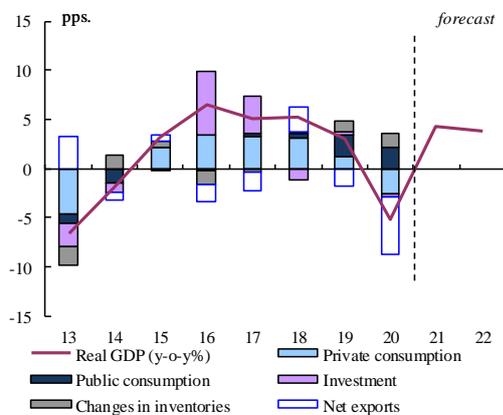


2.9. CYPRUS

Despite the lockdown measures at the beginning of the year, real GDP increased in the first quarter of 2021 (+2% compared to the last quarter of 2020). The rebound in activity, which started in the second half of 2020, has been driven by domestic demand, underpinned by fiscal stimulus, and exports of services other than tourism.

On an annual basis, real GDP growth is expected to increase by 4.3% in 2021. This is higher than projected in spring due to the better than-expected performance in the first quarter and the considerable improvement in economic sentiment in June. The accelerating pace of vaccination and the improved epidemiological situation in Cyprus, as well as in the rest of the EU, have prompted a significant relaxation of domestic and travel restrictions since mid-May, laying the ground for sustained growth in the coming months. Nevertheless, the tourism sector is still expected to recover only gradually, as uncertainty remains and international travel, particularly from the UK – an important market for Cyprus – has yet to fully recover. The slight increase in employment in the first quarter of 2021, year-on-year, is also set to support the rebound in private consumption.

Graph 2.9: Cyprus - Real GDP growth and contributions



In 2022, real GDP is forecast to grow by 3.8% in view of favourable prospects for domestic and external demand and the implementation of the Recovery and Resilience Plan, which is set to strengthen private and public investment.

Headline inflation turned positive in the first five months of 2021 after falling by 1.1% in 2020. Inflation is forecast to increase to 1.4% in 2021 and to 1.3% in 2022, underpinned by higher prices for energy, non-energy industrial goods, and services.