# Interim Report 2026

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**Sound macroeconomic & fiscal performance - long-standing challenges - the major test for the Cyprus economy**

**Fiscal Council of Cyprus**

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01 — **Developments in 2025**

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Source: Introduction, Part A, p. 2.



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## Favourable macroeconomic performance should be viewed as an opportunity - - not a reason for complacency

**3.8%**
real GDP growth in 2025
ACTUAL

**3.4%**
General Government surplus in 2025
ACTUAL

**55%**
public debt as % of GDP in 2025
ACTUAL

**0.8%**
inflation (HICP) in 2025
ACTUAL

**−6.4%**
current account balance as % of GDP in 2025
ACTUAL

Source: Executive Summary, pp. 3–7· Sections 3.1, 5.1, 5.4 and 5.7.

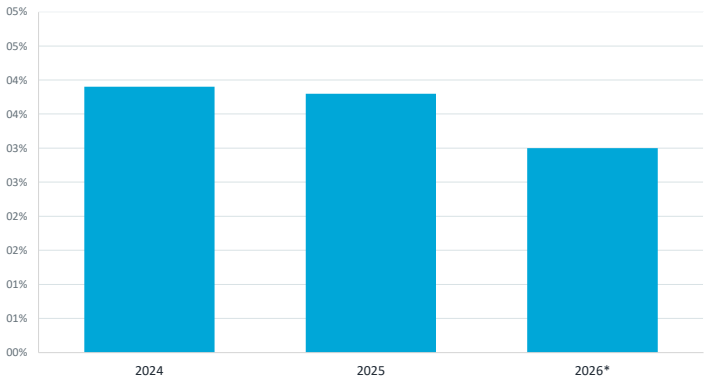
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## Growth remained strong in 2025




**Main drivers**

- Private consumption
- Exports of services
- Information and communication
- Tourism

Source: Executive Summary, p. 3· Section 3.1, pp. 7–12.

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## Employment creation; productivity remains a constraint

**+3.5%**
employment growth, 2025
ACTUAL

**4.4%**
unemployment, 2025
ACTUAL

**3.6%**
unemployment, Q2 2026
NOT SEASONALLY ADJUSTED

**1.3%**
forecast employment growth, 2026
FORECAST

**Low unemployment + high vacancies = partial mismatches between available skills and business needs.**

**Long-term sustainable growth requires higher productivity, specialisation, investment and technology adoption.**

Source: Executive Summary, p. 3· Sections 3.3–3.4, pp. 15–22.

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## Inflation declined in 2025; pressures re-emerged in 2026

**0.8%**
**2025**
actual

**5.2%**
**Aug. 2026**
preliminary annual rate of change

**3.6%**
**2026**
annual forecast

**2.2%**
**2027**
forecast

**Energy and services were the main sources of renewed pressures.**

Source: Executive Summary, p. 4· Section 3.5, pp. 23–26· Section 4, pp. 32–35.

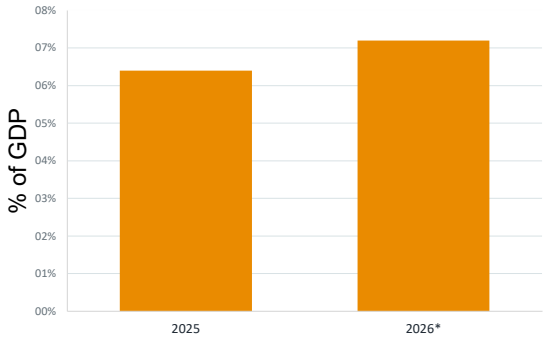
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## Services support the economy; the external deficit widens




**What explains the picture**

- Strong exports of services
- Negative primary income balance
- Higher energy import costs
- Weaker tourism activity in the baseline scenario

**Reinvested earnings limit immediate financing risk.**

Source: Executive Summary, p. 4· Section 3.6, pp. 26–31.

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## The baseline outlook remains positive, despite geopolitical challenges

| Initial shock | | Transmission | | Outcome |
|---|---|---|---|---|
| **Geopolitical escalation** | → | Higher energy and transport prices | → | **lower growth / higher inflation** |
| **Weaker external demand** | → | Lower exports and tourism activity | → | **pressure on income and public revenue** |
| **Higher sovereign bond yields** | → | More expensive financing | → | **less policy space** |

**Medium term: growth of around 3%, provided the external environment does not deteriorate further.**

Source: Executive Summary, pp. 3–4· Section 4, pp. 32–35.

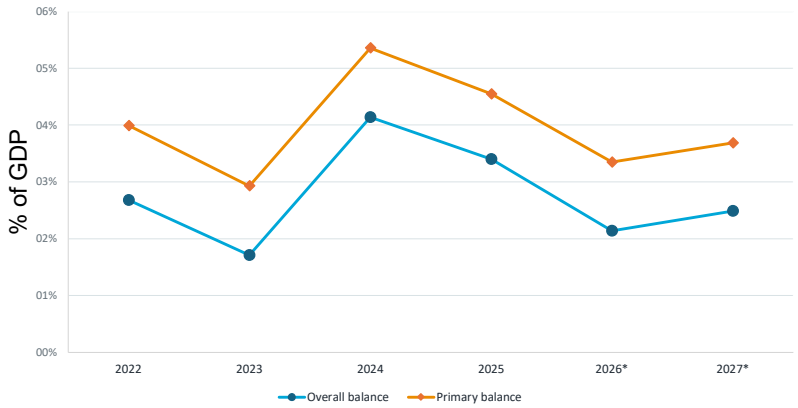
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## Public finances remain in surplus




2025

**3.4%**

overall surplus

**4.6%**

primary surplus

* Forecasts

Source: Section 5.1 and Chart 27, pp. 36–37.

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## Debt fell below the 60% reference value

**>114%**

**2020 - peak**

→

**55%**

**2025 - % of GDP**

**Main drivers of debt reduction**

- Sustained primary surpluses
- Satisfactory nominal growth
- Favourable financing conditions

**The favourable interest-growth differential is weakening. Further debt reduction will depend more on fiscal performance**

Source: Executive Summary, pp. 5–6· Section 5.7, pp. 59–67.

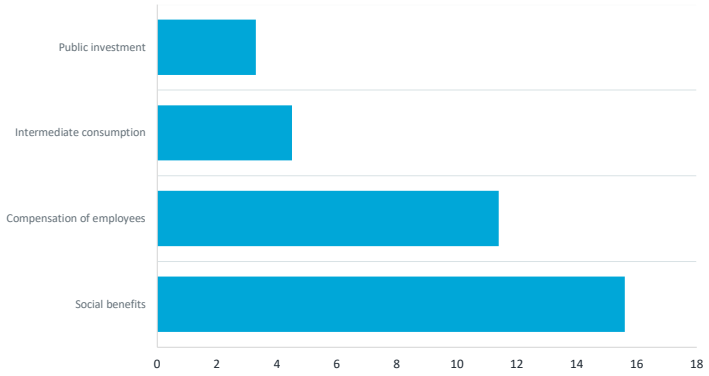
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## The composition of expenditure limits flexibility




**+10.3%**

increase in total expenditure in 2025

COMPARED WITH 2024

**€4.16 bn**

General Government wage expenditure, 2025

11.4% OF GDP

Source: Section 5.3 and Charts 33–35, pp. 42–45.

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## Low public investment implementation is a long-standing problem

**25%**

development budget implementation in H1 2026

SAME RATE AS IN 2025

**€412.4 m**

expenditure in the first half of the year

AGAINST A BUDGET OF €1.62 BN

**22%**

average first-half rate over the past decade

LONG-STANDING PATTERN

### What the Report indicates

- Limited administrative capacity for planning and implementation
- Projects included in the Budget are not sufficiently mature
- Risk of losing EU funds or shifting costs to the national Budget

Source: Executive Summary, p. 5· Section 5.4, p. 48.

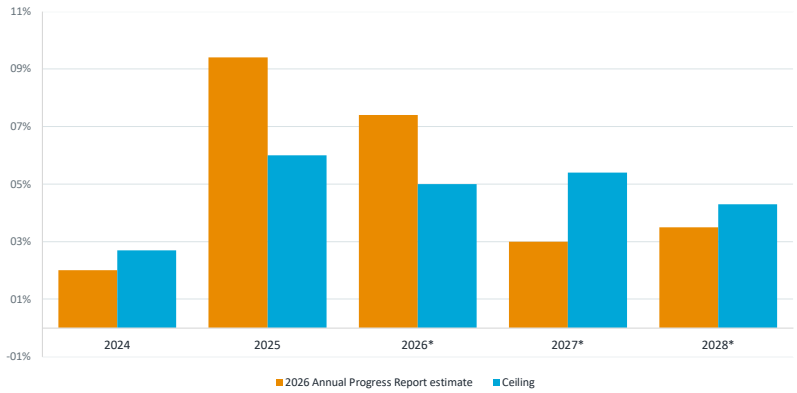
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## Net Primary Expenditure exceeded the approved path




* Forecasts

2025

**+3.4 pp**

above the 6% ceiling

2026*

**+2.4 pp**

projected overshoot

**NPE: expenditure used as the main operational indicator for surveillance under the new EU framework.**

Source: Section 5.6 and Chart 45, pp. 54–55.

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## Fiscal risks differ by time horizon

| SHORT TERM | MEDIUM TERM | LONG TERM |
|---|---|---|
| **Non-compliance with NPE**<br>DIRECT CHANNEL | **Contingent liabilities**<br>DIRECT CHANNEL | **Climate risks**<br>DIRECT CHANNEL |
| **External environment & energy costs**<br>DIRECT CHANNEL | **Structural weaknesses**<br>INDIRECT CHANNEL | **Ageing & pensions**<br>DIRECT CHANNEL |

Source: Table 8, Section 6.1, pp. 68–69.

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## Energy, major projects and liabilities require close monitoring

| | |
|---|---|
| EXTERNAL ENVIRONMENT & ENERGY | **Lower growth reduces the tax base. Higher prices increase pressure for support measures.** |
| VASILIKOS LNG | Delays, costs not yet finalised and possible additional financing needs. |
| GREAT SEA INTERCONNECTOR | Financial, regulatory, technical and geopolitical uncertainties; independent cost-benefit assessment needed. |

**A contingent liability is not expenditure already incurred; under certain conditions, however, it may burden the Budget.**

Source: Sections 6.3–6.4, pp. 70–73· Executive Summary, p. 6.

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## Climate and ageing require preparation today

CLIMATE

**98%**

of historical direct losses in 1980-2024 remained uninsured

RETROSPECTIVE INDICATOR

**€49.8 m**

indicative annual economic cost of physical risks, 2026

CONSTANT 2023 PRICES

**€0.70-1.26 bn in 2050**

Indicative range; does not correspond in full to public expenditure.

AGEING

**8.2%→11.8%**

public pension expenditure, 2022-2070

+3.6 PP OF GDP

**The projection is conditional on implementation of the stipulated retirement ages, contributions and indexation parameters.**

Source: Sections 6.5 and 6.7, pp. 73–83· Chart 53.

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## Strategic choices and policy recommendations

1 Continue prudent fiscal policy.

2 Upgrade the public investment appraisal framework.

3 Restructure social expenditure.

4 Strengthen the revenue side.

5 Establish a binding three-year fiscal framework.

Source: Key message and Conclusions, Part A and Part B, pp. 86–88.

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## Strategic choices and policy recommendations

6 Complete the transition to new accounting standards and simplify procedures.

7 Accelerate structural reforms that enhance productivity

8 Strengthen institutions and fiscal governance

9 Strengthen monitoring and evaluation of major State and semi-governmental organisations

Source: Key message and Conclusions, Part A and Part B, pp. 86–88.

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# Thank you

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