Presentation to Moody's Interim Report 2026 & Updates

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

Fiscal Council of Cyprus

Dr. Andreas Charalambous - President of the Fiscal Council of Cyprus

29 October 2026

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Moody's Discussion Agenda — 29 October 2026

01 — **Sovereign Credit Profile & Recent Developments**

Headline performance, October 2026 statistical revisions, fiscal balance, public debt, sovereign ratings · slides 3–7

02 — **Macroeconomic Outlook & Structural Challenges**

Growth outlook and drivers, ICT, investment and productivity, GDP vs GNI, inflation, tourism, external accounts, conflict risks · slides 8–16

03 — **Fiscal Outlook, Policy & Risks**

Spending pressures and rigidity, net-expenditure path, tax reform, energy measures, fiscal risks, pensions and climate, contingent liabilities, RRF · slides 17–25

04 — **Institutions, Reform Delivery & Council Recommendations**

Public-investment implementation, energy projects, parliament, Cyprus problem, strategic recommendations · slides 26–31 · Appendix: slides 33–35

Structure follows the themes of the Moody's questionnaire; slide ranges refer to this presentation. Figures: official data to 22 October 2026; Fiscal Council Interim Report 2026 (31 August 2026).

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

4.8%

real GDP growth in 2025

ACTUAL

3.6%

General Government surplus in 2025

ACTUAL

52.3%

public debt as % of GDP in 2025

ACTUAL

0.8%

inflation (HICP) in 2025

ACTUAL

−8.4%

current account balance as % of GDP in 2025

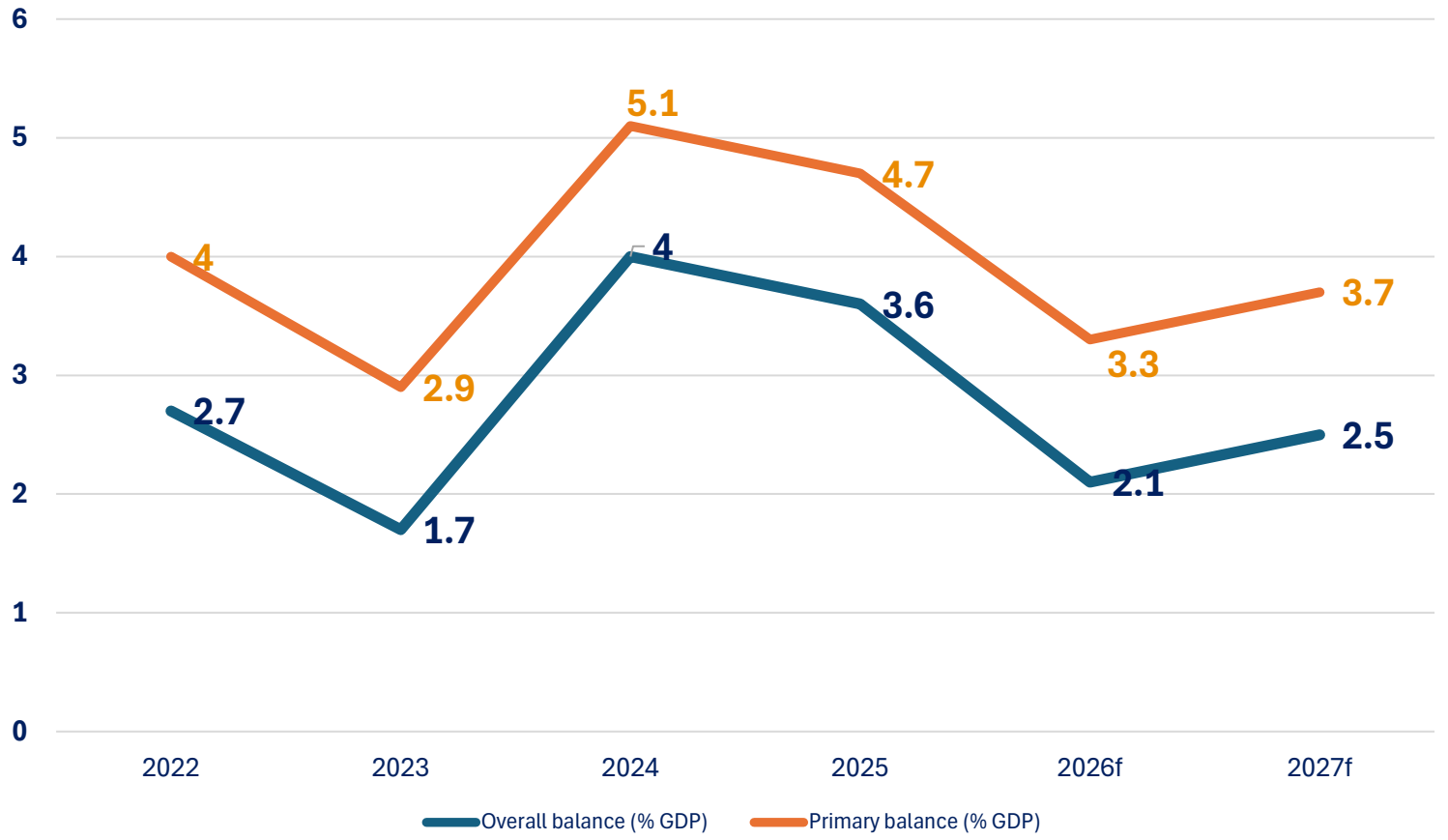
ACTUAL

Fiscal Council assessment: Strong growth and fiscal performance provide an opportunity to address structural weaknesses, improve spending quality and strengthen long-term resilience.

Sources: CYSTAT, National Accounts (20 Oct 2026); Eurostat, EDP notification (21 Oct 2026); CBC, Balance of Payments (2 Oct 2026); Eurostat, HICP; Fiscal Council, Interim Report 2026.

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Public finances remain in surplus



2025

3.6%

overall surplus

4.7%

primary surplus

* Forecasts

Source: 2022–2025: Eurostat actuals (October 2026 vintage); 2026–2027: European Commission Spring 2026 Forecast (pre-revision).

Debt fell below the 60% reference value

>114%

2020 - peak

→

52.3%

2025 - % of GDP (revised CYSTAT October 2026)

Main drivers of debt reduction

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

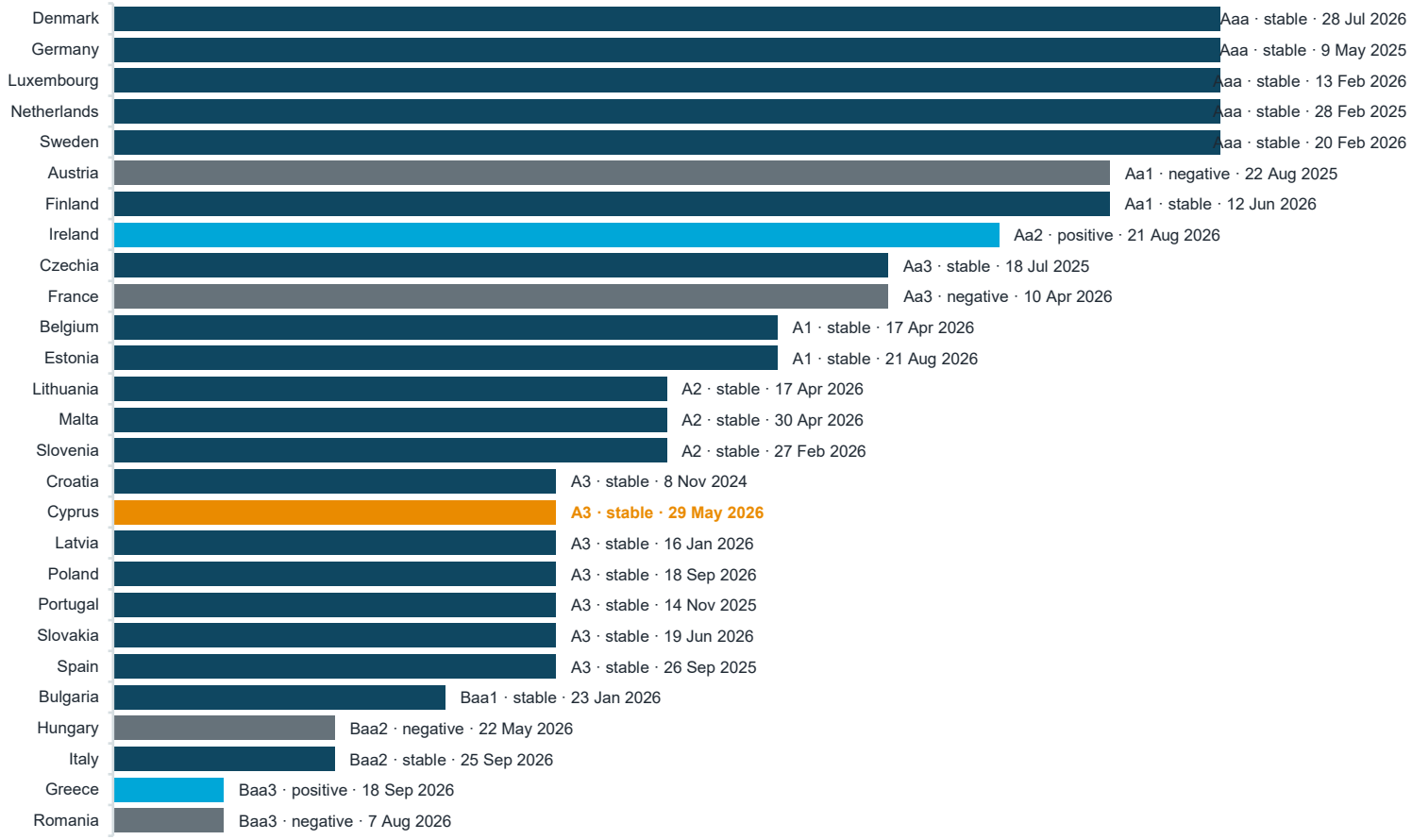
The favourable interest-growth differential is weakening. Further debt reduction will depend more on fiscal performance

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

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Cyprus sits in the A-tier of the EU-27 at Moody's (A3), with positive outlooks from S&P, Fitch and DBRS

MOODY'S LONG-TERM SOVEREIGN RATINGS, EU-27 (HIGHEST TO LOWEST; LABEL = RATING AND OUTLOOK)



CYPRUS: ALL FIVE AGENCIES

Agency	Rating	Outlook	Latest review / action
Moody's	**A3**	**Stable**	**29 May 2026**
S&P Global	A	Positive	18 Sep 2026
Fitch	A−	Positive	8 May 2026
DBRS Morningstar	A	Positive	4 Sep 2026
Scope	A	Stable	7 Aug 2026

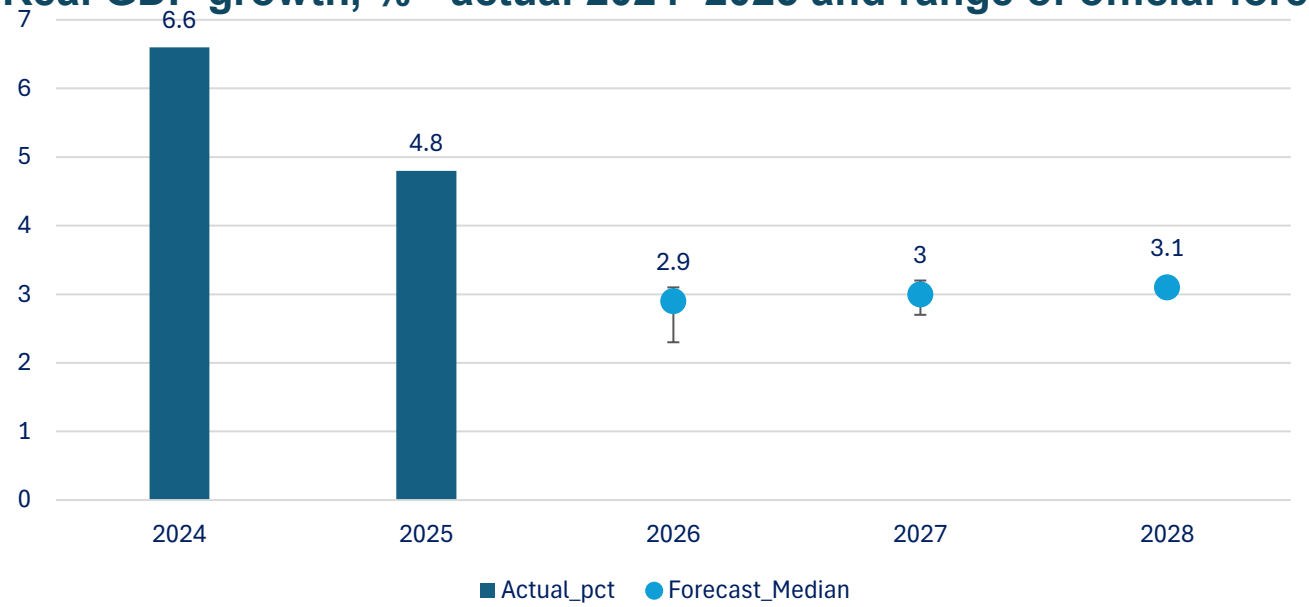
- **Where Cyprus stands:** A3 places Cyprus in the EU's A-tier with Spain, Portugal, Poland, Slovakia, Latvia and Croatia — three notches above the Baa floor and six below Aaa. Fitch's A− is the same grade as Moody's A3; S&P, DBRS and Scope rate Cyprus one notch higher (A). Outlooks: positive at S&P, Fitch and DBRS; stable at Moody's (periodic review 29 May 2026; next assessment 20 November 2026) and Scope.
- **Direction of travel in the EU:** 2026 actions were mixed — upgrades for Ireland (Aa2) and Slovenia (A2), downgrades for Belgium (A1) and Poland (A3), negative outlooks on France, Austria, Hungary and Romania. Only Cyprus and Portugal carry positive outlooks at more than one of the major agencies.
- **Council view: the rating case rests on debt at 52% of GDP and sustained surpluses; the vulnerabilities flagged in the Interim Report — expenditure rigidity, the current-account deficit, source-market concentration, contingent liabilities — are the factors agencies will test. The Council does not forecast rating actions.**

Sources: Moody's Ratings — rating actions and periodic reviews as published by national debt offices/ministries of finance (Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, Luxembourg, Poland, Slovenia, Bulgaria) and by the agencies' press releases reported in national press for the other members; S&P Global and Fitch as published; data cut-off 23 Oct 2026, 12:00 (Moody's scheduled review of France on 23 Oct 2026 not yet published; *Portugal Fitch outlook unconfirmed). Cyprus table: PDMO / agency releases. Scale for bar length: Aaa = 20 … Baa3 = 11 (Council convention).

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Growth remained strong in 2025; official forecasts point to growth near 3% through 2028

Real GDP growth, % · actual 2024–2025 and range of official forecasts 2026–2028



H1 2026 — real GDP, y/y, seasonally adjusted:

- Q1 2026 +3.0%
- Q2 2026 +3.3%

Main drivers:

- Private Consumption
- Export of Services
- Information and Communication

- Tourism – negative contribution

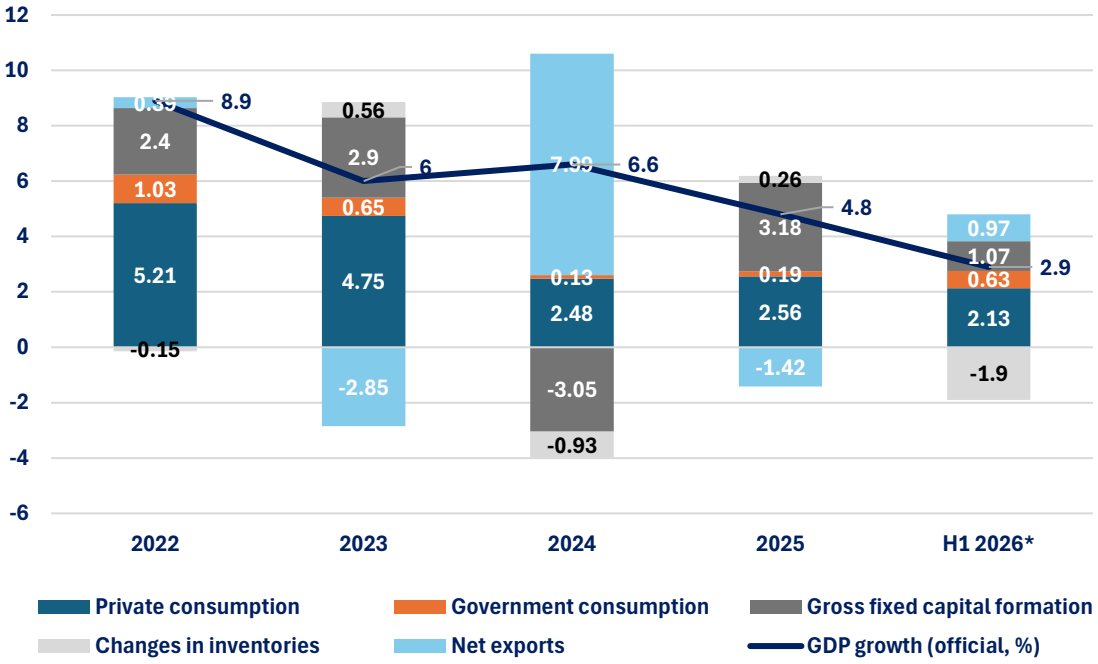
Institution	2026	2027
European Commission (May)	2.3	2.7
Central Bank of Cyprus (Sep)	2.9	3.1
Ministry of Finance (Oct)	3.1	2.9
IMF WEO (Oct)	2.9	3.2

Sources: CYSTAT/Eurostat, National Accounts (20 Oct 2026); CYSTAT, Quarterly National Accounts (20 Oct 2026); EC Spring Forecast (May 2026); CBC Projections (Sep 2026); MoF Budget 2027 (Oct 2026); IMF WEO (Oct 2026).

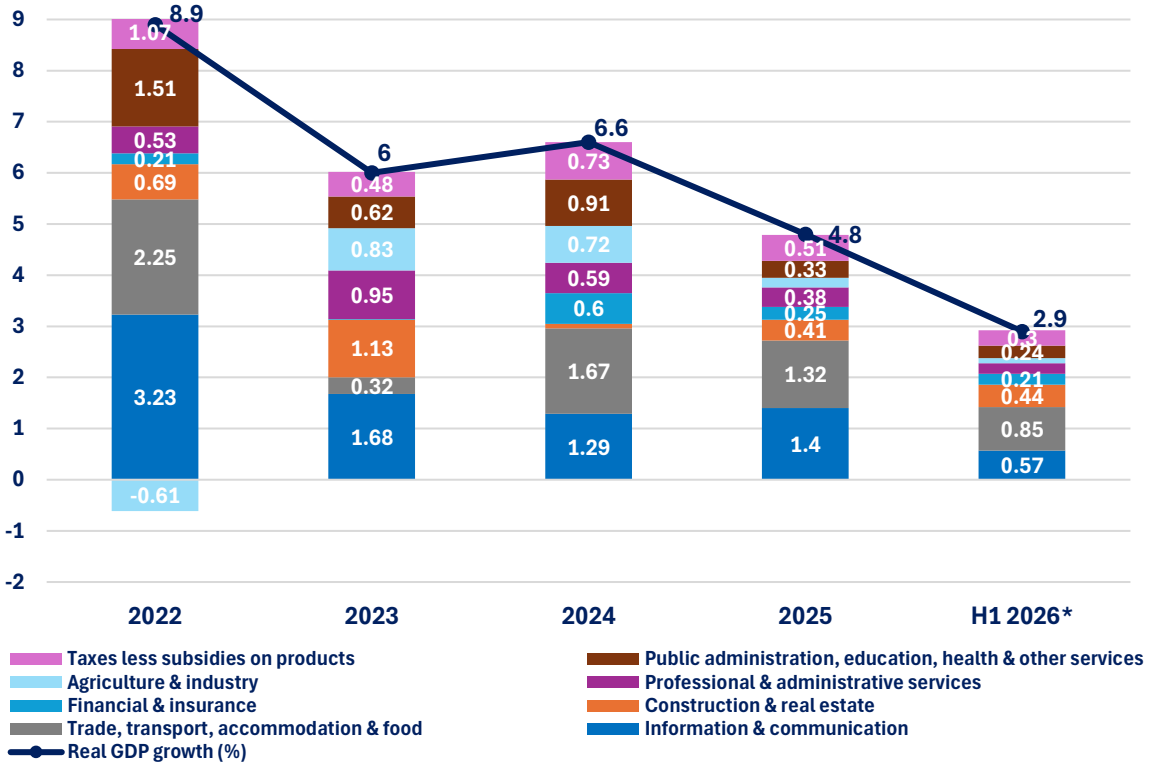
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Growth was revised up in 2023-25; recent growth remains broad-based, with domestic demand playing a stronger role

EXPENDITURE SIDE: CONTRIBUTIONS TO REAL GDP GROWTH, PP



PRODUCTION SIDE CONTRIBUTIONS: TO REAL GDP GROWTH, PP



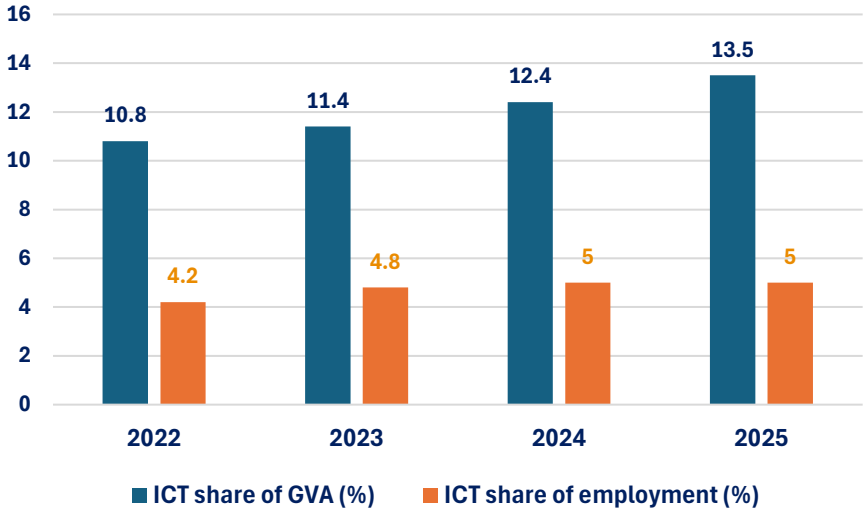
- **Growth was revised up materially:** real GDP growth is now estimated at 6.0% in 2023, 6.6% in 2024 and 4.8% in 2025.
- **Expenditure side – growth remains broad-based:** in 2025, private consumption and fixed investment were the main drivers, while net exports were a drag; in H1 2026, growth moderated to 2.9% y/y.
- **Production side – growth is still service-led:** ICT and trade, transport, accommodation & food remain the main contributors, while construction/real estate and financial services also support activity.

* H1 2026 vs H1 2025, not seasonally adjusted. Official data; 2024: revised data; 2025: revised estimate (CYSTAT, 20 October 2026). Contributions to real GDP growth in percentage points; right chart shows taxes less subsidies on products separately.
Sources: Eurostat, nama_10_gdp, nama_10_a10, namq_10_gdp, namq_10_a10 (updated 20 Oct 2026); CYSTAT, National Accounts (annual and quarterly), release of 20 Oct 2026; Interim Report 2026, Section 3.1 · Fiscal Council calculations..

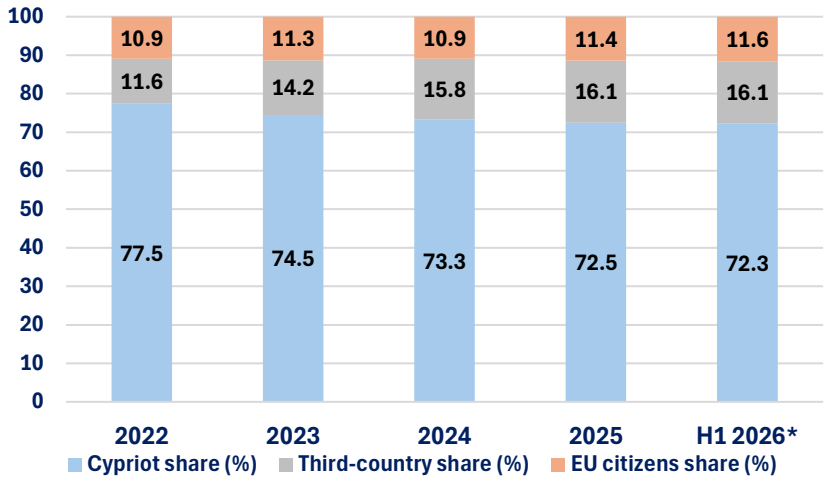
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ICT has become a core growth engine; durability depends on anchoring international firms and talent in the domestic economy

ICT (NACE J): SHARE OF GVA AND OF EMPLOYMENT, %



EMPLOYMENT BY CITIZENSHIP, % OF TOTAL (15+)



GOVERNMENT POLICY FRAMEWORK (2021 STRATEGY)

Business Facilitation Unit; facilitated employment of highly skilled third-country nationals (minimum €2,500 gross monthly salary); 50% income-tax exemption for eligible new residents (€55,000+; 17 years); digital-nomad visa; facilitated naturalisation for eligible highly skilled employees, subject to residence and language requirements.

CONSTRAINTS STARTING TO BITE

Housing: house prices +3.4% y/y (Q1 2026), demand led by foreign buyers (CBC); 42.9% of 25–34s live with parents.

Skills: low unemployment with high vacancies; AI adoption 9.3% of firms vs 20% in the EU.

Productivity: ≈82.8% of EU-27 labour productivity per hour; wages outpacing productivity.

International schools: potential capacity constraint; official data not available

- **ICT weight has risen sharply:** 13.5% of GVA in 2025 (10.8% in 2022) against 5.0% of employment — high value added per worker, in a sector that is internationally mobile by nature. ICT contributed 1.4 pp to growth in 2025 and 0.6 pp in H1 2026.
- **Labour supply increasingly international:** non-Cypriots approximately 27.5% of employment in 2025 (22.5% in 2022), third-country nationals 16.1%; broadly stable at 27.7% in H1 2026. Citizenship does not identify the employer — it is not a measure of employment in foreign-owned firms.
- **Fiscal Council view:** the shift is a reallocation towards ICT rather than broad diversification. Durability requires productivity-enhancing investment, skills and housing supply; no official breakdown of tax revenue by internationally mobile firms exists.

ICT ≠ foreign-headquartered firms; shares of GVA and employment do not by themselves measure mobility or durability. * H1 2026 = average of Q1–Q2 2026, not seasonally adjusted. 2025 GVA and employment provisional. Sources: Eurostat nama_10_a10, nama_10_a10_e (updated 20 Oct 2026); Eurostat lfsa_egan, lfsq_egan (EU-LFS, Sep 2026); CYSTAT; CBC; Government Strategy for Attracting Businesses (PIO, Oct 2021); Interim Report 2026, Sections 3.1, 3.3–3.4, Chart 11, Annex C.

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Sustaining ~3% growth after the RRF requires a shift from labour-driven to investment- and productivity-driven growth

Slightly above potential

Output gap slightly positive (IMF Art. IV 2026); potential growth estimate to be confirmed

19.6% of GDP

Total investment GFCF, 2025

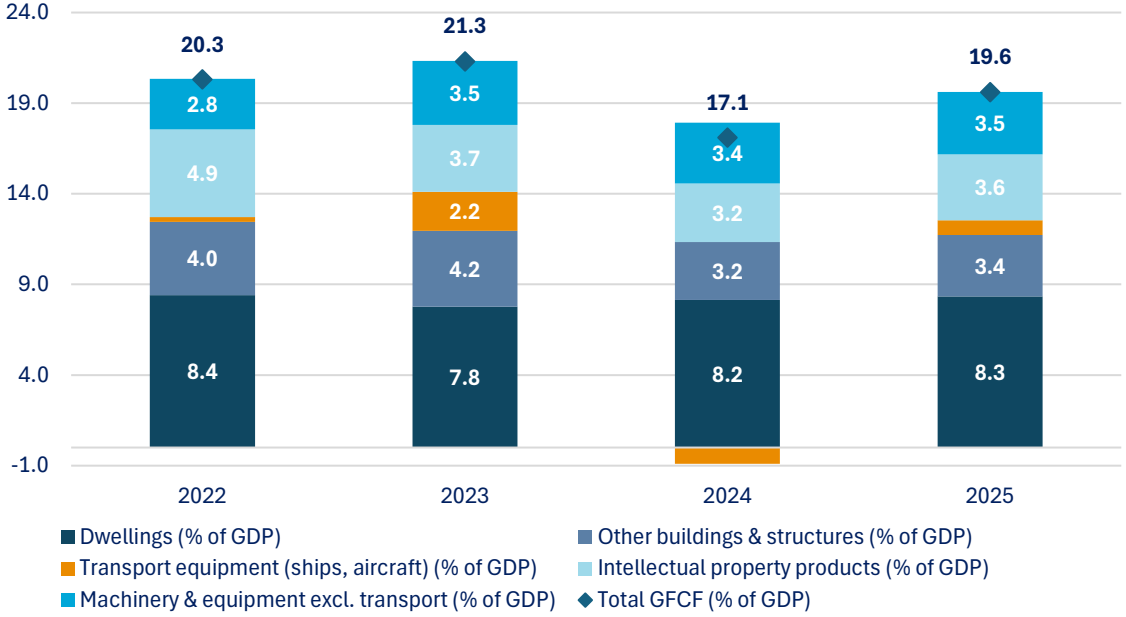
−1.3% y/y

Investment excl. ships & aircraft, −1.3% y/y, Q2 2026 (seasonally adjusted) (CYSTAT)

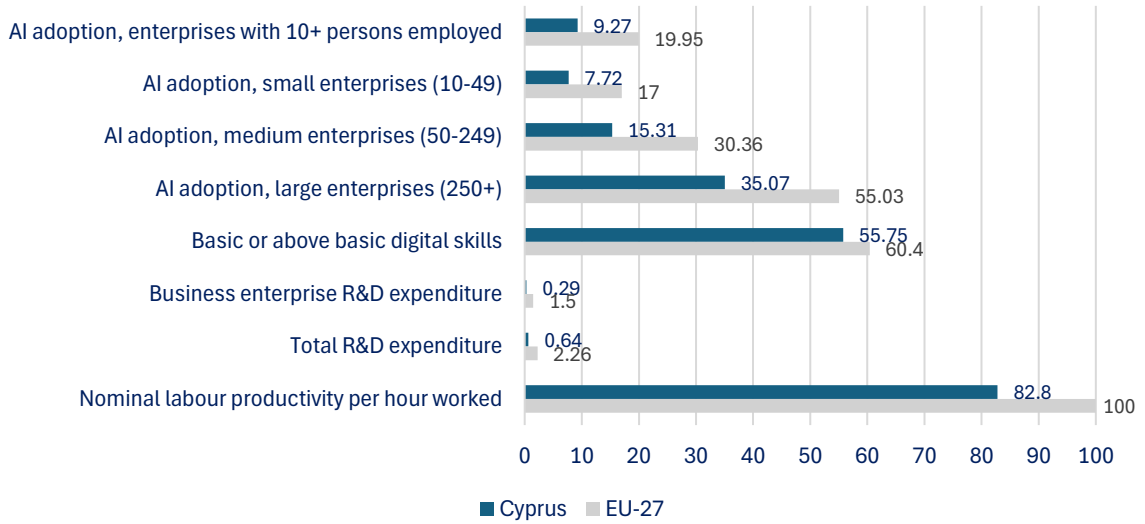
€709m received

70% of the €1.02 bn RRF grant envelope (Presidency statement, 5 Oct 2026)

INVESTMENT BY ASSET, % OF GDP (2022–2025)



AI, DIGITAL SKILLS, R&D AND PRODUCTIVITY — LATEST AVAILABLE DATA



AI adoption and digital skills: 2025 (%); R&D: 2024 (% of GDP); productivity per hour: 2025 (EU-27 = 100). Different units; bar lengths across indicator groups are not directly comparable.

- **Growth has been labour-driven; that source is fading:** employment growth slowed from 4% (2022) to 1.7% (2025); productivity per hour is 83% of the EU level and unit labour costs are rising.
- **Headline investment is volatile, underlying investment is weak:** ships, aircraft and IP products drive the swings; productive equipment is small (ICT equipment 0.5% of GDP) and investment excl. ships & aircraft fell in Q2 2026.
- **Fiscal Council view:** the gap is private investment in technology and knowledge — demand-side incentives for SME technology adoption, business R&D (one-fifth of the EU ratio), and a credible public-investment appraisal and execution framework so EU funds are not lost after the RRF.

Sources: Eurostat, nama_10_an6, nama_10_gdp, isoc_eb_ai, isoc_sk_dskl_i21, rd_e_gerdtot, nama_10_lp_ulc; CYSTAT, QNA (20 Oct 2026); Presidency, RRF statement (5 Oct 2026); DG Growth, THALIA 2021–27; IMF Article IV 2026; Fiscal Council, Interim Report 2026.

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Strong GDP growth does not fully translate into national and household income

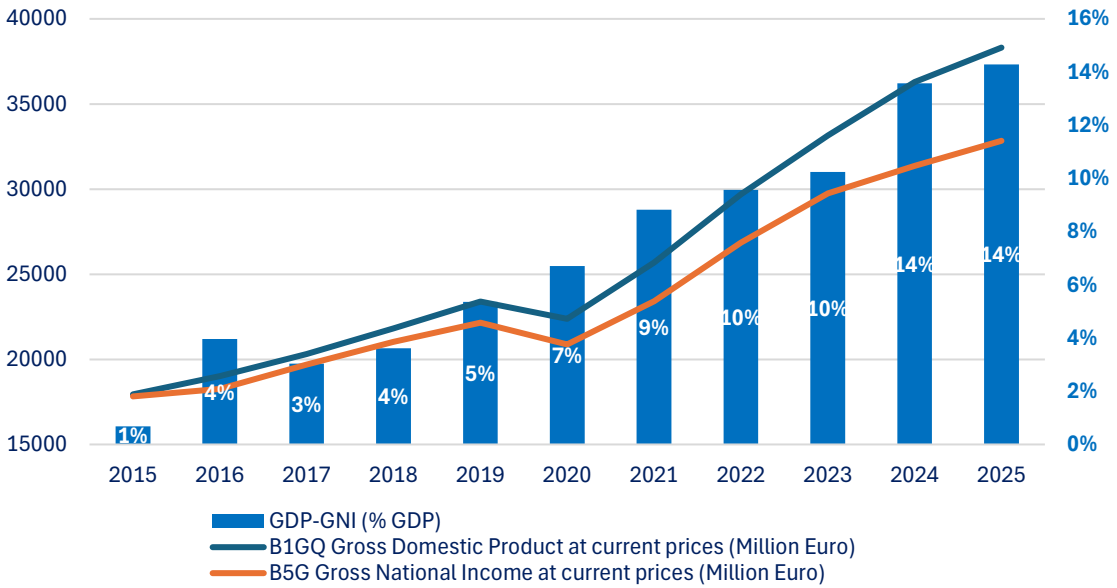
10.9% of GDP
GDP–GNI gap, 2025
Interim Report (pre-revision vintage)

14.3% of GDP
GDP–GNI gap, 2025
Implied gap — Council derivation (revised GDP less BoP primary income; see footer)

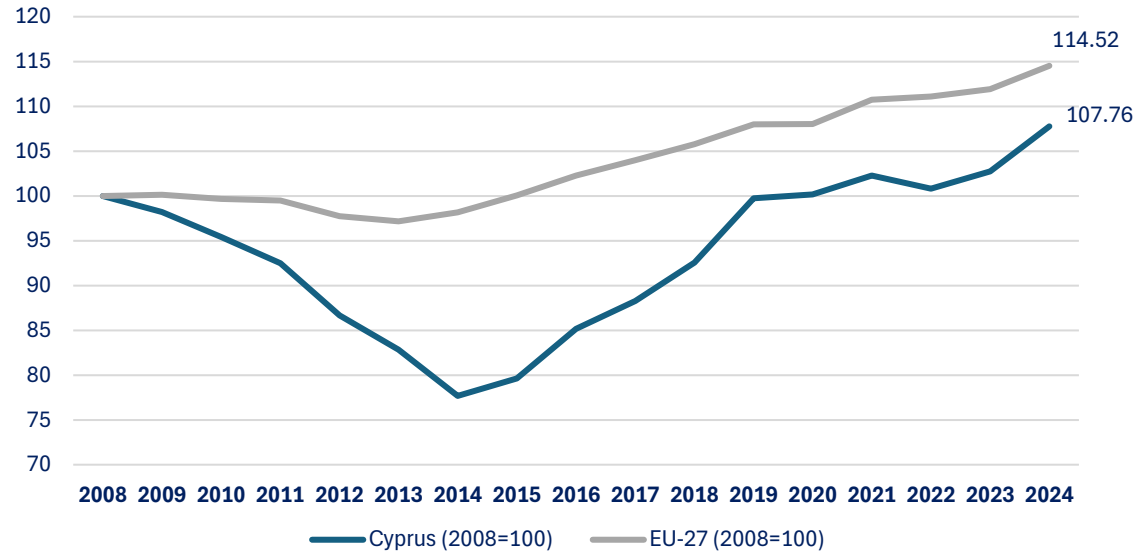
–€5.5 bn
Net primary income outflows, 2025 (CBC, revised 2 Oct 2026)

107.8 vs 114.5
Real household disposable income per capita, 2024 (2008=100): Cyprus vs EU-27

GDP VERSUS GNI (DERIVED) AND THE INCOME GAP, CYPRUS, 2015–2025



REAL HOUSEHOLD DISPOSABLE INCOME PER CAPITA, 2008 = 100



- **GDP–GNI gap:** The gap widened from approximately 0.7% of GDP in 2015 to 14.3% in 2025, reflecting substantial net primary income outflows to non-residents.
- **Most of the outflow is accounting, not cash:** reinvested earnings of foreign-owned firms (about €2.9 bn in 2025) are recorded as income paid abroad and re-invested; they carry low liquidity risk but are income that does not accrue to residents — hence GNI is the better complement for judging what the growth model delivers.
- **Household income has lagged:** real disposable income per capita is 7.8% above 2008 in Cyprus versus 14.5% in the EU-27, despite the strong 2024 rebound (+4.9%); inclusiveness depends on productivity, domestic value added and stronger links between international firms and the local economy.

Sources: CBC, Balance of Payments, annual (revision of 2 Oct 2026); Eurostat nama_10_gdp (GDP, CYSTAT revision of 20 Oct 2026), bop_c6_a, nasa_10_nf_tr (GNI to 2024, vintage 14 Oct 2026), tepsr_wc310 (household income, 14 Oct 2026); Interim Report 2026, Sections 3.4 and 3.6, Charts 18 and 25. "Implied gap" and the GNI series in the chart = GDP + BoP primary-income balance (Council derivation). Official GNI (Eurostat nasa_10_nf_tr) is available to 2024 on the pre-revision vintage (€31.0 bn); no revised official GNI for 2025 was found in Eurostat as of 22 Oct 2026 — status in CYSTAT-DB to be confirmed. GNI is a complement to GDP, not a substitute for debt analysis.

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Energy and services inflation pressures raise persistence risks; COLA increases public wage-bill sensitivity

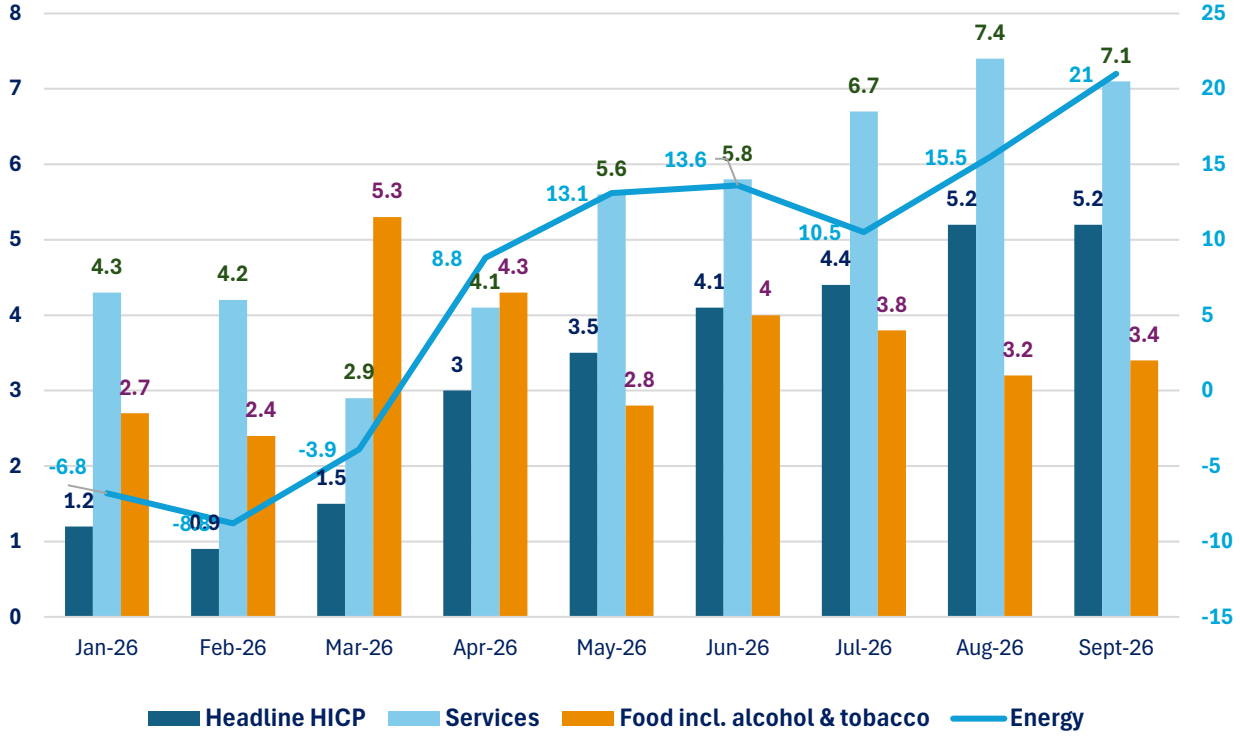
5.2%
Headline HICP, Sep 2026

7.1%
Services inflation, Sep 2026

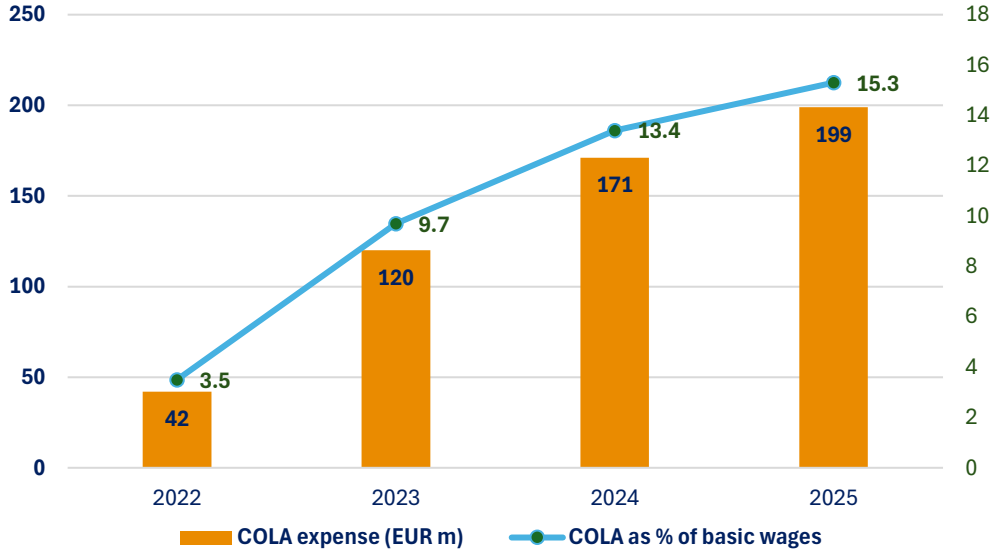
3.3% → 2.4%
CBC forecast, HICP 2026 → 2027 (core 2.8% → 2.2%)

100% by Jul 2027
COLA payout rate (80% H1 2026, 90% to Jun 2027)

HICP ANNUAL RATES BY COMPONENT, % (ENERGY ON RIGHT AXIS)



COLA ELEMENT OF THE CENTRAL-GOVERNMENT PAYROLL



€199 m (2025) is the existing indexation element — not the cost of the new payout schedule. Increases are conditional on positive growth and a 4% inflation cap.

- **Pickup is energy-led, persistence is in services:** energy +21% (1.8 pp), services 7.1%, core 3.9%; wages above productivity → second-round risk.
- **COLA raises wage-bill sensitivity:** full indexation by July 2027 passes inflation surprises into the €4.2 bn public payroll.
- **FC recommendations:** capped flat-amount COLA; pay rises linked to productivity; relief measures temporary, targeted, costed.

Sources: Eurostat prc_hicp_minr (HICP, COICOP 2018; updated 16 Oct 2026); CBC Macroeconomic Projections, September 2026; MoF Budget Directorate and Circular 1780/2026 (COLA); Interim Report 2026, Sections 3.5 and 5.3, Chart 36. Core = HICP excl. energy, food, alcohol and tobacco. COLA is indexed to the national CPI, not the HICP.

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Tourism is recovering from the early-2026 shock, but arrivals and receipts remain below 2025

−5.6% y/y

Tourist arrivals, Jan–Sep 2026: 3.40 million (CYSTAT, 19 Oct 2026)

+1.8% y/y

Arrivals in September 2026: 580,889 — first positive month since February

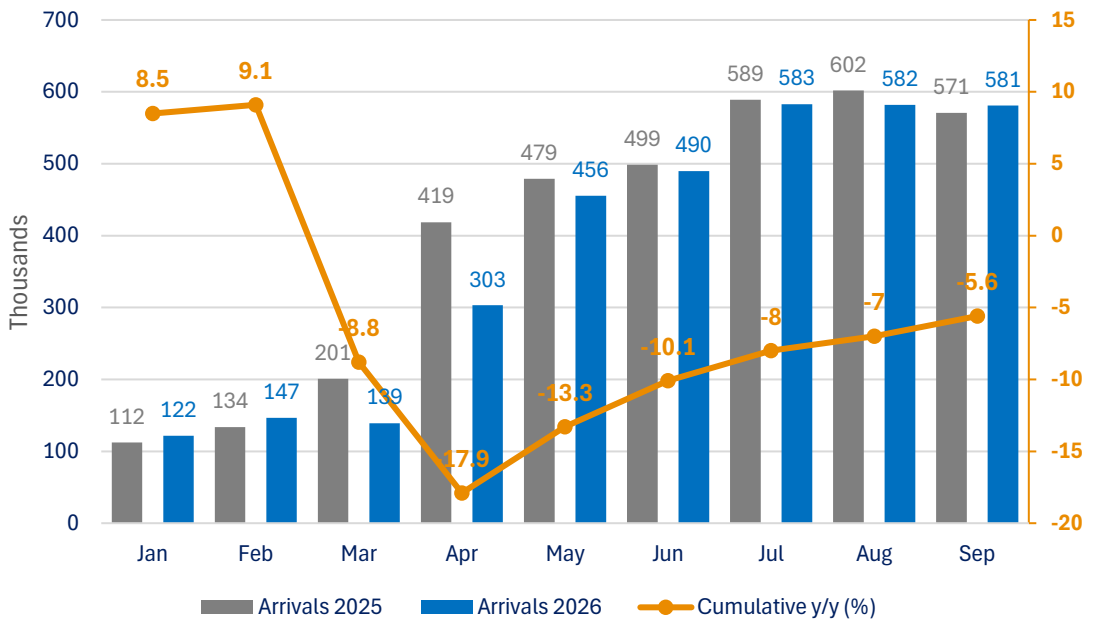
−7.0% y/y

Tourism receipts, Jan–Jul 2026: €1,757.8 m (€1,891.1 m in 2025)

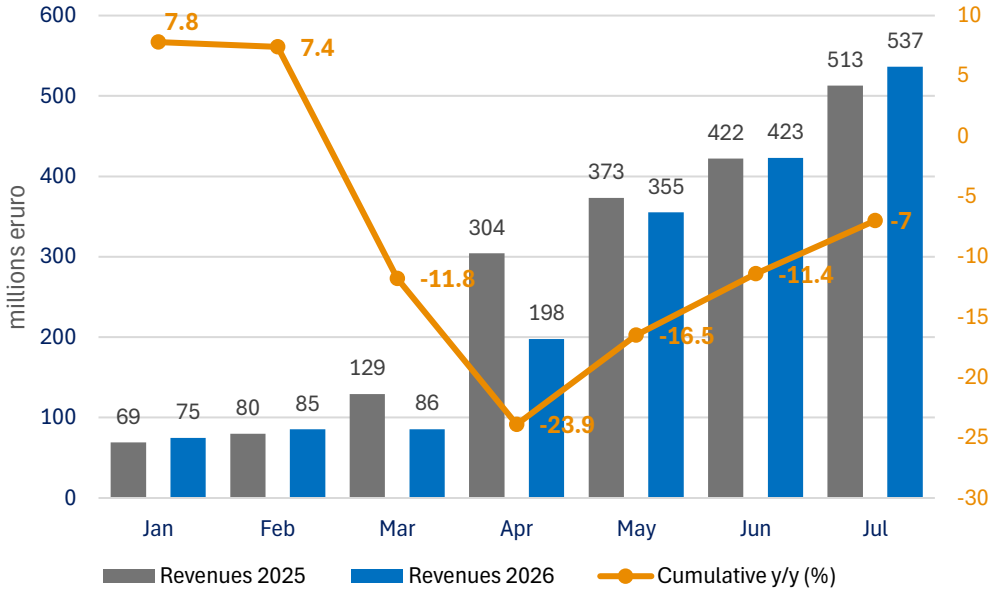
€920.66

Spending per tourist, July 2026 (+5.7% y/y); receipts +4.6% in July

TOURIST ARRIVALS, 2025 VS 2026, JAN–SEP (CUMULATIVE Y/Y, RHS)



TOURISM RECEIPTS, € MILLION, 2025 VS 2026, JAN–JUL (CUMULATIVE Y/Y, RHS)



- **A shock, then a recovery:** arrivals fell sharply in March–April as the Middle East conflict hit the UK and Israeli markets (56% of the H1 decline), narrowed to −1.7% in June and turned positive in September; the cumulative gap is closing but 2026 will end below the 4.5 million record of 2025.
- **Receipts held up better than volumes:** spending per tourist rose to €921 in July (+5.7%), so receipts (−7.0% Jan–Jul) fell less than nights spent; this supports the Council's call to shift tourism policy from arrivals to value per visitor.
- **Outlook conditional on geopolitics:** the CBC (Sept 2026) assumes gradual de-escalation from Q4 2026 and a tourism recovery in 2027; employment in accommodation and food services has not fallen (Q2 2026 +3.6% y/y), and the fiscal effect runs through VAT and corporate profits but is not separately measured.

Sources: CYSTAT, Arrivals of Tourists (monthly, press release of 19 Oct 2026; CYSTAT-DB table 2021012E); CYSTAT, Revenue from Tourism (monthly, release of 2 Oct 2026; CYSTAT-DB 2031010E); CBC Macroeconomic Projections, September 2026; Eurostat lfsq_egan2 (employment, NACE I); Interim Report 2026, Section 3.1, Charts 6–7. Cumulative y/y rates computed from summed monthly values, not from monthly percentages.

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Cyprus's external deficit reflects substantial primary-income outflows alongside a persistent goods deficit

−8.4% of GDP

Current account 2025 (CBC, revised 2 Oct 2026; −6.4% pre-revision)

−14.3% of GDP

Net primary income outflows 2025 (−€5.5 bn), of which reinvested earnings −€2.9 bn

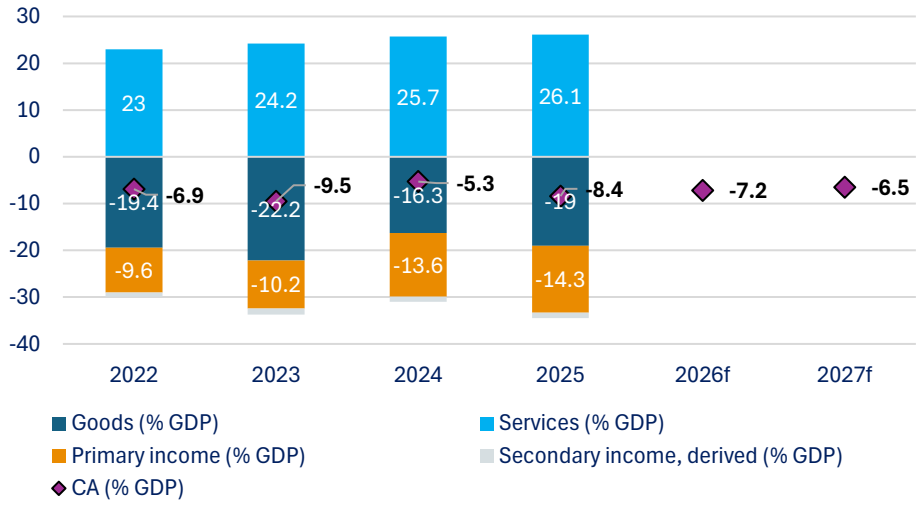
9.4% of GDP

Fuel imports 2025 (€3.6 bn, SITC 3); goods deficit −19.0%, services surplus +26.1%

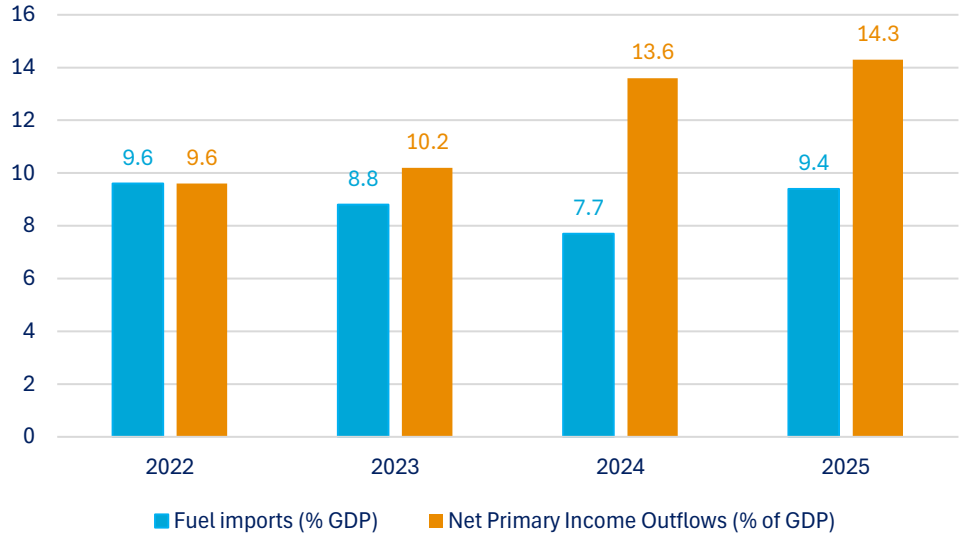
−7.2% → −6.5%

EC Spring 2026 forecast, 2026 → 2027 (pre-revision base); no 2028 official forecast yet

CURRENT ACCOUNT AND COMPONENTS, % OF GDP (CBC, REVISED; EC FORECAST MARKERS)



FUEL IMPORTS VS PRIMARY INCOME OUTFLOWS, % OF GDP



- **Outlook: the EC forecasts a narrowing current-account deficit in 2027, subject to external risks.**
- **Structural gap:** Net primary-income outflows reached 14.3% of GDP in 2025; approximately 54% reflects reinvested earnings
- **Council's Priority:** Reduce energy dependence, strengthen domestic linkages and monitor external vulnerabilities.

Sources: CBC, Balance of Payments annual (revision of 2 Oct 2026) — current account, goods, services, primary income, reinvested earnings; Eurostat ext_lt_intertrd (SITC 3 imports, 16 Oct 2026), nama_10_gdp (GDP, 20 Oct 2026); EC Spring Forecast 2026 (AMECO) as reported in Interim Report 2026, Chart 22; CBC Macroeconomic Projections Sept 2026; Interim Report 2026 §3.6, Charts 23–24 (NIIP, adjusted CA). Secondary income derived as residual.

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Cyprus remains resilient, but a prolonged conflict would amplify economic and fiscal risks

Channel		Transmission		Economic Impact
Tourism	→	Fewer arrivals from affected source markets; airline capacity and traveller confidence	→	**Weaker services exports and tourism-related revenue** **UK and Israel: 44.8% of tourist arrivals in 2025**
Energy	→	Higher oil prices pass through to electricity, fuel and transport costs	→	**Higher inflation and a wider goods deficit** **5.2% in Sep 2026 · energy import dependence 87.7% (2024)**
Shipping	→	Rerouting, freight and insurance costs; disruption of regional trade	→	**Potential pressure on transport-services exports and higher trade costs** **Transport services: 16.0% of services exports (2025)**
Confidence & investment	→	Uncertainty can delay private investment decisions	→	**Slower capital deepening and productivity gains**

Downside case (qualitative). Reference point: the CBC's September 2026 projections assume de-escalation after Q4 2026.
A prolonged conflict into 2027 would increase downside risks to growth and upside risks to inflation.
Fiscal implication: Lower tax revenues and greater pressure to extend support measures. Any additional support should remain temporary, targeted and costed.

Sources: Interim Report 2026, Sections 3.1, 3.5, 3.6, 6.3 and Annex E (data: CYSTAT, Eurostat) · CBC Macroeconomic Projections, September 2026 · Eurostat HICP, September 2026 (16 Oct 2026)

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Spending pressures: the wage bill and pensions are hardest to contain; defence and climate rise from a low base

€4.17 bn

Compensation of employees 2025 (10.9% of revised GDP); +32% since 2022

+3.6 pp of GDP

Public pension spending 2022→2070 (EC Ageing Report; conditional on legislated parameters)

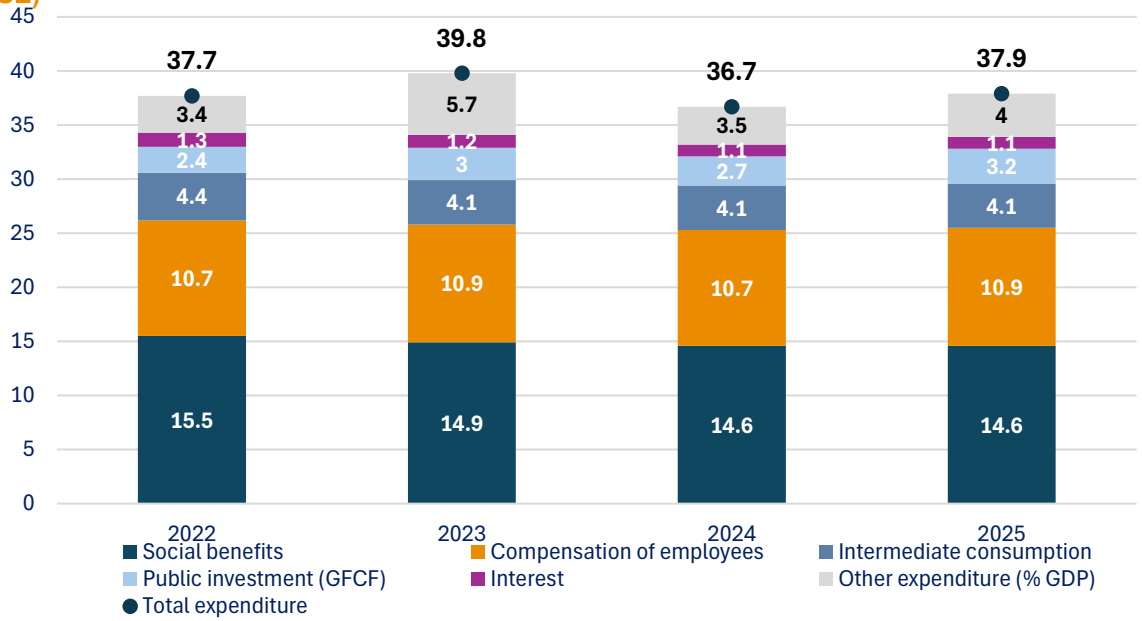
1.8% → 2.4%

Defence spending, 2025 → 2027 (APR 2026); SAFE loans up to €1.18 bn, first €177 m paid Jun 2026

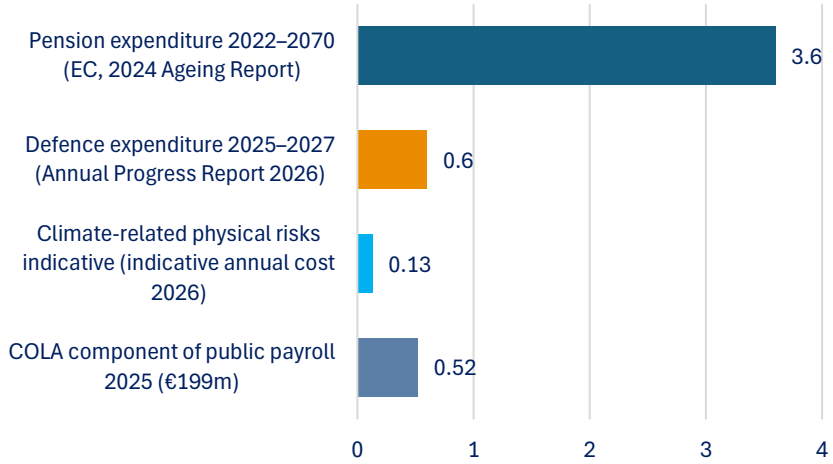
€49.8 m / yr

Indicative annual cost of climate physical risks 2026; 98% of historical losses uninsured

GENERAL GOVERNMENT EXPENDITURE BY CATEGORY, % OF GDP (REVISED GDP BASE)



SIZE OF THE PRESSURES (OFFICIAL MAGNITUDES, % OF GDP)



- **Hardest to contain (Council view):** the public wage bill (≈7% a year, faster than nominal GDP; COLA restored to 100% by July 2027; employment +8.1% in 2022–25) and pensions (ageing is the largest long-term risk; +3.6 pp of GDP by 2070 only if the legislated retirement-age link and contribution steps are implemented).
- **Healthcare:** GHS spending is demand-driven and indexed; the Council asks for outcome-based monitoring of the two largest items (health €901 m, welfare €803 m in 2025) — the issue is targeting, not level.
- **Defence, climate, infrastructure:** defence rises 0.6 pp by 2027 inside the net-expenditure path (no escape clause activated); climate adaptation and infrastructure renewal (water, grid, Vasilikos) are small today but are the areas where under-investment creates future contingent costs.

Sources: Eurostat gov_10a_main (EDP notification 21 Oct 2026; % of revised GDP); Interim Report 2026 §5.3 (wage bill, COLA, employment), §5.5 (social spending), §6.5 (climate), §6.7 (pensions; EC Ageing Report 2024), §5.6 (defence; MoF Annual Progress Report 2026); EC, SAFE first payment 18 Jun 2026.

δημοσιονομικό συμβούλιο
fiscal council

Seven in ten euros of spending are rigid and public investment lags the EU — reallocation is the Council's core recommendation

70%

Wages + social benefits + interest as share of total expenditure, 2025 (73% in 2022)

3.2% vs 3.9%

Public investment, % of GDP, Cyprus vs EU-27, 2025; development-budget execution 25% in H1 2026

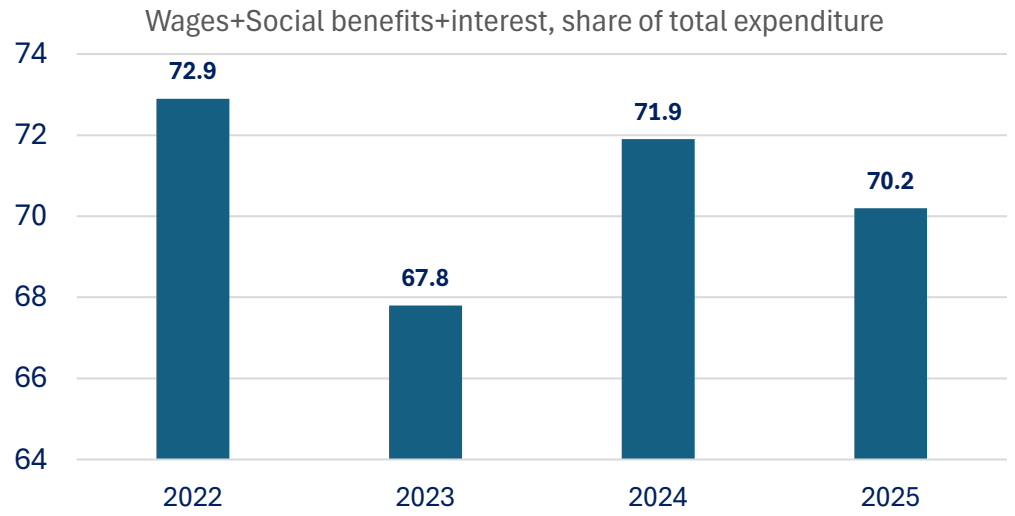
1.1% of GDP

Accrued EU transfers in revenue, 2025 (0.8% in 2024) — non-recurrent; revenue falls to 41.7% by 2027 (APR, pre-revision)

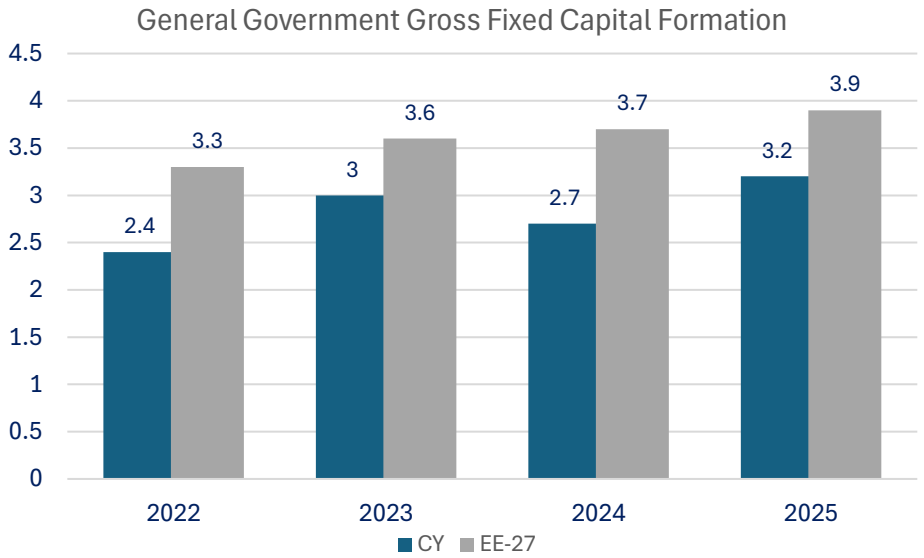
€639 m

Increase in wages + social benefits in 2025, mostly non-targeted (Report §5.3)

EXPENDITURE RIGIDITY, 2022–2025



PUBLIC INVESTMENT, CYPRUS VS EU-27, % OF GDP



- **Rigidities:** the permanent part of spending (wages, social benefits, interest) is 70% of the total; social benefits are mostly universal rather than means-tested, and the wage bill grows ≈7% a year — this is what makes the net-expenditure path hard to meet even with surpluses.
- **Non-recurrent revenues:** EU transfers (1.1% of GDP) and cyclical income taxes lifted revenue in 2025; the Council's rule is that temporary revenue must not fund permanent spending — the 2026 tax reform (−0.7% of GDP) and the end of RRF grants make this binding.
- **Scope to reallocate:** public investment at 3.2% of GDP with 25% half-year execution shows the constraint is capacity, not money: project appraisal, maturity before budgeting and a binding three-year framework (Recommendations 2, 5) are the route to shift spending to infrastructure and productivity.

Sources: Eurostat gov_10a_main (CY and EU-27, EDP notification 21 Oct 2026; revised GDP base); Interim Report 2026 §5.2–5.4, 7 (Recommendations 2 and 5), Executive Summary; MoF Annual Progress Report 2026, Table A4 (revenue 2026–27, pre-revision base). Rigid share = D1 + D62/D632 + D41 over total expenditure (Council calculation).

δημοσιονομικό συμβούλιο
fiscal council

The net-expenditure path has been breached — compliance needs structural measures, not the low debt ratio as an excuse

8.2% vs 6.0%

Net primary expenditure growth 2025 vs ceiling (DPB 2027)

8.6% vs 5.0%

2026 projection vs ceiling; cumulative 2024–28: 27.3% vs 25.7% recommended

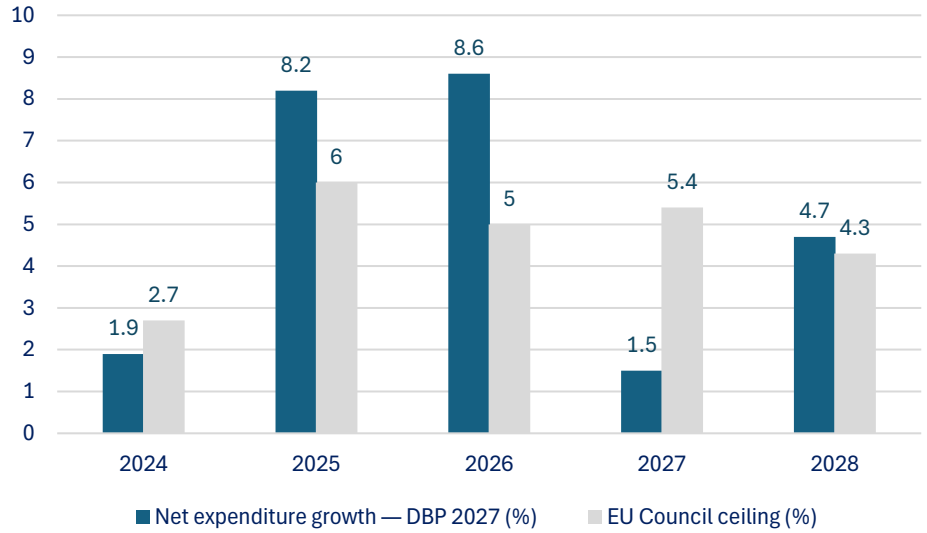
27.3% Vs 25.7%

Projected cumulative net expenditure growth, 2024–2028, vs EU Council recommended ceiling (DBP 2027).

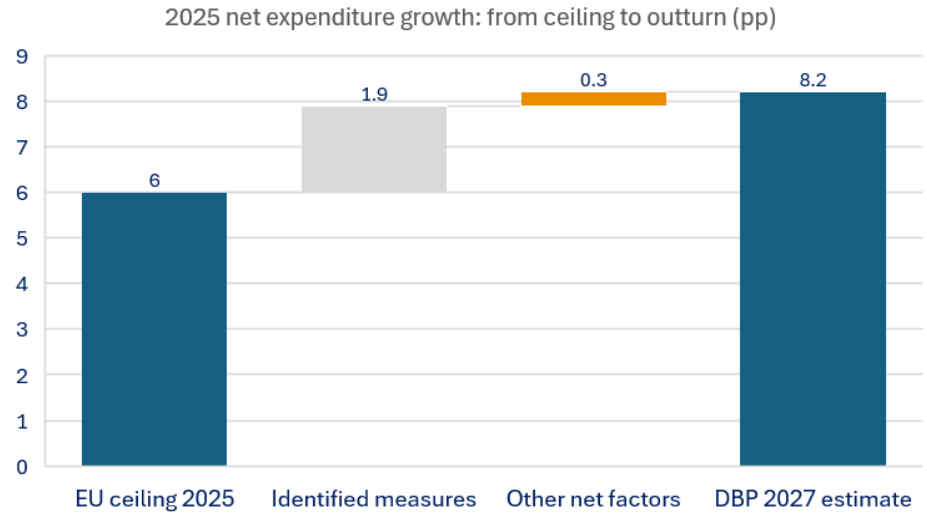
Not activated

National escape clause for defence expenditure. Projected defence spending: 1.7% of GDP in 2026 and 1.8% in 2027 (DBP 2027)

NET PRIMARY EXPENDITURE GROWTH VS COUNCIL CEILING, 2024–2028 (%)



2025 OVERSHOOT: IDENTIFIED MEASURES AND OTHER NET FACTORS (PP)



- **Implementation:** The Council Recommendation of July 2026 identified a material deviation from the net expenditure path. The October 2026 DBP now estimates growth at 8.2% in 2025 and 8.6% in 2026, exceeding the respective ceilings by 2.2 and 3.6 pp. The 2025 deviation reflects several identified measures; KEDIPES-related effects remain relevant, particularly in 2026 (+0.7 pp Asset Protection Scheme (APS) and +0.2 pp mortgage-to-rent), National Solidarity Fund (+0.8), Vasilikos grant repayment (+0.5), Photovoltaics for All (+0.3), Energy VAT and excise reductions (+0.2), Limassol wildfire support (+0.1).
- **Growth-friendly easing vs rules:** the Council's view is that the low debt ratio does not suspend the commitment; the 2026 easing is pro-cyclical (economy above potential). Fiscal space should go to investment and targeted measures, not to wages and universal benefits — the 2027 Budget and MTFF must show the net-expenditure aggregate explicitly.
- **Defence flexibility:** The government has not activated the national escape clause for defence expenditure. SAFE-financed equipment is recorded upon delivery, depending on the timing of actual deliveries . The Council recommends structural measures to restore compliance with the EU net-expenditure path rather than relying on possible future activation of the escape clause.

Sources: MoF, Draft Budgetary Plan 2027 (Oct 2026), §3.3, pp. 15–16; EU Council Recommendations (21 Jan 2025; 10 Jul 2026); Cyprus Fiscal Council, Interim Report 2026, §§5.6, 6.2. Net expenditure figures: DBP October 2026 vintage.

δημοσιονομικό συμβούλιο
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The 2026 tax reform is in force: net cost ≈0.7% of GDP, limited redistribution, fiscal neutrality not yet demonstrated

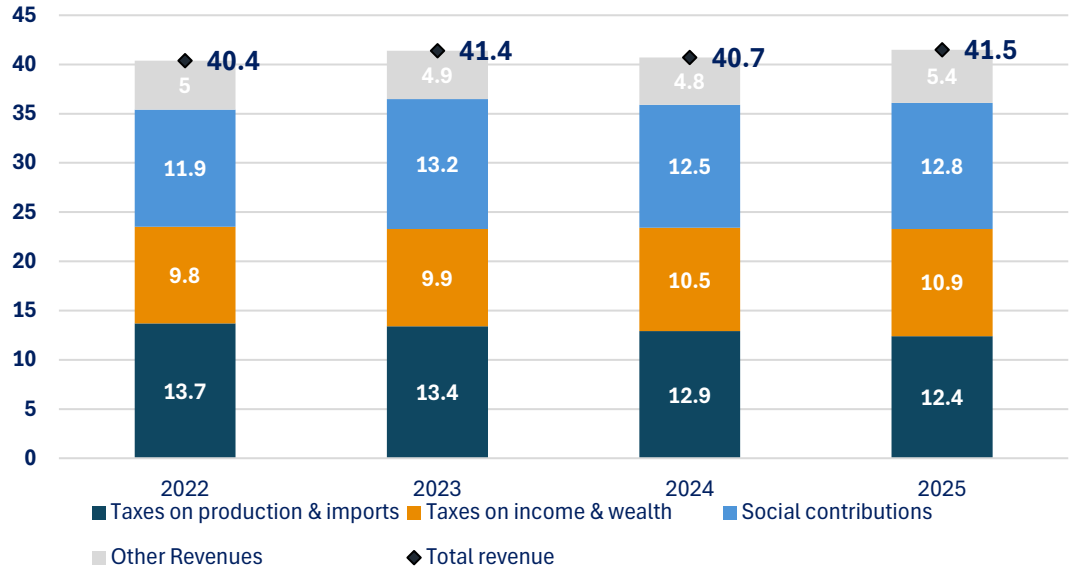
1 Jan 2026
Reform in force (laws voted 22 Dec 2025, gazetted 31 Dec 2025)

−€284 m
Net revenue effect 2026 (≈0.7% of GDP) — MoF Annual Progress Report 2026

12.5% → 15%
Corporate income tax rate; stamp duty abolished; deemed-dividend rules abolished; dividend SDC 17% → 5%

10.9% of GDP
Taxes on income & wealth 2025 (9.8% in 2022) — the base the reform re-prices

GENERAL GOVERNMENT REVENUE BY CATEGORY, % OF GDP (REVISED GDP BASE)



WHAT THE REFORM DOES — AND WHAT IS NOT YET KNOWN

Implementation: complete for 2026 — personal income tax brackets and a higher tax-free threshold, family allowances, corporate rate 15% (Pillar 2-compatible), abolition of deemed distribution and stamp duty, lower dividend defence tax.

Near-term revenue: −€284 m in 2026 (APR); the Council notes it is the main driver of the 2026 net-expenditure overshoot and must be financed by permanent savings, not temporary revenue.

Distribution: the Council assesses the redistributive dimension as limited — relief extends to middle and higher incomes; no official distributional analysis has been published.

Competitiveness / FDI / neutrality: the authorities have not published an assessment; the Council's view is that a 15% rate within the OECD minimum keeps the regime competitive, while fiscal neutrality depends on compensating measures that are not yet identified.

- **For Moody's:** the reform is legislated and in force; its first-year revenue cost is official; its medium-term neutrality is an open question the Council will assess against outturn data in 2027.
- **Council asks:** publish the distributional and revenue analysis behind the reform; show its effect on the net-expenditure path; avoid financing it with one-off revenues.

Sources: Laws published in the Official Gazette 31 Dec 2025 (House vote 22 Dec 2025), as summarised by EY Global Tax News 2026-0140 and Lexology (secondary); MoF Annual Progress Report 2026 (net revenue effect); Interim Report 2026, Executive Summary and §5.2, 5.6; Eurostat gov_10a_main (EDP notification 21 Oct 2026). No official distributional or competitiveness assessment has been published by the authorities.

δημοσιονομικό συμβούλιο
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Energy support measures are small in cost but untargeted; the exit must be dated and the next round means-tested

≈0.1% of GDP

Cost of 2026 support measures (EC estimate cited in Report); ≈0.3% if extended to year-end

8.33 c/litre

Fuel excise reduction; extended to 30 Nov 2026 (MoF, 10 Sep 2026); €15.5 m for Jul–17 Sep (MoF)

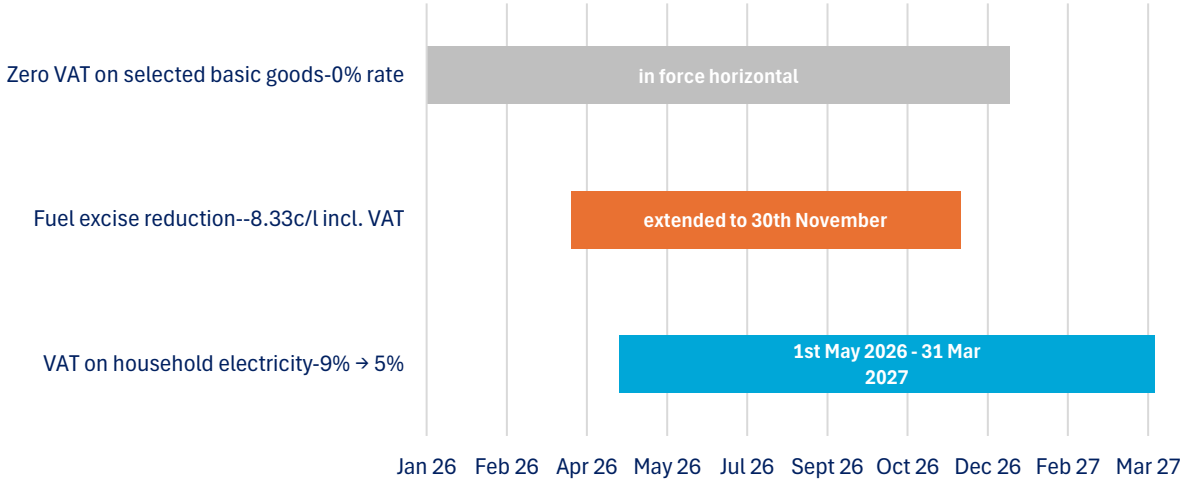
5% VAT

Household electricity (from 9%), 1 May 2026 – 31 Mar 2027 (Κ.Δ.Π. 167/2026); zero VAT on basic goods

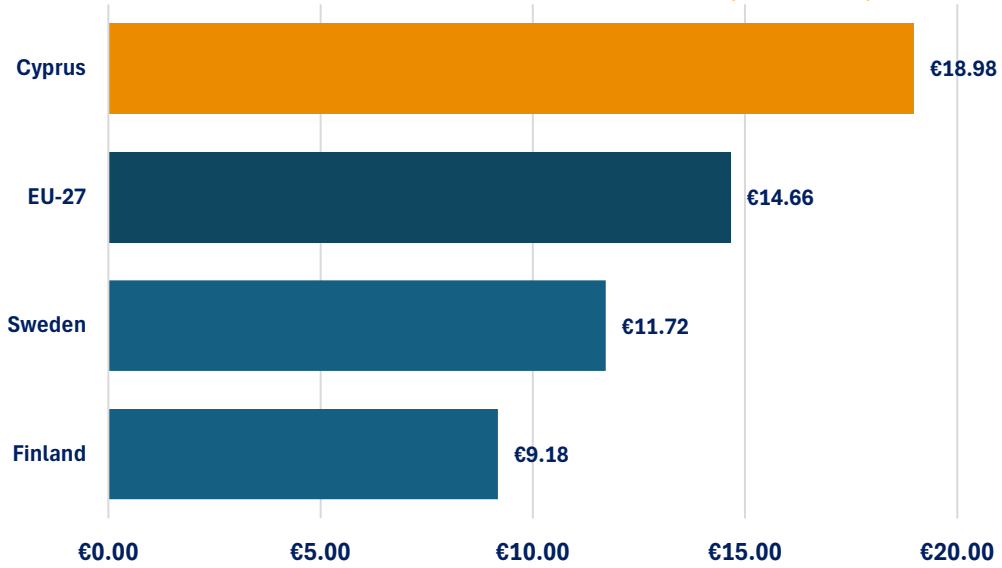
€42 vs €120

Average annual benefit, lowest vs highest income quintile (IMF Art. IV 2026) — 2.9× larger for the richest

2026 SUPPORT MEASURES IN FORCE AND THEIR EXPIRY



THE CAUSE: NON-HOUSEHOLD ELECTRICITY PRICES, H1 2026 (€/100 kWh)



- **Cumulative cost:** no official cumulative costing of the 2026 package is published; the Commission's estimate cited in the Report is ≈0.1% of GDP for 2026 (≈0.3% if extended to year-end) and the MoF costed the July–September excise extension at €15.5 m. The Council asks that the MTFF 2027–29 report the cumulative four-year cost of energy measures.
- **Exit strategy:** all measures carry legal end-dates (excise 30 Nov 2026; electricity VAT 31 Mar 2027); the Commission classifies the energy measures as untargeted and asks that they stay temporary. The risk is renewal by default while the cause — oil-based power about 30% above the EU average price — is permanent.
- **Principles for any further support (Council):** temporary with a sunset clause; targeted on income/AROP criteria and inelastic energy needs; costed and shown in the net-expenditure path; no horizontal VAT or excise cuts that weaken the green transition.

Sources: Interim Report 2026 §5.1–5.2 and 6.6.1 (EC cost estimate; IMF Article IV 2026 distributional analysis, Country Report 26/145); Κ.Δ.Π. 167/2026 (electricity VAT); MoF statements 26 Jun and 10 Sep 2026 (fuel excise extension and €15.5 m cost); Eurostat nrg_pc_205 (electricity prices, H1 2026, non-household 500–1,999 MWh band, excluding taxes; updated 19 Oct 2026); COM(2026) 213 final.

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Fiscal risks differ by time horizon

SHORT TERM

Non-compliance with NPE

DIRECT CHANNEL

External environment & energy costs

DIRECT CHANNEL

MEDIUM TERM

Contingent liabilities

DIRECT CHANNEL

Structural weaknesses

INDIRECT CHANNEL

LONG TERM

Climate risks

DIRECT CHANNEL

Ageing & pensions

DIRECT CHANNEL

Government non-performing loan assets: 9.0% of GDP (2024, Eurostat gov_cl_npla); potential asset-recovery risk, not government debt.

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

δημοσιονομικό συμβούλιο
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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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Contingent liabilities are contained but concentrated: NPLs outside banks, energy projects and state entities need monitoring

2.4% of GDP

Stock of government guarantees, 2024 (Eurostat); down from 3.7% in 2021

7.3% of GDP

Liabilities of government-controlled entities outside general government, 2024 (Eurostat)

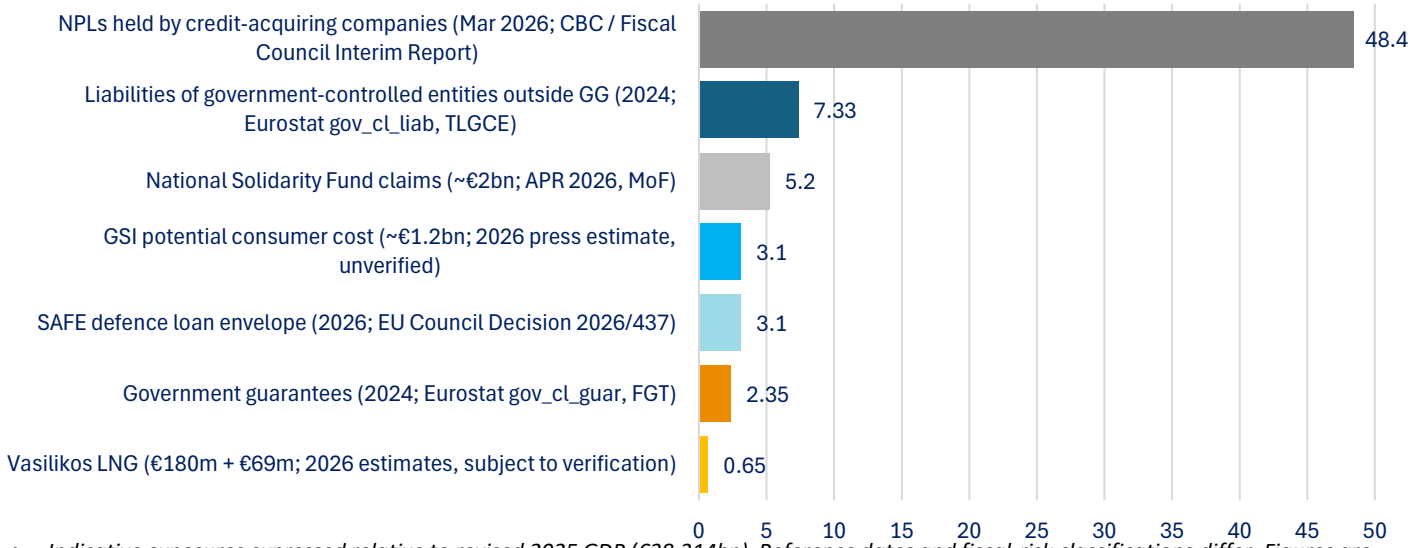
€18.5 bn

NPLs held by credit-acquiring companies, Mar 2026 (50.8% of pre-revision GDP) — not a public liability, an indirect risk

€70 m + €69 m

Vasilikos LNG: state grant to DEFA/ETYFA carried into 2026 + EU grant repayment demanded (Commission)

EXPOSURES THAT COULD MIGRATE TO THE SOVEREIGN BALANCE SHEET, % OF REVISED 2025 GDP (OFFICIAL VS INDICATIVE)



WHAT IS AND IS NOT A LIABILITY

Recorded: guarantees (2.4%), SOE liabilities outside GG (7.3%), KEDIPES (inside GG; APS and Rent-to-Instalment effects already in the path).

Contingent / policy risk: further National Solidarity Fund schemes (€100 m paid for 2025; ~€2 bn claims are not a cost estimate); Vasilikos completion and arbitration; GSI (Meridiam 66%, €657 m CEF grant, EIB cost study pending); EAC and Cyta financial position.

Not sovereign: NPLs outside banks (€18.5 bn) and health-sector entities — indirect channel via growth and credit; PPPs: no material off-balance PPP stock reported.

- *Indicative exposures expressed relative to revised 2025 GDP (€38.314bn). Reference dates and fiscal-risk classifications differ. Figures are not additive and do not represent recognised government liabilities.*

- **Financial sector:** bank NPL ratio 1.6% (Apr 2026); the risk migrated to credit servicers, where resolution is slow (682 days first-instance litigation) — a growth and credit-intermediation risk, not a direct fiscal one.
- **Council recommendation:** upgrade the annual Fiscal Risks Report to quantify each material exposure (size, probability, horizon, mitigation) and link it to the Budget, the MTFF and the net-expenditure path; independent cost-benefit assessment for GSI; KPI-based monitoring of EAC/Cyta.

Sources: Eurostat gov_cl_guar and gov_cl_liab (2024, published Feb 2026); Interim Report 2026 §6.4, 6.6.3 and Annex F (NPLs, KEDIPES, NSF, Vasilikos, GSI, EAC/Cyta); MoF Annual Progress Report 2026 (DEFA/ETYFA grant, NSF scheme); European Commission (SAFE; EU grant repayment, Jul 2024); Minister of Energy via Cyprus Mail 9 Oct 2026 (Vasilikos completion ≈€180 m — press, indicative); GSI consumer cost — press estimate pending the EIB study. Ratios use revised 2025 GDP (€38.3 bn).

δημοσιονομικό συμβούλιο
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RRF closure: 70% of the €1.02 bn grants received; the final request and any forfeiture are not yet public

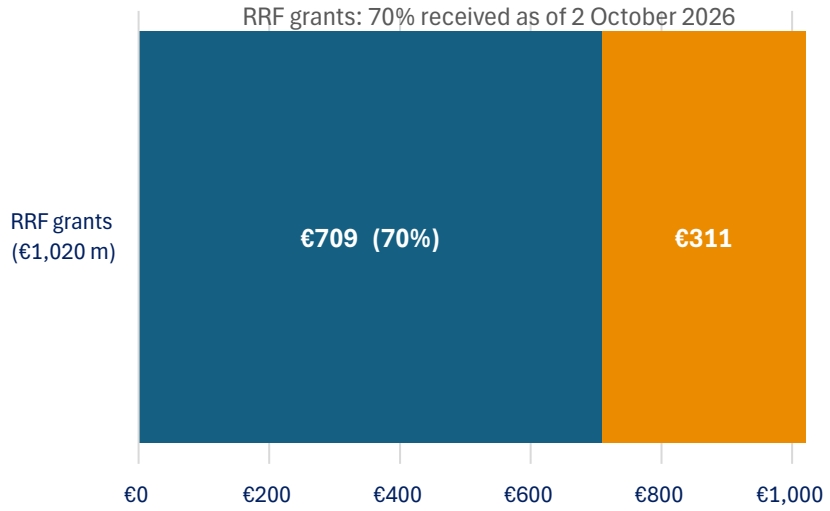
€709 m (70%)
RRF grants received (Presidency statement, 5 Oct 2026); €311 m remaining of the €1.02 bn plan

62%
Milestones and targets fulfilled at the Commission's 6th-request assessment (14 Jul 2026)

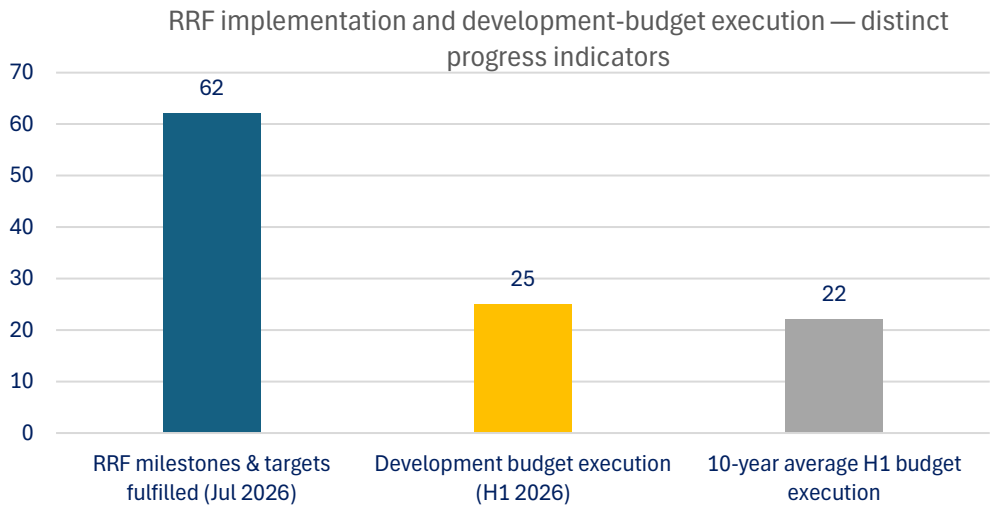
31 Aug 2026
End of RRF implementation; final payment request due by end-Sept 2026 — content not yet published

25%
Development-budget execution, H1 2026 (€412 m of €1.62 bn) — the capacity constraint behind RRF risk

RRF GRANTS: PAID VS REMAINING (€ MILLION)



DELIVERY INDICATORS (%)



- **What the final request covers: the remaining €311 m (30%) and the milestones/targets outstanding after the July assessment (≈38%); the Audit Office (Special Report 12/2026) and the Council flagged the concentration of milestones at the end of the period as a risk of not using the funds in full. The final request's content and the Commission's assessment are not yet public — figure to be confirmed by DG Growth.**
- **Forfeiture:** no official estimate has been published; the Council does not provide one. Any shortfall is bounded by the unpaid €311 m.
- **Unfinished projects:** the Council's position is that projects with demonstrated value should be completed from national funds, but only after re-appraisal and with their cost shown explicitly in the 2027 Budget and the net-expenditure path — otherwise the RRF transition becomes a hidden expenditure pressure.

Sources: Presidency of the Republic, statement of 5 Oct 2026 (€709 m received, 70% of €1.02 bn); European Commission, assessment of the sixth payment request, 14 Jul 2026 (€683 m paid at that date, 67%; 62% of milestones and targets); Interim Report 2026 §5.4 and 6.6.4 (€589 m received by May 2026, €118 m pending; Audit Office Special Report 12/2026); Treasury, Budget execution H1 2026 (24 Jul 2026). Final payment request: content not published as of 22 Oct 2026.

δημοσιονομικό συμβούλιο
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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.

δημοσιονομικό συμβούλιο
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Energy projects: only Cronos has a firm timetable; Vasilikos and the interconnector stay outside the Council's base case

2028

First Cronos gas (Eni FID 28 Jul 2026; via Egypt's Zohr/Damietta LNG); no gas revenue in the fiscal baseline

~€180 m / 2 yrs

Vasilikos LNG completion estimate (Minister, Oct 2026, press); contract terminated Jul 2024; EoI closed 9 Oct 2026

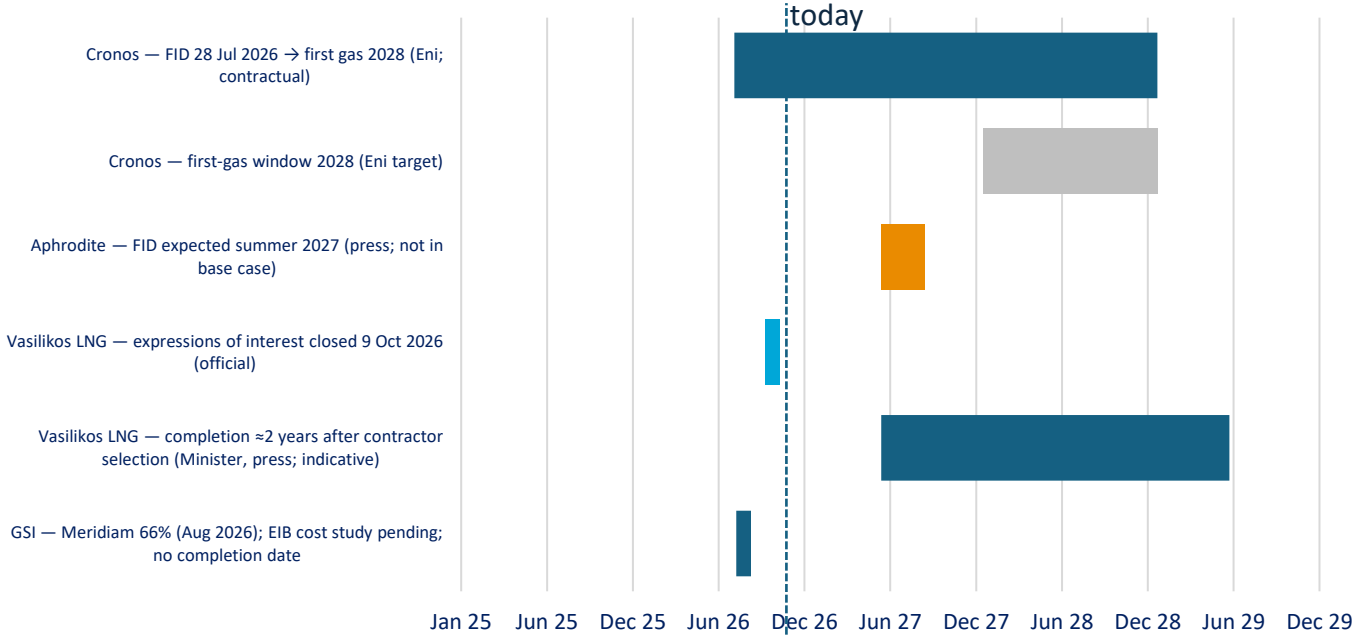
0%

Electricity interconnection level (target 15% by 2030); GSI: Meridiam 66%, EIB cost study pending

87.7%

Energy import dependence 2024 (Eurostat); non-household electricity ≈30% above the EU average (H1 2026)

TIMETABLE AND STATUS: CONTRACTUAL VS MINISTERIAL EXPECTATION / PRESS (AS OF 22 OCT 2026)



BOTTLENECKS

Vasilikos: governance and procurement failures (EU repayment, EPPO investigation), FSRU uncertified, re-tender and arbitration — completion depends on a credible contractor and final cost.

GSI: financing split and consumer cost, regulatory approvals, geopolitical risk on the route; no completion date.

Market: the competitive electricity market and storage roll-out are prerequisites for lower prices; status to be confirmed with CERA/TSOC.

COUNCIL BASE CASE

In: continued oil-based generation and high prices through 2027; Cronos revenues only from 2028 and not in fiscal projections. **Out:** Vasilikos, GSI, Aphrodite — treated as risks (fiscal exposure) until timetables are contractual.

- **Fiscal angle:** every delay keeps electricity costs high, sustains pressure for support measures (0.1–0.3% of GDP a year) and converts project risk into contingent liabilities (DEFA/ETYFA grant, EU repayment, possible further financing needs).
- **Council asks:** publish timetables with contractual milestones; independent cost-benefit assessment of GSI (EIB study); a gas-revenue management framework before first gas, so that future receipts are not spent in advance.

Sources: Eni press release, 28 Jul 2026 (Cronos FID; first gas 2028); Minister of Energy statements via Cyprus Mail 9 Oct 2026 (Vasilikos EoI, ≈€180 m, 2 years — press); European Commission (EU grant repayment, Jul 2024); GSI shareholding Aug 2026 (gov.cy statement cited in Interim Report §6.4); Eurostat nrg_ind_id (2024), nrg_pc_205 (H1 2026); Interim Report 2026 §6.4 and Annex E. Aphrodite FID timing: press reports only.

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A fragmented parliament raises execution and spending risks; the answer is a binding three-year framework

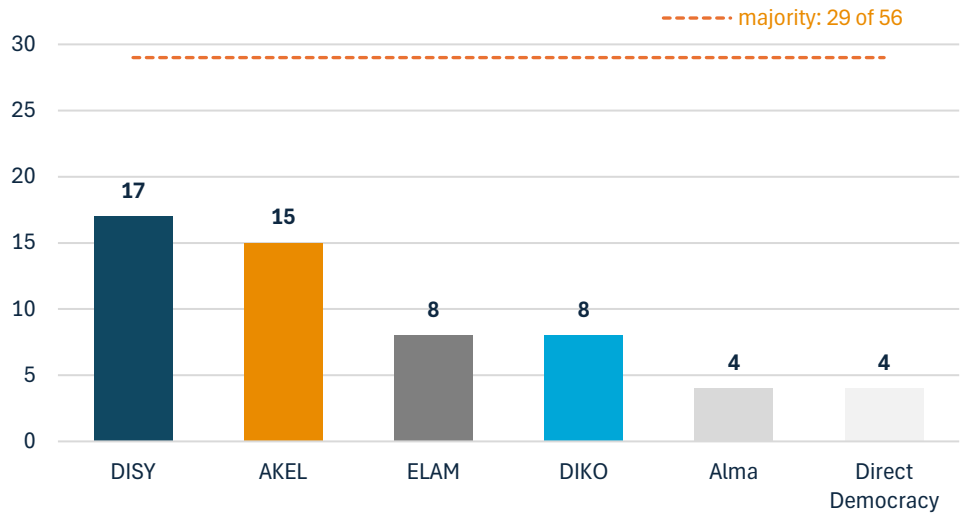
6 parties
House of Representatives after 24 May 2026; largest party 17 of 56 seats (30%); no majority

Dec 2026
2027 Budget and MTFF 2027–29 to be voted; first budget on the revised GDP base

Feb 2028
Presidential election — the period in which the Council expects spending pressure to peak

+2.4 pp
2026 net-expenditure overshoot already projected before any parliamentary add-ons

SEATS BY PARTY, HOUSE OF REPRESENTATIVES (ELECTION OF 24 MAY 2026)



IMPLICATIONS (FISCAL COUNCIL ASSESSMENT)

Budget 2027: Cyprus's presidential system means the executive proposes and the House votes; with no majority, the budget needs cross-party support, which historically has been secured but with amendments and conditions. The risk is amendments that add permanent spending or block revenue measures.

Reform delivery: reforms requiring legislation (public administration, justice efficiency, pensions, SOE governance) face longer negotiation; the Council does not forecast political outcomes.

Spending pressures before 2028: the Council's Interim Report explicitly warns that fiscal discipline must be maintained irrespective of the electoral cycle, avoiding untargeted or permanent benefits without secured financing.

- **What protects the path:** the Fiscal Responsibility and Fiscal Framework Law, the EU net-expenditure path with its control account, and the Council's recommendation for a binding three-year fiscal framework (Rec. 5) with the net-expenditure aggregate shown explicitly to Parliament.
- **What to watch:** parliamentary amendments to the 2027 Budget, renewal of energy measures, COLA and pay decisions, and any new National Solidarity Fund scheme — each would show up in the control account.

Sources: IPU Parline, Cyprus House of Representatives, election of 24 May 2026 (turnout 66.9%); Interim Report 2026 §2 (Strategic choices), §5.6, §6.2 and Conclusions (Recommendation 5); Fiscal Responsibility and Fiscal Framework Law 20(I)/2014; Regulation (EU) 2024/1263. The Council makes no political forecasts; implications are fiscal-governance assessments.

δημοσιονομικό συμβούλιο
fiscal council

Cyprus problem: UN-facilitated contacts have resumed; no settlement scenario is in the fiscal baseline

29 Oct – 9 Nov 2026

Visit of the UN Secretary-General's Personal Envoy (Holguín); trilateral meeting on 9 Nov (UN press statement, 20 Oct 2026)

20 Oct 2026

Latest leaders' meeting (Christodoulides–Erhürman): progress on environment and cultural heritage; crossing points pending

Via Egypt

Cronos export route (Zohr–Damietta): first gas 2028 independent of Türkiye-related constraints

No baseline effect

Neither a settlement nor a deterioration is in official forecasts or in the Council's fiscal assessment

WHERE THE PROCESS STANDS (FACTUAL, AS OF 22 OCT 2026)

Format: informal UN-facilitated contacts between the two leaders, with the Personal Envoy; confidence-building measures (cultural artefacts exchange, environment via Technical Committees); two proposals on new crossing points under discussion (Pyroi–Athienou a stated priority).

Next steps: Envoy's separate meetings from 29 October and a trilateral on 9 November; a further leaders' meeting expected beforehand; EU–Türkiye high-level contacts in parallel.

IMPLICATIONS FOR ENERGY PROJECTS AND PUBLIC FINANCES

Cronos: developed as a tie-back to Egypt; export via Damietta LNG — not dependent on a pipeline through contested waters; first gas 2028 (Eni).

GSI: the cable route and survey work are exposed to regional tension; this is one of the uncertainties the Council cites for keeping GSI out of its base case and for requiring an independent cost-benefit assessment.

Fiscal baseline: official forecasts and the Council's assessment assume the status quo; a settlement would be a long-term upside (market size, infrastructure, defence spending) with transition costs; the Council has not quantified either direction.

Defence: spending rises to 2.4% of GDP by 2027 regardless of the process (SAFE), inside the net-expenditure path.

- **Council position:** no scenario analysis is published; any settlement-related fiscal costs or benefits should be assessed transparently when they become concrete.

Sources: UN Cyprus press statement, 20 Oct 2026; Cyprus Mail reports of 6–20 Oct 2026 on leaders' meetings and the Envoy's visit (press); Eni press release 28 Jul 2026 (Cronos route); Interim Report 2026 §6.4 (GSI uncertainties) and §5.6 (defence); CBC Macroeconomic Projections Sept 2026 (status-quo assumption). The Council takes no position on the political process.

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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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Appendix — Source-market concentration: two markets bring 45% of arrivals and 46% of receipts

44.8%

Share of UK + Israel in tourist arrivals, 2025 (46.5% in 2022); EU-27 41.6%

46.1%

Share of UK + Israel in tourism receipts, 2025 (derived: arrivals × spending per trip)

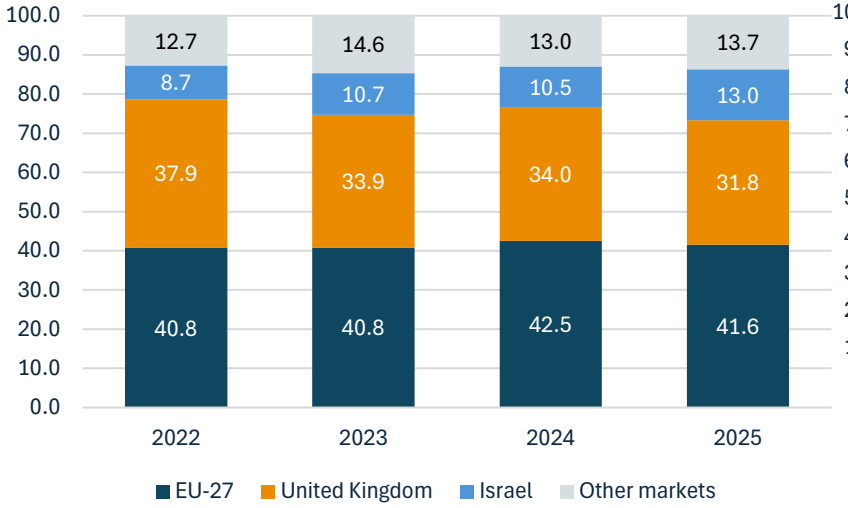
73.4%

Top-2 markets (EU-27 + UK) in arrivals, 2025; Herfindahl index of four groups ≈ 0.31

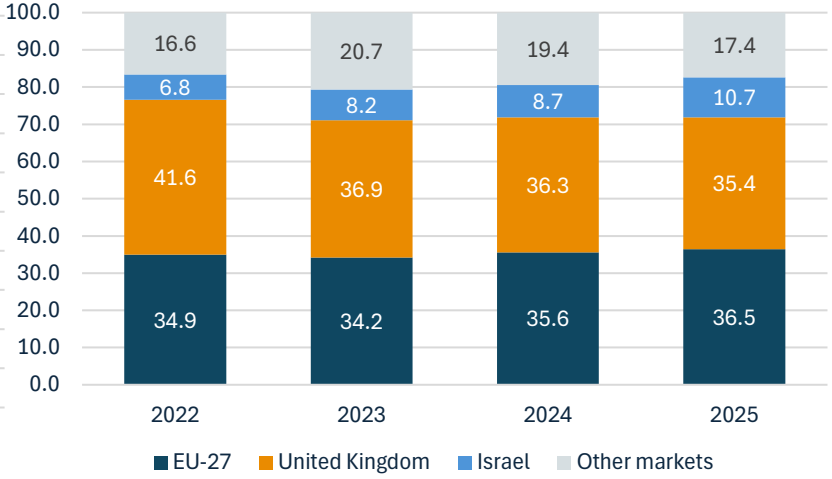
€910 vs €671

Spending per tourist 2025: UK vs Israel (EU-27 €715; other markets €1,037; all €815)

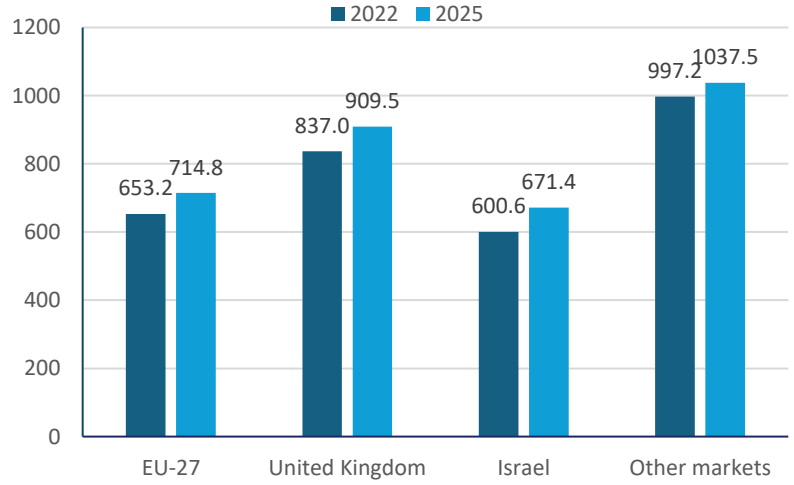
ARRIVALS BY MARKET, % OF TOTAL



RECEIPTS BY MARKET, % OF TOTAL (DERIVED)



SPENDING PER TOURIST BY MARKET, €



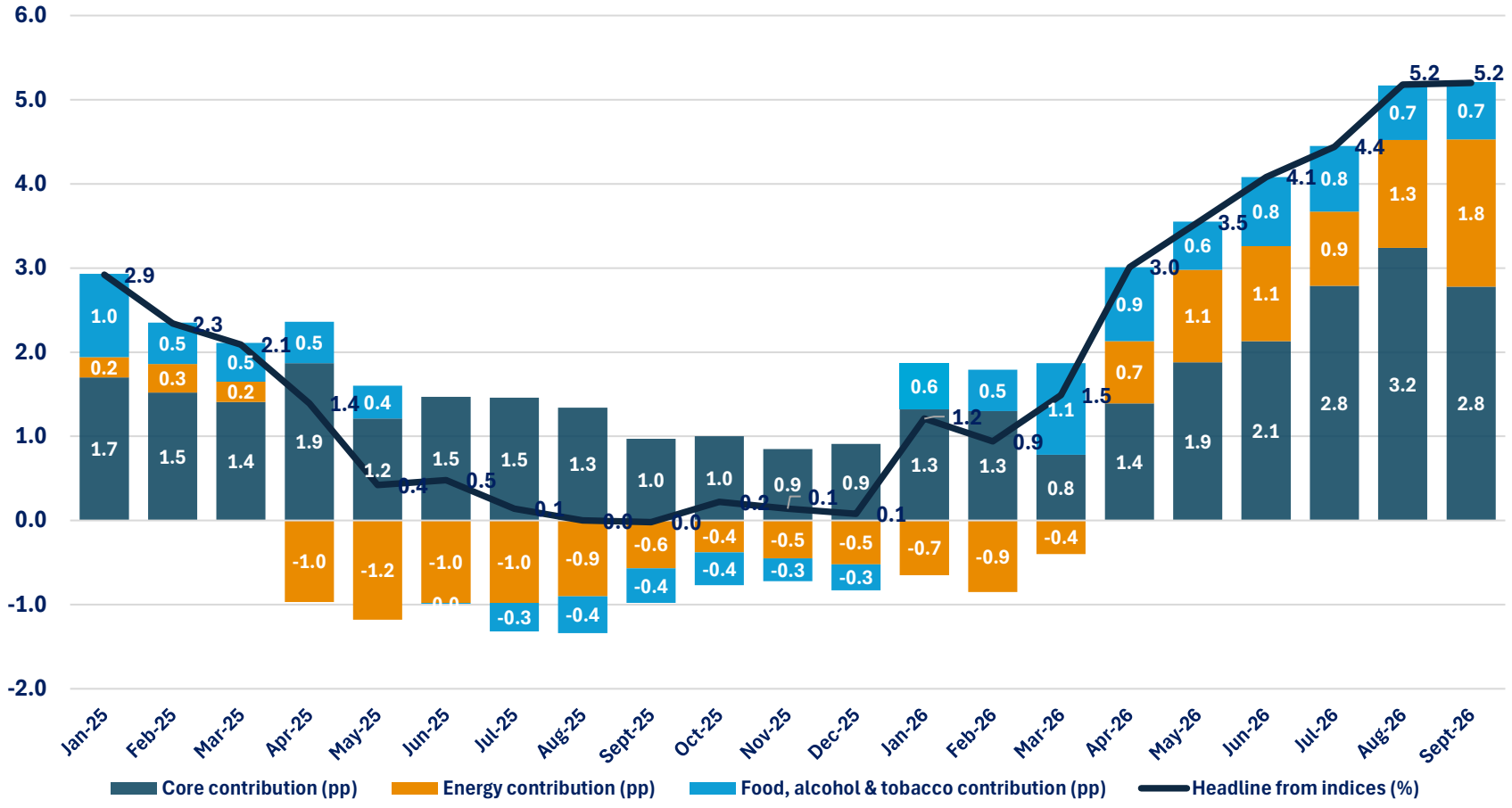
- **Concentration is high and persistent:** the UK and Israel together supplied 45% of arrivals and 46% of receipts in 2025; with the EU-27 (41.6%) the three blocs account for 86% of arrivals. The UK share has fallen from 37.9% to 31.8% since 2022, offset by Israel (8.7% → 13.0%) — a shift towards the market most exposed to the regional conflict (Jan–Jun 2026: UK −13.8%, Israel −8.6%).
- **Value per visitor differs by market:** UK visitors spend €910 per trip against €671 for Israel and €715 for the EU-27; "other markets" spend most (€1,037). Growth in lower-spending markets explains why receipts per tourist (€815 in 2025) rose only 7% in nominal terms over three years.
- **Council position (Interim Report 2026):** market diversification and value added per visitor — not arrival volumes — should guide tourism policy, within environmental and water-capacity limits; the 2026 shock illustrates the fiscal relevance of this concentration through VAT and corporate-tax receipts.

Sources: CYSTAT, Arrivals of Tourists by country of usual residence (annual, CYSTAT-DB); CYSTAT, Passenger Survey — average expenditure per trip by country of residence (annual, CYSTAT-DB); Fiscal Council calculations. Receipts by market = arrivals × average expenditure per trip; EU-27 receipts use arrivals-weighted expenditure of EU countries with survey data for countries without it (marked "derived"); totals reconcile to CYSTAT annual tourism revenue (2025: €3,696 m). Shares computed from unrounded query outputs (Tourism_Market_Base).

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Appendix — What drives headline inflation: contributions by component, Jan 2025 – Sep 2026

CONTRIBUTIONS TO HEADLINE HICP INFLATION, PERCENTAGE POINTS (RIBE METHOD)



- **2025:** energy and food subtracted from headline for most of the year; core alone kept inflation near 1–2%.
- **2026:** all three components turned positive from April; by September core contributes 2.8 pp, energy 1.8 pp, food 0.7 pp.
- **Reconciliation:** contributions sum to the official headline rate within ±0.01 pp every month (index rounding only).
- **Reading:** the broad-based rise in 2026 — not only energy — is what makes the pickup more persistent.

Source: Eurostat prc_hicp_minr (indices 2025=100, COICOP 2018) and prc_hicp_iw (item weights), updated 16 Oct 2026; Fiscal Council calculations. Ribe decomposition per Eurostat HICP Methodological Manual (2024). Core = HICP excluding energy, food, alcohol and tobacco. Weights 2026: core 71.1%, food 20.5%, energy 8.4%.

COMMUNICATION AND UPDATES

Where to Find the Fiscal Council's Work

REPORTS

- Interim / Spring Report
- Autumn (Final) Report
- Annual Activity Reports to Parliament

INFORMATION

- News, announcements and statements
- Briefing Notes
- Key Macroeconomic & Fiscal Indicators

LEGISLATION

- National Fiscal Responsibility Framework
- EU Economic Governance Framework

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