



CENTRAL BANK OF CYPRUS

# ECONOMIC BULLETIN

JUNE 2025

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Macroeconomic  
Forecasts for the  
Cypriot Economy

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## ABBREVIATIONS

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

## Governor Introduction

We are navigating a period of heightened uncertainty and multiple emerging risks, including geopolitical and trade tensions. Nevertheless, the Cypriot economy continues to demonstrate notable resilience and adaptability. This resilience is largely the result of strong buffers built in recent years, particularly in public finances, the banking sector, and the supervisory framework. Structural fiscal surpluses, the steady reduction of public debt, the significantly enhanced supervisory practices, and the strong bank capital adequacy ratios constitute important safeguards for the Cypriot economy. At the same time, greater diversification of the productive base, technological upgrading of key sectors, and the attraction of high value-added foreign investment provide the economy with the necessary dynamism to respond effectively to an evolving and geopolitically fragile global environment. Reflecting these positive developments, the rating of the Cypriot economy has been upgraded to “A” by all rating agencies.

## Domestic Economic Developments

The solid performance and robustness of the Cypriot economy are also evident in macroeconomic indicators. In particular, in 2024, the Gross Domestic Product (GDP) grew by 3.4%, driven primarily by the 3.8% growth of private consumption. Investments (excluding ship registrations) grew by 1.4%. Net exports recorded a positive contribution, supported by the sectors of information technology services, intellectual property services, financial and professional services, and tourism.

In Q1 2025, GDP grew by 3% year-on-year, compared with 3.7% in the corresponding

quarter of 2024, with growth broadly based across all sectors, particularly trade, transport, hospitality, information and communications, financial and professional services, and construction.

According to Central Bank of Cyprus’ (CBC) June 2025 forecasts, GDP is expected to grow by 3.1% in 2025, and by around 3% annually for the period 2026-27, with private consumption being the main driver of growth, supported by rising real disposable household income and the resilience of the labour market. Investments are projected to accelerate, supported by EU Recovery and Resilience Facility funding and large private construction projects. Exports of services are expected to remain robust, especially in technology and tourism.

Employment has continued to rise, while unemployment declined to 5% in Q1 2025, compared with 5.8% the corresponding quarter of 2024. This unemployment rate remains close to full employment conditions, reflecting the steady trajectory of economic growth. For 2025–27, unemployment is expected to stabilise around 4.7%.

Inflation decelerated to 1.6% in the first half of 2025, compared with 2.3% in the same period of 2024. According to the CBC’s June 2025 forecasts, inflation is expected to decline further to 1.5% in 2025 compared with 2.3% in 2024, mainly reflecting energy price developments and the lagged impact of the ECB’s single monetary policy on demand. For 2026 and 2027, inflation is projected to rise to 2.0% and 2.4%, respectively. The expected rise in inflation in 2026 and 2027 compared with the 2025 forecast, is largely due to energy and food prices, as well as continued, though moderating, services inflation.

Public finances continue to present a positive picture. In 2024, the fiscal surplus reached

4.3% of GDP, as revenues outpaced expenditure. According to the Ministry of Finance forecasts, the surplus will remain elevated in 2025 at 3.5% of GDP, despite increased infrastructure spending. The debt-to-GDP ratio declined to 65.3% in 2024, and further to 61.9% by April 2025. By 2025 year-end, debt is expected to fall to 57% and to 52.6% in 2026, below the 60% fiscal threshold of the Stability and Growth Pact. The positive trajectory of the economy reflects the depth of structural transformation. The Cypriot economy is now more diversified, both in sectoral composition and export destination markets. At the same time, the growing presence of foreign firms, particularly in technology and services, is also strengthening productivity.

Nevertheless, global uncertainty remains elevated, necessitating vigilance. The international uncertainty indices have risen to levels comparable to, or higher than, those observed during the pandemic. While Cyprus's direct trade exposure to the US is limited, there may be indirect spillovers through services and investment via external demand. This underscores the need for continued alertness in both fiscal policy and the financial sector.

### Banking Sector

The banking sector of Cyprus follows a parallel and interconnected positive trajectory alongside the Cypriot economy, having achieved remarkable progress in recent years despite the series of successive and intense challenges it faced. It maintains its robustness and resilience, with banks recording strong capital adequacy, high profitability, as well as significant operational improvements. Due to substantial reforms in recent years, the banking sector has been drastically strengthened, resulting in an

improved capacity to absorb shocks and support the real economy –even during periods of heightened uncertainty, such as those we are currently experiencing.

According to the latest available data, the Common Equity Tier 1 (CET1) capital ratio further strengthened in December 2024, reaching 24.7% –the highest rate in the EU and significantly above the European average of 16.1%. Consequently, the stability and protection of the system against any future and unexpected losses are reinforced.

Regarding the profitability of the Cypriot banking system, it remains strong, with net profits in 2024 reaching the very high level of €1.2 billion. Concurrently, the Return on Equity (RoE) rose to 21.1% –a rate almost double the EU average– while the cost-to-income ratio decreased to 38%, reflecting significant progress in digital transformation and operational efficiency. Nonetheless, it is imperative that profitability is managed judiciously and responsibly to significantly contribute to the sustainable strengthening of banks over the long term.

With respect to liquidity reserves, these have been maintained at very high levels, confirming the increased resilience of the system. Specifically, the Liquidity Coverage Ratio (LCR) stood at 333%, and the Net Stable Funding Ratio (NSFR) at 188% –levels well above the minimum supervisory requirements, indicating a stable and diversified funding base.

Regarding asset quality, the non-performing loans (NPL) ratio declined to 6.2% in 2024, continuing its steady downward trend. Although this percentage remains higher than the European average, the progress achieved is remarkable. There are no indications of a widespread deterioration in credit behaviour, which strengthens confidence in the sector's resilience. Nonetheless, the need for close monitoring

and further balance sheet deleveraging measures persists, with particular emphasis on less significant institutions that need to intensify their efforts in this regard.

Taking into account the aforementioned positive course of the Cypriot banking system and aiming at further enhancing its stability, the Central Bank of Cyprus continues to implement a prudent supervisory strategy with a preventive and long-term orientation. The goal is the timely identification of risks, the strengthening of governance, and the systematic integration of future challenges –such as climate change, cyber risks, as well as risks arising from new forms of technology like artificial intelligence.

In light of the above, we have strengthened our supervisory framework both organizationally and institutionally. A dedicated Directorate for the supervision of Electronic Money Institutions (EMIs) and Payment Institutions (PIs) has been established, which are increasing rapidly –39 institutions are now under supervision, managed with specialized personnel and mechanisms.

As part of its preventive supervisory strategy and in light of the continued elevated levels of cyclical systemic risks within the domestic financial system, the Central Bank of Cyprus decided in January 2025 to raise the counter-cyclical capital buffer rate from 1.0% to 1.5%, effective January 14, 2026. This measure enhances financial stability and reinforces the resilience of the banking system against potential future risks.

Acknowledging the critical risks associated with climate change, the Central Bank of Cyprus has adopted enhanced ESG standards, established unified criteria for governance and environmental strategy, and implemented new

transparency requirements in line with the European Sustainable Finance Directive.

Regarding Anti-Money Laundering and Counter-Terrorism Financing, it is noted that the new Directive for its Prevention (AML 2025) fully aligns with the guidelines of the European Banking Authority. It improves the regulatory compliance framework while facilitating service provision through simpler and clearer procedures.

Particular emphasis is also placed on the integration of artificial intelligence into the banking sector, the resilience against cyber-attacks, and the enhancement of investments in digital infrastructure and specialized personnel.

### Conclusion

The Cypriot economy and the banking sector continue to demonstrate resilience and adaptability in the face of global challenges. However, the uncertainty that characterizes the geopolitical and economic situation demands constant vigilance, responsibility and long-term strategic planning. The CBC remains committed to safeguarding financial stability, strengthening the resilience of the banking sector, and supporting sustainable economic growth through prudent supervisory policy and timely adaptation to evolving and future challenges.

**Christodoulos Patsalides**  
Governor  
Central Bank of Cyprus

## (A) Domestic Environment

- The Cyprus economy continues exhibiting resilience despite the ongoing increased uncertainty prevailing in the international geopolitical and trade environment, with the Gross Domestic Product (GDP) recording an annual increase of 3% in 2025Q1.
- During the first four months of 2025, domestic inflation (HICP) reached 2,2% compared with 2% in the corresponding period of 2024, mainly driven by persistent pressures in services inflation.
- In April 2025, HICP inflation reached 1,4%, while core inflation (inflation excluding energy and food prices) stood at 2,8%.
- Residential property prices recorded an annual increase of 4,8% in 2025Q1. However, a further gradual moderation in the trajectory of related prices is expected, owing to the increase in supply as reflected in the most recent indicators.
- The labour market in Cyprus remains resilient despite the impacts of the Russian–Ukrainian war and the developments in the Middle East.
- The current account deficit, adjusted for the impact of Special Purpose Entities (SPEs), narrowed to -5,7% of GDP in the first nine months of 2024, compared to -9,3% during the corresponding period in 2023. This was mainly due to an increase in the surplus of the services balance and, to a lesser extent, the reduction in the trade deficit in goods.
- Following a record year for arrivals and revenues in 2024, tourist arrivals during the January–April 2025 period continued to show a significant annual increase of 15,6%, mainly due to higher arrivals from Israel, the United Kingdom, and European Union countries.

- *The annual growth rate of domestic private sector deposits accelerated throughout 2024 as well as during 2025Q1, reflecting the positive performance of the Cypriot economy.*
- *The annual growth rate of net loans to the domestic private sector has been gradually recovering since April 2024, returning to positive annual growth rates following a year in negative territory. The upward trend was further strengthened in 2025Q1.*
- *The gradual easing of the ECB's monetary policy since mid-2024 contributed to a decline in both lending and deposit rates in Cyprus, in line with the overall downward trend in the ECB's key interest rates.*
- *A fiscal surplus of 1,6% of GDP was recorded in 2025Q1, compared to a surplus of 1,7% of GDP in the corresponding quarter of 2024.*
- *There was a 7,3 percentage point decrease in the public debt-to-GDP ratio in March 2025 compared to the corresponding month of last year, due to continued economic growth and a relatively high primary surplus, bringing the ratio down to 61,5% of GDP.*

## 1. Economic Activity

According to the most recent preliminary data published by Cystat that was available at the relevant cut-off date of this Economic Bulletin, GDP recorded a 3% year-on-year growth in 2025Q1, exhibiting resilience despite the ongoing increased uncertainty prevailing in the international geopolitical and trade environment.

The available analytical data for 2024 point

to an acceleration in GDP growth, reaching 3,4%, following an increase of 2,8% in the previous year despite the deceleration that was recorded in 2024Q4 due to the one-month-long strike in concrete production, which temporarily affected the construction sector (**Table 1**). GDP growth in 2024 was driven from the rise in both foreign and in domestic demand. More specifically, total exports, after their decrease in the previous year mainly due to the sanctions against Russia, increased more than imports, despite the ongoing conflicts between Israelis and Palestinians. Private consumption increased by 3,8% compared to 5,9% in 2023, supported by the rise in the real disposable income of households and the full employment conditions prevailing in the labour market. The increase in investments (adjusted for the impact of SPEs) by 1,4% was mostly due to the expansion of private housing investments, which followed strong increases recorded in the years following the pandemic. Public consumption increased by 1,5% compared to 1,2% in 2023, stemming from intermediate consumption, due to increased spending for the purchase of medicines and the operation of desalination units, as well as due to increases in compensation of public employees, owing to an increase in public employment. These were partially offset by increases in sales of goods and services (see Fiscal Developments).

From a sectoral perspective, the GDP recovery in 2024 emanated from increased activity across all economic sectors (**Table 2**). The sectors with the largest contribution to GDP growth were trade, transportation, hotels

**TABLE 1 GDP by expenditure category**

(real terms, annual change, %)

	2020	2021	2022	2023	2024
GDP	-3,2	11,4	7,2	2,8	3,4
Private consumption	-6,1	4,7	9,8	5,9	3,8
Public consumption	10,9	8,9	4,7	1,2	1,5
Gross fixed capital formation (GFCF)					
excl. ships and airplanes	0,0	13,7	10,6	1,0	1,4
Exports of goods and services	1,6	27,2	27,1	-2,8	5,3
Imports of goods and services	3,3	19,6	29,7	-0,7	2,4

Source: Cystat.

**TABLE 2 GDP by economic activity**

(weighted contribution to the overall annual change, percentage points)

	2020	2021	2022	2023	2024
GDP (%)	-3,2	11,4	7,2	2,8	3,4
Construction	-0,3	0,1	-0,5	0,1	0,3
Trade, transportation, hotels and restaurants	-6,3	6,2	1,9	1,2	1,0
Information and communication	1,5	1,4	3,4	0,9	0,6
Financial and insurance activities	2,5	1,3	0,3	-0,1	0,2
Professional, scientific and administrative activities	-0,2	0,7	0,4	-0,1	0,3
Other sectors <sup>(1)</sup>	-0,3	1,8	1,6	0,7	1,2

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

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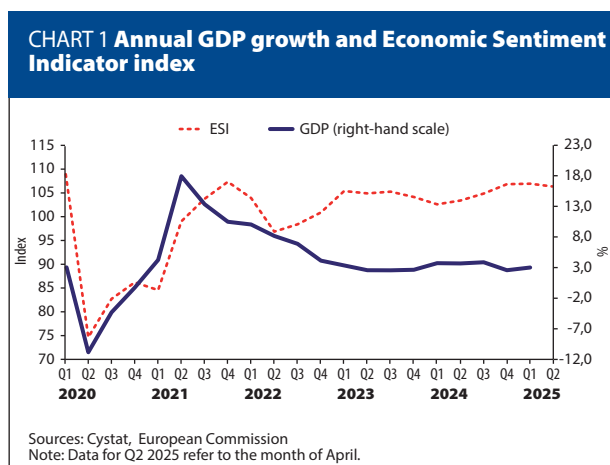
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and restaurants with a contribution of 1 percentage point, linked to the rise in private consumption and positive developments in tourism. Growth was to a lesser extent driven by the information and communication sectors (0,6 percentage points), supported by the expansion of companies of foreign interests (headquartering) in specific sectors, especially in the technology sector. It is noted that the sectors of professional and financial services recovered significantly (0,3 and 0,2 percentage points, respectively) in 2024, compared to the decrease (-0,1 percentage point each), recorded in the previous year, owing to the diversification of relevant exports towards markets other than Russia. The construction sector also contributed by 0,3 percentage points. At the same time, the public administration sector (which is included in other sectors) recorded an increased contribution (0,4 percentage points) due to the reform of the local government system from July 2024.

The latest available soft data for 2025Q2 point towards the continuation of positive developments in GDP. As captured by the Economic Sentiment Index (ESI) (Chart 1) as well as its sub-indicators (Table 3), the Cyprus economy exhibits resilience despite the ongoing uncertainty prevailing in the international geopolitical and trade environment. More specifically, the ESI in April 2025 reached 106,3 very close to the level of the index in 2025Q1 (Table 3). According to the underlying sub-indicators (Table 3), business confidence in the construction sector registered a substantial improvement, while business confidence in services deteriorated due to



**TABLE 3 Business and consumer surveys: confidence indicators**  
(for sub-indices: difference between percentage of positive answers and percentage of negative answers, period average)

	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Apr.
ESI	102,6	103,4	104,8	106,8	106,9	106,3
Industry	-2,3	-0,5	0,1	-0,5	-0,3	-0,2
Services	17,7	20,3	19,7	30,3	30,4	22,2
Consumer	-24,4	-24,2	-24,8	-21,1	-17,6	-17,1
Retail trade	-2,9	-5,0	0,8	1,1	2,3	2,7
Construction	-4,2	-3,8	0,4	0,8	-2,3	6,8

Source: European Commission.  
Note: Seasonally adjusted data.

business expectations for reduced demand over the next 3 months.

It is noted that in its June 2025 forecasts, and after taking into account the GDP growth rate in 2025Q1, the CBC slightly revised downwards the forecast for GDP growth in 2025, due to the expected negative impact on external demand (net exports) in view of the elevated uncertainty in the international geopolitical and trade environment (see Macroeconomic Forecasts).

## 2. Prices

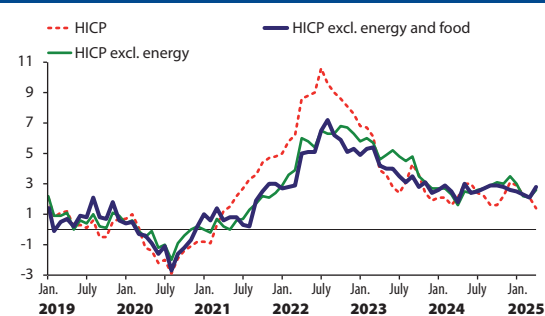
### 2.1 Inflation

During the period January-April 2025, domestic inflation based on the Harmonised Index of Consumer Prices (HICP) index, reached 2,2% compared with 2% in the corresponding period of 2024 (Chart 2a and Table 4). In short, HICP inflation during the first four months of the year was mostly driven by the contribution of the persistent pressures in services inflation, which were offset, to a small extent, by the negative developments in non-energy industrial goods (NEIG) prices.

More analytically, during the period January-April 2025, services inflation recorded a further yearly rise of 4,7% compared with an increase of 3,8% in the corresponding period of 2024 (Table 4), thus it continued hovering at elevated and persistent levels (Chart 2b, p. 18). This development was mainly attributed to ongoing robust demand for tourism-related services and restaurants and cafes (both from domestic and foreigners) along with the continuing wages pressures (albeit with a decelerating path), operational costs and profit margins for firms. At the same time, food prices recorded a small rise, registering, on average, an annual increase of 2,6% during the first four months of 2025, compared with a yearly increase of 2,1% in the corresponding period of 2024 (Table 4). The further small increase in food inflation stemming mainly from the unprocessed food inflation component, which due to its nature can exhibit significant volatility on account of unpredictable adverse weather conditions,

CHART 2a Inflation in Cyprus

(annual change, %)



Source: Eurostat.

TABLE 4 Inflation in Cyprus

(annual change, %)

	Στάθμιση <sup>(1)</sup>	Jan.-Apr. 2024	Jan.-Apr. 2025	Apr. 2024	Mar. 2025	Apr. 2025
HICP	1000,00	2,0	2,2	2,1	2,1	1,4
Total Food prices,						
of which:	223,95	2,1	2,6	1,3	2,0	2,2
(i) Unprocessed food prices	52,90	2,2	11,1	-0,5	9,6	12,4
(ii) Processed food prices	171,05	2,1	0,1	1,9	-0,4	-0,9
Energy prices	96,25	-0,7	-0,5	6,4	2,4	-9,3
Services prices	450,09	3,8	4,7	2,9	4,6	5,6
Non-energy industrial goods prices	229,71	-0,2	-2,0	-0,4	-2,8	-2,7
HICP excluding energy	903,75	2,3	2,5	1,6	2,1	2,6
HICP excluding energy and food prices (Core inflation)	679,80	2,4	2,4	1,8	2,1	2,8

Source: Eurostat.

(1) Based on the weight for 2025.

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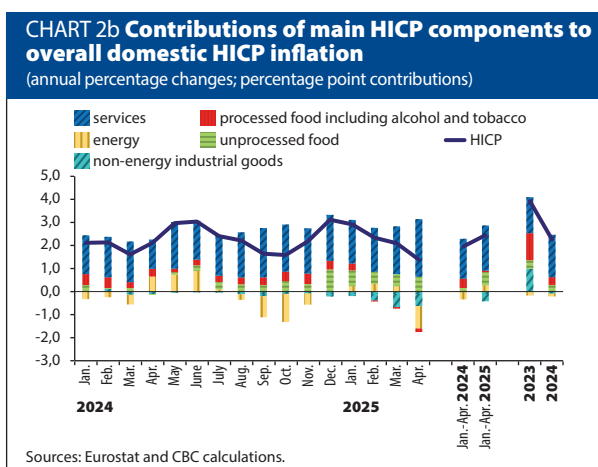


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that negatively affect the supply side. Contrary to the aforementioned components of HICP inflation, non-energy industrial goods (NEIG) prices contributed significantly to the containment of the HICP inflation during the first four months of the year (Chart 2b), recording, on average, an annual decrease of 2% compared with an annual decrease of 0,2% in the corresponding period of 2024. This development mainly relates to corrections in the prices of several NEIG sub-categories, following the high prices recorded in the previous years due to exogenous inflationary pressures and, to a lesser extent, to the lagged effects of the past tightening of the ECB's monetary policy that still has a dampening impact on demand in the current year, albeit with a significantly faded effect.

Moreover, energy prices continued to hover in negative territory, registering, on average, an annual decrease of 0,5% during the first four months of 2025 compared with an annual decrease of 0,7% during the corresponding period of 2024 (Table 4, p. 17), with a sizeable drop recorded in April 2025 (-9,3%). The further decreases in energy prices are mainly due to downward pressures in international oil prices linked to recent geopolitical developments but also due to changes in US tariff policy that have affected global demand in conjunction with increasing oil supply conditions. At the same time, the recent domestic government mitigating measure associated with the domestic electricity price (reduction of VAT from 19% to 9% for the period April 2025-March 2026) has an additional notable



downward impact on electricity prices and, in turn, on energy inflation.

Regarding domestic inflation excluding energy and food prices (core inflation), this registered a yearly increase of 2,4% during the period January-April 2025, remaining unchanged from the corresponding period of 2024 (Chart 2a and Table 4, p. 17). It is noted that core inflation remained, on average, at higher levels than HICP inflation during the period under review, similar to the euro area situation, due to the aforementioned developments in services prices.

Finally, it is worth mentioning that domestic HICP inflation has been registering a substantial slowdown during the most recent months, decelerating to 1,4% in April 2025 compared with 2,1% in March 2025 and also in April 2024 due to the previously mentioned developments in energy prices (Table 4, p. 17). In contrast, domestic core inflation registered a further rise of 2,8% in April 2025 compared with 2,1% in March 2025 and 1,8% in April 2024 due to the aforementioned developments in services prices, which are partly related to the timing of Easter in 2025.

## 2.2 Construction sector and real estate prices

During the first four months of 2025 the demand for real estate, as reflected in the number of sales contracts of the Department of Land and Surveys (DLS), continued to be at high levels, recording an accelerated rate of increase of 11,7%. This rise reflects an annual increase of 10,6% in sales to locals and 13,3%

in foreign buyers (Table 5). Therefore, the acceleration in the growth rate of total transactions stems from the increase in transactions of both locals and foreign buyers (Chart 3). The Building Sentiment Indicator showed an improvement, recording in April 2025 the highest level (6,8) (Table 5) ever since January 2008.

As far as the supply of residential properties is concerned, from the latest available data published by the Statistical Service of Cyprus (CYSTAT), the number of residential units for which building permits have been approved, and which is a leading indicator of construction activity, recorded a small increase of 2,6% in 2024 (from 11.041 units in 2023 to 11.329 in 2024).

Residential property prices in Cyprus continued to record restrained increases in 2025Q1 (Chart 4). Specifically, according to the CBC's available Residential Property Price Index data, residential property prices recorded an annual increase of 4,8% in 2025Q1 compared with 4,5% in 2024Q4, with a decelerated increase (3,5%) recorded in the Apartment Price Index and an accelerated increase (5,6%) in the House Price Index. Also, for the first time since 2008, the Apartment Price Index recorded a smaller annual increase than the increase in the House Price Index. As far as the construction cost is concerned, the price index of construction materials as published by CYSTAT, recorded a small increase of 1,2% on an annual basis over the first four months of 2025 (Chart 5, p. 21 and Table 5).

As regards other relevant indicators, according to the CBC's Monetary and

**TABLE 5 Real estate sector**

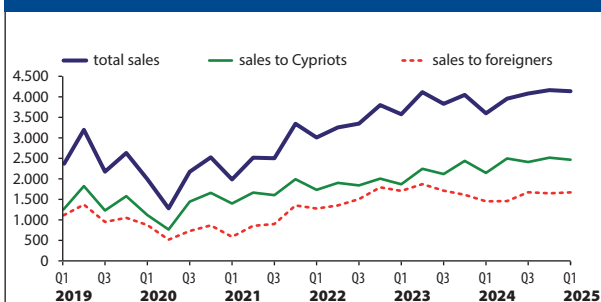
(annual change, %, unless otherwise stated)

	Jan.-Apr. 2024	Jan.-Apr. 2025	Apr. 2024	Mar. 2025	Apr. 2025
Sales contracts (total)	4,1	11,7	14,6	18,6	2,8
Sales contracts (locals)	19,9	10,6	34,4	14,4	-0,4
Sales contracts (foreigners)	-13,3	13,3	-8,1	25,4	8,0
Building sentiment indicator (average of index)	-2,8	0,0	1,4	-1,1	6,8
Property price expectations for the next 3 months (average of index)	61,5	23,5	64,0	16,6	20,2
Price index of construction materials	-1,9	1,2	-1,6	1,4	1,5

Sources: Cystat, DLS, European Commission.

Note: The number of sales contracts to Cypriots results from CBC calculations.

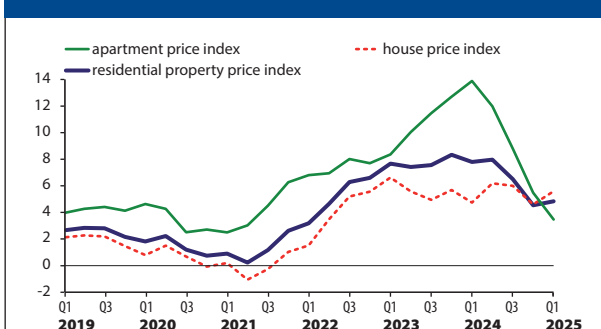
**CHART 3 Number of sales contracts**



Source: Department of Lands and Surveys.

**CHART 4 House and Apartment price indices**

(annual change, %)



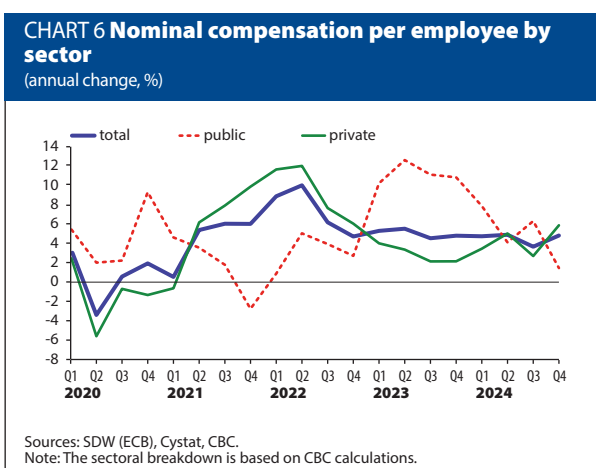
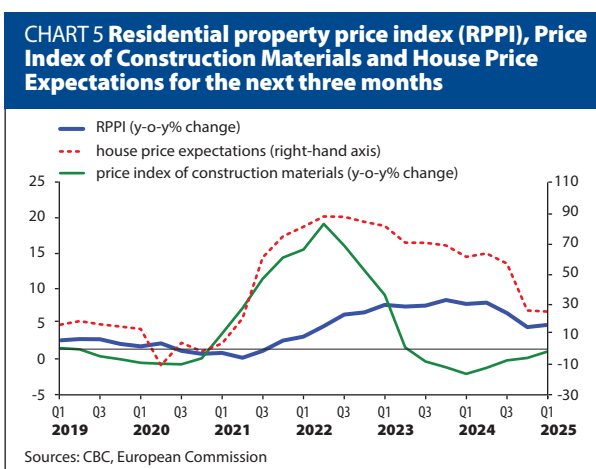
Source: CBC.

Financial Statistics, during the first three months of 2025, new housing loans increased by 19,4% compared with the corresponding period of 2024 (from €237,9 million to €284,1 million, respectively), while the average mortgage interest rate during the first three months of 2025 decreased to 4,53%, compared with 5,05% in the corresponding period of 2024.

The index of property price expectations for the next three months as published in the Business and Consumer Survey of the European Commission, was at lower levels over the first four months of 2025 (23,5) compared with the corresponding period of 2024 (61,5) (Chart 5 and Table 5), reflecting the decreased expectations for continued increases in property prices.

### 2.3 Labour Costs

Labour costs, measured as compensation per employee, continued to recover during 2024, albeit at a slower growth pace. Nominal compensation per employee decelerated, recording an increase of 4.5% in 2024, following a 5% increase in the previous year (Chart 6). In the private sector, compensation per employee increased by 4.3%, while in the public sector, it rose by 4.6%. Across sectors, the increase in 2024 was broad-based and was mainly attributed to wage increases in services, particularly in the education and health sectors, trade, transportation, hotels and restaurants, information and communication, as well as professional and financial services. To a lesser extent, from the side of the secondary sector, manufacturing and construction also



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contributed to the increase in compensation per employee in the private sector.

Real compensation per employee recorded an increase of 3.6% in 2024, following a 2.7% rise in 2023. This increase in real compensation is attributed to lower inflationary pressures, the positive impact of which was partially offset by the slowdown in wage growth (Chart 7).

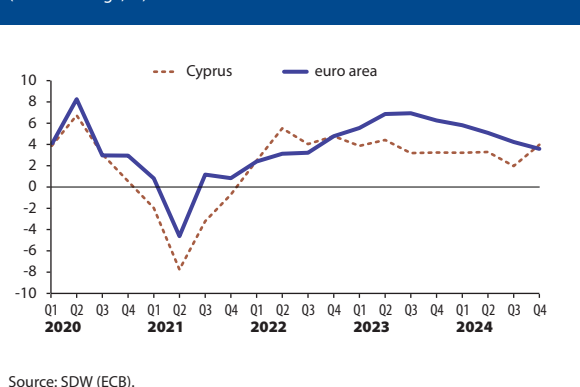
Regarding productivity, measured as the change in real GDP per employed person, the relevant index increased by 1.4% in 2024, compared to an increase of 1.3% in 2023 (Chart 7).

The slower increase in compensation per employee, combined with the continued steady growth in productivity, led to a 3.2% increase in unit labour costs (Chart 8a), a key measure of competitiveness. It is noted that the significant wage reductions in 2013 continue to play a decisive role in supporting the competitiveness of the Cypriot economy. Specifically, the unit labour cost index recorded a cumulative decline of 13.2% over the period 2013–2016. Despite the recent annual increases, which have been slowing down since 2023, the level of the index remains lower than the euro area average from 2013 to the present, maintaining a gap of approximately 25 points in 2024 (Chart 8b).

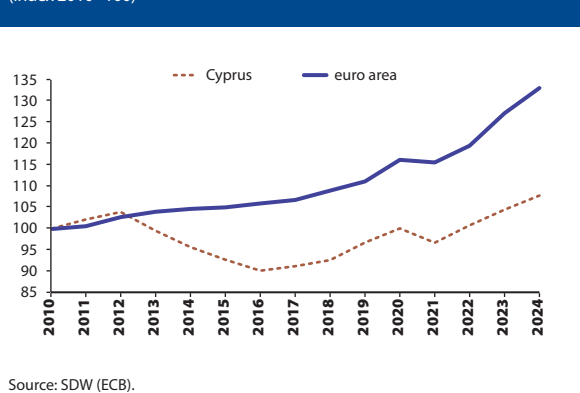
**CHART 7 Productivity and real compensation per employee**  
(annual change, %)



**CHART 8a Unit labour costs: Cyprus and the euro area**  
(annual change, %)



**CHART 8b Unit labour costs: Cyprus and the euro area**  
(index 2010=100)



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### 3. Labour market

The labour market in Cyprus remains resilient, despite the ongoing impacts of the Russian–Ukrainian war and the Israeli–Palestinian conflict. Employment increased by 2% in 2024, compared to a 1.4% rise in 2023 (Chart 9).

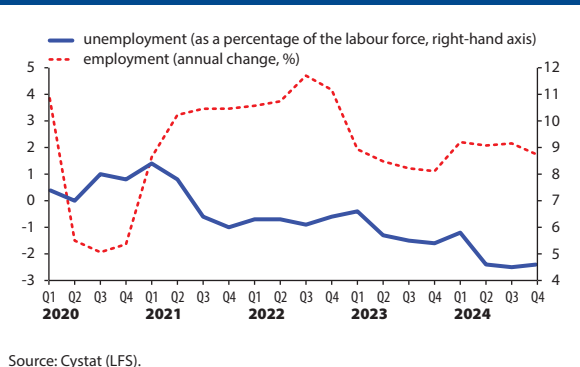
The increase in employment was driven mainly by the private sector, and to a lesser extent by the public sector. Key private sector contributors included trade, transportation, hotels and restaurants, as well as education and health, while professional services, construction, manufacturing, and information and communication contributed to a smaller extent. At the same time, according to the Labour Force Survey (LFS), unemployment declined to 4.9% in 2024, from 5.8% in 2023 (Chart 9). This rate is approaching full employment conditions.

Registered unemployment has continued to decline steadily since June 2021, with the April 2025 data recording an annual decrease of 13.1% (Chart 10). Regarding unemployment by age group, LFS data show that individuals aged 25–34 contributed the most to the overall unemployment rate, which stood at 6.3% in 2024, registering a 1.2 percentage point decrease compared to the previous year.

Working hours per employee recorded a continued modest increase of 0.2% in both 2024 and 2023. This increase is directly linked to the ongoing growth in employment, although at a slower pace and reflects both the resilience and the tight conditions of the labour market.

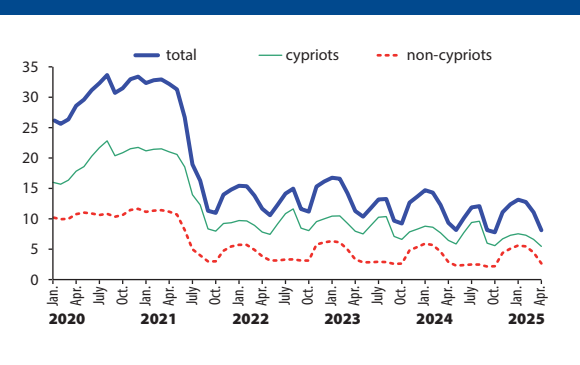
The continued decline in unemployment among Cypriot workers is a broad-based trend

CHART 9 Unemployment and employment



Source: Cystat (LFS).

CHART 10 Registered unemployment (number of unemployed, thousands)



Source: Cystat.

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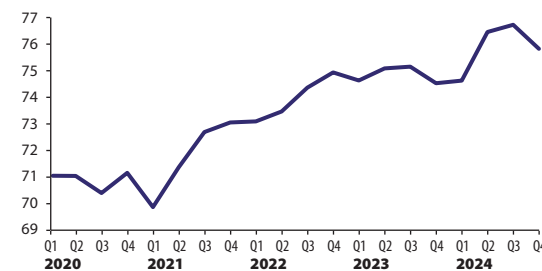
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observed across all sectors, accompanied by a long-term increase in the participation rate of Cypriots in the labour force, partly reflecting the impact of active labour market policies (Chart 11a). At the same time, the steady increase in foreign labour in recent years, particularly from non-EU countries, has contributed to the expansion of the workforce, driven by Cyprus’ headquartering policy, aimed at attracting international companies, and helping to meet the growing labour needs of businesses (Chart 11b). These factors highlight the continued adaptability and flexibility of the Cypriot labour market, as well as its capacity to support sustainable economic growth and positive GDP outcomes.

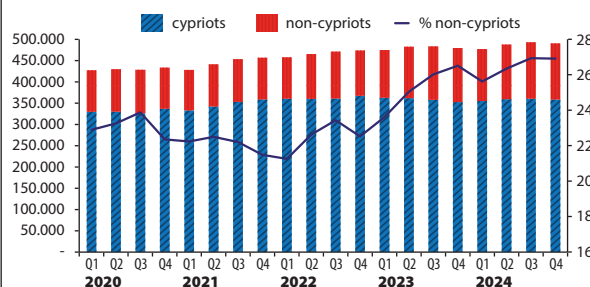
Finally, the LFS recorded a significant increase in job vacancies in 2024, particularly in the tourism industry, while also noting a moderate decline during the fourth quarter of the year in question. This development reflects the strong momentum of the economy and the continued tightness in the labour market, albeit with some initial signs of easing.

**CHART 11a Cypriots labour force participation**  
(as percentage of the working age population)



Source: Cystat.

**CHART 11b Employment by nationality**



Source: Cystat.

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## 4. Balance of payments and Tourism

### 4.1 Current Account Balance<sup>1,2</sup>

The current account deficit, adjusted for the impact of SPEs, narrowed to €1.435,1 million (-5,7% of GDP) in the first nine months of 2024, compared to €2,170,2 million (-9,3% of GDP) in the corresponding period of 2023 (Table 6 and Chart A12). The improvement in the current account deficit is mainly due to a higher surplus in the services balance, and to a lesser extent, a narrowing in the deficit in the trade balance of goods. These positive developments were partially offset by a deterioration in the deficit of the primary income account.

More specifically, the deficit in the goods balance improved by €320,4 million in the first nine months of 2024 compared to the corresponding period in 2023. This was primarily due to a €289,1 million increase in goods exports, in particular merchanting.

The services surplus improved by €736,7 million (Table 7, p. 26). Net service exports in financial and other business services rose significantly by €367,7 million, continuing their recovery after the blow suffered in 2023 due to sanctions against Russia. There was also a significant €311 million increase in net exports of ICT services and intellectual property rights. On the other hand, net exports in travel and transport services recorded small declines of €17,5 million and €8,8 million, respectively, as the increase in

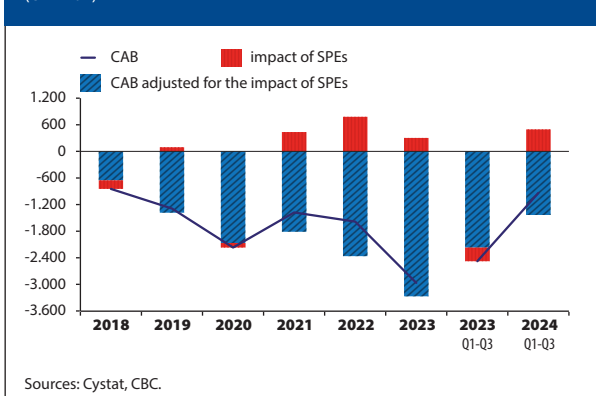
1. External statistics are significantly affected by the classification of Special Purpose Entities (SPEs) as residents of Cyprus, particularly those considered economic owners of mobile transport equipment (mainly ships). It should be noted that transactions of SPEs neither affect nor are materially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

TABLE 6 Current Account Balance (main categories)

	2023 Q1-Q3 (€ million)	2024 Q1-Q3 (€ million)	Change (€ million)
<b>Current account balance</b>	<b>-2.170,2</b>	<b>-1.435,1</b>	<b>735,1</b>
<b>Goods and services balance</b>	<b>252,4</b>	<b>1.309,5</b>	<b>1.057,1</b>
<b>Trade balance</b>	<b>-4.834,1</b>	<b>-4.513,8</b>	<b>320,4</b>
Exports of goods	2.264,7	2.553,8	289,1
Imports of goods	7.098,8	7.067,6	-31,2
<b>Services balance</b>	<b>5.086,5</b>	<b>5.823,3</b>	<b>736,7</b>
Exports of services	16.303,8	18.917,2	2.613,4
Imports of services	11.217,3	13.093,9	1.876,6
<b>Primary income (net)</b>	<b>-2.135,8</b>	<b>-2.493,8</b>	<b>-358,0</b>
<b>Secondary income (net)</b>	<b>-286,8</b>	<b>-250,8</b>	<b>36,1</b>
<b>Current account balance (% of GDP)</b>	<b>-9,3</b>	<b>-5,7</b>	

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

CHART 12 Current account balance (CAB)  
(€ million)



relevant exports was smaller than the increase in the respective imports.

In the primary income account, which mainly includes income from employment and investments, the deficit widened by €358 million, mainly driven by the non-bank financial sector. The secondary income account, which includes mostly current transfers, improved by €36,1 million (Table 6, p. 25).

The Net International Investment Position (NIIP) (with SPEs classified as residents) reached -€27,8 billion (-82,8% of GDP) at the end of the third quarter of 2024 (Chart 13). Adjusted for the impact of SPEs, the NIIP stood at -€9,9 billion, or -29,6% of GDP, which is within the -35% of GDP threshold set by the European Commission.

#### 4.2 Tourism

The tourism sector achieved a record high in arrivals and revenues in 2024. Total arrivals reached 4,0 million, registering an annual increase of 5,1% (Table 8 and Chart 14, p. 27). The main tourism source markets were the United Kingdom (1,4 million tourists), followed by Israel (426,000), Poland (337,000), and Germany (228,000). There was also notable contribution from France and Scandinavian countries in 2024.

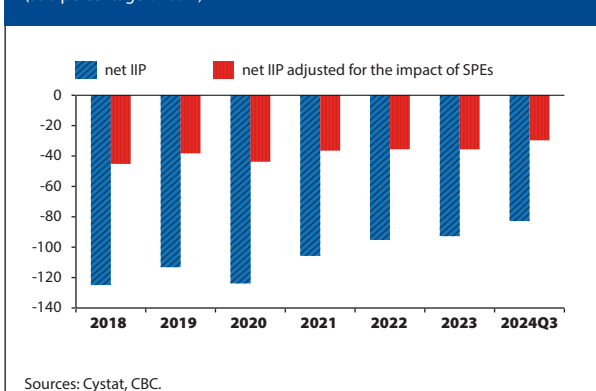
Tourism revenues in 2024 recorded an annual increase of 7,3%, reaching €2.990,7 million (Table 8 and Chart 15, p. 27). This development was supported by the increase in tourist arrivals and a 2,1% increase in per capita spending. The average stay was 8,4 days, slightly down from 8,5 days in 2023.

**TABLE 7 Services balance (main categories)**  
(€ million)

	2023 Q1-Q3 (€ million)	2024 Q1-Q3 (€ million)	Change (€ million)
<b>Services balance</b>	<b>5.086,5</b>	<b>5.823,3</b>	<b>736,7</b>
<b>Exports of services</b>	<b>16.303,8</b>	<b>18.917,2</b>	<b>2.613,4</b>
<i>of which:</i>			
Transport	2.718,8	2.801,5	82,7
Travel	2.680,1	2.810,2	130,1
Financial and Other Business services	4.156,7	5.016,9	860,2
Telecommunications, computer and information services (ICT) and intellectual property rights	6.195,8	7.413,7	1.217,9
<b>Imports of services</b>	<b>11.217,3</b>	<b>13.093,9</b>	<b>1.876,6</b>
<i>of which:</i>			
Transport	2.408,5	2.500,0	91,5
Travel	1.262,0	1.409,6	147,5
Financial and Other Business services	3.322,6	3.815,0	492,5
Telecommunications, computer and information services (ICT) and intellectual property rights	3.797,7	4.704,5	906,8

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

**CHART 13 Net International Investment Position (IIP)**  
(as a percentage of GDP)



For 2025, the tourism performance is expected to remain on an upward trajectory. Data relating to the first four months of the year show a 15,6% increase in tourist arrivals, primarily due to higher arrivals from Israel, the UK, and EU countries. While winter months contribute less to the overall annual revenue, there was a 35% increase in tourism revenues in January and February (Table 8), driven by higher daily per capita spending. Key factors for the further development of the sector include improving air connectivity and introducing new routes, increasing off-season arrivals, extending the length of visitor stays, and promoting the countryside and mountainous areas as alternative destinations.

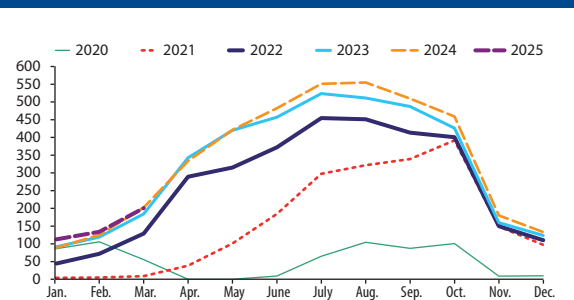
TABLE 8 Tourism

	Tourist arrivals (thous.)	Tourist receipts (€ million)	Expenditure per person (€)
2023	3.845,7	2.990,7	777,7
2024	4.040,2	3.209,4	794,4
annual % change	5,1	7,3	2,1
2024 Jan. - Feb.	213,0	110,3	517,9
2025 Jan. - Feb.	245,9	148,9	605,6
annual % change	15,4	35,0	17,0
2024 Jan. - Apr.	748,8	n/a	n/a
2025 Jan. - Apr.	865,3	n/a	n/a
annual % change	15,6	n/a	n/a

Source: Cystat.

CHART 14 Tourist arrivals

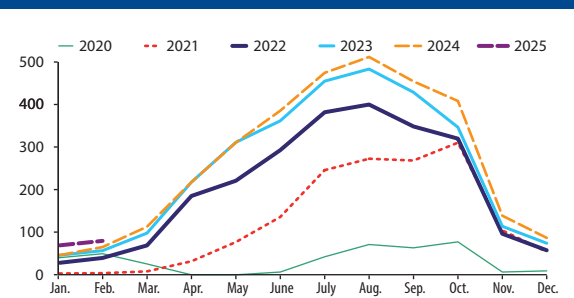
(number of persons, thousands)



Source: Cystat.  
Note: Arrivals for the period 15/3/2020 - 17/4/2022 had been affected by the covid-19 pandemic.

CHART 15 Receipts from tourism

(€ million)



Source: Cystat.  
Note: Revenues for the period 15/3/2020 - 17/4/2022 had been affected by the covid-19 pandemic.

## 5. Financing conditions and credit developments<sup>3,4</sup>

### 5.1 Deposits

Cyprus' financial sector has consistently demonstrated its ability to effectively respond to recent challenges, thereby enhancing its resilience. Its sound fundamentals, coupled with its capacity to adequately finance the real economy, play a vital role in fostering investment and sustaining robust economic growth.

The positive performance of the financial sector is reflected, among other indicators, in the significant increase in deposits. Domestic private sector<sup>5</sup> deposits recorded an annual increase of 7,8% in March 2025, compared to 1,3% in March 2024. This acceleration is closely linked to the continued positive performance of the Cypriot economy, which maintained strong growth momentum throughout 2024 and during 2025Q1.

The increase in deposits is attributed to the positive contribution of both domestic households and businesses. Notably, non-financial corporations (NFCs) deposits registered a robust annual growth of 14,8% in March 2025, compared with 2,4% in the corresponding month of 2024. This upward trend reflects strengthened corporate revenues and expanded business activity, developments driven by the economy's solid performance and improved credit growth.

3. For a detailed explanation of the methodology and technical analysis of monetary aggregates (deposits and credit growth), see Technical Notes on p. 53.
4. 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.
5. Domestic private sector refers to non-MFIs domestic residents, excluding SPEs and central government.

Similarly, domestic household deposits recorded an annual increase of 4,9% in March 2025, compared with 1,7% in March 2024. This was underpinned by higher real disposable income, which was supported by wage increases, continued labour market resilience, and a gradual easing of private consumption (Chart 16).

At the same time, non-resident deposits<sup>6</sup> traditionally marked by elevated volatility, recorded an annual increase of 1,8% in March 2025, driven mainly by SPEs deposits, compared with -6,5% in March 2024, reversing the negative trend of previous years (Chart 17).

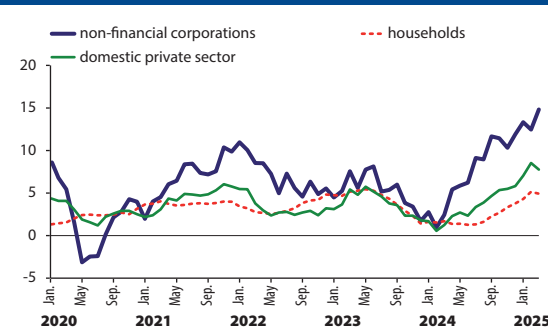
## 5.2 Lending

Credit growth to the domestic private sector has been on a gradual recovery path since April 2024, returning to positive annual growth rates following a year in negative territory. This development is primarily attributed to the improvement in the annual growth rate of net loans to NFCs, which became progressively less negative throughout 2024 and turned positive in early 2025, as well as to the continued resilience of net loans to households.

The upward trend strengthened further in 2025Q1, reflecting the dynamic performance of the Cypriot economy. Specifically, the annual growth rate of net loans<sup>7</sup> to the domestic private sector<sup>8</sup> increased to 1,8% in March 2025, marking a significant improvement compared with -0,1% in March 2024 (Chart 18). This positive development is

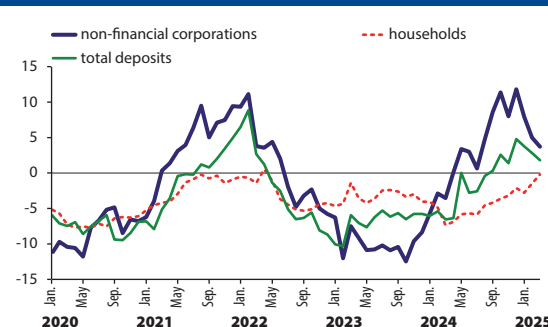
- 6. Including SPEs.
- 7. New lending plus capitalisation of interest minus repayments.
- 8. Domestic private sector refers to non-MFIs domestic residents, excluding SPEs and general government.

**CHART 16 Deposits of the domestic private sector**  
(annual change, %)



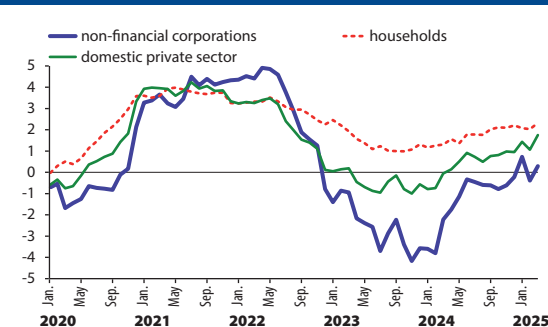
Source: CBC.

**CHART 17 Deposits of non-residents: Cyprus**  
(annual change, %)



Source: CBC.

**CHART 18 Loans to the domestic private sector**  
(annual change, %)



Source: CBC.



in line with the gradual easing of monetary policy since mid-2024, as lower interest rates have reduced borrowing costs and supported credit expansion, despite the persistence of relatively tight financing conditions.

Regarding NFCs, the annual growth rate of net loans stood at 0,3% in March 2025, compared with -2,2% in March 2024. The return of corporate loans to positive annual growth indicates that new lending exceeded repayments, a development supported by the increase in economic activity and the gradual decline in bank interest rates, thereby contributing to the strengthening of overall loan demand.

In the household sector, loan growth maintained a positive momentum, primarily driven by the increase in housing loans and, to a lesser extent, by the contribution of consumer loans. These developments were partially offset by the limited impact of deleveraging in other lending, which account for only 9,4% of the total (Table 9). In March 2025, net loans to households recorded an annual increase of 2,3%, compared with 1,3% in March 2024. Regarding household loan categories, the annual growth rate of housing loans rose to 2,8%, up from 1,8% a year earlier, reflecting the resilience of the housing market and steady demand from domestic buyers, for both own residency and investment purposes. Consumer loans registered an annual increase of 6,5%, compared with 5,3% in March 2024, though easing from its recent peak of 7,5% in December 2024. In contrast, other lending remained in negative territory, standing at -6,0% in March 2025 compared with -5,7% in

TABLE 9 Loans to domestic households<sup>(1),(2)</sup>

	Outstanding balance as % of total <sup>(3)</sup>	Annual percentage change					
		2023 Dec.	2024 Mar.	2024 June	2024 Sep.	2024 Dec.	2025 Mar.
Domestic households	100,0	1,3	1,3	1,8	2,0	2,2	2,3
1. Consumer credit	11,4	5,0	5,3	5,6	6,9	7,5	6,5
2. Lending for house purchase	79,3	2,1	1,8	2,2	2,2	2,5	2,8
3. Other lending	9,4	-7,0	-5,7	-4,9	-4,5	-5,5	-6,0

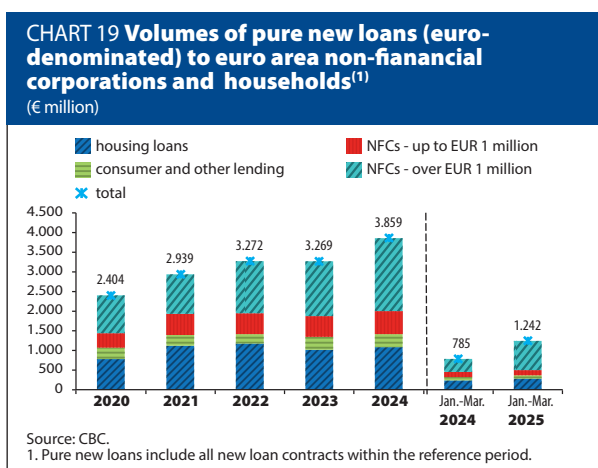
Source: CBC.  
 (1) Sectoral classification is based on ESA 2010.  
 (2) Including non-profit institutions serving households.  
 (3) As at the end of the last month available. Figures may not add up due to rounding.

March 2024, as repayments continue to outpace new lending.

Despite the ongoing reduction in non-performing loans (NPLs<sup>9</sup>), the respective ratio stood at 6,2% in both February 2025 and December 2024, remaining above the European average of 1,9% in December 2024 (latest available data), posing persistent structural challenges in the domestic financial sector. Nevertheless, strong bank liquidity continues to support lending to households and businesses, thereby contributing positively to economic growth and the upward trajectory of GDP. Notably, new lending to the domestic non-financial private sector<sup>10</sup> reached a historic high of €3.9 billion in 2024, and further increased to €1.2 billion in 2025Q1, compared to €0.8 billion in 2024Q1 (Chart 19).

The increase in new lending during 2024 and early 2025 was driven primarily by businesses, while the rise in new household lending was more moderate, albeit maintaining its positive momentum. In 2024, new lending to NFCs increased to €2.4 billion, from €1.9 billion in 2023, with the upward trend continuing in 2025Q1 (€0.9 billion compared to €0.5 billion in the corresponding period of 2024). The gradual decline in interest rates, coupled with increased economic activity in key sectors of the economy, supported the robust increase in new corporate lending. The BLS<sup>11</sup> indicates an increase in demand for financing fixed investment as from 2023Q4, while an increase

9. See tables with aggregate non-performing loans data of the Supervision Division on the CBC website (Central Bank of Cyprus - Aggregate Cyprus Banking Sector Data).  
 10. New loan contracts (euro-denominated) to euro area NFCs and households.  
 11. Detailed analysis of the survey results for Cyprus is available on the CBC website (Central Bank of Cyprus - Bank Lending Survey).



in the overall loan demand by NFCs was also reported for 2025Q1. In addition, the increase in deposits and the strong GDP growth facilitated access to lower-cost financing, including cash-collateralised loans.

Regarding households, new lending remained resilient throughout 2024 and in early 2025, primarily reflecting the increase in new housing loans. Specifically, new housing loans recorded a moderate increase in 2024, reaching €1.1 billion compared with €1.0 billion in 2023, and remained robust in 2025Q1 (€0.3 billion compared with €0.2 billion in 2024). The resilience of new housing loans was partly supported by banks' promotion of loan products with longer initial rate fixation periods, in response to households' rising preference for stability in loan instalments. Conversely, new consumer lending to households remained relatively stable in 2024 and early 2025, after a marked increase in 2023. This stabilisation reflects the gradual slowdown in private consumption alongside higher disposable income, limiting the need for additional borrowing.

The notable increase in new lending was recorded despite banks continuing to apply tight credit standards in loan approvals, maintaining their consistently cautious stance towards credit risk. According to the latest BLS<sup>12</sup> (April 2025), credit standards remained unchanged in 2025Q1, maintaining the stability observed in recent quarters. In particular, credit standards remained at the tighter levels reached in 2024Q2 for business loans and in 2023Q4 for loans to households, following a prolonged period of gradual tightening. According to

12. Detailed analysis of the survey results for Cyprus is available on the CBC website (Central Bank of Cyprus - Bank Lending Survey).

the participating banks, credit standards are expected to also remain unchanged in 2025Q2, indicating that loan supply conditions will likely remain restrictive, at least in the short term (Table 10).

The tighter credit standards, which improved portfolio quality and limited the flow of new loans in the aftermath of the 2012–2013 banking crisis, contributed to maintaining the downward trajectory of the domestic private non-financial sector<sup>13</sup> debt-to-GDP ratio (Chart 20). This ratio has been steadily declining since the end of 2015Q1, mainly due to the increase in nominal GDP and the write-offs of non-performing loans. Further significant reduction in private debt levels will largely depend on the effective management of claims held by Credit Acquiring Companies (CACs), which are included in total private debt. At the end of 2024, the total debt of the private non-financial sector stood at 180% of GDP, almost half of the historical peak of 349% recorded in 2015Q1. Specifically, NFC debt stood at 121% of GDP at the end of 2024, while household debt stood at 59%. Domestic households tend to hold significant real and financial assets and accumulate deposits as a safety net. Historically, total household deposits have exceeded their debt, resulting in a negative net debt-to-GDP ratio, which reached -46% at the end of 2024. At the same time, a significant share of NFC debt relates to non-financial SPEs<sup>14</sup>, which do not

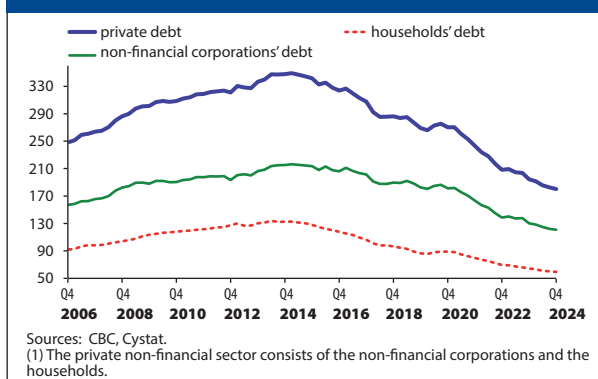
- 13. The domestic non-financial private sector consists of domestic NFCs (including SPEs) and domestic households.
- 14. Non-financial SPEs are mostly ship-owning companies with no or very little physical presence in Cyprus. They hold real assets (ships) and are financed almost entirely from abroad. Although registered / incorporated in Cyprus, they have minimal or no connection to the domestic real economy.

TABLE 10 Banking Lending Survey (BLS)

Summary of BLS results April 2025	Cyprus	
	2025Q1	2025Q2 (expectations)
<b>Credit standards for loans</b>		
Enterprises	Unchanged	Unchanged
Households		
- Housing loans	Unchanged	Unchanged
- Consumer credit and other lending	Unchanged	Unchanged
<b>Ζήτηση για δάνεια</b>		
Enterprises	Increase	Increase
Households		
- Housing loans	Unchanged	Increase
- Consumer credit and other lending	Decrease	Unchanged

Source: CBC.

CHART 20 Private non-financial sector<sup>(1)</sup>  
(as a percentage of GDP)



represent a material financial risk to the domestic economy. Excluding the debt of SPEs, the NFC debt-to-GDP ratio drops to 75%, and the total private non-financial sector debt ratio to 135%, approaching the indicative threshold of 133% set by the European Commission<sup>15</sup>.

### 5.3 Interest rates

As of mid-2024, the ECB's monetary policy has gradually become less restrictive, reflecting the significant decline in inflation. In this context, the deposit facility rate was reduced by a total of 150 basis points, from 4,00% to 2,50% by March 2025. This monetary policy adjustment is also reflected in Cyprus, with bank interest rates declining across most loan and deposit categories, in line with the broader downward trend in the ECB's key policy rates.

Average lending rates followed a downward trend, with the magnitude of the decline differing across sectors and loan categories. This reduction has lowered borrowing costs and improved financing conditions for both households and businesses. The adjustment in NFCs interest rates was swift and pronounced, closely mirroring the reductions in monetary policy rates. This was largely facilitated by the fact that corporate loan interest rates are predominantly variable and linked to the Euribor interbank rate, enabling for the rapid transmission of ECB policy rate cuts. Briefly, the average interest rate on new loans to NFCs<sup>16</sup> up to €1 million, declined to 4,96% in March 2025, from 5,52% in March 2024. The

15. EC Alert Mechanism Report – Scoreboard of specific indicators related to macroeconomic imbalances.

16. New business with initial interest rate fixation up to one year.

decrease was even more pronounced in the category of large loans—exceeding €1 million—where the average interest rate fell markedly to 3,87%, from 5,81% in the same period. The sharper reduction in rates on large loans is partly attributed to the greater bargaining power of large firms, which enables them to obtain more favourable financing terms, including cash-collateralised loans (Chart 21).

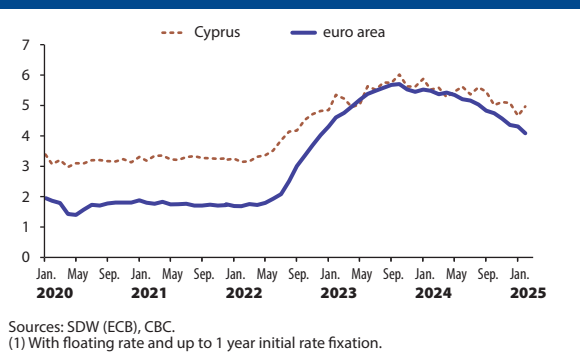
The transmission of the ECB’s key policy rate reductions to interest rates on new housing loans to households was more limited compared to the corresponding adjustment observed for NFCs. This delay is partly attributed to the fact that a significant portion of new housing loans is linked to banks’ base rates, which are largely determined by domestic deposit rates—interest rates that tend to adjust slowly, especially in an environment of ample liquidity. Furthermore, households’ increased preference for loan products with longer initial rate fixation periods, coupled with banks’ active promotion of these products to address borrowers’ demand for stability and predictability in loan instalments, has contributed to the slower transmission of monetary policy changes to this loan category. Indicatively, the average interest rate on new housing loans to households<sup>17</sup> declined to 4,56% in March 2025 from 4,75% in March 2024, whilst marking a cumulative decrease of 63 basis points from its peak of 5,19% recorded in January 2024 (Chart 22).

Regarding deposit interest rates, they exhibited a downward trend, in line with the reductions in the ECB’s key policy rates. In

17. New business with initial interest rate fixation up to one year.

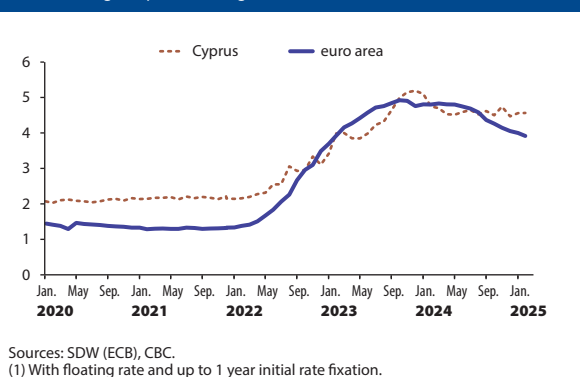
**CHART 21 MFI interest rates on euro-denominated loans (up to €1 million) to euro area non-financial corporations<sup>(1)</sup>**

(annual change,%, period average)



**CHART 22 MFI interest rates on euro-denominated housing loans to euro area households<sup>(1)</sup>**

(annual change,%, period average)



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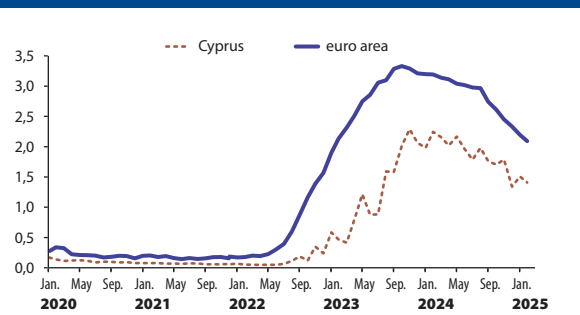
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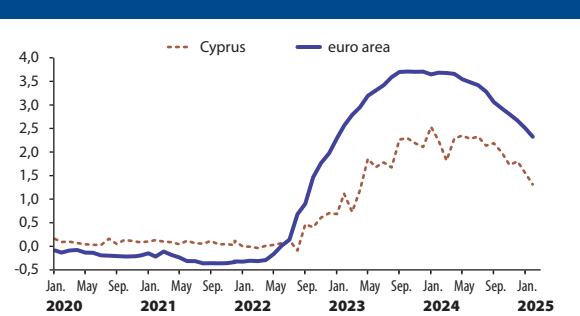
March 2025, the average interest rate<sup>18</sup> on new deposits declined to 1,41% for households and 1,31% for non-financial corporations, compared with 2,24% for both categories in March 2024 (Charts 23 and 24).

**CHART 23 MFI interest rates on euro-denominated deposits by euro area households<sup>(1)</sup>**  
(annual change,% , period average)



Sources: SDW (ECB), CBC.  
(1) With agreed maturity up to 1 year.

**CHART 24 MFI interest rates on euro-denominated deposits by euro area non-financial corporations<sup>(1)</sup>**  
(annual change,% , period average)



Sources: SDW (ECB), CBC.  
(1) With agreed maturity up to 1 year.

18. Average interest rate with an agreed maturity of up to one year.

## 6. Fiscal Developments

According to data from the Statistical Service of Cyprus (CYSTAT), the budget surplus reached 1,6% of GDP in 2025Q1, compared to a 1,7% surplus in the corresponding quarter of 2024 (Chart 25 and Table 11). The primary surplus stood at 1,8% of GDP in 2025Q1, down slightly from 1,9% in the corresponding quarter of 2024.

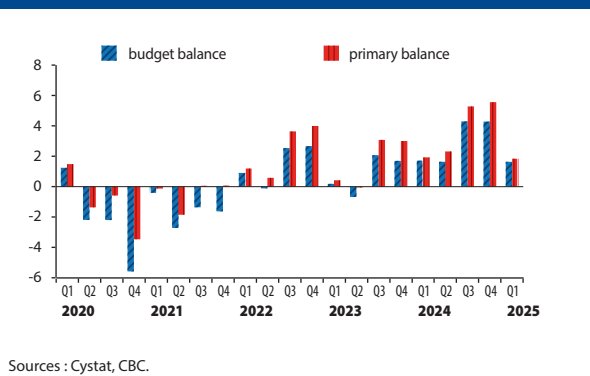
Public revenues increased by 6,3% in 2025Q1 compared to the first quarter of 2024 (Table 11), mainly due to higher revenues from social contributions (10,5%) and current taxes on income and wealth (7,7%). These increases are linked to positive GDP and labour market developments. There was also a smaller increase in revenue from sales of goods and services (29,1%), taxes on production and imports (2,7%) which include VAT and reflect favourable developments in private consumption and residential property activity.

Public expenditures rose by 7,4% in 2025Q1 year-on-year (Table 11), mainly due to increases in social transfers (9,4%) and compensation of employees (6,4%). The rise in social transfers was partly due to increased social pensions. The rise in compensation of employees was influenced by the granting of the cost of living allowance (COLA), ongoing growth in public sector employment (3,1% in 2025Q1 after a 3,5% rise in 2024), and the 1,5% general salary increase implemented from October 2024 for twelve months.

As for public debt (Chart 26, p. 38), it stood at 61,5% of GDP in March 2025, a decrease of 7,3 percentage points compared to March

**CHART 25 Budget and primary balances of the general government**

(cumulative for the year as from Q1 as a percentage of GDP)



Sources : Cystat, CBC.

**TABLE 11 Accounts of general government**

	Jan.-Mar. 2024 (€ million)	Jan.-Mar. 2025 (€ million)	Change %
<b>EXPENDITURE</b>			
Intermediate consumption	295,1	282,4	-4,3
Compensation of employees	897,5	954,6	6,4
Social transfers	1.177,9	1.288,2	9,4
Interest	71,7	72,9	1,7
Subsidies	38,2	36,2	-5,2
Other current expenditure	196,6	192,7	-2,0
Gross fixed capital formation	148,9	168,2	13,0
Other capital expenditure	7,0	47,2	574,3
<b>Total expenditure</b>	<b>2.832,9</b>	<b>3.042,4</b>	<b>7,4</b>
<b>Total expenditure as a % of GDP</b>	<b>8,4</b>	<b>8,6</b>	
<b>REVENUE</b>			
Taxes on production and imports	1.072,7	1.101,7	2,7
Current taxes on income, wealth, etc	915,2	985,9	7,7
Social contributions	1.052,1	1.162,5	10,5
Other current revenue	118,3	70,4	-40,5
Sales	217,3	280,5	29,1
Capital transfers received	11,8	2,6	-78,0
Property income	21,1	19,4	-8,1
<b>Total revenue</b>	<b>3.408,5</b>	<b>3.623,0</b>	<b>6,3</b>
<b>Total revenue as a % of GDP</b>	<b>10,2</b>	<b>10,2</b>	
<b>Primary balance</b>	<b>647,3</b>	<b>653,5</b>	
<b>Primary Balance as a % of GDP</b>	<b>1,9</b>	<b>1,8</b>	
<b>Budget Surplus (+) / Deficit (-)</b>	<b>575,6</b>	<b>580,6</b>	
<b>Surplus (+) / Deficit (-) % of GDP</b>	<b>1,7</b>	<b>1,6</b>	

Sources : Cystat, CBC.

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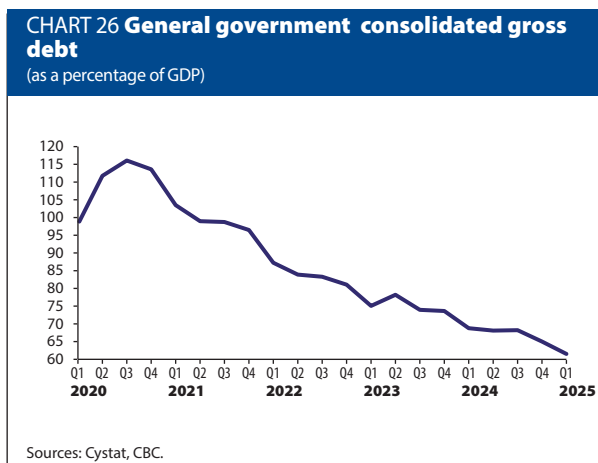
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2024. This was due to continued economic growth and a relatively high primary surplus. Public debt is now close to the 60% target of the EU’s Stability and Growth Pact and below 60% when accounting for the strong cash buffers of the Republic of Cyprus. It is important to note that credit rating agencies have already factored in their assessments the significant public debt reduction. Therefore, any fiscal slippage is expected to have a major impact on the credibility of Cyprus’ fiscal policy.



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## (B) Macroeconomic Forecasts for the Cyprus Economy<sup>19</sup>

19. Forecasts and assumptions take into account economic developments and available data with cut-off date the 27th November 2024.

- GDP growth in 2025 is expected to reach 3,1%, compared with 3,4% in 2024, with growth of about 3% per annum envisaged over 2026-27.
- The projected GDP path is mainly due to the expected further growth in domestic demand over the projection horizon and, to a lesser extent, in the path of external demand over 2026-27.
- A further gradual reduction in the unemployment rate to around 4,7% on average over 2025-27 is expected compared with 4,9% in 2024, converging towards full employment conditions.
- HICP inflation is projected to drop further to 1,5% in 2025 from 2,3% in 2024, while it is expected to reach 2% in 2026 and 2,4% in 2027.
- Core inflation is also expected to decelerate to 2,1% in 2025 from 2,6% in 2024, with further deceleration to 1,9% forecasted for 2026 and 2027.
- Compared with the baseline scenario, risks to GDP growth are assessed overall to be skewed downwards and for inflation upwards for the period 2025-27.

The macroeconomic projections presented in this *Economic Bulletin* have been prepared in the context of the Eurosystem projections with common assumptions. The updated forecasts take into account the negative effects on the path of external demand, which remains fragile, due to continuous changes in US tariff policy and the resulting elevated uncertainty in international trade and the geopolitical environment (see Box). Regarding the economic impacts on investment and

private consumption from the continued conflicts among Israelis and Palestinians, these continue to be limited, in line with the National Accounts outcomes so far. From the domestic side, the projections continue to assume the introduction of a national carbon tax on road transport over 2025H2, which is expected to be fully replaced by the EU's expanded Emissions Trading System (ETS2) from 2027, covering emissions from fuels used in buildings, road transport and other sectors. Finally, the updated projections include continued absorption of funding from the Recovery and Resilience Fund (RRF) for investments, with no substantial change in the assumed implementation rate compared with the March 2025 interim projections.

Compared with the March 2025 forecasts, a small downward revision in GDP growth by 0,1 percentage points per annum over 2025-26 is incorporated. This is mainly due to the expected weaker trajectory of external demand owing to increased uncertainty.

Regarding HICP inflation, the downward revision of inflation by 0,6 percentage points in 2025 compared with the March 2025 forecasts stems mainly from the notable downward revision in energy prices and to, a lesser extent, to the downward revision in non-energy industrial goods prices. The said revisions are mainly attributed to the projected developments in international oil prices, based on the relevant common technical Eurosystem assumptions, as well as due to the downward impact of the recent domestic government mitigating measure associated with the reduction of VAT from 19% to 9% in electricity prices for the period

April 2025-March 2026. The aforementioned developments are expected to have a significantly larger downward impact on energy prices compared with the expected upward impact on energy prices from the assumed introduction of a carbon tax on fuels for road transport during 2025H2. Concerning core inflation, the slight downward revision of 0,1 percentage points for each year for the period 2025-2027 compared with the March 2025 forecasts is primarily attributed to the downward revision of non-energy industrial goods prices, in line with the continuing negative path as recorded by the most recent available data.

### Economic Activity

GDP growth over 2025 is expected to reach 3,1%, compared with 3,4% in 2024. In the period 2026-27, GDP is expected to expand by approximately 3% per annum (Table 12). The projected GDP path is mainly due to the expected further increase in domestic demand over the full projection horizon and, to a lesser extent, in the foreseen external demand path over 2026-27, which has been negatively affected by the extreme uncertainty in the international geopolitical and trade environment.

Domestic demand is expected to be supported mainly by the increase in private consumption and investment. It should be noted that despite the ongoing changes in US tariff policy and the resulting uncertainty in international trade, no significant negative impact on private consumption or investment is expected, due to the rather limited trade in

**TABLE 12 National accounts projections in real terms**  
(annual change, %)

	2023	2024	2025f	2026f	2027f
Real GDP	2,8	3,4	3,1	3,0	3,0
Private consumption	5,9	3,8	2,5	2,2	2,2
Government consumption	1,2	1,5	4,5	3,0	2,8
Gross fixed capital formation (excl. ships and airplanes)	1,0	1,4	4,2	5,3	4,9
Exports of goods and services	-2,8	5,3	-0,8	0,8	1,0
Imports of goods and services	-0,7	2,4	-1,2	0,7	0,8

Sources: Cystat, CBC.

goods of the Cyprus economy with the US. In relation to monetary policy, any remaining negative impact on domestic demand owing to the previous increases in the ECB's key policy rates is expected to be fully eliminated by the end of 2025.

In more detail, further growth in private consumption is attributed to the increase in real disposable income of households and the continued resilience of the labour market. Despite the foreseen normalisation in its growth rate over the coming years, private consumption is expected to remain an important growth driver going forward and to expand by 2,5% in 2026 and 2,2% annually over 2026-27 (**Table 12**, p. 42). In addition, a significant contribution to domestic demand is expected from the ongoing implementation of large non-residential private investments, infrastructure projects to support the digital and green transition and other reform projects in the context of the implementation of the Recovery and Resilience Plan. Adjusting for the impact of SPEs, investments are projected to record continued strong growth, namely 4,2% in 2025, 5,3% in 2026 and 4,9% in 2027 (**Table 12**, p. 42). Finally, the increase in domestic demand in the period 2025-27 is due, in part, to growth in public consumption (**Table 12**, p. 42) associated with an increase in public wages, mainly linked to an increase in public employment and, secondly, owing to expenditures related to payments towards the General Health System.

GDP growth over 2026-27 is also envisaged to be supported by net exports, following a negative contribution expected in

2025 owing to the adverse impact on the path of external demand because of the elevated uncertainty in the international geopolitical and trade environment due to US tariff policy. It should be noted that any economic impact will be indirect, linked to the deterioration of the economic climate and the dependence of the Cyprus economy on external demand for the provision of services.

In more detail as regards net exports, a significant contribution from the technology sector and increased exports of related intellectual property<sup>20</sup> services is foreseen. At the same time, net exports are envisaged to be supported by the expansion in the turnover of financial and professional services, partly explained by the diversification of relevant export markets as well as continued support from the shipping sector, which contributes positively to growth. In addition, net exports are supported by the favourable path in tourism, with a particularly significant increase in inflows from Israel, the United Kingdom and European Union countries in the first months of 2025, as well as the continued diversification of the tourism product towards markets with high per capita spending.

### Compensation, productivity and the labour market

Regarding the labour market, the available data reflect its continued resilience, despite ongoing geopolitical tensions. This is evidenced by the monthly surveys of the European Commission concerning employment expectations for the next three months,

20. Exports of services for the use of intellectual property include, among others, rights that arise from the use of research and development results and licenses for the reproduction and distribution of computer software.

which record a positive trend, and by the continued decline in the number of registered unemployed individuals, according to the most recent data. In conjunction with the positive trajectory of GDP, an increase in employment of around 1,6% annually is expected during the period 2025–27 (Table 13).

Unemployment is expected to register a further correction in the years 2025–27, reaching an average rate of around 4,7% of the labour force, down from 4,9% in 2024 (Table 13), meaning that it is projected to stabilise close to full employment conditions. The slight upward revision in the unemployment rate for 2026 and 2027 by 0,1 percentage point in each year, compared to the March forecasts, reflects the downward revision in the rate of GDP growth, due to the more adverse external environment.

Nominal compensation (including wages and social contributions) per employee is expected to record a decelerating increase of 4,1% in 2025, following growth of 4,5% in 2024, and is projected to slow further to around 3% in 2026 and 3,3% in 2027 (Table 13). The increase in 2025 is affected by the rise in social security contribution rates towards the Social Insurance Fund (SIF) that will be in effect for the next five years. In general, the trajectory of wages in the years 2025–27 is due to the increases adopted for the public sector and the private sector, and reflects the path of productivity as well as the granting of COLA, which is based on prices of the previous year. Overall, with the gradual and ongoing correction of wage pressures and the continued containment of inflation, a decelerating

**TABLE 13 Labour market projections**  
(annual change, %)

	2023	2024	2025f	2026f	2027f
Compensation per employee	5,0	4,5	4,1	3,0	3,3
Unit Labour Costs	3,7	3,1	2,7	1,6	1,8
Productivity	1,3	1,4	1,4	1,4	1,4
Total employment	1,4	2,0	1,6	1,5	1,6
Unemployment rate (% of labour force)	5,8	4,9	4,7	4,8	4,7

Sources: Cystat, CBC.

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ration in nominal compensation per employee is expected over the projection horizon compared to 2024.

Productivity, following an increase of 1,4% in 2024, is projected to continue registering significant growth rates, stabilising at around 1,4% annually over the period 2025–27 (Table 13, p. 45). Overall, the increase in productivity reflects the positive economic effects from the inflow of companies of foreign interests and foreign labour (talent), mainly in the technology sector, as well as from the gradual implementation of investments related to the absorption of funds from the EU’s RRF.

Unit labour cost is expected to register a further increase in the years 2025–27 of the order of 6 percentage points cumulatively, albeit at a decelerating pace (Table 13, p. 45), due to the decelerating increases anticipated in nominal compensation per employee in conjunction with the continued stable annual growth in productivity. At the same time, the level of unit labour cost in Cyprus maintains a comparative advantage relative to the rest of the euro area, due to past wage reductions, and consequently to the improvement in competitiveness (see Labour Costs).

## Inflation

HICP inflation is forecasted to fall significantly to 1,5% in 2025 compared with 2,3% in 2024, while it is expected to reach 2% and 2,4% in 2026 and 2027, respectively. The further deceleration in 2025 compared with 2024 is expected to materialise mainly owing to the sizeable large downward revisions in energy prices in line with the relevant technical

assumptions of the Eurosystem. In addition, the projected slowdown in HICP inflation is attributed to lagged effects from the past tightening of the ECB's monetary policy that still has a dampening impact on demand in the current year, albeit with a significantly faded effect. Moreover, the easing of wage pressures over the projection horizon compared with 2024 is expected to moderate inflationary effects, specifically in services prices. The increase in inflation in 2026 and 2027 is mainly due to the expected upward effects from developments in energy and food prices, and in conjunction with the expected continued slowdown in services prices. In relation to energy prices, the relevant projected path is the result of the expected upward effect due to the assumption associated with a carbon tax on fuels in 2026 and, from 2027, its full replacement by the EU's expanded Emissions Trading System (ETS2), which will cover emissions from fuels used in buildings, road transport and other sectors.

Regarding core inflation, this is projected to decelerate to 2,1% in 2025 compared with 2,6% in 2024, while it is forecasted to fall further to 1,9% in 2026 and 2027. The projected trajectory of core inflation over 2025-2027 is mainly the result of a path of moderate increases in the prices of non-energy industrial goods and the appreciation of the euro against the dollar, based on the technical assumptions of the Eurosystem driven by ongoing developments in relation to global trade policy, which has a downward impact on the prices of relevant imports. Regarding services prices, these are also

projected to slow down in the years 2025-2027 compared with 2024, although they are expected to remain above 2%.

### Risk assessment of macroeconomic forecasts<sup>21</sup>

The projected GDP path, according to the baseline scenario of macroeconomic forecasts, is presented in **Table 12** (p. 42), and that of HICP and core inflation in **Table 14**. The probabilities of deviating from the baseline scenario of the forecasts for GDP and HICP are outlined in **Charts 27** and **28**, respectively. Possible deviations in the baseline forecast of core inflation are presented in **Chart 29**, p. 49. A summary of the assessment of the relative risks of deviating from the baseline scenario is presented in **Table 15** (p. 49).

The risks of deviation of the GDP forecasts from the baseline scenario are assessed overall to be tilted to the downside over 2025-27. Downside risks relate mainly to higher energy prices, due to possible escalation of conflicts in the Middle East, as well as negative impacts on tourism. They are also linked to the expected path of external demand, which is indirectly affected by the ongoing uncertainty regarding global trade policy. Finally, downside risks relate to a lower than expected impact from the absorption of available funds for investments from the RRF. Upside risks are associated with a positive impact of the tax reform on private consumption from 2026, higher wages than expected in the baseline scenario owing to the current labour market environment approaching full employment conditions, as

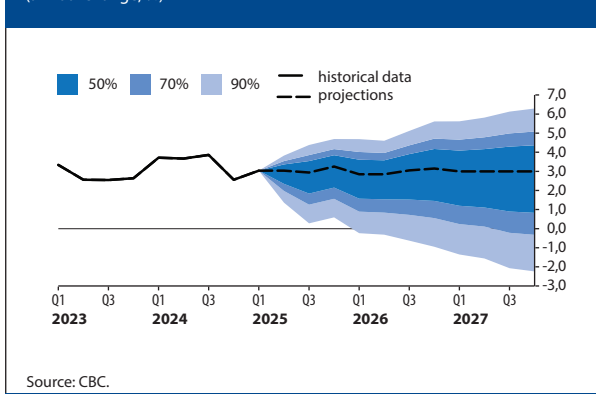
21. For further information on the methodology of the risk assessment of macroeconomic forecasts, see *Economic Bulletin*, June 2015, p. 67

**TABLE 14 Inflation projections**  
(annual change, %)

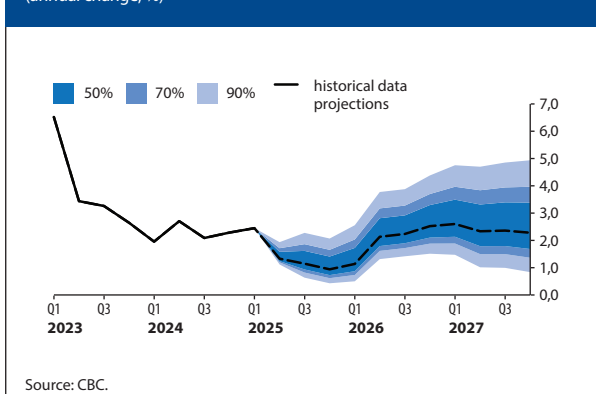
	2023	2024	2025f	2026f	2027f
HICP	3,9	2,3	1,5	2,0	2,4
HICP excluding energy	4,6	2,7	2,2	2,2	2,1
HICP excluding energy and food	3,8	2,6	2,1	1,9	1,9

Sources: Cystat, CBC.

**CHART 27 Real GDP fan chart**  
(annual change, %)



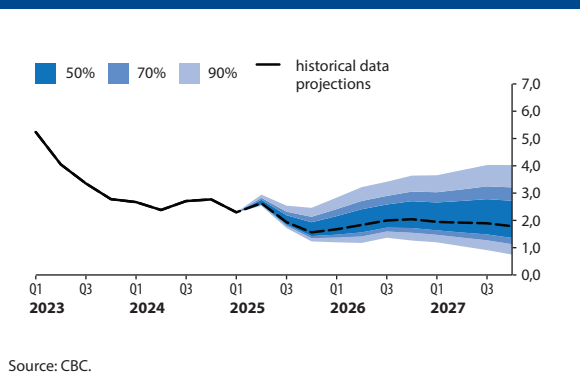
**CHART 28 HICP fan chart**  
(annual change, %)



well as potentially higher than expected profit margins of businesses.

Regarding inflation, risks of deviation from the HICP baseline forecast are assessed overall to be skewed to the upside over 2025-2027. Upside risks stem from higher energy prices due to a possible further escalation of the conflicts in the Middle East and despite the downward, to a lesser extent, impact on energy prices from a possible decrease in global trade, a possible end to the war in Ukraine as well as possible decisions by oil-producing economies regarding an increase in oil supply. Upside risks are also associated with the impact of the tax reform, which is likely to increase private consumption. At the same time, higher than foreseen wage increases (which may have an upward impact on services prices) and possibly higher than expected corporate profit margins may also have a positive impact on domestic inflation.

**CHART 29 HICP excluding energy and food fan chart (core inflation)**  
(annual change, %)



**TABLE 15 Summary of risk assessment**

Risk	GDP (2025-2027)	Inflation (2025-2027)
Lower than expected impact from absorption of funds from EU NGEU support package	-	=
Formation of higher than foreseen energy prices, due to possible escalation of the Middle East conflicts, and despite the downward effects of a possible decrease in global trade, a possible end to the war in Ukraine, as well as possible decisions by oil-producing economies regarding an increase in oil supply.	-	+
Possible indirect impact on Cypriot services exports due to a more unfavourable than expected external environment owing to uncertainty regarding global trade policy	-	=
Climate change factors (higher than foreseen impact associated with adoption of green taxes, extreme weather-related events)	-	+
Impact from tax reform (natural persons)	+	+
Impact from tax reform (legal persons)	=	=
Higher than foreseen wages and/or higher than foreseen profit margins	+	+
<b>Overall assessment</b>	<b>-</b>	<b>++</b>

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

### U.S. Tariff Policy – Implications for the EU and Cyprus<sup>22</sup>

The new U.S. administration’s shift towards a more protectionist trade policy primarily aims to strengthen domestic industrial production and support strategic sectors such as metallurgy and semiconductors. Simultaneously, it is used as leverage to eliminate non-tariff barriers and to protect American businesses from what the US government perceives as unfair competition from third countries.

Specifically, the U.S. has imposed tariffs of 50% on all imports of steel and aluminium and 25% on all automobile imports. Furthermore, in early April, the US announced “reciprocal” tariffs of at least 10% on a broad range of goods, including a 10% rate on goods imported from the EU. These tariffs cover almost all imported goods but exclude services. Following financial market turbulence, the US suspended the reciprocal tariffs for 90 days, until July 9, to allow room for negotiations. As a result, general US tariffs currently stand at 10% for European goods and 30% for Chinese goods. Although these are lower than initially announced, they are still significantly higher than in the previous year.

The EU has so far refrained from imposing any countermeasures and proposed a zero-tariff agreement on all industrial products to help de-escalate the situation and preserve free trade. It is worth noting that President Trump’s announcement of a 50% tariff on EU

goods starting July 9 has not been implemented and appears to be a negotiating tactic, demonstrating how challenging the US–EU negotiations towards reaching an agreement have been. Recent signs suggest that the ongoing negotiations may lead to a temporary “framework” agreement, whereby the US maintains a 10% reciprocal tariff on EU goods while talks continue. Without an agreement, tariffs on EU goods are expected to increase to 30% starting August 1, as per President Trump’s announcement dated July 12. In parallel, the European Commission is preparing a list of countermeasures worth €72 billion targeting US products and is actively participating in negotiations to strengthen and expand trade alliances with Asian and Latin American countries.

The uncertainty surrounding the duration and extent of these tariffs could affect business decision-making. If tariffs are perceived as permanent, they could delay investments and trigger shifts or even new distortions in supply chains. Should negotiations fail and the EU ultimately implements countermeasures, the negative effects on prices and economic growth could be more severe than anticipated. Additionally, a potential trade diversion, whereby Chinese production overcapacity is redirected from the US towards the EU due to increased tariffs, may intensify deflationary pressures in the European market through lower import prices.

Cyprus has limited exposure to U.S.

22. Information presented in this box was last updated on July 14, 2025.

TABLE B.1 US – CY trade relations

	Exports to US as % of total exports				Imports from US as % of total Imports			
	Goods	Services	of which: ICT and intellectual property rights	Goods & Services	Goods	Services	of which: ICT and intellectual property rights	Goods & Services
2019	3,2	8,2	C	7,5	0,9	6,9	C	4,2
2020	3,0	15,0	11,4	13,2	1,0	12,5	8,0	8,0
2021	3,1	15,1	12,8	13,6	0,9	11,2	6,7	7,5
2022	2,8	16,8	13,8	14,9	0,8	13,3	9,0	8,7
2023	1,5	16,9	14,3	15,1	0,9	11,6	7,4	7,6
2023Q1-Q3	1,5	17,5	15,1	15,5	1,0	12,4	8,0	8,0
2024Q1-Q3	1,8	18,1	15,1	16,1	0,8	12,5	8,7	8,4

Source: CBC calculations. Data adjusted for the impact of SPEs.  
Note: "C" corresponds to confidential data.

goods exports, accounting for only 2% of total exports (see Table 1). Therefore, the main risks are not direct but indirect, linked to Cyprus’ reliance on external demand. The most significant potential indirect impact is expected via the demand for services, due to rising uncertainty. Specifically, if Cyprus’ major trade partners are negatively affected by the tariffs, it could reduce Cyprus’ services exports such as tourism, professional, maritime and IT services. A significant portion of Cyprus’ external trade with the US involves Information and Communication Technology (ICT) services, representing 15% of total service exports (see Table 1). Although the US tariffs currently apply only to goods and not services, a potential decline in ICT exports to the US could be partially offset by a corresponding decrease in related imports. Negative impacts on ICT exports could also stem from other markets indirectly affected by the general decline in global demand. Despite these risks and potential effects, Cyprus’ technology sector remains resilient, having successfully

diversified into various markets in recent years—especially following Russia’s invasion of Ukraine.

Beyond the impact via external demand, the elevated economic uncertainty linked to the unpredictable course of US trade policy may also influence the USD–EUR exchange rate. So far, this has led to a weakening of the dollar and a strengthening of the euro, but this could reverse depending on the final trade policy decisions and the global economy’s adaptation to the new conditions. A stronger euro could reduce foreign demand for some EU exports of goods and services due to increased export prices, while exerting downward pressure on import prices, including of oil imports. Furthermore, ongoing and/or prolonged uncertainty related to US trade policy could affect global preferences regarding dollar invoicing of trade transactions, potentially leading to further depreciation of the dollar against the euro.

Oil prices are also expected to be influenced by tariff policy developments.

Anticipated reductions in global trade due to tariffs will likely impact oil demand, putting downward pressure on energy prices. This will have consequences for GDP and inflation. Regarding GDP, since Cyprus relies heavily on oil imports to meet its energy needs, the impact could be greater than in other countries. Regarding inflation, the aforementioned downward pressure on energy prices, besides the exchange rate channel, will have a small effect on both headline and core inflation. This is due to indirect transmission effects on inflation categories other than HICP energy such as services (e.g. tourism), where energy costs are a major component of overall service provision costs.

Summing up, while the economy could be affected via various channels, the overall impact depends on multiple factors and the specific circumstances in each

case. In particular, the exact economic impact of tariffs on trade depends on factors such as the tariff levels, whether they will be extended to services, and whether/how investment flows between the affected countries, including Cyprus, will be influenced. Therefore, it is very difficult to accurately assess the short-term economic effects of the tariffs. In today's environment, characterised by heightened uncertainty and an unstable international landscape, small economies like Cyprus must maintain a high degree of flexibility and adaptability. At the same time, they must continuously strengthen their institutional resilience, including through a solid fiscal policy framework and a healthy, well-supervised banking system. In a world changing faster than ever before, resilience is not a choice, but a necessary condition for preserving economic stability.

# Technical Notes

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### (A) Domestic monetary aggregates (deposits and credit growth)

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.

## (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.