

# **The Cyprus economy: Current state and future prospects**

Sofronis Clerides  
University of Cyprus



# A snapshot

- ▶ Return to growth in 2015 after 3-year recession, loss of 10% of GDP
- ▶ Growth in 2015 estimated at 1.5%
- ▶ Public debt at 108% of GDP
- ▶ Unemployment still high at around 15%
- ▶ End of Troika program – “success story”

# MoU scorecard

- ▶ Sustainability of public finances
  - Very successful, targets exceeded
- ▶ Financial sector stabilization
  - Largely accomplished, though some problems remain
- ▶ Structural reform
  - Mixed record; progress on some fronts, still much to do

# Public finances

- ▶ Impressive adjustment, aided by better-than-expected growth performance
- ▶ Government committed to fiscal discipline
- ▶ EU budget rules should help stay the course post-MoU
- ▶ Price was substantially lower public investment – lower future growth potential
- ▶ Wage bill and social policy pressures cast doubt on ability to reverse this

# Financial sector

- ▶ Major overhaul after 2013 shock
- ▶ Improvements in governance, operational framework
- ▶ More can be done to improve efficiency and service quality
- ▶ Must be more effective in their intermediation role: channel more savings to productivity-enhancing investments and less to consumption and real estate development

# Structural reform

- ▶ Progress on several fronts (social policy, tax administration, financial sector)
- ▶ Privatizations a political hot potato
- ▶ Civil service reform underwhelming – must focus on improving efficiency and service quality
- ▶ Need to improve institutions, reduce political interference in governance of state enterprises

# Medium term prospects

- ▶ Growth forecasts for next few years around 2%
- ▶ High levels of public and private debt limit prospects for domestic investment
- ▶ Need to attract foreign direct investment, and not just in real estate

▶ The business service sector has shown remarkable

# Prospects and risks

- ▶ Fragile external environment
- ▶ Cyprus can benefit if it manages to keep trouble out (tourism, business activity)
- ▶ Natural gas prospects highly uncertain, but Cyprus can still benefit from regional activity

▶ X factor: settlement of the Cyprus problem

# Summary

- ▶ Impressive recovery from 2013 crash
- ▶ Medium term prospects moderately favorable
- ▶ Can be improved if reform effort continues, both in public sector and the financial sector
- ▶ Important to regain the status of an island of stability in this fragile region