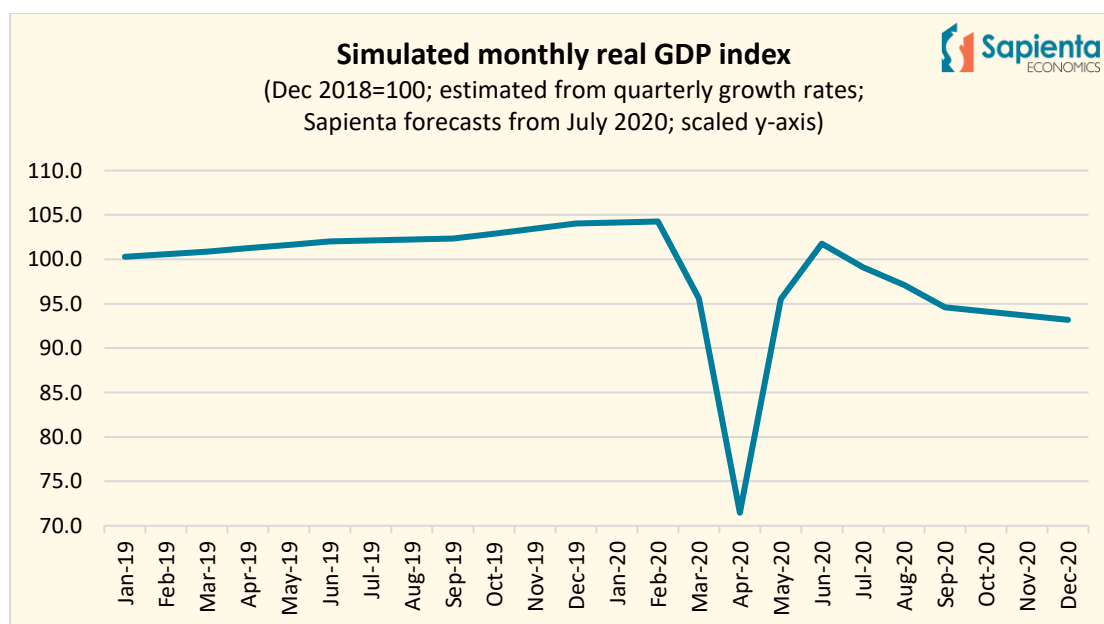


Shortened executive summary

31 August 2020

- **Political analysis and outlook.** The EU has offered carrots and sticks to encourage de-escalation in the Eastern Mediterranean and “talks about talks” to solve the Cyprus problem may resume. However, moves to open Varosha under Turkish Cypriot control will probably continue.
- **Sectoral policies and energy.** Turkey’s Black Sea discovery could indirectly affect Cyprus. Electricity interconnectors are moving ahead as Cyprus faces a steep increase in emission penalties. The new Attorney General has outlined his vision for justice reform.
- **Fiscal performance and forecast.** The cost of debt service has fallen and maturities have lengthened. The main risks are if global interest rates rise or if risk perceptions deteriorate, perhaps owing to problems in the banking sector or military action by Turkey.
- **Banking sector.** New loans shrank by more than 50% year on year in the second quarter, reinforcing a declining trend that was already under way in late 2019. Deposits have risen after a brief fall and most banks remain well capitalized.
- **Macroeconomic trends and forecast.** Real GDP declined by 11.9% year on year in the second quarter but the Labour Force Survey points to lower unemployment levels than previously reported. We now expect a 6.5% real GDP decline in 2020.



This is the shortened executive summary of Sapienta Country Analysis Cyprus. Each month we analyze politics including the Cyprus problem, natural gas developments, structural reforms, fiscal and debt sustainability, banking-sector stability and macroeconomic trends. Each report comes with a medium-term GDP and fiscal forecast. We also cover political and economic developments in northern Cyprus. To find out more, visit the Analysis Cyprus page on our website www.sapientaeconomics.com.