Cyprus Draft Budgetary Plan 2019

in accordance to regulation (EU) No 473/2013

October 2018

CONTENTS

INTRODUCTION

The Draft Budgetary Plan (DBP) 2019, prepared according to Regulation EU 473/2013, is submitted by the Republic of Cyprus, resulting in the full participation in the regular economic governance framework and procedures. It is noted that Cyprus is in the preventive arm of the Stability and Growth Pact.

The DBP 2019 was approved by the Council of Ministers on 9th October 2018 and will be laid before the House of Representatives. The macroeconomic projections underlying the budgetary outcomes have been endorsed by the Fiscal Council.

The format and content of the document are in line with the requirements of the Code of Conduct, and therefore, macroeconomic and budgetary forecasts[1] are presented for the current and forthcoming year, whereas broad categories are also presented for the medium-term. The analysis and forecasts contained in this document are based on the latest available results of 2018, as well as the Budget Bill for 2019 that was submitted to the House of Representatives on 9th October 2018.

[1] The cut-off date for the macroeconomic and fiscal forecasts was 28 September 2018.

1. ECONOMIC DEVELOPMENTS AND OUTLOOK

Developments in 2018

During the first half of 2018, the economy exhibited a growth rate of 4% in real terms, compared to the respective period of 2017. Private consumption expanded at a rate of 4.4% in seasonally adjusted terms while, government consumption exhibited a contraction of 0.7%. Gross fixed capital formation exhibited a decline of 14.9%, primarily due to deregistration of ships (export of vessels). As a consequence, net export growth was positive, with exports recording an increase of 12.8% in the first half of 2018 compared to the corresponding half of 2017, while imports increased by 5.1%.

From a sectoral point of view, growth in 2018 was broad based attributed to the sectors of hotels and restaurants, retail and wholesale trade, construction, manufacturing, professional, scientific and technical activities and administrative and support service activities, while negative growth rate was recorded in the sector of financial and insurance activities.

The tourist industry continues to perform exceptionally well. Tourist arrivals for the period of January-August 2018 exhibited an increase of 8%, compared to the corresponding period of 2017 and at the same time, revenues of the tourist sector recorded an increase of 3.9% during the period January-July 2018 compared to the corresponding period of 2017. Monthly data indicate an increase of 6.7% in the turnover volume index of retail trade during the period January-July 2018, compared to the corresponding period of 2017. Other monthly indicators for the construction sector show signs of recovery, with demand for immovable property rebounding, following a long period of negative growth. Specifically, building permits, which is a leading indicator, exhibited an annual increase of 26.2% during the period January-June 2018 compared to the corresponding period of 2017. At the same time, sales contracts for new properties exhibited an increase of 22.3% during the period January-August 2018 compared to the corresponding period of 2017.

The strong positive growth trend in the economy exhibited in 2018 has resulted in an upward revision[2] of the national authorities macroeconomic forecast for the year, with y-o-y growth estimated to hover around 4%. The course of the steady recovery path is reflected in the labour market where unemployment rate fell significantly in the first half of 2018 to 9%. The estimate for the year as a whole is for an average unemployment rate of 8.5% in 2018.

As measured with the Harmonised Index of Consumer Prices, the price level in 2018 is expected to exhibit an increase of 1.0%, compared to an increase of 0.7% in 2017.

The sustained long trend of strong economic growth, coupled with a prudent fiscal policy path characterized by large primary balance surpluses created the conditions for the government to take effective action in the broader context of continued restructuring in the financial sector. This has cemented an environment of macroeconomic stability and confidence, expressed most indicatively with the recent upgrade of Cyprus to investment grade, a significant development for the Cyprus economy.

Prospects for 2019

According to the baseline macroeconomic scenario, the outlook of the economy over the medium-term is expected to continue on a positive trend but at a dissipated pace. Domestic demand is expected to remain strong but to a lesser degree, while unemployment is expected to continue on a declining trend. These

[2] The comparison refers to the April 2018 projections included in the Stability Programme.

developments, combined with the anticipated investment opportunities in the energy and tourism sector, create a positive outlook for the Cypriot economy.

Specifically, the economy is projected to expand also in 2019 at a rate of 3.8% in real terms. The trends in the labour market are anticipated to be positive with the unemployment rate for 2019 projected to decline further to about 7%. Inflation in 2019, based on the latest monthly data and estimates, is expected to average at around 1.2%.

	2017	2018	2019
Real GDP growth (%)	4.2	4.0	3.8
Inflation HICP (%)	0.7	1.0	1.2
Unemployment (%)	11.1	8.5	7.0

Risks to growth

The level of Non-Performing Loans (NPLs) in the banking sector still poses the most significant risk to the economy, although NPLs are on a downward trend which is expected to be intensified as a result of the actions taken in the context of the three Pillar Strategy of the government, including the recent improvements in the legal framework, the partial sale of Cyprus Cooperative Bank (CCB) to Hellenic Bank and the anticipated introduction of “ESTIA” plan. On the other hand, the significant investment opportunities on the horizon and the prospects in the energy sector are an upside risk.

Table 1a. Macroeconomic prospects

	2017	2018	2019
	rate of change	rate of change	rate of change
1. Real GDP	4.2	4.0	3.8
2. Potential GDP	2.3	2.7	3.0
contributions:			
- labour	1.1	1.2	1.3
- capital	1.3	1.5	1.6
- total factor productivity	-0.1	0.0	0.1
3. Nominal GDP	5.8	6.1	5.1
Components of real GDP			
4. Private final consumption expenditure	4.1	3.9	3.0
5. Government final consumption expenditure	3.1	1.4	3.6
6. Gross fixed capital formation	26.8	10.5	8.0
7. Changes in inventories and net acquisition of valuables (% of GDP)	0.6	0.0	0.0
8. Exports of goods and services	6.0	4.4	4.2
9. Imports of goods and services	12.2	5.7	4.7
Contributions to real GDP growth			
10. Final domestic demand	7.7	5.1	4.4
11. Changes in inventories and net acquisition of valuables	0.6	0.0	0.0
12. External balance of goods and services	-4.0	-1.0	-0.5

From an external point of view, a hard Brexit and adverse developments in the external environment, mainly arising from increased trade protectionism and higher interest rates represent downside risks to the outlook.

Table 1b. Price developments

	2017 (rate of change)	2018 (rate of change)	2019 (rate of change)
GDP deflator	1.5	2.0	1.2
Private consumption deflator	0.9	1.0	1.2
HICP	0.7	1.0	1.2
Public consumption deflator	1.8	2.4	2.2
GFCF deflator	-1.1	0.5	0.6
Export price deflator (goods and services)	0.6	1.0	1.2
Import price deflator (goods and services)	-0.7	-0.2	1.2

Table 1c. Labour market developments

	2017 (rate of change)	2018 (rate of change)	2019 (rate of change)
Employment, persons[1]	3.8	3.8	3.5
Employment, hours worked[2]	3.7	3.8	3.5
Unemployment rate (%)[3]	11.1	8.5	7.0
Labour productivity, persons[4]	0.4	0.2	0.3
Labour productivity, hours worked	0.5	0.2	0.3
Compensation of employees	4.6	5.4	5.6
Compensation per employee	0.7	1.5	2.0

Table 1d. Sectoral balances

	2017 (% GDP)	2018 (% GDP)	2019 (% GDP)
1.Net lending/net borrowing vis-à-vis the rest of the world	-6.6	-6.5	-6.6
of which:			
- *Balance on goods and services*	-1.9	-3.1	-3.4
- *Balance on goods and services*	-4.7	-3.4	-3.2
- *Capital account*			
2.Net lending/net borrowing of the private sector	-8.4	-9.3	-9.7
3.Net lending/net borrowing of general government	1.8	2.9	3.1
4.Statistical discrepancy	0.0	0.0	0.0

2. BUDGETARY DEVELOPMENTS AND TARGETS

BUDGETARY TARGETS

The general government budget balance, recorded a substantial improvement in 2017 reaching a surplus of 1.8% of GDP, compared to a surplus of the order of 0.3% of GDP in 2016. Over the medium term, general government budget balance is expected to average a surplus of 2.8% of GDP, with the structural balance estimated to remain well-above the MTO.

In 2018, the general government budget balance is expected to be in surplus reaching 2.9 percent of GDP, compared to a surplus of the order of 1.8 percent of GDP the year before, despite the lower than the previous year's Central Bank dividend by about 0.2 percentage points of GDP, as well as the gradual withdrawal of the public sector's wage cuts introduced as from 1st July 2018, of an estimated fiscal impact in the current year of about 0.1 percent of GDP. The primary surplus of the General Government is expected to register an improvement of 1.1 percentage points of GDP in 2018, reaching 5.4% of GDP compared to a primary surplus of 4.3% of GDP in 2017. In 2019, amid a continued cyclical improvement in the economy, the budget balance is expected to remain in surplus and reach 3.1 percent of GDP, mainly due to the already legislated increases in the social security contribution rates as of 1st January 2019. Primary balance is expected to continue to be in surplus of the order of 5.6% of GDP.

Table 2a. General government budgetary targets broken down by subsector

	ESA Code	**Year 2018**	**Year 2019**
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	2.9	3.1
1a. Central government	S.1311	2.1	2.0
1b. State government	S.1312	M	M
1c. Local government	S.1313	0.0	0.0
1d. Social security funds	S.1314	0.7	1.0
2. Interest expenditure	D.41	2.5	2.6
3. Primary balance		5.4	5.6
4. One-off and other temporary measures		0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		4.0	3.8
6. Potential GDP growth (%) (=2 in Table 1.a)		2.7	3.0
contributions:			
- labour		1.2	1.3
- capital		1.5	1.6
- total factor productivity		0.0	0.1
7. Output gap (% of potential GDP)		1.9	2.7
8. Cyclical budgetary component (% of GDP)		1.0	1.4
9. Cyclically-adjusted balance (% of GDP)		1.9	1.7
10. Cyclically-adjusted primary balance (% of GDP)		4.4	4.2
11. Structural balance (% of GDP)		1.9	1.7

According to the authorities' forecast with regards to the potential output using the commonly agreed methodology for the estimation of potential growth and the output gap, structural balance is expected to be in surplus in 2018 reaching 1.9% of GDP, and continue to be in surplus in 2019 of the order of 1.7% of GDP.

The general government gross debt to GDP ratio is expected to record a one-off increase reaching 104.2% in 2018 compared to 95.7% the year before, attributed to the issuance of domestic bonds in favour of the Cyprus Cooperative Bank of €3.19 bln in order to enable the transaction between Cyprus Cooperative Bank and Hellenic Bank. In 2019 the general government gross debt to GDP ratio is expected to record a decrease of 7 percentage points of GDP compared to the year before and decline to 97.2% of GDP.

Table 2b. General government debt developments

	ESA Code	Year 2018	Year 2019
		% GDP	% GDP
1. Gross debt		104.2	97.2
2. Change in gross debt ratio		8.5	-7.0
Contributions to changes in gross debt			
3. Primary balance (= item 3 in Table 2.a)		5.4	5.6
4. Interest expenditure (= item 2 in Table 2.a)	D.41	2.5	2.6
5. Stock-flow adjustment		16.9	1.1
p.m.: Implicit interest rate on debt		2.8	2.6

Revenue and Expenditure Projections

On the revenue side, an estimated growth of about 8.1% is anticipated for 2018, leading to an increase, as a percentage to GDP, to 39.8%, compared to 39% the year before. Taxes on production and imports, as well as social contributions are expected to exhibit an increase of 10.9% and 10.4% in 2018, respectively, compared to the year before, reflecting both increasing domestic demand and improving labour market conditions.

Table 4a. General government expenditure and revenue targets, broken down by main components

	ESA Code	2018	2019
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	39.8	39.4
of which			
1.1. Taxes on production and imports	D.2	16.3	16.3
1.2. Current taxes on income, wealth, etc.	D.5	9.4	9.3
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	9.1	9.6
1.5. Property income	D.4	0.6	0.6
1.6. Other		4.3	3.5
p.m.: Tax burden		34.8	35.2
(D.2+D.5+D.61+D.91-D.995)			
2. Total expenditure target	TE	36.9	36.3
Of which			
2.1. Compensation of employees	D.1	11.8	11.9
2.2. Intermediate consumption	P.2	3.6	3.5
2.3. Social payments	D.62+D.632	13.0	12.7
of which Unemployment benefits		0.4	0.4
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	2.5	2.6
2.5. Subsidies	D.3	0.3	0.3
2.6. Gross fixed capital formation	P.51g	2.5	2.5
2.7. Capital transfers	D.9	0.4	0.4
2.8. Other		2.8	2.5

Current taxes on income and wealth receipts are estimated to record an increase of about 6.4% in 2018 compared to the year before, whereas property income in 2018 is estimated to decline by €15.7 mln (or by 10.6%) compared to 2017, reaching 0.6% of GDP in 2018 compared to 0.8% of GDP in 2017.

In 2019, total revenue is forecast to record an increase of 3.9%, albeit declining as a percentage of GDP to 39.4% from 39.8% the year before. Based on the macroeconomic scenario, taxes on production and imports and current taxes on income and wealth are forecast to expand at a rate of 4.8% and 4.0% respectively in 2019 compared to the year before.

Total expenditure in 2018 is estimated to exhibit an increase of 5%, and as a percentage to GDP decrease to 36.3% of GDP compared to 36.9% the year before. Compensation of employees is expected to record an increase at a rate of 3.8%, mainly due to the additional cost through the gradual withdrawal of public sector's wage cuts (of about 0.2% of GDP). Social payments, estimated to decline to 13% of GDP in 2018 from 13.4% the year before, are expected to record a y-o-y increase of the order of 2.8% attributed to increased pension outlays. In 2019, expenditure is forecast to exhibit an increase of 3.3%, but decrease as a percentage to GDP to 36.3% compared to 36.9% the year before.

PUBLIC EXPENDITURE AND REVENUE UNDER THE NO-POLICY-CHANGE SCENARIO AND DISCRETIONARY BUDGETARY MEASURES

Table 3 presents general government expenditure and revenue projections at unchanged policies broken down by main components.

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components

	ESA Code	**2018**	**2019**
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	39.7	39.4
of which			
1.1. Taxes on production and imports	D.2	16.3	16.3
1.2. Current taxes on income, wealth, etc	D.5	9.4	9.3
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	9.1	9.6
1.5. Property income	D.4	0.6	0.6
1.6. Other		4.3	3.5
p.m.: Tax burden		34.8	35.2
(D.2+D.5+D.61+D.91-D.995)			
2. Total expenditure at unchanged policies	TE	36.8	36.0
Of which			
2.1. Compensation of employees	D.1	11.7	11.7
2.2. Intermediate consumption	P.2	3.6	3.5
2.3. Social payments	D.62+D.632	13.0	12.7
of which Unemployment benefits		0.4	0.4
2.4. Interest expenditure	D.41	2.5	2.6
2.5. Subsidies	D.3	0.3	0.3
2.6. Gross fixed capital formation	P.51g	2.5	2.5
2.7. Capital transfers	D.9	0.4	0.4
2.8. Other		2.8	2.3

Two discretionary measures are taken into account in the no-policy change scenario. First, in June 2018 the Parliament approved a bill submitted by the government with regards to the gradual withdrawal of public sector's wage cuts to the pre-crisis level. According to the bill, the gradual withdrawal of the wage cuts will be implemented in six stages, with the first stage occurring on 1st July 2018 and the full abolition taking place on 1st January 2023. The impact of this withdrawal to the growth of the wage bill will be factor in the wage setting mechanism in order to determine the policy stance of the government on employment and overall wage growth. The fiscal impact of this measure is estimated at 0.1 percentage points of GDP in 2018, and for the next five (5) years the fiscal impact is estimated at about 0.2 percentage points, annually.

Second, the Government's policy initiative to address the last remaining challenge facing the economy namely that of non-performing exposures through a scheme named "Estia" Scheme targeting the most challenging portfolio of mortgage loans and loans with collateral the primary residence. The scheme promotes burden sharing among the financial institutions, the household and the state. The scheme is backward looking and eligible households will be benefiting from restructured exposures and provided that they comply with their restructured obligations, the state will also be providing a subsidy annually equal to 1/3 of the repayments of those restructured exposures. The annual fiscal impact of this measure is estimated at 0.1 percentage points of GDP.

Table 5a provides details on the discretionary revenue measures that lead to the differences between the baseline and the no-policy change scenario.

Table 5a. Discretionary measures taken by General Government

List of measures	Detailed description	Target (Expenditure / Revenue component)	Accounting principle	Adoption Status	Budgetary impact % GDP	
		ESA Code			Year 2018	Year 2019
ESTIA project	Scheme targeting non performing exposures with collateral being the primary residence of the household (NPLs)	D.2	accrual	adopted	0.0	-0.1
Gradual withdrawal of wage cuts (public sector)	Phasing out of public sector's wage cuts, starting July 2018 and ending January 2023	D.9	accrual	adopted	-0.1	-0.2
TOTAL BUDGETARY IMPACT					-0.1	-0.3

Government expenditure is estimated to exhibit a decrease of about 0.1 percentage points of GDP under the no-policy scenario during 2018, whereas the forecast budgetary impact stemming from the discretionary measures taken by the government, stands at about -0.3 percentage points of GDP in 2019.

Further to the above, the government plans to introduce two new taxation reforms in 2019 that are not factored in the calculation of the total discretionary measures taken by the government since relevant draft bills are currently at the legal vetting phase. The first concerns the defence withholding tax on interest where the rate will be decreased from 30% to 17% as of 1st January 2019. A draft bill to this end has been submitted to the Attorney General's Office for legal vetting. The impact of this measure is estimated at €45 mln, or 0.2% of GDP.

Secondly, the Government is promoting, through an amending bill, currently under public consultation, a reform in the framework of vehicle taxation in Cyprus. It consists of a reform in the calculation of road tax for newly registered cars in the Republic and the abolition of vehicle excise tax. As the current framework of road taxes and excise tax on vehicles in Cyprus is based on CO2 emissions, the revision is deemed necessary because of the new arrangements coming into place in the measurement of CO2 by manufacturers. These will lead to a disproportional increase of the tax burden if the framework is not reformed and will also lead to distortions in the new and used car markets. The overall aim of the reform, therefore, is to preserve the effectiveness of the taxation framework, including from an environmental point of view by promoting the introduction of environmentally friendly vehicles into the existing vehicle stock fleet.

The loss resulting from the abolition of the excise tax is estimated at €13 mln, which is partly offset by the proposed revision in road taxes, which is estimated to lead to an increase in revenue by €7.5 mln. The total loss of the new arrangements is estimated at €5.5 mln, or 0.03% of GDP.

Discretionary measures planned for 2019, not included in the no-policy scenario

List of measures	Detailed description	Target (Expenditure / Revenue component)	Accounting principle	Adoption Status	Budgetary impact	Detailed description
		ESA Code			Year 2018	Year 2019
Defence withholding tax on interest	Rate decrease of withholding tax on interest from 30% to 17% as of 1st January 2019	D.5	accrual	draft bill submitted for legal vetting	0.0	-0.21
Vehicles taxation	Road tax reform	D.2	accrual	Public consultation concluded end September and draft bill soon to be submitted for legal vetting	0.0	0.03
Vehicles taxation	Abolition of vehicles excise tax	D.5	accrual	Public consultation concluded end September and draft bill soon to be submitted for legal vetting	0.0	-0.06

DISTRIBUTIONAL IMPACT OF THE MAIN REVENUE AND EXPENDITURE MEASURES

The discretionary measures of the government that are potentially relevant for a discussion on distributional effects are the ESTIA project and the gradual withdrawal of wage cuts (public sector), introduced in six phases, starting from 2018. However, both measures are not expected to have a large enough effect in order to affect either the income distribution or the Gini coefficient.

3. UNION'S STRATEGY FOR GROWTH AND JOBS TARGETS AND COUNTRY SPECIFIC RECOMMENDATIONS

The table below summarises the progress in relation with each one of the CSRs:

Country Specific Recommendation	Progress to date
CSR 1	
Adopt key legislative reforms to improve efficiency in the public sector, in particular as regards the functioning of the public administration and the governance of state - owned entities and local governments.	**(a) Reforming Public Administration** Aiming at the modernisation of the Public Administration and the enhancement of its efficiency and productivity, the Government submitted to the House of Representatives (HoR) a set of bills. The bills introduce horizontal reforms relating to civil servants' mobility, the evaluation procedures for promotion, the appraisal system for civil servants, the functioning of the Public Service Commission and the containment of the wage bill. The bill regarding mobility between the Public Service and State Owned Organisations (SOEs) as well as among SOEs was approved by the HoR in May 2017. The four remaining bills were rejected but have subsequently been discussed with political parties and amendments were incorporated to them. Before being submitted to the HoR again, <u>the said bills will be discussed further within 2018 with other stakeholders in an effort to reach consensus</u>. The introduction of a control mechanism for the containment of the wage bill is currently under implementation in the public sector and broader public sector through agreements that the Government signed with the unions of the public sectors for the years 2017 and 2018. This control mechanism ensures that any increase in the wage bill will take into account fiscal conditions and nominal GDP developments. A permanent control mechanism for new hirings of civil servants, excluding teachers and medical/paramedical staff, has also been established by law and requires approval by the Ministry of Finance, the Cabinet and the Parliament before any recruitment in the civil service. **(b) Governance of State Owned Enterprises** The draft law on State Owned Enterprises aims to improve their corporate governance and ensure a more effective monitoring of their functioning. The bill was submitted to the HoR in April 2015. **(c) Local Government Reform** Draft laws concerning the implementation of the Local Government Reform were submitted to the HoR in July 2015. Following discussions between the Government, Political Parties, the Union of Cyprus Municipalities and the Union of Cyprus Communities, several amendments were incorporated. The local Government reform affects the delivery of vital local public services and plays an important role in the process of issuing title deeds. The reform aims particularly at making the issuing of building permits and certificates more efficient. It also addresses the current gaps in local Government financial reporting, by establishing a common accounting and reporting framework. According to the proposed draft legislation, 5 District Clusters will be established, that will take on: (a) planning and building permits, (b) water boards and sewage boards and (c) waste

	management. At the local level, clusters for specific services will be established between local authorities (municipalities and/or communities) for garbage collection, technical services etc. Furthermore, the Government has proposed to the HoR the gradual decrease on the number of Municipalities, from 30 to 22, within the next three years. The Government has also prepared a roadmap for the implementation of the Local Government Reform, which was submitted to the HoR at the beginning of 2017. In April 2017, the Ministry of Interior (MOI), upon request from the HoR, submitted a report explaining the criteria and the conditions by which the Government has proposed the decrease in the number of municipalities and also the draft Regulations that emanate from the said draft laws.
CSR 2	
Step up efforts to improve the efficiency of the judicial system by revising civil procedures, increasing the specialisation of courts and setting up a fully operational e-justice system. Take measures to fully operationalise the insolvency and foreclosure frameworks and ensure reliable and swift systems for the issuance of title deeds and the transfer of immovable property rights.	**(a) Stepping up efforts to improve the efficiency of the Judicial System** Measures taken since 2017 are the following: On 21 July 2017, the Courts of Justice (amendment[3]) Law of 2017 (Law 109(I)/2017) was enacted, providing for the filtering of the right to file an appeal in civil cases as regards interlocutory decisions during the proceedings. This does not deprive a party the right to raise at the stage of the appeal against the final decision, issues relating to any interim decision. The Administrative Court, operational since January 2016, was strengthened with two additional judicial posts since September 2017. On 9 July 2018, the Law for the Establishment and Operation of the Administrative Court of International Protection was enacted (Law 73(I)/2018). The provisions of the Law provide that the cases of international protection are tried before this Court, so as to expedite the time for the trial for this category of cases, and simultaneously allowing the Administrative Court more time to deal with all other administrative cases. The decisions of the Court will be subject to appeal before the Supreme Court for any reason concerning only a legal point. The new Court is expected to be operational, with the appointment of the three judges as provided by the Law, in January 2019. A Bill for the establishment of a Commercial Court was also prepared and, following consultation with all competent stakeholders, it is now pending for legal vetting by the Law Office of the Republic. The provisions of the bill include the cases that will fall under the jurisdiction of the said Court, the qualifications of the judges etc. E- Justice is one of the main pillars for the reform of the Justice system. A tender was launched in March 2017 to acquire an electronic Court administration system so as to digitize the operations of the Courts Following the technical evaluation of the tenders, recourses were filed at the Tenders Review Authority by a number of unsuccessful bidders. The decision of the Tenders Review Authority is expected in October 2018. According to the timetable set out in the tender, the system is expected to be fully operational 18-20 months following signature of the contract. A Functional Review Study of the Cyprus Courts System was carried out with technical assistance from the SRSS, aiming at the provision of recommendations for the overall reform and modernization of the courts system. In February 2017, the Supreme Court appointed a former Judge of the Supreme Court as the Director of Reform and Training in order to coordinate the whole reform project. Also, a Courts' Reform Steering Committee was established, comprising the President of the Supreme Court (as the President of the Committee), 2 Judges of the Supreme Court, the President of the Judges' Association, the Director of Reform and Training, the

[3] Amending article 25 of the Law.

	Chief Registrar, representatives of the Ministry of Finance and of the Ministry of Justice and Public Order, and the President of the Cyprus Bar Association. The study was concluded by the experts in March 2018, with the delivery of the final Report with their recommendations for addressing identified challenges regarding the operation and management of the Supreme Court and the Courts of First Instance. A detailed Action Plan was prepared by the Ministry of Finance in collaboration with the MJPO and the Supreme Court. This is regularly updated as the implementation is an ongoing process. The clearance of backlog of delayed cases which have accumulated in the courts, is a very critical and pressing task in the reform process and the government is placing great emphasis on the implementation of the necessary measures to address it. Most urgent measures currently underway include, inter alia, the creation of a taskforce of judges to tackle the backlog of cases before the reformed court system is put in operation, including specific judges for the handling of financial disputes, the recruitment of supporting staff, the development of a "mini" electronic registry as an interim measure pending the implementation of the e-justice project and the assigning of case management judges. In addition, the team of experts is working on the review of the Civil Procedure Rules. The Supreme Court has set up a Rule Committee, which is composed by Judges of all levels and lawyers, who are in close cooperation with Dyson team of experts. A progress report was submitted in May 2018 with recommendations and a public consultation was subsequently carried out. The first Block of changes has been approved and is currently been drafted in detail. Discussion of Blocks 2 (costs) and 3 (execution), will commence shortly. The final set of recommendations are expected to be submitted by the experts in May 2019. Furthermore, the MJPO prepared a bill amending the Civil Procedure Law, so as to strengthen the legal framework for the enforcement of judgments. The provisions of the bill include measures which facilitate the execution of writs concerning the seizure of movable property. The bill is under legal vetting by the Law Office. The MJPO assigned to experts a study concerning mediation. The study pertains, among other issues, to the accreditation of mediators, their qualifications, their training, their disciplinary supervision and the dissemination of information to the general public. The study also includes suggestions for the amendment of the law. The final report was completed and delivered to the MJPO and a public consultation with all relevant stakeholders is currently ongoing (8 August 2018 - 28 September 2018). In addition, a study concerning the establishment of a training school for judges within the Supreme Court in Cyprus was completed in May 2017. On the basis of the recommendations of the study, relevant draft bills have been prepared by the MJPO which have been forwarded to the stakeholders for comments before their finalisation. The provision of modern and functional court buildings is also amongst the reforms currently promoted. A technical assistance project funded by the SRSS is being carried out by the World Bank, which aims to assess the suitability of the PPP (BOT) model for the new Nicosia District Court building, expected to be built within the next five years. The two studies, as required by the relevant legislation (feasibility study and value for money study), are expected to be completed by the end of October 2018.

	A feasibility study will also be carried out through SRSS, to examine the introduction of digital audio recording of court proceedings, including costs and benefits in comparison with the stenotyping system currently in use. The objective of the support measure is the adoption of the most appropriate system, in order to enhance the efficiency of courts, reduce delays in the hearing of cases and thus the length of court proceedings. The length of the study will be 6 months and is expected to be completed by mid-2019. Other projects in the reform programme include the enhancement of the administrative capacity of the Courts, the establishment of criteria for the appointing and evaluation of judges (through a project which is also funded by the SRSS) and the separation of jurisdiction of the Supreme Court into constitutional issues and appeals. **(b) Improving the insolvency and foreclosure frameworks** The Minister of Energy, Commerce, Industry and Tourism (MECIT), assigned to the Bankruptcy and Liquidation Section (B&L) to execute the duties of the Insolvency Service. The project for the "Assessment of the current Organizational and Operational Model of the Insolvency Service", funded by the European Bank for Reconstruction and Development (EBRD) and aimed to identify and take measures for any areas that needed further improvement and empowerment, was completed in November 2017. Through the project, an Action Plan has been formed addressing all the areas where further actions are needed to be taken, so that the full functioning of the Insolvency Service including adequate staffing and IT infrastructure will be achieved. A working group coordinated by MECIT and comprised of officers also from MOF, MOI and the Central Bank of Cyprus was established to assess the insolvency and Foreclosure Framework and to provide suggestions to correct any identified deficiencies. In order to reinforce the governance of the working group (WG), a new Ministerial Committee comprising of the Ministers of Energy, Commerce, Industry and Tourism, Finance, Interior and Justice as well as the Governor of the Central Bank of Cyprus, was established by a decision of the CoM in March 2018. The decision reflects the high level of political commitment for the effective implementation of the Insolvency and Foreclosure Frameworks. The Ministerial Committee (MC) had its kick-off meeting in May 2018 and provided the guidelines to the WG, aiming at ensuring that insolvency matters will be set as priority. To this end, the WG will update the MC on a quarterly basis, through a progress report. SRSS provides technical support for the assessment of the current system of Insolvency Practitioners in the areas of training, supervision and discipline to achieve a common standard of regulation and coordination between the different licensing bodies and to ensure the availability of trained and licensed Insolvency Practitioners. The project is structured in three phases and has commenced in March 2018. So far, Phase A of the project has been concluded. During phase A, a high-level benchmarking assessment has been done in order to identify best practices that will enhance the current insolvency professionals' framework of the Republic of Cyprus. The Project is expected to be concluded within 18 to 22 months, from the beginning date. The final results of the project, will include the delivery of the Continuous

	Professional Development (CPD) Framework (Phase B) and based on that, trainings will be delivered to the Insolvency Practitioners (Phase C). The Action Plan as it has been formed, was approved in June 2018 by the Council of Ministers and a project manager has been appointed. The project manager has the responsibility to update and to implement the Action Plan for Insolvency including: 1. The Reform of the B&L Section, so it will be able to execute the duties of the Insolvency Service. 2. The Regulation of the profession of Insolvency Practitioners through harmonization of procedures among the licensing authorities and the empowerment of insolvency practitioners through continuous professional development. It is noted that the following projects, as they have been included in the Action Plan to address the deficiencies they have been identified, are in progress: 1. Restructuring the Organizational Structure. 2. Regulation of the profession of Insolvency Practitioners through improved licensing and supervision mechanisms. Moreover, in July 2018, the Ministry submitted a request to the SRSS for funding the project regarding the Operations of the Insolvency Service of Cyprus. The objective of the Project regarding "Operations" is to improve and standardize the core operations of the ISC and ensure compliance and accountability. ***Note: for measures related to the foreclosure framework please refer to CSR3: Financial Sector – Non performing loans – Insurance Companies and Pension Funds).*** **(c) Improving the system of issuance of title deeds and the transfer of immovable property rights** **Issuance of Title Deeds** Steps have been undertaken regarding the issuance of title deeds through inter alia the streamlining of the overall legal framework that relates to the processes for the application and the issuance of planning and building permits. The SRSS has provided technical support for the reform of the regulatory framework as regards the issue of planning and building permits and certificates. The Technical Assistance Project was completed in September 2017, and the findings and recommendations of the study were presented to the Internal Affairs Parliamentary Committee. The Ministry of Interior is evaluating the recommendations for the reform of the system and a roadmap is being established. SRSS will also provide technical support for mobilising legal expertise on the drafting of the new legislative framework. Following a Council of Ministers decision in July 2015 for unauthorised works in residential developments which aimed to accelerate the process of the issuance of Certificates for unauthorised works by the Building Authorities, the competent Ministry has stepped up its efforts to enhance the uniform implementation of the existing legal framework by the Building Authorities, through the organisation of various meetings for the exchange of views and provision of guidance on specific issues/cases.

	It is also noted that up to now more than 1007 building permits have been issued to facilitate the issue of title deeds for residents with unauthorised works of minor nature, predominantly in residential developments. **Transfer of Immovable Property Rights** The enactment of the Transfer and Mortgage Law 9/65, as amended by L.139(I)/2015 (Trapped Buyers Law), which was designed to protect the "Trapped Buyers", namely those who have submitted their sale contracts at the Lands Registry up until 31st December 2014 (legacy cases), has led to positive progress in this area. Notably, in relation to the Legacy cases, 15.577 applications have been filed by DLS, out of which 7.604 have separate title deeds and 7.970 have no separate title deeds. Until now, 4.118 applications have been completed and the title deed has been transferred to the buyer (54% of the applications with title deed). Following a court ruling which declared the legacy law as unconstitutional, the Law Office has filed an appeal against this decision. In parallel, to address this issue, a draft bill amending the Transfer and Mortgage Law - Legacy Law is currently under legal vetting at the Law Office. Furthermore, the authorities have committed to promote legislation to deal with non-legacy and new property transactions. Currently consultation is taking place with stakeholders in order to promote amendments to the relevant Laws[4].
CSR 3	
Accelerate the reduction of non-performing loans by implementing a comprehensive strategy, including legislative amendments allowing for the effective enforcement of claims and facilitating the sale of loans. Integrate and strengthen the supervision of insurance companies and pension funds.	**(a) Accelerating the reduction of non-performing loans** Total non-performing facilities (NPFs) stood at €19.916 mln at the end of April 2018 registering a decrease of 16.4% when compared with €23.810 mln of NPFs at the end of December 2016. The downward trend in NPFs can be attributed to increased repayments, restructurings successfully completed by banks, and reclassified as performing facilities, write–offs as well as settlement of debt through swaps with immovable property that is expected to be sold with the aim of a faster cash collection. Total facilities with amounts past due of more than 90 days decreased to €15.562 mln in April 2018 (33.5%), compared to €17.400 mln (34.5%) in December 2016. Banks have established internal arrangements and have strengthened their arrears management units. New lending criteria are more vigorous, setting the ability of the borrower to pay as the primary criterion for new lending. Credit institutions continue their efforts towards restructuring their NPFs in cases were viable settlements are possible. To this end, all three core domestic banks have partnered with foreign debt specialists and established independent debt servicing companies: Pepper Cyprus (fully owned subsidiary of Pepper Europe (UK) and attached to the Bank of Cyprus), Altamira Asset Management (Cyprus) (joint venture of Spanish Altamira Asset Management with the Cyprus Cooperative Bank) and APS Debt Servicing Cyprus (joint venture of Czech APS Holding with Hellenic Bank). Subsequently, there has been a number of initiatives which have resulted in further drastic reduction of banking sector NPFs. Specifically, the Government took the initiative to enhance the effectiveness of the legal environment. In this context, the Parliament passed in July 2018 laws amending the relevant legal framework (including foreclosures, sale of loans and loan securitization) with a view to

[4] The Sale of Immovable Property (Specific Performance) Law L.81 (i)/2011 and the Law for trapped buyers Law 139(I)/2015).

strengthening it and making it more effective and efficient, enabling the banking sector to resolve legacy issues and adequately support the real economy.

On the back of an improved legal framework, Bank of Cyprus was able to sell €2.8 bln of NPFs (pending final approval by regulators).

As regards the Cooperative Sector, a process was initiated for the selling of either the whole bank or part of its assets and liabilities. The final offer of the successful bidder (Hellenic Bank) was submitted on 14 June 2018. The perimeter of the transaction comprises a balance sheet of €10.3 bln, as follows:

- Deposits: €9.7 bln, excluding the government deposits of €3.54 bln (bond proceeds of €3.19 bln and cash placement of €351 mln as explained below).
- Other liabilities: €66 mln.
- Loans totaling net book value of €4.593 bln of which NPEs with net book value of €420 mln and market value €305 mln.
- Cyprus Government bonds totaling €4.082 bln (€3.19 bln new Government bonds plus an additional domestic issue of €840 mln).
- Cash €1.616 bln.
- Other assets €25 mln.

Against the State's deposit of €3.54 bln with CCB, CCB pledged all remaining assets in return. The pledge covers CCB's NPEs, PEs as well as other non-core assets with a total nominal value of approximately €8.34 bln. The state deposit and the pledged assets will remain in the residual entity, whose sole activity will be to manage the assets within its perimeter, with the objective of divesting, liquidating or winding down the assets in an orderly manner but with a view to maximising the value to repay the State as much and as swiftly as possible.

The transaction has received regulatory approvals, has been accepted by the Government and has resulted in a significant carve out of NPFs from the banking sector.

Lastly, the Council of Ministers approved the establishment of an incentive scheme, targeting non performing exposures with collateral being the primary residence of the household, which is the most challenging segment among the NPLs portfolio.

The scheme is called "ESTIA project" and aims at supporting households, enabling the performance of their loans, thus contributing to the stabilization of the banking sector and the creation of the conditions for sustainable growth. For the participation in the "ESTIA project~~,~~" eligible borrowers should meet specific pre-defined income and asset criteria in order to exclude free riders or strategic defaulters being covered, ensure fairness and limit moral hazard.

Cyprus tax laws were amended offering tax exemptions to loan restructurings in order to facilitate and encourage the resolution of non-performing loans. These exemptions will roll out by 31/12/2019.

In addition, in July 2018, in order to encourage the resolution of non-performing loans current tax exemptions for immovable property transfers from borrower to lender in the course of loan restructuring were extended to borrowers who dispose their property privately for the purpose of debt restructuring.

(b) Integrating and strengthening the supervision of insurance companies and pension funds

A draft law on the creation of an independent supervisory authority for the supervision of insurance companies and occupational pension funds has been prepared. The draft law envisages creating a platform for an independent and enhanced supervisory authority, both in personnel and systems, with a view for

	more efficient and effective supervision of the two sectors, thus better managing risks and better guarding the interests of stakeholders. The Public Administration and Personnel Department (PAPD) has prepared the organogram of the new Authority, the schemes of service for the personnel as well as other relevant legislation/regulation for the transfer and the recruitment of personnel in the new Authority. First round consultation with the personnel, has already taken place. Further to the completion of the consultation with the personnel, <u>a wider consultation on the draft law on the creation of the new supervisory authority is expected to take place between September – October 2018.</u> The aim is to finalize the draft law and proceed with its legal vetting in December 2018. The draft legislation would subsequently be submitted to the HoR in March 2019 for enactment.
CSR 4	
Prioritise the implementation of key elements of the action plan for growth, in particular fast-tracking strategic investments, and take additional measures to improve access to finance for small and medium-sized enterprises. Improve the performance of state-owned enterprises including by resuming the implementation of privatisation projects.	**(a) Removing impediments to Investment** **Attracting and Facilitating Major Investment** In November 2017, a bill setting out a new procedural and legal framework for facilitating major investment, including the set-up of a fast track mechanism, was submitted to the HoR. Key reform measures are introduced by creating a new and transparent regulatory framework with clear allocation of responsibilities, streamlining of licence issuance procedures and strict deadlines. **Simplifying the Procedures for the Employment of Highly Qualified Third Country Nationals** Simplifying the procedures for granting employment visas to highly skilled third country nationals will facilitate foreign investment. In this respect, a decision has been made in 2018 to revise the national scheme on employment of highly paid third country nationals by foreign companies, in order to facilitate the relocation of such companies to Cyprus, to further promote investment. **(b) Improving the access to Finance for SMEs** **Management of Financial Instruments** Technical support as regards the implementation and management of new Financial Instruments including in the post 2020 period is being provided by the SRSS. The tendering procedure has been completed and the kick-off of the project will take place in September 2018. The results of the study are expected to be ready in 2019. **Advisory services - Advice for Small Business Facility** Following also the recommendations of the study on promoting the export performance, the Government signed in May 2017 an agreement with the EBRD for the implementation of "Advice for small business facility". The program aims to promote the sustainable development of SMEs in Cyprus through tailor made advisory services and other non-financial support tools. The program has a budget of 2.15 mln and will be co-financed by the ESIF. The objectives of the program are to provide expert assistance, business advice, targeted training to new and existing SMEs and business matching activities. The objectives are also to promote inclusion, by targeting groups that are underrepresented in the local SME environment such as women led enterprises. Another objective of the program is to improve the financial literacy of SMEs. Up to May 2018, 22 advisory projects with local consultants had been approved (incl. 2 for women-led SMEs), with an average project cost of approx. €10,890. In addition, 1 advisory project with international experts has been approved, with a total project cost of €56,318. Portfolio of projects is diversified, with some

	concentration in the electrical/electronic/IT sector, wholesale/retail distribution and food and beverages sectors. As regard the type of advisory services provided, Quality Management Systems projects, in particular ISO implementation, dominate the projects' portfolio. However, there is an increasing demand for advisory services focused on strategy, organisation and marketing. **Grants** Ongoing measures promoted by the MECIT are addressing the following areas: • **Entrepreneurship – Women and the Youth (€22 mln)** The schemes for the enhancement of Women entrepreneurship and for the enhancement of Youth entrepreneurship (age 20-40) were announced in two different calls (2015 and 2017), with a total budget of around €6 mln and €16 mln respectively. • **Enhancing the Competitiveness of SMEs (€20,7 mln)** The scheme's main objective is to support, develop and promote the SMEs competitiveness in the manufacturing sector and other specific economic activities, through investments for the expansion of existing business, the creation of new units and the enhancement of entrepreneurship and the creation of new jobs position. The first call was announced in 2015 (€14 mln). • **Business Innovation - Innovative products/Services Scheme (€18 mln)** The scheme's main objective is to support and strengthen existing and newly established firms investing in R&I and also to support and promote collaborations between businesses and research organizations. The first call was announced in 2014 (€10 mln) and the second call is expected to be announced in 2019. • **Clusters of Business (€2 mln)** The scheme aims to enhance the creation and operation of clusters of business both vertically and horizontally to create more scale activities to achieve economic and competitive advantages. The scheme is expected to be announced in 2019. All the grants above are co-financed by the Republic of Cyprus and the European Regional and Development Fund (ERDF) under the Operational Programme "Competitiveness and Sustainable Development 2014-2020". **Cyprus Entrepreneurship Fund (CYPEF)** The Cyprus Entrepreneurship Fund (CYPEF) has supported both working capital and investment loans to SMEs. According to the latest figures, until the end of first semester 2018, the loans disbursed via CYPEF to SMEs reached the amount of €94.4 mln (i.e. 67% of the committed total loan portfolio). **Tax Incentives** A new amending Law was approved in December 2016 and is effective from January 2017 until the end of 2020. The amended Income Tax Law N135(I)/2016, creates attractive incentives through tax relief to individuals who invest in innovative SMEs, either directly or through an investment fund, including start-ups. The measure was promoted in the context of the Policy Statement on the Enhancement of the Entrepreneurial Ecosystem in Cyprus (see Section I (c)). The new law provisions are expected to significantly contribute to enhanced access to finance (mainly equity funding) for new and innovative enterprises which face increased difficulties

	accessing bank lending due to the high risk of their operations (risk-finance investments). Ten innovative companies have been approved by August 2018. **Investment Funds** Based on best European and international practice, the MOF has set as a priority the establishment of a modern and competitive legal and regulatory framework regarding the industry of collective investment funds in Cyprus. The regulatory framework has been developed from 2010 onwards through the enactment of three separate laws (and respective secondary legislation) that form the legal nexus for collective investment schemes. In order to keep pace with developments and specialize and upgrade the framework bringing it in line with the best European practice for collective investment funds, the following laws have been approved introducing new features and specialization for the collective investment schemes in Cyprus: • A new law on Alternative Investment Funds (Law 128(I)/2018) has been enacted in July 2018, which amends and replaces the Alternative Investment Funds Law of 2014. The new law aims for: the introduction of Registered Alternative Investment Fund (AIF), whose supervision will be done through the AIF Managers Directive[5]; the introduction of limited partnerships with legal personality as an alternative investment fund vehicle (proved to be a versatile and successful vehicle for funds in Europe); the introduction of arrangements for the establishment of Variable Capital Company under the Companies Law (expected to enhance the versatility of the limited company as a corporate vehicle for open ended funds). • Law aiming at the introduction of licensed and regulated mini-managers, for the fund managers below the AIF Managers Directive thresholds and at providing specialization for below the threshold managers under an appropriate and proportionate regulatory regime. • Law aiming at the introduction of licensed and regulated Administrators, who contribute considerably to the development of the fund industry, providing specialized services to fund managers and investors. **Crowdfunding** The MOF is closely monitoring the new priority initiatives proposed by the European Commission, which aim to complete the Capital Markets Union. Crowdfunding is included among these new priority initiatives with a proposal for a Regulation on European Crowdfunding Service Providers for Business and a proposal for a Directive amending MiFID (Market in Financial Instrument Directive). At the same time, in cooperation with the Cyprus Securities and Exchange Commission (CySEC) and in consultation with the private sector, the Government is currently exploring the potential of and the risks to promoting and facilitating the development of a bespoke national crowdfunding framework. This potential national framework should operate without prejudice to the new Prospectus Regulation which will enter into force shortly. Based on preliminary assessments, there seems to be a need for regulatory reform to be undertaken in order for this sector to become operational while at the same time, ensuring appropriate investor protection.

[5] This gives flexibility to fund managers to set and market funds quickly, while at the same time maintaining a high standard for supervision and investor protection.

	EIB direct lending/Government Guarantee Scheme An Assessment Study was carried out by the European Investment Bank (EIB), in cooperation with the MoF during the 2nd half of 2017, for the assessment of the impact of the EIB Scheme in Cyprus[6]. Overall results of the study were very positive and one of the findings was that the EIB Scheme had a positive contribution to the growth rate of the economy by 0.28% and 0.46% for the years 2015 and 2016 respectively. Recognizing the success of the EIB Scheme, on 29 November 2017, the Council of Ministers approved the increase of the state guarantee from €750 mln to €1 bln, thus supporting the continuation of the EIB Scheme in the future. Currently, EIB has signed Loan Agreements with the 10 out of the 12 Cypriot Banks, while another Loan Agreement is expected within the next weeks with an additional Bank. Until January 2018, €680 mln have been signed between EIB and the Cypriot Banks, leading to €390 mln allocated by the Banks to more than 250 beneficiaries (SMEs and MidCaps) resulting in around 350 investment projects. **European Fund for Strategic Investments (EFSI)** The competent authorities have provided information to the private and public sector on the funding opportunities provided through the EFSI and have facilitated the preparation of projects, where necessary, through the speeding up of decisions relating to the public sector. A list of projects / schemes has been prepared following consultation with stakeholders of the private and public sector which cover, inter alia, energy, including the Renewable Energy Sector (RES), Energy Efficiency, Ports and Marinas, Information and Communications Technologies and Research and Innovation. Project promoters, have also been in direct consultation with EIB. Information on EFSI was also provided to the banking sector through direct meetings with EIB competent services. Between December 2016 and June 2017, the European Investment Fund (EIF) has signed two EFSI agreements of a total €30 mln, with two commercial Banks under the InnovFin SME Guarantee Facility. Under these two agreements, the two Banks will provide attractive loans to innovative SMEs and mid-caps over the next two years. EIF's guarantee is provided under the "EU InnovFin Finance for Innovators" initiative, under the Horizon 2020 Programme for R&I. Until June 2018, an amount of €1,03 mln has been disbursed out of €2,5 mln signed with eligible beneficiaries. Furthermore, EIB has signed €35 mln loan with the Cyprus Organisation for Storage and Management of Oil Stocks (COSMOS - KODAP) for the financing of Phase I of the construction of the new Strategic Oil Reserve Terminal in Cyprus. The said loan will finance the first EFSI infrastructure project in Cyprus. In total up to today, 3 projects are being promoted under EFSI in Cyprus, with a total approved financing of €55 mln, aiming at supporting a total investment of €80.8 mln. **EU Competitive Programmes (e.g. COSME, Horizon)** The Directorate General for European Programmes, Coordination and Development (DG EPCD) is providing, with the support of the SRSS, a series of specialised trainings to strengthen the capacity of the participating organizations, in terms of effective management, implementation and monitoring of the funded projects. Two sessions of three different thematic courses have been undertaken during April and May-June 2018 respectively while the last session will take place in October 2018. As regards the implementation of Financial Instruments supported by EU Programmes, see relevant reference above under the EFSI section. **(c) Improving the performance of SOEs** **Implementing the Privatization Plan**

[6] Cyprus Banks Loan for SMEs and MidCaps" Scheme under the Multi-Beneficiary Intermediate Lending (MBIL) framework.

	As regards the implementation of the privatisation plan, it is emphasised that despite the fact that the Privatisation Law has been annulled, resulting in the dismantling of the Privatisation Unit, this remains valid and will continue to be promoted. Entities and assets were declared by the Council of Ministers as subject to privatisation are: i. Limassol Port. ii. Larnaca Port and Marina Area. iii. Ayia Napa and Paphos Marinas. iv. National Lottery activities. v. Specific State assets in Troodos area. vi. The Cyprus Telecommunications Authority. The progress achieved so far in the various projects is summarised as follows: - Limassol Port The privatization of the Port of Limassol, the largest on the island, was successfully completed in January 2017, with the assumption of operations by consortiums lead by Eurogate, a German operator, and Dubai Ports. The three concession agreements relate to the container terminal (25 years), marine services (15 years) and the multipurpose terminal (25 years). Following one year operations of the port by the private Concessionaires, the Governments' total revenues regarding the Advanced Payment and the Concession Fee for 2017 is €37.5 mln. - Larnaca Port and Marina Area The process for the privatization and re-development of the Port of Larnaca, the second largest on the island, is proceeding according to schedule and is expected to be completed by end-2018. More specifically, the project, which concerns the licensing through a Concession Agreement of the Port and Marina of Larnaca for 40 years and the lease of the land for the development of real estate for a period of 125 years, is currently under tendering procedure. Three economic operators were pre-qualified through an open invitation for Expression of Interest and were invited to tender through a close procedure Invitation to Tender and Draft Concession Agreement. Two of the three prequalified members withdrew the procedure. The deadline for the submission of the tender proposal is on 21 September 2018. The aim is that the selection of the preferred Tenderer is finalised before the end of 2018. - Ayia Napa and Paphos Marinas A design-build-operate-transfer agreement for the Ayia Napa Resort Marina was signed in 2016. A similar agreement for the Paphos Resort Marina is expected to be signed in the course of 2019. - National Lottery's activities

The activities of the National Lottery, as well as any relevant asset belonging to the State which is used exclusively for the conduct of the operations of the National Lottery, have been declared as an asset subject to privatisation.

On the basis of the relevant recommendations of the appointed advisors, the Council of Ministers decided the licensing of the activities of National Lottery for a period of 15 years, to include the current National Lottery products and the addition of e-instants.

The revised bill providing for the regulation of the exclusive licensing of National Lottery games and relevant matters, has been submitted to House of Representatives for deliberation, and will then be submitted to the European Commission regarding its compatibility with the EU acquis.

- Troodos assets

Nearly 200 Troodos assets owned by the State have been declared as assets subject to privatisation.

The decree provides that these assets will be exploited through a long-term lease and/or license and/or right to use/exploit, and that the extent and structure will be determined specifically at a later stage.

In May 2017, the appointed advisors submitted their draft preparatory work, analysis and recommendations for the exploitation of the Troodos assets with potential private sector participation. The final conclusions and recommendations of this deliverable will be used by the Interministerial Committee for Privatisations to approve/reject the identified exploitation options of the real estate assets which will be deemed available and attractive.

- Cyprus Telecommunications Authority

Although no consensus has been reached at the level of the House of Representatives for the privatization of CYTA, the state-owned telecoms utility, a new proposal has been drafted in the form of a Bill and relevant regulations, with the aim to implement the corporatization of CYTA, as a necessary first step towards a partial privatization.

The draft Bill and regulations, currently before the House of Representatives, provide for majority ownership of CYTA by the State and respect of the employment status and rights of the current employees while, in parallel, creating the conditions for the attraction of a strategic investor through equity participation and the assumption of management control of the company, something which is considered necessary in order to maintain the value and business prospects of CYTA.

Electricity Authority of Cyprus
As regards the **Functional Unbundling of the Electricity Authority of Cyprus (EAC)**, this was officially enforced on 1/12/2016. CERA has completed the first review of the functional unbundling. The purpose of each review is to ensure compliance with the relevant CERA Regulatory Decisions, detect any deviations from the Regulatory Decisions and enforce corrective measures. The final review of the EAC Functional Unbundling is expected to take place at the end of December 2018. Following the December 2018 review, EAC is expected to be fully compliant with the related CERA Regulatory Decisions.

	EAC Accounting Unbundling has also been completed and the Separated Regulatory Accounts (SRA's) are submitted in compliance to the unbundled functions of EAC. SRAs were firstly submitted in August 2015 for the accounting year ending 31st December 2014 and then in August 2016, for the accounting year ending 31st December 2015. The audited SRAs for the year 2016 were submitted in November 2017. The audited SRAs are expected to be submitted by the 30th September 2018. The Council of Ministers has decided on December 7, 2017 to proceed with the full independence of the Cyprus Transmission System Operator (TSOC) from the vertically integrated EAC. The TSOC will be responsible for the system operation and the electricity market operation. The independence of the TSOC from the vertically integrated EAC is expected to be completed by 1st July 2019. **Integrated Casino Resort** As regards the construction and operation of an **Integrated Casino Resort**, the signing of a Public-Private Partnership (PPP) agreement with the selected bidder was completed in mid-2017, construction work has commenced as have gaming operations in interim venues.
CSR 5	
Complete reforms aimed at increasing the capacity and effectiveness of the public employment services and reinforce outreach and activation support for young people who are not in employment education or training. Complete the reform of the education and training system, including teacher evaluation and actions to increase the capacity of vocational education and training. Take measures to ensure that the National Health System becomes fully functional in 2020, as planned.	**(a) Increasing the capacity and effectiveness of Public Employment Services – reinforcing outreach and activation support for young people who are not in employment education or training** **Public Employment Services (PES)** The PES has an important role in the implementation of ALMPs as a mediator for the participation of the unemployed through referrals to Employers. Through the Technical Support provided by the PES Network experts, the Cyprus PES has gathered important and useful information for the improvement of the ALMPs delivery. One crucial measure identified for the effectiveness of ALMPs is the preparation of clear and comprehensive verbal and written instructions about the proper management of the job seekers. To this end, the legal framework for the PES operation is being developed by a working group from the private sector. In 2017 several meetings were set up between the management team of PES, GMI Service and Human Resource Development Authority, in order to bridge any gaps in communication. Through this measure the exchange of information has been improved, as well as the effectiveness of the services provided. The implementation of ALMPs is also expected to be improved with the recruitment of the 30 employment counsellors, which started gradually in June 2018 and is expected to be finalised by November 2018, as the quality of the provision of services in respect of the matching of demand and supply of labour will be upgraded. Up to now, the evaluation of the effectiveness of the Employment Subsidy Schemes is done on a scheme by scheme basis once completed. As regards the Schemes implemented by the Human Resource Development Authority (HRDA), evaluation studies are conducted by the HRDA on a continuous basis regarding the impact of the Schemes on the participants. All studies include field research through telephone interviews which are done by external consultants. A computerized system for the Monitoring and Evaluation of ALMPs has already been developed between the ALMPs implementing bodies. It will start its operation

after the fine tuning regarding the exchange of data with ALMPs implementing bodies and the training of the PES staff.

Youth Guarantee remains a challenge in Cyprus. The high number of NEETs in Cyprus is an important policy issue. For this reason, the European Commission has set a Youth Guarantee Peer Support for Cyprus with the basis of advice and support from three countries (Latvia, Portugal and Belgium) and independent experts, to enhance the outreach activities within the Youth Guarantee. The main challenge is to identify and support in particular inactive, nonregistered youth. The Peer Support involves the design and implementation of an action plan, which will include various activities such as, mapping of NEETs, setting priorities, adjusting outreach policy measures, building partnerships between different actors playing a role in the delivery of outreach activities, the realization of two study visits, and progress follow up.

(b) Upgrading of the Education and Training System including Public Technical and Vocational Education and Training (VET) System and Apprenticeship Scheme

Education and training is a horizontal policy element, affecting the growth prospects of all economic sectors. Increasing the knowledge and skills of the citizens is a critical element in the ability of the sectors to achieve their potential for growth. A large number of measures have been promoted towards the holistic improvement of the educational system and its alignment with the needs of the labour market. Some of the recent measures are:

- The strategy for the improvement for VET is being implemented. Expansion and upgrading of infrastructure and facilities of Technical Schools in all cities is taking place.

- Official discussions have started for the construction and establishment of a new School of Secondary Technical and Vocational Education in Larnaca. A preliminary study for the project is programmed to be derived in 2018.

- Some new specialisations are offered in Technical Schools in line with the demands of the labour market: Natural Gas Transmission and Distribution, Renewable Energy Sources, Digital Technology and Programming, Industrial Design, Management of Hospitality Units etc.

- The Cyprus Agency of Quality Assurance and Accreditation in Higher Education have accredited the Post-Secondary Institutes of Vocational Education and Training (PSIVET) as Public Schools of Higher Vocational Education and Training in April 2017.

- Following the assignment of the New Modern Apprenticeship Scheme to MOEC the implementation of the upgrading and operation of the Scheme.is currently underway.

- Following the adoption of a new Law for a more effective system of teacher appointment in 2015, the new system is under implementation and takes into consideration, various criteria which include among other the candidates' examination grade, their university degree grade, additional academic qualifications and teaching experience. The first examinations for the New Appointment System for all public schools were held in November 2017 and 4915 candidates participated. The results were announced in March 2018 and by the end of the month, the Educational Service Commission has published the new lists. The first appointments with the new system were offered and teachers from both lists will start their work in September 2018.

- The MoEC has tabled a detailed proposal for «New System for the Evaluation of Teachers and Educational Work» which was published on December 2016.

	Meetings with Teachers Unions (OELMEK, POED and OLTEK) were held between October and December 2017 in order to discuss specific modifications on «2011 Law for the Inspection and Evaluation of Educators». After the presidential elections in February 2018 and the appointment of the new Education Minister a renewed effort has begun for introducing a reform in this area. A new Expert Committee has been appointed which started implementing its mandate by collecting data, studying previous proposals and reports and interviewing the different stakeholders such as teachers' and inspectors' unions, parent confederations, education directors etc. The Expert Committee is expected to deliver its initial proposals by the end of the current year. After a decision taken by the Council of Ministers on the 4 July 2018, an effort to rationalize the allocation of teaching and non-teaching time in all public schools has begun. The aim is to maximize the utilization of the teaching personnel in an effort to further improve the quality of education provision in Cyprus. Measures taken concern the abolition and reduction of exemptions from teaching hours for extracurricular activities and based on years of service or age. These measures aim to save funds spent on employment of additional teachers, spending them instead on programmes and projects in public education. This decision has raised the concerns and a negative response by the teachers' unions. The government has invited the unions in a comprehensive dialogue to resolve the issue. **(c) Ensuring that the National Health System becomes fully operational by 2020** **Adoption of legislation for Hospital reform** The Law for the establishment of the State Health Services Organization was adopted by the Parliament on 26th of June 2017. The Law provides for the establishment of a new public legal entity responsible for the final administrative and financial autonomy of public hospitals. This structural reform is expected to remove bottlenecks resulting from the existing unequal access in healthcare and inefficient use of resources and to improve the productivity and the quality of healthcare delivered. Since the adoption of the Law by the Parliament, the following actions are being implemented: • Enactment of the Law for the establishment of the State Health Services Organization through two notifications in the Official Gazette of the State, dated 12/1/2018 and 2/2/2018 respectively. • Adoption of the State Health Services Organization Regulations of 2017 by the Parliament and publication in Government's Official Gazette on 30/6/2017. The regulations provide for the Organization's staffing issues, such as employment, evaluation and disciplinary control. • Appointment of the Board of Directors of the Organization by the Ministerial Council on the 19th of December 2017. The BoD had its first meeting during January 2018 and continues with its mandate, on the basis of the respective Law. • The budget of the new Organization for 2018 was approved by the HoR on 30 March 2018. • In the framework of the implementation of the Law, the Minister, based on a suggestion of the BoD, has proceeded with the establishment of Four Directorates («Directorate of Nicosia General Hospital and Hospital for Mother and Child Archbishop Makarios III», «Directorate of Larnaca and Ammochostos General Hospitals», «Directorate of Limassol General Hospital, Paphos General Hospital, Kyperounta Hospital and Polis Chrysochous Hospital», «Director of Directorate of Primary Health Care» through the

	publication of a Regulatory Administrative Act (RAA 148/2018). Simultaneously, the BoD is proceeding with the establishment of the Scientific Council of the State Health Services Organisation. • The top managerial positions (including CEO, CFO, COO) are in the process of recruitment. The vacant positions were published on the 20th of July 2018 with the deadline for the submission of applications was on the 17th August 2018. It is expected that the CEO, CFO and COO will be in place by October 2018. • The Current hospital employees will be seconded or transferred to the Organization by January 2019. • The amendments of other legislation related to the Autonomization are proceeding. • The preparation of the budget of the State Health Services Organization for 2019 will be completed by September 2018. • A study of public health services utilization and client satisfaction for SHSO (baseline) is in progress, aiming at the development of an effective and sustainable mechanism for monitoring, evaluating, and reviewing of health services, patient/user satisfaction/experience, and employee engagement within the National Health System (NHS) of Cyprus. • A proposal for mental health services provision in the public sector has been prepared by an expert and submitted to the BoD, currently being under review by it. Within this, the state of readiness of the public hospitals in Cyprus has been assessed. • The SHSO is proceeding with the Communication strategy public/personnel. • The Costing of public health facilities and PHC is expected to be completed by October 2018. • Specific actions are being dealt with in preparation for the 1st phase of NHS (HIO minimal requirements, enrolment and contracting of personal doctors). **Adoption of legislation for universal healthcare coverage** The legislation for the National Health Insurance System was adopted on the 16th June 2017. The NHIS, according to the Law, will promote universal health coverage, addressing the existing inequalities of health care coverage amongst the population. The principles of NHIS are Universality (Universal coverage of the population), Equality (Equal access of beneficiaries to healthcare services), Solidarity (Contributions based on income) and Free Choice (the patients choose freely their healthcare providers). The system will be financed through large-scale contributions from employees, employers, Government, incomes, retirees. Beneficiaries will also pay a small user fee for the services they receive in order to avoid abuse of the system. Collection of contributions will be done by the Social Insurance Services, the Tax Department and the Treasury. According to the NHIS Law, the first stage of NHIS will be implemented on the 1/6/2019 (most of the outpatient services) and full implementation of NHIS on the 1/6/2020. The Health Insurance Organisation, which is the responsible organization for the implementation of NHIS, has prepared a roadmap of all actions and milestones that need to be completed so that NHIS can go live on 1/6/2019.

	A fundamental aspect for the introduction of NHIS is the IT System, the tender for the development and operation of which was awarded by the HIO Board on 6/10/2016, and the relevant contract was signed on March 30th 2017. The first phase of the project (Phase 1) commenced from the signing of the contract and its duration was fourteen months (1/4/2017–31/5/2018). The HIO has exercised the right to extend the period for six (6) months, hence the current duration of Phase 1 is twenty months (01/04/2017-30/11/2018). During this period nineteen (19) milestones are to be delivered on specific dates based on the time plan. With the completion of the first phase of the project, the IT System will be able to support the implementation of the first phase of NHIS. The second phase of the project (Phase 2) will have a duration of 6 months (12/2018 – 6/2019). During this period, eleven (11) milestones are to be delivered on specific dates based on the plan. With the completion of the second phase of the project, the IT System will be able to support full implementation of the project. In respect to the legal framework of NHIS, the public consultation of two regulations regarding (a) the collection of contributions and (b) co-payments, has been completed and the two regulations will be forwarded to the Parliament in order to be voted, as soon as legal vetting is completed. The public consultation of two more regulations regarding (a) Family doctors, and (b) Outpatient Specialists has been completed and will be forwarded to the Legal Department for legal vetting first and afterwards to the Parliament for voting. In the next months the public consultation regarding the (a) Pharmacists (b) Laboratories (c) Beneficiaries, will follow, and the final Regulations will be forwarded to the Parliament. Regarding the budgets of the Healthcare Providers, the negotiations have commenced, starting with the Personal Doctors for Adults and the Personal Doctors for Children (Pediatricians) and will continue with the remaining Healthcare Providers regarding Phase I of NHIS implementation. Finally, the design of the Communication Strategy has been completed through a Tender Process by a Consultant Agency and its implementation will follow. **Other Reform Measures** **(i) Public Primary Care Restructuring** The main objectives of the restructuring of the provision of primary care services are to improve the quality of the services and address the main tasks of primary Care, being health promotion, disease prevention and coordination of care. Moreover, the restructuring of the Primary Health Care is essential, in the framework of the implementation of the National Health Insurance System, so that the public Primary Health Care Centers will be viable in the new competitive environment that will be created. A detailed restructuring plan for the rural primary healthcare centres has been developed and approved by the Ministerial Council on the 22nd November 2017. The main components of the planned reform are creating health Centers in the rural areas with prolonged opening hours and improved services including continuous training of primary care doctors, implementation of clinical guidelines and protocols and monitoring of certain health indicators and introduction of clinical audit. The implementation of the restructuring of the rural primary healthcare has already

commenced, with one rural primary healthcare centre being already restructured and functioning.

Furthermore, a detailed restructuring plan of the urban Primary Health Care Centers of Nicosia has been developed and approved by the Ministerial Council on the 25th of July 2018. Since then the working hours of two more centers have been prolonged up to 20:00 daily, as well as on Saturday morning from 8:00-13:00, increasing the number of the healthcare centers working in the afternoon, in Nicosia, to four.

Another two centers are being prepared to follow the same opening hours by October 2018 and another one in November 2018, increasing the number to seven.

Moreover, the working hours of a Primary Health Care Centre in Ammochostos have also been extended from 16:00 to 19:00 daily, and 09:00-13:00 on Saturday.

Additionally, the necessary infrastructure needed for the implementation of the Primary Health Care reform is currently being developed. Community nursing services are being extended to cover all rural area communities in Cyprus and a network of the Ambulance Services has been further developed so that the response time of the ambulance is almost, throughout Cyprus, within recommendations and international standards for every citizen.

(ii) eHealth

- Development of an Integrated Health Care Information Systems: to be used in all Public Hospitals. The tender documents and the users' specifications have been prepared and are currently under the last review for quality assurance by the Cyprus Competent Authority for Public Tenders.
- Other eHealth projects: projects on the digitization of paper Medical Files of the Nicosia General Hospital extended to all Public Hospitals and all Health Centers in the Republic of Cyprus (co funded by structural funds), the Deployment of Generic Cross Border eHealth Services in Cyprus (National Contact Point for cross border healthcare - for the Patient Summary and ePrescription) (eHealth Network Project co funded by CEF/INEA), the Electronic Exchange of Social Security Information (EESSI) project (EU project co funded by CEF/INEA), the Laboratory Information Management System (LIMS) for the State General Laboratory (SGL) and the System for Medical Card and European Health Insurance Card (EHIC), Issuing System for the sponsored patients, European Patient Billing, Treatment Subsidy and cross-border healthcare System.
- Electronic Health Legal Framework: provides the basis for the creation of Cyprus eHealth Authority and the Patient Electronic Records, the draft law on eHealth has been prepared and submitted to the Parliament where it is under discussion.

(iii) Pharmaceuticals

- Amendments and adoption of pharmaceutical legislation: Proposals for the amendments of existing legislation and the introduction of new legislation have been submitted and are currently under review. These changes have the aim of harmonising the legislation with the planned model for the National Health Service and provisions for the modernisation of pharmacy in Cyprus. The legislation under amendment consist of Pharmacy and Poisons Law, The Standards, Establishment and Operation of Hospital Pharmacy Regulations and The Narcotics and Psychotropic Substances (Amendment) Regulations.
- Establishment of the National Medicines Authority (EFA): Legislation has been drafted for the establishment of the Cyprus National Medicines Authority. The Legislation has already been subjected to public consultation and is undergoing review by the public Law Office. The Establishment of the National Medicines Authority Law is a comprehensive Law which defines the

organisational structure, the appointment of executive staff as well as officers, the responsibilities and scope of activities of the Authority, the Councils, Committees and Boards of the Authority and financial matters. Of note are the transitional arrangements which aim to ensure the smooth transfer of current scientific staff into the new National Medicines Authority.

(iv) Addressing the existence of waiting times in accessing to healthcare services: As from April 2015, the Ministry of Health proceeded with the implementation of the voucher system, this aimed at establishing and improving Cooperation between the public and private health care sectors for services not offered in public hospital. Furthermore, it upgrades the quality of health services offered to patients, reducing dramatically the cost of the health services obtained from the private sector, enhancing transparency, ensuring the right of patients to decide on the Medical Centre and Doctor of their choice (co-payments methods), improving access to healthcare and addressing waiting times of certain healthcare services.

The system is based on two schemes: (a) within the framework of the Scheme for the Provision of Financial Assistance for Healthcare Services not offered in the Public Sector and (b) a Programme (based on a Ministerial Council decision) aimed at reducing waiting lists in public hospitals. This programme uses voucher system (within the framework of the Scheme for the Provision of Financial Assistance for Healthcare Services not offered in the Public Sector) has benefited over 1000 patients per year.

Furthermore, concerning the Programme which aims to reduce the waiting lists, 22.028 patients have been referred for treatment/examinations/tests to the private sector to bypass the prolonged waiting list in public hospitals during 2017. The process involves beneficiaries who are entitled to public healthcare benefits. So far, the voucher system programmes have been successful in achieving their objectives, increasing utilization, and improving quality, facilitating greater transparency, improving patients' choice and should therefore be considered as a basic mechanism for further improvement of the existing health system. The voucher system which is implemented under the provisions of the Scheme is an ongoing process that will be continued and enhanced in the future.

In addition, the reintroduction of the second Program aimed at reducing waiting lists in public hospitals came into force in February 2018, after a relevant Ministerial Council decision and will be run until the end of 2018.

The success of this programme, allowed the Ministry of Health to gradually extend it into more specialties by using overtime hour benefits as well as referral to the Private Sector combined with the extension of the working hours of Outpatient Departments to cover afternoon hours between 3 and 6pm.

For the period being 2nd February and 30th July 2018 the programme covered the use of overtime hours for 4.927 patients, the referral of 19.927 patients to the private sector, the visit of 8.958 patients to Outpatient Departments and the performing of 19.031 diagnostic tests/surgical interventions have been within Public Hospital working hours.

4. COMPARISON BETWEEN DBP AND THE MOST RECENT STABILITY PROGRAMME

The general government budget balance targets set for the Budget of 2019, deviate by 1.2 and 1.3 percentage points of GDP for the years 2018 and 2019, respectively, vis-à-vis the ones presented in the most recent Stability Programme. These new targets resulted after taking into account the revised macroeconomic scenario as well as current developments reflected in a strong performance of tax revenues and the better than projected labour market developments. Under the DBP no-policy change scenario, the deviation from the SP target for 2018 is of the order of 1.3 percentage points of GDP and 1.6 percentage points of GDP for 2019.

Table 7. Divergence from latest SP

	ESA Code	**Year**	**Year**	**Year**
		2017	**2018**	**2019**
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		1.8	1.7	1.7
Draft Budgetary Plan		1.8	2.9	3.1
Difference		0.0	1.2	1.3
General government net lending projection at unchanged policies	B.9			
Stability Programme		1.8	1.7	1.7
Draft Budgetary Plan		2.4	3.0	3.4
Difference		0.6	1.3	1.6

APPENDIX: TABLES

Table 0 i). Basic assumptions

	Year 2017	Year 2018	Year 2019
Short-term interest rate[1] (annual average)	-0.33	-0.32	-0.20
Long-term interest rate (annual average)	0.32	0.45	0.67
USD/€ exchange rate (annual average)	1.13	1.19	1.16
Nominal effective exchange rate	1.86	7.09	1.25
World excluding EU, GDP growth	3.9	4.0	3.8
EU GDP growth	2.4	2.1	2.0
Growth of relevant foreign markets [UK]	1.7	1.3	1.2
World import volumes, excluding EU	5.1	4.9	4.0
Oil prices (Brent, USD/barrel)	54.8	75.3	80.7

*1*If necessary, purely technical assumptions.

Table 1a. Macroeconomic prospects

	ESA Code	Year 2017	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Level (€ mn)	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	19,488.7	4.2	4.0	3.8	3.4	3.0
2. Potential GDP			2.3	2.7	3.0	2.8	2.5
contributions:							
- labour			1.1	1.2	1.3		
- capital			1.3	1.5	1.6		
- total factor productivity			-0.1	0.0	0.1		
3. Nominal GDP	B1*g	19,570.9	5.8	6.1	5.1	5.0	5.1
Components of real GDP							
4. Private final consumption expenditure	P.3	13,084.9	4.1	3.9	3.0		
5. Government final consumption expenditure	P.3	3,157.3	3.1	1.4	3.6		
6. Gross fixed capital formation	P.51g	4,164.1	26.8	10.5	8.0		
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-238.6	0.6	0.0	0.0		
8. Exports of goods and services	P.6	12,373.0	6.0	4.4	4.2		
9. Imports of goods and services	P.7	13,205.1	12.2	5.7	4.7		
Contributions to real GDP growth							
10. Final domestic demand		20,496.6	7.7	5.1	4.4		
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-238.6	0.6	0.0	0.0		
12. External balance of goods and services	B.11	-832.1	-4.0	-1.0	-0.5		

1/ Please report here the estimated impact on real GDP growth of the aggregated budgetary measures contained in the DBP.

Table 1b. Price developments

	ESA Code	Year 2017	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
		Level (€ mn)	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		100.4	1.5	2.0	1.2	1.5	2.0
2. Private consumption deflator		101.9	0.9	1.0	1.2		
3. HICP		99.4	0.7	1.0	1.2		
4. Public consumption deflator		94.0	1.8	2.4	2.2		
5. Investment deflator		98.3	-1.1	0.5	0.6		
6. Export price deflator (goods and services)		102.9	0.6	1.0	1.2		
7. Import price deflator (goods and services)		101.6	-0.7	-0.2	1.2		

Table 1c. Labour market developments

	ESA Code	Year 2017	Year 2017	Year 2018	Year 2019
		Level	rate of change	rate of change	rate of change
1. Employment, thousand persons[1]		399.8	3.8	3.8	3.5
2. Employment, thousand hours worked[2]		717,213	3.7	3.8	3.5
3. Unemployment rate (%)[3]		47,166	11.1	8.5	7.0
4. Labour productivity, persons[4]		48,750	0.4	0.2	0.3
5. Labour productivity, hours worked[5]		27.2	0.5	0.2	0.3
6. Compensation of employees (€ mln)	D.1	8,529.9	4.6	5.4	5.6
7. Compensation per employee		24,211	0.7	1.5	2.0

1/ Occupied population, domestic concept national accounts definition.
2/ National accounts definition.
3/ Harmonised definition, Eurostat; levels.
4/ Real GDP per person employed.
5/ Real GDP per hour worked.

Table 1d. Sectoral balances

	ESA Code	Year 2017	Year 2018	Year 2019
		% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	-6.6	-6.5	-6.6
of which:				
- Balance on goods and services		-1.9	-3.1	-3.4
- Balance of primary incomes and transfers		-4.7	-3.4	-3.2
- Capital account		-	-	-
2. Net lending/net borrowing of the private sector	B.9	-8.4	-9.3	-9.7
3. Net lending/net borrowing of general government	B.9	1.8	2.9	3.1
4. Statistical discrepancy		0.0	0.0	0.0

Table 2a: General government budgetary targets broken down by sub-sector

	ESA Code	Year 2018	Year 2019	Year 2020	Year 2021
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	2.9	3.1	2.9	2.8
1a. Central government	S.1311	2.1	2.0		
1b. State government	S.1312	M	M		
1c. Local government	S.1313	0.0	0.0		
1d. Social security funds	S.1314	0.7	1.0		
2. Interest expenditure	D.41	2.5	2.6		
3. Primary balance[2]		5.4	5.6		
4. One-off and other temporary measures[3]		0.0	0.0	0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		4.0	3.8		
6. Potential GDP growth (%) (=2 in Table 1.a)		2.7	3.0	2.8	2.5
contributions:					
- labour		1.2	1.3		
- capital		1.5	1.6		
- total factor productivity		0.0	0.1		
7. Output gap (% of potential GDP)		1.9	2.7	3.2	3.7
8. Cyclical budgetary component (% of potential GDP)		1.0	1.4	1.7	1.9
9. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		1.9	1.7		
10. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		4.4	4.2		
11. Structural balance (13 - 8) (% of potential GDP)		1.9	1.7	1.2	0.9

1/ TR-TE= B.9.

2/ The primary balance is calculated as (B.9, item 1) plus (D.41, item 2).

3/ A plus sign means deficit-reducing one-off measures.

Table 2b. General government debt developments

	ESA Code	Year 2018	Year 2019	Year 2020	Year 2021
		% GDP	% GDP	% GDP	% GDP
1. Gross debt[1]		104.2	97.2	90.8	84.6
2. Change in gross debt ratio		8.5	-7.0		
Contributions to changes in gross debt					
3. Primary balance (= item 3 in Table 2.a)		5.4	5.6		
4. Interest expenditure (= item 2 in Table 2.a)	D.41	2.5	2.6		
5. Stock-flow adjustment		16.9	1.1	1.1	1.0
of which:					
- Differences between cash and accruals[2]		0.0	0.0		
- Net accumulation of financial assets[3]		16.9	1.1		
of which:					
- privatisation proceeds		0.0	0.0		
- Valuation effects and other[4]		0.0	0.0		
p.m.: Implicit interest rate on debt[5]		2.8	2.6	2.7	2.8

1/ As defined in amended Regulation 479/2009.
2/ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.
3/ Currency and deposits, government debt securities, government controlled enterprises and the difference between listed and unlisted shares could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.
4/ Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.
5/ Proxied by interest expenditure divided by the debt level of the previous year.
6/ Liquid assets are here defined as stocks of AF.1, AF.2, AF.3 (consolidated for general government, i.e. netting out financial positions between government entities), AF.511, AF.52 (only if listed on stock exchange).

Table 2c. Contingent liabilities

	Year 2018	Year 2019
	% GDP	% GDP
Public guarantees	22.5	21.3
Of which: linked to the financial sector	13.4	12.2

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components

	ESA Code	Year 2018	Year 2019
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	39.7	39.4
Of which			
1.1. Taxes on production and imports	D.2	16.3	16.3
1.2. Current taxes on income, wealth, etc	D.5	9.4	9.3
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	9.1	9.6
1.5. Property income	D.4	0.6	0.6
1.6. Other[1]		4.3	3.5
p.m.: Tax burden		34.8	35.2
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure at unchanged policies	TE[3]	36.8	36.0
Of which			
2.1. Compensation of employees	D.1	11.7	11.7
2.2. Intermediate consumption	P.2	3.6	3.5
2.3. Social payments	D.62+D.632	13.0	12.7
of which Unemployment benefits[4]		0.4	0.4
2.4. Interest expenditure	D.41	2.5	2.6
2.5. Subsidies	D.3	0.3	0.3
2.6. Gross fixed capital formation	P.51g	2.5	2.5
2.7. Capital transfers	D.9	0.4	0.4
2.8. Other[5]		2.8	2.3

1/ P.11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec)

2/ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995), if appropriate.

3/ TR-TE = B.9.

4/ Includes social benefits other than social transfers in kind (D.62) and social transfers in kind via market producers (D.632) related to unemployment benefits.

5/ D.29pay + D.4pay (other than D.41pay) +D.5pay +D.7pay +P.52+P.53+NP+D.8.

Table 4a. General government expenditure and revenue targets, broken down by main components

	ESA Code	Year 2018	Year 2019
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	39.8	39.4
Of which			
1.1. Taxes on production and imports	D.2	16.3	16.3
1.2. Current taxes on income. wealth. etc.	D.5	9.4	9.3
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	9.1	9.6
1.5. Property income	D.4	0.6	0.6
1.6. Other [1]		4.3	3.5
p.m.: Tax burden		34.8	35.2
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]	36.9	36.3
Of which			
2.1. Compensation of employees	D.1	11.8	11.9
2.2. Intermediate consumption	P.2	3.6	3.5
2.3. Social payments	D.62+D.632	13.0	12.7
of which Unemployment benefits[4]		0.4	0.4
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	2.5	2.6
2.5. Subsidies	D.3	0.3	0.3
2.6. Gross fixed capital formation	P.51g	2.5	2.5
2.7. Capital transfers	D.9	0.4	0.4
2.8. Other[5]		2.8	2.5

1/ P.11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec)
2/ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995). if appropriate.
3/ TR-TE = B.9.
4/ Includes social benefits other than social transfers in kind (D.62) and social transfers in kind via market producers (D.632) related to unemployment benefits.
5/ D.29pay + D.4pay (other than D.41pay) +D.5pay +D.7pay +P.52+P.53+NP+D.8.

Table 4b. General government expenditure by function

	ESA Code	Year 2017	Year 2017	Year 2018	Year 2019
		Level (€ mn)	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		109.5	0.6	0.8	0.6
1a. of which investments fully matched by EU funds revenue		65.7	0.3	0.5	0.3
2. Cyclical unemployment benefit expenditure [1]		-4.9	0.0	-0.1	-0.1
3. Effect of discretionary revenue measures [2]	D.5	-48.6	-0.2	0.0	0.4
4. Revenue increases mandated by law		0.0	0.0	0.0	0.0

1/ Please detail the methodology used to obtain the cyclical component of unemployment benefit expenditure. It should build on unemployment benefit expenditure as defined in COFOG under the code 10.5
2/ Revenue increases mandated by law should not be included in the effect of discretionary revenue measures: data reported in rows 3 and 4 should be mutually exclusive.

Table 4c. General government expenditure by function

4.c.i) General government expenditure on education, healthcare and employment

	Year 2018		Year 2019	
	% GDP	% general government expenditure	% GDP	% general government expenditure
Education[1]	5.7	15.5	5.6	15.4
Health[1]	2.6	7.0	2.6	7.2
Employment[2]	0.1	0.3	0.1	0.2

1/ These expenditure categories should correspond respectively to items 9 and7 in table 4.c.ii)

2/ This expenditure category should contain. inter alia. government spending related to active labour market policies (ALMPs) including public employment services. On the contrary. items such as compensation of public employees or vocational training programmes should not be included here.

4.c.ii) Classification of the functions of the Government

Functions of the Government	COFOG Code	Year 2018	Year 2019
		% GDP	% GDP
1. General public services	1	7.2	7.0
2. Defense	2	1.5	1.4
3. Public order and safety	3	1.6	1.6
4. Economic affairs	4	2.4	2.4
4. Environmental protection	5	0.3	0.3
6. Housing and community amenities	6	1.5	1.4
7. Health	7	2.6	2.6
8. Recreation. culture and religion	8	0.9	0.8
9. Education	9	5.7	5.6
10. Social protection	10	13.2	13.0
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	36.9	36.3

Table 5. Description of discretionary measures included in the draft budget

Table 5.a Discretionary measures taken by General Government

List of measures	Detailed description[1]	Target (Expenditure / Revenue component)	Accounting principle	Adoption Status	Budgetary impact % GDP	
		ESA Code			Year 2018	Year 2019
ESTIA project	Scheme targeting non performing exposures with collateral being the primary residence of the household (NPLs)	D.9	accrual	adopted	0.0	-0.1
Gradual abolition of wage cuts (public sector)	Gradual ending of the pay cuts of the civil servants. starting July 2018 and ending in January 2023	D.1	accrual	adopted	-0.1	-0.2
TOTAL BUDGETARY IMPACT					-0.1	-0.3

1/ Please describe in further detail in case of major fiscal policy reform plans with potential spillover effects for other Member States in the euro area.

Table 7. Divergence from latest SP

	ESA Code	Year	Year	Year
		2017	**2018**	**2019**
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		1.8	1.7	1.7
Draft Budgetary Plan		1.8	2.9	3.1
Difference		0.0	1.2	1.3
General government net lending projection at unchanged policies	B.9			
Stability Programme		1.8	1.7	1.7
Draft Budgetary Plan		2.2	3.0	3.4
Difference		0.4	1.3	1.6