Macroeconomic Projections of the Central Bank of Cyprus for the Economy of Cyprus

June 2026

The Central Bank of Cyprus (CBC) publishes its June 2026 projections for the main macroeconomic variables of Cyprus for the years 2026–2028[1]. Specifically, it analyses Gross Domestic Product (GDP), unemployment, inflation, as well as inflation excluding energy and food (core inflation), together with a brief reference to the main risks of deviation from the baseline scenario for growth and inflation.

June 2026 GDP projections compared with March 2026 projections (annual change, %, unless otherwise indicated)

	Projections June 2026				Revisions compared to March 2026 projections			
	2025	2026F	2027F	2028F	2025	2026F	2027F	2028F
GDP	3,8	2,5	2,9	3,1	0,0	-0,2	-0,1	0,0
Unemployment rate (% of labour force)	4,4	4,6	4,5	4,5	0,0	0,1	0,0	0,0
HICP	0,8	3,2	1,9	1,9	0,0	0,5	0,0	-0,3
HICP excluding energy and food (core inflation)	1,9	2,3	2,2	1,9	0,0	0,0	0,2	0,0

Sources: Cystat, CBC.

The June 2026 projections incorporate the economic impact of the ongoing war in the Middle East. Due to the continuing conflict, the significant increase in both international oil prices and geopolitical uncertainty is expected to have an immediate negative impact on the Cypriot economy, particularly on the tourism, shipping, construction, and real estate activities sectors—sectors that are highly dependent on inflows of foreign direct investment. The medium-term effects on the Cypriot economy will depend on the duration and intensity of the conflict. The baseline scenario assumes that the conflict will last until the last quarter of 2026, followed by a gradual de-escalation.

More specifically, GDP growth for 2026 is projected to decelerate to 2.5%, compared to 3.8% in 2025, while for 2027 and 2028 growth is expected to accelerate to 2.9% and 3.1%, respectively.

Domestic demand over 2026–2028 is expected to be supported by the continued positive performance of private consumption, driven by increases in households' real disposable income despite heightened inflationary pressures, as well as by the resilience of the labour market despite the aforementioned shocks. In addition, despite the pressures exerted by geopolitical uncertainty on investment activity, a

[1] The CBC's June 2026 macroeconomic projections for Cyprus were prepared as part of the broader Eurosystem forecasting exercises. The June 2026 projections take into account economic developments and available data up to 27 May 2026.

substantial contribution to domestic demand is expected from ongoing large private non-residential investments. Although their implementation timelines may be affected by the Middle East crisis, these projects are not expected to be cancelled, given the temporary nature of geopolitical instability and their long-term completion horizon.

With regard to net exports, a negative contribution to GDP growth is expected in 2026 due to a decline in exports, mainly driven by a fall in tourism revenues, despite a significant slowdown in imports as a result of the weakening of domestic demand. At the same time, a decline in revenues from the shipping sector is foreseen due to disruptions caused by the war in the Middle East. Additionally, exports of other business services are expected to grow at a slower pace, as they are indirectly affected by a less favourable external environment. In contrast, during the period 2027–2028, net exports are projected to contribute positively to GDP growth, mainly due to the expected recovery of tourism, alongside a parallel increase in imports.

Compared with the March 2026 projections, GDP growth has been revised downward by 0.2 and 0.1 percentage points in 2026 and 2027, respectively, mainly due to the continuation of the war in the Middle East. The relatively limited impact for 2026 compared to the March projections is attributed to the fact that some conservative assumptions regarding the effects of the war had already been incorporated in the previous forecasting round. At the same time, the June 2026 projections assume a longer duration of the conflict.

The labour market continues to support the Cypriot economy and shows significant resilience. Unemployment is projected to increase slightly to 4.6% in 2026 due to the negative impact of the Middle East crisis, which is mitigated by tight labour market conditions. For the period 2027–2028, it is expected to stabilise at 4.5% in line with the GDP recovery. Compared with the March 2026 projections, a small upward revision by 0.1 percentage points is expected in the unemployment rate for 2026 due to lower GDP growth.

In 2026, inflation (based on the Harmonised Index of Consumer Prices) is projected to increase significantly to 3.2% from 0.8% in 2025, mainly due to the economic impact of the war in the Middle East. In particular, strong upward pressures on energy prices are expected due to increases in international oil prices, stemming from restrictions in transit through the Strait of Hormuz, with indirect upward effects on other inflation components. Additional upward pressures are expected in the prices of non-energy industrial goods, which, although still experiencing disinflationary pressures, are expected to do so to a lesser extent than in 2025. These upward effects arise from supply chain disruptions and increased production costs, due to slightly higher natural gas prices compared to the previous year. Upward pressures are also expected in food prices, mainly due to higher fertiliser costs resulting from supply chain disruptions.

In 2027 and 2028, inflation is expected to moderate to 1.9%, mainly due to the anticipated downward base effects in energy prices, as well as the gradual slowdown in services prices and, to a lesser extent, in food prices. Inflation in 2028 also incorporates the impact on energy prices (transport fuels) from the expected introduction of the expanded EU Emissions Trading System (ETS2).

Compared with the March 2026 projections, inflation has been revised upward by 0.5 percentage points for 2026 due to the economic impact of the war in the Middle East. The downward revision for 2028 by 0.3 percentage points is attributed to expected lower energy inflation due to the projected decline in oil prices from 2027 onwards.

Core inflation is projected to increase to 2.3% in 2026, compared to 1.9% in 2025. This rise is due to higher expected inflation in services and in non-energy industrial goods prices, driven by indirect effects from higher energy inflation. In 2027–2028, core inflation is projected to decline to 2.2% and 1.9%, respectively, reflecting the expected gradual deceleration in services inflation, partly offset by the return of non-energy industrial goods prices to positive territory. Compared with the March 2026 projections, the upward revision of core inflation by 0.2 percentage points for 2027 is attributed to the effects of the war in the Middle East. No revision is recorded for 2026 and 2028.

The **balance of risks to the baseline scenario** for the period 2026–2028 is assessed as being tilted to the downside for GDP and to the upside for inflation. The announcement of the US–Iran agreement is a positive development, although it has not yet been finalised or implemented, and key issues remain under negotiation. There is a risk of deviation if commitments by both parties are not upheld. Specifically, risks to GDP and inflation are linked to potential fuel shortages and the imposition of quotas (rationing) owing to possible severe disruptions in energy and raw materials production if the war in the Middle East continues, as well as due to potentially higher-than-expected energy and import prices linked to supply chain problems. Additional risks arise from climate change factors (extreme weather events, green taxes) and from possible increases in wages and profit margins beyond expectations.