Republic of Cyprus

Investor Presentation

May 2024

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Contents

The Republic of Cyprus

Key facts

- **Political system:** Presidential Democracy
- **Legislature:** House of Representatives
- **Population:** 918.100 (est. 2021)
- **Geographical size:** 9.251 km^2
- **Currency:** Euro
- **GDP per capita in PPS[1]:** 95% of EU-27 (2023)
- **Human Development Index**: 29th out of 193 (HDR[2], 2022)
- **Main economic sectors:**
  - Services (84% of GVA[3] in 2023p): Retail trade, Business and financial services, Information and communication.
  - Industry (14% of GVA in 2023p): Construction, manufacturing (mainly food and pharmaceutical products).
- **International memberships:** EU, Eurozone, Council of Europe, United Nations, IMF, World Bank, Commonwealth, World Trade Organisation et al.

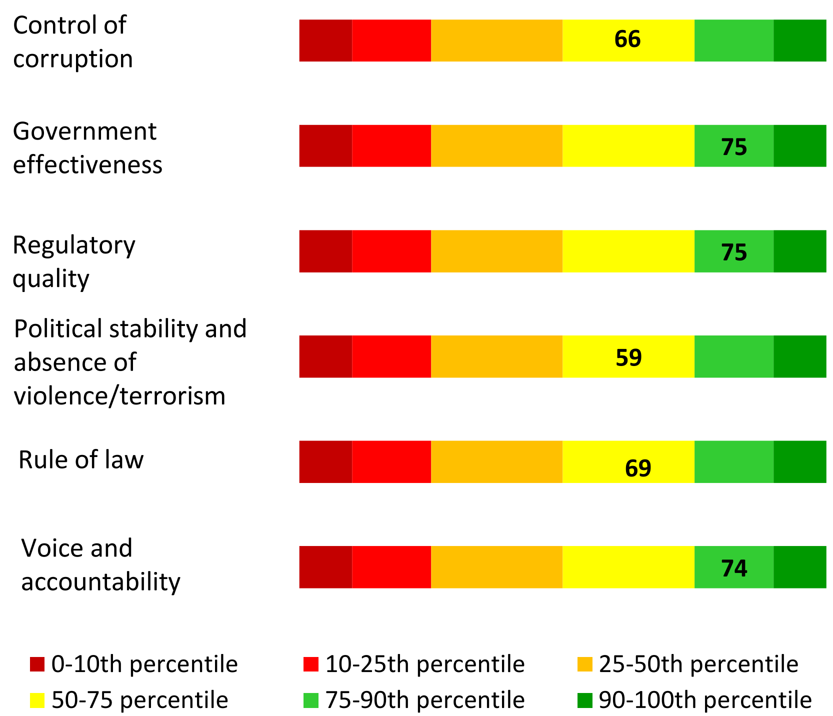
Source: Cyprus Statistical Service, Eurostat, United Nations

Notes: 1. Purchasing Power Standards ; 2. Human Development Report ; 3. Gross Value Added

Solid institutional framework and effectiveness

- Cyprus is at satisfactory levels in terms of the Worldwide Governance Indicators of the World Bank.
- The Republic of Cyprus has a presidential system of governance with divisions of authority in the executive, legislative and judicial branches. The constitution vests executive power in a President who is elected for five years. Legislative power is exercised by the House of Representatives and judicial power lies with the Courts.
- Next scheduled elections: Local (June 2024), European Parliament elections (June 2024), Presidential elections were held in Feb.2023.
- Government effectiveness has proven resilient to recent external shocks. The response to COVID-19 and repercussions after Russia-Ukraine crisis have been efficient and successful in dealing with them.
- Cyprus' legal system is modelled on the English legal system and European Law; also practises Common Law.

Worldwide Governance Indicators for Cyprus (2022)



Source: The World Bank (WGI, 2022 update)

Republic of Cyprus' national sustainability objectives

Commitments to Paris and beyond

- Cyprus **ratified the Paris Agreement** and committed to limiting global warming to well below 2 degrees Celsius.
- Cyprus commits to the relevant climate and energy **targets set by the EU for 2030**, including **reduction of GHG emissions**, **increasing energy efficiency & share of renewable energy** in the energy mix.
- In 2015, Cyprus committed support the 17 Sustainable Development Goals ("SDGs") of the United Nations.

Cyprus has a number of national sustainability strategies

These strategies reflect a commitment to address environmental and social vulnerabilities and advance the UN SDGs.

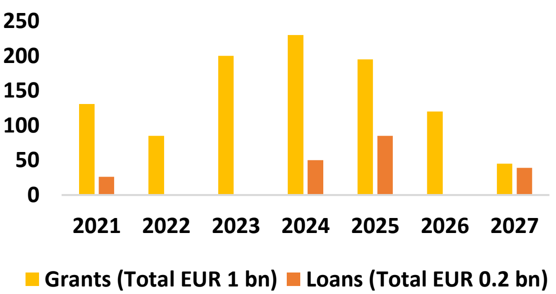
The **National Energy and Climate Plan, published Jan 2020**, established the following targets:

- Reducing greenhouse gas emissions by at least 20.9% compared to 2005 in sectors not covered by the EU Emissions Trading System.
- Emissions from land use/change/forestry are offset by at least equivalent removal of CO_2 from atmosphere.
- By 2030, reducing final energy consumption by 13% and primary energy consumption by 17% vs 2007 levels.
- Increasing the share of renewable energy sources in energy consumption.

The **Recovery & Resilience Plan 2021-26:**

- Established as a beneficiary of the EU's response to COVID-19, through the **EU Recovery & Resilience Facility ('RRF')**, Cyprus received EUR263m between Sept. 2021 and Jan. 2024, with EUR1.2bn expected over lifetime of plan.
- **Cyprus intends for sustainable borrowing under Green, Social and/or Sustainable Instruments to complement** the initiatives under the Recovery and Resilience Plan.

RRF allocation to Cyprus (EUR 1.2 bn)



Source: Ministry of Finance, University of Cyprus

Recovery and Resilience Plan: A closer look

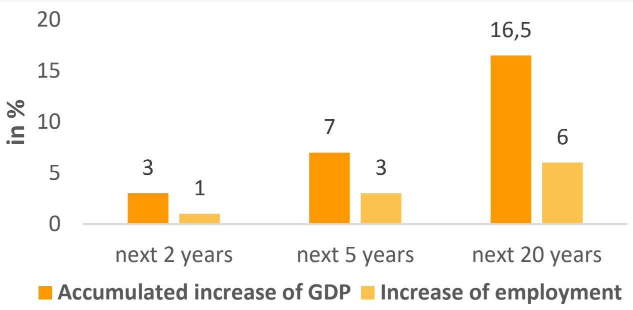
The ROC has placed sustainability at the heart of its Recovery and Resilience Plan, 2021-26

- **Key strategic goal:** Strengthening the economy's resilience and the country's potential for economically, socially and environmentally sustainable long-term growth and welfare.
- Cyprus intends for **sustainable borrowing under Green/Social/Sustainable Instruments to complement the objectives of the Recovery and Resilience Plan.**

Key initiatives :	Support schemes to assist households, enterprises and public sector with energy efficiency and renewable investments	Investments in the energy upgrade of public buildings / other public infrastructure	Incentives for reduction of GHG emissions in agriculture, business and industry	Introduction of accessible and smart transport by replacement of conventional stock with zero and low emission vehicles	Initiatives to reduce energy poverty in households with disables people
	Smart and sustainable water management, targeting both water supply and demand	Promoting resilience and effectiveness in the public health system	Public education system modernisation, upskilling and retraining	Initiatives to encourage broader labour market participation	Reform of the social welfare system and expansion of benefits to promote social welfare and inclusion

A significant macroeconomic impact

- In assessing Cyprus's Recovery and Resilience Plan, the European Commission concluded that the plans put forward by Cyprus are **"expected to have a deeply transformative effect on Cyprus' economy and society"[1]** , with a particular focus on green transition and social resiliency.
- The plan has long term positive implications for economic growth (GDP) and employment rates.
- Each element of the plan not only ties into the use of proceeds in Cyprus' Sustainable Finance Framework, but also maps to the UN SDGs.



Source: Ministry of Finance, University of Cyprus

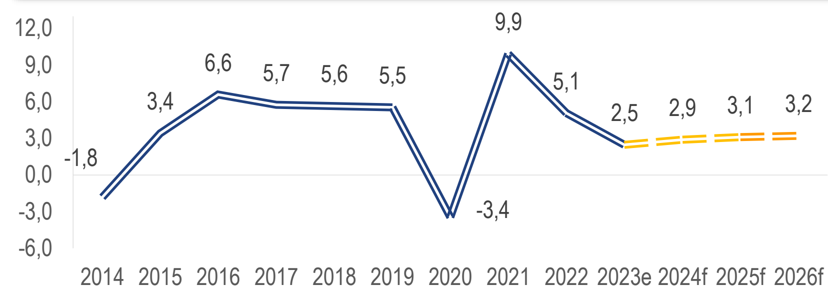
Note: 1. https://ec.europa.eu/commission/presscorner/detail/en/ip_21_4624

Contents

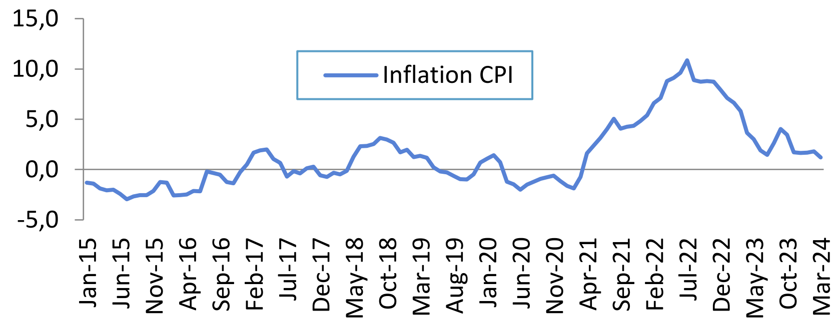
Solid near-term growth outlook and inflationary pressures

- Following five consecutive years of a **strong economic growth**, and well above the eurozone average, economic activity recorded a contraction of 3.4% in 2020 due to the COVID-19 pandemic, albeit at a lower pace than other eurozone countries.
- One year later, in 2021, the economy recorded a positive rate of growth of 9.9% of GDP in real terms compared to the year 2020, and in 2022, despite the adverse external environment, the economic activity remained strong recording a positive growth rate of 5.1% of GDP.
- In 2023, the economic growth of 2.5% of GDP, which was among the highest among MS and significantly higher than the EA/EU average, pointed out the continued resilience and flexibility of Cypriot economy. For the period 2024-2026, the real GDP growth is forecast at around 3.1% on average.
- Since April 2021 **inflation rates** turned again to positive territory. A gradual deceleration in CPI recorded in 2022, from the peak of 10.9% in July 2022. The continued fall in inflation in 2023 reflects falling energy prices and lower services inflation growth. The core inflation was 4.9% in 2022 and 2.5% in 2023.
- The largest positive effects in the change of the CPI in 2023 (3.5% y-o-y) were attributed mainly to increases in the price of food and non-alcoholic beverages, restaurants-hotels, housing, water, electricity, gas and other fuels.

Real GDP growth (% change)



Annual inflation (CPI) (% change)



- In March 2024 the CPI inflation increased by 1.2% compared to March 2023. Inflation deceleration will continue in 2024 and is normalising over the medium term, however the ongoing geopolitical developments and the market’s perception of upside risks will put upward pressure in CPI. .

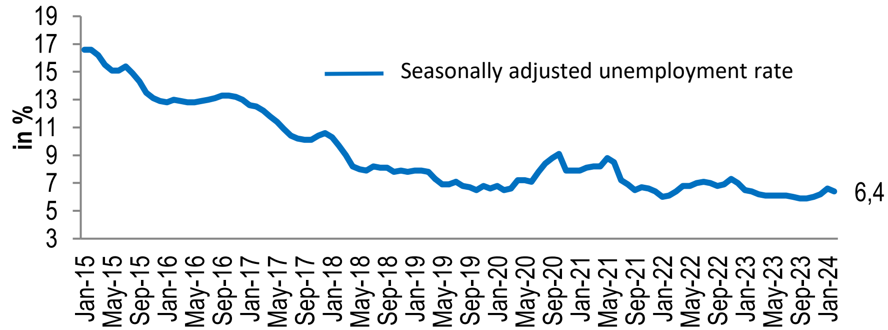
Source: Cyprus Statistical Service, Ministry of Finance

Note: “f” denotes forecasts by the Ministry of Finance, as of March 2024. All forecasts are based on assumptions and there can be no assurance they will be realised.

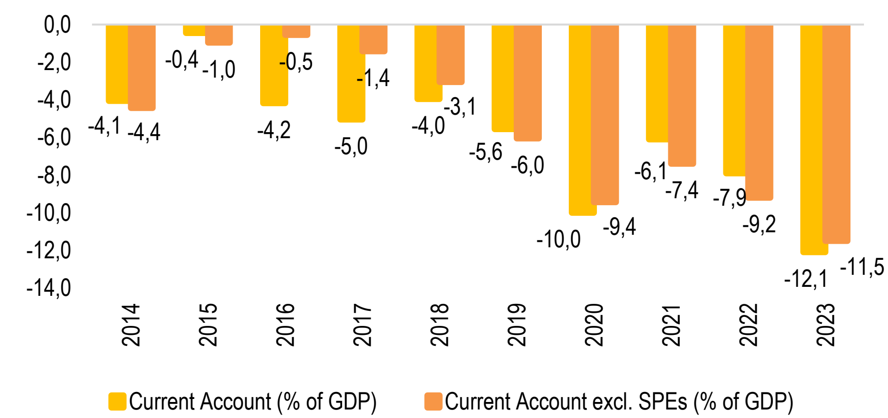
Unemployment rates and Current Account

- Labour Force Survey (LFS) **unemployment** in monthly seasonally adjusted terms remained at 6.4% in February 2024 compared to February 2023. In 2023, unemployment rate decreased significantly to 6.1% from 6.8% in 2022.
- Youth unemployment is on downward trend falling to 16.9% in 2023 from the peak of 40.3% in the 2nd quarter of 2013 while long-term unemployment is at 1.9%.
- Moderate **current account** deficits until 2018, within the limits set by the European Commission (-4%/+6% of GDP). The deterioration of the current account in 2020 was mainly attributed to the income account as well as the services' balance, due to the COVID-19 pandemic.
- In 2023, the current account deficit stood at 12.1% of GDP compared to a deficit of 7.9% the corresponding period the year before. The deterioration resulted mainly from the increased deficit in goods, to the deterioration of the deficit in primary and secondary income. The aforementioned developments were partly offset by increased surplus of services.
- The resulting deficit adjusted for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-residents, stood at €3.4 bn (11.5% of GDP) in 2023, compared with a deficit of €2.5 bn (9.2% of GDP) in 2022.

Deterioration in Labour market contained due to fiscal measures



Current Account Balance (% of GDP)



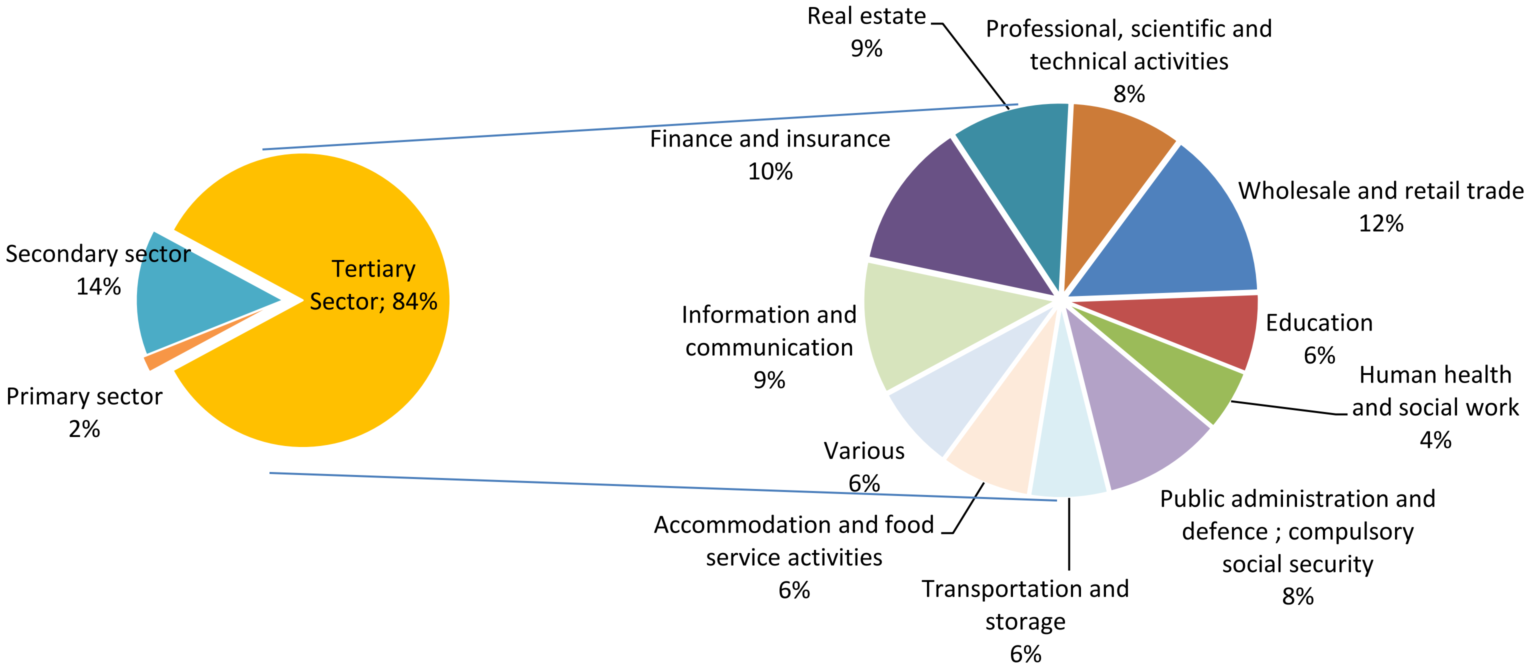
Note: Special Purpose Entities (SPEs) primarily operate in the shipping industry (ship registration/deregistration) with a small footprint on the economy

Source: Central Bank of Cyprus, Cyprus Statistical Service, Eurostat

A diversifying services-based economy

Whilst financial-business services, tourism and shipping services have been traditionally the main sectors of Cyprus, the economic activity has recently diversified in Information and Communication sector

Structure of Economy in 2023 (Current prices, % of GVA)

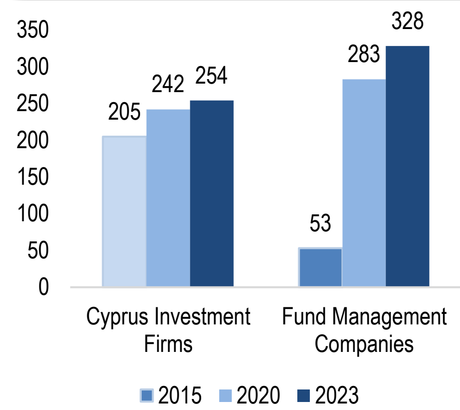


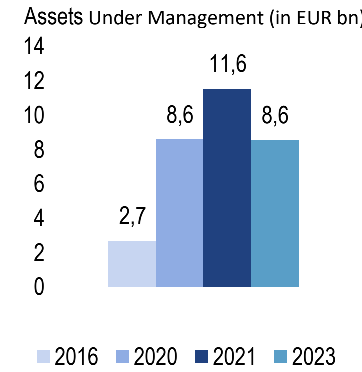
Source: Cyprus Statistical Service

Significant international business and shipping center

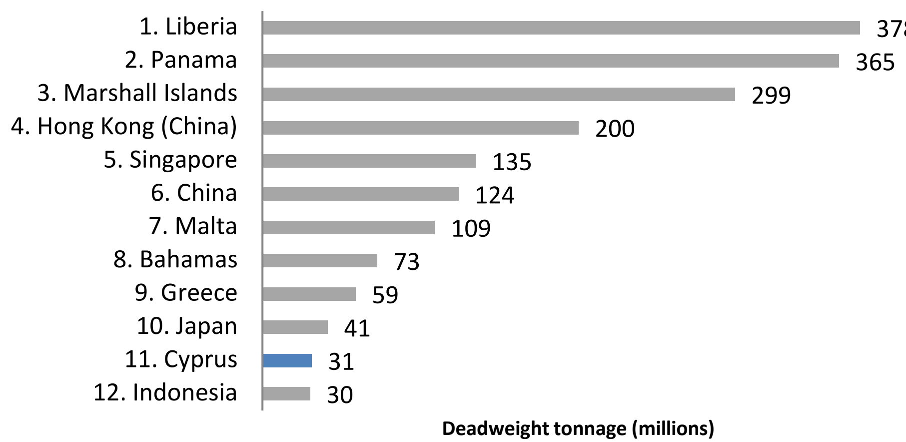
- Cyprus is a regional Business and Financial Services Centre with strong regulation and supervision and a reliance on a well balanced portfolio of services.
- It maintains a modern, consistent and simple tax system with a broad tax base, limited exceptions or credits, and low tax rates and a significant network of Agreements for Avoidance of Double Taxation (68 as of today). Cyprus is a Common Law country and has a well-developed professional services industry with more than 20 years presence in the international financial markets and over 500 organisations supporting international business.
- It has been developed to provide not only classic shipping services but also ship management due to its strong geographical, institutional and commercial advantages. One of the top ship management centers worldwide, having 60 ship management companies in operation, including some of the most popular shipping companies.
- Cyprus's ship management revenue as a percent of GDP stood at around 4.5% of GDP during the first half of 2023 representing an increase of 9 percent compared to the first half of 2022.

Investment Firms and Fund Management





Leading flags of registration by dead-weight tonnage, 2022



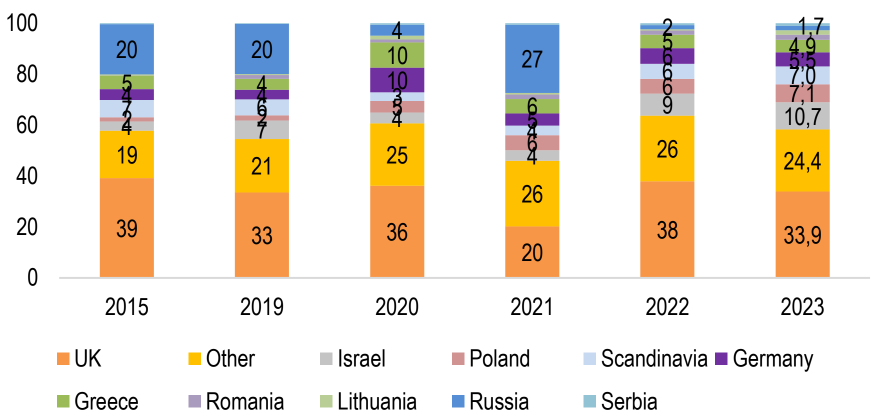
Source: Cyprus Securities and Exchange Commission, UNCTAD

Tourism: a long-standing economic pillar

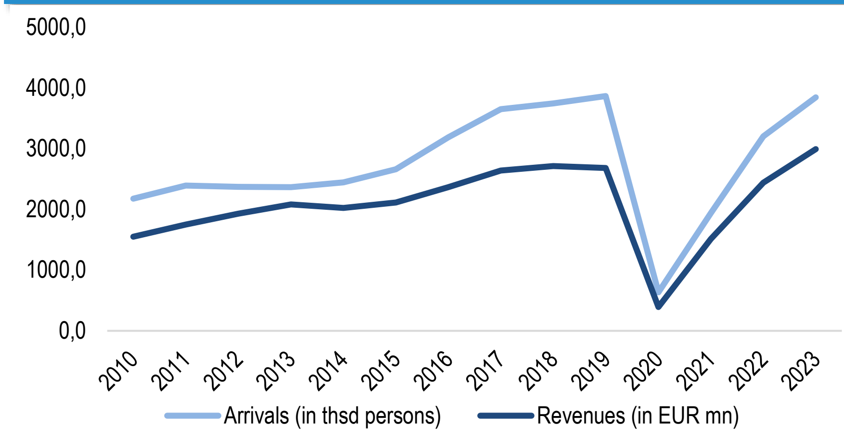
Tourism is one of the key drivers of economic growth

- The tourism sector was among the sectors hit most severely in 2020 due to the Covid-19 pandemic by the measures on travel restrictions taken by the Cypriot Government as well as by other countries in order to control the spread of the virus within the population and safeguard the national health systems.
- Since 2021, tourist arrivals followed an upward path reaching around 3846 thousand persons in 2023 (about 99% of 2019 level) compared to 3201 thousand persons in 2022. The total revenues exhibited also a significant increase reaching around EUR 2991 mn in 2023 (about 111% of 2019 level) compared to EUR 2439 mn in 2022. The loss of the Russian market has been outweigh by other jurisdictions mainly European markets, thus increasing the geographical diversification.
- For the 1st quarter of 2024, tourist arrivals recorded an increase of 5.4% compared to the corresponding period in 2023 reaching 415 thousand persons whist revenues for the 1st month of 2024 remain at the same level as was in the 1st month of 2023.
- For the period following, the ongoing efforts have been focused on upgrading the tourist product through hotel renovations, new infrastructure as well as with the operation of the casino resort contributing to the increased tourist arrivals either from existing or new markets and increased revenues.

Geographical diversification over time



Tourist arrivals and receipts



Economic impacts on climate change: A review

Preparatory steps

- The MoF has signed a research **cooperation agreement** with the Center for Economic Research of the University of Cyprus titled "Climate change and effects on the Cypriot economy" delivering a final statement of findings in December 2025.
- **The purpose of the research** is to assess the possible effects of climate change:
  (a) on GDP, potential growth rate and in critical sectors of the economy (Tourism, agriculture and shipping)
  (b) on public finances and in the prospects and the development model of Cyprus.
- The duration of the agreement is three years (2023-2025) and it will be completed in three stages.

Economic impact of climate change

- The **main climate risks** affecting the economy and public finances are physical risks and transition risks.
- **Physical risks**: increased impact of extreme weather events and gradual global warming.
- **Transition risks**: the impact of policies put in place to address climate change like transitioning to a low-carbon economy.

Impact of climate risks

- Climate risks affect both supply and demand side.
- **Supply side**: Extreme weather events can damage land and physical capital and reduce labour productivity in outdoor sectors whilst the transition to a low-carbon economy poses a challenge between mitigation of future climate damages (costs/expenses to be made) and impact on economic growth (through the resource diversion from productive investments).
- **Demand side**: Possible reduction of private consumption and investment due to reduced household wealth and weakened firm balance sheets.

Source: Cyprus Statistical Service

Main risks to the economic outlook

Risks to the outlook

- The risks associated with the forecasts are mainly categorized to the downside taking into consideration the continued uncertainty in the global economic environment.

Downside risks

- Ongoing war between Russia and Ukraine.
- Military conflict between Israel – Hamas.
- Sanctions imposed to Russia by the EU, USA and UK.
- Banking sector developments (NPLs)
- Adverse developments in the external environment
- Climate-related risks (in the medium-term)
- Public health expenses associated with General Health System

Upside risks

- Partial inclusion of the impact of investments under the RRF to the output growth forecasts.
- New investments are in the pipeline over the projected horizon which are not fully factored in the baseline scenario.
- Banking sector developments (sector consolidation).
- Oil and gas developments.
- Higher – than – expected performance in services exports (including tourism).

Source: Cyprus Statistical Service

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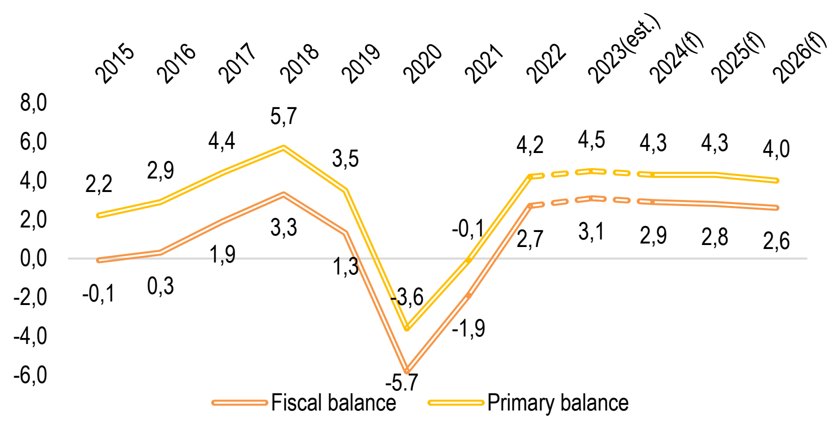
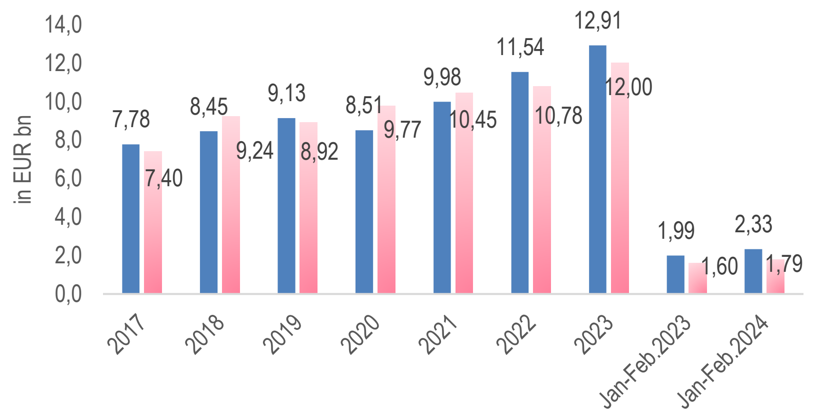
Rebound of public finances from 2021 onwards and strong fiscal performance

- In 2021 the fiscal balance recorded a significant improvement by 3.8 pp following a large deficit of the General Government of 5.7% in 2020 due to the effects of the negative rate of growth in real terms as well as to the support measures of a one-off nature to cope with the COVID-19 outbreak (fiscal impact: -3.4% of GDP).
- **In 2023** the **budget balance** improved further of about 0.4pp of GDP (**3.1% of GDP**) following a surplus of 2.7% of GDP in 2022. This development was attributed to continued strong growth in most of revenue categories reflecting the continuous improvement of the economic environment.
- Further improvement of the public finances are expected in the medium term, with the fiscal position reaching a surplus of 2.9% of GDP in 2024 and 2.7% of GDP on average in the years 2025-2026.
- The **revenue side** recorded an increase of **11.9% in 2023** vis-à-vis the corresponding period of 2022, mainly due to increased revenue from social contributions (14.5%) and taxes on production and imports (10%).
- The **expenditure side** increased at a rate of **11.3% in 2023** vis-à-vis the corresponding period of 2022 with the categories "compensation of employees" (12.8%) and "social payments" (7.6%) contributing positively to the percentage change of expenditure.
- In **Jan.-Feb. 2024**, **public revenue** recorded an increase of **16.7%** mainly due to increased revenue from current taxes on income and wealth whilst **public expenditure** increased at a rate of **12.3%** mainly due to increased expenditure under category "social payments".

Evolution of main fiscal indicators[1], % of GDP



Budget revenue – expenditure breakdown, in EUR bn



Source: Ministry of Finance

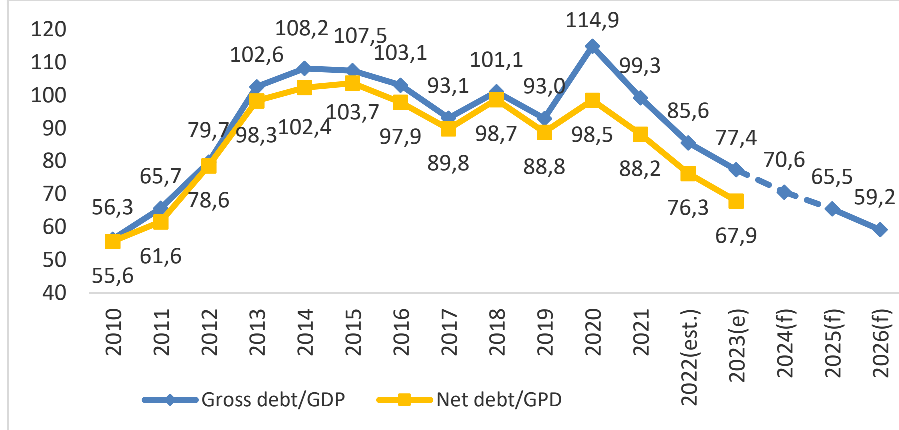
Note: "f" denotes forecasts by the Ministry of Finance as of March 2024. All forecasts are based on assumptions and there can be no assurance they will be realised.

1 = Excluding methodological treatments relates to ex-CCB in years 2015 and 2018

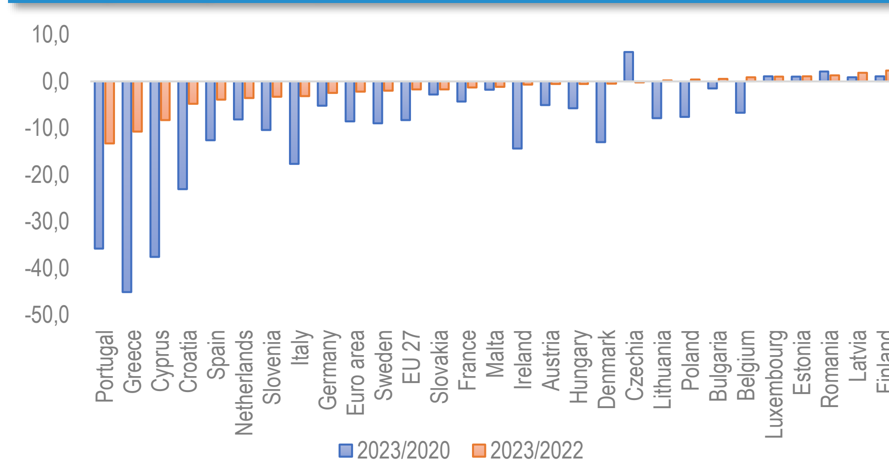
Positive public debt dynamics from 2021 onwards

- In 2020, the increase of the debt-to-GDP ratio to **114.9 percent** (of which 12 percent was due to increased cash buffer) from 93.0 percent the year before, was attributed to the revision of the Annual Funding Plan targeted to tackle the challenges of the pandemic crisis from the beginning of the year.
- Since 2021, the general government debt is on a downward path. In the period 2021-2023 the government debt recorded a total reduction of about **37.5 percentage points** (p.p), which constitutes the second largest decrease of debt to GDP in the EU.
- In 2023 Cyprus recorded a further reduction of public debt of about 8.2 p.p falling to 77.4% of GDP, which constitutes the third largest decrease of debt to GDP in the EU.
- The debt-to-GDP ratio is expected to further decline during the medium term and fall below 60 percent of GDP **by the end of 2026, to about 59 percent**. However, there is a high uncertainty surrounding the developments of the Russia-Ukraine war, Israel-Hamas conflict along with the global economic uncertainty.

Evolution of gross and net general government debt, %



Changes in general public debt



Source: Cyprus Statistical Service, Ministry of Finance, Eurostat

Note: "f" denotes forecasts by the Ministry of Finance as of March 2024. All forecasts are based on assumptions and there can be no assurance they will be realised.

Main risks to outlook on public finances

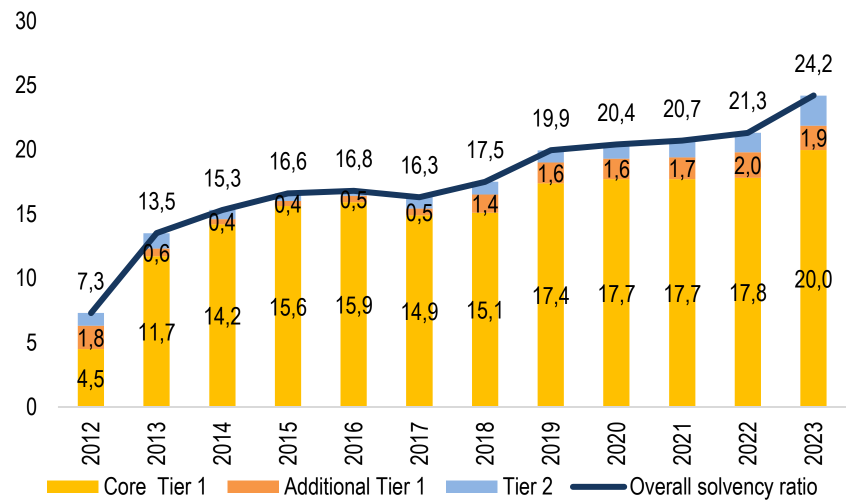
- Continuation of **inflationary pressures** (mainly due to the increase in fuel and energy prices)
- Excessive costs from the increased **flow of immigrants**.
- Continuation or imposition of new **sanctions on Russia and Belarus** (direct and indirect effects on the economy).
- **Burden on public finances by the National Health System** (mainly through the possible need to finance the deficits of the State Health Organisation for a longer period than determined)

Contents

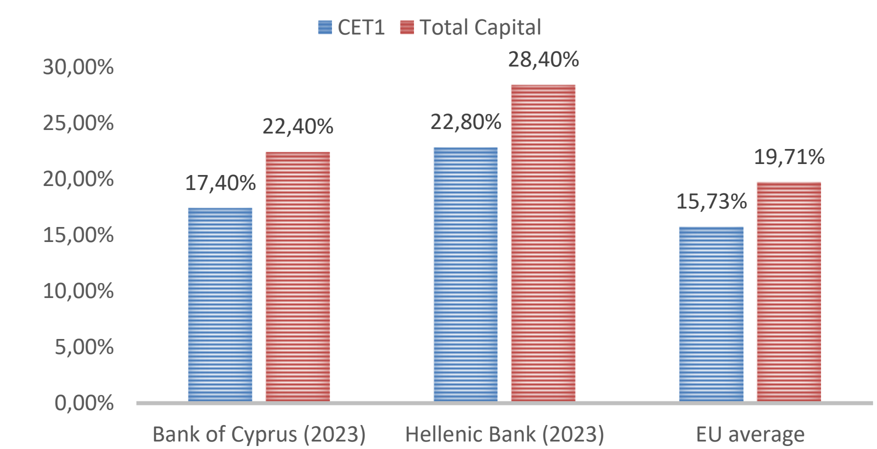
Solid capital base of the banks

- International investors hold majority of shareholding and broad composition in systemic banks.
- Since 2013 the banks' capital position has been consistently strengthened, due to increase in common equity and deleveraging, resulting in key ratios of systemic banks to be above the thresholds specified by the supervisor.
- Capital Ratios improved further in 2023, significantly above minimum regulatory requirements and higher than EU average. The banking sector 's CET1 ratio is **one of the highest across EU** climbing to 20%, driven by increased profitability, compared to 16% of the EU average. **Total Own Funds ratio is at a record high**, driven by boosted capital thanks to earnings.
- The average **buffer** availability (above Pillar 2 guidance) stood at **8.1%** (the highest so far) enhancing the capability of the banking sector to absorb unexpected loses.

Aggregate banking sector capital position, in %



Systemic Banks capital ratios at 2023, in %

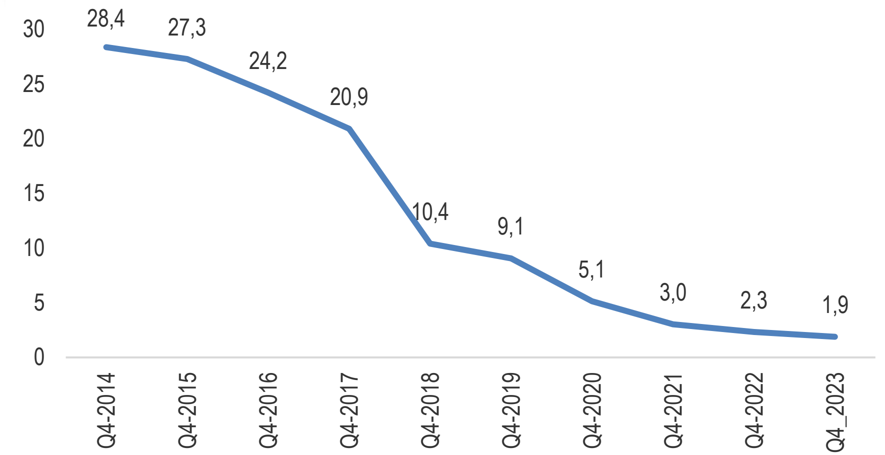


Source: ECB, Central Bank of Cyprus, systemic banks publications.

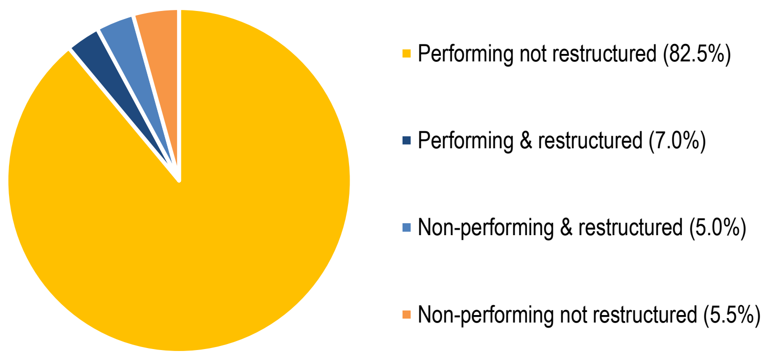
Robust bank's asset quality

- Despite the challenging macroeconomic environment, asset quality of the banking sector remains robust.
- The ratio of NPLs continued its downward trend since the peak of 2014, decreasing to 7.9% by the end of 2023. The stock of NPLs dropped to its lowest level since the definition was harmonized across EU in 2014, reaching EUR 1.9 bn in 2023. The reduction was attributed to the sales of loans, repayments, write-offs and settlement of deb via swaps of immovable property.
- By the end of December 2023 accumulated impairment provisions stood at 55% of NPEs which is above the EU average.
- By aligning the definition of NPLs ratio with EBA definition, NPL ratio is more favourable and is line with EU average.

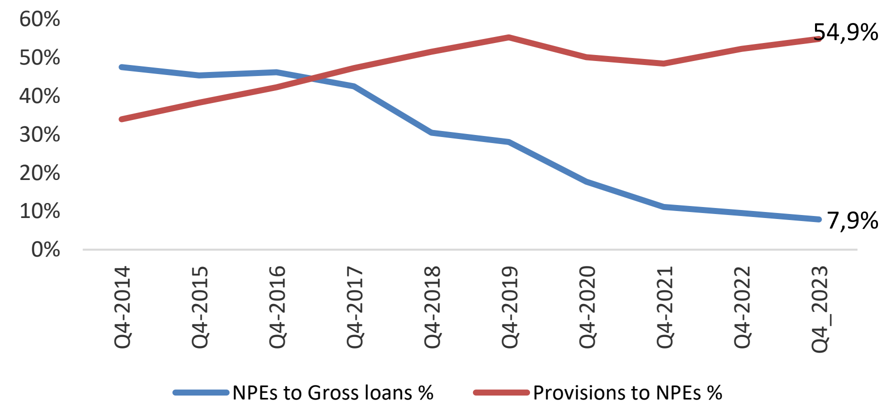
Non performing exposures (NPLs), in EUR bn



Gross loans breakdown, December 2023, in %



Non performing exposures and provisions, in %

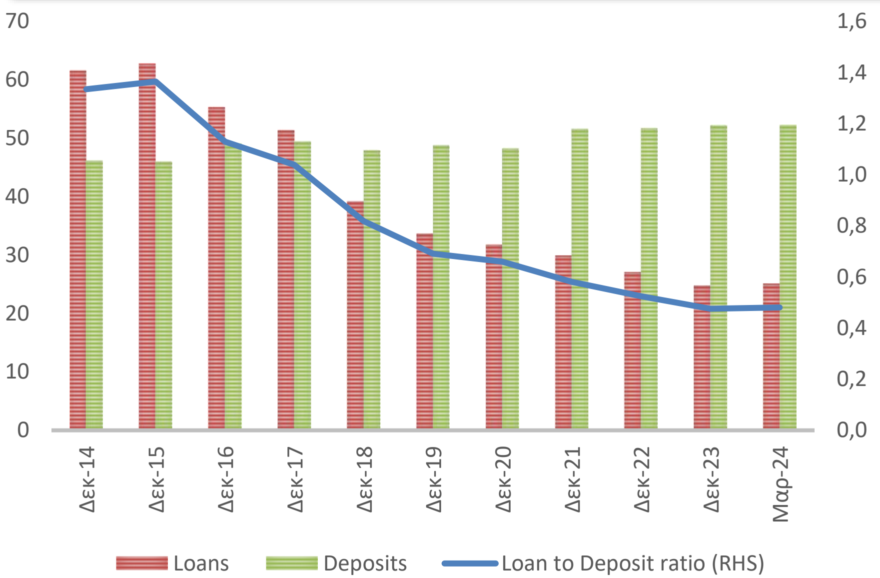


Source: Central Bank of Cyprus, Ministry of Finance

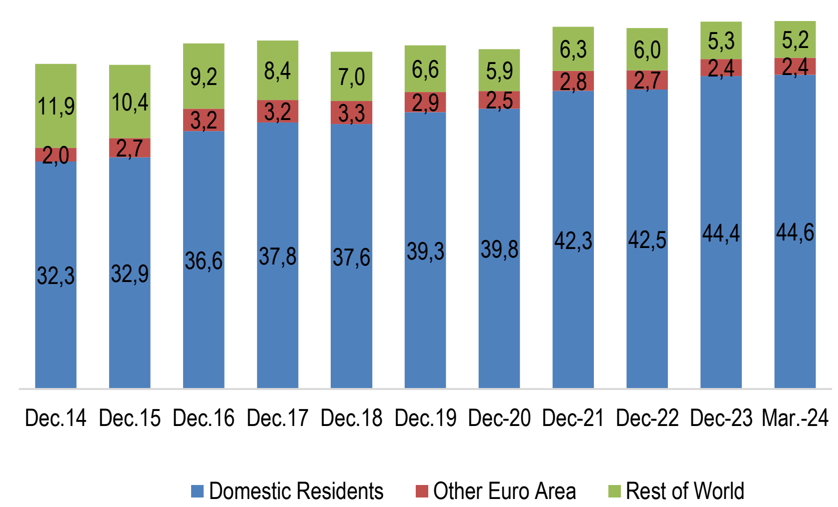
Evolution of deposits

- Loans to deposits ratio decreased significantly since the peak of 2015 due to sale of NPEs, and stabilization of deposits.
- The deposit base continues to grow despite the continued reduction of non-domestic deposits
- The deposit increases in domestic base reflect the stronger domestic economy, and increased confidence to the sector.
- Reduction in the non resident deposits, due to proactive risk mitigating practices by banks.

Evolution of Loans and Deposits, in EUR bn



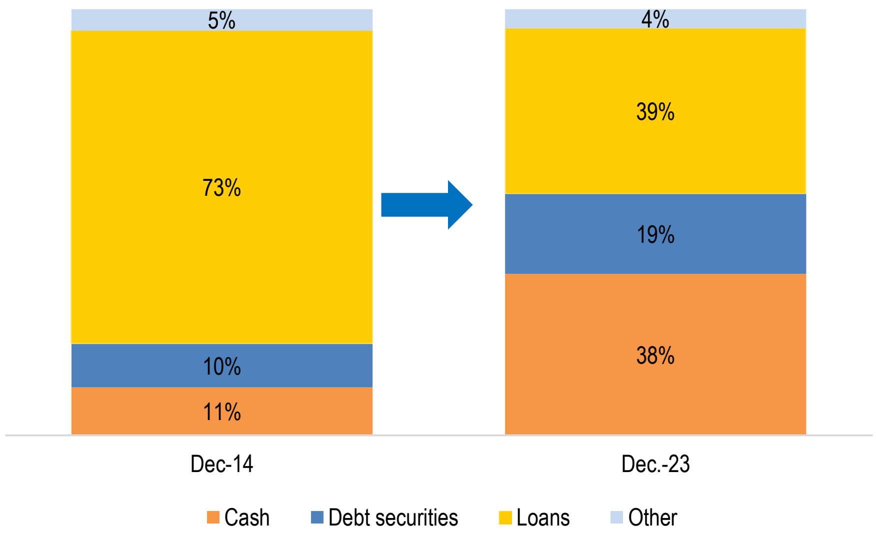
Origin of deposits, in EUR bn



Source: Central Bank of Cyprus

Evolution of Assets and Liabilities of Banking Sector

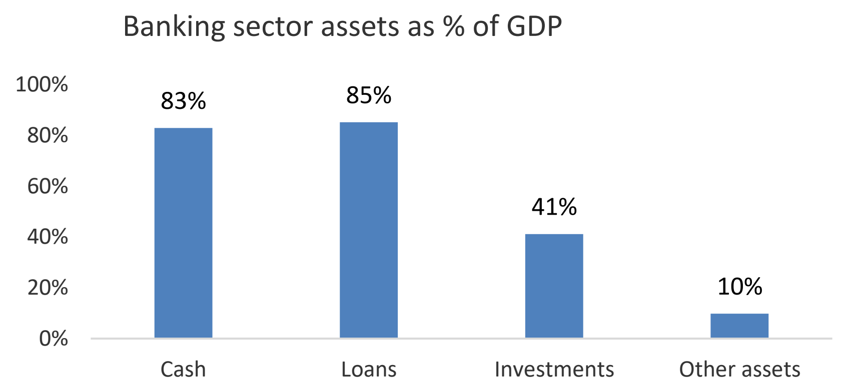
Share of cash balance and liquid assets, % of assets

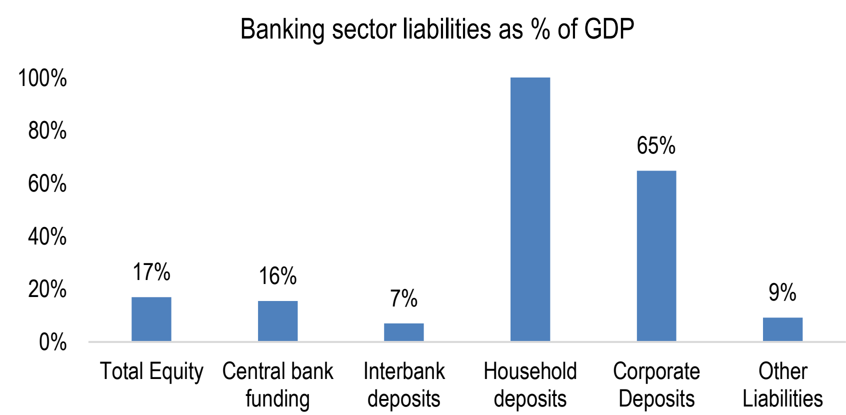


- Increasing liquidity of banks with increase in proportion of cash to assets
- Decreasing proportion of loans to total assets.

Source: Central Bank of Cyprus

Banking system balance sheet (% GDP), Dec.2023

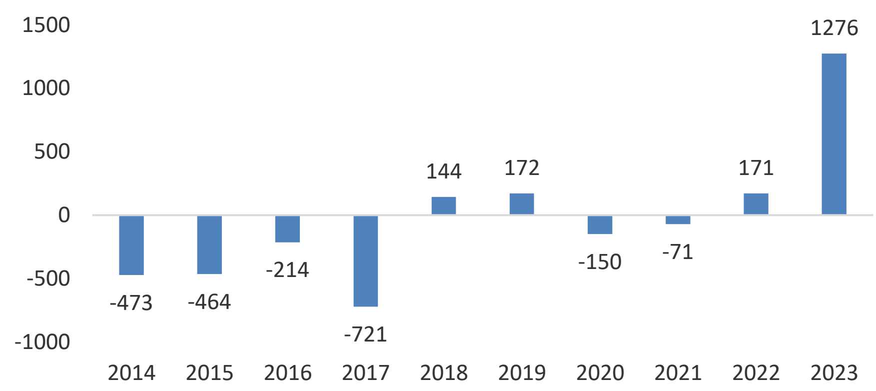




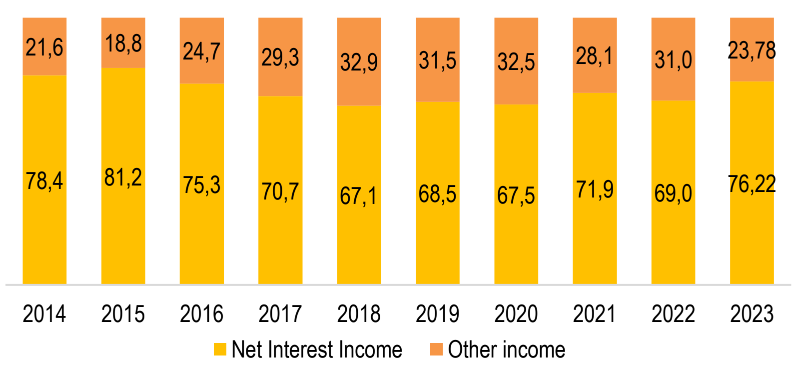
Loan impairments main driver of profit/loss evolution

- Return to strong profitability in 2022-2023 after years of volatile profitability.
- 2023 was extremely profitable for the banking sector mainly through the structure of interest rates.
- Interest income decline was reversed in 2023 due to the rise in interest rates and the differential between deposit and loan/ECB rates.

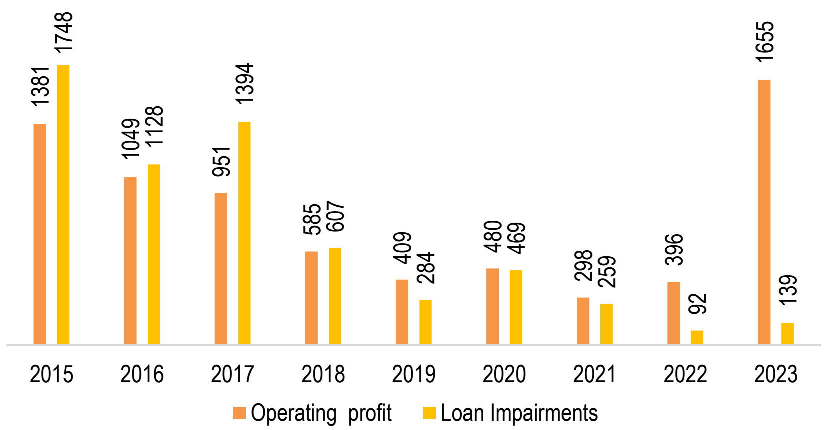
Net profit/(loss), in EUR mn



Income structure, in %



Operating profit and Impairment, in EUR mn



Source: Central Bank of Cyprus

Contents

Public Debt Management Strategy

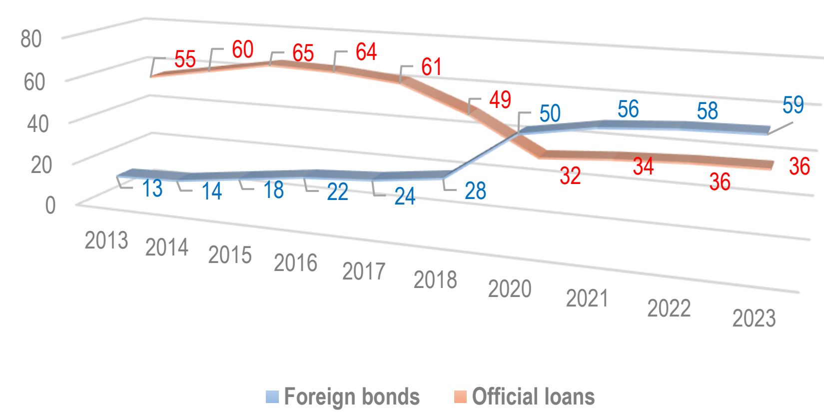
Cornerstones in Public Debt Management Strategy 2023-25

Target	Progress
Smoothening of debt maturity profile and extension of marketable debt maturity	**On course**: Average maturity of marketable and total debt extended significantly
Maintaining liquid funds for the next 6-9-month financing needs	**Achieved**
Risk mitigation via reduced exposure to foreign currency and interest rate risks	**-Foreign currency exposure Achieved**: reduced to zero, **-Interest rate risk** On course: Despite the upward trend of interest rates, interest rate risk remains at moderate level, new issuance completed in EUR, fixed rate format only
Completion and extension of the sovereign bond yield curve	**On course:** Significant improvement; Yield curve extended up to 30-year tenor since May 2019. New EMTN with 30-year tenor in April 2020
Enhancement of investor relations and expansion of investor base	**On course**: higher diversification and larger orderbooks recorded in primary issuances

New Public Debt Management Strategy 2024-2026

- Strategically, the **international bonds** will continue to be the **main financing** instrument to achieve further extension of yield curve and increase in debt maturity. The domestic market will continue to serve as a complimentary financing source.
- Focusing on **fixed-rate, euro denominated issuances** to assume low new risk into portfolio.
- Enhancement of the **secondary market functioning**.
- Enhancement of **investor relations** and **expansion of investor base** in order to reduce further the cost of debt.

Share of international bonds in total debt stock, %

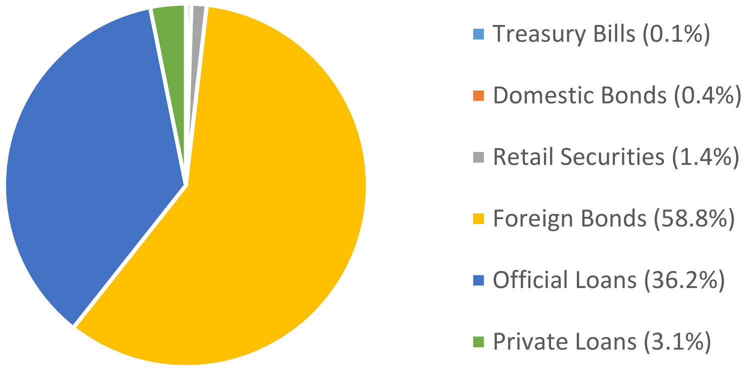


Public debt overview

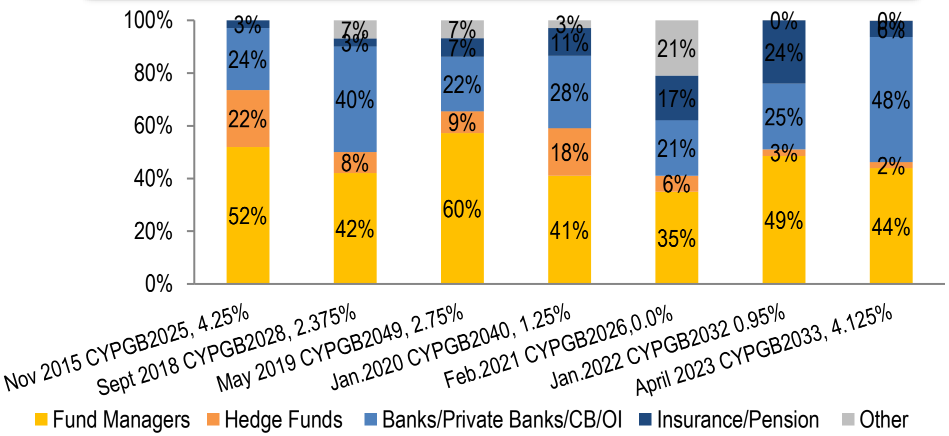
Public debt structure, Dec.2023 (est.)

General Government Debt	**€23.0 bn**
General Government Debt/GDP	**77.4% est.**
Of which liquid assets/GDP	**9.5%**
• Short term debt	0.1%
• Resident holders (estimate at issuance)	13%
• Domestic currency	100%
• Fixed interest rate	69.5%
• Private sector holdings (at issuance)	32%

Public debt by instrument, Dec.2023 (est.)

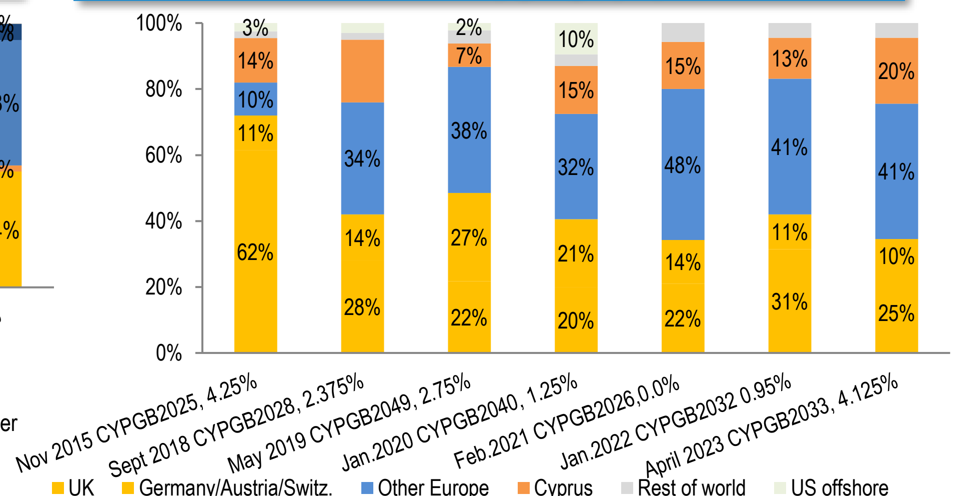


Evolution of investor base by type



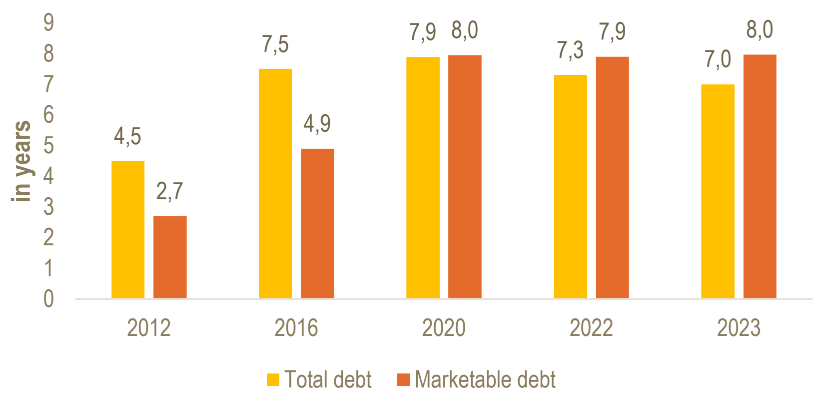
Source: Public Debt Management Office
Note: "est" denotes estimates by the Ministry of Finance as of March 2024..

Evolution of investor base by geography

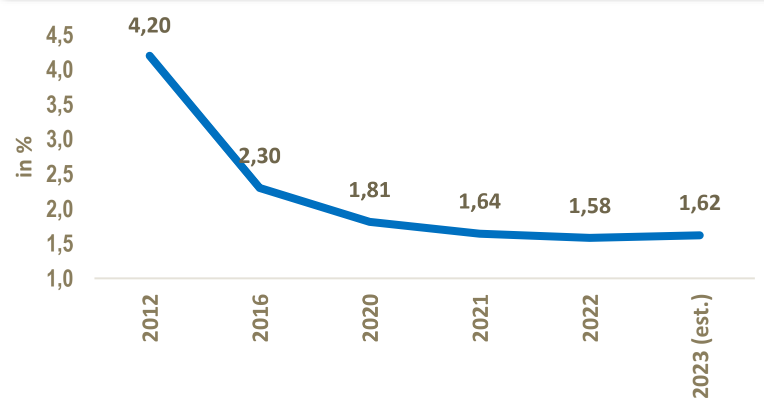


Debt portfolio cost-risk indicators improving

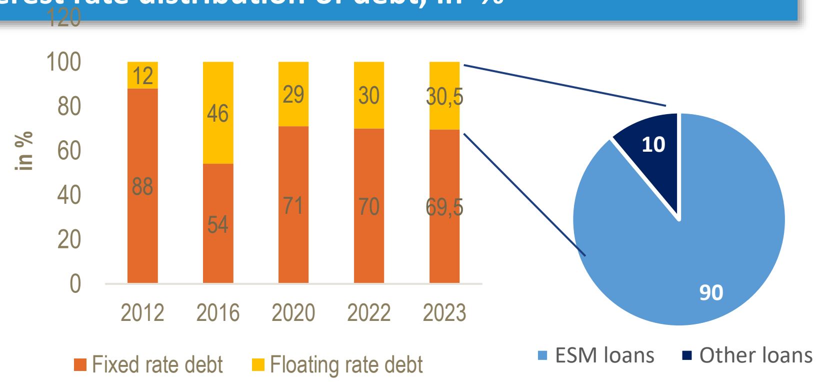
Weighted average maturity of debt, in years



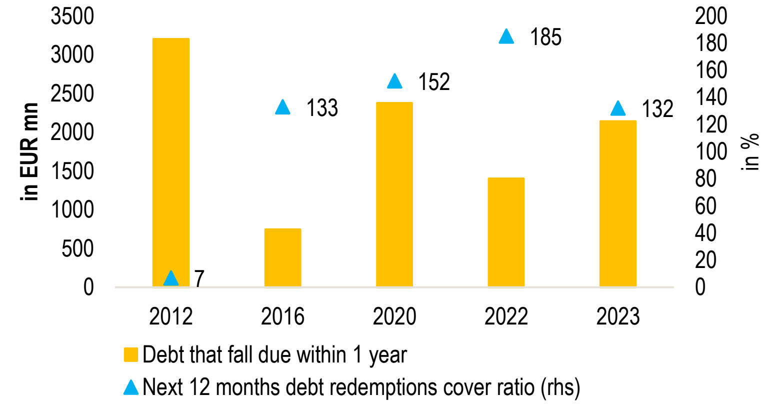
Weighted average cost of public debt, in %



Interest rate distribution of debt, in %



Evolution of government liquidity buffer, in EUR mn



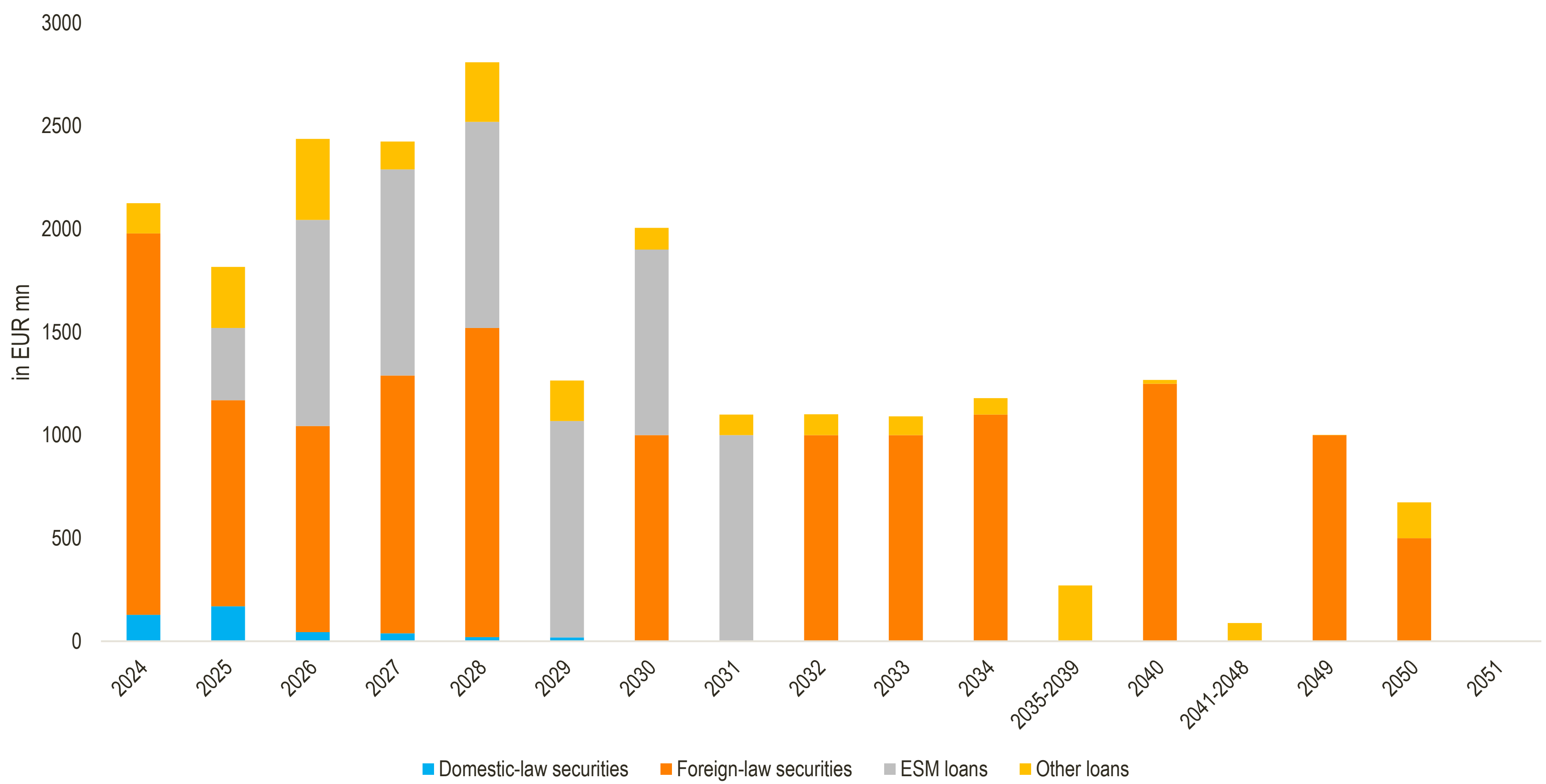
For Dec. 2012 and Dec. 2016, debt redemptions refer to 9 month period

Source: Public Debt Management Office

Public debt maturity structure

Active management of debt aims to smooth out maturities further

Debt maturity profile Dec. 2023, in EUR mn



Source: Public Debt Management Office

Annual Funding Plan 2024

Financing needs and sources

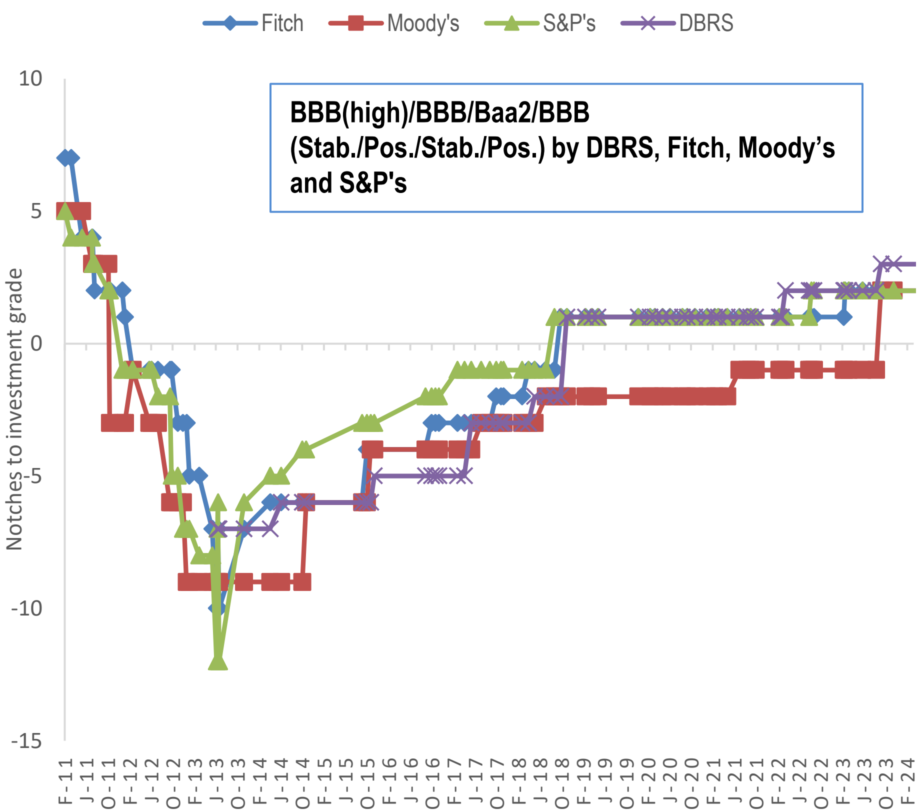
	AFP in 2023 EUR bn	AFP in 2024 EUR bn
Financing needs	**1.23**	**1.48**
Debt Redemptions	**1.85**	**2.24**
Short term debt	0.14	0.12
Long term debt	1.71	2.12
Fiscal needs, cash basis	**(0.62)**	**(0.76)**
Financing Sources (upper borrowing limit)	**1.16**	**1.30**
Treasury Bills	0.14	0.12
EMTN	1.0	1.0
Loans	0.12	0.14
Retail bond	0.02	0.04
Utilization of cash reserves (minus sign=increase)	**0.07**	**0.18**

- The main funding of the AFP 2023 was through the issuance of one international benchmark bond and at a lesser extent through other financing sources.
- Complementary financing through Retail bonds, Treasury bills and loans. The yields of 3-month Treasury Bills continued to be on a positive territory in 2023 reaching 4.05% in the last auction in October 2023. In 2024, the weighted average yield is 3.92% whilst the bid to cover ratio is 2.7 times.
- Very strong cash position by the end of 2023. By the end of Feb. 2024, cash buffer covers more than 2.2 times the next 12-months financing needs.
- The main financing instrument of AFP 2024 remains the international bonds. Moderate financing needs in 2024 due to projected fiscal surplus.

Source: Public Debt Management Office
Note: Discrepancies between the totals and the sum of constituent items are contributed to rounding.

Gradual enhancement of investment grade status

Credit rating history and current status



Ratings' summary [1]

Rating strengths

- High income per capita, strong institutions and governance, strong regulatory quality
- Fiscal policy space
- Highly skilled labour force
- Favorable Government debt profile

Concerns

- High levels of public and private debt
- Banking sector asset weakness
- Impact of Russia-Ukraine war and Israel-Hamas conflicts to Cyprus economy in the medium-term.

Progress

- Material reduction in the stock of NPEs and the strengthening of the banking sector
- Strong fiscal policy management
- Robust and resilient growth supporting also by NRRP
- Strong Government financing buffer

Note: 1. Non-exclusive list, as indicated in publicly available opinions of the Credit Rating Agencies reports. Please see full reports for more detail.

Contents

Looking Ahead

Main indicators	2022	2023 (est.)	2024 *f*	2025 *f*	2026 *f*
Real GDP (% change)	5.1%	2.5%	2.9%	3.1%	3.2%
Unemployment rate	6.8%	6.1%	5.8%	5.5%	5.3%
Public debt (% of GDP)	85.6%	77.4%	70.6%	65.5%	59.2%
Fiscal Balance (% of GDP)	2.7%	3.1%	2.9%	2.8%	2.6%

Source: Ministry of Finance

(1) "f" denotes forecasts by the Ministry of Finance as of March 2024. Forecasts are based on assumptions and there can be no assurance that any such forecasts will be realised. Forecasts are subject to revisions from time to time.

Key credit highlights

Prudent fiscal policy	Robust and sustainable economic growth	Consolidated banking sector
Improved debt risk-cost indicators	Strong institutions and legal system	Upside risks in services, energy sector and on output growth (from RRF)
Government prefunding	Political stability	Economic resilience

Contacts

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Fax.:	0035722602749

Other sources of information

- Ministry of Finance www.mof.gov.cy
- Ministry of Foreign Affairs www.mfa.gov.cy
- Ministry of Energy, Commerce, Industry and Tourism www.mcit.gov.cy
- Central Bank of Cyprus www.centralbank.cy
- Cyprus Statistical Service www.mof.gov.cy/cystat
- Cyprus Investment Promotion Agency www.investcyprus.org.cy

Contents

RRF allocation to Cyprus and RRP budget

- The total budget of the CY RRP amounts to €1,206 bln, which will be financed through grants of €1,006 bln (at current prices) and additional funding of about €0,20 bln in the form of loan
- RRP Strategic Objectives & New Growth Model for the Cypriot Economy
- The Plan is structured around five (5) Policy Axes and thirteen (13) Components, with an implementation period up to 2026, all aligned with the Plan's strategic goal and objectives. The key strategic goal of the RRP Cyprus is:

«Strengthening the economy's resilience and the country's potential for economically, socially and environmentally sustainable long-term growth and welfare»

Source: Cyprus Statistical Service, Ministry of Finance
Note: "f" denotes forecasts by the Ministry of Finance, as of October 2021. All forecasts are based on assumptions and there can be no assurance they will be realised.

Aim of the RRP measures

Through the implementation of the RRP measures, the aim is to promote Cyprus as:

- A country with high levels of resilience, productivity and competitiveness through a sustainable model of long-term growth;
- A country where the education system and workforce development are aligned with the skills needed for the future;
- A country with high performance in Green and Digital transition;
- A country with a resilient health system that follows best practices from top health systems around the world;
- A welfare state with a strong protection network for those in need of state assistance;
- A state of law, transparency and accountability, with strong anti-corruption mechanisms.

Source: Cyprus Statistical Service, Ministry of Finance
Note: "f" denotes forecasts by the Ministry of Finance, as of October 2021. All forecasts are based on assumptions and there can be no assurance they will be realised.

Cyprus RRP total investments

CYPRUS RRP TOTAL INVESTMENTS

€1,2 bln

from EU mechanism

+ €1,1 bln

additional private funds mobilised in Cyrpus

(133 measures - reforms & investments)

58 reforms	**75** investments	**41%** green transition	**23%** digital transition

The economic impact of RRP

- The economic impact assessment of the RRP carried out by the University of Cyprus, the Cypriot RRP is expected to have **significant macroeconomic impact in the short, medium and long term**. More specifically, some key results of the relevant assessment show that:

- the RRP can lead to economic growth and more specifically increase the GDP of Cyprus by about 3% in the short-term (2022-2023) and by around 7% in the medium-term (2022-2026), compared to the baseline growth of the economy without the RRP;

- the Plan increases employment by more than 2.5%, or by around 11,000 new jobs during the period 2021-2026;

- the contribution of productivity to GDP and employment rises from 10.6% and 13.2% in the short-term and 23.5% and 29.3% in the medium-term.

RRP policy axes and allocation of funds

Policy Axis / Component	Budget (in euro mln)	Percentage of total budget (%)
1. Public health, civil protection and lessons learned from the pandemic	**74,1**	**6,1%**
1.1. Resilient and Effective Health System, Enhanced Civil Protection	74,1	6,1%
2. Accelerated transition to a green economy	**447,6**	**37,1%**
2.1. Climate neutrality, energy efficiency and renewable energy penetration	269	22,3%
2.2. Sustainable transport	91,3	7,6%
2.3. Smart and sustainable water management	87,3	7,2%
3. Strengthening the resilience and competitiveness of the economy	**422,3**	**35%**
3.1. New growth model and diversification of the economy	166,4	13,8%
3.2. Enhanced research and innovation	64	5,3%
3.3. Business support for competitiveness	54,1	4,3%
3.4. Modernizing public and local authorities, making justice more efficient and fighting corruption	96	7,9%
3.5. Safeguarding fiscal and financial stability	44,5	3,7%
4. Towards a digital era	**89,4**	**7,4%**
4.1. Upgrade infrastructure for connectivity	53	4,4%
4.2. Promote e-government	36,4	3%
5. Labour market, social protection, education and human capital	**172,9**	**14,3%**
5.1. Educational system modernization-up-skilling and retraining	94	7,8%
5.2. Labour market, social protection, social welfare and inclusion	78,9	6,5%
Total RFP	**1,206**	**100%**
Green transition	*≈491*	*≈41%*[1]
Digital transition	*≈282*	*≈23%*

Indicative Payment profile of the NRRP Program

Details of payment request	# M&Ts (Grants)	Grant amount in €mln	# M&Ts (Loans)	Loans amount in €mln	Total amount in €mln	Year of payment[3/]
13% pre-financing[1/]	0	130,772,986	0	26,041,600	156,814,586	2021
1st instalment	14	85,000,000	0	0	85,000,000	2022
20% Repower EU pre-financing[2/]	0	20,893,034	0	0	20,893,034	2024(f)
2nd and 3rd instalment	38	152,218,713	0	0	152,218,713	2024(f)
4th and 5th instalment	44	197,238,918	4	50,000,000	247,238,918	2025(f)
6th and 7th instalment	58	224,526,184	4	71,553,800	296,079,984	2026(f)
8th, 9th and 10th instalment	112	209,573,846	8	52,724,600	262,298,446	2027(f)
Total	**256**	**1,005,946,047**	**15**	**200,320,000**	**1,206,266,047**	

1/ = This amount corresponds to the financial allocation after deduction of Cyprus' proportional share of the expenses of Article 6(2) of Regulation (EU) 2021/241, calculated in accordance with the methodology of Article 11 of that Regulation and corresponds to 0.02% of the allocation.
2/ = RePower EU is the new scheme by the European Union that was rcently launched, targeting to reduce EU dependence on Russian fossil fuels.
3/ = The schedule of grant and loan disbursments is indicative and all above mentioned years for disbursments are estimated assumptions.