

2.9. CYPRUS

After the sharp contraction in 2020, real GDP rebounded in 2021. The third quarter of 2021 came out slightly lower than expected in the autumn forecast, by 1.5% quarter-on-quarter. Real GDP increased by 5.3% in the first three quarters of 2021 compared to the same period last year. Growth was driven mainly by domestic demand, underpinned by fiscal stimulus, as well as exports of services including tourism. In the period January-October 2021, receipts from tourism continued to regain lost ground and reached 53% of the 2019-level for the same period. Despite the high rise of infections at the end of 2021 and beginning of 2022, economic sentiment among consumers and businesses remained high. On an annual basis, real GDP growth is expected to increase by 5.3% in 2021.

The recent surge of infections and the erosion of consumers' purchasing power due to high inflation is expected to somewhat dampen growth in the first quarter of 2022. The expansion of the economy is expected to resume in the second quarter, supported by the high vaccination rate for the adult population and the expected containment of COVID-related restrictions. Furthermore, the prospects for the tourism season are positive, based on the planned international flights data. In 2022, real GDP is forecast to grow by 4.1%. This will be mainly on the back of domestic demand, in particular investment boosted by the Recovery and Resilience Plan, and a small positive contribution from net exports. In 2023, growth is projected to ease to 3.5%.

High energy prices are driving inflation up. HICP inflation increased to 4.6% in the last quarter of 2021 pushing the inflation for the whole of the year to 2.3% in 2021 compared to -1.1% in 2020. It is set to further increase to 2.6% in 2022, before moderating to 1.2% in 2023.

