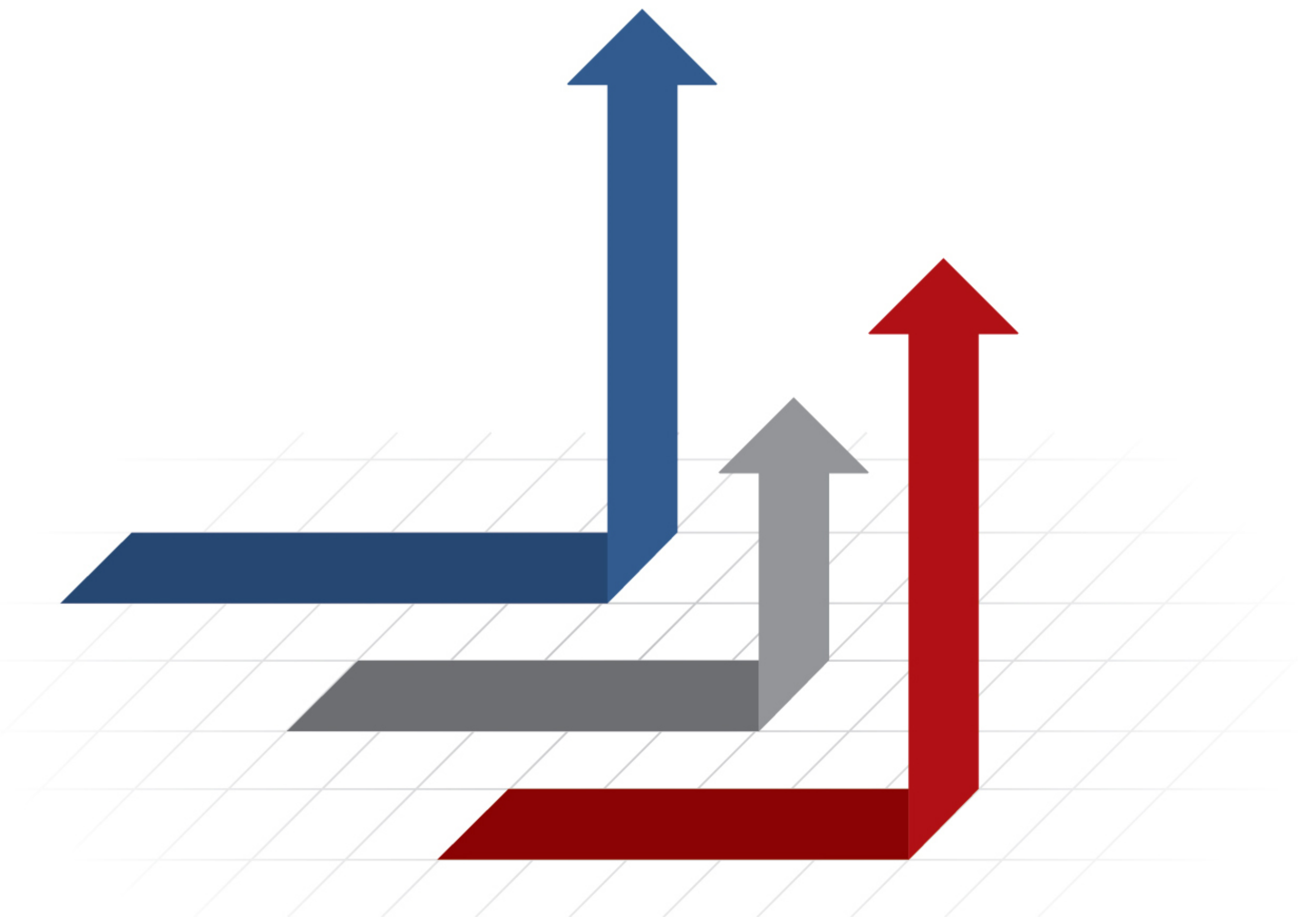
MINISTRY OF FINANCE

CYPRUS DRAFT BUDGETARY PLAN

2024



OCTOBER 2023

CONTENTS

1. INTRODUCTION

The Draft Budgetary Plan (DBP) 2024, prepared according to Regulation EU 473/2013, is submitted by the Republic of Cyprus, in the framework of 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 2024 was approved by the Council of Ministers on 11th October 2023 and will be laid before the House of Representatives. The macroeconomic projections underlying the budgetary outcomes have been endorsed by the Fiscal Council on 29th September 2023.

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 2023, as well as the Budget Bill for 2024 and Medium Term Budgetary Framework 2024-2026 that was submitted to the House of Representatives on 4th October 2023.

[1] The cut-off date for the macroeconomic and fiscal forecasts was 30th September 2023.

2. Economic developments and Outlook

2.1 Developments in 2023

During the first half of 2023, the economy recorded a positive growth rate of 2.7% in real terms (seasonally adjusted), compared to the respective period of 2022. In terms of domestic demand, consumption in the first half of 2023 increased by 11.8% compared to the corresponding half of 2022 (seasonally adjusted data), and more specifically public consumption increased by 3.9% and private consumption increased by 4.6%. Gross fixed capital formation increased by 9.9% over the same period.

In terms of external demand, exports decreased by 2.3% (+3,0% in exports of goods and -3,5% in exports of services) while imports increased by 7.3% (15.1% in imports of goods and 1.5% in imports of services) in the first half of 2023 compared to the corresponding half of 2022 (seasonally adjusted data).

From a sectoral point of view, the growth of the economy is attributed to the following sectors: "Agriculture, forestry and fishing" (0.8%), "Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities" (2.0%), “Manufacturing” (2.3%), “Construction” (2.3%), "Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities" (7.1%), "Information and communication" (5.2%), "Financial and insurance activities" (2.0%), "Real estate activities" (0.7%), "Public administration and defense; compulsory social security; education; human health and social work activities" (1.3%) and "Arts, entertainment and recreation, repair of household goods and other services" (3.1%).

The only sectors that exhibited a negative growth rate was: "Professional, scientific and technical activities; administrative and support service activities" (-1.9%).

The tourism sector and its related sectors consist an important source of growth in the first eight months of 2023. The sector, despite receiving a significant hit following the invasion of Russia to Ukraine and the sanctions imposed on Russia (since Russia was Cyprus’s second largest market in tourist arrivals), has since recovered. The gap lost of the Russian tourist market has been replaced by other main tourist markets (either new or enhancing current markets) such as the UK, Israel, Poland, Germany, Austria, Scandinavia and Greece. Nevertheless, as of August 2023, all markets besides Russia have returned to their pre-crisis 2019 levels.

Overall, for 2023 as a whole, the growth rate is expected to hover around 2.4% in real terms compared to 2.8% which was the previous forecast as included in the Stability Program 2023-2026 (April 2023).

The unemployment rate (15+), based on the data of the Labour Force Survey, during the 1st half of 2023 was 6.4% (6.8% in 2023T1 and 5.9% in 2023T2), against an unemployment rate of 6.7% in the 1st half of 2022. The long-term unemployed of the labour force in the 2nd quarter of 2023 fell to 2.0%, compared to 2.5% in the corresponding quarter of 2022, while youth unemployment increased to 15.6% in the 2nd quarter of 2023 compared to 17.6% in the corresponding quarter of 2022. For the whole of 2023, the estimate is that unemployment will hover around 6.4%, down from 6.8% in 2022.

Following significant increases in the Harmonised Index of Consumer Prices (HICP) from April 2022-March 2023, and averaging in 2022 at 8.1%, the HICP has started decreasing significantly following oil price developments. The HICP has recorded an increase of 4.4% in January-August 2023 compared to the same period in 2022. For the whole year, inflation is estimated at an average of 4.1%.

2.2 Prospects for 2024-26

According to the baseline macroeconomic scenario, the economy in 2024 is expected to recover from the slowdown in 2023 and subsequently to gain pace and return to normal levels, with the tourism sector and its related sectors expected to fully recover by 2023 and show further increase.

Growth in the period 2024-2026 will be supported mainly by the domestic market and more specifically by private consumption and fixed capital investments. Private consumption is expected to continue at positive growth rates, but at a slower pace close to its average, and remain an important growth driver. Investments are also expected to be a significant growth driver. The contribution will be mainly via a significant number of private investment projects currently in the pipeline, and also from projects in the context of the Recovery and Resilience Plan (RRP) which aim to support digital and green development and also reform projects. The interest rate subsidy scheme introduced by the Government for new housing loans and closed end of 2021 (with 3 years disbursement period), will have a positive contribution to the residential investment as well. Exports of goods and services are expected show some stabilization and moderate growth in 2024 and to increase gradually from 2025 with net exports contributing marginally positively to growth only in the period 2025-2026.

Nevertheless, uncertainty around the macroeconomic outlook remains high due the challenging external environment from the ongoing Russia-Ukraine war. The main downside risks to the baseline macroeconomic scenario arise from a possible worse-than-expected external outlook, interest rates been higher for a longer period, higher oil prices as well as lower-than-expected performance of non-tourist related exports due to the sanctions. On upside risks, a better-than-expected realization of private investment projects and performance of the tourism sector.

Overall, in 2024 the economy is projected to grow by 2.9% in real terms. The unemployment rate is projected to fall down to 5.8% of the labour force and inflation is expected to settle at around 2.5%.

The growth rate of the economy in the years 2025-2026 is expected to average at around 3.2% in real terms. Regarding the labour market, the unemployment rate in 2025 is expected to fall to 5.3% of the labour force, and then, with the further improvement of the economy, to be reduced to 5.0% in 2026. Inflation for 2025-2026 is expected to hover around 2.0%.

	2022	**2023**	**2024**	**2025**	**2026**
Real GDP growth (%)	5.6	2.4	2.9	3.1	3.2
Inflation HICP (%)	8.1	4.1	2.5	2.0	2.0
Unemployment rate (%)	6.8	6.4	5.8	5.3	5.0

2.3 Risks to growth

In terms of the internal environment, downside risks stem from the following sources:

- Higher and/or more persistent levels of inflation and high interest rates for longer which can have a negative impact on consumption and investments.
- Potential external risks stem from the ongoing conflict between Ukraine and Russia, global climate change, as well as political instability in the Eastern Mediterranean.

Table 1a. Macroeconomic prospects

	2022	2023	2024
	rate of change	rate of change	rate of change
1. Real GDP	**5.6**	**2.4**	**2.9**
2. Potential GDP	**5.6**	**2.4**	**2.9**
contributions:			
- labour	1.2	1.3	1.4
- capital	0.9	1.0	1.1
- total factor productivity	0.3	0.6	0.7
3. Nominal GDP	**12.4**	**7.0**	**5.7**
Components of real GDP			
4. Private final consumption expenditure	7.7	3.5	1.8
5. Government final consumption expenditure	0.1	4.1	5.4
6. Gross fixed capital formation	6.6	6.0	5.6
7. Changes in inventories and net acquisition of valuables (% of GDP)	3.6	0.0	0.0
8. Exports of goods and services	13.7	-2.6	1.6
9. Imports of goods and services	18.8	-0.9	1.8
Contributions to real GDP growth			
10. Final domestic demand	5.9	4.1	3.2
11. Changes in inventories and net acquisition of valuables	3.6	0.0	0.0
12. External balance of goods and services	-4.1	-1.5	-0.3

Table 1b. Price developments

	2022 (rate of change)	2023 (rate of change)	2024 (rate of change)
GDP deflator	6.4	4.5	2.7
Private consumption deflator	8.0	3.6	2.3
HICP	8.1	4.1	2.5
Public consumption deflator	5.5	6.0	2.6
GFCF deflator	8.6	3.6	2.1
Export price deflator (goods and services)	4.5	3.3	2.5
Import price deflator (goods and services)	3.9	3.0	2.1

Table 1c. Labour market developments

	2022 (rate of change)	2023 (rate of change)	2024 (rate of change)
Employment, persons[1]	2.9	1.3	1.0
Employment, hours worked[2]	4.1	1.5	1.2
Unemployment rate (%)[3]	6.8	6.4	5.8
Labour productivity, persons[4]	2.7	1.1	1.9
Labour productivity, hours worked[5]	1.5	0.9	1.7
Compensation of employees	7.0	6.1	5.4
Compensation per employee	3.8	4.7	4.4

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

	2022 (% GDP)	2023 (% GDP)	2024 (% GDP)
1. Net lending/net borrowing vis-à-vis the rest of the world	-8.9	-9.1	-8.5
of which:			
- Balance on goods and services	-0.4	-1.5	-1.4
- Balance of primary incomes and transfers	-8.7	-7.7	-7.3
- Capital account	0.2	0.2	0.2
2. Net lending/net borrowing of the private sector	-11.5	-11.6	-11.4
3. Net lending/net borrowing of general government	2.6	2.5	2.8
4. Statistical discrepancy	0.0	0.0	0.0

3. Budgetary developments and targets

3.1 Budgetary targets

The budget balance during 2022 turned into a surplus after two continuous years of fiscal deficits, taking into account the strong economic growth during the year of 5.6% in real terms, the prudent fiscal policy and the withdrawal of the majority of the COVID-19 related support measures. In 2022 the fiscal position improved significantly by 4.5 percentage points of GDP, despite the cost from the measures targeted to compact the inflationary pressures estimated at about 0.7% of GDP, with the budget balance reaching 2.6% of GDP from a deficit of 1.9% of GDP in 2021.

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

	ESA Code	**Year 2023**	**Year 2024**
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	2.5	2.8
1a. Central government	S.1311	-0.3	-1.2
1b. State government	S.1312	M	M
1c. Local government	S.1313	0.1	0.1
1d. Social security funds	S.1314	2.8	4.0
2. Interest expenditure	D.41	1.3	1.4
3. Primary balance		3.9	4.3
4. One-off and other temporary measures		0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		2.4	2.9
6. Potential GDP growth (%) (=2. in Table 1a)		3.8	3.3
contributions:			
- labour		1.2	0.8
- capital		1.2	1.2
- total factor productivity		1.4	1.3
7. Output gap (% of potential GDP)		1.2	0.8
8. Cyclical budgetary component (% of GDP)		0.6	0.4
9. Cyclically-adjusted balance (% of GDP)		1.9	2.5
10. Cyclically-adjusted primary balance (% of GDP)		3.3	3.9
11. Structural balance (% of GDP)		1.9	2.5

Taking into account the expected economic growth, the improvements in the labour market, the fiscal over-performance during the first seven months of the year, as well as the impact from the 2nd Supplementary Budget, which was approved in July 2023, the general government budget balance in 2023 is expected to remain in surplus, falling marginally at 2.5% of GDP from 2.6% of GDP in the year before.

According to the authorities' forecast with regards to the output gap, using the commonly agreed methodology of the European Commission for the estimation of potential growth, structural balance is expected to be in surplus in 2023 reaching 1.9% of GDP, and to remain in surplus in 2024 of the order of 2.5% of GDP.

Table 2b. General government debt developments

	ESA Code	Year 2023	Year 2024
		% GDP	% GDP
1. Gross debt		81.8	74.7
2. Change in gross debt ratio		-6.4	-7.1
Contributions to changes in gross debt			
3. Primary balance (= item 3 in Table 2.a)		3.9	4.3
4. Interest expenditure (= item 2 in Table 2.a)	D.41	1.3	1.4
5. Stock-flow adjustment		-3.9	-4.3
p.m.: Implicit interest rate on debt		**1.6**	**1.9**

In 2022 the general government gross debt to GDP ratio dropped significantly by 15 percentage points of GDP falling at 88.2% of GDP from 103.2% in 2021, mainly through the decrease of cash accumulated. In 2023 the general government gross debt to GDP ratio is expected to drop further by 6.4 percentage points of GDP, falling to 81.8% of GDP, attributed to the expected surplus during the year under review and to the further decrease of cash accumulated (numerator effect), as well of the expected increase of the GDP in nominal terms (denominator effect). In 2024 the general government gross debt to GDP ratio is expected to record further decrease of about 7.1 percentage points of GDP compared to the year before and fall to 74.7% of GDP.

Revenue and Expenditure Projections

On the revenue side, an estimated growth of about 10.4% is anticipated for 2023 and increase as a percent of GDP, from 43.4 the year before to 44.7 percent of GDP. In 2024, total revenue is forecast to record a positive growth of 7.2%, recording an increase of 0.6 percentage points of GDP compared to the year before and reach 45.3 percent of GDP.

Tax revenue in 2023 is expected to exhibit a rate of growth of around 10.2% compared to the year before and increase as a percentage of GDP by 0.7 percentage points, from 25.8% in 2022 to 26.5%. Revenue from taxes on production and imports is expected to increase by 9.1% during the current year, contributing by 3.1 percentage points to the growth of public revenue, and increase as a percentage of GDP to 15.2% compared to 14.9% the year before, in line with the anticipated increase in private consumption. In 2024, revenue under this category is expected to grow by 4.9% and as a percentage of GDP fall marginally at 15.1%.

Revenue from current taxes on income and wealth are expected to exhibit an increase of 11.6% in 2023, in line with the related improved developments in the labour market. As a percentage of GDP, current taxes on income and wealth are expected to record an increase of 0.5 percentage points of GDP reaching 11.3 percent of GDP compared to 10.8 percent of GDP in 2022. In 2024, revenue under this category is expected to grow by 5.6% and as a percentage of GDP to remain at the same levels as in the year before.

Social contributions are expected to exhibit a significant growth of 12.9 % in 2023 compared to the year before, contributing the most to the growth of public revenue by 3.4 percentage points, attributed to the recent improvements in the labour market conditions and to increase as a percent of GDP at 12.2% from 11.6% of GDP in 2022. In 2024 social contributions are forecast to increase further by 13.1% mainly due to the increase in the social security contribution rates as from 1st January 2024, as per the related Law, and to increase as a percent of GDP by 0.8 percentage points reaching 13%.

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

	ESA Code	**2023**	**2024**
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	44.7	45.3
of which			
1.1. Taxes on production and imports	D.2	15.2	15.1
1.2. Current taxes on income, wealth, etc.	D.5	11.3	11.3
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	12.2	13.0
1.5. Property income	D.4	0.4	0.4
1.6. Other		5.6	5.5
p.m.: Tax burden		38.7	39.4
(D.2+D.5+D.61+D.91-D.995)			
2. Total expenditure target	TE	42.2	42.5
of which			
2.1. Compensation of employees	D.1	12.3	12.5
2.2. Intermediate consumption	P.2	5.4	5.4
2.3. Social payments	D.62+D.632	16.0	16.3
of which Unemployment benefits		0.2	0.2
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	1.3	1.4
2.5. Subsidies	D.3	0.7	0.7
2.6. Gross fixed capital formation	P.51g	3.2	3.0
2.7. Capital transfers	D.9	0.6	0.7
2.8. Other		2.7	2.4

Property income as a percent of GDP is expected to remain at 0.4% in 2023 and in 2024, whereas category 'other revenue' is expected to exhibit an increase in nominal terms 7.3% and 3.9% in 2023 and in 2024, respectively, in line with the expected implementation of the projects under the Cyprus Recovery and Resilience Plan. As a percentage of GDP revenue under 'other revenue' category is forecast to remain at 5.6% in 2023 as in the year before, and to fall marginally at 5.5% in 2024.

Public expenditure in 2023 is estimated to exhibit an increase of 10.8% reaching 42.2 percent of GDP compared to 40.8 percent of GDP the year before. The forecast increase in public expenditure is mainly attributed to the expected increased social payments, as well as from the increases for compensation of employees. In 2024, public expenditure is expected to increase further by 6.4%, reaching as a percent of GDP 42.5%.

More specifically, social payments in 2023 are estimated to record an increase of 10.2%, reaching 16% of GDP compared to 15.5% the year before. This increase is attributed to increased payments of the HIO to public health providers, as well as to increased expenditure for old-age pensions. In 2024, social payments are projected to increase further by 7.9% compared to the year before and increase as a percent of GDP by 0.3 percentage points, reaching 16.6%.

Expenditure for compensation of employees is expected to record a significant growth of 11.6% in 2023 compared to the year before and as a percentage of GDP reach 12.3 percent of GDP from 11.8% in 2022. The outcome of the growth of this expenditure category is mainly attributed to (i) the estimated impact from the gradual phasing out of wage cuts (2.3 p.p.), (ii) increased Cost-of-Living-Adjustment allowance (5.3 p.p.) taking into account the inflation rate of the year before, as well as the increased inflation incorporation in the index for COLA calculation purposes, from 50% to 66.7% as of 1st June 2023, (iii) increased gratuity payments (0.6 p.p.), and (iv) increments (1 p.p.). Expenditure for compensation of employees is expected to increase further by 7.2% in 2024 compared to the year before reaching 12.5 as a percent of GDP, mainly attributed to the significant impact from the increased COLA allowance, as per the related increased incorporation of last year's inflation in the index for COLA calculation purposes.

Intermediate consumption is expected to record an increase of 4.9% in 2023 falling marginally as a percent of GDP at 5.4 compared to 5.5 percent of GDP the year before. In 2024 intermediate consumption is expected to increase by 5.8% and as a percent of GDP remain at 5.4% as in 2023.

Expenditure category subsidies is expected to increase significantly by 45.5% in 2023 compared to the year before and as a percent of GDP reach 0.7% compared to 0.5% of GDP in 2022. The expected increase under this expenditure category is attributed mainly to the increased expenditure under the interest subsidy scheme for new business loans and for housing loans, under the corresponding COVID-19 related measure. In 2024 subsidies are expected to remain as a percent of GDP at 0.7%, albeit increase by 5.2% in nominal terms in line with the forecast expenditure under the RRP.

Interest expenditure is forecast to experience a drop of 0.2 percentage points of GDP, from 1.5 percent of GDP the year before to 1.3 percent of GDP in 2023, and marginally increase to 1.4 percent of GDP the year after.

Gross fixed capital formation is forecasted to exhibit a significant rate of growth of 28.5% in 2023, reaching 3.2% of GDP compared to 2.6% of GDP the year before. In 2024 gross fixed capital formation is forecast to increase further by 1.6% compared to the year before, and fall as a percent of GDP to 3%. The increases in nominal terms under this category are mainly attributed to capital expenditure planned in the context of the Cyprus Recovery and Resilience Plan.

Finally, category other expenditure is forecast to increase by 7.6% in 2023 remaining at 3.3 percentage of GDP as in the year before, and to marginally decrease by 0.9% in 2024, falling at 3.1 percent of GDP.

3.2 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. More specifically, seven additional discretionary measures were adopted during the budgetary process for the forthcoming year (2024) with an estimated negative fiscal impact on the accounts of the general government of about 0.6 percent of GDP in 2023 and with a negative impact in 2024 of around 0.3 percent of GDP.

On 12/5/2023 Cyprus' social partners (trade union and employers) signed a new transitional agreement on of the Cost-Of-Living Adjustment (COLA) stipulating an increased incorporation of last year's inflation in the index for COLA calculation purposes, from a previous 50% to a 66.7% as of 1st June 2023 onwards. It is expected that this change will increase the cost for compensation of employees of the general government by 0.1 percent of GDP in 2023 and by 0.3 percent of GDP in 2024.

In the context of the second Supplementary Budget approved in July 2023, the amount of the order of 0.1 percent of GDP was included as an appropriation for the acquisition of a building designated to the Ministry of Labour, for the relocation of its premises. Additional appropriations in the context of the second Supplementary Budget, with an impact on the accounts of the general government under the no-policy-change scenario for year 2023, concern the implementation of co-funded projects and sponsorship plans of a cost of 0.2 percent of GDP, the need for hosting displaced individuals from Ukraine and unaccompanied minors seeking international protection of about 0.05 percent of GDP, the purchase of medicines and vaccines in response to COVID-19 of about 0.05 percent of GDP, and the hiring of emergency personnel across all levels of education with a cost of about 0.04 percent of GDP.

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

	ESA Code	2023	2024
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	44.8	45.4
of which			
1.1. Taxes on production and imports	D.2	15.3	15.1
1.2. Current taxes on income, wealth, etc	D.5	11.3	11.3
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	12.2	13.0
1.5. Property income	D.4	0.4	0.4
1.6. Other		5.6	5.5
p.m.: Tax burden		38.8	39.5
(D.2+D.5+D.61+D.91-D.995)			
2. Total expenditure at unchanged policies	TE	41.7	42.2
of which			
2.1. Compensation of employees	D.1	12.2	12.2
2.2. Intermediate consumption	P.2	5.4	5.4
2.3. Social payments	D.62+D.632	15.9	16.3
of which Unemployment benefits		0.2	0.2
2.4. Interest expenditure	D.41	1.3	1.4
2.5. Subsidies	D.3	0.7	0.7
2.6. Gross fixed capital formation	P.51g	2.9	3.0
2.7. Capital transfers	D.9	0.6	0.7
2.8. Other		2.7	2.4

Finally, from early-May 2023 until end-April 2024 (initially decided until end-October 2023), a zero VAT rate is applied on basic goods, and more specifically on bread, milk, eggs, baby foods, baby and adult diapers, as well as female hygiene products. Additionally, as of 01/11/2023, sugar and coffee were will be added to the list. This measure aims to relieve households from higher prices for essential products, with an estimated fiscal cost of about 0.05 percent and 0.03 percent of GDP in years 2023 and 2024, respectively.

The total impact from the measures described above is estimated at around -0.61 percent of GDP for the current year, i.e., in the case that these had not been adopted, the budget balance of the general government, ceteris paribus, would amount to an estimated surplus of about 3.1% in 2023. For the year after, under the no-policy change scenario, the impact is estimated at around -0.3 percent of GDP, therefore the forecasted budget balance of the general government in the absence of these measures would amount to an estimated surplus of about 3.1% in 2024.

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 2023	Year 2024
Increased provision for COLA	Increase of the incorporation of last year's inflation in the index for COLA calculation purposes, from a previous 50% to a 66.7%, as of 1st June 2023 onwards	D.1	accrual	adopted	0.12	0.27
Acquisition of the "Metropolitan" building	A significant allocation of €25.4 mn in the context of the 2nd Supplementary Budget concerns the acquisition of a building designated to house the Ministry of Labour and Social Insurance.	P.5	accrual	adopted	0.09	-
Hosting Ukrainian nationals and unaccompanied minors	Provision for hosting displaced individuals from Ukraine and unaccompanied minors seeking international protection.	D.62	accrual	adopted	0.05	-
Additional personnel in the sector of education	Hiring of emergency personnel across all levels of education	D.62	accrual	adopted	0.04	-
Purchase of medicines and vaccines	In response to COVID-19, €15 mn was designated in the context of the 2nd Supplementary Budget for the purchase of medicines and vaccines	P.2	accrual	adopted	0.05	-
Implementation of co-funded projects	Implementation of co-funded projects and sponsorship plans	P.5	accrual	adopted	0.21	-
Zero/ reduced VAT rate in a number of goods/ services	A zero VAT rate is applied on basic goods is applied aiming to relieve households from higher prices for essential products	D.2	accrual	adopted	-0.05	-0.03
TOTAL BUDGETARY IMPACT					**-0.61**	**-0.30**

4. 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:

CSR1
Wind down the energy support measures in force by the end of 2023. Should renewed energy price increases necessitate support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. While maintaining a sound fiscal position in 2024, preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions. **Facilitate the reduction of private debt, including by implementing an effective foreclosure framework.** **For the period beyond 2024, continue to pursue investment and reforms conducive to higher sustainable growth and preserve a prudent medium-term fiscal position.**
Wind down the energy support measures in force by the end of 2023. Should renewed energy price increases necessitate support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings: From end-2021, the Government has proceeded with targeted and horizontal measures to cushion the impact of the rising prices, with most of them now terminated. These measures are: - Reduction of the VAT rates on the electricity consumption, and more specifically from 19% to 5% for the vulnerable consumers and from 19% to 9% for the rest the households and businesses (from November 2021 until August 2022). - Reduction of excise duties on fuels (from March 2022 until end-June 2023). - Subsidisation of consumers' (households and businesses) electricity bills covering initially the period September-December 2022, implemented in an incremental way, based on electricity consumption covering in stages from 50% to 85% of the expected new increase in electricity tariffs, with the coverage reaching 100% for vulnerable households. This grant also covered the reinstatement of VAT on electricity at the standard VAT rate at 19%, and it was terminated end-June 2023 with the exception of the vulnerable groups. - Child care support to families with low incomes, support to sectors of agriculture and a new Scheme for subsidy for care services to children up to 4 years old for tuition in childcare centers. - Furthermore, from early-May 2023 until end-April 2024 (initially decided until end-October 2023), a zero VAT rate is applied on basic goods, and more specifically on bread, milk, eggs, baby foods, baby and adult diapers, as well as female hygiene products. Sugar and coffee will be added to the list as of 01/11/2023. This measure aims to relieve households from higher prices for essential products. In addition to the above measures, the government implemented indirect measures in order to cushion the effects of the energy crisis on households and businesses: (a) support to the husbandry units (farmers), (b) support to low pensioners and (c) support to the residents of the mountain areas.

While maintaining a sound fiscal position in 2024, preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions:

The Draft Budget 2024 and Medium-Term Budgetary Framework (MTBF) 2024-26 aims at supporting growth via increased capital expenditure in order to implement large mature projects. In particular, according to the Draft Budget 2024, government capital expenditure is expected to increase by 12% in 2024, compared to what was included in the Budget 2023 for that year. The above increase is mainly due to the promotion of co-financed project/projects (including those they have included in the Recovery and Resilience Plan) as well as promoting projects under construction.

Furthermore, the Draft Budget 2024 and MTBF 2024-26 supports green growth and digitization and includes all the provisions, projects and reforms related to the Cyprus Recovery and Resilience Plan, as well as the National Energy and Climate Plan (NECP) for the years 2021 – 2030, a draft update of which has been submitted to the European Commission.

To date, a total of €242 mln of funding has been disbursed by the Recovery and Resilience Mechanism to Cyprus (€157 mln as pre-financing grant and loan and €85 mln as a 1st tranche). On 1st September 2023, Cyprus submitted to the European Commission its RRP amendment proposal. The amendment proposal relates (a) to the introduction of a new REPowerEU chapter, which includes both new measures as well as existing scaled up measures of the Cyprus RRP for the utilization of €104.6 mln allocated to Cyprus for this purpose and (b) to a substantial number of amendments, that include, inter alia, the removal of measures from the Cyprus RRP in order to compensate for the €90 mln reduction in the Cyprus grant allocation from the RRF, as well as the shifting of milestones, redrafting of measures/milestones/targets and reducing targets, with a view to facilitate and accelerate the implementation of the Plan. As the amendment addresses the delays and problems encountered in the achievement of specific milestones, the aim is for the subsequent payment applications to be submitted immediately after the official approval of the amendment. More specifically, the 2nd payment request is planned to be submitted at the end of 2023. The 3rd payment request is envisaged for the end of 2023.

Facilitate the reduction of private debt, including by implementing an effective foreclosure framework:

For the reference quarter ending March 2023, household debt stood at €20.2 billion at the end of March 2023 with the relative debt ratio standing at 73% of Gross Domestic Product (GDP). Compared to December 2016, the household debt index shows a noticeable decrease, reaching 42%. Corporate debt at the end of March 2023 amounted to €39.9 billion with the debt ratio at 145% of GDP. Compared to December 2016, the debt index of non-financial companies shows a noticeable decrease, reaching 66%.

The stock of NPLs on Cypriot banks' balance sheets continued to decline over the past 12 months and in the first quarter of 2023 was around €1.0 billion compared to €1.3 billion in the first quarter of 2022. The NPL ratio fell to 2.9% in the first quarter of 2023 from 3.9% in the first quarter of 2022, down from over 10% two years ago, but still above the European average of 1,8%.

The expiration of the latest legislative suspension of the foreclosure framework in January of this year was followed by intensified political discussions for a significant number of proposals tabled at the House of Representatives that entailed the partial or complete suspension of foreclosures, via the court route. The Law proposal that provided for the suspension of all Non-Performing Loans amounting to €23 billion, through the court route was voted against by the Plenary Session of the House of Representatives (17/3/2023) and thus is no longer on the table.

Within this framework, the government has already implemented several measures for the protection of the primary residence, through restructuring and burden sharing mechanisms (ESTIA, OIKIA Schemes and the Scheme for loans granted after approval of the Central Agency for Equal Distribution of Burdens).

The package also included supporting and enriching a legislative proposal by parliamentary parties providing for greater transparency between the mortgage lender and the mortgage debtor regarding the breakdown of the remaining amount of mortgage debt.

Among the measures proposed by the government to improve the framework for the management of Non-Performing Loans, is a government bill amending the Court Law which is before the House of Representatives and provides the tools to the Supreme Court to expediate decision making for cases involving disputes between borrowers and creditors for credit facilities secured with a primary residence up to €350,000, within the jurisdiction of the District Courts. The bill does not introduce a timeline or other administrative arrangements for expedition of judicial process /outcome nor does it introduce new causes of action for debtors.

The protection of vulnerable groups is further strengthened by the Mortgage to Rent Scheme which has been approved by the Council of Ministers (8/2/2023 & 12/7/2023) and the European Commission (decision dated 6/7/2023) and first applications are expected to be submitted in Q4 2023.

The voluntary suspension of Foreclosures for primary residences up to 350,000 euros expires on the 31/01/2023. Discussions are expected to continue at the Committee on Financial and Budgetary Affairs.

For the period beyond 2024, continue to pursue investment and reforms conducive to higher sustainable growth and preserve a prudent medium-term fiscal position:

In the medium-term, fiscal policy aims at ensuring that budget balance remains in surplus at around 3% of GDP and a downward path to public debt as a % of GDP is continued at an adequate pace. For 2024, the budget surplus is projected increase as a % of GDP compared to 2023, reaching 2.8% of GDP and remain relatively stable at 2.8% in 2025 and 2.6% in 2026. The primary balance surplus for the years 2024 and 2025 is projected to rise to 3.9% and 4.3% of GDP, respectively. Public debt for 2024 is estimated to fall down to 74.7%, as a percentage of GDP, compared to 81.8% at the end of 2023. Thereafter, it is projected to continue its downward trend and decrease to 63.0% of GDP in 2026.

Budget 2024 and MTBF 2024-2026 investment focus prioritises higher sustainable growth via the implementation of the investments contained in the RRP and the revised National Energy and Climate Plan, which encompass the main national policies for sustainable growth and competitiveness enhancement. Meanwhile, work is underway to formulate the first Long Term Economic Strategy (LTES) of the Cypriot economy, based on the work undertaken by the Cyprus Economy and Competitiveness Council (Ecompet). The RRP’s objectives are fully aligned with the Long-Term Strategy and will pave the way for its implementation.

Acknowledging the significant impact climate change is expected to have on sustainable growth, the Ministry has signed a Research Cooperation Agreement with the Cyprus Economic Research Centre (CyERC) of the University of Cyprus on the subject of "Climate Change and Effects on the Cypriot Economy". The purpose is the conduction of a comprehensive study of the impact of climate change on the Cyprus economy. The first stage of this study analyzes the effects of climate change and the expected economic impact estimated for other countries with regards to the: (i) Impact of climate change on major economic variables such as GDP, fiscal revenue and expenditure, debt etc. (ii) The policies of countries that have integrated climate change into their planning and budgeting frameworks and the effect of these policies. (iii) The tools and methods employed by International Organizations, such as European Commission, IMF, and other countries to quantify climate impact. (iv) The evaluation of the measures and policies proposed and adopted to mitigate climate change. In the second stage a detailed identification and assessment of the climate risks facing the countries in the region and particularly Cyprus. In the third stage, the appropriate tools and models will be developed following the international practice of major research centers in Europe and the US (developing e.g. DSGE models with the energy sector, Input-output tables etc.). These models will be used to assess the impact of proposed climate adaptation measures and mitigation policies in Cyprus. As the project progresses, the identification of Green and Brown public expenditures, climate scenario analysis and proposed climate targets and indicators could be utilized and incorporated into the existing budget framework and process.

The estimated provisions for public investments for the years 2024 and 2025, as per the Draft 2024 Budget and MTBF 2024-2026, are €972 million and €857 million, respectively, as opposed to the provision included in the 2023 Budget of €976 million. As regards public R&I expenditure, besides investments to public universities, Cyprus supports R&I through competitive grants, allocated to researchers by the Research and Innovation Foundation of Cyprus (approximately €21 million yearly, including operating expenses). Regarding the Centres of Excellence, the Republic of Cyprus has committed to grant a total of €105 million in a span of 15 years to support the 7 existing centres of Excellence. It is noted that up to 2022 the government granted to the Centres €30 million.

The Government still considers privatisations as an important structural reform for the modernization of the public sector. It remains committed to continue the efforts in order to implement the privatization plan which constitutes an opportunity to attract investments, enhance competitiveness, support growth and job creation and create an efficient economy. It is recalled that the Council of Ministers (CoM) declared entities and assets as subject to privatisation by virtue of the Regulation of Privatisations Issues Law. On the basis of decrees issued by the CoM, assets under exploitation were: Limassol Port (privatisation completed in 2017), Larnaca Port and Marina, Ayia Napa and Paphos Marinas, Casino thematic resort, National Lottery activities, specific state assets in Troodos area, and the Telecoms Company. However, a small number of privatisation projects are currently in the pipeline, such as the Troodos Residences and the Larnaca Port and Marina. In addition, although not included in the aforementioned decrees, a decision has been taken by the CoM for the privatization of the Cyprus Stock Exchange (CSE).

Furthermore, under the provisions of the RRP, relevant legislation for the introduction of green taxation in Cyprus (carbon tax, water levy and landfill tax) should be in place by the end of year 2023, with effect early in 2024. The green taxation reform will be neutral in its design in order to take into consideration mainly the effects of the tax on vulnerable households and may propose compensatory measures such as:

- Reduction of alternative taxes
- Subsidising and funding supply side measures
- Investing in renewing for example old water networks
- Fund or increase social welfare allowances, to mitigate the impacts of a price increase in building products
- Financial support for decarbonisation can be granted from the government
- Training to upskill those people in the waste management sector to enable them to transition into jobs in sorting, recycling and remanufacturing.

CSR2

Accelerate the implementation of its recovery and resilience plan, also by ensuring an adequate administrative capacity, and swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

Accelerate the implementation of its recovery and resilience plan, also by ensuring an adequate administrative capacity, and swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation:

An amount of €85 m from the RRF was disbursed in December 2022 following the 1st payment request submitted by the Cypriot Authorities to the European Commission (EC) in July 2022. On the 1st of September 2023, Cyprus submitted to the European Commission its RRP amendment proposal. The amendment proposal relates (a) to the introduction of a new REPowerEU chapter, which includes both new measures as well as existing scaled up measures of the Cyprus RRP for the utilization of €104.6 mln allocated to Cyprus for this purpose and (b) to a substantial number of amendments, that include, inter alia, the removal of

measures from the Cyprus RRP in order to compensate for the €90 mln reduction in the Cyprus grant allocation from the RRF, as well as the shifting of milestones, redrafting of measures/milestones/targets and reducing targets, with a view to facilitate and accelerate the implementation of the Plan. The approval of the amendment proposal by the EC will enable the submission of the following payment requests by the Cypriot Authorities to the EC and the disbursements of funds from the RRF. **Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan:** The implementation of the single Cohesion Policy Programme "Thalia 2021-2027", is in due schedule, according to the initial programming. Most projects and grant schemes have already been announced and are currently under implementation. It is estimated that around 70% of the total programme's budget (€1.1 out of €1.5 billion) has been announced in projects and aid schemes. Since the same Authority, namely the Directorate Growth, Ministry of Finance is both the Managing Authority of Cohesion Policy Programme "Thalia 2021-2027" and the Coordinating Authority of the Cyprus Recovery and Resilience Plan, the complementarity and synergy are well ensured between the two funding instruments.
CSR 3 **Take measures to improve governance of the state-owned entities in line with international standards.**
The Ministry of Finance has received technical assistance by the International Monetary Fund (IMF), in order to further enhance the current governance framework for the State-Owned Entities. The mission took place in March-April 2023 and the final report of the IMF was delivered to the Government of Cyprus in August 2023. Currently, we are in the process of reviewing the experts' recommendations and formulating an implementation plan, which in turn will be submitted to the Council of Ministers for its approval.
CSR 4 **Reduce overall reliance on fossil fuels and diversify the energy supply. To better exploit all untapped potential for renewable energy generation, accelerate renewables deployment by using suitable economic instruments and making further investments to upgrade and modernize the electricity grid, including energy storage facilities. Speed up the development of electricity interconnections. Extend and accelerate energy efficiency measures, also to address energy poverty, as well as the shift towards sustainable transport. Step up policy efforts aimed at the provision and acquisition of the skills needed for the green transition.**
Reduce overall reliance on fossil fuels and diversify the energy supply. To better exploit all untapped potential for renewable energy generation, accelerate renewables deployment by using suitable economic instruments and making further investments to upgrade and modernize the electricity grid, including energy storage facilities: A draft update of the National Energy and Climate Plan (NECP) for the years 2021 – 2030 has been submitted to the European Commission in July 2023, as an effort to set additional policies and measures that will enable the Republic of Cyprus to successfully meet the new, more ambitious objectives, set in the new "Fit-for-55" legislative package. The final updated NECP, will be submitted to the European Commission by June 2024. The implementation of the policies and measures included in the draft revision of the NECP requires a total investment of €17,714 billion for the period up to 2030, of which the total additional public investment needed amounts to €540 million (51% for which for improving the energy efficiency of buildings). Part of the additional investment of €343 million is available and comes from the RePower EU fund (€94 million), the Just Transition Fund (€96 million), the Social Fund for Climate (€100 million) and the State Budget for Public Transport (€53 million). As regards private investments, the largest part concerns private transport and is estimated at €10,572 billion. It is noted that additional policies are under evaluation for potential inclusion in the final 2024 NECP.

Major policies and measures in place related to CSR4:

- Promotion of “Support scheme for the production of electricity from renewable energy sources for self-consumption” (net-metering, net-billing, virtual net-metering, virtual net-billing). Support schemes are also given for the use of RES in the heating and cooling sector (subsidies to households and mandatory measures in new buildings).
- Provision of financial support for the installation of photovoltaic and solar systems in combination with energy efficiency measures and promotion of high efficiency heat pumps (energy retrofits) for residential buildings, public buildings, commercial and industrial premises. The scheme for energy efficiency upgrade of households provides for increase financial support for vulnerable consumers.
- Acceleration of energy efficiency measures through Energy Efficiency Obligation Scheme for Energy Distributors, implementation of individual energy efficiency measures in residential buildings, projects for energy upgrading of hospitals and governmental buildings, energy efficient street lighting, energy efficiency in the water sector and installation of smart metering infrastructure.
- Ongoing study for Establishing a National Development Agency which will provide financial instruments to facilitate energy efficiency investments in enterprises and study for defining energy poverty at national level with measurement indicators in order to set a national target for further measures for its reduction.
- Creation of a “Digital One-Stop-Shop” to streamline RES project permitting and to facilitate Energy Renovation in Buildings. It will provide guidance and facilitation throughout the entire permitting process and will be the single point of contact for all applicants for the permitting of RES projects. The initial stage (1st Phase) of the digital platform for the "One-Stop-Shop" for electronic application submissions became operational on July 17, 2023. In addition, the new RES legislation sets shorter timeframes for the completion of the licensing process for RES projects.
- Introduction of the concepts of ‘citizens energy communities’ and ‘renewable energy communities’ in the national legislation, while a study is being drafted to identify the ICT requirements necessary to support the novel electricity market and consumers’ active participation.
- Implementation of the "Technical support for floating photovoltaics, energy storage and offshore renewables in Cyprus”, in cooperation with the German institution GIZ, that is jointly co-financed by the European Union with the scope of defining the technical and economic potential for off-shore RES developments, in Cyprus Exclusive Economic Zone and identify synergies for Hybrid (offshore) RES projects.
- Promotion of electricity storage systems. The Support Schemes for upgrading of households and enterprises offers grants for the installation of storage system, along with the installation of a photovoltaic system, as part of the energy upgrading of the building. Moreover, a Support scheme is under preparation, for the installation of storage systems, combined with commercial RES projects. The scheme is expected to provide investment and/or operational aid for the installation of storage systems, to integrate more RES in the electricity system, reduce RES curtailments and thus reduce the carbon footprint of the electricity generation.
- It is expected that within the 2024-2026 period, key power generation projects will be commissioned, such as the 6th Unit of AHK at the Vasilikos Power Plant, with a capacity of 160MW. A new private power plant is expected at Mari, with a total capacity of 260MW, which will dispose of the energy produced on the basis of the transitional Electricity Market Rules in force.
- Exploitation of hydrocarbon deposits discovered in the Cypriot EEZ, strengthening the flexibility of the national energy system through measures for the use of domestic energy sources, developing the infrastructure of the internal gas pipeline network, and investment in transmission system projects in the 2023-2032 period with a total estimated budget of €231m.
- Use of natural gas through imports of Liquefied Natural Gas (LNG) and the development of the necessary infrastructure for the import of natural gas into Cyprus (through the "CyprusGas2EU" Project

of Common Interest) will end Cyprus' energy isolation, diversify the country's energy mix and contribute to its energy security. For the promotion of energy storage, the relevant regulatory framework has been enacted and funding schemes for storage are in the pipeline.
- The EastMed project involves a planned offshore/onshore natural gas pipeline directly connecting East Mediterranean energy resources to Greece via Cyprus and Crete. The project is be expected to be completed by 2026.

Speed up the development of electricity interconnections:

- The EuroAsia Interconnector project for the electricity interconnection between Cyprus, Israel and Crete is planned to operate by 2029. Both electricity storage and interconnections are highly important in increasing renewable energy penetration, since they will allow for much faster integration of renewables to the electricity system and for exporting renewable electricity.

Extend and accelerate energy efficiency measures, also to address energy poverty, as well as the shift towards sustainable transport:

- **Energy sector:** Please see above
- **Transport sector:**

  In July 2021, a general policy framework was approved by the Council of Ministers on 24 November 2021, aiming at boosting electric vehicle (EV) registration to 25% of new registration by 2030 and by 100% by 2035, in a bid to reduce Cyprus' carbon footprint.

  The general policy for the promotion of the EVs includes incentives for the purchase of EV, private cars, motorcycles, scooters, buses, commercial vehicles and taxies and sets strategic targets, the necessary actions to establish the legal framework and measures to be implemented in pursuing these targets.

  A significant number of actions to promote EVs will be funded by the Cyprus national Recovery and Resilience Fund.

  The Plan is part of the National Energy and Climate Plan of Cyprus, while the Subsidy Plan for the Purchase of Electric Vehicles is also part of the General Policy Framework for the Promotion of the Use of Electric Vehicles of the Ministry of Transport, Communications and Works.

  In the context of the financial incentives, the two annual announcements of the first phase of the subsidy plans, the electric vehicle subsidy plan and the plan to withdraw old polluting vehicles and replace them with purely or partially electric vehicles, were approved end of 2021 and are already being implemented.

  In addition, the Ministry of Transport, Communication and Works is actively engaged in developing Sustainable Urban Mobility Plans (SUMPs) for Famagusta and Paphos. The Nicosia SUMP is currently been revised, nevertheless, quite a few projects have been implemented to promote the sustainable mobility and more specifically to promote public transport and the active modes of transport. As Limassol and Larnaca is concerned, dedicated bus lanes, bicycle lanes and park and rides are going to be implemented by 2026, through RRF. All of SUMP projects are having the same objective, namely to enhance the modal shift towards public transport and micromobilty and the multimodality of transport.

Step up policy efforts aimed at the provision and acquisition of the skills needed for the green transition:

The Human Resource Development Authority of Cyprus (HRDA) is a semi-governmental organization, responsible for creating the necessary prerequisites for the planned and systematic training and development of Cyprus human resources, at all levels and all sectors, for meeting the economy's needs, within the overall national socio-economic policies.

The strategy currently implemented by the HRDS is outlined in the “Strategic Plan 2023-2025”. The strategy takes into account the key priority at EU level for the dual green and digital transition, which affects every aspect of the economy, society and industry. In this context, new technologies will be required, combined with investment and innovation, new products and services will be created, new forms of work will be formed and new knowledge and skills will be needed from human resources.

In this context, the HRDA currently provides training programs for the Acquisition of Knowledge and Skills related to the Green Economy. The scope of these programs is to provide training to those employed in the private and public and wider public sectors, self-employed and unemployed, in green skills that keep pace with the constantly changing needs of the labor market. The Project aims to help employees who are in professions or sectors of the green economy, or unemployed who wish to work in professions or sectors of the green economy, acquire new and upgrade the existing knowledge and skills through their participation in training programs that will be implemented by Vocational Training Centers.

Furthermore, the HRDA has conducted a study on the “Identification of Green Skills Needs in the Cyprus Economy 2017-2027”. The main aim of the study is to examine and analyse the green economy and green occupations, to map out the green economy of Cyprus and to identify green skill needs in the Cyprus economy for the period 2017-2027. The study provides forecasts for employment and demand for labour in the economic sectors and occupations with participation in the green economy for the period 2017-2027. Additionally, it identifies the green skill needs for specific occupations of the green economy of Cyprus.

5. COMPARISON BETWEEN DBP AND THE MOST RECENT STABILITY PROGRAMME

The projection regarding the general government budget balance at unchanged policies for year 2023 presented in the current DBP, is higher by 1.1 percentage point of GDP compare to the forecast presented in the context of the SP 2023-2026. This positive deviation is mainly the outcome of the significantly higher growth of public revenues during the first six months of the year, compared to what was initially expected.

Table 7. Divergence from latest SP

	ESA Code	Year	Year	Year
		2022	**2023**	**2024**
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		2.1	2.0	2.3
Draft Budgetary Plan		2.6	2.5	2.8
Difference		0.5 [2]	0.5	0.5
General government net lending projection at unchanged policies	B.9			
Stability Programme		2.1	2.0	2.3
Draft Budgetary Plan		2.6	3.1	3.1
Difference		0.5 [2]	1.1	0.8

Regarding the year after, the deviation of 0.8 percent of GDP between the current forecast for the general government budget balance and the corresponding one presented in the latest Stability Programme, is mainly attributed to the base effect of the improved forecasted fiscal position in 2023, taking also into account the higher than initially planned expenses related to the Cost-of-Living-Adjustment on the wages of public servants and on pensions, due to the increased incorporation of last year's inflation in the index for COLA calculation purposes, from a previous 50% to a 66.7% as of 1st June 2023 onwards.

[2] The difference in the figures regarding the budget balance as a percentage of GDP in 2022 presented in Table 7, refers to revisions taken place in the context of the latest EDP notification (April 2023).

APPENDIX: Tables

Table 0 i). Basic assumptions

	Year 2022	Year 2023	Year 2024
Short-term interest rate[1] (annual average)	0.3	3.4	3.6
Long-term interest rate (annual average)	1.1	2.4	2.5
USD/€ exchange rate (annual average)	1.05	1.09	1.09
Nominal effective exchange rate	-3.2	5.9	1.6
World excluding EU, GDP growth	3.2	3.2	3.2
EU GDP growth	3.4	0.8	1.4
Growth of relevant foreign markets [UK]	4.1	0.4	1.0
World import volumes, excluding EU	4.8	1.5	3.4
Oil prices (Brent, USD/barrel)	100.7	81.8	81.2

1/ If necessary, purely technical assumptions.

Table 1a. Macroeconomic prospects

	ESA Code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level (€ mn)	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	24,229.9	5.6	2.4	2.9	3.1	3.2
2. Potential GDP		24,788.8	5.6	2.4	2.9	3.1	3.2
contributions:							
- labour			1.2	1.3	1.4		
- capital			0.9	1.0	1.1		
- total factor productivity			0.3	0.6	0.7		
3. Nominal GDP	B1*g	27,006.4	12.4	7.0	5.7	5.3	5.3
Components of real GDP							
4. Private final consumption expenditure	P.3	14,931.7	7.7	3.5	1.8		
5. Government final consumption expenditure	P.3	4585.0	0.1	4.1	5.4		
6. Gross fixed capital formation	P.51g	4662.2	6.6	6.0	5.6		
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	441.6	3.6	0.0	0.0		
8. Exports of goods and services	P.6	22,334.0	13.7	-2.6	1.6		
9. Imports of goods and services	P.7	22,857.1	18.8	-0.9	1.8		
Contributions to real GDP growth							
10. Final domestic demand		24,178.9	5.9	4.1	3.2		
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	441.6	3.6	0.0	0.0		
12. External balance of goods and services	B.11	-523.1	-4.1	-1.5	-0.3		

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 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		111.5	6.4	4.5	2.7	2.1	2.1
2. Private consumption deflator		110.9	8.0	3.6	2.3		
3. HICP		110.2	8.1	4.1	2.5		
4. Public consumption deflator		110.8	5.5	6.0	2.6		
5. Investment deflator		116.0	8.6	3.6	2.1		
6. Export price deflator (goods and services)		110.7	4.5	3.3	2.5		
7. Import price deflator (goods and services)		108.6	3.9	3.0	2.1		

Table 1c. Labour market developments

	ESA Code	Year 2022	Year 2022	Year 2023	Year 2024
		Level	rate of change	rate of change	rate of change
1. Employment, thousand persons[1]		458.1	2.9	1.3	1.0
2. Employment, thousand hours worked[2]		829,361	4.1	1.5	1.2
3. Unemployment rate (%)[3]		32,750	6.8	6.4	5.8
4. Labour productivity, persons[4]		52,895	2.7	1.1	1.9
5. Labour productivity, hours worked[5]		29.2	1.5	0.9	1.7
6. Compensation of employees (€ mn)	D.1	11,383	7.0	6.1	5.4
7. Compensation per employee (€)		27,906	3.8	4.7	4.4

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 2022	Year 2023	Year 2024
		% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	-8.9	-9.1	-8.5
of which:				
- Balance on goods and services		-0.4	-1.5	-1.4
- Balance of primary incomes and transfers		-8.7	-7.7	-7.3
- Capital account		0.2	0.2	0.2
2. Net lending/net borrowing of the private sector	B.9	-11.5	-11.6	-11.4
3. Net lending/net borrowing of general government	B.9	2.6	2.5	2.8
4. Statistical discrepancy		0.0	0.0	0.0

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

	ESA Code	Year 2023	Year 2024	Year 2025	Year 2026
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	2.5	2.8	2.8	2.6
1a. Central government	S.1311	-0.3	-1.2		
1b. State government	S.1312	M	M		
1c. Local government	S.1313	0.1	0.1		
1d. Social security funds	S.1314	2.8	4.0		
2. Interest expenditure	D.41	1.3	1.4		
3. Primary balance[2]		3.9	4.3		
4. One-off and other temporary measures[3]		0.0	0.0	0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		2.4	2.9		
6. Potential GDP growth (%) (=2 in Table 1.a)		3.8	3.3	3.2	3.2
contributions:					
- labour		1.2	0.8		
- capital		1.2	1.2		
- total factor productivity		1.4	1.3		
7. Output gap (% of potential GDP)		1.2	0.8	0.7	0.7
8. Cyclical budgetary component (% of potential GDP)		0.6	0.4	0.3	0.3
9. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		1.9	2.5		
10. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		3.3	3.9		
11. Structural balance (13 - 8) (% of potential GDP)		1.9	2.5	2.5	2.2

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 2023	Year 2024	Year 2025	Year 2026
		% GDP	% GDP	% GDP	% GDP
1. Gross debt[1]		81.8	74.7	69.5	63.0
2. Change in gross debt ratio		-6.4	-7.1		
Contributions to changes in gross debt					
3. Primary balance (= item 3 in Table 2.a)		3.9	4.3		
4. Interest expenditure (= item 2 in Table 2.a)	D.41	1.3	1.4		
5. Stock-flow adjustment		-3.9	-4.3	-2.4	-3.9
of which:					
- Differences between cash and accruals[2]		0.4	0.0		
- Net accumulation of financial assets[3]		1.6	0.3		
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]		**1.6**	**1.9**	**2.1**	**2.3**

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 2023	Year 2024
	% GDP	% GDP
Public guarantees	4.6	4.4
Of which: linked to the financial sector	1.5	1.4

Note: The change of the presentation in this table, compared to the previous DBPs and SPs of the Republic of Cyprus, relates to the methodological treatment of the Asset Protection Scheme (APS). The guarantee under the Scheme was at €155 mn for 2018, with a negative impact on B.9 as a capital transfer during that year.

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

	ESA Code	Year 2023	Year 2024
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	44.8	45.4
of which			
1.1. Taxes on production and imports	D.2	15.3	15.1
1.2. Current taxes on income, wealth, etc	D.5	11.3	11.3
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	12.2	13.0
1.5. Property income	D.4	0.4	0.4
1.6. Other[1]		5.6	5.5
p.m.: Tax burden		38.8	39.5
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure at unchanged policies	TE[3]	41.7	42.2
of which			
2.1. Compensation of employees	D.1	12.2	12.2
2.2. Intermediate consumption	P.2	5.4	5.4
2.3. Social payments	D.62+D.632	15.9	16.3
of which Unemployment benefits[4]		0.2	0.2
2.4. Interest expenditure	D.41	1.3	1.4
2.5. Subsidies	D.3	0.7	0.7
2.6. Gross fixed capital formation	P.51g	2.9	3.0
2.7. Capital transfers	D.9	0.6	0.7
2.8. Other[5]		2.7	2.4

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 2023	Year 2024
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	44.7	45.3
of which			
1.1. Taxes on production and imports	D.2	15.2	15.1
1.2. Current taxes on income. wealth. etc.	D.5	11.3	11.3
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	12.2	13.0
1.5. Property income	D.4	0.4	0.4
1.6. Other [1]		5.6	5.5
p.m.: Tax burden		38.7	39.4
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]	42.2	42.5
of which			
2.1. Compensation of employees	D.1	12.3	12.5
2.2. Intermediate consumption	P.2	5.4	5.4
2.3. Social payments	D.62+D.632	16.0	16.3
of which Unemployment benefits[4]		0.2	0.2
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	1.3	1.4
2.5. Subsidies	D.3	0.7	0.7
2.6. Gross fixed capital formation	P.51g	3.2	3.0
2.7. Capital transfers	D.9	0.6	0.7
2.8. Other[5]		2.7	2.4

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 2022	Year 2022	Year 2023	Year 2024
		Level (€ mn)	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		233.3	0.9	0.6	1.3
1a. of which investments fully matched by EU funds revenue		140.0	0.5	0.4	0.8
2. Cyclical unemployment benefit expenditure [1]		-14.4	-0.1	0.0	0.0
3. Effect of discretionary revenue measures [2]	D.5	143.9	0.5	0.2	0.7
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 2023		Year 2024	
	% GDP	% general government expenditure	% GDP	% general government expenditure
Education[1]	5.5	12.9	5.4	12.7
Health[1]	6.2	14.6	6.4	15.0
Employment[2]	0.1	0.3	0.1	0.3

1/ These expenditure categories should correspond respectively to items 9 and 7 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 2023	Year 2024
		% GDP	% GDP
1. General public services	1	7.1	7.1
2. Defense	2	1.8	1.8
3. Public order and safety	3	1.8	1.8
4. Economic affairs	4	3.8	3.7
5. Environmental protection	5	0.6	0.7
6. Housing and community amenities	6	1.5	1.5
7. Health	7	6.2	6.4
8. Recreation culture and religion	8	1.0	1.0
9. Education	9	5.5	5.4
10. Social protection	10	13.1	13.2
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	42.2	42.5

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	Target (Expenditure / Revenue component)	Accounting principle	Adoption Status	Budgetary impact % GDP	
		ESA Code			Year 2023	Year 2024
Increased provision for COLA	Increase of the incorporation of last year's inflation in the index for COLA calculation purposes, from a previous 50% to a 66.7%, as of 1st June 2023 onwards	D.1	accrual	adopted	0.12	0.27
Acquisition of the "Metropolitan" building	A significant allocation of €25.4 mn in the context of the 2nd Supplementary Budget concerns the acquisition of a building designated to house the Ministry of Labour and Social Insurance.	P.5	accrual	adopted	0.09	-
Hosting Ukrainian nationals and unaccompanied minors	Provision for hosting displaced individuals from Ukraine and unaccompanied minors seeking international protection.	D.62	accrual	adopted	0.05	-
Additional personnel in the sector of education	Hiring of emergency personnel across all levels of education	D.62	accrual	adopted	0.04	-
Purchase of medicines and vaccines	In response to COVID-19, €15 mn was designated in the context of the 2nd Supplementary Budget for the purchase of medicines and vaccines	P.2	accrual	adopted	0.05	-
Implementation of co-funded projects	Implementation of co-funded projects and sponsorship plans	P.5	accrual	adopted	0.21	-
Zero/ reduced VAT rate in a number of goods/ services	A zero VAT rate is applied on basic goods is applied aiming to relieve households from higher prices for essential products	D.2	accrual	adopted	-0.05	-0.03
TOTAL BUDGETARY IMPACT					**-0.61**	**-0.30**

Table 7. Divergence from latest SP

	ESA Code	Year	Year	Year
		2022	**2023**	**2024**
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		2.1	2.0	2.3
Draft Budgetary Plan		2.6	2.5	2.8
Difference [1]		0.5 [3]	0.5	0.5
General government net lending projection at unchanged policies	B.9			
Stability Programme		2.1	2.0	2.3
Draft Budgetary Plan		2.6	3.1	3.1
Difference [1]		0.5 [3]	1.1	0.8

1/ The difference in the figures regarding the budget balance as a percentage of GDP in 2022 presented in Table 7, refers to revisions taken place in the context of the latest EDP notification (April 2023).

[3] The difference in the figures regarding the budget balance as a percentage of GDP in 2022 presented in Table 7, refers to revisions taken place in the context of the latest EDP notification (April 2023).

Table 9a. RRF impact on programme's projections - GRANTS

% of GDP	2022	2023	2024	2025	2026
Revenue from RRF grants					
1. RRF GRANTS as included in the revenue projections	0.1	0.3	0.8	1.0	0.5
2. Cash disbursements of RRF GRANTS from EU	0.3	0.0	0.8	0.7	0.7
Expenditure financed by RRF grants					
3.TOTAL CURRENT EXPENDITURE	0.0	0.1	0.2	0.3	0.1
4. TOTAL CAPITAL EXPENDITURE	0.1	0.2	0.5	0.7	0.3
of which:					
- Gross fixed capital formation	0.1	0.2	0.4	0.4	0.2
- Capital transfers	0.0	0.1	0.2	0.3	0.1
Other costs financed by RRF grants					
5. Reduction in tax revenue	0.0	0.0	0.0	0.0	0.0
6. Other costs with impact on revenue	0.0	0.0	0.0	0.0	0.0
7. Financial transactions	0.0	0.0	0.0	0.0	0.0

Table 9b. RRF impact on programme's projections - LOANS

% of GDP	2022	2023	2024	2025	2026
Cash flow from RRF loans projected in the programme					
1. Disbursements of RRF LOANS from EU	0.0	0.0	0.2	0.3	0.0
2. Repayments of RRF LOANS to EU	0.0	0.0	0.0	0.0	0.0
Expenditure financed by RRF loans					
3.TOTAL CURRENT EXPENDITURE	0.0	0.0	0.1	0.1	0.0
4. TOTAL CAPITAL EXPENDITURE	0.0	0.0	0.1	0.1	0.2
of which:					
- Gross fixed capital formation	0.0	0.0	0.1	0.1	0.2
- Capital transfers	0.0	0.0	0.0	0.0	0.0
Other costs financed by RRF grants					
5. Reduction in tax revenue	0.0	0.0	0.0	0.0	0.0
6. Other costs with impact on revenue	0.0	0.0	0.0	0.0	0.0
7. Financial transactions	0.0	0.0	0.0	0.0	0.0