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ABBREVIATIONS

BLS	Bank Lending Survey
CA	Current Account
CBC	Central Bank of Cyprus
COLA	Cost of Living Allowance
Cystat	Statistical Service of the Republic of Cyprus
DLS	Department of Lands and Surveys
ECB	European Central Bank
ESI	Economic Sentiment Indicator
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Eurostat	Statistical Office of the European Union
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IIP	International Investment Position
LFS	Labour Force Survey
MFIs	Monetary Financial Institutions
NACE	Statistical classification of economic activities in the European Union
NFCs	Non-Financial Corporations
NGEU	Next Generation EU
NPFs	Non-Performing Facilities
RPPI	Residential Property Price Index
RRF	Recovery and Resilience Fund
SDW	Statistical Data Warehouse
SPEs	Special Purpose Entities
SSF	Social Security Fund

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Summary

The Cyprus economy continued to record a strong growth path in 2025, with a growth rate of 3,8%, slightly lower compared with 2024, confirming the economy's continued strong momentum. In the first quarter of 2026, growth decelerated marginally compared with the corresponding quarter of the previous year, without, however, undermining the overall resilience of the economy, despite the continued uncertainty in the international economic environment.

During 2025, economic growth was mainly supported by domestic demand. Private consumption was underpinned by improved incomes and near full-employment conditions in the labour market, while investment recorded a significant increase, particularly public and non-residential private investment. At the same time, exports registered a positive contribution, increasing at a faster pace than imports in the context of the aforementioned strong domestic demand, thereby strengthening the trade balance overall. As regards services exports, the main sectors were technology services, intellectual property rights, tourism as well as financial and other business services.

At sectoral level, growth was broad-based, with the sectors of trade, transportation and tourism making a decisive contribution. The contribution of the technology and business services sectors was also significant. It is noted that, in early 2026, economic activity was adversely affected by geopolitical tensions in the Middle East, which led to a deterioration in economic sentiment indicators and more subdued expectations for the remainder of the year, without, however, undermining the strong growth momentum established in recent years.

Headline inflation, as measured by the Harmonised Index of Consumer Prices (HICP), stood at 0,8% in 2025 and remained at relatively low levels in early 2026, but increased markedly in spring, mainly due to the rise in energy prices as a result of international developments, reaching 3% in April 2026. These increases also affected other categories, such as food and services. It is noted that prices for services remain elevated, particularly those related to tourism services and restaurants and cafés, reflecting strong demand, despite the negative impact of the war on domestic consumer sentiment. In contrast, prices of non-energy industrial goods are recording declines. Overall, inflationary pressures are attributed both to external factors and higher energy costs, as well as to the resilient course of economic activity, despite the negative economic impact of the war in the Middle East.

In line with the positive GDP performance, the labour market remains strong, with employment increasing and unemployment declining to levels consistent with full-employment conditions. Wages are increasing, albeit at more moderate rates compared with previous years, while the steady rise in productivity contributes to preserving competitiveness. At the same time, the availability and continued inflow of foreign labour enhance labour market flexibility.

Regarding public finances, the situation remains particularly strong, with continued surpluses and a steady reduction in public debt, which has now declined below 60% of GDP.

The construction sector and the real estate market continue to exhibit a strong momentum, with a significant increase in residential property prices and robust demand from both domestic and foreign investors. At the same time,

construction activity is strengthening, although total construction costs are increasing mainly due to wage pressures, while the cost of raw materials has stabilised at high levels.

With regard to the external sector, the current account balance improved in 2025, mainly due to the strong performance of the services sector, particularly in technology, intellectual property rights, tourism, as well as financial and other business services. Tourism recorded historically high levels in 2025, although tourism activity was adversely affected in early 2026 owing to geopolitical developments.

The financial system remains resilient, with deposits continuing to grow and credit expansion remaining positive, albeit at a slower pace. Lending rates declined slightly, while deposit rates continue to stand at relatively low levels. At the same time, private debt continues to decline as a percentage of GDP, although it remains at relatively high levels.

The outlook for the coming years points to a slowdown in economic growth in 2026, mainly owing to geopolitical developments in the Middle East, with a gradual recovery in 2027 and 2028. Inflation is expected to increase temporarily during 2026, owing to direct and indirect effects from international developments, before easing thereafter. The main risks relate to uncertainty in the international environment, volatility in energy prices and potentially stronger-than-expected disruptions to tourism and other services exports. The announcement of an agreement between the US and Iran constitutes a positive development; however, important aspects still require negotiation, and the agreement has yet to be fully implemented. Should either side fail to honour its commitments and the agreement is not implemented, risks would remain with regard to disruptions in energy, commodity and raw material markets and the path of relevant prices. Oil prices could remain at structurally higher levels if the agreement is not finalised and fully implemented. Additional risks are associated with climate change-related factors, such as extreme weather events and a stronger-than-expected impact from the adoption of green taxes in the context of changes in European legislation, as well as higher-than-expected wages owing to labour market tightness and/or higher-than-expected profit margins.

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(A) The Cyprus Economy

1. Macroeconomic Developments

1.1 GDP

According to the available analytical data for 2025, Gross Domestic Product (GDP) recorded an annual increase of 3,8%, compared with 3,9% in 2024. Based on the latest preliminary data for the 2026Q1, economic growth reached 2,8% year-on-year, indicating the continued resilience of the Cypriot economy, despite the uncertainty prevailing in the international geopolitical and trade environment.

Economic growth in 2025 was mainly driven by stronger domestic demand and, to a lesser extent, external demand (**Table 1**). Private consumption increased by 3,3%, compared with 4% in 2024, supported by the improvement in real disposable income of households and the conditions of almost full-employment prevailing in the labour market. Investment, adjusted for the impact of Special Purpose Entities (SPEs), increased by 6,2%, contributing significantly to the GDP growth. This contribution is mainly attributable to public and non-residential private investment and, to a lesser extent, to the residential investment. A positive, albeit comparatively smaller, contribution also came from public consumption, which increased by 2%, compared with 1,6% in the previous year, mainly reflecting higher compensation of public employees.

Net exports, adjusted for the impact of SPEs, also contributed positively to the economic growth, in line with the improvement in the trade balance. This development reflects a

TABLE 1 **GDP by expenditure category**
(real terms, annual change, %)

	2021	2022	2023	2024	2025
GDP	11,4	8,7	3,6	3,9	3,8
Private consumption	4,7	8,9	6,0	4,0	3,3
Public consumption	8,9	5,5	2,9	1,6	2,0
Gross fixed capital formation (GFCF) excl. ships and airplanes	13,6	12,1	6,3	-1,1	6,2
Exports of goods and services	27,2	27,8	-1,6	5,7	5,0
Imports of goods and services	19,6	28,8	1,2	4,6	2,5

Source: Cystat.

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higher rate of increase in exports (5%), compared with imports (2,5%).

From the sectoral side, economic activity strengthened across all main sectors of the economy in 2025 (**Table 2**). The sectors with the largest contribution to GDP growth were those of trade, transport, hotels and restaurants, contributing 1,5 percentage points, sectors which are related with the trends in private consumption and tourism. These were followed by the information and communication sectors, with a contribution of 0,9 percentage points, supported by the further expansion of the operations of Cypriot companies of foreign interests (head-quartering), particularly in the technology sector. The construction sector contributed 0,3 percentage points, while professional services as well as financial activities each contributed 0,2 percentage points.

The latest soft data for 2026Q2 point to a slowdown in economic activity. As indicated from the developments in the Economic Sentiment Indicator (ESI) (**Chart 1**), as well as in the underlying confidence sub-indicators, the Cypriot economy was adversely affected by recent developments in the Middle East. More specifically, during the two-month period April–May 2026, the ESI stood at 99.5, falling below the average of 2026Q1 (103). The deterioration is reflected across all sub-indicators of the ESI.

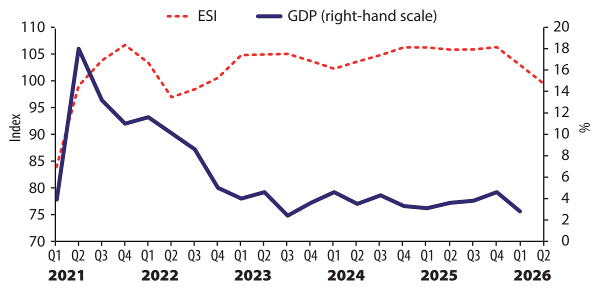
Taking into account these developments, as well as the preliminary data for the first quarter of 2026, the Central Bank of Cyprus revised downwards its forecast for GDP growth in 2026. This revision is mainly attributable to the expected negative impact on net exports,

TABLE 2 **GDP by economic activity**
(weighted contribution to the overall annual change, percentage points)

	2021	2022	2023	2024	2025
GDP (%)	11,4	8,6	3,6	3,9	3,8
Construction	0,1	-0,4	0,8	0,3	0,3
Trade, transportation, hotels and restaurants	6,2	2,5	-0,1	0,9	1,5
Information and communication	1,4	3,6	0,5	1,2	0,9
Financial and insurance activities	1,3	0,2	0,0	0,1	0,2
Professional, scientific and administrative activities	0,7	0,6	0,1	0,3	0,2
Other sectors[1]	1,8	2,1	2,4	1,2	0,7

Source: Cystat.
(1) Main sectors included are those of agriculture, manufacturing, public administration, education and health, as well as arts, entertainment and recreation.

CHART 1 **Annual GDP growth and Economic Sentiment Indicator index**



Sources: Cystat, European Commission
Note: Data for Q2 2026 refer to the months of April and May.

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in the context of increased uncertainty in the international geopolitical environment (see section "Macroeconomic Forecasts").

1.2 Inflation

During the period January–April 2026, domestic inflation, based on the HICP, averaged 1,7% (**Table 3**), compared with 0,1% in 2025 H2 and 2,2% in the corresponding period of 2025.

During the first two months of 2026, headline inflation remained at relatively low levels, at around 1%. However, in March and April, a marked increase was recorded – particularly in April – mainly owing to inflationary pressures that emerged, both in Cyprus and in the euro area, as a result of the adverse economic effects of the war in the Middle East.

These developments led to significant direct increases in energy prices (April 2026, **Table 3**), while also generating indirect upward effects on the remaining main inflation categories.

More specifically, headline inflation rose to 3% in April 2026, compared with 1,5% in March 2026 and 1,4% in April 2025 (**Table 3**). This significant increase is directly linked to the impact of the ongoing war in the Middle East and, in particular, to the rise in energy prices, as a result of the sharp increase in international oil prices since March 2026, compared with annual declines during 2025 and the first two months of the current year.

In particular, energy inflation recorded a steep annual increase of 8,8% in April 2026 (**Table 3**), compared with an annual decline of

TABLE 3 **Inflation in Cyprus**
(annual change, %)

	Weights 2026	Jan.-Apr. 2025	Jan.-Apr. 2026	Apr. 2025	Mar. 2026	Apr. 2026
HICP	1000,0	2,2	1,7	1,4	1,5	3,0
Total Food prices	205,0	2,6	3,6	2,2	5,3	4,3
of which:						
(i) Unprocessed food prices	59,3	9,4	9,5	10,4	14,0	10,4
(ii) Processed food prices	145,7	0,0	1,2	-1,0	1,7	1,7
Energy prices	84,0	-0,5	-2,8	-9,3	-3,9	8,8
Services prices	482,8	4,7	3,9	5,6	2,9	4,1
Non-energy industrial goods prices	228,2	-2,0	-2,5	-2,7	-2,3	-2,4
HICP excluding energy	916,0	2,5	2,2	2,6	2,1	2,5
HICP excluding energy and food prices (Core inflation)	711,0	2,4	1,8	2,8	1,2	2,0

Source: Eurostat.

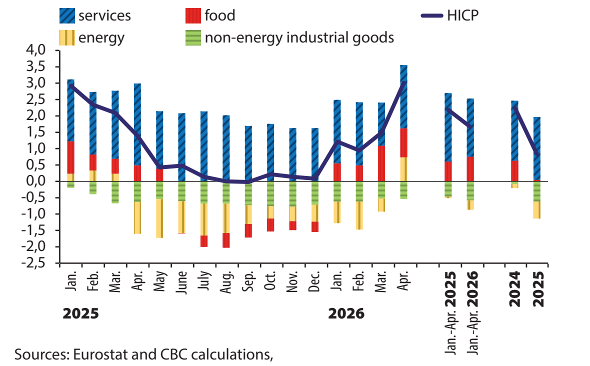
3,9% in March 2026 and a decline of 9,3% in April 2025. It is noted that the ongoing government mitigating measures related to energy prices– particularly electricity and motor fuel prices – contributed to containing a further increase in inflation in this category.

At the same time, in April 2026, food prices continued to exert a positive contribution to headline inflation (**Chart 2**). This development is also linked to factors stemming from the war, such as increases in raw materials and fertiliser prices, as well as indirect effects from higher energy costs.

As regards services prices, these remained at very high levels in April 2026 (**Table 3**, p. 11). This development is mainly associated with continued strong demand – from both foreigners and domestic consumers – for services related to restaurants and cafés and tourism more broadly. This holds despite the partial decline in demand for hotel accommodation services and travel to Cyprus during the period March–April 2026, owing to war-related factors. In contrast, prices of non-energy industrial goods continued to record annual declines up to April 2026, diverging from the upward path of the other main HICP components, and being affected by the impact of the appreciation of the euro against the US dollar and the import of cheaper Chinese products.

As regards core inflation (excluding energy and food prices), this increased further to 2% in April 2026 (**Table 3**, p. 11). This rise mainly reflects the aforementioned developments in services prices, which continue to be the key driver of core inflation.

CHART 2 **Contributions of main HICP components to overall domestic HICP inflation**
(annual percentage changes; percentage point contributions)



Sources: Eurostat and CBC calculations,

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1.3 Labour market

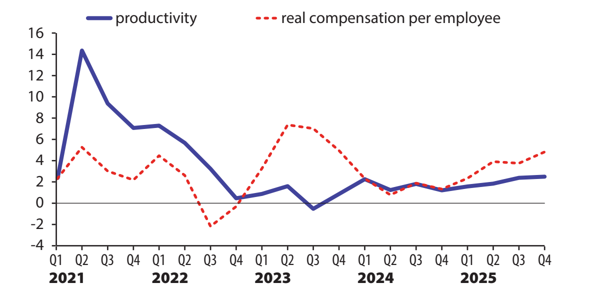
In 2025, the labour market in Cyprus continued to display remarkable resilience, in line with the sustained positive momentum in economic activity.

Nominal compensation per employee increased by 4,2% in 2025, compared with an increase of 3,3% in 2024. In particular, the increase stood at 3,9% in the private sector, mainly driven by sectors within services, and at 4,8% in the public sector. Despite the increase in 2025 compared with 2024 and the impact from the continued tightness characterising the labour market, wage pressures in 2025 remained lower than in 2022–2023, reflecting the more moderate wage increases agreed following the pronounced inflationary episode of previous years.

In real terms, compensation per employee recorded a notable acceleration, increasing by 3,8% in 2025, compared with 1,5% in 2024 (**Chart 3**). This development reflects the easing of inflationary pressures and, to a lesser extent, the aforementioned increase in nominal compensation. At the same time, labour productivity continued to record positive growth rates, reaching 2,1% in 2025, compared with 1,6% in 2024 (**Chart 3**), supported, inter alia, by the further expansion of economic activity in the technology sector.

As a result, unit labour costs remained contained, as the increase in wage pressures was offset to a significant extent by the improvement in productivity, contributing to the preservation of the competitiveness of the Cypriot economy.

CHART 3 **Productivity and real compensation per employee**
(annual change, %)



Sources: SDW (ECB), CBC.

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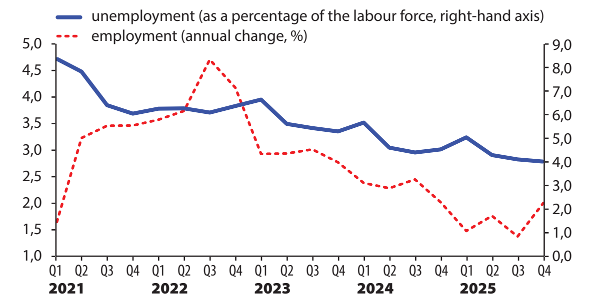
Employment recorded a further increase in 2025, mainly in the private sector and across a broad range of economic activities, particularly trade and tourism. This development was accompanied by a further decline in the unemployment rate, which stood at 4,4%, a level consistent with full-employment conditions (**Chart 4**).

Finally, the increase in the participation of Cypriots in the labour force, combined with the continued inflow of foreign labour, strengthened labour market flexibility and contributed to supporting economic growth, without generating significant upward pressures on labour costs.

CHART 4 **Unemployment and employment**



Sources: Cystat, LFS.

1.4 Fiscal developments

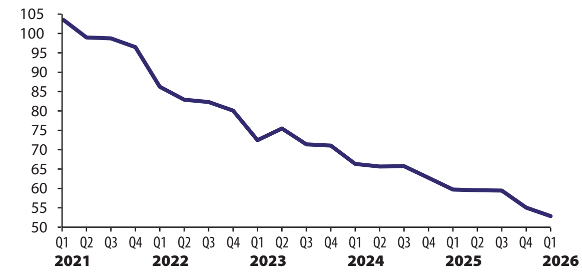
The fiscal position of the Cypriot economy remains strong, with some relief measures, mainly on the revenue side, being implemented owing to the recent inflationary episode. According to data from the Statistical Service of Cyprus (CYSTAT), the fiscal surplus stood at 1,5% of GDP in the first quarter of 2026, compared with 1,6% in the corresponding period of 2025, while the primary surplus remained unchanged at 1,8% of GDP.

Public revenue continues on a positive trajectory, supported by continued economic activity and favourable labour market conditions. Specifically, revenue increased by 5,4% year-on-year in the first quarter of 2026, mainly driven by higher revenue from current taxes on income and wealth, as well as from social contributions.

By contrast, public expenditure recorded a stronger increase, rising by 7,3% over the same period, a development that mainly reflects increases in expenditure on social transfers, other current expenditure and interest payments.

Public debt continues on a downward path, remaining below the threshold of 60% of GDP (**Chart 5**). Specifically, it stood at 52,8% of GDP in March 2026, recording a decline of 6,9 percentage points compared with March 2025. This development reflects continued economic growth, combined with the maintenance of primary surpluses.

CHART 5 **General government consolidated gross debt**
(as a percentage of GDP)



Sources: Cystat, CBC.

1.5 Construction sector and residential property prices

The Residential Property Price Index (RPPI) recorded an increase of 5,4% in 2025. In 2026Q1, residential property prices continued their upward trend, increasing by 7,5% on an annual basis compared with the corresponding quarter of 2025 (Chart 6), driven by sustained strong demand as well as elevated labour and construction costs in general. It is noted that the European Commission's Business and Consumer Surveys (BCS) selling price expectations index over the next three months stood at higher levels during the first four months of 2026 (40,7) compared with the corresponding period of 2025 (23,5), reflecting strengthened expectations of further increases in property prices.

Demand for residential properties as reflected in the number of sales contracts of the Department of Lands and Surveys (DLS), accelerated during the first four months of

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2026, recording an annual growth rate of 14,1%. This development reflects stronger activity by both local buyers (9,3%) and foreign investors (21,1%), despite the ongoing conflicts in the Middle East.

As regards housing supply, the latest available data from CYSTAT point to a significant strengthening of construction activity. Specifically, the number of residential units for which building permits were approved increased by 43% in 2025 compared with 2024.

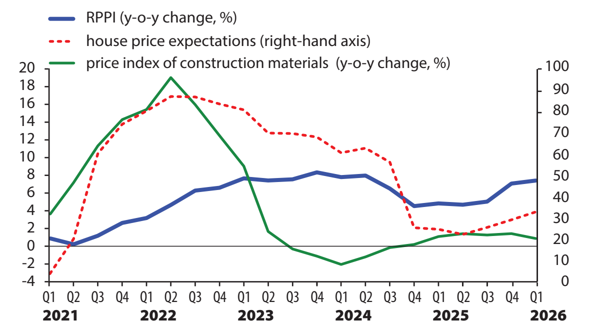
Regarding construction costs, CYSTAT's construction materials price index recorded a marginal annual increase of 1% during the first four months of 2026 (**Chart 6**). In addition to construction materials, overall construction costs were further driven upward by wage increases in the sector (5,6% in 2025 compared with 4,4% in 2024).

1.6 Balance of Payments and exports of services[1,2]

In 2025, the current account deficit narrowed to €2,677,9 million (-7,3% of GDP), compared to with €2,933,7 million (-8,4% of GDP) in 2024 (**Table 4** and **Chart 7**). This development was mainly due to the improvement in services balance surplus and the shrinking of the deficit in the secondary income balance surplus, which was partly offset by the deterioration of the deficits in the trade balance of goods and the primary income account.

1. External statistics are significantly affected by the classification of Special Purpose Entities (SPEs) as residents of Cyprus, particularly those considered economic owners of mobile transport equipment (mainly ships). It should be noted that transactions of SPEs neither affect nor are materially affected by the domestic economic cycle.
2. The data analysed below have been adjusted for the impact of SPEs.

CHART 6 **Residential property price index (RPPI), Price Index of Construction Materials and House Price Expectations for the next three months**



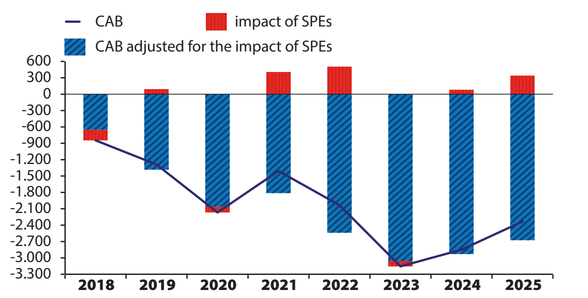
Sources: CBC, CYSTAT, European Commision.

TABLE 4 **Current Account Balance (main categories)**

	2024 (€ million)	2025 (€ million)	Change (€ million)
Current account balance	**-2.933,7**	**-2.677,9**	**255,8**
Goods and services balance	**1.032,1**	**1.553,8**	**521,6**
Trade balace	**-6.591,6**	**-6.998,7**	**-407,2**
Exports of goods	3.435,0	3.269,1	-165,9
Imports of goods	10.026,5	10.267,8	241,3
Services balance	**7.623,7**	**8.552,5**	**928,8**
Exports of goods	27.604,2	29.535,7	1.931,5
Imports of goods	19.980,6	20.983,2	1.002,6
Primary income (net)	**-3.602,2**	**-3.892,8**	**-290,5**
Secondary income (net)	**-363,6**	**-338,9**	**24,7**
Current account balance (% of GDP)	**-8,4**	**-7,3**	

Sources: CYSTAT, CBC.
Note: The figures are adjusted for the impact of SPEs (SPEs are classified as non-residents).

CHART 7 **Current account balance (CAB)**
(€ million)



Sources: Cystat, CBC.

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More specifically, the goods balance deficit increased by €407,2 million in 2025 compared with the previous year (**Table 4**, p. 16), mainly reflecting higher imports of goods for domestic consumption and investment, in the context of strong economic activity, as well as a decline in exports from (due to a base effect).

The services balance surplus increased significantly by €928,8 million, mainly due to the strong performance of net exports in ICT services and intellectual property rights, travel services, as well as financial and other business services (**Table 5**).

Exports of services, and particularly the sectors of ICT, intellectual property rights, as well as financial and other business services (**Table 5**), have recorded a significant expansion in recent years. This development has been supported, inter alia, by the government's investment attraction policy (headquartering policy) since 2021, the high level of specialisation of the labour force and the Cyprus's strategic geographical location, which strengthens its role as a safe business hub in the region.

At the same time, the tourism sector recorded new historical highs in both arrivals and revenues in 2025. Total arrivals reached 4,5 million tourists, recording an annual increase of 12,2%. The main source markets were the United Kingdom, followed by Israel and European Union countries. Tourism revenue increased by 15,2%, reaching €3,696,1 million, arising from both, the higher number of visitors and the increase in daily expenditure per capita.

However, geopolitical developments had

3. Merchanting covers the purchase of goods by a Cyprus resident company from a non-resident company, and its subsequent sale to another non-resident company without the goods entering Cyprus.

TABLE 5 **Services balance (main categories)**
(€ million)

	2024 (€ million)	2025 (€ million)	Change (€ million)
Services balance	**7.623,7**	**8.552,5**	**928,8**
Exports of services	**27.604,2**	**29.535,7**	**1.931,5**
of which:			
Transport	4.006,3	4.076,9	70,6
Travel	3.679,0	4.161,5	482,5
Finanacial and Other Business services	7.859,0	8.508,2	649,2
Telecommunications, computer and information services (ICT) and intellectual property rights	11.210,0	11.792,7	582,7
Imports of services	**19.980,6**	**20.983,2**	**1.002,6**
of which:			
Transport	4.029,7	4.236,0	206,2
Travel	1.867,3	2.084,9	217,6
Finanacial and Other Business services	6.197,7	6.675,4	477,7
Telecommunications, computer and information services (ICT) and intellectual property rights	7.102,8	7.168,7	65,9

Sources: Cystat, CBC.
Note: The data are adjusted for the impuct of SPEs (SPEs treated as non-residents).

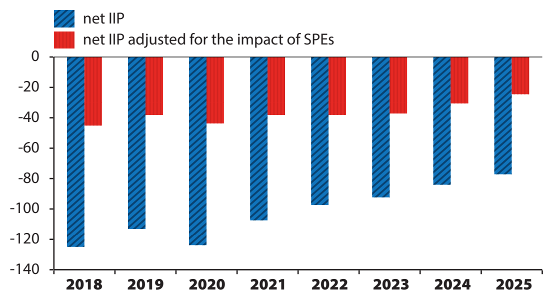
a direct negative impact on tourism in 2026. In particular, the ongoing conflict in the Middle East resulted in a 17,9% decline in arrivals in the first four months of 2026, despite the increase recorded in the first two months of the year. At the same time, an revenues rose by 7,4% in the first two months of 2026.

The outlook for 2026 remains uncertain, as challenges for the tourism sector and the other key export-oriented services sectors persist due to geopolitical tensions in the Middle East, despite the announcement of an agreement between the United States and Iran, as well as the ongoing war between Russia and Ukraine. At the same time, the resilience and expansion of non-tourism services in recent years are noteworthy, and the impact from the fragile external environment remains largely indirect.

In the primary income account, which mainly includes income from employment and investments, the deficit widened by €290,5 million (**Table 4**, p. 16), a development largely associated with the profitability of foreign-owned companies to Cyprus.

The net International Investment Position (IIP) (with SPEs classified as Cyprus residents), reached -€28,2 billion (-77,2% of GDP) at the end of 2025 (**Chart 8**). Adjusted for the impact of SPEs, the net IIP stood at -€8,9 billion (-24,5% of GDP), remaining within the European Commission's threshold of -35% of GDP.

CHART 8 **Net International Investment Position (IIP)**
(as a percentage of GDP)



Sources: Cystat, CBC.

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2. Financial conditions[4,5]

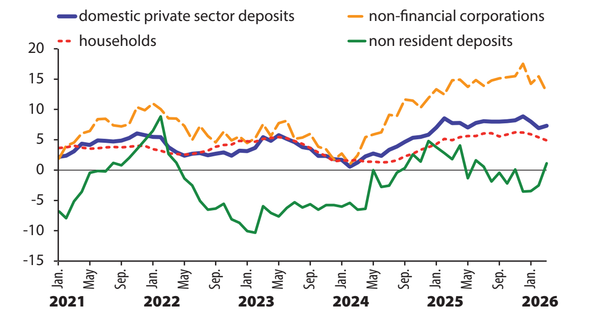
2.1 Deposits

The recent geopolitical tensions in the Middle East have unfolded at a time when the domestic financial sector continues to exhibit enhanced resilience and adequate shock-absorbing capacity. These conditions provide an important safeguard for the smooth financing of the real economy, notwithstanding the prevailing environment of heightened uncertainty.

Deposits of the domestic private sector[6] remained resilient in the first months of 2026, albeit showing signs of a mild deceleration. More specifically, their annual growth rate stood at 7,3% in March 2026, compared with 8,9% in December 2025 (**Chart 9a**), reflecting milder moderated dynamics in both non-financial corporations (NFCs) and households, in an environment of heightened geopolitical risks and higher energy prices.

Elevated production and energy costs are compressing corporate profit margins, while simultaneously eroding households' real disposable income. In this context, the annual growth rate of corporate deposits slowed to 12,8% in March 2026, from 17,5% in December 2025, while the corresponding rate for households moderated to 4,9%, from 6,2% over the same period. Despite the slowdown, the relevant growth rates continue to follow a positive path.

CHART 9a **Deposits of the domestic private sector and non-residents in Cyprus**
(annual change, %)



Source: CBC.

4. For a detailed explanation of the methodology and technical analysis of monetary aggregates (deposits and credit growth), see Technical Notes on p. 32.
5. The analysis on deposits and credit growth in this section of the Economic Bulletin focuses on domestic residents excluding SPEs. SPEs are included in the non-residents category unless otherwise stated.
6. Domestic private sector refers to non-MFIs domestic residents, excluding SPEs and central government.

Non-resident deposits[7] recorded an annual increase of 1,1% in March 2026, compared with a decrease of 3,5% in December 2025, reversing the downward trend of previous months.

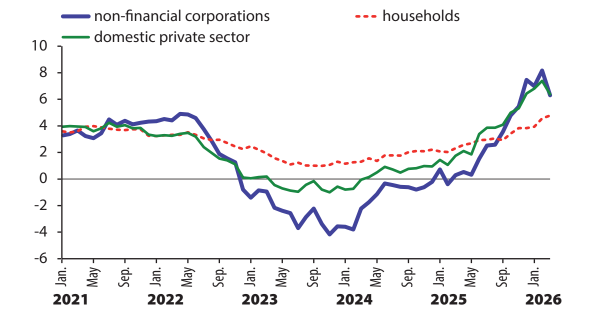
2.2 Lending

Credit expansion to the domestic private sector strengthened in 2025 and in early 2026; however, its momentum moderated in March 2026, amid heightened geopolitical uncertainty. The annual growth rate of net loans[8] to the domestic private sector[9] peaked, albeit from a low base, at 7,4% in February 2026 before declining to 6,4% in March 2026 (**Chart 9b**).

This deceleration largely reflects a moderation in lending to NFCs, with the annual growth rate standing at 6,3% in March 2026, compared with 7,5% in December 2025, following a peak, albeit from a low base, of 8,2% in February 2026 – the highest growth rate since 2010. By contrast, lending to households continued to strengthen gradually, with the annual growth rate reaching 4,8% in March 2026, from 3,8% in December 2025.

These developments are consistent with a moderation in pure new lending, amid heightened uncertainty and elevated energy costs, factors weighing on investment sentiment. New lending to the non-financial private sector[10] declined to €1,1 billion in the first quarter of 2026, compared with €1,2

CHART 9b **Loans to the domestic private sector**
(annual change, %)

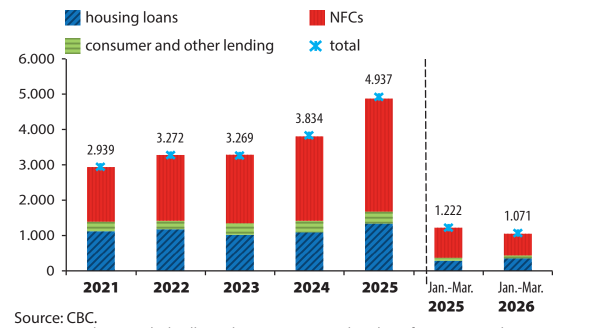


Source: CBC.

7. Including SPEs.
8. New lending plus capitalisation of interest minus repayments.
9. Domestic private sector refers to non-MFIs domestic residents, excluding SPEs and general government.
10. New loan contracts (euro-denominated) to euro area NFCs and households.

billion in the corresponding period of 2025, mainly reflecting reduced lending to non-financial corporations. This development was partly offset by the continued strengthening of new lending to households (**Chart 10**), particularly for housing loans. Overall, credit expansion remains resilient, despite the prevailing environment of heightened uncertainty.

CHART 10 **Volumes of pure new loans (euro-denominated) to euro area corporations and households**(1)
(€ million)



Source: CBC.
1. Pure new loans include all new loan contracts within the reference period.

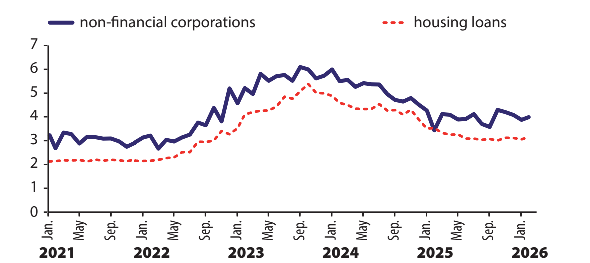
2.3 Interest rates

The gradual easing of monetary policy continued in 2025, with the latest reduction in the ECB's key interest rates implemented in June 2025, when the deposit facility rate was set 2%. Thereafter, and through to March 2026, key interest rates remained unchanged. These developments are being gradually transmitted to the interest rates of the domestic banking system.

In this context, interest rates on new loans in Cyprus recorded a further, albeit contained, decline. The average interest[11] rate on new loans to non-financial corporations decreased to 4,0% in March 2026, from 4,2% in December 2025, while the corresponding average[12] interest rate on new housing loans remained unchanged at 3,1% over the period December 2025–March 2026 (**Chart 11a**), remaining at levels below the euro area median.

Deposit rates remained broadly stable over the same period. For households, the average[13] interest rate remained at 1,2%, while for corporations it increased marginally to

CHART 11a **MFI Interest rates on new euro–denominated loans to households and non–financial corporations**(1) **in the euro area**(2)
(% per annum, weighted averages)



Sources: SDW (ECB), CBC.
(1) Weighted average of up to and over EUR 1 million.
(2) New business loans with a weighted–average interest rate (all rate fixation periods).

11. New business loans with a weighted average interest rate (all rate fixation periods).
12. New business loans with a weighted average interest rate (all rate fixation periods).
13. Average interest rate on new deposits (weighted average across all agreed maturities).

1,3% in March 2026, from 1,2% in December 2025 (**Chart 11b**). Overall, domestic deposit rates continue to stand below the euro area median, reflecting high excess liquidity, a stable funding base and the relatively small size of the domestic banking system.

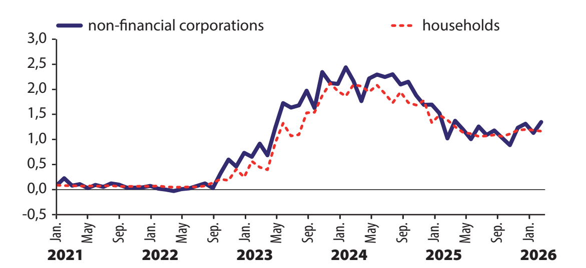
2.4 Private debt

In 2025, the debt-to-GDP ratio of the non-financial private sector[14] continued its downward trajectory, reflecting ongoing deleveraging combined with the resilience of economic activity. It is noted that, in the context of the revision of the Macroeconomic Imbalance Procedure (MIP) scoreboard[15], the single indicator was replaced by two separate indicators for NFCs and households, with indicative thresholds of 85% and 55% of GDP, respectively.

The overall debt ratio decreased to 162% in 2025, from 173% in 2024, mainly reflecting to the increase in nominal GDP and NPF write-offs. The decline was more pronounced in NFC debt, which stood at 107% of GDP, while household debt decreased to 54% (**Chart 12**), slightly below the EU indicative threshold.

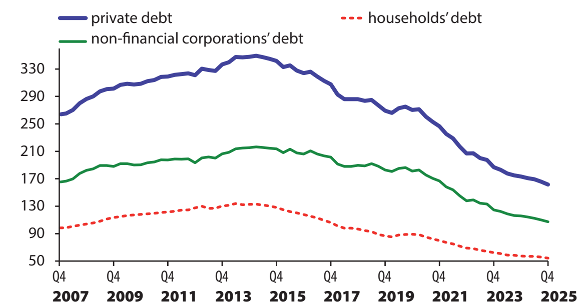
Adjusted for the impact of Special Purpose Entities (SPEs)[16], NFC debt stood at 66% of GDP, significantly below the relevant threshold, while the overall ratio, excluding SPEs, declined to 120%, from 129% in 2024. The domestic non-financial private sector

CHART 11b **MFI Interest rates on new euro–denominated deposits from euro–area non–financial corporations and households in the euro area[(1)]**
(% per annum, weighted averages)



Sources: SDW (ECB), CBC.
(1) Average interest rate on new business deposits (weighted average across all agreed maturities).

CHART 12 **Private non-financial sector[(1)] debt**
(as a percentage of GDP)



Sources: CBC, Cystat.
(1) The private non-financial sector consists of the non-financial corporations and the households (including non-profit institutions serving households).

14. The domestic non-financial private sector consists of domestic NFCs (including SPEs) and domestic households.
15. EC Alert Mechanism Report – Scoreboard of specific indicators related to macroeconomic imbalances.
16. Non-financial SPEs are mostly ship-owning companies with no or very little physical presence in Cyprus. They hold real assets (ships) and are financed almost entirely from abroad. Although registered / incorporated in Cyprus, they have minimal or no connection to the domestic real economy.

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consists of domestic NFCs (including SPEs) and domestic households.

Despite the significant decline from the peak levels of 2015, the relevant indicators continue to be affected by accounting factors associated with the recording of loans held by credit-acquiring companies at their nominal value. This practice leads to an overestimation of recoverable debt and limits a further declines in the ratio, despite the improvement in the underlying fundamentals.

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(B) Macroeconomic Projections for the Cyprus Economy[17]

17. Forecasts and assumptions are based on economic developments and available data as of the cut-off date of 27 May 2026.

The June macroeconomic projections presented in this Economic Bulletin were prepared in the context of the Eurosystem projections, on the basis of common technical assumptions. The projections incorporate the estimated economic impact of the conflict in the Middle East.

The continuing geopolitical tension in the Middle East, combined with the significant increase in international oil prices, is expected to exert direct adverse effects on the Cypriot economy through the expected negative impact on domestic and external demand. These effects are estimated to be more pronounced in sectors such as tourism, shipping, as well as construction and real estate, which are highly dependent on foreign investment inflows. The baseline scenario, which was finalised before the announcement of the agreement between the United States and Iran, adopts the working assumption that the conflict will last until the final quarter of 2026, followed by a gradual de-escalation.

Compared with the March 2026 projections, GDP growth has been revised downwards by 0.2 and 0.1 percentage points for 2026 and 2027, respectively, mainly owing to the war in the Middle East. The relatively limited impact for 2026, compared with the March projections, is attributable to the fact that the previous projection round had already incorporated some conservative estimates regarding the effects of the war.

Regarding HICP headline inflation, compared with the March 2026 projections, inflation has been revised upwards by 0.5 percentage points for 2026, as a result of the adverse economic effects of the war in the

Middle East. The downward revision in 2028 by 0.3 percentage points is due to the expected lower energy inflation, owing to the projected decline of oil prices from 2027 onwards. As regards core inflation, compared with the March 2026 projections, the upward revision of 0.2 percentage points for 2027 is attributed to the effects of the war in the Middle East, which include indirect effects on both components of core inflation. No revision is recorded for core inflation in 2026 and 2028.

Economic activity

GDP growth for 2026 is projected to slow to 2,5%, compared with 3,8% in 2025, while for 2027 and 2028 GDP growth is expected to accelerate to 2,9% and 3,1%, respectively (**Table 6**).

Domestic demand in 2026–2028 is expected to be supported by the continued growth in private consumption, owing to the increase in households' real disposable income despite increased inflationary pressures, as well as the resilience that continues to characterise the labour market, notwithstanding the aforementioned shocks. In addition, despite the pressures exerted by geopolitical uncertainty on investment activity, domestic demand is expected to be significantly supported by large ongoing private non-residential investment projects. Although their implementation timetable may be affected by the crisis in the Middle East, these projects are not expected to be cancelled, given the temporary nature of the geopolitical instability and their long-term completion horizon.

TABLE 6 **National accounts projections in real terms**
(annual change, %)

	2024	2025	2026f	2027f	2028f
Real GDP	3,9	3,8	2,5	2,9	3,1
Private consumption	4,0	3,3	1,1	2,1	2,2
Government consumption	1,6	2,0	4,1	1,3	2,7
Gross fixed capital formation (excl. ships and airplanes)	-1,1	6,2	3,7	4,2	4,6
Exports of goods and services	5,7	5,0	-0,6	2,2	2,6
Imports of goods and services	4,6	2,5	0,1	1,6	2,3

Sources: Cystat, CBC.

As regards net exports, a negative contribution to GDP is expected for 2026, due to the decline in exports, mainly as a result of lower tourism revenue, despite the significant slowdown in imports stemming from weaker domestic demand. At the same time, a decline is projected in revenue from the shipping sector, owing to the disruptions caused by the war in the Middle East. In addition, exports of other services are expected to increase at a slower pace, as they are indirectly affected by the less favourable external environment. By contrast, during 2027–2028, net exports are estimated to make a positive contribution to GDP, mainly owing to the expected recovery in tourism, despite the increase in imports.

Labour market

The labour market continues to support the Cypriot economy, displaying remarkable resilience despite ongoing geopolitical tensions (**Table 7**).

Employment is expected to slow to 1,3% in 2026, from 1,7% in 2025, mainly owing to the impact of the crisis in the Middle East, while for the period 2027–2028 it is projected at 1,5% and 1,7%, respectively.

The unemployment rate is estimated to increase marginally to 4,6% in 2026, owing to the negative impact of the crisis in the Middle East, which is mitigated by labour market tightness. For the period 2027–2028, it is expected to stabilise at around 4,5%, a level consistent with full-employment conditions.

Nominal compensation, including wages and social contributions, per employee is projected to slow to 2,7% in 2026, from 4,2%

TABLE 7 **Labour market projections**
(annual change, %, unless otherwise indicated)

	2024	2025	2026f	2027f	2028f
Compensation per employee	3,3	4,2	2,7	3,4	3,3
Unit Labour Costs	1,6	2,1	1,4	2,1	1,9
Productivity	1,6	2,1	1,2	1,3	1,3
Total employment	2,3	1,7	1,3	1,5	1,7
Unemployment rate (% of labour force)	4,8	4,4	4,6	4,5	4,5

Sources: Cystat, CBC .

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in 2025, reflecting developments in both the public and private sectors, partly reflecting the low inflation recorded in 2025, which limits the size of the cost-of-living allowance (COLA) paid. Subsequently, compensation per employee is expected to strengthen, owing to the path of inflation and the gradual restoration of COLA to 100% from July 2027.

Productivity is estimated to continue increasing throughout the projection horizon, albeit at a lower rate compared with 2025 (2.1%), averaging 1,3% per year. The path of productivity reflects the positive contribution of foreign-owned companies, mainly in the technology sector, the inflow of specialised labour and the implementation of investments through the EU Recovery and Resilience Plan (RRP).

Unit labour costs are expected to slow in 2026, owing to the moderation in compensation per employee and the continued increase in productivity, and to stand close to 2% in 2027–2028, in line with the recovery in compensation per employee.

Inflation

In 2026, inflation (**Table 8**), based on the Harmonised Index of Consumer Prices, is projected to increase significantly to 3,2%, from 0,8% in 2025, mainly owing to the adverse economic effects of the war in the Middle East. Specifically, significant upward pressures are expected in energy prices due to increases in international oil prices as a result of restrictions on passage through the Strait of Hormuz, with indirect upward effects also on the remaining inflation sub-catego-

TABLE 8 **Inflation projections**
(annual change, %)

	2024	2025	2026f	2027f	2028f
HICP	2,3	0,8	3,2	1,9	1,9
HICP excluding energy	2,7	1,5	2,7	2,4	2,0
HICP excluding food and energy	2,6	1,9	2,3	2,2	1,9

Sources: Cystat, CBC .

ries. Further upward effects are expected on the prices of non-energy industrial goods, which continue to record deflationary pressures, albeit smaller than in 2025. The upward effects stem from supply chain disruptions and higher production costs, as well as slightly higher natural gas prices compared with the previous year. Upward pressures are also expected on food prices, mainly owing to higher fertiliser prices resulting from supply chain disruptions.

In 2027 and 2028, inflation is expected to decelerate to 1,9%, mainly owing to the expected downward base effect in energy prices, as well as the gradual slowdown in services prices and, to a lesser extent, food prices. The 2028 Inflation projection incorporates the impact on energy prices, i.e. motor fuels, from the expected introduction of the EU's expanded Emissions Trading System (ETS2).

As regards core inflation (**Table 8**, p. 28), which excludes energy and food, it is projected to increase to 2,3% in 2026, compared with 1,9% in 2025. This increase is due to the expected higher inflation in services and industrial goods, owing to the indirect effects from higher energy inflation. In 2027–2028, core inflation is projected to decelerate to 2,2% and 1,9%, respectively, reflecting the expected gradual slowdown in services inflation, which is partly offset by the return of non-energy industrial goods prices to positive territory.

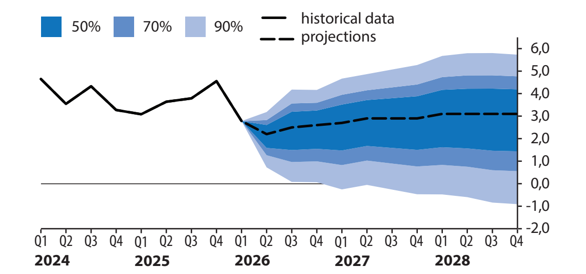
Assessment of risks to the macroeconomic projections relative to the baseline scenario[18]

The projected path of GDP under the baseline scenario of the macroeconomic projections is presented in **Table 6** (p. 26), while the paths of HICP and core inflation are presented in **Table 8** (p. 28). The probabilities of deviations from the baseline scenario for GDP and HICP projections are illustrated in **Charts 13** and **14**, respectively. Potential deviations regarding the core inflation projection are presented in **Chart 15**. A summary of the assessment of the relevant risks to the baseline scenario is presented in **Table 9**, p. 31.

With regard to the probabilities of deviation from the baseline scenario for GDP and inflation over the period 2026–2028, these are assessed overall as tilted to the downside for GDP and to the upside for inflation.

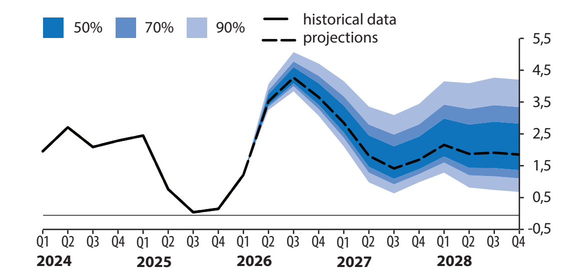
The main downside risks to GDP are associated with the possible non-finalisation and non-implementation of the announced agreement between the US and Iran. Should either side fail to honour its commitments, risks would remain concerning possible fuel shortages and the imposition of quotas, in the context of potential continued severe disruptions to energy and raw material production owing to the war in the Middle East, as well as potentially higher-than-expected energy and import prices due to supply chain problems. Downside risks are also associated with a stronger-than-expected impact on Cypriot services exports owing to the external environment, as well as climate

CHART 13 Real GDP fan chart
(annual change, %)



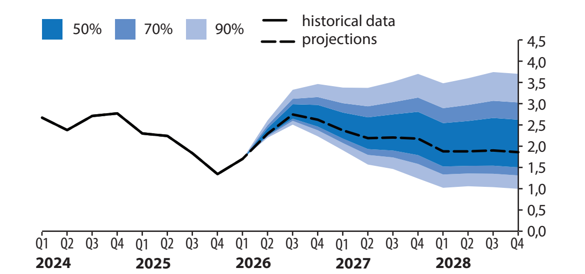
Source: CBC.

CHART 14 HICP fan chart
(annual change, %)



Source: CBC.

CHART 15 HICP excluding energy and food fan chart (core inflation)
(annual change, %)



Source: CBC.

18. For further information on the methodology of the risk assessment of macroeconomic forecasts, see Economic Bulletin, June 2015, p. 67.

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change-related factors, such as extreme weather events and a stronger-than-expected impact from the adoption of green taxes in the context of changes in European legislation. On the other hand, upside risks relate to higher-than-expected wages owing to labour market tightness and/or higher-than-expected corporate profit margins.

As regards inflation, upside risks are mainly associated with energy and raw material issues, as mentioned above in relation to GDP. Oil prices could remain at structurally higher levels if the agreement between the US and Iran is not finalised and fully implemented. Upside risks are also associated with factors related to climate change, as mentioned above, as well as with higher-than-expected wages due to tightness in the labour market and/or higher-than-expected profit margins.

TABLE 9 **Summary of risk assessment: June 2026 forecasts**

Risk	GDP (2026-2028)	Inflation (2026-2028)
Possibility of higher than foreseen energy prices, as well as higher prices for raw materials and goods, due to disruptions in the supply chain caused by the war in the Middle East.	-	+
Possibility off fuel shortages and rationing stemming from potential severe disruptions to energy production linked to the war in Iran.	--	++
Higher than expected impact on exports of Cypriot services due to a prolonged duration of the war in Iran and the uncertainty regarding global trade policy.	-	=
Climate change factors (higher than foreseen impact associated with adoption of green taxes, extreme weather-related events).	-	+
Higher than foreseen wages due to the tightness in the labour market and/or higher than foreseen profit margins.	+	+
Overall assessment	--	++

Source: CBC.
Note: the following symbols cover the spectrum of risks: ++ (upside), + (slightly to the upside), = (balanced), - (slightly to the downside), -- (downside).

Technical Notes

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(A) Domestic monetary aggregates (deposits and credit grouwth)

All monetary aggregates' data exclude the CBC.

On 1 July 2008, a new definition of residents of Cyprus entered into force (Statistical Purposes Directive, 2008). As a result, MFIs reclassified a large number of organisations or customers' businesses with limited or no physical presence in Cyprus, known as 'special purpose entities (SPEs), from non-residents to residents. The effect of this change is excluded from the monetary and financial statistics series presented in this publication, which reports domestic residents data excluding SPEs. For purposes of normalisation and comparability of monetary time series, data have been further processed by the CBC's Economic Analysis and Research Department.

The calculation of annual percentage changes is based on the methodology used by the ECB. More specifically, the growth of monetary aggregates is calculated based on the monthly differences in outstanding amounts adjusted for amounts that do not arise from transactions, such as reclassifications/other adjustments, revaluation adjustments and exchange rate adjustments, so as to reflect changes due to net transactions.

The above methodology has been adopted since the December 2009 edition of the *Economic Bulletin*. In previous editions of the *Bulletin*, the growth rate of monetary variables was calculated as the annual percentage change of outstanding balances at the end of the period. Details of the methodology can be found in the *Monetary and Financial Statistics*, published by the Statistics Department of the CBC, which is available on the CBC website.

(B) Balance of Payments

The present statistical collection system adopted as of June 2014, is based on the methodology of International Monetary Fund (BPM6), which has also been adopted by the EU, as well as on additional requirements and the level of detail required by both the Statistical Service (Eurostat) and the European Central Bank (ECB).

The adoption of BPM6 by the external statistics of the Cyprus took place in June 2014. In October 2014 was the first publication of the data. The published data for BoP, IIP and external debt cover the period from 2008 to date.

The application of new manuals provided the opportunity to adopt broader changes and revisions to improve the coverage and quality of the statistics of the external sector. Specifically, in addition to the incorporation in all external statistics produced and published of the special purpose entities that are registered / incorporated in Cyprus, the CBC has also upgraded the collection systems and compiling statistics of the external sector, giving greater emphasis to the application of new research and the use of available administrative sources.

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(C) National Accounts

In June 2014 Cystat implemented the new statistical standards for the historical data series since 1995. The ESA 2010 replaces ESA 1995 and is based on the System of National Accounts (ESA) 2008 which is in the process of being implemented worldwide. The aim is to adapt the national accounts to the current economic environment, advances in methodology and changing user needs. Regarding the sectoral classification, ESA 2010 provides a clearer separation between non-financial corporations and corporations that are not directly engaged in the non-financial activities. In particular, holding companies of non-financial corporations and other so-called captive financial institutions as well as certain Special Purpose Entities (SPEs) are now classified under a new category. In parallel, the investment funds sector is now separated from the remaining part of other financial intermediaries and insurance companies are shown separately from pension funds. The ESA 2010 has also adopted changes to the financial accounts.

More details on the methodology of compiling the balance of payments and the national accounts are available in Box 1, p. 51, of the December 2014 *Economic Bulletin* and on the website of the CBC.