

## BRIEFING

# Economic Dialogue with Cyprus

ECON on 25 January 2016

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*This note presents selected information on the current status of the EU economic governance procedures and related relevant information in view of an [Economic Dialogue](#) with [Harris Georgiades](#), Minister of Finance of Cyprus, in accordance with the EU legal framework, in particular [Article 2a of EU Regulation 1467 as amended by Regulation 1177/2011](#) and [Article 7\(10\) of EU Regulation 472/2013](#).*

### 1. Latest economic developments

**After more than three years of recession, Cyprus' economy has returned to growth in 2015 reflecting predominantly a recovery in private consumption<sup>1</sup>.** Following a contraction of 2.5% in 2014, real GDP is expected, according to the [Commission autumn 2015 forecast](#), to grow by 1.2% in 2015 before progressively accelerating to 1.4% in 2016 and 2.0% in 2017 as domestic demand gradually recovers. External demand is also projected to contribute to growth over the forecast horizon, although to a lesser degree. The Commission (COM) sees the risks to the growth outlook broadly balanced: on the upside, private consumption and exports dynamics could benefit more than expected from renewed weakness in energy prices and lagged effects of euro's depreciation, while on the downside, slower-than-expected reduction in non-performing loans and its ensuing impact on private sector balance sheets and credit growth could weigh on the pace of the recovery.

**Inflation, as measured by headline Harmonised Index of Consumer Prices (HICP), is expected to remain negative in 2015 (at -1.6%) for a second year in a row** reflecting predominantly price declines in the energy and tourism sectors. For 2016 and 2017, the COM projects HICP inflation to return to positive territory (0.6% and 1.3% respectively) as Cyprus' economy progressively gathers momentum. Core inflation (HICP inflation except energy and unprocessed food) stood at -0.4% between January and November 2015.

**Current account deficit is projected to slightly narrow, in terms of GDP, from 3.8% in 2014 to 3.5% in 2015** as improvements in trade balance more than compensate further increases in the primary income outflows to the rest of the world. For 2016 and 2017, the Commission foresees a progressive reduction in Cyprus' current account deficit to 3.2% and 3.0% of GDP respectively.

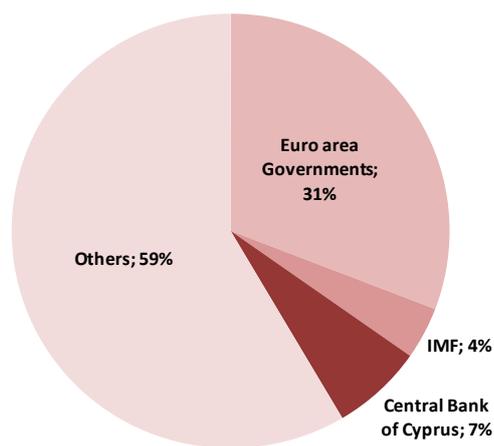
**Unemployment is expected to decline from its 2014 peak of 16.1% to 15.6% in 2015** as Cyprus' economy has come out of recession. The COM expects unemployment to continue on its downward path as the recovery strengthens, with 14.6% and 13.3% in 2016 and 2017 respectively. The impact of economic expansion has also become visible in youth unemployment data, though the youth unemployment rate still remains at very high levels (32.6% in September 2015, as compared to a record high of 40.2% at the end of 2013).

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<sup>1</sup> Note that between 2008 and 2014, the size of Cyprus' economy shrank by nearly 11%.

**General government deficit is expected to stand at 0.7% of GDP in 2015**, down from 8.9% of GDP a year earlier (this 2014 figure however includes effect of a one-off banking recapitalisation amounting to 8.6% of GDP). Abstracting from this one-off measure, the general government primary surplus is projected to narrow from 2.6% of GDP in 2014 to 2.1% of GDP in 2015, reflecting, predominantly, a number of factors largely outside the control of the government affecting the revenue side (e.g. the new VAT location rules, lower dividend income from the Central Bank of Cyprus). On the other hand, government spending has been kept under tight control in general and will be affected only to a limited extent by costs associated with the closure of Cyprus Airways and the introduction of the new minimum guarantee scheme. **After peaking at 108.2% in 2014, the debt-to-GDP ratio is projected to decline to 106.7% in 2015** and slightly less than 95% by 2017 as growth gathers momentum and the government continues to target primary surpluses. The distribution of the outstanding debt across different categories of bondholders as of end June 2015 ([EUR 19.2 billion](#)) is depicted in Figure 1 below.

**Figure 1: Cyprus outstanding debt by holder as of 30 June 2015**



Source: EGOV calculations based on Cyprus Ministry of Finance data (as of 15 January 2016).

## 2. Financial assistance programme: Main elements and state of play

**On 25 June 2012**, Cyprus submitted a request for financial assistance to the Eurogroup and the IMF, in order to cope with the severe crisis of its financial sector and the related concerns about the sustainability of its public finances. The crisis was rooted in long-term problems that affected the Cypriot economy, in particular the oversized banking sector, the accumulation of private sector debt and the significant increases in the property prices. The haircut on Greek banks' debt in early 2012 also added to pressures on the Cypriot banking sector.

**On 2 April 2013**, the European Commission, the ECB and the IMF agreed with the Cypriot authorities a 3-year Economic Adjustment Programme. Euro-area Member States approved the programme on **24 April 2013**, with the IMF Executive Board following on **15 May 2013**. The financial package, ending on March 2016, covers up to EUR 10 billion, of which EUR 9 billion from the ESM and EUR 1 billion from the IMF. As of December 2015, [EUR 2.7 billion](#) of ESM funds still remain available.

The objectives of Cyprus' programme are threefold:

- Restoring **financial sector stability**;
- Strengthening **public finance sustainability**;
- Adopting **structural reforms** so as to support sustainable and balanced long-run growth.

The eight and last review of the programme took place in **November 2015**, with teams reaching staff level agreement on policies that could serve as a basis for its successful completion that would unlock EUR 275 million from the ESM and EUR 125 million from the IMF.

So far, [progress in the programme implementation](#) has been made in the following policy areas:

- **Restructuring and downsizing of Cypriot financial sector**, with the [bail-in of creditors including uninsured depositors](#) in the Bank of Cyprus and Cyprus Popular Bank. Capital controls were imposed during the process. However, they were gradually relaxed before being fully lifted on 6 April 2015 as banks' financial situation improved. However, the level of non-performing loans (NPLs) remains high and its reduction remains number one priority. To this end, the Cypriot authorities approved an enhanced foreclosure framework, reformed corporate and personal insolvency law and finally adopted new legislations on the transfer of issued title deeds and the sale of loans;
- **Consolidation of public finances**, via reduction in expenditure and increases in capital taxation, the VAT and the corporate tax rate. Reforms of the revenue administration were also adopted in order to improve tax compliance and fight tax evasion. These measures have helped to meet programme fiscal targets with substantial margins. Looking ahead, the projections underlying the [7th review](#) of the programme show that there is no need for additional consolidation measures in 2016 and a rather small additional effort in 2017 to achieve primary surplus targets. However, the COM considers that this fiscal outlook is surrounded by 'significant risks' stemming from a priori negative impact of recently adopted tax incentives<sup>2</sup> on tax revenues, government's large exposure to contingent liabilities and potentially adverse macroeconomic developments;
- **Structural reforms** in the area of public financial management (new fiscal responsibility and budget systems law, establishment of an independent fiscal council), pension and welfare reform (with the introduction of a guaranteed minimum income scheme and the elimination of duplicate benefits) and opening of product and services markets (regulated professions, tourism) have been implemented. The implementation of the Anti-Money Laundering action plan is also on track. Finally, the [unbundling of the Electricity Authority of Cyprus](#) (EAC) has also been completed.

While Cyprus has made significant progress in implementing the programme, the conclusions of the Eurogroup meeting of [14 January 2016](#) highlight that **two prior actions still have to be fully completed** to formally finalise the last review, in particular:

- **The privatization agenda** - the legislation creating a new telecoms company has yet to be approved so as to pave the way for the privatisation of the Cyprus Telecommunications Authority (CyTA);
- **The amendment of the sale of loans law**, aligning it with the corresponding EU acquis for asset management companies, has yet to be approved<sup>3</sup>.

A discussion on these elements as well as on what **the end of the programme** will look like is to take place at the upcoming Eurogroup meeting (11 February 2016). According to a [press report](#), Harris Georgiades, Cyprus Finance Minister, reportedly said that he "*is not certain that the Parliament will approve the last prior action in time to secure the green light from the eurozone Finance Ministers by March [2016]*".

### 3. Public Finances

Cyprus is since 2010 in an [Excessive Deficit Procedure](#) (EDP); the reference year which triggered the procedure is 2009.

The latest Council recommendation under this procedure is from [May 2013](#) (under Article 126(7) TFEU); it requests from Cyprus nominal deficit targets of 6.5% of GDP in 2013, 8.4% of GDP in 2014, 6.3% of GDP in 2015, and 2.9% of GDP in 2016; the Memorandum of Understanding of [May](#)

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<sup>2</sup> I.e. notional interest allowance for new equity and a special defence tax exemption for non-domiciled tax residents.

<sup>3</sup> The Government has already submitted the amendment of the law on this specific point to the Council of Ministers (to be discussed and approved on 25 January 2016).

[2013](#) states that these nominal targets correspond to an annual fiscal budgetary consolidation in structural terms (fiscal effort) of “*more than 4.0%*” in the period 2013-2016.

On the basis of the COM autumn 2015 forecast, the headline deficit targets are met with significant margins in the years 2013, 2015 and 2016 (see Table 1 below). Actually, Cyprus is expected to even achieve a small budgetary surplus in 2016 (the EDP deadline set in the Council recommendation). On the other hand, the required fiscal effort is not expected to be met neither in 2015 nor in 2016. This mismatch between achievement of nominal targets and structural underperformance reflects mainly uncertainties surrounding output gap and structural balance calculations under the methodology used by the COM.

**Table 1: Overview of Cyprus' key fiscal indicators**

Headline budget balance targets (% of GDP) as requested by the Council		Fiscal effort in <u>structural terms</u> (% of GDP) as requested by the Council/Memorandum of Understanding (MoU)	COM forecast - autumn 2015 (under no policy change scenario) <sup>4</sup>				
			Year	Nominal budget balance as % of GDP	Structural budget balance as % of GDP <i>(year on year difference is a proxy for the fiscal effort)</i>	Debt as % of GDP	GDP growth as % change
			2011	-5.7	-5.5 (-0.4)	65.8	0.4
			2012	-5.8	-5.0 (0.5)	79.3	-2.4
2013	-6.5	More than 4.0 (annual average) 2013-2016	2013	-4.9	-1.7 (3.3)	102.5	-5.9
2014	-8.4		2014	-8.9	2.0 (3.7)	108.2	-2.5
2015	-6.3		2015	-0.7	0.4 (-1.6)	106.7	1.2
2016	-2.9		2016	0.1	0.2 (-0.2)	98.7	1.4

Sources: Council EDP decision ([May 2013](#)) May, MoU ([May 2013](#), page 48) and [COM autumn 2015 forecast](#) annex tables 1 (GDP growth), 36 (nominal budget balance), 41 (structural budget balance) and 42 (gross debt).

Also the [latest review](#) by COM, ECB and IMF under the financial assistance programme concluded in November 2015 that the fiscal targets in the third quarter of 2015 were met with substantial margins and that continued sound public finances are needed to ensure that public debt returns to an acceptable level while steering public spending toward growth-enhancing activities.

In the area of taxation, the [Summer 2015 review](#) of the financial assistance programme (published in October 2015) noted that reforms of the tax revenue and public administration are envisaged to improve tax compliance, fight tax evasion and make the public sector more effective in performing its tasks. The review also states that the design of the fiscal consolidation in Cyprus combines an increased taxation of capital (interest income, immovable property, bank levy) with a higher corporate tax rate. The VAT rate has also been increased. The COM considers these measures instrumental to ensure that the disposable income of Cypriot households can start growing again over the medium-term and to secure sound public finances.

The [Summer 2015 review](#) also contains the updated Memorandum of Economic and Financial Policies in which the Cypriot authorities commits to the following measures in the area of taxation:

- Finalizing the integration of the two previously existing tax authorities into the **single Department of Taxation** by end-June 2016 and enhancing tax collection;
- **Addressing backlogs and tax arrears:** the Cypriot authorities have identified a large backlog of un-assessed tax returns which may entail substantial collectible revenue. To address this, the government inter alia promises to continue to implement the tax debt recovery plan, including the use of the new enforcement powers;
- **Establishing a single registration process for all domestic taxes** by end-September 2015, as well as finalize the cleansing of the taxpayer register by end-December 2015;

- **Establishing an integrated legal framework for tax procedures** under a new tax procedure code, to be approved by the Council of Ministers by end-December 2015. In order to mitigate the risk of revenue loss during the integration process the Performance and Monitoring Unit will prepare a monthly update of performance indicators, including registration, filing, payment and debt collection. Based on these indicators, Cyprus will prepare a quarterly assessment report to analyse performance and identify remedial actions, as needed.

As regards the fight against the shadow economy, the COM reported in its latest annual Report "[Tax Reforms in EU Member States](#)" (September 2015) that the OECD and Council of Europe Convention on Mutual Administrative Assistance in Tax Matters has entered into force in Cyprus and 11 other EU Member States.

#### 4. Debt Sustainability Assessment

According to both the [IMF Country report](#) of September 2015 and the [COM report](#) of October 2015, Cyprus debt is sustainable.

More specifically, the **IMF projects the debt-to-GDP ratio to steadily decrease** from 106% in 2015 to 69% in 2022. Gross Financing Needs-to-GDP ratio is expected to peak at 12.8% in 2015 before falling to 6.1% in 2016, surging again to 12.2% in 2019 and finally progressively dropping to 6.4% in 2022. These developments reflect the primary surplus projections (of between 3 and 4% from 2017 onwards), the maturity structure of public debt (which has risen to 8 years at end-June 2015 from 5 years at end 2012), and the declining cost of borrowing (which has fallen from 4% to 3% over the period 2012-2015). Cyprus' debt remains sustainable also under the alternative scenarios (with the only exception of the GFN-to-GDP indicator exceeding the threshold under the adverse scenario in 2019).

The **COM projects Cyprus' debt to decline** from about 106% of GDP in 2015 to around 79% of GDP in 2020. While this trajectory is subject to risks stemming from the macroeconomic and fiscal performances as well as from lower than planned privatisation proceeds, the Debt-to-GDP ratio is projected to remain below the 120% benchmark under the envisaged alternative scenarios.

##### Box 1: Public Debt Sustainability Analysis

The Debt Sustainability Analysis (DSA) is an analytical framework that helps assessing a country's capacity to service its public debt over time, while financing its policy objectives without compromising its stability.

To this end, **two indicators** are typically used:

- The general government **Debt-to-GDP** ratio, which provides an overall measure of the country's debt compared to the size of its economy;
- The general government **Gross Financing Needs-to-GDP (GFN-to-GDP)**, which quantifies the country's debt payment obligations (interests plus amortisation), in relation to its economy. This indicator takes into account the debt structure (i.e. maturity, interest rates and interest deferrals).

The two indicators are interrelated, though the GFN-to-GDP ratio seems to better capture the country's short- and medium-term financial stability risks, as low financing needs are associated with lower debt rollover and thereby reduced financial stability risks, and *vice versa*.

In practice, it is difficult to establish **numerical thresholds for debt sustainability**. As to debt-to-GDP ratio, thresholds appear to vary across countries depending on macroeconomic fundamentals and debt management capacities (e.g. Argentina defaulted when its debt was around 60% of GDP, while Japan has continued to sustain debt of more than 200% of GDP). The IMF benchmark is set at 85%. Regarding the GFN-to-GDP indicator, the [IMF guidelines](#) (p. 32) indicate that the ratio would need to remain below 15%-20% to ensure debt sustainability.

## 5. Financial Stability

One of the key objectives of the Economic Adjustment Programme is to restore the soundness of the Cypriot banking sector by addressing capital shortfalls, restructuring and downsizing banks (see Table 2), as well as strengthening supervision, so as to rebuild depositors' and market confidence.

**Table 2: Cyprus' selected aggregate banking data**

	30/09/2011	30/09/2012	30/09/2013	30/09/2014	30/09/2015
<b>Total assets</b> (in '000 EUR)	144.520.092	131.815.871	82.125.909	74.527.088	73.504.893
% of 2011	100%	91%	57%	52%	51%
% of annual GDP	753%	705%	466%	433%	422%
<b>Total loans</b> (in '000 EUR)	98.875.511	99.102.919	65.270.084	58.272.510	59.117.557
% of 2011	100%	100%	66%	59%	60%
% of annual GDP	515%	530%	371%	339%	340%
<b>Total deposits</b> (in '000 EUR)	90.937.457	87.086.135	49.963.011	48.257.257	48.320.751
% of 2011	100%	96%	55%	53%	53%
% of annual GDP	473%	466%	284%	281%	278%

Sources: [Central Bank of Cyprus](#), data for all local and foreign banks operating in Cyprus, including the cooperative sector; 2015 GDP data based on [Commission autumn 2015 forecast](#).

### Comprehensive Assessment

In 2014, the ECB carried out a comprehensive review of the 130 most significant banks within the euro area. This **sample included four Cypriot banks**, namely Bank of Cyprus, Co-operative Central Bank, Hellenic Bank and Russian Commercial Bank. The [ECB's final report](#) of that Comprehensive Assessment showed that three of the four banks had capital shortfalls, most notably the Co-operative Central Bank (EUR 1.2 billion) and the Bank of Cyprus: (EUR 0.9 billion). The total shortfall of Cypriot banks amounted to EUR 2.4 billion and was proportionally the highest in all Member States (exceeding 6% in terms of total risk-weighted assets held).

### Recapitalisations

Already in July 2013 (i.e. before the above-mentioned ECB's Comprehensive Assessment), the Bank of Cyprus had been recapitalised by a [bail-in of creditors including uninsured depositors](#), converting 47.5% of deposits over EUR 100.000 into equity. Subsequently, the shortfalls disclosed in the ECB's 2014 Comprehensive Assessment had been **covered by capital increases** (which actually took place before the final report's publication): the Bank of Cyprus had been recapitalised by a private EUR 1 billion share capital while the Cooperative Central Bank and its subsidiaries had been recapitalised with a state capital injection of EUR 1.5 billion, financed by programme funds.

### Progress

According to the most [recent press statement](#) published by the staff teams that visited Nicosia during November 2015 review, the banking system continues to heal. Nevertheless, the pace of lending remains subdued amid a high level of Non-Performing Loans (NPLs), even if there is evidence that the slow pace of debt restructuring is picking up. The **reduction of the excessive level of NPLs therefore remains the number one priority**. In this context the press statement points out the importance of a law that was recently adopted to facilitate the sale of loans, though a final assessment of the law will depend on implementing regulations. Finally, there is sufficient liquidity available in the banking system which so far is not used for lending to the economy, with credit supply and demand remaining subdued.

### Recent developments

On 18 December 2015, the Commission had to [approve additional state aid](#) of EUR 175 million in favour of the Cooperative Central Bank on the basis of an amended restructuring plan. Initially, the ECB had identified that the Cooperative Central Bank's provisioning for defaulted loans was PE 574.385

insufficient; the additional state recapitalisation became necessary because the bank was not in a position to raise the required amount of capital from private investors within the short deadline set by the supervisor.

As regards the individual banks, their financial performance is in general highly correlated to the economic and operating conditions in Cyprus:

- The **Bank of Cyprus**, the leading banking group within the country, with significant market shares across all businesses, reports in its [Q3 2015 presentation](#) that it has so far successfully deleveraged (total assets shrank from EUR 33.0 billion in June 2013 to EUR 24.2 billion in September 2015), while its deposit base has gradually stabilised over the course of 2015, and the amount of Emergency Liquidity Assistance (ELA) used for its funding has come down to EUR 4.9 billion in September 2015 (as compared to EUR 11.1 billion in June 2013). At the same time, the low quality of the loan portfolio remains one of the major challenges;
- The **Hellenic Bank** published interim financial results for the 3Q 2015 on 25 November 2015, highlighting in its [press release](#) that it had returned to profitability in the third quarter, even though its loan portfolio is of low quality. The Hellenic Bank is not making use of ELA;
- The **Cooperative Central Bank's** [interim financial results](#) for [Q3 2015](#) show consolidated net losses of EUR 228 million. These losses resulted inter alia from the adoption of supervisory measures and specific impairment provisions of EUR 471million, which increased the coverage ratio of NPLs and brought it in line with the EU average.

## 6. Progress towards EU2020 Targets

As evidenced by the employment and the poverty and social exclusion indicators (see Annex 3), Cyprus is showing signs of recovery from the latest economic crisis.

The **employment rate** in the population aged 20-64 somewhat increased from 67.2% in 2013 to 67.6% in 2014. However, it remains well below its 2008 peak of 76.5%, the country's target of 75% as well as the EU28 average of 69.2% in 2014. The expenditure in R&D has remained marginally below the modest country target of 0.5% of GDP, reflecting the severe budgetary cuts.

Cyprus has been consistently over-achieving **educational indicators**: in 2014, early school leaving rate of the population aged 18-24 stood at 6.8% (target of 10%), while tertiary educational attainment among the population aged 30-34 was 52.5% (one of the highest within EU28 and well above the country's target of 46%). However, these figures mask several challenges (see the [COM 2015 Country Report for Cyprus](#)), including the lack of efficiency of public spending, low quality of educational outcomes, the lowest employability rate of recent graduates in the EU as well as low levels of young adults' basic skills.

Cyprus has made progress in developing energy from **renewable sources** and is broadly on track towards its Europe 2020 target. The share of renewable energy in gross final energy consumption increased to 8.1% (target 13%) in 2013, with the primary energy consumption indicator steadily decreasing to 2.2 million tonnes of oil equivalent in 2013. Greenhouse gas emissions have been steadily declining over the period 2011-2013, although they still remain above the targeted level.

Finally, **social indicators**, which consistently deteriorated between 2011 and 2013, showed first signs of improvement in 2014 as Cyprus economy has been gradually recovering. Notwithstanding these positive developments, the rate of people at risk of poverty and social exclusion still remains at very high levels (27.4% in 2014).

### Annex 1: Cyprus' key economic indicators

	2011	2012	2013	2014	2015 (f)	2016 (f)	2017 (f)
<b>GDP Growth (%)</b>							
Cyprus	0.4	-2.4	-5.9	-2.5	1.2	1.4	2.0
Euro area	1.6	-0.9	-0.3	0.9	1.6	1.8	1.9
<b>Government balance (% of GDP)</b>							
Cyprus	-5.7	-5.8	-4.9	-8.9	-0.7	0.1	0.3
Euro area	-4.2	-3.7	-3.0	-2.6	-2.0	-1.8	-1.5
<b>Structural balance (% of GDP)</b>							
Cyprus	-5.5	-5.1	-1.7	2	0.4	0.2	-0.7
Euro area	-3.6	-2.1	-1.4	-1	-1.1	-1.2	-1.2
<b>Government debt (% of GDP)</b>							
Cyprus	65.8	79.3	102.5	108.2	106.7	98.7	94.6
Euro area	86.7	91.3	93.4	94.5	94.0	92.9	91.3
<b>Inflation (%)</b>							
Cyprus	3.5	3.1	0.4	-0.3	-1.6	0.6	1.3
Euro area	2.7	2.5	1.3	0.4	0.1	1.0	1.6
<b>Unemployment (% of labour force)</b>							
Cyprus	7.9	11.9	15.9	16.1	15.6	14.6	13.3
Euro area	10.1	11.4	12.0	11.6	11.0	10.6	10.3
<b>Youth Unemployment* (% of labour force)</b>							
Cyprus	15.3	22.2	29.8	29.0	n.a.	n.a.	n.a.
Euro area	16.7	18.6	19.5	19.1	n.a.	n.a.	n.a.
<b>Current account balance (% of GDP)</b>							
Cyprus	-3.8	-5.1	-3.8	-3.8	-3.5	-3.2	-3.0
Euro area	0.6	1.9	2.5	3.0	3.7	3.6	3.4
<b>Exports (% change)</b>							
Cyprus	4.1	-1.1	1.8	-0.5	1.2	1.3	2.9
Euro area	6.5	2.6	2.1	4.1	5.2	4.3	5.0
<b>Imports (% change)</b>							
Cyprus	-3.1	-4.4	-3.0	2.0	0.6	1.1	1.8
Euro area	4.3	-1.0	1.3	4.5	5.4	4.8	5.7
<b>Domestic demand (% change)</b>							
Cyprus	-3.3	-4.1	-8.4	-1.0	0.8	1.2	1.4
Euro area	0.7	-2.4	-0.7	0.9	1.5	1.9	2.0
<b>Investments (% change)</b>							
Cyprus	-9.3	-20.5	-15.2	-18.0	2.2	3.6	4.0
Euro area	1.6	-3.3	-2.6	1.3	2.3	3.0	4.4
<b>Income Inequality* (Gini Coef.) (scale from 0 to 100)</b>							
Cyprus	29.2	31.0	32.4	34.8	n.a.	n.a.	n.a.
Euro area	30.5	30.3	30.6	30.9	n.a.	n.a.	n.a.
<b>Labour Productivity* (% change)</b>							
Cyprus	-0.1	0.8	0.1	-1.4 <sup>p</sup>	n.a.	n.a.	n.a.
Euro area	1.5	-0.2	0.5	0.3	0.7	0.9	0.9
<b>Unit Labour Cost (% change)</b>							
Cyprus	2.5	-2.6	-5.3	-4.0	-1.7	0.9	1.9
Euro area	0.6	1.9	1.1	1.1	0.7	0.7	1.1

Sources: European Commission ([2015 Autumn forecast](#); [Eurostat](#) for data marked with \* and [AMECO](#) for the Structural Balance). Euro area data correspond to EA19, except for the 'People at risk of poverty' indicator where only EU18 aggregate is available. Data as of 12 January 2016.

## Annex 2: Cyprus' Macroeconomic Imbalance Scoreboard

Indicators		Threshold	2007	2008	2009	2010	2011	2012	2013	2014	
External imbalances and competitiveness	Current account balance as % of GDP	3 year average	-4/+6%	-8.2	-11.5	-12.7	-11.4	-7.5	-6.8	-4.7	-4.9
		Year value	-	:	-15.7	-7.8	-10.7	-4.0	-5.6	-4.4	-4.5
	Net international investment position as % of GDP		-35%	11.7	-80.1	-101.7	-113.2	-132.6	-128.7	-136.4	-139.8
	Real effective exchange rate - 42 trading partners	% change (3 years)	± 5% €A	-1.3	2.2	3.5	-0.0	-3.0	-5.9	-0.8	-1.4
		% change y-o-y	-	-0.65	3.17	1.01	-4.08	0.12	-2.02	1.09	-0.45
	Share of world exports	% change (5 years)	-6%	-11.2	-14.9	-9.0	-19.4	-16.8	-26.8	-15.4	-26.7
		% change y-o-y		:	:	12.97	-15.29	-6.04	-8.07	2.40	:
	Nominal unit labour cost	% change (3 years)	9% €A	7.6	9.8	13.2	10.4	7.6	2.0	-1.8	-6.6 <sup>p</sup>
% change y-o-y		-	3.0	4.3	5.5	0.3	1.7	0.0	-3.4	-3.3 <sup>p</sup>	
Internal imbalances	House prices % change y-o-y deflated		6%	8.2	0.5	-6.7	-7.9 <sup>p</sup>	-4.6 <sup>p</sup>	-5.9 <sup>p</sup>	-4.7 <sup>p</sup>	0.3 <sup>p</sup>
	Private sector credit flow as % of GDP		14%	29.2	30.1	8.0	13.4	13.1	13.6	-12.7	-8.5
	Private sector debt as % of GDP		133%	267.6	287.8	309.2	318.6	324.6	325.4	338.9	348.3
	General government gross debt (EDP) as % of GDP		60%	53.9	45.1	53.9	56.3	65.8	79.3	102.5	108.2
	Unemployment rate	3 year average	10%	4.6	4.1	4.3	5.1	6.5	8.7	11.9	14.6
		Year value	-	3.9	3.7	5.4	6.3	7.9	11.9	15.9	16.1
	% change y-o-y in Total Financial Sector Liabilities, non-consolidated		16.5%	27.2	115.7	11.5	8.5	-6.1	-5.9	-15.7	0.7
Employment indicators	Activity rate % 15-64 total pop. 3 year change		-0.2%	1.3	1.2	0.0	-0.3	-0.1	0.5	0.0	0.8
	Long term unemployment active pop. 15-74 3 year change.		0.5%	-0.5	-0.8	-0.3	0.6	1.1	3.3	4.8	6.1
	Youth unemployment % active pop. 15-24 3 year change		0.2%	0.0	-4.9	3.8	6.4	13.4	13.9	22.3	13.6

Source: [Eurostat MIP Scoreboard indicators](#) (data extracted on 12 January 2016 and therefore may not correspond to the 2016 [AMR](#)).

Note: Grey cells signal data falling outside the MIP thresholds; p = provisional and (:) = missing.

### Annex 3: Cyprus' progress towards EU2020 targets

Indicator	Cyprus			EU28	
<b>Employment rate</b> (% of population aged 20-64)	<b>75</b>		<b>2020 target</b>	<b>75</b>	
	67.6		2014	69.2	
	67.2		2013	68.4	
	70.2		2012	68.4	
	73.4		2011	68.6	
<b>Expenditure on R&amp;D</b> (% of GDP)	<b>0.5</b>		<b>2020 target</b>	<b>3</b>	
	0.47 <sup>p</sup>		2014	2.03 <sup>p</sup>	
	0.46		2013	2.03	
	0.43		2012	2.01	
	0.46		2011	1.97	
<b>Greenhouse gas emission</b> (For EU28 index 1990 = 100 For Member States index 2005=100)	<b>95</b>		<b>2020 target</b>	<b>80</b>	
	n.a.		2014	n.a	
	143.77		2013	80.02	
	158.09		2012	81.69	
	168.48		2011	82.9	
<b>Share of renewable energy</b> (%)	<b>13</b>		<b>2020 target</b>	<b>20</b>	
	n.a		2014	n.a	
	8.1		2013	15.0	
	6.8		2012	14.3	
	6.0		2011	12.9	
<b>Primary energy consumption</b> (million tonnes of oil equivalent-TOE)	<b>n.a.</b>		<b>2002 target</b>	<b>1 483</b>	
	n.a		2014	n.a	
	2.2		2013	1566.5	
	2.5		2012	1583.9	
	2.6		2011	1593.0	
<b>Early school leaving</b> (% of population aged 18-24)	<b>10</b>		<b>2020 target</b>	<b>10</b>	
	6.8 <sup>b</sup>		2014	11.2 <sup>b</sup>	
	9.1		2013	11.9	
	11.4		2012	12.7	
	11.3		2011	13.4	
<b>Tertiary educational attainment</b> (% of population aged 30-34)	<b>46</b>		<b>2020 target</b>	<b>40</b>	
	52.5 <sup>b</sup>		2014	37.9 <sup>b</sup>	
	47.8		2013	37.1	
	49.9		2012	36.0	
	46.2		2011	34.8	
<b>Population at risk of poverty or social exclusion</b> (thousand, % of total population)	<b>Ncst</b>	<b>ncst</b>	<b>2020 target</b>	<b>Reduce by 20 million</b>	<b>ncst</b>
	234	27.4	2014	122.25	24.4
	240	27.8	2013	122.90	24.5
	234	27.1	2012	124.06	24.7
	207	24.6	2011	121.31	24.3

Source: [Eurostat](#) (data as of 15 January 2016).

Note: \* = Estimate; **ncst** = "no country specific target"; **n.a** = "not available"; p = provisional and b = break in time series.