2022, now gradually closing.

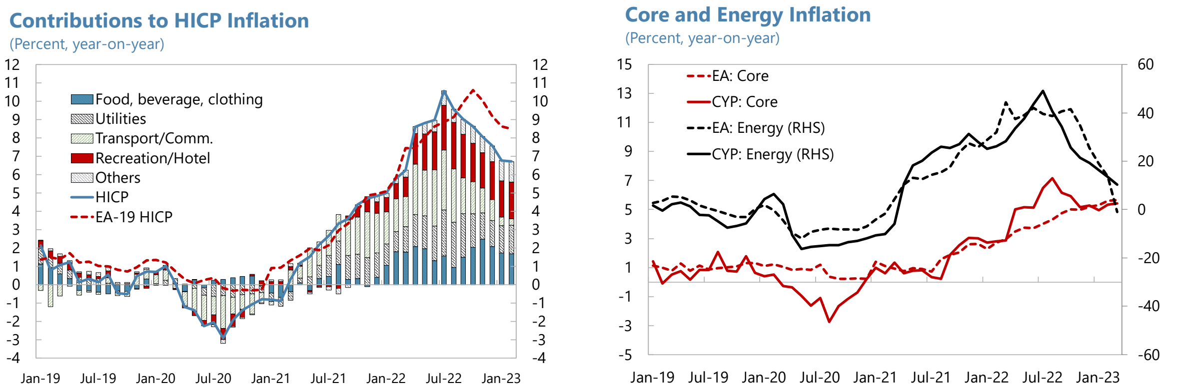
Figure 3. Cyprus: Labor Market Developments



5. Headline inflation has peaked but core has remained elevated (Figure 4). Headline inflation reached a high of 10.6 percent in July, pushed up by high energy prices (quickly passing-through to utility/transport prices) and a price rebound in tourism-related activities. It has now receded somewhat—falling to 6.1 percent in March—reflecting moderating energy prices. Core inflation peaked at 7.2 percent in August and has remained high, averaging 5.7 percent since then and reaching 5.2 percent in February. Inflation expectations from producers and professional forecasters have remained elevated.[2]

[2] See the accompanying Selected Issue Paper: "Causes and Implications of Elevated Inflation in Cyprus".

Figure 4. Cyprus: Inflation

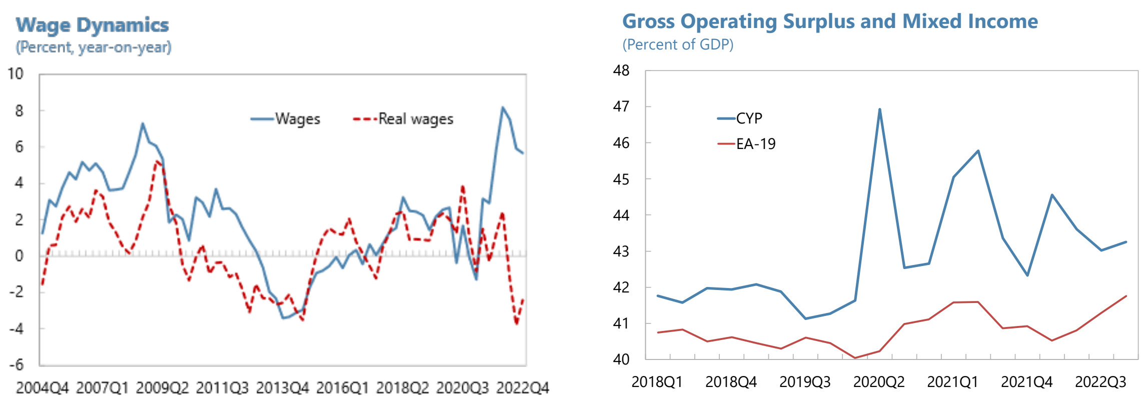


Sources: Eurostat and Haver

Sources: Eurostat and IMF staff calculations

6. **Firms have sustained profits by passing on high input costs, while real wages declined** (Figure 5)**.** Boosted by strong demand recovery, corporate profits have remained above their pre-Covid level and higher than in the rest of the euro area. Nominal wages increased by 6.8 percent in 2022 but declined by 1.3 percent in real terms—with all losses occurring in the third and fourth quarter.

Figure 5. Cyprus: Wages and Profits



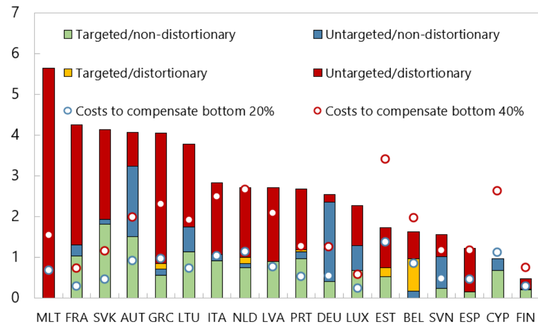
Sources: Cystat, Eurostat, and Haver

Sources: Eurostat, Haver, and IMF staff calculations

7. **With well-targeted measures to tackle the cost-of-living crisis, the fiscal balance turned into a surplus** (Figure 6). Revenues increased strongly (by 14½ percent in 2022) with recovery and inflation, while expenses declined as pandemic-era support expired. This led to a turnaround in the headline balance: from a deficit of 1¾ percent in 2021 to a surplus of 2¼ percent of GDP in 2022. Preliminary data indicate sustained collections continuing in the first months of 2023. Except for the reduction in excises on fuel products, measures to tackle the cost-of-living crisis were generally well targeted, time bound, promoted energy conservation, and came at a modest cost to the budget (below 1 percent of GDP; Table 2). They were also broadly commensurate with incidence for the most vulnerable, and, on average, households have maintained savings buffers (reflecting Covid-related support), cushioning the impact of the cost-of-living crisis.

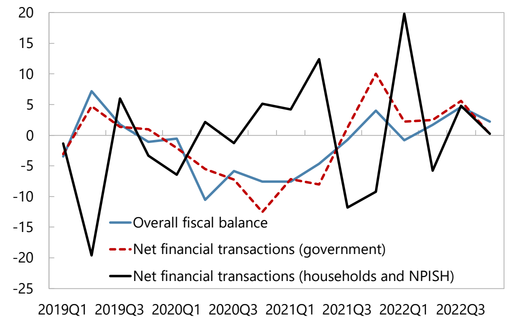
Figure 6. Cyprus: Fiscal Measures and Household Financial Position

Estimated Fiscal Cost of Household Support Measures, 2022-23
(Percent of GDP)



Sources: Cyprus' Ministry of Finance, Arregui et al. (2022), and IMF staff calculations

Net Financial Transactions and Fiscal Balance
(Percent of GDP)



Sources: Cystat, Eurostat, and Haver

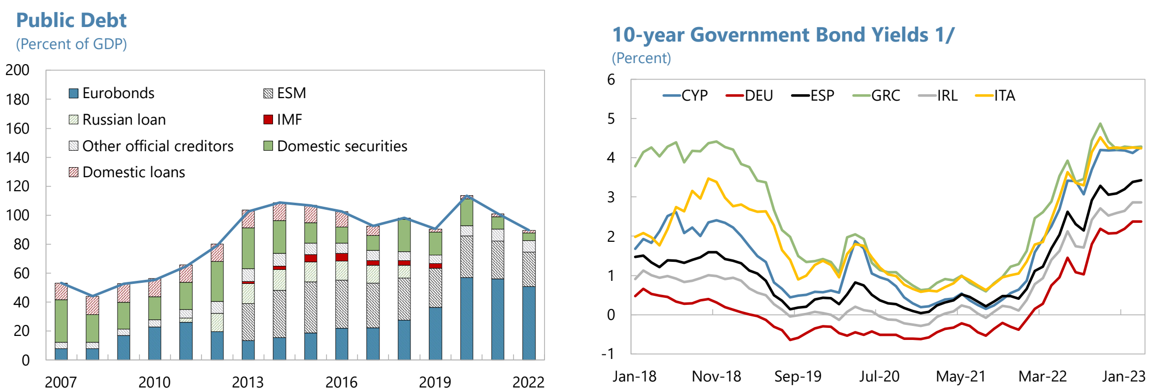
Text Table 1. Main Measures Addressing Cost-of-Living Crisis

List of measures	Targeted Group	Implementation	Amount (% of 2022 GDP)
Reduction of VAT rates on electricity consumption	Targeted: households and vulnerable customers	Jan - Aug 2022	0.09
Reduction of excise duties on fuel products	Untargeted	March 2022 - May 2023	0.29
Subsidy for electricity consumption	Targeted: full compensation for vulnerable households, otherwise tiered subsidy based on electricity consumption	Sept 2022 - Apr 2023	0.34
Subsidized installation of a photovoltaic system for self-consumption for households and agricultural consumers	Targeted: incremental benefit for vulnerable consumers	Feb 2022 - Dec 2023	0.24
Total			0.96

Source: Ministry of Finance, Staff estimates

8. **Public debt declined to the pre-pandemic level, with ample cash buffers** (Annex III, Figure 7)**.** Strong recovery and the surplus helped reduce debt from 101 percent of GDP in 2021 to 86.5 percent at end-2022. The authorities—through opportunistic overfinancing during the pandemic—built cash buffers (at end-2022 about 10 percent of GDP; well above 2023 financing needs) and locked-in lower interest rates (more than ⅔ of public debt is with fixed interest rates and the weighted average maturity is around 7 years). Still, sovereign debt risk premia are relatively high, largely reflecting a liquidity premium. Cyprus has been assigned an investment grade by most rating agencies, but not by Moody's on the account of private sector balance sheet vulnerabilities. In April, Cyprus issued its first 10-year sustainable bond, amounting to €1 billion, with a large bid book and an attractive yield of 4.2 percent.

Figure 7. Cyprus: Public Sector Debt and Yields

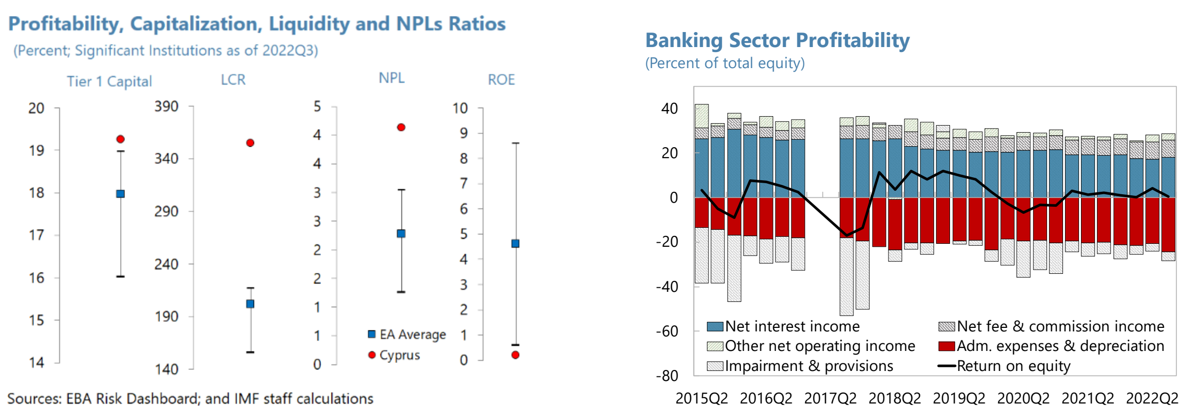


Sources: Cyprus' Ministry of Finance and IMF staff calculations

Source: European Central Bank
1/ Maastricht criterion

9. The financial sector has remained resilient (Figure 8). End-2022 bank capital adequacy ratio stood above most euro area peers and the liquidity ratio was the highest. Relatively short duration of bonds in banks' investment portfolios cushioned the impact of interest rate increases. Profits—traditionally underperforming due to impairments from legacy NPLs and high fixed (labor) costs—have been boosted by higher interest rates on liquid assets and voluntary staff exits (with reductions of up to 20 percent). Large banks have made headways in disposing legacy NPLs, but progress has been slower for smaller banks. Stage 2 loans (concentrated in tourism) have remained relatively high, pointing to risks of future impairments if growth disappoints, but not threatening systemic stability. New lending for mortgages has contracted with the tightening of financial conditions, while new loans to non-financial corporations have held up so far.

Figure 8. Cyprus: Banking Sector



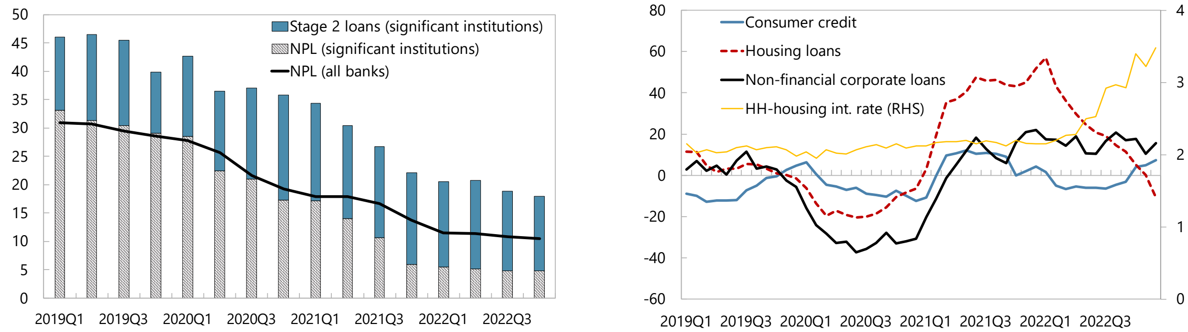
Sources: EBA Risk Dashboard; and IMF staff calculations
Note: The whiskers correspond to the 25th and 75th percentiles.

Sources: European Central Bank, Haver, and IMF staff calculations

Figure 8. Cyprus: Banking Sector (Concluded)

Bank Loans by IFRS9 Stage
(Percent of total loans)

Pure New Loans and Interest Rates
(12-m rolling sum percent year-on-year and percent)



Sources: Central Bank of Cyprus, Haver, EBA Risk Dashboard, and IMF staff calculations

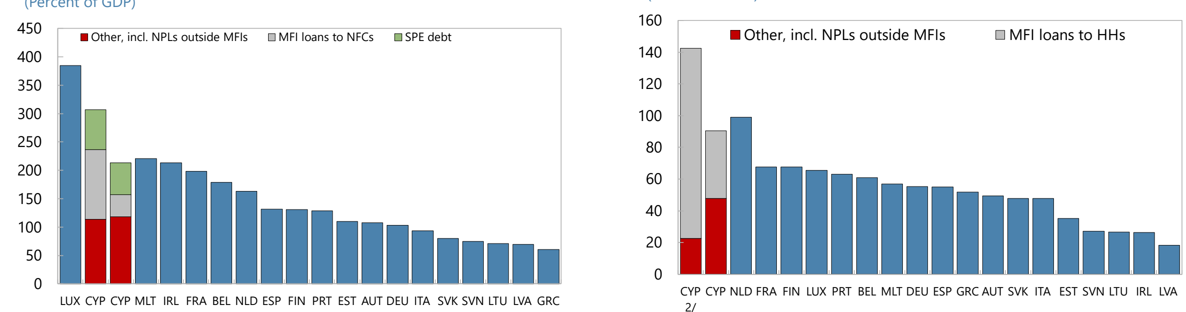
Sources: Central Bank of Cyprus and Haver

10. The private sector has been deleveraging but remains highly indebted (Figure 9). Deleveraging is hindered by the slow resolution of NPLs. While banks have made progress in offloading them to credit acquiring companies (CACs) and the public Asset Management Company (KEDIPES), the ultimate resolution—mainly through repayment by borrowers—has been slow.

Figure 9. Cyprus: Private Debt

Nonfinancial Corporation Debt, 2022Q3 1/
(Percent of GDP)

Household Debt, 2022Q3 1/
(Percent of GDP)



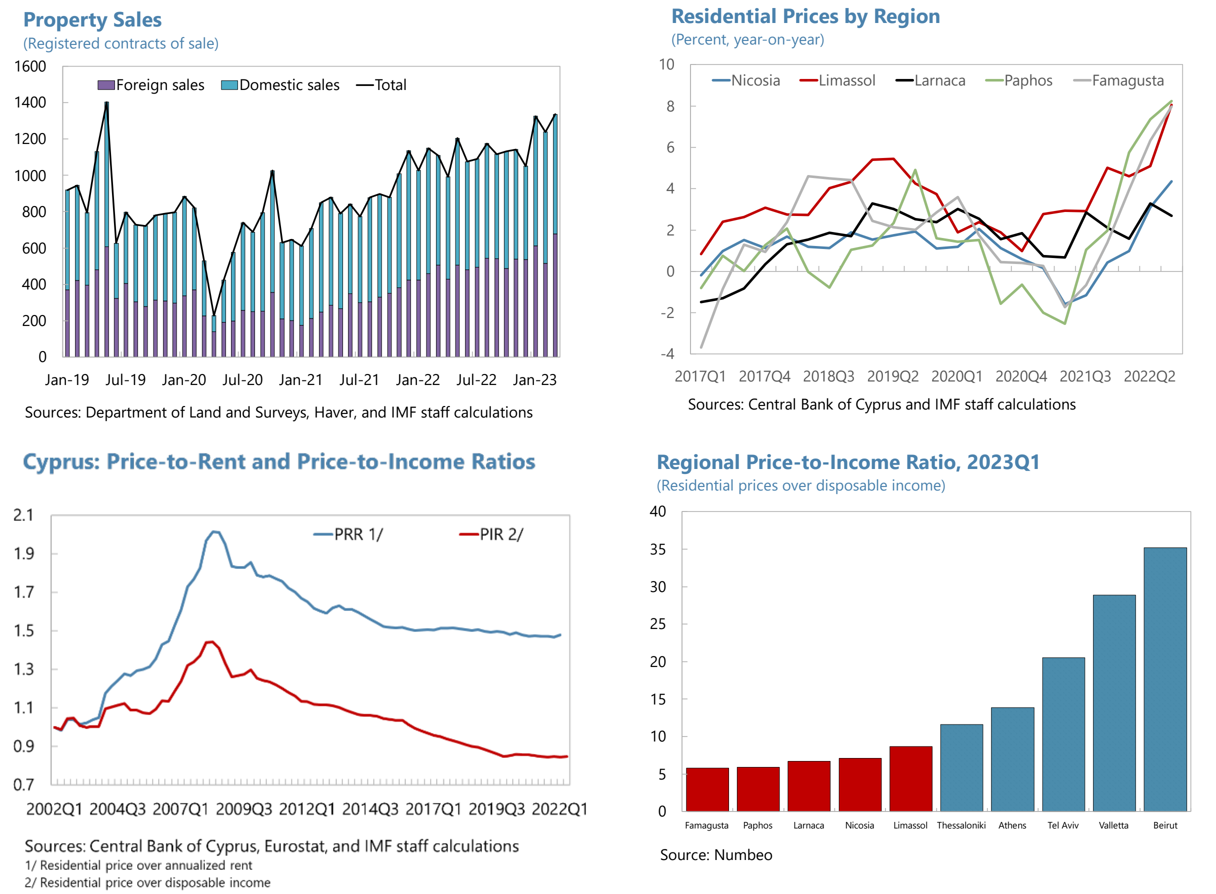
Sources: Central Bank of Cyprus, Eurostat, Haver, and IMF staff calculations
1/ 2022Q3, unless otherwise noted
2/ 2015Q4

Sources: Eurostat, Haver, and IMF staff calculations
1/ 2022Q3, unless otherwise noted
2/ 2015Q4

11. The housing market has recovered, buoyed by foreigners (Figure 10). After slowing during the pandemic, residential property price growth picked up in 2022 and reached new post-financial crisis highs, while property sales have remained steady, despite slowing bank lending. The market has been supported by the relocation of employees of foreign companies, especially in premium segments but more broadly in some regions, raising concerns about affordability. Staff analysis suggests that residential real estate prices are aligned with fundamentals.[3]

[3] See Selected Issue Paper: "Residential House Price Developments and (Mis)Alignments in Cyprus".

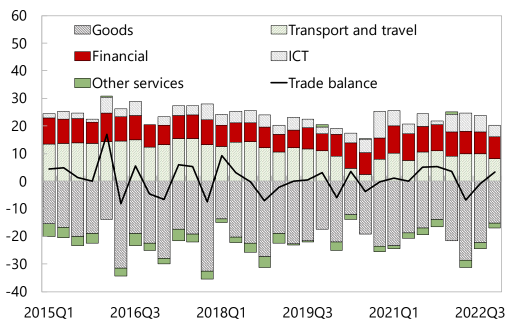
Figure 10. Cyprus: Real Estate Market



12. Cyprus external position in 2022 is assessed to have been weaker than the level implied by fundamentals and desirable policies (Figure 11, Annex II). The current account deficit widened from -6¾ percent in 2021 to exceed -9 percent in 2022, driven by higher imports and a less-than-full recovery in exports. The negative net international investment position (excluding special-purpose entities—SPEs, which carry little domestic risks as financing entities and assets are typically abroad; IMF 2017) has improved but remains elevated. The terms-of-trade worsened only moderately, as the strong increase in import prices was partially offset by rising export prices. The real exchange rate has depreciated.

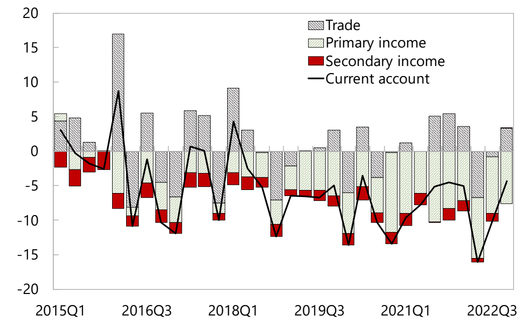
Figure 11. Cyprus: Balance of Payments and International Investment Position

Trade Balance
(Percent of GDP, seasonally adjusted)



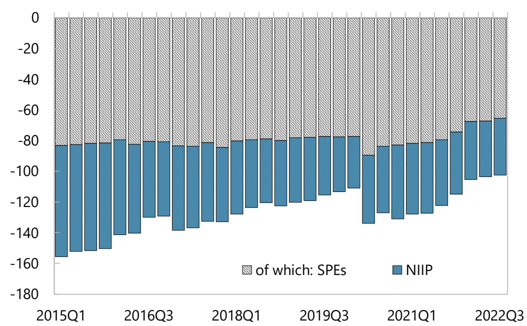
Sources: Cystat, Eurostat, Haver, and IMF staff calculations

Current Account Balance
(Percent of GDP, seasonally adjusted)



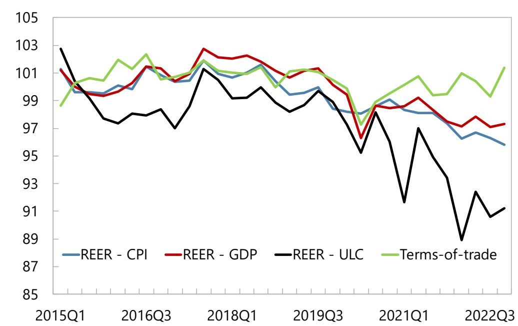
Sources: Cystat, Eurostat, Central Bank of Cyprus, Haver, and IMF staff calculations

Net International Investment Position
(Percent of GDP)



Sources: Cystat, Central Bank of Cyprus, and IMF staff calculations

Real Effective Exchange Rate and Terms -of-Trade
(2015 = 100)



Sources: Haver, Cystat, and IMF staff calculations

OUTLOOK AND RISKS

13. Growth is projected to slow this year, but the medium-term outlook is robust. Growth is projected to slow to around 2½ percent in 2023, reflecting the expected erosion in household disposable income from inflation, tighter financial conditions, and a delayed impact of sanctions against Russia on financial and professional services (as activity related to winding-down Russia-related business is slowing). Still, demand will be supported by domestic savings buffers, recovering tourist arrivals, a continued influx of foreign companies, and RRP investments. Confidence—driven by services—is higher than in the euro area. The output gap will remain positive but small and closing. Growth is forecast to start recovering in 2024 and average 3 percent in the medium-term, supported by RRP investments and structural reforms, large private projects in tourism, and a further expansion of the ICT sector. The current account deficits are projected to decline modestly as import prices fall and tourism inflows increase, but primary income balance is expected to remain in deficit.

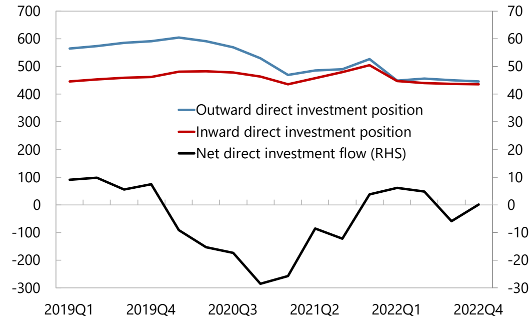
Box 1. Impact of Russia's Invasion of Ukraine

Tourism arrivals from Russia and Ukraine have collapsed. FDI exposures have remained large, but the freezing of investment activity is affecting exports of financial and professional services.

Tourism arrivals from Russia have collapsed. Receipts shrank from about €440 million in 2021 (1½ percent of GDP, around than a fifth of the total) to almost zero in 2022. Higher arrivals from other regions aided an overall strong recovery, but segments catering to Russian tourists were impacted disproportionally.

The stock of direct investments in Russia remains large but has shrunk and new activity has halted. Cyprus's direct investment positions with Russia—with assets and liabilities of around 450 percent of GDP in 2022—reflect past round-tripping of capital to benefit from the beneficial tax system and relative safety of Cyprus's financial and legal framework. But already before the war, assets held in Russia and the net position declined, and net primary income turned strongly negative. This coincided with the strengthening of past sanctions and the renegotiation of the double taxation treaty between two countries in 2020, making Cyprus less attractive as a profit center for Russian companies. Gross flows declined sharply post-invasion.

Direct Investment Position and Flow with Russia
(Percent of GDP)

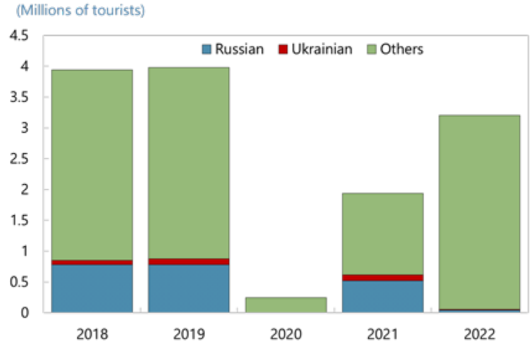


Sources: Cystat and Haver

Exports of professional and financial services have declined but may drop further. Accounting, auditing, bookkeeping and tax consulting services, as well as business/management consulting and public relations services have been banned by EU sanctions since June 2022; and IT consultancy, legal advice, as well as architecture and engineering services since October. Activity has been supported by winding-down Russia-related business and the provision of basic services but is expected to shrink this year. Net flows of financial services were down by a third (y-o-y) in Q4, but they still accounted for €1 billion (3.8 percent of GDP) in 2022 and will likely shrink given the freezing of investment activities.

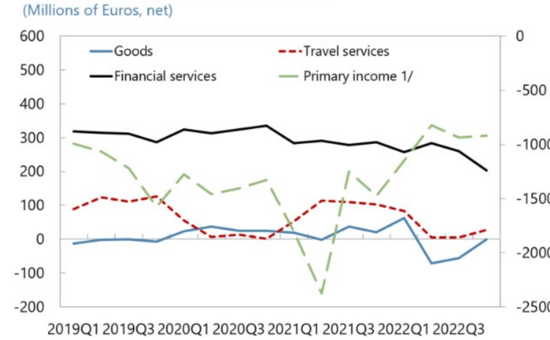
Cyprus's energy import from Russia is small. Cyprus is highly dependent on imported oil (for transport and electricity generation), of which only about 1 percent was imported from Russia (2020).

Tourist Arrivals
(Millions of tourists)



Sources: Cystat and IMF staff calculations

Balance of Payments with Russia
(Millions of Euros, net)



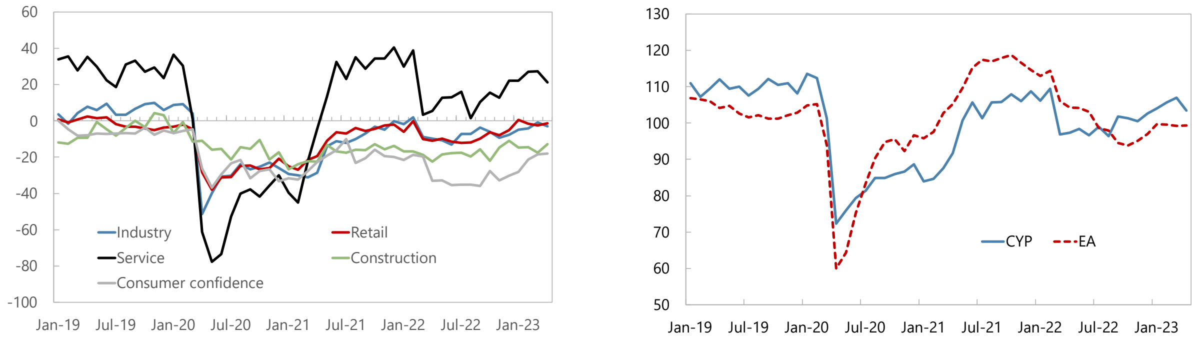
Sources: Haver and IMF staff calculations
1/ Excludes portfolio investment income and other primary income

Direct financial sector risks appear contained. Russian deposits in the banking system were low at about 4 percent at end-2021, and lending exposure to Russian businesses is anecdotally negligible. Exposures declined after the RCB—a bank with significant Russian interests—was orderly liquidated and its banking license revoked at end-2022 (the remaining portfolio is managed by a new entity—Finstella Ltd—operating under CAC and electronic money institution licenses).

Figure 12. Cyprus: Confidence Indicators

Business and Consumer Confidence Indicator
(Percent balance, seasonally adjusted)

Economic Confidence Indicator
(Long-term average = 100, seasonally adjusted)



Sources: European Commission and Haver

Sources: European Commission and Haver

14. Inflation is expected to moderate but only gradually. With the anticipated normalization of energy prices, headline inflation is projected at around 4 percent in 2023 and 2½ percent in 2024. Core inflation will be somewhat stickier, reflecting second-round effects from wages, unlikely to be cushioned by shrinking profit margins given elevated producer price expectations in key sectors (Box 2). This assumes no major revisions to the partial cost-of-living allowance (CoLA), with salaries of public sector employees and those in professions governed by collective agreements raised by half of the previous year increase in the CPI.

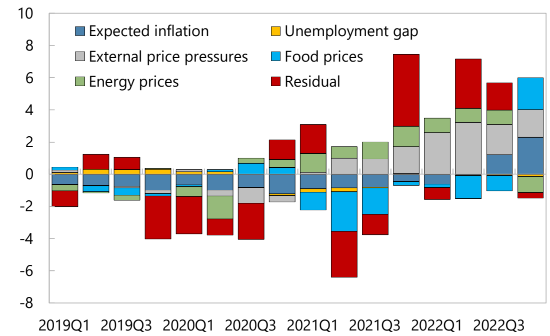
15. Risks to the baseline are tilted to the downside for growth and upside for inflation (Annex IV). Further adverse effects from Russia's war in Ukraine (including through possible additional sanctions) could weigh on activity. Other high-impact external risks include a recession in Europe, new commodity price shocks, and increased geopolitical risks. The above shocks would amplify macrofinancial risks given high domestic private sector debt. Conversely, a de-escalation of the war, a fall in oil prices, and upward growth revisions in the EU would be supportive to the outlook. Key domestic risks include a stronger pass-through of inflation to wages, amplified by sectoral labor market tightness. Uncertainty about wage dynamics is high, as discussions on revising CoLA to adjust wages more fully to past inflation are ongoing.

Box 2. Drivers of Inflation[1]

Inflation in 2022 has been driven first by external pressures but then increasingly by expectations, which remain elevated. High pass-through of inflation shocks to wages point to strong second-round effects.

Inflation is explained by the pass-through from external prices, sectoral pressures, and expectations. A Phillips curve regression indicates that the pass-through of external price pressures and energy prices to both core and headline inflation has been high, in line with Cyprus being a small island economy dependent on imports. Large residuals appear correlated with sectoral demand/supply pressures from the contraction and recovery in tourism related to the pandemic. Increasingly, inflation has been driven by inflation expectations.

Contributions to Core Inflation
(Percent, year-on-year)

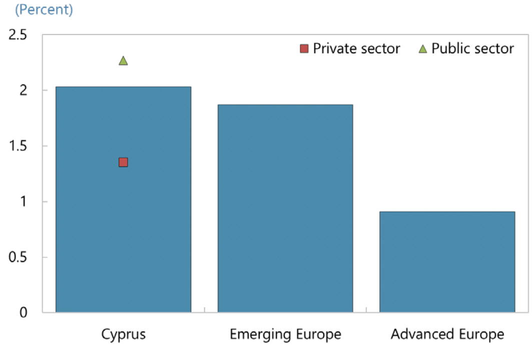


Source: IMF staff calculations

High pass-through of inflation to wages points to strong second-round effects. An econometric analysis unveils that a 1 ppt increase in inflation caused by an exogenous shock (such as an increase in energy prices) raises wages in the private sector by 1.4 percent and in the public sector by 2.3 percent—by more than in most advanced European economies.

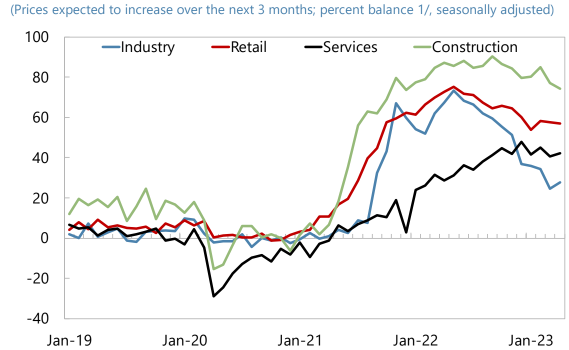
Even though they appear anchored for longer horizons, inflation expectations remain elevated, likely reflecting second-round effects. In contrast to more benign consumer expectations, producer expectations have plateaued at an elevated level in retail sales and in services—likely reflecting wage pressures amplified by labor market tightness in these sectors, with robust outlooks sustaining pricing power. The Survey of Professional Forecasters also shows persistently high 1- and 2-year expectations. However, expectations have remained well anchored for longer horizons (3-, 5-, and 10-year), providing reassurance that the ECB's inflation goal remains credible.

Pass-through of Higher Inflation (1ppt) to Wages
(Percent)



Source: IMF staff calculations

Producer Selling Price Expectations
(Prices expected to increase over the next 3 months; percent balance 1/, seasonally adjusted)



Sources: European Commission and Haver
1/ The percent balance equals the percent of respondents reporting an increase minus the percent reporting a decrease.

[1] For more details, see Selected Issue Paper: "Causes and Implications of Elevated Inflation in Cyprus".

Authorities' Views

16. **The authorities broadly shared staff's view on the outlook but expect inflation—including core—to normalize faster.** They expect real GDP growth to slow in 2023 but to pick up slightly more than in staff projections in the medium-term, on account of a higher payout from structural reforms. The authorities viewed risks to the outlook as broadly balanced, underscoring

progress in improving economic diversification, which they see as a key contributor to enhanced macroeconomic stability and resilience. While recognizing risks from excessive wage growth and a CoLA revision, the authorities expected headline and core inflation to decline faster than staff projections due to lower pressures from aggregate demand and weaker second-round effects.

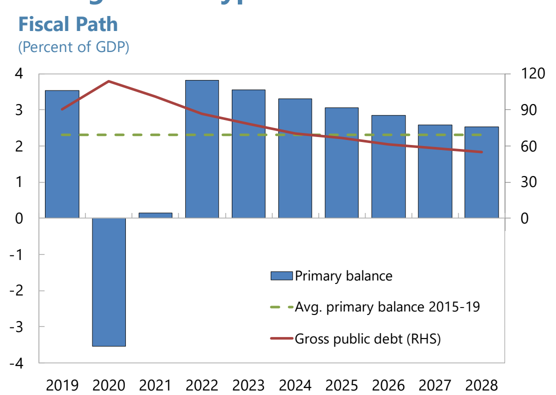
POLICIES FOR RESILIENT AND SUSTAINABLE GROWTH

Fiscal policy was instrumental in providing vital support during the pandemic, and it should now aim at fully rebuilding buffers to prepare for future shocks. Safeguarding financial stability requires careful monitoring of risks, while resolving high legacy NPLs remains a priority given high private sector indebtedness. RRP reforms are key to strengthen governance, address skill mismatches, and advance on digital and green transition.

A. Fiscal Policies: A Balancing Act

17. A moderately contractionary fiscal stance in 2023 remains appropriate to lower public debt and contain price pressures. Under current spending plans, staff projects a primary surplus of 3½ percent of GDP—lower than in 2022, but sufficient to deliver a moderately tight fiscal impulse (estimated at 0.2 percent of GDP) to help contain price pressures from aggregate demand.

Figure 13. Cyprus: Fiscal Outlook



Sources: Cyprus' Ministry of Finance and IMF staff calculations

18. Upward revisions to CoLA would further increase the wage bill and should be avoided. Assuming no change in the CoLA mechanism, the wage bill is projected to grow by about 7 percent with the unwinding of crisis-era wage cuts accounting for about 1.5 ppts and the CoLA for 2.5 ppts, about twice as much as in 2022. Upward revisions to CoLA would increase it further, reducing fiscal space and putting pressure on private sector wages. A stronger automatic link between wages and inflation would also make fiscal policy more pro-cyclical.

19. Cyprus's social protection system should provide sufficient support to vulnerable households after the expiration of energy-related measures. The social safety net—including the Guaranteed Minimum Income (GMI) scheme introduced in 2014—is well-targeted and has been relatively generous in terms of replacement ratios (IMF, 2021). More frequent adjustments to the consumption basket could be considered to safeguard the purchasing power of vulnerable households as it is eroded by inflation (which disproportionally affects lower income groups.[4]

[4] See the accompanying Selected Issue Paper: "Causes and Implications of Elevated Inflation in Cyprus".

However, given the tight labor market, this should be accompanied by strengthening currently weak labor activation requirements (for instance regarding the documentation of job search activity).

20. The fiscal policy response to a materialization of risks should be informed by the nature of the shock. Automatic stabilizers should be allowed to operate in the case of a further growth slowdown. Higher energy prices may call for additional support to the vulnerable, which, however, should be temporary, targeted, not distorting price signals, and—unless the slack is more sizeable than anticipated and wage pressures are absent—not relaxing the overall fiscal stance.

21. Over the medium-term, fiscal policy should aim at reducing public debt, while creating fiscal space for productive investments. Under a no-policy change scenario, staff projects continued fiscal surpluses (Text Table 3), which—alongside solid growth prospects and favorable interest rate/inflation differential—will keep public debt sustainable, with the ratio on a firm downward trajectory. This will help rebuild buffers commensurate with risks stemming from Cyprus's size and remaining vulnerabilities in private sector balance sheets (including high NPLs outside the banking system), which for now contribute to a moderate risk of sovereign stress (Annex III). As buffers are rebuilt—debt ratio falling toward the 60 percent benchmark—available fiscal space should be directed to productive investments, including yet unfunded green projects in the National Energy and Climate Plan (NECP).

22. A modernized fiscal rule framework would help achieve medium-term fiscal objectives. Cyprus's national fiscal rule is centered around a structural budget balance rule and a debt anchor (Text Table 2), largely in line with existing EU rules. The European Commission has tabled a legislative proposal for a reformed framework. A new risk-based fiscal rule with a medium-term overall balance and debt anchors, and an expenditure ceiling as the operational rule to ensure convergence, would support macroeconomic stabilization and provide guidance to policymakers (IMF, 2022). Under this new regime, the capacity of the national Fiscal Council should be strengthened in line with its enhanced role to safeguard fiscal sustainability.

Text Table 2. National Fiscal Rule

Type of Rule	Coverage	Target	Description	Timeframe	Statuory Base	Monitoring Body	Non-compliance actions	In force since
Budget balance rule	General Government	Structural budget balance	Targets for the GG structural balance as % of GDP.	Multiannual	Ordinary law	Ministry of finance	Corrective plan is presented to Parliament	2013
Budget balance rule	General Government	Structural balance as % of GDP	The general structural fiscal balance should be balanced or in surplus in the medium term. The rule is met if the annual structural balance has achieved the set medium-term fiscal target.	Multiannual	Constitutional or higher than ordinary law	Ministry of finance, Fiscal Council	Correction mechanism is triggered automatically. There are pre-defined consequences	2014
Budget balance rule	Local Government	Nominal balance in absolute terms	Local authorities should only prepare balanced annual budgets	Multiannual	Constitutional or higher than ordinary law	Ministry of finance, Government structure	No pre-defined actions	1986
Debt rule	General Government	Debt-to-GDP ratio	When the ratio of public debt to GDP at market prices exceeds 60%, the ratio is reduced under the provisions of Regulation (EC) No 1467/97.	Multiannual	Constitutional or higher than ordinary law	Court of auditors, Ministry of finance, Fiscal Council	Correction mechanism is triggered automatically. There are pre-defined consequences	2015

Source: European Commission DG-E; IMF staff estimates

23. Payments to support RRP are on track, but continued efforts will be needed to ensure timely disbursements. After receiving €157 million in pre-financing in September 2021, the first tranche (€85 million) was disbursed in December 2022, upon completion of 14 RRP milestones—mostly in the electricity market, energy efficiency, the circular economy, anti-corruption, and transparency. Reaching ambitious RRP goals will require continuous efforts, and, additionally, large investments under the plan (over 3½ percent of GDP) but may face some capacity constraints. The authorities are in the process of reviewing existing RRP timelines and feasibility studies, with the aim to minimize risks of losing funds.

24. Minimizing fiscal risks will help to stay the course with the planned fiscal path.

- **Advancing the reform of the National Health System (NHS).** The recently established NHS is a universal health system consisting of a single-payer and competing public and private providers. The pandemic added pressure on public hospitals, which bore the brunt of costs of the health emergency, delaying much-needed investments to prepare them for the competition with private providers and ultimately for financial self-sufficiency. A decision on extending subsidies to public hospital (beyond previously envisaged mid-2024) should consider the impact on incentives for private providers and overall needs of the system.

- **Strengthening the governance and oversight of state-owned enterprises (SOEs).** SOEs play a substantial role in the energy, telecommunications, and water sectors, and their operations pose potential fiscal risks, including government guarantees of around 5 percent of GDP. Steps were taken to enhance SOEs reporting requirements, mandate medium-term budgetary frameworks, and apply the Code of Public Governance. However, capacity within the government to oversee SOEs needs to be strengthened alongside with independence and autonomy of their board members, and oversight—at least for commercial entities—centralized in a single unit.

Authorities' Views

25. The authorities broadly concurred with staff assessment, including on the need to lower public debt levels further to rebuild buffers. They agreed that the tight fiscal policy stance would help tame inflation pressures but deemed monetary policy stance sufficiently tight to deliver on this objective. They agreed, on the other hand, that full CoLA adjustment would be inflationary. They considered pursuing a gradual decline in the debt-to-GDP ratio through steady primary surpluses as the main fiscal policy objective and, under such a path, they found the likelihood of sovereign stress low. They noted that a new fiscal framework would help guide fiscal policy, but flexibility should be built into the rules to support the gradual-yet-still-ambitious debt reduction path. In the context of cushioning the impact of the cost-of-living crisis, they considered Cyprus's social protection system generally well-targeted and sufficient but saw scope for strengthening activation requirements of the GMI.

Text Table 3. Fiscal Targets 2019-28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.	Act.	Act.				Proj.			
	(Percent of GDP, unless otherwise noted)									
DBP 2023 1/ 2/										
Total revenue	39.4	38.8	41.4	41.9	42.4	...	...	...	...	...
Total expenditure	38.1	44.6	43.1	40.8	40.7	...	...	...	...	...
Overall balance	1.3	-5.8	-1.7	1.2	1.7	2.3	2.3	...	...	...
Primary balance	3.5	-3.6	0.1	2.7	3.0	...	...	...	...	...
Gross public debt	90.4	113.5	101.1	89.3	83.3	76.5	72.3	...	...	...
Staff Projections 2/	Act.	Act.	Act.	Est.			Proj.			
Total revenue	39.4	38.8	41.4	42.1	40.8	40.7	40.4	39.8	39.6	39.5
Total expenditure	38.1	44.6	43.1	39.9	38.7	38.8	38.6	38.3	38.3	38.3
Overall balance	1.3	-5.8	-1.7	2.3	2.1	1.9	1.7	1.5	1.3	1.2
Primary balance	3.5	-3.7	0.1	3.8	3.5	3.3	3.0	2.8	2.5	2.5
Gross public debt (RHS)	90.4	113.5	101.1	86.5	78.7	71.1	67.1	62.0	58.7	55.4
	(Percent of potential GDP, unless otherwise indicated)									
Primary balance	3.5	-3.5	0.1	3.8	3.5	3.3	3.0	2.8	2.5	0.0
Cyclically-adjusted revenue	39.4	38.7	41.3	42.2	40.8	40.7	40.4	39.8	39.6	0.0
Primary expenditure	36.4	41.4	41.0	38.9	37.4	37.6	37.4	37.0	37.1	37.0
Structural primary balance	3.1	-2.9	0.2	3.3	3.4	3.2	3.0	2.8	2.5	2.5
Structural primary balance excluding Covid and energy related measures	3.1	0.5	3.0	4.0	3.6	3.3	3.0	2.8	2.5	2.5
Output gap	1.2	-2.5	-0.5	1.4	0.5	0.3	0.1	0.0	0.0	0.0

Source: Ministry of Finance; IMF staff estimates

1/ Data for 2019-2021 are actuals (as of March 2022) while data for 2022 and beyond are as projected in the October 2022 Draft Budgetary Plan

2/ Data for 2022 are estimates (as of March 2022). Nominal GDP projections differ between staff and the authorities'

B. Financial Sector Policies: Safeguarding Stability

26. Significant progress has been achieved in improving bank resilience, but risks remain. The passthrough from higher policy rates to lending rates has been slow so far—mortgage rates are mostly variable, but often indexed to a bank base rate linked to a still low deposit rate. This has, for now, mitigated repayment risks. However, credit risks are likely to rise for highly leveraged households and corporates with the tightening of financial conditions and slowing growth. While banks capital ratios are comfortably above regulatory minima, the authorities should closely monitor these risks.

27. The tightening of the macroprudential stance has been appropriate given the risks. To strengthen banking sector resilience, the CBC increased the countercyclical buffer (CCyB) rate from zero to ½ percent (beginning end-November 2023) at a time when risks were assessed as broadly neutral. This initial rate is somewhat lower than in other jurisdictions with positive neutral CCyBs, and consideration could be given to gradually increasing it—taking onto account bank capital-generating capacity—to provide a larger cushion during stress. The CBC's holistic approach to assessing cyclical risks—based on a range of quantitative and qualitative indicators, including credit dynamics and real estate developments—provides a good basis for guiding macroprudential policy decisions. The CBC has also phased-in higher O-SII buffers in the context of a regular re-assessment.

28. The resolution of legacy NPLs and the restructuring of viable businesses should advance decisively. High NPLs are an impediment to growth, as they impair credit markets.

- **Foreclosure framework.** An effective foreclosure framework and certainty regarding its implementation are critical for addressing strategic defaulters and supporting restructuring. The effectiveness of the Foreclosure Law has been hindered by repeated suspensions and the implementation of the 2019 amendments has not been tested in practice. A parliamentary vote in March 2023 turned down a proposal for a new suspension, and the framework is now operational.

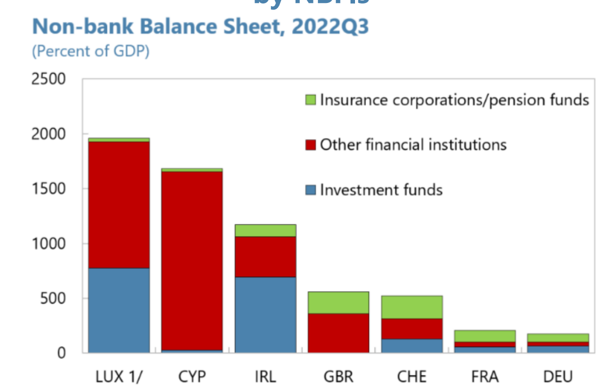
- **CACs and Credit Servicers (CS).** Their activities have been undermined by repeated suspensions of the foreclosure framework, inducing non-cooperative borrowers to hold off restructurings. Presently, CACs and CS have electronic access to land registry database (the lack of it was an impediment in the past), although access to the credit registry by CS requires CBC approval. Given that CACs now hold the bulk of NPLs, publicly disclosing aggregate CACs statistics would allow to better monitor solvency risks and progress in resolving legacy NPLs.

- **Mortgage-to-rent scheme (MtR).** As an alternative to foreclosure, the authorities plan to transfer some primary residences used as collateral for NPLs (after a debt-to-asset swap) to KEDIPES (a public CAC) and implement an MtR scheme, with rent subsidies for vulnerable borrowers. Progress has been made with better targeting. To further minimize fiscal impact, additional safeguards should include a transparent price-setting procedure for the embedded repurchase option. The implementation of the scheme is contingent on final notification by the authorities and approval by the European Commission (DG COMP) of the necessary amendments to the 2018 decision on liquidation aid to Cyprus Cooperative Bank to allow KEDIPES to manage the scheme.

- **Insolvency tools.** Banks should proactively use all available tools to enable timely restructuring of viable businesses in financial difficulties, and efforts should continue to address any underlying issues hindering or discouraging the use of these tools. This should be helped by the recent transposition of the EU Directive on Preventive Restructuring and Second Chance into national legislation. Continued efforts are also needed to advance the envisaged new hybrid/out-of-court restructuring procedures. The establishment of a dedicated court for commercial cases (including insolvency ones) above €2 million—expected to come into effect this year—should help improve judicial efficiency and strengthen enforcement of commercial claims.

29. Non-bank financial intermediaries (NBFIs) have been growing, improving market diversification but requiring a stronger supervisory framework. While risks of contagion from NBFIs to the banking sector and the economy are limited—due to diversification of investments and comparatively small domestic exposures to as the sector mainly caters to non-residents—the CBC has rightly been expanding its macroprudential oversight. In line with recommendations by the European Securities and Markets Authority (ESMA), supervisory

Figure 14. Cyprus: Assets Under Management by NBFIs



Sources: Haver Analytics and IMF staff calculations
1/ in units of 10% GDP

activities should be strengthened, and more resources provided for the Cyprus Securities and Exchange Commission (CySEC) to address shortcomings in the oversight of cross-border activities.

30. **The authorities should continue efforts to address identified AML/CFT framework weaknesses.** This includes the implementation of AML/CFT measures, in particular the supervision of banks and gatekeepers (e.g., lawyers, accountants, and trust and company service providers), preventive measures (e.g., customer due diligence and measures for politically exposed persons), and ensuring the availability and accuracy of beneficial ownership information framework in line with the revised requirements for Recommendation 24 of the FATF. Cyprus should also address the remaining technical compliance deficiencies (including requirements for correspondent banking relationships). The authorities should continue monitoring any potential misuse of the terminated Citizenship by Investment Program (CIP).

31. **In the context of the war in Ukraine, the enforcement of regulatory provisions on sanctions compliance should be strengthened to mitigate reputational risks.** In cooperation with the UK Office of Financial Sanctions Implementation, in June 2022 the authorities started establishing a National Sanctions Implementation Unit to ensure the effective implementation of the restrictive measures adopted by the EU and the UN, and to increase awareness of the sanctions by domestic stakeholders.

Authorities' Views

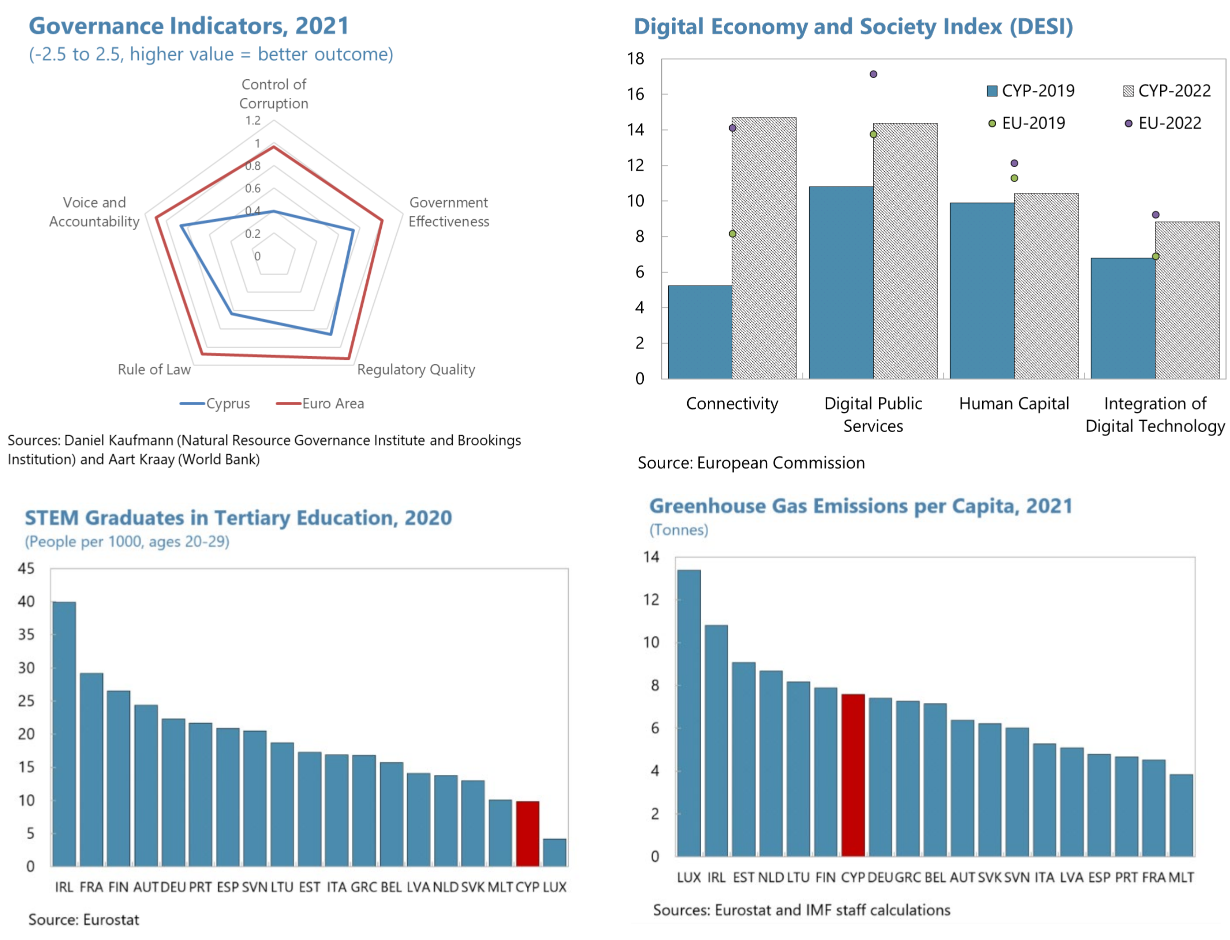
32. **The authorities agreed that the current global environment poses financial sector risks but those are mitigated by strong buffers.** They agreed that high inflation and rising interest rates may pose debt repayment challenges for highly indebted private sector and that closely monitoring financial risks is necessary in the current context. They, however, noted that the banking sector has ample liquidity improving profitability and sufficient capital to withstand shocks, further enhanced by the built up of macroprudential buffers. While considering building larger countercyclical buffers, they emphasized the importance of gradual implementation. They noted further reduction in legacy NPLs and concurred that a sound foreclosure framework is crucial for further progress.

33. **The authorities remain committed to further enhancing the legal framework and addressing remaining AML/CFT gaps, and to continue efforts toward effective implementation of sanctions.** They emphasized progress in improving the AML/CFT framework—including through passage of bills related to MONEYVAL recommendations, by including Crypto Asset Services Providers (CASPs) in the list of obliged entities for the prevention of ML/TF, and by expanding access to the Beneficial Ownership Register of companies and other legal entities and bringing it online. The authorities noted that criminal investigations on several suspicious cases identified by the Commission of Inquiry for CIP are ongoing. Regarding the implementation of sanctions, the authorities expressed interest in participating in the multi-country technical assistance program by the European Commission (DG REFORM) to support effective and uniform implementation of sanctions under the Technical Support Instrument.

C. Structural Policies: Seizing Opportunities for Sustainable Growth

34. Cyprus is well-positioned to further diversify export markets and industries. Progress has been made in expanding tourism routes, but the authorities should also focus on higher value creation and environmental sustainability. Cyprus should also continue leveraging its well-developed professional services industry and its strategic location to attract foreign companies (Annex VI). In this context, streamlining immigration would help address labor market shortages, and related housing affordability concerns could be addressed by supply-side measures like strategic rezoning and reinstatement of the immovable property tax. Income tax incentives for taking up employment in Cyprus should aim at balancing sustainable development and fiscal costs (the impact of the recently introduced 50 percent renumeration exemption has been small).

Figure 15. Cyprus: Governance Indicators and Digital Economy and Society Index



Sources: Daniel Kaufmann (Natural Resource Governance Institute and Brookings Institution) and Aart Kraay (World Bank)

Source: European Commission

Source: Eurostat

Sources: Eurostat and IMF staff calculations

35. To unlock growth potential, the authorities should persevere with efforts to advance RRP reforms and investments (Figure 15)**:**

- *Improving governance*. Key RRP reforms to strengthen the rule of law include those aiming at combating corruption (where substantial progress has been achieved in passing relevant legislation) and improving judicial services to reduce the backlog of court cases (where more efforts is needed to overcome capacity constraints). Strengthening SOEs governance and accountability will improve business environment and make network industries more efficient.

- *Future-proofing workers' skills.* Despite relatively high public spending on education, the number of STEM graduates is below most comparators and participation of upper-secondary students in vocational education and training is the lowest in the EU. The RRP includes reforms to modernize the educational system to minimize skill mismatches in the context of the digital transition, which, however, could be accelerated. In the area of continuous learning, the reforms will be aided by an updated active labor market policies (ALMP) strategy (now being finalized), aiming to address sectoral mismatches and expand outreach strategies.

- *Supporting the digital transition*. In addition to strengthening digital skills, this includes digitalization of public services, modernizing the IT systems of the NHS, and enhancing communication infrastructure.

36. Cyprus's climate goals are ambitious. Cyprus aims to reduce emissions by 32 percent (relative to 2005) in non-ETS sectors by 2030 and to become emissions neutral by 2050. The share of renewable energy sources (RES) in gross final energy consumption in 2021 was 18.4 percent (compared with 6.5 percent in 2011), well above the 13 percent target set for 2020 and on track to meet the 23 percent goal set for 2030. Yet, GHG emissions per capita are relatively high and the building and transport sectors are highly inefficient.

37. The use of natural gas and interconnecting and upgrading electric grid will facilitate the green transition. Cyprus has started a construction of a new LNG terminal and is developing electricity interconnection with Europe, Israel, and Egypt through the Euro-Asia Interconnector— EU Projects of Common Interest (PCI)—which will reduce reliance on CO2-heavy oil in energy generation and facilitate transition to RES. Other investments are being directed to upgrade and digitalize the electricity grid. Funding for these projects—amounting to about €3 billion—will be mainly from PCI grants and multilateral loans. As a step towards liberalizing the electricity market, legal amendments have also been finalized for the Transmission System Operator to be independent from the EAC.

38. Other elements of the green transition still need to be finalized. The NECP envisages investments in renewables of about €3.3 billion and in energy efficiency of €2.3 billion by 2030, from yet-to-be fully identified public and EU funds. The Plan is now being updated to be ready by June 2024. The authorities plan to finalize legislation for the introduction of a carbon tax by end-2023. Preliminary analysis of the effects of the EU carbon border adjustment mechanism—which is expected to enter fully into force in 2026—point to a modest impact given limited trading in carbon-intensive sectors.

Authorities' Views

39. The authorities remain committed to structural reforms in the RRP, which are key for achieving a more sustainable growth model. They emphasized that significant legislation for a broad reform of the justice system has been passed and agreed that implementation bottlenecks need to be addressed forcefully. They concur with the need to enhance the education system and have strategies in place to reduce skill mismatches and improve active labor market policies to facilitate the transition into the labor market. The authorities are determined to push forward with policies and projects for the green transition and indicated that financing plans will be firmed up in the context of the ongoing review of the NECP.

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40. Growth will slow in 2023, facing headwinds from inflation and financial tightening. The rebound in tourism and expansion of the ICT sector is expected to continue, against headwinds from the tightening of financial conditions and persistent inflation pressures. Risks remain to the downside, including from a deeper slowdown in Europe. Growth is forecast to gradually pick up from 2024 and average 3 percent in the medium-term, supported by structural reforms under the RRP. The external position has been weaker in 2022 than implied by fundamentals and desirable policies and is set to strengthen only gradually.

41. A moderately contractionary fiscal stance in 2023 remains appropriate to contain price pressures and further reduce public debt. The 2023 budget—underpinned by prudent revenue projections and contained expenditures—generates a small negative fiscal impulse of 0.2 percent of GDP in 2023. This is commensurate with the need to contain inflation pressures and a further decline in the public debt-to-GDP ratio. Yet, fiscal policy should stand ready to respond if growth turns out weaker than expected, allowing automatic stabilizers to work, and through targeted and time-bound support measures—relaxing the fiscal stance only if significant slack emerges.

42. Decisions on wage indexation and support measures should be based on a holistic view on their macroeconomic impact. A fuller automatic adjustment of wages to inflation through the CoLA mechanism should be avoided. It would likely make inflation more persistent, adversely affect competitiveness, and reduce fiscal space. It would also reduce flexibility in response to future shocks. The guaranteed minimum income may need to be carefully recalibrated while strengthening its activation requirements.

43. The recent shocks have demonstrated that fiscal policy can be a powerful tool to foster resilience, and buffers should be rebuilt over the medium-term. Fiscal policy should aim at sustaining primary surpluses to reduce public debt over time, supported by a risk-based fiscal framework. As buffers are rebuilt, available fiscal space should be directed to productive investments for the green and digital transitions. Putting the NHS on a sound fiscal footing and strengthening governance and accountability of SOEs will help to stay the course with the planned fiscal path.

44. Despite improved bank resilience, risks remain. So far, higher policy rates have boosted bank profitability, but credit risks are likely to rise with financial tightening—especially given the high private sector indebtedness—and should be monitored. The initiation of a positive neutral CCyB rate will improve resilience, which would be enhanced by building larger buffers over time. Growth of NBFIs is contributing to diversification but requires stronger supervisory framework.

45. Steadfast implementation of policies to address legacy NPLs would facilitate their faster resolution and private sector deleveraging. The foreclosure framework should be implemented forcefully to address strategic defaulters. Banks should also proactively use all available tools to enable timely restructurings, supported by recent legislative progress. Continued efforts are needed to advance work on the newly envisaged hybrid/out-of-court restructuring procedure. The MtR scheme will help advance the resolution of NPLs from vulnerable borrowers, but efforts should be taken to minimize fiscal risks from the scheme. Further strengthening the AML/CFT framework will help address reputational risks.

46. Further structural reforms are key to unlock growth potential. Cyprus is well positioned to leverage its well-developed professional services and strategic location but streamlining immigration would help address labor market shortages, while related housing affordability concerns could be addressed by supply-side measures. Reforms in the RRP are critical for overcoming structural bottlenecks, especially by improving governance and future-proofing workers' skills though education system reforms, which could be usefully accelerated. Investments in digital infrastructure will support the digital transition.

47. A greener growth model is an important element of reforms. Cyprus aims to become emissions neutral by 2050. Integration into the regional electric grid and the expansion of renewables—together with a liberalization of the domestic electricity market—are key elements of this strategy and will also improve energy security, but require large public and private investments

48. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Proposed Decision

The following decision, which may be adopted by a majority of votes cast, is proposed for adoption by the Executive Board.

The Executive Board endorses the thrust of the staff appraisal in the report for the 2023 Article IV consultation with the Cyprus (SM/23/116, 05/11/23).

It is expected that the next Article IV consultation with the Cyprus will take place on the standard 12-month cycle.

Table 1. Cyprus: Selected Economic Indicators, 2019–28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.	Projections					
Real Economy										
Real GDP	5.5	-4.4	6.6	5.6	2.5	2.8	3.0	3.1	2.9	2.9
Domestic demand	6.2	-3.6	3.0	9.8	2.6	2.9	3.2	3.4	3.4	3.3
Consumption	5.4	-3.0	5.0	6.7	2.1	2.8	3.2	3.4	3.4	3.3
Private consumption	3.9	-6.8	4.5	7.7	2.9	3.1	3.2	3.5	3.5	3.4
Public consumption	11.9	11.6	6.6	3.5	-0.3	1.8	3.4	2.9	3.1	3.0
Gross capital formation	9.1	-6.0	-5.2	23.9	4.2	3.4	3.2	3.5	3.2	3.0
Foreign balance 1/	-0.6	-0.8	3.5	-4.1	0.4	-0.2	-0.3	-0.4	-0.5	-0.5
Exports of goods and services	8.7	2.2	13.6	14.3	6.6	3.3	3.0	3.0	2.7	2.6
Imports of goods and services	9.5	3.2	9.0	19.5	6.1	3.4	3.3	3.4	3.2	3.0
Potential GDP growth	5.1	-0.8	4.6	3.6	3.5	3.0	3.1	3.1	2.9	2.9
Output gap (percent of potential GDP)	1.2	-2.4	-0.5	1.4	0.4	0.3	0.1	0.0	0.0	0.0
HICP (period average)	0.5	-1.1	2.3	8.1	3.9	2.5	2.2	2.1	2.0	2.0
HICP (end of period)	0.7	-0.8	4.8	7.6	2.7	2.3	2.2	2.0	2.0	2.0
GDP deflator	1.3	-1.2	2.9	6.5	6.8	2.9	2.7	2.4	2.4	2.2
Unemployment rate (percent, period average)	7.1	7.6	7.5	6.8	6.5	6.2	5.9	5.8	5.6	5.4
Employment growth (percent, period average)	3.9	0.2	3.4	1.2	1.1	1.2	1.2	1.0	1.1	1.0
Labor force	2.4		3.3	0.4	0.8	0.9	0.9	0.9	0.9	0.8
Public Finance										
General government balance	1.3	-5.8	-1.7	2.3	2.1	1.9	1.7	1.6	1.3	1.2
Revenue	39.4	38.8	41.4	42.1	40.6	40.4	40.1	39.5	39.3	39.2
Expenditure	38.1	44.6	43.1	39.9	38.5	38.5	38.3	38.0	38.0	38.0
Primary Fiscal Balance	3.5	-3.6	0.1	3.8	3.5	3.3	3.1	2.8	2.6	2.5
General government debt	90.4	113.5	101.1	86.5	78.3	70.6	66.5	61.4	58.2	54.9
Balance of Payments										
Current account balance	-5.6	-10.1	-6.8	-9.1	-7.9	-7.4	-7.3	-7.2	-7.2	-7.1
Trade Balance (goods and services)	1.0	-1.4	2.9	-0.4	0.5	0.8	1.0	1.0	0.8	0.7
Exports of goods and services	76.5	81.4	86.6	91.5	91.8	91.7	91.2	90.7	90.0	89.5
Imports of goods and services	75.5	82.8	83.7	91.9	91.2	90.9	90.2	89.7	89.2	88.8
Goods balance	-20.0	-19.2	-18.0	-21.8	-18.0	-17.9	-17.6	-17.6	-17.6	-17.5
Services balance	21.0	17.9	20.9	21.4	18.5	18.7	18.7	18.6	18.4	18.2
Primary income, net	-5.4	-7.0	-8.4	-7.9	-7.6	-7.3	-7.1	-7.0	-6.7	-6.5
Secondary income, net	-1.2	-1.6	-1.3	-0.8	-0.8	-0.9	-1.2	-1.2	-1.3	-1.3
Capital account, net	-0.1	-0.1	0.4	0.2	0.3	0.3	0.2	0.2	0.1	0.1
Financial account, net	-3.2	-9.2	-4.4	-6.0	-7.6	-7.1	-7.1	-7.0	-7.1	-7.0
Direct investment	-3.5	-34.0	-18.2	-30.1	-13.6	-13.5	-13.4	-13.3	-11.1	-11.1
Portfolio investment	12.6	-18.5	-3.6	6.8	3.6	3.3	2.5	2.4	1.6	1.3
Other investment and financial derivatives	-12.3	43.2	15.8	16.8	2.4	3.0	3.8	3.9	2.4	2.8
Reserves (+ accumulation)	0.0	0.2	1.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Program financing 2/	0.0	-3.2	0.0	0.0	0.0	0.0	-1.1	-2.9	-2.7	-2.6
Errors and omissions	2.5	1.0	1.9	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Saving-Investment Balance										
National saving	24.5	31.3	26.3	29.1	29.4	29.0	28.8	28.8	29.0	29.2
Government	5.6	-2.2	1.7	5.7	4.8	4.9	4.8	4.6	4.4	4.4
Non-government	18.9	33.6	24.6	23.4	24.6	24.1	24.0	24.2	24.6	24.8
Gross capital formation	19.0	21.3	19.5	20.0	21.5	21.6	21.5	21.6	21.8	22.0
Government	4.3	3.6	3.4	3.4	2.7	3.0	3.1	3.0	3.1	3.1
Private	14.7	17.7	16.0	16.6	18.8	18.6	18.4	18.6	18.7	18.9
Foreign saving	5.6	10.1	6.8	9.1	7.9	7.4	7.3	7.2	7.2	7.1
Memorandum Item:										
Nominal GDP (billions of euros)	23.2	21.9	24.0	27.0	29.5	31.3	33.1	34.9	36.8	38.6
Structural primary balance	3.1	-3.0	0.2	3.2	3.4	3.2	3.0	2.8	2.6	2.5
External debt	824.3	801.7	699.5	620.7	555.3	526.5	502.7	481.0	463.8	450.1
Net IIP	-115.4	-134.5	-117.8	-105.3	-103.7	-107.6	-107.7	-107.5	-107.2	-107.7

Sources: Statistical Service of the Republic of Cyprus, Eurostat, Central Bank of Cyprus, and IMF staff estimates

1/ Contribution to real GDP growth

2/ Program financing (+ purchases, - repurchases) is included under the Financial Account, with consistent sign conversion

Table 2. Cyprus: Fiscal Developments and Projections, 2019–28 1/

(Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.	Projections					
Revenue	39.4	38.8	41.4	42.1	40.6	40.4	40.1	39.5	39.3	39.2
Current revenue	39.0	38.3	40.1	41.1	40.6	40.4	40.1	39.5	39.3	39.2
Tax revenue	23.7	22.8	24.5	25.3	24.5	24.2	24.1	24.2	24.2	24.1
Indirect taxes	14.4	13.2	14.1	14.7	14.2	14.1	14.0	14.1	14.1	14.1
Direct taxes	9.3	9.6	10.4	10.6	10.3	10.2	10.1	10.1	10.1	10.0
Other taxes (capital taxes)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social security contributions	10.3	11.0	11.3	11.5	11.3	11.2	11.1	11.0	11.0	11.0
Other current revenue	5.0	4.5	4.3	4.2	4.8	5.0	4.8	4.4	4.1	4.1
Capital revenue	0.4	0.5	1.3	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	38.1	44.6	43.1	39.9	38.5	38.5	38.3	38.0	38.0	38.0
Current expenditure	33.8	41.1	39.7	36.4	35.7	35.5	35.3	35.0	34.9	34.9
Wages and salaries	11.8	13.2	12.5	11.7	11.6	11.5	11.5	11.5	11.6	11.6
Goods and services	4.1	4.1	4.3	4.5	3.9	3.8	3.9	3.9	3.9	3.9
Social Transfers	13.0	16.4	16.0	15.8	15.4	15.5	15.4	15.2	15.1	15.1
Subsidies	0.3	2.6	2.4	0.5	0.4	0.4	0.3	0.3	0.3	0.3
Interest payments	2.2	2.2	1.8	1.5	1.4	1.4	1.3	1.3	1.3	1.3
Other current expenditure	2.4	2.5	2.5	2.4	3.0	2.9	2.8	2.7	2.7	2.7
Capital expenditure	4.3	3.6	3.4	3.4	2.7	3.0	3.1	3.0	3.1	3.1
Capital transfers, payable	1.8	0.7	0.8	0.9	0.5	0.5	0.5	0.4	0.4	0.4
Gross capital formation less NFA disposal	2.5	2.9	2.7	2.6	2.3	2.5	2.6	2.6	2.7	2.7
Overall balance	1.3	-5.8	-1.7	2.3	2.1	1.9	1.7	1.6	1.3	1.2
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	1.3	-5.8	-1.7	2.3	2.1	1.9	1.7	1.6	1.3	1.2
Net financial transactions	1.2	-5.8	-1.7	2.2	2.1	2.0	1.8	1.5	1.3	1.2
Net acquisition of financial assets	0.0	12.1	-4.1	-1.3	1.3	-1.5	1.5	0.0	1.2	0.8
Currency and deposits	0.0	12.1	-4.1	-1.3	1.3	-1.5	1.5	0.0	1.2	0.8
Securities other than shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-1.2	17.9	-2.4	-3.4	-0.8	-3.4	-0.2	-1.6	-0.1	-0.4
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	5.8	20.1	-3.9	-3.6	-1.1	-3.7	1.0	1.9	2.5	2.4
Loans	-7.0	-2.3	1.5	0.1	0.3	0.3	-1.2	-3.4	-2.6	-2.8
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Output Gap	1.2	-2.4	-0.5	1.4	0.4	0.3	0.1	0.0	0.0	0.0
Primary balance	3.5	-3.6	0.1	3.8	3.5	3.3	3.1	2.8	2.6	2.5
Structural overall balance	0.9	-5.2	-1.7	1.7	2.0	1.8	1.7	1.5	1.3	1.2
Structural primary balance	3.1	-3.0	0.2	3.2	3.4	3.2	3.0	2.8	2.6	2.5
Public debt	90.4	113.5	101.1	86.5	78.3	70.6	66.5	61.4	58.2	54.9
Public debt net of cash holding	86.3	97.0	89.6	76.9	68.1	62.4	57.3	52.7	48.8	45.2

Sources: Ministry of Finance and IMF staff estimates

1/ Accrual basis, unless otherwise indicated

Table 3. Cyprus: General Government Financing Requirements and Sources, 2019–28
(Millions of Euros, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.			Projections			
Gross borrowing needs	3,335	3,675	2,779	1,630	1,037	1,891	1,329	1,996	2,061	2,438
Overall deficit	-286	1,267	403	-589	-633	-612	-583	-538	-461	-465
Primary surplus	-809	796	-35	-1,017	-1,045	-1,028	-1,013	-993	-946	-979
Interest payments	523	471	437	429	412	416	430	455	485	514
Amortization	3,588	2,407	2,377	2,219	1,671	2,502	1,912	2,534	2,522	2,903
Medium- and long-term	3,288	1,403	901	1,919	1,534	2,365	1,425	1,397	1,385	1,766
Foreign	2,158	541	90	1,098	1,104	1,954	1,254	1,100	1,342	1,746
Eurobonds	199	458	0	1,000	1,000	1,850	1,000	1,000	1,250	1,500
Russia	1,875	0	0	0	0	0	0	0	0	0
Other	84	83	90	98	104	104	254	100	92	246
Domestic	1,131	862	811	821	430	412	171	297	43	20
Short-term	300	300	1,475	300	137	137	137	137	137	137
EU and IMF	0	705	0	0	0	0	350	1,000	1,000	1,000
Stock-flow adjustment 1/	33	0	0	0	0	0	0	0	0	0
Gross financing sources	2,875	3,647	2,651	1,457	1,037	1,891	1,329	1,996	2,061	2,438
Privatization receipts	0	0	0	0	0	0	0	0	0	0
Market access	3,309	6,315	1,797	1,290	1,432	1,437	1,833	1,990	2,487	2,737
Medium- and long-term	3,009	4,840	1,497	1,153	1,295	1,300	1,696	1,853	2,350	2,600
Foreign	2,927	4,792	1,454	1,129	1,195	1,200	1,596	1,653	2,150	2,150
Domestic	82	48	43	24	100	100	100	200	200	450
Short-term	300	1,475	300	137	137	137	137	137	137	137
EU and IMF	0	0	0	0	0	0	0	0	0	0
Use of deposits 2/	-434	-2,669	854	167	-395	454	-504	6	-426	-299
Net placement	-279	3,908	-580	-929	-239	-1,065	-79	-544	-35	-166
Medium and Long Term Debt	-279	3,437	596	-766	-239	-1,065	271	456	965	834
Domestic Securities	-1,049	-814	-768	-797	-330	-312	-71	153	157	430
Eurobonds	2,401	4,042	1,000	0	0	-850	400	500	750	500
Domestic Loans	0	0	0	0	0	0	0	-250	0	0
Foreign Loans	-1,632	209	364	31	91	96	-58	53	58	-96
Short term (Net increase)	0	1,175	-1,175	-163	0	0	0	0	0	0
EU and IMF	0	-705	0	0	0	0	-350	-1,000	-1,000	-1,000
Memorandum item:										
Cash holding (eop)	947	3,616	2,762	2,595	2,990	2,536	3,040	3,034	3,460	3,759
General government debt (eop)	20,958	24,852	24,271	23,366	23,127	22,061	21,982	21,439	21,404	21,238
General government debt (eop, percent of GDP)	90.4	113.5	101.1	86.5	78.3	70.6	66.5	61.4	58.2	54.9
General government net debt (eop, percent of GDP) 3/	86.3	97.0	89.6	76.9	68.1	62.4	57.3	52.7	48.8	45.2

Sources: Cypriot authorities and IMF staff estimates
1/ Adjustments for consistency between estimated cash basis fiscal balance and debt data
2/ Minus (-) sign represents accumulation of deposits
3/ General government debt minus cash holding

Table 4. Cyprus: Balance of Payments, 2019–28
(Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.	Projections					
Current Account Balance	-5.6	-10.1	-6.8	-9.1	-7.9	-7.4	-7.3	-7.2	-7.2	-7.1
Trade Balance (Goods and Services)	1.0	-1.4	2.9	-0.4	0.5	0.8	1.0	1.0	0.8	0.7
Goods Balance	-20.0	-19.2	-18.0	-21.8	-18.0	-17.9	-17.6	-17.6	-17.6	-17.5
Exports	13.3	13.6	14.9	16.9	18.5	18.3	18.1	17.8	17.5	17.3
Imports	33.3	32.8	32.9	38.7	36.5	36.3	35.7	35.4	35.1	34.8
Services Balance	21.0	17.9	20.9	21.4	18.5	18.7	18.7	18.6	18.4	18.2
Exports	63.2	67.8	71.7	74.6	73.3	73.4	73.1	72.9	72.5	72.2
Imports	42.2	50.0	50.8	53.2	54.8	54.6	54.5	54.3	54.1	54.0
Primary Income	-5.4	-7.0	-8.4	-7.9	-7.6	-7.3	-7.1	-7.0	-6.7	-6.5
Secondary Income	-1.2	-1.6	-1.3	-0.8	-0.8	-0.9	-1.2	-1.2	-1.3	-1.3
Capital Account	-0.1	-0.1	0.4	0.2	0.3	0.3	0.2	0.2	0.1	0.1
Financial Account (- financing)	-3.2	-9.2	-4.4	-6.0	-7.6	-7.1	-7.1	-7.0	-7.1	-7.0
Direct Investment	-3.5	-34.0	-18.2	-30.1	-13.6	-13.5	-13.4	-13.3	-11.1	-11.1
Portfolio Investment	12.6	-18.5	-3.6	6.8	3.6	3.3	2.5	2.4	1.6	1.3
Financial Derivatives	-5.2	-1.9	-0.4	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4
Other Investment	-7.1	45.1	16.3	17.4	2.9	3.6	4.3	4.4	2.9	3.2
Reserves (+ accumulation)	0.0	0.2	1.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omission	2.5	1.0	1.9	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current Account Balance, adjusted for SPEs 1/	-5.8	-9.6	-8.1	-10.4	...	...	...	...	...	...
Program Financing 2/	0.0	-3.2	0.0	0.0	0.0	0.0	-1.1	-2.9	-2.7	-2.6
Private Net Capital Flows 3/	-3.6	8.5	-15.8	-5.9	...	...	...	...	...	...
o/w Portfolio Investment	24.4	1.3	1.8	6.8	...	...	...	...	...	...
o/w Other Investment	-19.2	43.2	-13.5	17.5	...	...	...	...	...	...
o/w MFIs	9.8	4.0	-5.5	10.3	...	...	...	...	...	...
o/w Non-MFIs	-34.3	39.1	-7.9	7.2	...	...	...	...	...	...
Gross External Debt	824.3	801.7	699.5	620.7	555.3	526.5	502.7	481.0	463.8	450.1
o/w Short-term Debt	178.2	154.4	141.4	106.3	98.8	93.7	89.8	87.6	87.4	89.9

Sources: Central Bank of Cyprus; Eurostat; and IMF staff estimates.

1/ Treating Special Purpose Entities (SPEs) as non-residents.
2/ Program financing (+ purchases, - repurchases) is included under the Financial Account, with consistent sign conversion.
3/ Private net capital flows (- inflows, + outflows) are defined to exclude the public-sector flows (the central-bank flows and part of the general-government flows). It is not possible to exclude all general government-related flows from "other investment" in the published data because of secondary confidentiality issues (i.e., these data are suppressed to preserve the confidentiality of data pertaining to other sectors that could otherwise be indirectly deduced).

Table 5. Cyprus: External Financing Requirements, 2019–28

(Millions of Euros)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.			Projections			
GROSS FINANCING REQUIREMENTS	**48,394**	**54,343**	**47,249**	**49,458**	**40,605**	**41,140**	**40,950**	**41,907**	**43,123**	**44,051**
Current account deficit ("-" = CA surplus)	1,288	2,202	1,014	2,463	2,323	2,312	2,405	2,500	2,650	2,749
Medium- and long-term debt amortization	12,392	8,319	6,840	7,104	8,824	9,646	8,909	8,711	8,909	8,173
Public sector	2,158	541	90	1,098	1,104	1,954	1,254	1,100	1,342	1,746
Banks	424	341	241	244	191	190	191	191	192	193
Other private	9,810	7,437	6,510	5,762	7,530	7,502	7,464	7,419	7,374	6,235
Short-term debt amortization	34,714	43,118	39,395	39,891	29,458	29,182	29,286	29,697	30,565	32,129
Public sector	398	399	326	316	498	785	1,237	1,951	3,075	4,848
Central Bank	381	399	326	316	498	785	1,237	1,951	3,075	4,848
General government and SOEs	16	0	0	0	0	0	0	0	0	0
Banks	13,407	10,641	10,321	10,570	8,305	8,258	8,614	8,991	9,391	9,815
Other private	20,910	32,078	28,747	29,006	20,656	20,139	19,435	18,755	18,099	17,466
EU and IMF	0	705	0	0	0	0	350	1,000	1,000	1,000
SOURCES OF FINANCING	**48,394**	**54,343**	**47,249**	**49,458**	**40,605**	**41,140**	**40,950**	**41,907**	**43,123**	**44,051**
Capital account (net)	-23	-21	42	52	82	82	67	71	32	32
Foreign direct investment (net)	817	7,454	565	8,143	4,013	4,220	4,417	4,637	4,090	4,287
Cypriot investment abroad	46,250	-30,063	-68,561	2,906	3,721	3,372	3,544	3,721	4,670	4,880
Foreign investment in Cyprus	47,067	-22,609	-67,996	11,049	8,357	7,592	7,961	8,357	8,760	9,167
New borrowing and debt rollover	49,401	51,624	48,141	24,913	37,975	38,035	38,734	38,747	39,200	38,099
Medium and long-term borrowing	6,283	12,229	8,250	-4,545	8,793	8,749	9,038	9,050	9,504	8,403
General government	2,927	4,792	1,454	1,129	1,195	1,200	1,596	1,653	2,150	2,150
Banks	346	-16	503	-183	187	195	195	196	197	197
Other private	3,010	7,453	6,293	-5,491	7,411	7,355	7,246	7,201	7,157	6,056
Short-term borrowing	43,118	39,395	39,891	29,458	29,182	29,286	29,697	29,697	29,697	29,697
Public sector	399	326	316	498	785	1,237	1,951	1,951	1,951	1,951
Central Bank	399	326	316	498	785	1,237	1,951	1,951	1,951	1,951
General government and SOEs	0	0	0	0	0	0	0	0	0	0
Banks	10,641	10,321	10,570	8,305	8,258	8,614	8,991	8,991	8,991	8,991
Other private	32,078	28,747	29,006	20,656	20,139	19,435	18,755	18,755	18,755	18,755
Other	-1,801	-4,714	-1,500	16,350	-1,464	-1,197	-2,267	-1,547	-199	1,633
Of which: Net errors and omissions	569	218	544	791	0	0	0	0	0	0
FINANCING GAP	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
ESM	0	0	0	0	0	0	0	0	0	0
IMF	0	0	0	0	0	0	0	0	0	0
ROLLOVER RATES										
General government	135%	886%	1611%	103%	108%	61%	127%	150%	160%	123%
Central bank	105%	82%	97%	158%	158%	158%	158%	100%	63%	40%
Private	103%	92%	101%	51%	98%	99%	99%	99%	100%	101%
Banks	79%	94%	105%	75%	99%	104%	104%	100%	96%	92%
Non-financial corporates	114%	92%	100%	44%	98%	97%	97%	99%	102%	105%

Sources: Eurostat, Central Bank of Cyprus, and IMF staff estimates

Table 6. Cyprus: Financial Soundness Indicators, 2015–22 1/

(Percent, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022
Capital Adequacy								
Total capital ratio	16.6	16.8	16.3	17.5	19.9	20.4	20.7	21.2
Tier I capital ratio	16.0	16.4	15.4	16.5	19.0	19.3	19.4	19.8
Asset Quality								
Non-performing loans (NPLs) to total gross loans 2/	45.3	46.4	42.5	30.5	28.0	17.7	11.0	9.5
Non-performing loans (NPLs) to total gross loans (local operations) 3/	45.8	47.2	43.7	30.3	27.9	17.7	11.0	9.5
Provisions to NPLs	38.3	42.1	47.2	51.6	55.2	50.1	49.0	52.3
Restructured loans classified as NPLs to total NPLs	40.1	40.8	40.9	44.8	44.6	43.7	49.6	44.1
Earnings and Profitability								
Return on assets 4/	-0.6	-0.3	-1.1	0.2	0.3	-0.3	-0.1	-0.1
Return on equity 4/	-7.4	1.7	-11.2	6.4	3.4	-3.9	0.5	2.5
Net interest income to gross income ratio	81.2	75.3	70.7	67.1	68.5	67.6	71.9	74.3
Net fees and commissions income to gross income ratio	13.8	14.6	16.4	19.6	20.5	19.7	25.3	29.0
Net interest margin	2.8	2.6	2.3	1.8	1.9	1.8	1.5	1.5
Liquidity								
Cash, trading and available-for-sale assets to total assets ratio	19.8	22.9	27.9	27.6	29.3	28.8	39.6	39.3
Others								
Total loans and advances to total assets ratio	73.6	69.1	64.1	54.6	53.8	51.0	42.5	41.2
Total deposits (other than from credit institutions) to total assets ratio	65.1	74.9	75.6	79.2	82.8	80.7	75.1	76.5

Sources: Central Bank of Cyprus.

1/ Unless otherwise specified, these FSIs cover consolidated accounts of domestic and foreign banks operating in Cyprus up to 2022Q3. The data on asset quality ratios is up to 2021Q4.

2/ Based on the European Banking Association's definition of NPLs. As of end-2014, banks report NPLs as per the EU's regulation on reporting NPLs and forborne exposures. The main changes with respect to the previous definition are that the minimum probation period for forborne loans remaining classified as NPLs has increased from 6 to 12 months.

3/ Local operations are confined to banks active in the local market, excluding overseas branches and subsidiaries of Cyprus-based banks.

4/ Annual return. The last observation is the year-to-date return.

Annex I. Status of Article IV Recommendations

Past Policy Recommendation	Policy Actions
Safeguarding Financial Stability	
Introduce effective foreclosure framework.	**Implemented**. After two years of the suspension of foreclosures, parliament turned down a proposal for a new suspension in anticipation of a comprehensive solution by the new government.
Further improve the working environment for CACs by giving them online access to the land registry database and strengthen oversight and transparency.	**Partially implemented**. Progress has been made by granting online access to land registry databases, but transparency is still impeded by no public disclosing of CACs statistics and data.
The planned mortgage-to-rent scheme should be well targeted.	**Partially implemented**. The revised scheme is now better targeted. Minimizing fiscal risks remain priorities and implementation is contingent on final notification by the authorities and approval by the EC.
Continue to improve the AML/CFT framework, including by ensuring effectively mitigating inherent AML/CFT risks.	**Partially implemented**. Cyprus continues to make progress in strengthening AML/CFT regulation and conducting on-site and off-site supervision.
Gradually Rebuilding Buffers	
Cyclical tightening of fiscal position.	**Implemented**. The primary balance turned into a surplus in 2022, which should be maintained going forward to fully rebuild buffers.
Any support should be targeted, temporary, and not hinder reallocation of labor to expanding sectors.	**Partially implemented**. New measures to tackle the cost-of-living crisis were generally well targeted, broadly commensurate with incidence, and promoted energy conservation.
Strengthening financial discipline in the National Health System (NHS).	**Partially implemented**. The authorities are implementing cost control measures for the NHS. Reforms are ongoing to make the public health sector more competitive.
Control the wage bill.	**Partially implemented**. The authorities have contained the public wage bill within the nominal GDP growth but upward adjustment to the CoLA mechanism is being discussed.
Reinstate the immovable property tax.	**Not implemented**. There are currently no plans to reinstate the immovable property tax.
Implement Structural Reforms	
Enhance the rule of law by recruiting and training judges and improving processes with a view to gradually reducing the backlog of cases. Strengthen commercial claims enforcement.	**Partially implemented**. Broad reforms of the justice system have been passed, but capacity constraints are still to be overcome. Legislation for the establishment of a commercial court has also been approved and will come into effect in the second half of the year.
Better control of corruption.	**Partially implemented**. Cyprus passed legislation on whistleblower protection and established a new independent anti-corruption agency. Regulations for its operation have been passed but some open questions

Past Policy Recommendation	Policy Actions
	remain (including on staffing inspection officials and the role of international experts).
Address skills gap and mismatches	**Partially implemented**. Small investments and innovations to promote digital education and skills are ongoing but a broader overhaul of the education system has not yet been implemented.
Improve electricity connectiveness.	**Partially implemented**. The EuroAsia Interconnector—a Project of Common Interest (PCI) of the European Union—among others linking Cyprus's power grid to Greece (through Crete) and Israel is progressing.
Introduce a carbon tax on fuels used in the sectors that are not covered by the ETS.	**Not implemented**. Despite plans the tax has not been introduced at the end of 2022, but progress is expected this year.

Annex II. External Sector Assessment

Overall Assessment: The external position of Cyprus was weaker in 2022 than the level implied by fundamentals and desirable policies. Due to expected improvements in the terms of trade and a declining current account deficit, the external position is likely to improve in 2023. Over the medium term, the current account deficit is set to continue narrowing, albeit slowly and remaining at a high level. The NIIP is projected to remain broadly stable relative to GDP. **Potential Policy Responses:** The expected fiscal stance will support external rebalancing. Private sector deleveraging and higher private savings could provide additional support. Structural reforms to raise productivity and enhance competitiveness—supported by the RRP—will be crucial to improve the external position in the medium run.					
Foreign Assets and Liabilities: Position and Trajectory					
Background. The net international investment position (NIIP) improved before the pandemic from -163 percent of GDP in 2014 to -115 percent in 2019 but deteriorated to -135 percent in 2020 reflecting the widening of the current account deficit and GDP contraction. The NIIP fell strongly to –118 percent of GDP and -105 percent of GDP in 2021 and 2022 as GDP recovered and current account temporarily improved (in 2021). Excluding the contribution of SPEs, the underlying NIIP improved from -78 percent of GDP in 2014 to –41 percent of GDP at the end of 2019. It fell to -54percent during the pandemic but recovered again to -36 percent by the end of 2022. Gross liabilities declined to an estimated 1920 percent of GDP in 2022, with around one third in the form of external debt. Under the IMF staff's baseline scenario, the NIIP is projected to remain broadly stable relative to GDP in the medium term. **Assessment.** While the rise in external vulnerabilities amid a deterioration in the NIIP during the COVID-19 pandemic has been largely reversed, the NIIP remains low. However, the significant size of the NIIP reflects Cyprus's role as a financial center and the effects of SPEs, and the NIIP remains broadly sustainable when excluding SPEs.					
2022 (% GDP)	NIIP: -105	Gross Ass.: 1820	Debt Ass.: 563	Gross Liab.: 1920	Debt Liab.: 621
Current Account					
Background. The overall current account deficit (which averaged -4.9 percent during 2017-19) widened substantially in 2020, mainly due to collapsed services exports and a larger deficit in primary income. After recovering in 2021 (largely due to a higher services balance), the CA balance deteriorated substantially in 2022 amid a significant widening of the trade balance. **Assessment.** The EBA model estimates a CA norm at -2.8 percent of GDP, against an adjusted CA estimate of -6.6 percent of GDP taking into account cyclical contributions (-0.2) and temporary factors to account for the lingering impact of the pandemic on tourism (-0.2). Policy gaps—reflecting deviations between current and desired policy settings —contribute 4.2 percentage points, mostly driven by less-than-desirable public health expenditure and a tighter fiscal stance than the rest of the world. Based on the CA model, IMF staff assesses the CA gap to be -3.8 percent of GDP for 2022, which implies that the external position was weaker than the level warranted by fundamentals and desirable policy settings.					

Cyprus: EBA-lite Model Results, 2022

	CA model 1/	REER model 1/	ES model
		(in percent of GDP)	
CA-Actual	**-9.1**		
Cyclical contributions (from model) (-)	-0.2		
COVID-19 adjustors (-) 2/	-0.2		
Additional temporary/statistical factors (-)	0.0		
Natural disasters and conflicts (-)	-2.1		
Adjusted CA	**-6.6**		
CA Norm (from model) 3/	**-2.8**		
CA Gap	**-3.8**	**2.0**	**0.1**
o/w Relative policy gap	4.2		
Elasticity	-0.6		
REER Gap (in percent)	**6.5**	**-3.5**	**-0.2**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism. 100 percent of the shock to tourism is assumed temporary.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The CPI-based REER remained broadly stable in 2020 and 2021 but depreciated by 1.3 percent in 2022, on the back of lower inflation differentials and euro depreciation against the USD.
Assessment. The REER gap derived from the IMF staff's CA gap assessment, with an estimated elasticity of -0.6, suggests a REER overvaluation of 6.5 percent in 2022. The ES model suggests no significant REER gap. The REER model, on the other hand, suggests a negative REER gap of 3.5 percent. Considering all model estimates and the uncertainties around them—but putting a higher weight on the CA model than the REER model as it better reflects the recent weakening of the external balance—staff's assessment is of a slight overvaluation (in line with the CA model).

Capital and Financial Accounts: Flows and Policy Measures

Background. Capital inflows declined to 4.4 percent of GDP in 2021, mainly reflecting higher portfolio outflows. Mirroring the increasing current account deficit, capital inflows increased again in 2022 and amounted to 6.0 percent of GDP, driven by higher FDI that more than made up for lower portfolio inflows. The increase in net private inflows was only partially offset by a decline in public inflows.
Assessment. With sizable external debt of the public and private sectors, Cyprus remains exposed to financial market risks. Tightening financial conditions could increase vulnerability.

FX Intervention and Reserves Level

Background. The euro has the status of a global reserve currency.
Assessment. Reserves held by the euro area are typically low relative to standard metrics, but the currency is free floating.

Annex III. Sovereign Risk and Debt Sustainability Framework

Annex III. Table 1. Cyprus: Risk of Sovereign Stress			
Horizon	**Mechanical signal**	**Final assessment**	**Comments**
Overall	...	**Moderate**	The overall risk of sovereign stress is moderate, reflecting relatively solid economic fundamentals and sizable buffers.
Medium term	**Low**	**Moderate**	Staff final assessment for medium-term risks is moderate, reflecting small-country volatility picked-up by the fan chart analysis' relatively large band for possible outcomes for the debt path. Despite low GFN-associated risks, still-high NPLs in the private sector pose risks to the government financing needs.
Fanchart	**Moderate**	...	
GFN	**Low**	...	
Stress test	...	...	
Long term	...	**Low**	Long-term risks are low as aging-related risks remain contained (as captured by the European Commission S2 indicator approximating the gap that must be closed to ensure that the government will be able to finance future public budget obligations taking into account costs related to population aging).
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline		Yes	
DSA Summary Assessment			
Commentary: Cyprus's public debt is sustainable, with public debt expected to remain on a downward path and financing needs at manageable levels, conditional on staying the course with fiscal policy consolidation. Near-term sovereign stress risks are low given high cash buffers, moderate funding costs, stable financing needs, and a resilient fiscal and macroeconomic performance. Moderate medium-term risks reflect macroeconomic volatility as captured in stochastic simulations, and high NPLs in the private sector that leave public debt and financing needs vulnerable to macro-financial shocks. Long-term risks are assessed as low.			

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex III. Figure 1. Cyprus: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
	✓ (chosen)			

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

Sector groups		Subsectors captured in the baseline	Inclusion
CPS, NFPS, GG: expected, CG	1	Budgetary central government	Yes
CPS, NFPS, GG: expected, CG	2	Extra budgetary funds (EBFs)	Yes
CPS, NFPS, GG: expected, CG	3	Social security funds (SSFs)	Yes
CPS, NFPS, GG: expected	4	State governments	n.a.
CPS, NFPS, GG: expected	5	Local governments	Yes
CPS, NFPS	6	Public nonfinancial corporations	No
CPS	7	Central bank	No
CPS	8	Other public financial corporations	No

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	**IPSGSs 3/**

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/ (chosen)	Cash basis	Nominal value 5/ (chosen)	Face value 6/	Market value 7/

5. Debt consolidation across sectors: Consolidated (chosen) | Non-consolidated

Comments

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

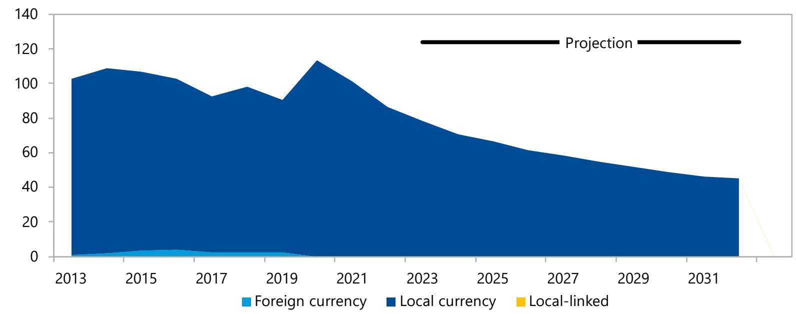
Issuer \ Holder		Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

Commentary: Cyprus' debt coverage and disclosure are consistent with standard recommendations. Debt guaranteed by the government is not included in public debt.

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

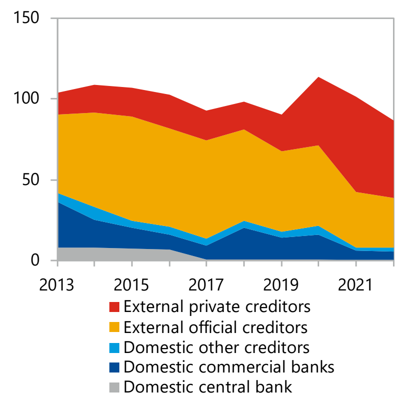
Annex III. Figure 2. Cyprus: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



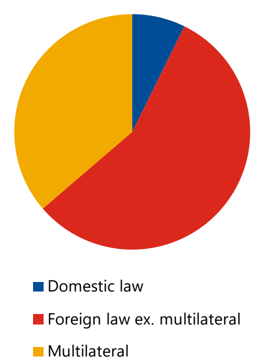
Note: The perimeter shown is general government

Public Debt by Holder (Percent of GDP)



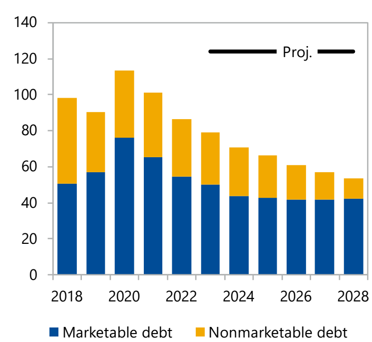
Note: The perimeter shown is general government

Public Debt by Governing Law, 2022 (Percent)



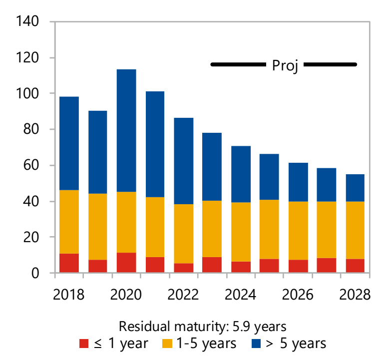
Note: The perimeter shown is general government

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government

Public Debt by Maturity (Percent of GDP)



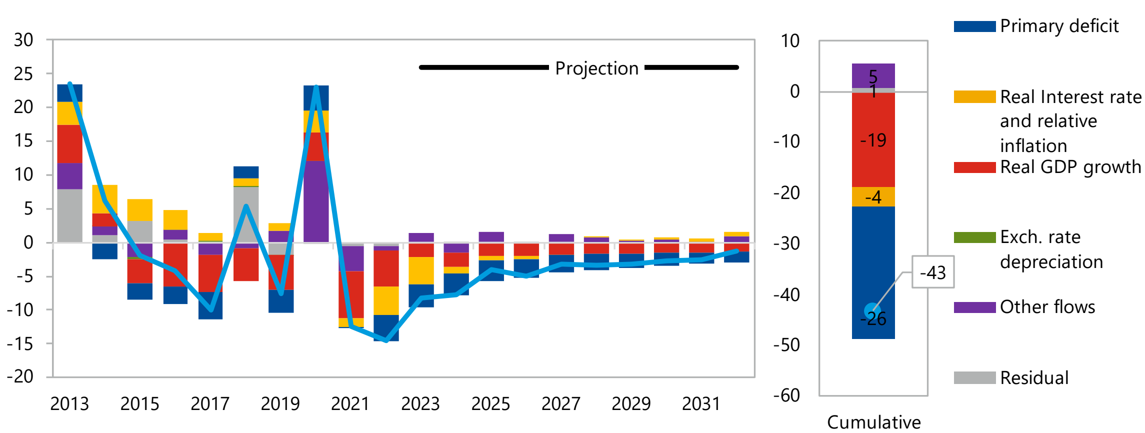
Note: The perimeter shown is general government

Commentary: The majority of public debt is owned by non-residents. However, about one third reflects financing from official creditors, including the ESM, EIB and CEB. In recent years, the authorities succeeded in extending the average maturity of public debt, and this is expected to continue going forward. All outstanding government debt is in euro.

Annex III. Figure 3. Cyprus: Baseline Scenario
(Percent of GDP unless indicated otherwise)

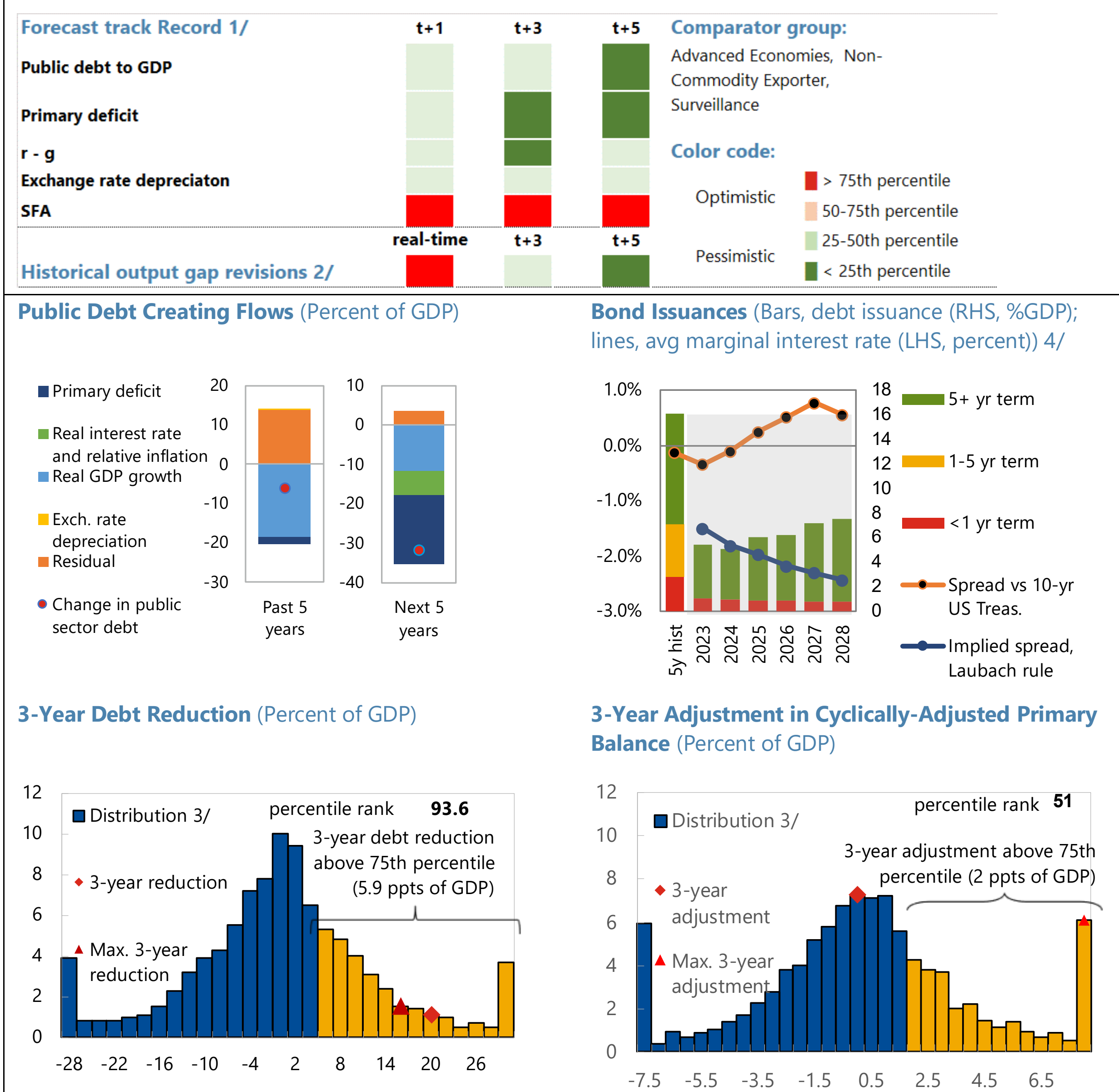
	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	86.5	78.3	70.6	66.6	61.5	58.3	54.9	51.7	48.9	46.4	45.1
Change in public debt	-14.5	-8.2	-7.7	-4.0	-5.1	-3.3	-3.3	-3.3	-2.7	-2.5	-1.3
Contribution of identified flows	-14.1	-8.4	-7.8	-4.2	-5.2	-3.4	-3.3	-3.3	-2.7	-2.5	-1.3
Primary deficit	-3.8	-3.4	-3.2	-3.0	-2.8	-2.5	-2.5	-2.1	-1.9	-1.8	-1.6
Noninterest revenues	42.0	40.5	40.4	40.0	39.5	39.2	39.2	39.0	38.8	38.5	38.3
Noninterest expenditures	38.3	37.1	37.2	37.0	36.7	36.7	36.7	36.8	36.8	36.8	36.8
Automatic debt dynamics	-9.6	-6.2	-3.1	-2.7	-2.4	-1.9	-1.5	-1.4	-1.2	-0.9	-0.7
Real interest rate and relative inflatioı	-4.2	-4.1	-1.0	-0.7	-0.4	-0.2	0.1	0.2	0.3	0.5	0.6
Real interest rate	-4.2	-4.1	-1.0	-0.7	-0.4	-0.2	0.1	0.2	0.3	0.5	0.6
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-5.4	-2.1	-2.1	-2.0	-2.0	-1.8	-1.6 .	-1.6	-1.5	-1.4	-1.4
Real exchange rate	0.0	...	...	...	...	...	... .	...	...	...	...
Other identified flows	-0.7	1.2	-1.5	1.4	-0.1	1.1	0.7	0.3	0.4	0.2	1.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.7	1.2	-1.5	1.4	-0.1	1.1	0.7	0.3	0.4	0.2	1.0
Contribution of residual	-0.5	0.2	0.1	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Gross financing needs	6.0	3.9	6.5	4.4	6.0	5.9	6.7	6.7	6.9	6.8	7.0
of which: debt service	9.8	7.4	9.7	7.4	8.8	8.5	9.3	8.9	8.9	8.7	8.7
Local currency	9.8	7.4	9.7	7.4	8.8	8.5	9.3	8.9	8.9	8.7	8.7
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	5.6	2.5	2.8	3.0	3.1	2.9	2.9	3.0	3.0	3.0	3.0
Inflation (GDP deflator; percent)	6.5	6.8	2.9	2.7	2.4	2.4	2.2	2.5	2.5	2.5	2.5
Nominal GDP growth (percent)	12.5	9.4	5.8	5.7	5.5	5.4	5.1	5.6	5.6	5.6	5.6
Effective interest rate (percent)	1.8	1.5	1.6	1.7	1.8	2.1	2.4	2.8	3.2	3.6	4.0

Contribution to Change in Public Debt (Percent of GDP)

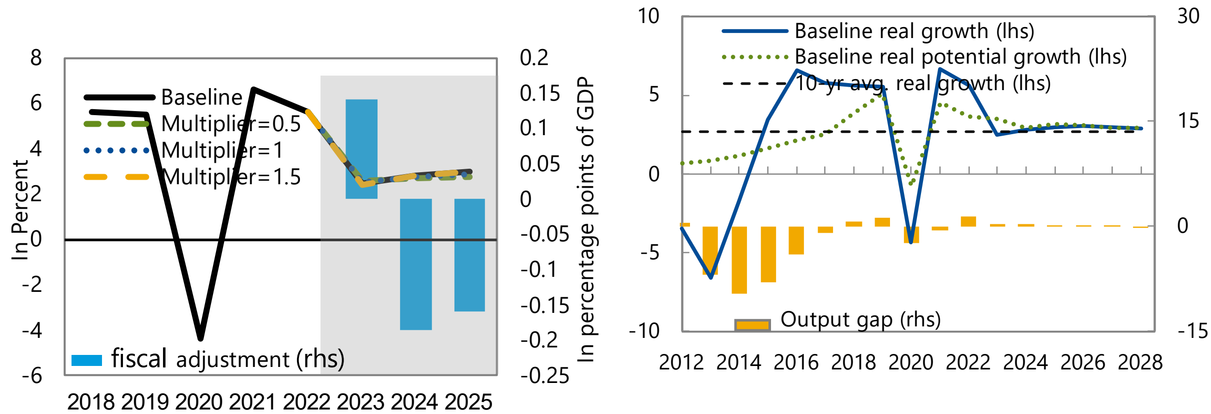


Commentary: Public debt is projected to remain on a firm downward path, driven by continued growth, primary surpluses and contained funding costs.

Annex III. Figure 4. Cyprus: Realism of Baseline Assumptions



Annex III. Figure 4. Cyprus: Realism of Baseline Assumptions (Concluded)



Source: IMF Staff.

1/ Projection made in the October and April WEO vintage.

2/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Commentary: Baseline assumptions of most debt drivers do not point to a systematic bias in the forecast track record, which is broadly in line with those observed in peer surveillance countries. Cyprus being a small open economy, its cyclical position is hard to estimate and the historical analysis reveals a mixed track record on revisions to the output gap. The projected decline in public debt relies on continued growth, fiscal prudence and favorable financing conditions.

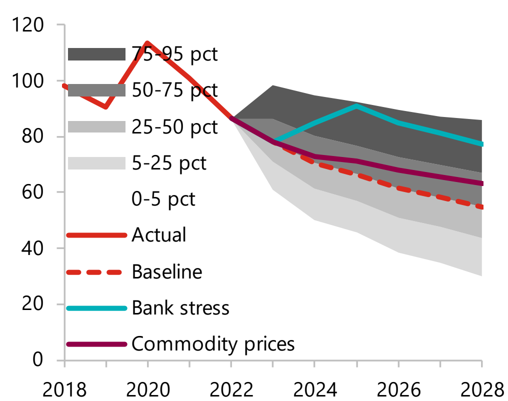
Annex III. Figure 5. Cyprus: Medium-term Risk Analysis

Debt Fanchart and GFN Financeability Index (Percent of GDP, unless otherwise indicated)

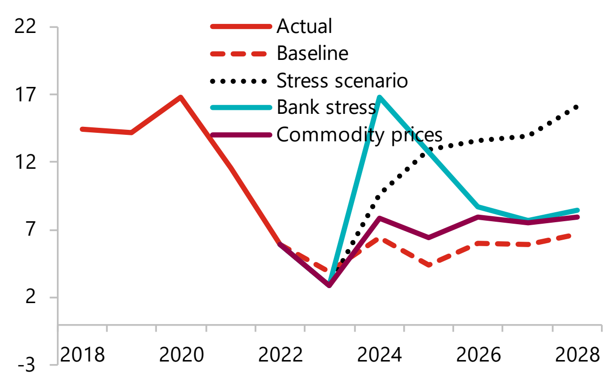
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Surveillance (0 25 50 75 100)
Debt fanchart module	Fanchart width	55.6	0.8	...	
	Probability of debt not stabilizing (pct)	1.6	0.0	...	
	Terminal debt level x institutions index	21.1	0.5	...	
	Debt fanchart index	**...**	**1.3**	**Moderate**	
GFN finance-ability module	Average GFN in baseline	5.6	1.9	...	
	Bank claims on government (pct bank assets)	4.9	1.6	...	
	Chg. in claims on govt. in stress (pct bank assets)	3.8	1.3	...	
	GFN financeability index	**...**	**4.7**	**Low**	

Legend: Interquartile range; Cyprus

Final Fanchart (Percent of GDP)



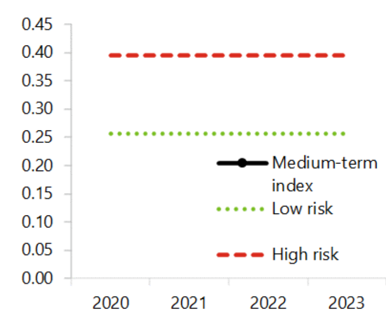
Gross Financing Needs (Percent of GDP)



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term index
(index number)



Medium-term risk analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.3
GFN finaceability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	...	0.2, Low

Prob. of missed crisis, 2023-2028 (if stress not predicted): 9.1 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 58.0 pct.

Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to medium level of risk, while the GFN Financeability Module suggests a low level of risk. Given Cyprus' high debt-to-GDP ratio and contingent liabilities from the banking sector, both debt reduction and financing needs are susceptible to a bank stress test.

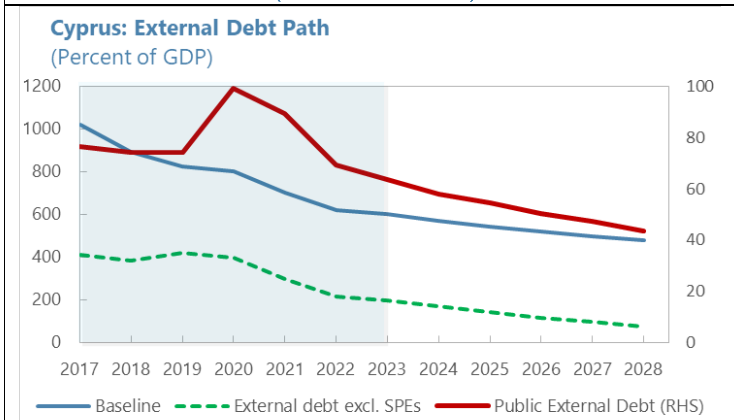
Annex IV. External Debt Sustainability Assessment

1. **Cyprus is a regional financial center with large external assets and liabilities.** The external DSA focuses on gross external debt and associated gross interest payments. However, changes in gross external debt can be accompanied by changes in gross external assets, which—in a financial center—can be large and volatile if SPEs engage in operations to expand or shrink their balance sheet (even though net positions may be unchanged), as they did in the past.

2. **Under the baseline scenario, the external debt-to-GDP ratio is projected to decline in the medium-term.** Cyprus's external debt stood at 621 percent of GDP in 2022, significantly lower than in 2021 and the years before, but still high in international comparison, reflecting Cyprus's role as a financial center and the presence of SPEs. In 2022, the government external debt declined to 69 percent of GDP, down from its peak of 99 percent of GDP in 2021. Net debt declined to 58 percent of GDP. Gross external debt is projected to decline gradually to below 500 percent of GDP in 2028, mainly reflecting declining rollover in a growing economy. Government external debt is projected to gradually decline to around 60 percent of GDP at the end of the projection period, supported by GDP growth and fiscal consolidation.

Annex IV. Figure 1. External Debt Path

(Percent of GDP)



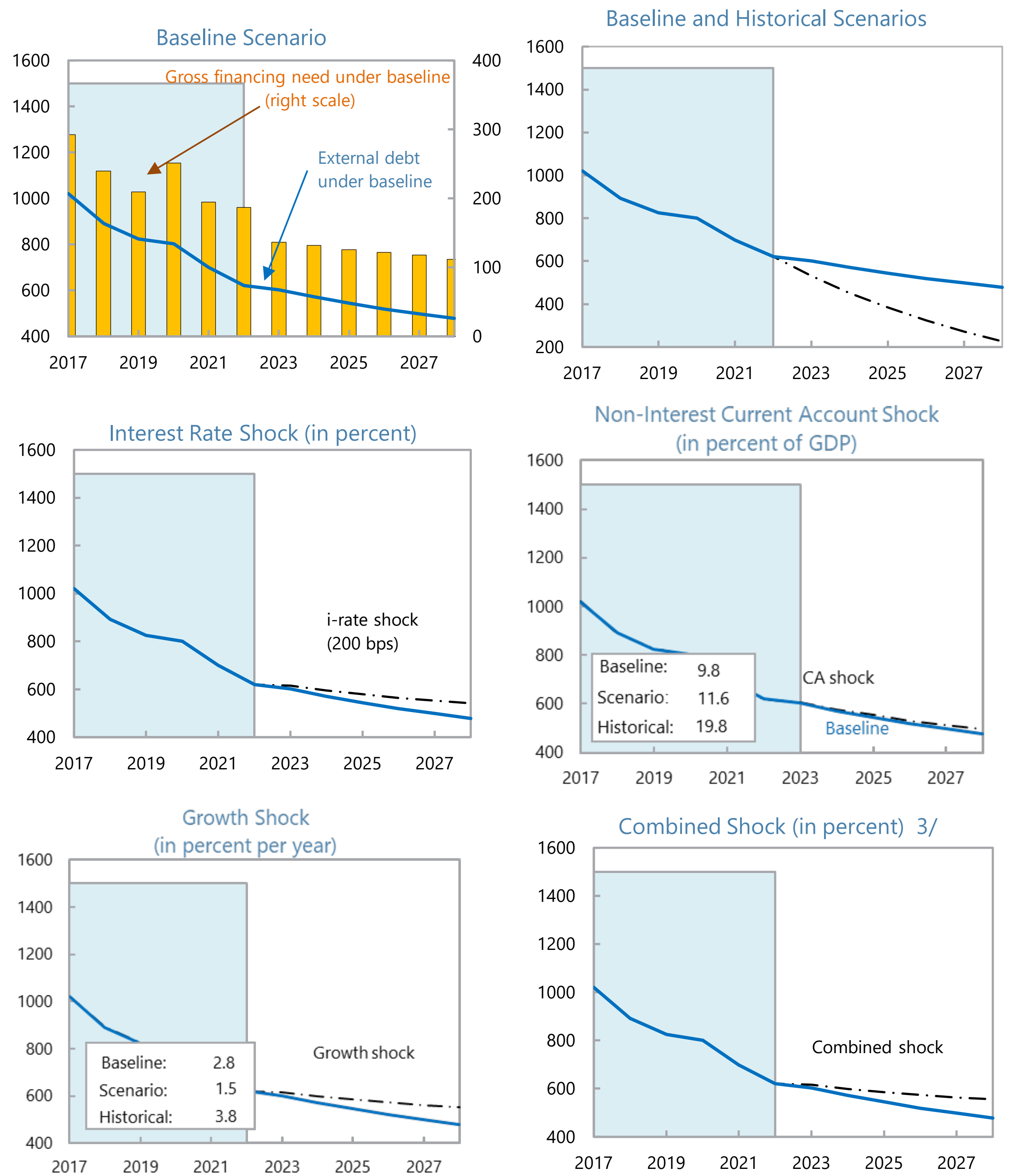
Sources: Central Bank of Cyprus, Ministry of Cyprus, and IMF staff estimates.

3. **Despite the projected decline, the high level of external debt leaves Cyprus vulnerable to a variety of risks.** Standardized shocks to interest rates and economic growth would significantly impede debt reduction, as the large size of external debt would markedly increase debt services costs in the case of higher interest rates and reduce the denominator effect on the debt-to-GDP ratio. Standardized current account deficit shocks would have a more limited impact on the debt ratio.

4. **The Cypriot economy remains exposed to liquidity and other risks due to continued large gross financing needs.** Gross external financing needs are projected start declining this year but remain elevated (averaging 150 percent of GDP through the projection period), reflecting a sizable stock of private sector short-term debt. Sound financial sector policies and structural reforms targeting a more diversified economy would help to ensure balanced and sustainable growth and limit risks of a new boom-bust cycle. Maintaining prudent fiscal policy and strong maturity management would help safeguard the downward path of external public debt and create fiscal buffers.

Annex IV. Figure 2. Cyprus: External Debt Sustainability- Bound Tests 1/ 2/

(Percent of GDP)



Sources: Ministry of Finance; Central Bank of Cyprus; and Fund staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Five-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the five-year period, and the information is used to project debt dynamics five years ahead. Unlike the default settings, the path of non-debt creating flow is set to be the same as the baseline, because its historical average is influenced by exceptional flows during the crisis period and seems too optimistic.

3/ Permanent ¼ standard deviation shocks applied to real interest rate, growth rate, and current account balance.

Annex V. Risk-Assessment Matrix[1]

Risks	Likelihood	Expected Impact	Policy Responses
Conjunctural risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	High	**High**: Spillovers to Russia-dependent sectors and deeper slowdown in economic activity from weaker confidence.	Allow automatic stabilizers to work and implement targeted and temporary support measures. Expand active labor market policies. Advance structural reforms and encourage market diversification.
Abrupt global slowdown or recession. In **Europe**, intensifying fallout from the war in Ukraine, worsening energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns and housing market corrections.	High	**High**: Lower tourism arrivals and/or revenues. Reduced investment inflows.	Allow automatic stabilizers to work and implement targeted and temporary support measures. Expand active labor market policies. Advance structural reforms and encourage market diversification.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	Medium	**High**: Reduced disposable income given high oil and import dependence. Higher inflation.	Implement targeted and temporary additional support measures. Adjust fiscal policy stance to minimize second-round effects.
Structural risks			
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	**Medium**: Disruptions to trade and financial flows. Higher energy insecurity.	Advance structural reforms and encourage market diversification. Rebuild fiscal buffers.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	Medium	**High**: More severe and frequent extreme weather events impacting tourism. Water shortages.	Invest to enhance resilience and incorporate financing needs for climate adaptation measures into long-term plans.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon. **G-RAM operational guidance is available from the** SPR Risk Unit website.

Risks	Likelihood	Expected Impact	Policy Responses
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	**Medium**	**Medium:** Potential paralysis of bank and public services, disrupting economic activity.	Encourage investment in cybersecurity by banks. Review and strengthen national cyber security risk management and mitigation policies.
Domestic Risks			
Stronger pass-through of inflation to wages. Significant upward revision to the CoLA mechanism with repercussions for salary increases in the rest of the economy. Faster pass-through in sectors with tighter labor markets.	**High**	**High**: Higher inflation pressures and loss of competitiveness.	Control public sector wages and adjust fiscal stance to avoid excessive pass-through and minimize the risk of a wage-price spiral.
Slow NPLs resolution. Progress in reducing legacy NPLs (largely offloaded to Credit Acquiring Companies (CACs)) stalls.	**High**	**Medium:** Heightened macro-financial risks amid higher interest rates.	Enforce the foreclosure framework and avoid undermining credit discipline.

Annex VI. Cyprus's Business Model After Russia's War

The current juncture may offer an opportunity to move to a new business model leveraging Cyprus's location and strong professional services to transform the country into a regional business and ICT hub. Recent successes in attracting foreign companies and professionals are an important step in this direction and give reason for optimism, but more needs to be done.

1. **Cyprus used to benefit from strong financial connections with Russia, generating significant business in professional services and spillovers to other segments of the economy.** Nearly half of Russian FDI is registered in Cyprus—Russia's most important offshore financial center—reflecting mostly past round-tripping of capital to benefit from Cyprus's tax system and legal framework and the presence of shell companies managing third-country investment into Russia.

2. **Disruptions from Russia's war in Ukraine strongly impacted cross-country capital and payment flows.** Both primary income credit and debit with Russia declined strongly in 2022. In line, confidential data on payment flows between Cyprus to Russia have collapsed, especially flows from Russia to Cyprus. Flows with many other countries declined too, likely driven by FDI from and to Russia registered in Cyprus. For example, a large decline in outflows to Belgium is likely related to Belgium's InBev former presence in the Russian beer market (partly registered in Cyprus). There has also been a large drop in inflows from the United Kingdom and in outflows to the United States, indicating substantial economic links between these countries and Russia through Cyprus.

3. **Services exports to Russia held up initially but then started falling.** The freeze of investment activities affected financial services, while horizontal sanctions restricted services exports more generally. Since June 2022, the European Union prohibits the provision of accounting, auditing, bookkeeping and tax consulting, business/management consulting, and public relations services to Russia. These sanctions have already had a small impact on Cypriot services exports to Russia from Q3:2022. In October 2022, European sanctions further prohibit providing IT consultancy, legal advice, architecture, and engineering services to Russia. Financial services in Q4 were down by a third compared to a year earlier and the impact is expected to intensify with implications for growth and the external balance this year.

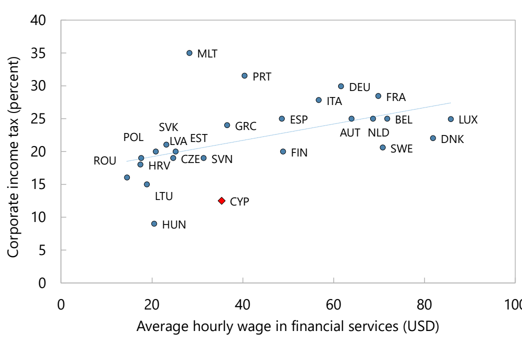
4. **Cyprus is well positioned to adjust its growth model.** An IMF global gravity model on bilateral capital and payment flows, estimated with data from CEPII, the World Bank, and internal IMF sources, shows that countries that are closer to each other tend to have more flows (i.e., have stronger financial ties), even after controlling for merchandise trade and many other country and country-pair characteristics. This suggests that Cyprus could indeed leverage its beneficial location as the European Union's most easterly member and placed uniquely between three continents. A simple simulation based on this model indicates substantial potential for closer financial ties (and economic integration) with large economies in the region (especially with Israel and Egypt).

5. **Further improving governance will be crucial.** Including governance indicators—the control of corruption, rule of law, and regulatory quality—in the model shows clearly that better

governance results in higher financial integration. Despite progress, Cyprus still lags in many of these areas, suggesting important benefits from further improvements. In line, a simulation based on the model suggests that improving governance could generate substantial additional flows.

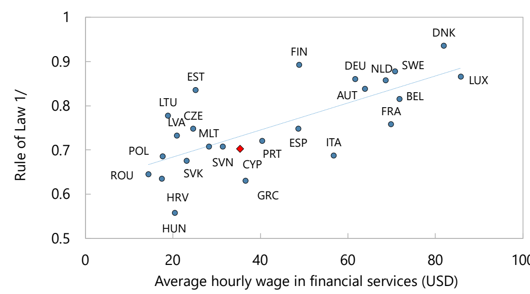
6. Cyprus will need to compete for foreign companies on quality. Cyprus has low corporate taxes and would keep an edge over most countries even if corporate taxes increased to 15 percent for all companies (rather than just for very large ones in line with the current EU adoption of the global minimum tax). However, other countries in the EU offer cheaper wages in services as well as better governance. For example, hourly wages in financial services are nearly twice as high as in Lithuania, which on top has much better governance indicators, and attempts to attract similar foreign investment. In addition to leveraging its location, Cyprus will need to turn into a high-quality destination, rather than relying on cost competitiveness.

Corporate Taxes and Financial Services Cost



Source: Eurostat

Rule of Law and Finacial Services Cost



Sources: Eurostat, Daniel Kaufmann (Natural Resource Governance Institute and Brookings Institution), and Aart Kraay (World Bank)
1/ 0-1, with 1 = strong rule of law

7. There is no easy pathway to becoming a regional business and ICT hub, but the necessary steps to harness new growth opportunities seem clear:

- *Addressing governance issues* could support reorienting services exports to new markets. Enhancing the rule of law and reducing the backlog of court cases could improve the business environment. A better control of corruption and stronger SOE governance could improve government efficiency.

- *Further progress with its AML/CFT framework* could contribute to a cleaner financial sector and improve Cyprus's reputation. This, in turn, could help to relax monitoring standards of U.S. corresponding banks and potentially increase efficiency in the financial sector.

- *Continued policy support* like the current headquartering scheme to attract new companies will remain important in the near-term. The Cyprus Investment Promotion Agency can play a key role in attracting large FDI projects in strategic sectors (finance, health care, education, renewables). However, the costs and effectiveness of current tax benefits should be continuously scrutinized and improved. New initiatives could build on recent successes in attracting companies from Israel and Lebanon (reflected in increasing payment flows with these countries).

- *Overcoming capacity constraints and procedural hurdles in immigration*, as well as easier access to the Schengen area for third country nationals with employment permits, would further enhance Cyprus's appeal as a strategic location for foreign companies. Emerging constraints on absorbing foreign employees, for example related to schooling and housing, are best resolved by market forces, though supply side measures (like strategic rezoning and reinstation of the immovable property tax) could help.

- *Creating a digital workforce* calls for modernizing the education system to provide better quality education with a stronger focus on digital skills. This would also allow Cypriots to benefit directly from these new job opportunities. In addition, Cyprus will need to attract more foreign IT specialists, especially in the short run.

INTERNATIONAL MONETARY FUND

CYPRUS

May 9, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department
(In consultation with other departments)

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FUND RELATIONS

(As of March 31, 2023)

Membership Status: Joined December 21, 1961; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	303.80	100.00
IMF's Holdings of Currency	218.75	72.00
Reserve Tranche Position	85.06	28.00

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	423.98	100.00
Holdings	427.11	100.74

Outstanding Purchases and Loans: None

Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
EFF	May 15, 2013	Mar 6, 2016	891.0	792.00
Stand-By	Jul 16, 1980	Jul 15, 1981	8.5	8.5

Projected Payments to the Fund (SDR millions; Projected from 2022)

	Principal	**Charges/Interest**	**Total**
2023	0	0.01	0.01
2024	0	0.01	0.01
2025	0	0.01	0.01
2026	0	0.01	0.01
2027	0	0.01	0.01

Exchange Rate Arrangement and Exchange Restrictions:

Cyprus is a member of the euro area, and its currency—the euro—floats freely and independently against other currencies. Cyprus has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions except for restrictions in place for security reasons notified to the Fund pursuant to Decision No. 144-(52/51).

Last Article IV consultation, Post-Program Monitoring discussions, and program relations:

Article IV. Cyprus is currently on a standard 12-month consultation cycle. The last Article IV consultation was concluded on May 25, 2022 (IMF Country Report No. 22/151).

EFF. Cyprus's three-year, SDR 891 million (293 percent of current quota) Extended Arrangement under the Extended Fund Facility (EFF) was approved by the IMF Executive Board on May 15, 2013. The total amount drawn was SDR 792 million (260.7 percent of quota). The EFF arrangement was coordinated with the European Stability Mechanism (ESM), which disbursed €6.3 billion. The ninth (and penultimate planned) review was completed on January 23, 2016 (IMF Country Report No. 16/26). The EFF arrangement was cancelled by the authorities on March 7, 2016, about two months before it was scheduled to expire. The cancellation coincided with the expiration of the three-year ESM program.

PPM and repurchases. The Fund initiated PPM on March 18, 2016. Board consideration of the Third Post-Program Monitoring (PPM) discussions was concluded on June 3, 2019 (IMF Country Report No. 19/151). An early repurchase on July 11, 2017 reduced outstanding Fund credit to Cyprus to SDR 570 million (187.5 percent of quota), which is below standard PPM-eligibility thresholds. The Board approved a one-year PPM extension on August 2, 2017, June 4, 2018, and June 3, 2019. Cyprus repaid early its remaining balance of EFF credit in February 2020, and successfully exited the Fund's PPM.

Safeguards. A safeguards assessment was finalized in August 2013 in the context of an EFF arrangement approved in May 2013. The assessment found a weak governance framework at the CBC and a strained balance sheet given the large ELA exposure. The CBC addressed most of the recommendations made in the areas of audit and control oversight, financial reporting transparency, and internal audit. The CBC continues to publish its audited financial statements in a timely manner. Legislative efforts currently underway are expected to address the remaining safeguards recommendations to strengthen the central bank's governance and financial autonomy.

Technical Assistance:

Department	Purpose	Date
FAD	Revenue administration	October–November 2014
FAD	Revenue administration	January–February 2015
FAD	Functional review of Ministry of Finance	February 2015
FAD	Government guarantees	February 2015
MCM	Cooperative credit sector restructuring	February–March 2015
FAD	Public financial management	March 2015
STA	Balance of payments	March–April 2015
FAD	Public financial management	August 2015
MCM	NPL management	August–September 2015
MCM	Macro-financial modeling	September 2015
MCM	NPL management	September 2015
FAD	Public financial management	September–October 2015

MCM	Financial aspects of reunification	November 2015
FAD	Revenue administration	November–December 2015
MCM	Central bank governance	December 2015
STA	Statistical aspects of reunification	December 2015
FAD	Fiscal aspects of reunification	December 2015
MCM	Financial aspects of reunification	December 2015
MCM	Financial aspects of reunification	January 2016
MCM	Financial aspects of reunification	February 2016
STA	Statistical aspects of reunification	February 2016
FAD	Fiscal federalism workshop	February 2016
FAD	Fiscal aspects of reunification	February–March 2016
MCM	Debt management	March 2016
FAD	Public financial management	March–April 2016
MCM	Financial aspects of reunification	April 2016
FAD	Revenue administration	April–May 2016
STA	Statistical aspects of reunification	May 2016
MCM	Cooperative credit sector restructuring	May 2016
MCM	Financial aspects of reunification	May 2016
MCM	Cooperative credit sector restructuring	June–July 2016
MCM	Financial aspects of reunification	June–July 2016
FAD	Revenue administration	October 2016
FAD	Spending review	October 2016
FAD	Fiscal aspects of reunification	November 2016
STA	Sectoral Accounts and Balance Sheets	January 2017
FAD	Revenue administration	March 2017
FAD	Spending review	April–May 2017
MCM	Financial stability	July 2017
MCM	NPL management	July 2017
MCM	Macro-prudential policy	September 2017
LEG	Insolvency legal framework workshop	September 2017
FAD	Spending review	September–October 2017
FAD	Revenue administration	October 2017
MCM	NPL management	November 2017
MCM	Financial stability	December 2017
FAD	Revenue administration	December 2017
FAD	Spending review	February 2018
LEG	Legal framework for NPL resolution	March 2018
FAD	Spending review and public financial management	September 2018
MCM	Debt Portfolio Risk Management	November 2018
FAD	Policy Based Budget	September 2019
LEG	Judicial Training Workshop on Insolvency	December 2019

MCM	Stress Testing	December 2020
MCM	Debt and Cash Management	December 2020
STA	Property Price Statistics	April-May 2021
RES	Residential Property Price Valuations	March-April 2023
FAD	SOE governance	March 2023-
STA	Property Price Statistics	June 2023-

Two FAD long-term resident advisors provided technical assistance on public financial management (from February 2014 to October 2016) and on revenue administration (from July 2015 to December 2016).

STATISTICAL ISSUES

(As of April 19, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision to the Fund is adequate for surveillance purposes.
National accounts and real sector data: Since September 2014, the Statistical Service of Cyprus (CYSTAT) publishes a full set of national accounts based on the European System of National and Regional Accounts (ESA 2010) methodology, including quarterly GDP estimates. The data are available from the first quarter of 1995; the quarterly and annual data are consistent, although the timing of revisions to annual and quarterly statistics may not coincide. CYSTAT publishes the Consumer Price Index, and the Harmonized Index of Consumer Prices (HICP) which is compiled according to the methodology of EU member states and subject to quality assessment by Eurostat. The Central Bank of Cyprus publishes a Residential Property Price Index based on property valuation data collected since 2006. The agency is in the process of enhancing the index and is assessing the potential for incorporating transactions data. It has made significant progress in developing both Commercial Property and Land Price Indices and STA will continue providing technical assistance in this area.
Fiscal sector data: Ministry of Finance publishes monthly cash budget data based on ESA 2010 for the general government and its breakdown into central government, local government, and social security fund. It also publishes in the IMF's Government Finance Statistics (GFS) database monthly and quarterly non-cash data based on the *GFSM 2014* for the general government.
External sector data: The Central Bank of Cyprus (CBC) compiles and disseminates online the statistics of the balance of payments and the international investment position on a quarterly and annual basis, according to the IMF's sixth edition of the *Balance of Payments and International Investment Position Manual* (BPM6). The data are released with roughly a one-quarter lag. The data have included special purpose entities (SPEs) as residents since July 2014, and the treatment of SPEs is fully in line with the international standards including the BPM6. Full data coverage of SPEs was achieved in September 2019. Some historical statistics on SPEs have been published since November 2017. Cyprus participates in the IMF's Coordinated Direct Investment Survey (CDIS) and Coordinated Portfolio Investment Survey (CPIS). Cyprus participates in the IMF data collection for the database on the cross-border flows and positions of SPEs.
Monetary and financial sector data: Data on central bank balance sheet, key aggregate financial indicators for other monetary financial institutions, and financial positions of domestic institutional sectors are available from the CBC website and comply with European standards. The CBC also provides monthly monetary statistics to the IMF through the ECB. A structural break exists for some financial sector data due to the migration to Basel III (in 2014:Q1) and adoption of the European Banking Authorities definition of non-performing loans (in 2014:Q4). Cyprus reports data on several series indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial sector surveillance: Cyprus reports thirteen core financial soundness indicators (FSIs) and seven additional FSIs for the deposit takers as well as two additional FSIs for real estate markets on a quarterly basis. Additional FSIs for other financial corporations and other sectors are not available.
II. Data Standards and Quality
Cyprus subscribes to the IMF's Special Data Dissemination Standard (SDDS) since December 2009, and the relevant metadata have been posted on the Dissemination Standards Bulletin Board. Data are provided to the Fund in a comprehensive manner (see attached table). Cyprus's economic database is comprehensive and of generally good quality. The authorities regularly publish a wide range of economic and financial data, as well as a calendar of dates for the main statistical releases. Cyprus is also subject to the statistical requirements and timeliness and reporting standards of Eurostat and the European Central Bank (ECB) and has adopted ESA 2010. No data ROSC is available.

Cyprus: Table of Common Indicators Required for Surveillance

As of April 17, 2023

	Date of Latest Observation	Date Received	Frequency of Data	Frequency of Reporting 7/	Frequency of Publication
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	Mar. 2023	Apr. 2023	M	M	M
Reserve/Base Money	Feb. 2023	Mar. 2023	M	M	M
Broad Money	Feb. 2023	Mar. 2023	M	M	M
Central Bank Balance Sheet	Feb. 2023	Mar. 2023	M	M	M
Consolidated Balance Sheet of the Banking System	Feb. 2023	Mar. 2023	M	M	M
Interest Rates 2/	Current	Current	D	D	D
Consumer Price Index	Mar. 2023	April. 2023	M	M	M
Revenues, Expenditure, Balance and Composition of Financing 3/ - Central Government	Feb. 2023	Apr. 2023	M	M	M
Revenues, Expenditure, Balance and Composition of Financing 3/ - General Government 4/	Feb. 2023	Apr. 2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt 5/	Feb. 2023	Apr. 2023	M	M	M
External Current Account Balance	2022: Q4	Mar. 2023	Q	Q	Q
Exports and Imports of Goods and Services	2022: Q4	Mar. 2023	Q	Q	Q
GDP/GNP	2022:Q4	Mar. 2023	Q	Q	Q
Gross External Debt	2022: Q4	Mar. 2023	Q	Q	Q
International investment position 6/	2022: Q4	Mar. 2023	Q	Q	Q

1/ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
3/ Foreign, domestic bank, and domestic nonbank financing.
4/ The general government consists of the central government, social security funds and local governments.
5/ Including currency and maturity composition.
6/ Includes external gross financial assets and liability positions vis-à-vis nonresidents.
7/ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Not Available (NA).