

E C O N O M I C O U T L O O K

April 2025

Summary

Growth is projected to moderate from 3.4% in 2024 to 2.8% in 2025, before improving to 3.2% in 2026. Cyprus's robust economic performance in 2024, along with disinflation and declining interest rates, is expected to support growth in the coming quarters. However, growth in trading partner economies has remained muted, while trade policy uncertainty has been on the rise since January, weighing on domestic growth prospects.

Compared to the January issue, the growth forecast for 2025 has been revised downwards by 0.5 percentage points. The downward revision to the 2025 forecast was driven by both domestic and external developments. On the domestic front, the outlook was affected by lower-than-expected growth in the last quarter of 2024 and a slight weakening in some leading indicators in the first quarter of 2025. Muted growth and subdued economic sentiment in trading partner economies, along with elevated trade policy uncertainty, also dampened the outlook for Cyprus. Nevertheless, the labour market performance has remained robust and financing conditions have eased further, leading to a slightly higher growth rate for 2026 (by 0.2 percentage points) compared to the January issue.

Inflation (based on the Consumer Price Index) is projected at 1.5% in 2025 and at 1.8% in 2026. Compared to the January issue, the forecast for 2025 has been revised downwards by 0.2 percentage points, mainly owing to low inflation in Cyprus during February and March, and new declines in international oil prices in the first quarter of 2025. The inflation forecast for 2026 has been revised upwards by 0.2 percentage points, as domestic activity growth is expected to pick up.

Since the January issue, trade tensions have escalated, leading to increased volatility in international financial markets. Elevated uncertainty surrounding international trade policies, coupled with existing geopolitical uncertainties, has considerably clouded global growth prospects, raising the risk of slower growth in Cyprus compared to the forecasts provided in this issue.

Απρίλιος 2025

Περίληψη

Ο ρυθμός μεγέθυνσης του πραγματικού ΑΕΠ στην Κύπρο προβλέπεται να μετριαστεί από 3,4% το 2024 σε 2,8% το 2025 και να βελτιωθεί σε 3,2% το 2026. Η ισχυρή οικονομική επίδοση της Κύπρου το 2024, σε συνδυασμό με την αποκλιμάκωση του πληθωρισμού και τη μείωση των επιτοκίων, αναμένεται να στηρίξει την οικονομική δραστηριότητα τα επόμενα τρίμηνα. Ωστόσο, οι ρυθμοί μεγέθυνσης στις οικονομίες των εμπορικών εταίρων παρέμειναν χαμηλοί, ενώ η αβεβαιότητα γύρω από πολιτικές του διεθνούς εμπορίου έχει αυξηθεί, επηρεάζοντας αρνητικά τις προοπτικές ανάπτυξης.

Σε σύγκριση με το τεύχος Ιανουαρίου, η πρόβλεψη για το 2025 έχει αναθεωρηθεί προς τα κάτω κατά 0,5 ποσοστιαίες μονάδες. Οι εγχώριες εξελίξεις που επιβάρυναν τις προοπτικές περιλαμβάνουν τον χαμηλότερο από τον αναμενόμενο ρυθμό μεγέθυνσης το τελευταίο τρίμηνο του 2024, καθώς και σημάδια εξασθένισης σε ορισμένους προπορευόμενους δείκτες κατά το πρώτο τρίμηνο του 2025. Οι ασθενείς ρυθμοί μεγέθυνσης και το υποτονικό οικονομικό κλίμα στις οικονομίες των εμπορικών εταίρων, μαζί με την αυξημένη αβεβαιότητα για τις πολιτικές του διεθνούς εμπορίου, επίσης, επηρέασαν τις προοπτικές για την Κύπρο. Ωστόσο, η αγορά εργασίας έχει παραμείνει ισχυρή και η νομισματική χαλάρωση έχει συνεχιστεί, οδηγώντας σε ελαφρώς υψηλότερο ρυθμό ανάπτυξης για το 2026 (κατά 0,2 ποσοστιαίες μονάδες) σε σύγκριση με το τεύχος Ιανουαρίου.

Ο πληθωρισμός (με βάση τον Δείκτη Τιμών Καταναλωτή) προβλέπεται στο 1,5% το 2025 και στο 1,8% το 2026. Σε σύγκριση με το τεύχος Ιανουαρίου, η πρόβλεψη για το 2025 έχει αναθεωρηθεί προς τα κάτω κατά 0,2 ποσοστιαίες μονάδες, κυρίως λόγω της μείωσης του πληθωρισμού στην Κύπρο τον Φεβρουάριο και τον Μάρτιο, και λόγω νέων μειώσεων στις διεθνείς τιμές πετρελαίου κατά το πρώτο τρίμηνο του 2025. Η πρόβλεψη για τον πληθωρισμό για το 2026 έχει αναθεωρηθεί προς τα πάνω κατά 0,2 ποσοστιαίες μονάδες, καθώς αναμένεται να ενδυναμωθεί η εγχώρια δραστηριότητα.

Συγκριτικά με το τεύχος Ιανουαρίου, οι εμπορικές εντάσεις έχουν κλιμακωθεί, οδηγώντας σε άνοδο της μεταβλητότητας στις διεθνείς αγορές. Η αυξημένη αβεβαιότητα σχετικά με πολιτικές του διεθνούς εμπορίου, σε συνδυασμό με την υπάρχουσα γεωπολιτική αβεβαιότητα, έχει επιβαρύνει σημαντικά τις παγκόσμιες προοπτικές ανάπτυξης, αυξάνοντας την πιθανότητα βραδύτερου ρυθμού μεγέθυνσης στην Κύπρο, συγκριτικά με τις προβλέψεις που παρουσιάζονται σε αυτό το τεύχος.

1. Recent developments

Economic growth in Cyprus strengthened to 3.4% in 2024, from 2.6% in 2023. In the final quarter of 2024, the year-on-year (y-o-y) growth rate of real GDP moderated to 2.9%, compared with 3.6% in the third quarter, but remained well above the EU average.

In the fourth quarter of 2024, real gross value added increased (y-o-y) across all sectors except construction, where a decline in activity was primarily due to a strike in the ready-mix concrete industry. Compared to the third quarter, y-o-y growth slowed in most sectors, notably in information and communication services, as well as in professional and financial activities. While growth in trade and hospitality (the largest sector by value added) moderated slightly in the final quarter, it remained above its long-term average. Growth in the sectors of public administration, education, health, and entertainment showed an uptick in the fourth quarter.

On the expenditure side, gross fixed capital formation saw strong growth in the final quarter of 2024, driven by increased investment in transport and machinery equipment, despite a decline in construction investment. Growth (y-o-y) in real consumption expenditure continued to weaken in the fourth quarter, primarily because of slowing growth in household consumption. The contribution of net exports to overall growth (y-o-y) was negative, as import growth accelerated markedly, while export growth declined further.

Against the backdrop of rising trade policy uncertainty, economic conditions in Cyprus remained favourable in the first quarter of 2025. Monthly data, including card purchases, tourist arrivals, new company registrations, and property sales, suggest that economic activity continued to expand in the first months of 2025, although some indicators point to a slight weakening in private spending. The labour market continued to perform strongly, as the number of registered unemployed declined again (y-o-y) in the first quarter, and the unemployment rate (Eurostat) in February stayed close to a sixteen-year low.

Inflation, measured by the Consumer Price Index (CPI), remained broadly stable in the first quarter of 2025; it stood at 2.0%, slightly up from 1.5% in the last quarter of 2024. The small increase in inflation was driven by higher inflation rates in the categories

of transport, and energy, housing and water. Moreover, inflation in certain services, such as restaurants and education, as well as food inflation, continued to exceed headline inflation during the first quarter.

The Economic Sentiment Indicator (ESI) stayed well above its historical average in the first quarter of 2025, supported by strong business confidence in services and improvements in consumer sentiment, despite a decline in confidence within the construction sector. Survey-based measures suggest that economic uncertainty in Cyprus remained broadly stable between the last quarter of 2024 and the first quarter of 2025. However, firms' employment expectations weakened below their long-term average in the first quarter, pointing to slowing employment growth. Price expectations edged down in the first quarter but stayed above their historical averages for consumers and firms in all sectors, except services.

Cyprus's fiscal position remained strong throughout 2024. During the first two months of 2025, government revenue and expenditure increased (y-o-y) at similar double-digit rates and the budget surplus improved compared to the same period in 2024. The ratio of public debt to GDP has stayed on a downward path, and the long-term interest rate for Cyprus has declined to just below 3%.

Domestic lending interest rates for most categories continued to edge down in February, as the key policy rates in the euro area have been decreasing since June 2024. The volume of new loans expanded at a robust y-o-y rate in the first two months of 2025, with new lending to businesses and households rising at a similar pace. Over the period from January to February, the stock of loans continued to increase, and deposit growth (supported by higher domestic deposits) strengthened further. The downward trend in the ratio of non-performing loans (NPLs) to total loans continued throughout 2024.

Following the announcement of new tariffs by the United States, global trade policy uncertainty rose sharply in April, generating significant turbulence in international financial markets. Despite the low trade volume between Cyprus and the United States, Cyprus is unlikely to remain entirely insulated from instability in the external environment, which is expected to weigh on economic decision-making worldwide.

2. Forecasts

Projections for GDP growth and CPI inflation are constructed using a dataset with numerous domestic and foreign indicators, as well as a large number of dynamic econometric models. The analysis utilised quarterly data available through the fourth quarter of 2024, along with monthly variables that represent developments during the first three months of 2025. Consequently, the data do not fully capture the recent instability in the external economic environment; rising global uncertainty and market volatility are only partially reflected in certain high-frequency variables and indices derived from text mining. The forecasts were generated using data available up to 10 April 2025.

Table 1 presents the forecasts for the growth rate of real GDP for 2025 and 2026. Growth is projected to moderate from 3.4% in 2024 to 2.8% in 2025, before improving to 3.2% in 2026. Compared to the January issue, the growth forecast for 2025 has been revised downwards by 0.5 percentage points. The downward revision to the 2025 forecast was driven by both domestic and external developments. On the

domestic front, the outlook was affected by lower-than-expected growth in the final quarter of 2024 and a slight weakening in some leading indicators in the first quarter (e.g., card sales, employment expectations). Muted growth and subdued economic sentiment in trading partner economies, along with elevated trade policy uncertainty, also weighed on the outlook for Cyprus. Nevertheless, the labour market performance has remained robust and financing conditions have eased further, leading to a slightly higher growth rate for 2026 (by 0.2 percentage points) compared to the January issue.

Table 1 also shows the forecasts obtained from the different components (groups of models) and the weights assigned to these forecasts in shaping the final outlook. The real economy component is based on factors estimated from real activity and labour market indicators; the component relating to economic aspects other than the real economy is based on hard and soft data.¹ The component that combines information on both the real economy and other economic aspects plays a key role in forming the final forecasts.²

Table 1: GDP growth forecasts and components

YEAR	2025		2026	
FORECAST	2.8		3.2	
	WEIGHT	FORECAST BY COMPONENT	WEIGHT	FORECAST BY COMPONENT
COMPONENTS				
I. Real economy	0.43	2.7	0.42	3.1
II. Other economic aspects	0.57	2.9	0.52	3.2
III. Real economy & other aspects	99.00	2.8	99.06	3.2
Fiscal	5.30	2.8	5.54	3.1
Prices	12.61	2.8	12.62	3.0
Exchange rates	2.80	2.8	2.77	3.2
Interest rates, spreads	18.47	2.8	19.58	3.3
Stock markets	13.74	2.9	12.90	3.4
Economic sentiment, uncertainty	36.76	2.8	36.72	3.2
Loans, deposits	9.31	2.9	8.93	3.2

¹ Factors refer to a small number of principal components extracted from a large dataset of series relating to real domestic and foreign activity, and the labour market. The component concerning aspects other than the real economy is based on indicators such as interest rates, stock market returns, economic sentiment indicators, exchange rates, domestic and foreign price indices, international commodity prices, fiscal indicators, loans and deposits. Monthly information within the forecast horizon (monthly leads) is included in the models if available.

² Economic sentiment indicators refer to data obtained through the Joint Harmonised EU Programme of Business and Consumer Surveys conducted by the Directorate General for Economic and Financial Affairs. The Economics Research Centre acknowledges funding from the European Union, the Ministry of Finance, and the University of Cyprus for carrying out the project “Business and Consumer Surveys” in Cyprus.

ECONOMIC OUTLOOK

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Table 2: CPI inflation forecasts

YEAR	2025	2026
FORECAST	1.5	1.8

Despite slower growth in Cyprus in the final quarter of 2024, domestic economic conditions have remained favourable, supporting economic activity in the following quarters. Yet, the external economic environment has become more volatile, owing to high trade policy uncertainty, weighing on economic prospects. The key factors that affect the outlook are discussed below.

- *Activity and the labour market.* In the final quarter of 2024, activity growth in Cyprus decelerated but remained robust, while employment growth fell just below its long-term average. The deceleration in activity and employment growth during the last quarter of 2024, and signs of weakening private spending, reflected in data for the first months of 2025, are found to limit the growth momentum in the short run. Moreover, despite a slight pickup in fourth-quarter GDP growth in the EU and the UK, economic activity in Cyprus's trading partner economies did not see significant improvement in the first quarter of 2025, as indicated by monthly EU and UK data on manufacturing production and retail sales; this is also expected to dampen the outlook for Cyprus. Nevertheless, the labour market in both Cyprus and trading market economies (e.g. EU, euro area, UK) has continued to perform strongly, with very low unemployment by historical standards, supporting growth prospects.
- *Economic sentiment and uncertainty.* Economic confidence in Cyprus remained strong during the first quarter of 2025. Rising consumer sentiment, high levels of business confidence in services, and further improvements in business confidence within the retail trade sector are found to significantly lift the outlook. Also, activity growth in the following quarters is expected to benefit from the relatively low firm-level uncertainty recently reflected in Cyprus business surveys. However, firms' employment expectations declined again in the first quarter of 2025, putting downward pressure on growth prospects. Recent developments in survey indicators for trading partner economies point to muted growth in the EU and the UK, weighing on the domestic outlook. In

the first quarter of 2025, economic sentiment and employment expectations in the EU and the euro area remained below their long-term average, while consumer confidence in the EU and the UK declined slightly. Importantly, indices that gauge the level of uncertainty across the globe spiked in the first quarter of 2025, driven by increased international trade uncertainty. The sharp increase in world uncertainty is found to dampen the growth outlook for Cyprus.

- *Interest rates and lending.* The European Central Bank cut its policy rates again in February and March 2025, continuing a series of consecutive declines that began in June 2024. Monetary easing in the euro area is expected to continue bolstering economic activity in the bloc, including in Cyprus, by further lowering retail interest rates and facilitating new credit to businesses and households. In Cyprus, the recent reductions in borrowing costs, combined with ample liquidity in the banking sector (backed by rising deposits and a declining NPLs ratio) are anticipated to contribute to growth through new lending. In particular, the recent declines in domestic interest rates, and the robust increases in new loans observed in 2024 and extending into the early months of 2025, are found to generate significant positive effects on economic growth, especially in 2026.
- *Financial markets.* Both domestic and international stock market indices continued to register positive returns (y-o-y) in the first months of 2025, signalling that economic conditions have remained conducive to growth. However, in March key global stock market indices weakened, while market volatility increased markedly, because of heightened trade policy uncertainty. Although the full extent of market turbulence that occurred in April is not reflected in the current forecasts, the deterioration in market indices and the hike in volatility observed in March suggest that domestic outlook could be adversely affected by the instability in the external economic environment due to global trade policy changes.

- *Prices.* Inflation in both Cyprus and its trading partner economies remained contained in the first quarter of 2025, despite a slight uptick from the previous quarter. With inflation rates close to target, pressures on real incomes are expected to moderate further, bolstering consumer confidence and demand. The declines in international oil prices observed in previous quarters, which contributed significantly to the disinflation process in Cyprus, also support the outlook by easing the strain on household purchasing power. However, continued increases in global and domestic food prices, as well as persistently high inflation in certain services in Cyprus, create dampening effects on the outlook.
- *Public finances.* Cyprus's fiscal performance remained strong throughout 2024 and into the first two months of 2025, marked by sizeable budget surpluses and a declining public debt-to-GDP ratio. The fiscal buffers built up and the fiscal space created during this period have enhanced Cyprus's resilience to external shocks and boosted investor confidence. This sound fiscal position is expected to help safeguard domestic economic activity amid growing uncertainty about international trade policies and weakening global growth prospects.

Downside risks to the growth outlook for Cyprus have risen substantially as a result of heightened uncertainty surrounding international trade policies. Elevated trade policy uncertainty could adversely affect global demand, and consequently, growth prospects in Cyprus. Trade tensions and uncertainty about the level of tariffs has increased the risk of weaker-than-expected growth in trading partner economies, particularly for large euro area exporters. Moreover, trade tensions have led to high market volatility and adverse financial conditions that could negatively affect global activity, thereby dampening domestic growth.

Ongoing geopolitical conflicts and extreme weather events (e.g., heatwaves, droughts) continue to pose downside risks to growth, by potentially exerting upward pressures on prices and/or downward pressures on external demand.

Fiscal risks, for example from rapid growth in public spending, could create a strain on public finances, especially amid adverse external economic

conditions, weakening investor confidence and undermining growth prospects. Furthermore, delays in launching and successfully concluding reforms, as well as setbacks in completing infrastructure projects could weigh on economic confidence and competitiveness, limiting growth potential.

Upside risks to the growth outlook could arise from stronger reform momentum and new investments in Cyprus. Additionally, demand could prove resilient, as monetary policy in the euro area continues to ease, and fiscal policy in the EU is expected to become less restrictive in response to geopolitical and trade tensions. Finally, better-than-projected growth prospects may result if trade policy uncertainty diminishes in the following months.

CPI inflation is projected to stay contained over the 2025–2026 period. CPI inflation is projected at 1.5% in 2025 and at 1.8% in 2026 (Table 2).³ Compared to the January issue, the forecast for 2025 has been revised downwards by 0.2 percentage points, mainly owing to inflation declines in February and March. The inflation forecast for 2026 has been revised upwards by 0.2 percentage points, as domestic activity growth is expected to pick up, supported by robust labour markets and easing monetary conditions in the euro area.

After the first half of 2024, international oil prices have been registering continued declines (y-o-y) and domestic price pressures stayed muted, contributing to a stable inflation outlook. Selling price expectations have eased considerably, pointing to low inflation rates in the coming quarters. The declines in lending interest rates in Cyprus have not gathered significant momentum; therefore, domestic borrowing costs are projected to continue to somewhat limit demand and inflation in the short run. The effects of recent increases in international and domestic food prices on inflation outlook are outweighed by declines in energy prices.

Heightened trade policy uncertainty, which has led to worsening global economic conditions, could limit future inflation in Cyprus. Downside risks could stem from weaker-than-expected demand, as incomes and employment in trading partner economies could be weighed down by elevated policy uncertainty and higher tariffs. Uncertainties surrounding global

³ CPI inflation forecasts are constructed using a methodology similar to that described for GDP growth forecasts.

growth prospects could exert downward pressure on international oil prices, leading to lower-than-forecast inflation. A further strengthening of the euro against the US dollar and a possible inflow of lower-cost imports in the EU could also push inflation down in the coming quarters. Slower employment growth in Cyprus, signalled by falling employment expectations, could dampen domestic demand and lead to lower-than-projected inflation. Finally, the recent reduction in the value-added tax rate on electricity in Cyprus is expected to limit energy inflation.

Upside risks to the inflation outlook could arise from rapid wage growth in Cyprus, as unemployment has remained very low. Moreover, upside risks could stem from resilient demand, particularly with loosening monetary and fiscal policy in the euro area. Higher-than-projected inflation could also result from the green transition and the ongoing geopolitical conflicts, as well as from extreme weather events, which could intensify upward pressures on food prices.

3. Concluding remarks

Quarterly and monthly series released up until 10 April 2025 were used in dynamic econometric models to compute forecasts for GDP growth and CPI inflation. Real GDP growth is forecast at 2.8% in 2025, down by 0.5 percentage points relative to the January issue. In 2026, GDP growth is projected at 3.2%, higher by 0.2 percentage points relative to the January issue. Despite a weaker-than-expected growth rate in the final quarter of 2024 that led to a lower growth forecast for 2025, the outlook continued to be supported by robust activity and the disinflation process in Cyprus, as well as by the ongoing monetary policy easing in the euro area. Nevertheless, the external economic environment has deteriorated significantly since the January issue. Growth and economic sentiment in trading partner

economies have remained muted, weighing on the outlook for Cyprus. Furthermore, uncertainty surrounding trade policies and market volatility have increased sharply, limiting the prospects for global trade and growth.

Forecasts by other organisations also indicate that growth in Cyprus is expected to moderate in 2025 vis-à-vis 2024, but to remain robust. The Central Bank projects real GDP growth at 3.2% and 3.1% in 2025 and 2026, respectively.^[1] The growth forecasts published by the International Monetary Fund, point to somewhat lower growth, at 2.5% in 2025 and 2.7% in 2026.^[2]

CPI inflation is forecast at 1.5% in 2025, down by 0.2 percentage points compared to the January issue. The downward revision was mainly driven by the deceleration of inflation in Cyprus during February and March. Inflation is projected at 1.8% in 2026, higher by 0.2 percentage points compared to the January issue, as activity growth is expected to strengthen on the back of robust labour markets and monetary easing in the euro area.

Since the January issue, trade tensions have escalated, leading to increased volatility in international financial markets. Elevated uncertainty surrounding international trade policies, coupled with existing geopolitical uncertainties, has considerably clouded global growth prospects, raising the risk of slower growth in Cyprus compared to the forecasts provided in this issue.

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Economics Research Centre

University of Cyprus

Website: <https://www.ucy.ac.cy/erc/en/>

The bulletin reflects only the authors' views*

* Research team:

Vasiliki Bozani (email: bozani.vasiliki@ucy.ac.cy)

Niki Demosthenous (email: demosthenous.niki@ucy.ac.cy)

Nicoletta Pashourtidou (email: pashourtidou.nicoletta@ucy.ac.cy)

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