The Cyprus economy: current landscape and future challenges

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Wim Van Aken, Senior Advisor to the Chief Economist
Welcome Remarks
"The Cyprus economy: current landscape and future challenges"
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Dear Ladies and Gentlemen, good morning.

It's a pleasure to be here at the Central Bank of Cyprus and European Stability Mechanism (ESM) Conference in Nicosia. I want to thank Governor Christodoulos Patsalides and his team for hosting this event.

Today, we will discuss the Cyprus economy, its progress over the past decade, current outlook, and risks.

The Central Bank of Cyprus and the ESM will present a success story backed by data and analyses. This story involves the Central Bank, Cypriot authorities, and the European Stability Mechanism, and European institutions and IMF more broadly, all working together to ensure financial stability and prosperity.

In my remarks, I will compare key economic indicators from 2013 and 2024, and briefly present the current outlook and challenges, with more details to follow in the separate sessions.

Key economic indicators: then and now

In 2013, the Cypriot economy faced severe difficulties with real GDP dropping by almost 7%, an unemployment rate of around 16%, 107.5% government debt, 53% non-performing loans, and low credit ratings.

Ten years later, the economy has transformed with 3.4% real GDP growth, unemployment at 4.9%, 69.7% government debt, 6.5% non-performing loans, and improved credit ratings to single A.

Strong reforms over the decade have led to robust economic performance and favourable projections. Fiscal prudence and healthy growth is expected to further reduce public debt to 60% of GDP. Cypriot banks have de-risked their balance sheets, and the banking sector is in its strongest position in a decade.

Geopolitical tensions and challenges for Cyprus

Let me say a few words about the key risk of today, geopolitical tensions and the challenges for Cyprus. Geopolitical tensions lead to uncertainty and geoeconomic fragmentation, reversing progress towards global economic and financial integration because of political and military conflict and strategic policy decisions. This rising fragmentation distorts trade flows, disrupts supply chains, and poses a risk to financial stability.

The economic costs from geopolitical tensions and geo-economic fragmentation are evident. Global growth suffers, price pressures emerge, and global trade is affected. As a key player in international trade, this fragmentation has a higher impact on the EU than other world regions. The EU as the most open among the advanced economies, stands to lose more if globalisation reverses and the world economy becomes more fragmented. The losses stem from higher and more volatile energy costs, changes in supply chains and commercial relationships that disrupt production structures. They necessitate diversification among enterprises as geopolitical tensions diminish the resilience of supply chains.

This also applies to Cyprus, a small-open island economy more vulnerable to external shocks from geopolitical tensions and geoeconomic fragmentation. Energy and commodity prices in Cyprus have been higher, trade frictions have lowered global risk appetite and if risks from geoeconomic fragmentation would materialise further, borrowing costs could increase. Tourism, a key sector of the Cypriot economy, remains subject to risks of sudden reversals due to geopolitical developments. Ongoing geopolitical tensions also adversely impact foreign investment flows.

Navigating uncertainty: Cyprus' economy and challenges ahead

What can we do about it? Cyprus is well positioned to face rising geopolitical tensions and geoeconomic fragmentation. Yet, despite this favourable economic outlook, Cyprus remains vulnerable in several areas.

That is why it is important to identify and assess the risks to the Cyprus' economy and vulnerabilities, including the application of analytical tools for such risk assessments. This joint conference is a contribution in that direction.

We start with Martin Iseringhausen, Senior Economist and Member of the ESM Cyprus Team, who will zoom in on the evolution of risks for the Cyprus economy since the end of the economic adjustment programme, showcasing results based on our in-house toolbox for macro-financial risk analysis. The Central Bank of Cyprus will then present to you the trends in Residential Property Prices in Cyprus and future challenges. Diana Zigraiova, Senior Economist and Member of the ESM Cyprus Team, will conclude presenting the risks to public debt projections in Cyprus, then and now.

Efharisto. Thank you.

Author

Wim Van Aken
Wim Van Aken
Senior Advisor to the Chief Economist

Contacts

Cédric Crelo
Head of Communications and Chief Spokesperson
+352 260 962 205
c.crelo@esm.europa.eu

Anabela Reis
Deputy Head of Communications and Deputy Chief Spokesperson
+352 260 962 551
a.reis@esm.europa.eu

Juliana Dahl
Principal Speechwriter and Principal Spokesperson
+352 260 962 654
j.dahl@esm.europa.eu