

Essential reforms to stabilise the Cypriot economy and achieve resilience - speech by Wim Van Aken

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Speeches

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Essential reforms to stabilise the Cypriot economy and achieve resilience

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Opening Remarks

(Please check against delivery)

Dear Minister, Ladies and Gentlemen, good afternoon,

It is a pleasure to be back in Nicosia.

The Economic landscape in Europe

The global economy is experiencing a new shock. The war in Ukraine and its widespread economic consequences threaten the recovery that was only starting after the pandemic, and economic growth projections for the euro area have already been revised downward for 2023¹.

Commodity prices – particularly for energy and food – have risen significantly since early 2022. The economic loss for the euro area stemming from the current energy price hikes is the biggest terms of trade shock Europe has seen since the Second World War. For the euro area, as an energy importer, the price increase is a transfer of income and wealth abroad to energy exporters. That loss cannot be compensated fully by fiscal measures. That means it is important to limit policy interventions to targeted actions to help contain direct and indirect inflationary pressures.

This new environment is also creating uncertainty that weighs on consumer confidence.

Achieving resilience: opportunities ahead in Europe

Nevertheless, the euro area has been able to weather this double shock of the pandemic and the war relatively well so far. One reason is that it could build on the strength and resilience gained after the financial crisis.

Countries, including Cyprus, undertook crucial reforms to address macroeconomic vulnerabilities. Banks were made safer, and Europe's architecture was strengthened with new institutions, notably the European Stability Mechanism.

All this has made our monetary union more resilient.

Achieving resilience: opportunities ahead in Cyprus

Cyprus enjoyed strong economic performance in the first half of 2022 and compared to other euro countries, the economic projections for Cyprus remain relatively robust². This is also reflected in economic activity in the areas of tourism and information technology.

The strong reform efforts over the last years have benefited the economy and made the banking sector more resilient.

The progress in the financial sector is evident. Non-performing loans of the Cypriot banking sector have decreased by close to 90% since 2015. Efforts to reduce them further should continue. An effective application of the insolvency and foreclosure framework are important in this context.

Cyprus has also been able to improve its fiscal balance and create fiscal space, while extending timely and temporary support to the economy during the pandemic. In the current energy and cost-of-living crisis, it extended support that has been contained in scope. This cautious use of instruments has contributed to a significant improvement of Cyprus' fiscal position this year.

Continuing on this path of focusing on tailored and temporary support for the more vulnerable groups will ensure sufficient fiscal buffers remain in place to mitigate the impact of the expected slowdown of the economy and any future adverse shocks.

Cyprus: A robust economic outlook amid growing external risks

These efforts have not gone unnoticed by rating agencies. Cyprus' ratings have improved over the last 5 years. Achieving investment grade from all main rating agencies would be beneficial. Continued evidence of strong economic resilience coupled with a high absorption of EU funds and implementation of reforms under the country's reform plan would support this objective. Both require continued determined action by Cypriot governments, now and over the coming years. Delays in the implementation of the recovery plan would have a negative impact on investment and growth.

On the same score, investment in modernising the economy through digital technologies and innovation help to enhance productivity and diversification. Strong growth of the ICT sector is one sign of important steps in this direction.

To preserve future economic growth in view of climate risks in Cyprus, early mitigating action is important for the economy's resilience and preparedness. The transition to green energy reinforces that resilience by reducing the dependence on external energy supply. All European countries, including Cyprus, could accelerate this transition.

The proposed measures under the Recovery and Resilience Plan will help further strengthen the competitiveness of the economy. Implementation is key.

Closing Remarks

Let me conclude.

In the short and medium term, Cyprus could continue focusing on tailored and temporary support for the more vulnerable groups and ensure sufficient fiscal buffers remain in place to mitigate the impact of the expected slowdown of the economy and any future adverse shocks.

In the long term, investment in modernising the economy through digital technologies and innovation are essential to enhance productivity, diversification and economic growth. In addition, to preserve future economic growth in view of risks stemming from climate change in Cyprus, early mitigating action is important for the economy's resilience. The transition to green energy helps reinforcing that resilience. The EU can accelerate the transition to renewable energy.

Efharisto. Thank you.

¹ IMF, October 2022 WEO, predicting 0.5% growth for the euro area in 2023. This is linked to the duration of the war in Ukraine and its consequences for energy supply. Covid-19 also remains a risk. Lockdowns in China, supply-chain disruptions, and extreme weather events may also have an adverse effect on economic activity.

² The latest available institutional forecasts for GDP and inflation are from the IMF (October 2022 WEO). These expect growth in 2022 (2023) to reach 3.5% (2.5%) and inflation to reach 8.0% (3.8%). Overall, these forecasts are also not vastly different from the European Commission's Summer forecast (July 2022).

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