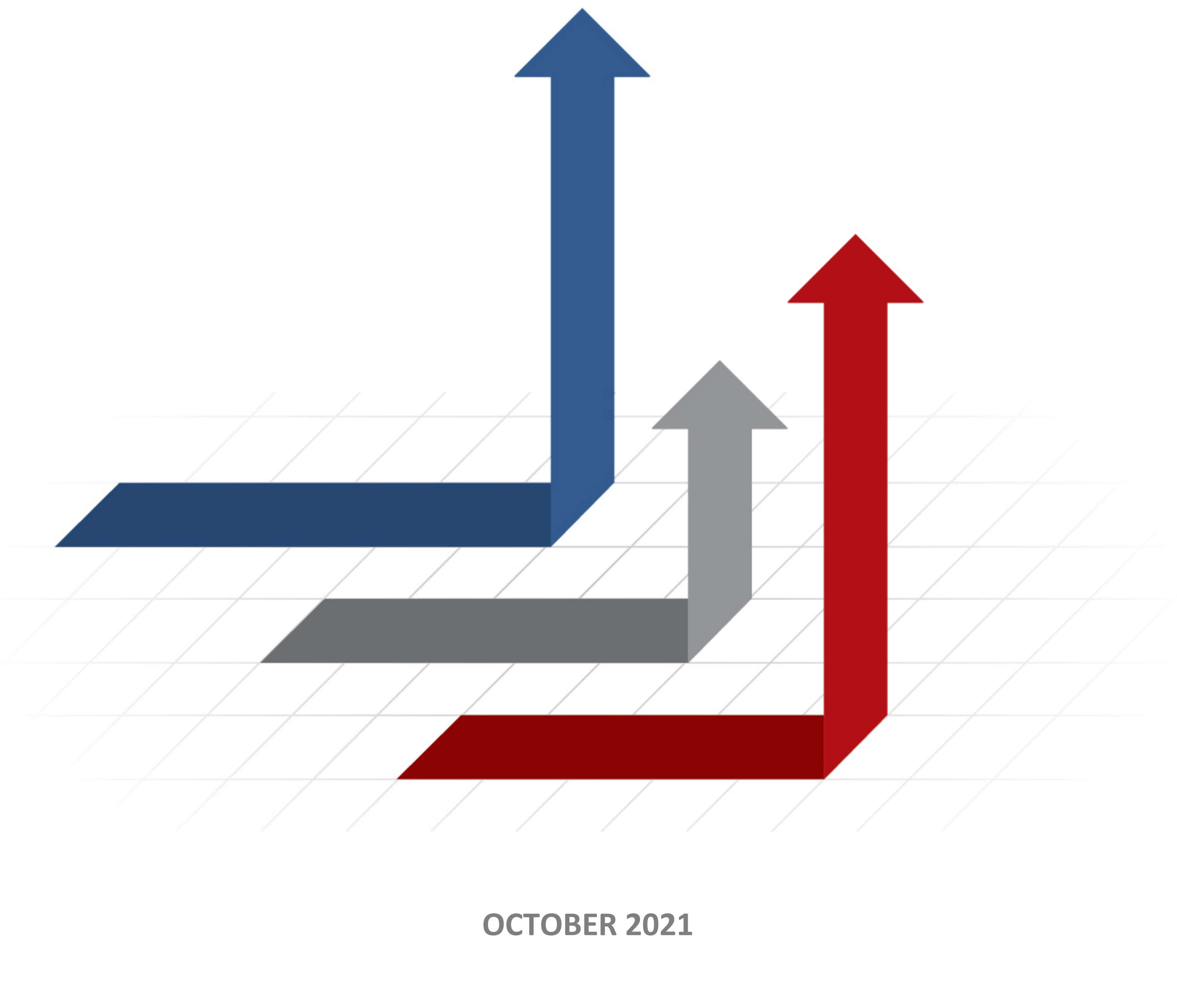
MINISTRY OF FINANCE

CYPRUS DRAFT BUDGETARY PLAN 2022



OCTOBER 2021

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1. INTRODUCTION

The Draft Budgetary Plan (DBP) 2022, 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 2021 was approved by the Council of Ministers on 15th October 2021 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 2021, as well as the Budget Bill for 2022 that was submitted to the House of Representatives on 7th October 2021.

[1] The cut-off date for the macroeconomic and fiscal forecasts was 22 September 2021.

2. Economic developments and Outlook

2.1 Developments in 2021

During the first half of 2021, the economy recorded a positive growth rate of 4.8% in real terms (seasonally adjusted), compared to the respective period of 2020. In terms of domestic demand, consumption in the first half of 2021 increased by 5.5% compared to the corresponding half of 2020 (seasonally adjusted data), and more specifically public consumption increased by 12.6% and private consumption increased by 3.3%. Gross fixed capital formation increased by 28.0% over the same period.

In terms of external demand, exports decreased by 6.4% (-21.1% in exports of goods and -2.6% in exports of services) while imports decreased by 0.2% (+7.1% in imports of goods and -6.1% in imports of services) in the first half of 2021 compared to the corresponding half of 2020 (seasonally adjusted data).

From a sectoral point of view, the growth of the economy is attributed to the following sectors: "Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities" (10.6%), "Construction" (14.5%), "Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities" (9.2%), "Information and communication" (3.9%), "Real estate activities" (1.0%), "Professional, scientific and technical activities; administrative and support service activities" (3.4%), "Public administration and defense; compulsory social security; education; human health and social work activities" (1.5%) and "Arts, entertainment and recreation, repair of household goods and other services" (5.1%).

The only sectors that exhibited a negative growth rate were: "Agriculture, forestry and fishing" (-0.3%) and "Financial and insurance activities" (-2.2%).

The tourism sector and its related sectors consist an important source of growth and received a key blow in 2020 with the imposition of the lockdown and the restrictive measures. This impact was still evident in the economy during the first months of 2021. Nevertheless, as of June 2021, a significant recovery was recorded in tourist arrivals compared to the same period in 2020 but the numbers are still far from the 2019 peak levels.

Overall, for 2021 the economy is expected to recover and reach its pre-crisis levels, exhibiting a growth rate of around 5.5% in real terms, which is an upward revision compared to a growth rate of around 3.6% that was the previous forecast for 2021, as included in the Stability Program 2021-2024 (April 2021).

The unemployment rate (15+), based on the Labor Force Survey (LFS), in the first half of 2021 averaged at 8.5%, compared to unemployment rate of 7.1% in the first half of 2020. The percentage of the long-term unemployed in the labor force in the first half of 2021 increased to 2.9%, compared to 2.0% in the corresponding half of 2020, while youth unemployment increased to 18.3% in the first half of 2021 compared to 16.2% in the corresponding half of 2020. For the whole 2021, the unemployment rate is estimated to average at around 7.5%, compared to 7.6% in 2020.

Following decreases in the Harmonised Index of Consumer Prices (HICP) from April 2020 until February 2021, from March 2021 onwards the HICP has started increasing again following the oil price developments. The HICP has recorded an increase of 1.2% in January-August 2021 compared to the same period in 2020 and the price of oil in international markets, one of the most decisive factors shaping inflation in Cyprus, increased by 63.4% by August 2021, on an annual basis. For the whole year, inflation is estimated at an average of 2.0%.

2.2 Prospects for 2022

According to the baseline macroeconomic scenario, the economy will continue to grow by relative high rates following 2021 with most sectors returning to normal with the exception of the tourism sector and its related sectors which are expected to fully recover in 2023-2024.

The recovery in the period 2022-2024 will be supported mainly by the domestic market and more specifically by private consumption and gross fixed capital formation. Private consumption is expected to continue at positive growth rates, but at a slower pace and closer to average. Public consumption will also increase at a lower rate than in 2020 and 2021 onwards due to the termination of the support measures by the end of 2021. Exports of goods and services are expected to have positive growth rates and return to pre-pandemic levels and thus, net exports start contribute positively to growth.

In the years 2022-2024 a positive impact is expected from the Recovery and Resilience Plan (RRP) with significant capital investments which will contribute partly to the upward revision of the baseline forecasts since the final impact study gave an increased contribution to growth in the medium term. Uncertainty surrounding macroeconomic forecasts still remains due to the continued COVID-19 crisis and a possible new wave of the pandemic, but for this forecast the assumption is that the upward trend of the economy shall not be altered.

Overall, in 2022 the economy is projected to grow by 4.0% in real terms. The unemployment rate is projected to fall down to 6.7% and inflation is expected to settle at around 1.5%.

The growth rate of the economy in the years 2023-2024 is expected to average at around 3.2% in real terms. Regarding the labour market, the unemployment rate in 2023 is expected to fall to 6.0% of the labour force, and then, with the further improvement of the economy, to be reduced to 5.5% in 2024. Inflation for 2023-2024 is expected to hover around 2.0%.

	2020	2021	2022	2023	2024
Real GDP growth (%)	-5.1	5.5	4.0	3.4	3.0
Inflation HICP (%)	-1.1	2.0	1.5	2.0	2.0
Unemployment rate (%)	7.6	7.5	6.7	6.0	5.5

2.3 Risks to growth

In terms of the internal environment, negative effects on the economy can arise from the following sources:

- A new outbreak of the COVID 19 pandemic with the emergence of new strains of the virus in Cyprus, resulting in the enforcement of restrictive measures, with a consequent deterioration of economic activity.
- The ongoing challenges facing the banking sector due to the high non-performing loans (despite the significant reduction that has been achieved so far).

On the external environment, geopolitical developments in the neighbouring countries are mentioned as potential external threats. Eastern Mediterranean as well as the immigration problem, continue to cause uncertainty about the course of the economies of EU member states, including Cyprus.

Table 1a. Macroeconomic prospects

	2020	2021	2022
	rate of change	rate of change	rate of change
1. Real GDP	-5.1	5.5	4.0
2. Potential GDP	2.4	2.9	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	-6.5	7.6	5.6
Components of real GDP			
4. Private final consumption expenditure	-3.9	3.3	2.5
5. Government final consumption expenditure	13.1	9.5	0.4
6. Gross fixed capital formation	-2.0	6.7	5.5
7. Changes in inventories and net acquisition of valuables (% of GDP)	1.4	0.0	0.0
8. Exports of goods and services	-12.4	3.5	4.3
9. Imports of goods and services	-4.2	3.0	2.2
Contributions to real GDP growth			
10. Final domestic demand	-0.6	5.5	2.8
11. Changes in inventories and net acquisition of valuables	1.4	0.0	0.0
12. External balance of goods and services	-5.8	0.1	1.2

Table 1b. Price developments

	2020 (rate of change)	2021 (rate of change)	2022 (rate of change)
GDP deflator	-1.5	2.0	1.5
Private consumption deflator	-0.9	2.0	1.5
HICP	-1.1	2.0	1.5
Public consumption deflator	0.7	2.2	2.1
GFCF deflator	-0.2	2.1	1.5
Export price deflator (goods and services)	0.5	2.0	1.5
Import price deflator (goods and services)	-1.1	2.3	1.8

Table 1c. Labour market developments

	2020 (rate of change)	2021 (rate of change)	2022 (rate of change)
Employment, persons[1]	-0.6	1.3	2.8
Employment, hours worked[2]	-6.4	4.0	3.0
Unemployment rate (%)[3]	7.6	7.5	6.7
Labour productivity, persons[4]	-4.6	4.1	1.2
Labour productivity, hours worked[5]	1.4	1.4	1.0
Compensation of employees	-3.8	4.8	4.8
Compensation per employee	-3.2	3.5	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

	2020 (% GDP)	2021 (% GDP)	2022 (% GDP)
1.Net lending/net borrowing vis-à-vis the rest of the world	-11.8	-9.9	-8.5
of which:			
- Balance on goods and services	-6.2	-6.0	-4.7
- Balance of primary incomes and transfers	-5.7	-4.0	-3.8
- Capital account	0.1	0.1	0.1
2.Net lending/net borrowing of the private sector	-6.1	-4.9	-7.3
3.Net lending/net borrowing of general government	-5.7	-5.0	-1.1
4.Statistical discrepancy	0.0	0.0	0.0

3. Budgetary developments and targets

3.1 Budgetary targets

After four consecutive years of strong fiscal position, the budget balance of the General Government turned into a deficit in 2020 of about €1,193 mn (-5.7% of GDP), compared to a fiscal surplus of 1.5% of GDP the year before. This negative outcome, was attributed to the impact of the COVID-19 outbreak on the economy, which recorded a negative rate of growth of 5.1% in real terms during 2020, as well as to the support measures of a one-off nature, targeting the consequences of the pandemic crisis on health, businesses and employment positions, of an estimated impact on the accounts of the General Government of about -3.6% of GDP.

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

	ESA Code	**Year 2021**	**Year 2022**
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	-5.0	-1.1
1a. Central government	S.1311	-5.9	-1.8
1b. State government	S.1312	M	M
1c. Local government	S.1313	0.0	0.0
1d. Social security funds	S.1314	0.9	0.6
2. Interest expenditure	D.41	2.0	1.8
3. Primary balance		-3.0	0.7
4. One-off and other temporary measures		0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		5.5	4.0
6. Potential GDP growth (%) (=2. in Table 1a)		2.9	3.2
contributions:			
- labour		1.3	1.4
- capital		1.0	1.1
- total factor productivity		0.6	0.7
7. Output gap (% of potential GDP)		0.0	0.7
8. Cyclical budgetary component (% of GDP)		0.0	0.4
9. Cyclically-adjusted balance (% of GDP)		-5.0	-1.5
10. Cyclically-adjusted primary balance (% of GDP)		-3.1	0.3
11. Structural balance (% of GDP)		-5.0	-1.5

In the context of the still ongoing COVID-19 pandemic, the general government budget balance in 2021 is expected to remain in deficit of about 5% of GDP, compared to a deficit of 5.7% of GDP the year before. The deterioration in the budget position in 2021 by 0.3 percentage points of GDP, compared to the previous projections of the authorities[2], despite the upward revision of the estimated GDP growth as well as the expected further improvement in the labour market during the year, is attributed to the impact of the last three Supplementary Budgets voted by the House of Representatives during June, July and October 2021, respectively.

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

[2] Stability Programme 2021-2024, April 2021

expected to be in deficit in 2021 reaching -5% of GDP, and remain in deficit in 2022 of the order of 1.5% of GDP.

Table 2b. General government debt developments

	ESA Code	Year 2021	Year 2022
		% GDP	% GDP
1. Gross debt		107.7	100.9
2. Change in gross debt ratio		-11.4	-6.9
Contributions to changes in gross debt			
3. Primary balance (= item 3 in Table 2.a)		-3.0	0.7
4. Interest expenditure (= item 2 in Table 2.a)	D.41	2.0	1.8
5. Stock-flow adjustment		-16.5	-8.0
p.m.: Implicit interest rate on debt		**1.8**	**1.8**

In 2020 the general government gross debt to GDP ratio has marked a significant increase of about 25.1 percentage points of GDP, mainly attributed to the revision of the Annual Financing Programme targeted to tackle the challenges of the pandemic crisis from the beginning of the year, reaching 119.1% of GDP. Nevertheless, about 13 percentage points of the said increase was attributed to the enhancement of the cash buffer. In 2021 the general government gross debt to GDP ratio is expected to record a significant decrease of about 11.4 percentage points of GDP compared to the year before, reaching 107.7% of GDP. The significant decrease by the end of 2021, despite the expected deficit in the year under review, is the outcome of the substantial decrease of cash accumulated the year before (numerator effect) as well of the increase of the GDP (denominator effect). In 2022 the general government gross debt to GDP ratio is expected to record further decrease of 6.9 percentage points of GDP compared to the year before and fall to 100.9% of GDP.

Revenue and Expenditure Projections

On the revenue side, an estimated growth of about 8.4% is anticipated for 2021, recording an increase as a percent of GDP, from 40.9 the year before to 41.2 percent of GDP. In 2022, total revenue is forecast to record a positive growth of 4.9%, albeit falling by 0.2 percentage points of GDP compared to the year before and reach 41 percent of GDP.

Revenue from taxes on production and imports is expected to increase by 9.2% during the current year, and increase as a percentage of GDP to 14% compared to 13.8% the year before. The forecasted positive growth of this revenue category is stemming from the expected increase in VAT receipts, compared to the last year's VAT losses due to the restrictive measures taken by the government related to the COVID-19 crisis, as well as from the impact of the reduced special VAT rates as of 1st July 2020 until the end 2020. In 2022, revenue from taxes on production and imports are expected to grow by 4.5% and decrease as a percentage of GDP to 13.8%.

Current taxes on income and wealth receipts are expected to exhibit an increase of 2.7% in 2021, 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 a decrease of 0.5 percentage points of GDP reaching 9.6 percent of GDP compared to 10.1 percent of GDP in 2021. In 2022, revenue under this category is expected to grow by 4.1% and marginally decrease as a percentage of GDP to 9.5%.

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

	ESA Code	**2021**	**2022**
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	41.2	41.0
of which			
1.1. Taxes on production and imports	D.2	14.0	13.8
1.2. Current taxes on income, wealth, etc.	D.5	9.6	9.5
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	12.0	12.1
1.5. Property income	D.4	0.7	0.6
1.6. Other		5.0	4.9
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		35.6	35.4
2. Total expenditure target	TE	46.3	42.1
of which			
2.1. Compensation of employees	D.1	13.7	13.7
2.2. Intermediate consumption	P.2	4.7	3.9
2.3. Social payments	D.62+D.632	16.8	16.3
of which Unemployment benefits		0.5	0.3
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	2.0	1.8
2.5. Subsidies	D.3	2.8	0.4
2.6. Gross fixed capital formation	P.51g	2.7	2.8
2.7. Capital transfers	D.9	0.3	0.3
2.8. Other		3.4	2.9

Social contributions are expected to exhibit a significant growth of 11.8% in 2021 compared to the year before, contributing the most to the growth of public revenue by 3.3 percentage points, recording an improvement of 0.5 percentage points of GDP, from 11.5 percent of GDP in 2020 to 12 percent of GDP in 2021. The expected outcome in this revenue category is the result of increased receipts from contributions during 2021 in the context of the NHS, as well as of the improved conditions in the labour market. More specifically, NHS related contributions are estimated to positively contribute to the growth of social contributions by 6 percentage points, due to the increased contribution rates fully effective during the current year, compared to 2020[3] where the increased rates where in force only for 7 months. In 2022, social contributions are expected to increase by 6.1% and marginally increase as a percentage of GDP to 12.1%.

Property income in nominal terms is expected to remain stable in 2021 and in 2022. As a percent of GDP this revenue category is forecast to remain at 0.7% in 2021 as in the year before and marginally drop to 0.6% the year after.

Finally, category 'other revenue' is expected to exhibit an increase of 11.7% in 2021 compared to the year before, and as a percent of GDP improve by 0.2 percentage points, from 4.8% in 2020 to 5%. This is due to expected increased grants from the European Funds, taking also into account grants received in the context of the RRF, contributing to the growth of this revenue category by 6.7 percentage points. In 2022, category 'other revenue' is expected to increase by 4.8% and marginally decrease as a percentage of GDP to 4.9%.

[3] As per the related to the National Health System Law, all employers, employees and the state are contributing to the System as of 1st March 2019, whereas contributions increased as of 1st March 2020 in the context of the 2nd phase of the NHS, 1st June 2020. A measure was introduced as part of the package of the government to support the economy from the COVID-19 outbreak, suspending the increased contributions for three continuous months, starting from 1st April 2020.

Public expenditure in 2021 is estimated to exhibit an increase of 6.7%, albeit fall as a percent of GDP to 46.3% compared to 46.6% the year before. The increase in public expenditure is mainly attributed to increased social payments, estimated to positively contribute to the growth of total expenditure by 2.2 percentage points. In 2022, public expenditure is expected to record a decrease of 4%, falling further as a percent of GDP to 42.1% attributed to the withdrawal of the measures in the context of the COVID-19 pandemic.

More specifically, social payments in 2021 are estimated to record an increase of 5.9%, falling marginally to 16.8 percent of GDP compared to 17% the year before. This increase is attributed to increased NHS related expenditure, as the second Phase of the System was applied in June 2020. Increased NHS related expenses are expected to positively contribute by 5.2 percentage points to the growth of this expenditure category. It should also be noted that expenditure under the special schemes for the provisions for 'sickness allowance' and for 'special absence leave', as well as the 'special support allowance for the unemployed', as measures taken by the government during the current year, are estimated to drop by 49.8% compare to the year before, contributing negatively to the growth of social payments by 0.6 percentage points. In 2022, social payments are projected to increase further by 2.6% compared to the year before and drop as a percent of GDP by 0.5 percentage points, reaching 16.3%.

The expenditure category compensation of employees is expected to record a growth of 5.9% in 2021 compared to the year before and as a percentage of GDP drop by 0.2 percentage points, falling to 13.7 percent of GDP from 13.9% in 2020. The outcome of this positive growth is mainly attributed to (i) the estimated impact from the gradual phasing out of wage cuts (1.7 p.p.), (ii) the increased expenses under the State Health Organisation (SHSO) (1 p.p.), (iii) the increased gratuity payments (0.7 p.p.), (iv) the increased contribution of the government as an employer in the context of the NHS (0.6 p.p.) and (v) the increased payments to medical specialists to cover overtimes etc., in line with the increased needs attributed to the pandemic (+0.6 p.p.). Expenditure for compensation of employees is expected to increase further by 5.7 % in 2020 compared to the year before, and remain to 13.7 as a percent of GDP.

Intermediate consumption is expected to record a considerable increase of 16.4% in 2021 and reach 4.7 percent of GDP from 4.4 percent of GDP the year before, contributing to the growth of total expenditure by 1.5 percentage points, brought mainly by increased expenses for the provision for the health care sector to combat the pandemic. In 2022 intermediate consumption is expected to drop by 13.7% and as a percent of GDP decrease by 0.8 percentage points, falling to 3.9%.

Expenditure category subsidies is expected to increase by 7.1% in 2021 compared to the year before; as a percent of GDP, it is expected to remain at 2.8%. The increase under this expenditure category is attributed (i) to the continuation of the measures taken by the government from the beginning of the current year, namely the one-off grants to businesses to cover part of their operating costs during the lockdown periods, and the subsidisation of wages of the employees of businesses, which were either forced to suspend their operations by a decree of the Minster of Health and/or a decision by the Council of Ministers, or they experienced a significant loss of their turnover due to the consequences of the COVID-19 pandemic, as well as (ii) to the expected impact of the interest subsidy scheme from housing and new business loans. In 2022, expenditure category subsidies is expected to drop sharply by 83%, falling by 2.4 percentage points of GDP to 0.4% of GDP, due to the withdrawal of the wage subsidisation schemes and of the granting support to businesses.

Interest expenditure is forecast to experience a drop of 0.2 percentage points of GDP, from 2.2 percent of GDP the year before to 2 percent of GDP in 2021, and a further drop of 0.2 percentage points of GDP the year after.

Gross fixed capital formation is expected to exhibit a positive rate of growth of 8.8% in 2021, reaching 3% of GDP compared to 2.9% of GDP the year before. In 2022 gross fixed capital formation is forecast to increase further by 9.4% compared to the year before, and increase as a percent of GDP to 3.1%. These increases are attributed to capital expenditure planned in the context of the Cyprus Recovery and Resilience Plan contributing to the growth of this expenditure category by 5 and 8.8 percentage points in 2021 and 2022, respectively.

Finally, category other expenditure is forecast to increase by 4.7% in 2021 and marginally fall by 0.1 percentage points of GDP compared to the year before, reaching 3.4 percent of GDP, attributed mainly to a provision embedded in the context of the 4th Supplementary Budget in August 2021 as a buffer, for the need of possible additional expenses that might arise by the end of the year. In 2022, it is forecast that category 'other expenditure' will decrease by 8.9 % compared to the year before, falling to 2.9 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, nine additional discretionary measures were adopted during the budgetary process for the forthcoming year (2022) with an estimated fiscal impact on the accounts of the general government of about 1 percent of GDP in 2021 and with no impact in 2022. These measures were included in the context of the three additional Supplementary Budgets, targeting the adverse effects from the continuation of the pandemic, as well as taking into account other various needs that arose during the budgetary process.

In the context of the continuation of the COVID-19 pandemic crisis, before the beginning of the Summer 2021, after the sharp increase of new cases that had been diagnosed as well as the significant rise of the diagnosis rate of the SARS-CoV-2 virus, further restrictions were imposed through various decrees of the Minister of Health/ Council of Ministers, aiming the reduction of the adverse effects of the pandemic. Therefore, the extension of the wage subsidizations was decided, which was initially planned to be terminated by June 2021, with expected termination of this measure before the end of the current year. The additional cost from this wage subsidization extension is estimated at about 0.3 percent of GDP. Subsequently, additional revenue loss from the extension of wage subsidizations, which are not subject to any contributions, is estimated at 0.1 percent of GDP.

At the same time, the epidemiological situation along with the vaccination programme of the country, provided the need for additional budget to strengthen the public sector. The additional appropriations in the context of the Supplementary Budgets to cover the cost of the vaccines, for further medical staff, for the enhancement of related equipment and infrastructure of the Testing Centre (Institute of Neurology and Genetics), the cost of private testing centres etc., is expected to have an additional impact of about 0.2 percent of GDP on the expenditure side of the accounts of the general government in 2021.

The additional needs for expenditure under the Deputy Ministry of Tourism, through the related appropriations included in the Supplementary Budgets, are also expected to have a positive impact on the expenditure side of the accounts of the general government for the current year, of about 0.1 percent of GDP. These additional expenses include (i) the continuation of the special programme of the Deputy Ministry of Tourism, as a measure to alleviate the adverse effects of the pandemic crisis in the Tourism Industry, that provides incentives to Cypriots to spend their holidays in Cyprus through subsidizations to the hotels joining the programme, (ii) the payments to designated quarantine hotels and (iii) other obligations of the Deputy Ministry of Tourism arising from measures related to the pandemic.

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

	ESA Code	**2021**	**2022**
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	41.3	41.0
of which			
1.1. Taxes on production and imports	D.2	14.0	13.8
1.2. Current taxes on income, wealth, etc	D.5	9.6	9.5
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	12.0	12.1
1.5. Property income	D.4	0.7	0.6
1.6. Other		5.0	4.9
p.m.: Tax burden		35.7	35.4
(D.2+D.5+D.61+D.91-D.995)			
2. Total expenditure at unchanged policies	TE	45.3	42.1
of which			
2.1. Compensation of employees	D.1	13.7	13.7
2.2. Intermediate consumption	P.2	4.4	3.9
2.3. Social payments	D.62+D.632	16.6	16.3
of which Unemployment benefits		0.5	0.3
2.4. Interest expenditure	D.41	2.0	1.8
2.5. Subsidies	D.3	2.4	0.4
2.6. Gross fixed capital formation	P.51g	2.7	2.8
2.7. Capital transfers	D.9	0.3	0.3
2.8. Other		3.2	2.9

Finally, in the context of the pandemic, the appropriation of about 0.1 percent of GDP was included in the 4th Supplementary Budget, for the provision and any other need might arise by the end of the year.

On 7th July 2021, the Council of Ministers approved additional appropriations of €20 mn to cover the increased cost that necessitated from the large-scale fires that broke out in mountainous areas of Larnaca Provinces and Limassol early-July 2021 and in Paphos District on 26 June 2021, to support the fire victims. The decision was unanimously voted by the Plenary Session of the Parliament, early-July 2021. A series of measures were approved to support the fire victims including compensation mainly for damage to houses, properties, vehicles, agricultural land, etc. The impact on the expenditure side of the accounts of the general government is estimated at 0.2 percent of GDP for 2021.

Finally, the provision for the implementation of additional Water Desalination Plants and the additional appropriations associated with the increased migration flow, are expected to increase the expenditure side by 0.1 percent of GDP in 2021, respectively, as well as the increased expenses under the government decision end-2020 to raise the minimum pension, with a fiscal cost of 0.04 percent of GDP for 2021.

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 2021	Year 2022
Extension of the wage subsidization scheme from June 2021 until the end of the year	Revenue loss from the extension of wage subsidizations until end-2021, which are not subject to any contributions.	D.61	accrual	adopted	-0.06	-
Extension of the wage subsidization scheme from June 2021 until the end of the year	Additional cost from the extension of the wage subsidization scheme until end-2021, targeted specifically for (i) Hotel Units and Tourist Accommodation, (ii) the Hotel Industry and other businesses providing tourist accommodation, and (iii) businesses exercising special predefined activities.	D.3	accrual	adopted	0.27	-
Additional budget for the strengthening of the public health sector	Additional needs for the strengthening of health (vaccines, additional medical staff, enhancing equipment and infrastructure, enhancing ambulance services, enhancing the centre of testing (Institute of Neurology and Genetics) private testing centres) etc.	P.2	accrual	adopted	0.21	-
Support to the fire victims June-July 2021	Expenses for the reconstruction of the areas after the damages caused by the fire (roads and other infrastructure).	P.51g	accrual	adopted	0.02	-
Support to the fire victims June-July 2021	The assistance relates to compensations to the victims mainly for damage to houses, properties, vehicles, agricultural land, etc.	D.62	accrual	adopted	0.07	-
Special programme to provide incentives to Cypriots to spend their holidays in Cyprus and other needs under the Deputy Ministry of Tourism	Scheme providing subsidization to hotels that joined the programme, aiming to encourage locals to take their holidays in Cyprus through the provision of affordable prices for accommodation.	D.3	accrual	adopted	0.05	-
Other needs related to COVID-19	Provision for various needs that might arise by the end of the year, mostly related to the pandemic.	D.75	accrual	adopted	0.13	-
Implementation of Desalination Plants	Expenses for the implementation of additional Desalination Plants	P.2	accrual	adopted	0.09	-
Increase of the minimum pension	Additional cost to cover expenses under a government decision to raise the minimum pension to €710 per month for around 30,000 elderly people, end-2020.	D.62	accrual	adopted	0.04	-
Increased migration flow	Additional appropriations associated with the increased migration flow, to cover the needs of the applicants for international protection, to cover accommodation needs etc.	D.62	accrual	adopted	0.08	-
TOTAL BUDGETARY IMPACT					**-1.0**	**-**

The total impact from the measures described above is estimated at -1 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 deficit of about 4% in 2021. No impact is foreseen for the year after under the no-policy change scenario.

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:

Country Specific Recommendation	Progress to date
CSR 1 **In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment**	
According to the revised macroeconomic and fiscal forecasts of the Ministry of Finance, as presented in this Draft Budgetary Plan on the back of the Daft Budget prepared for 2022, the fiscal balance in 2022 is projected be in deficit of 1.1% of GDP, marking a significant improvement in comparison to the deficit exhibited in 2021, by 3.9 percentage points of GDP. The primary balance is projected to be in surplus of 0,8% of GDP. The improvement in the nominal deficit of the general government in 2022 stems from a combination of a decrease in expenditures by 4% and an increase in revenues by 4.9%, compared to 2021. The increase in revenues is mainly attributed to the improvement of the economic conditions, as Cyprus returns to positive growth from 2021 onwards, with real growth in 2022 forecast at 4%. General Government expenditure in 2022 is projected to decrease to €9,960 million in 2022 compared to €10,372 million in 2021, marking a negative change of 4%, mainly due to the withdrawal of measures to address the effects of the pandemic. Subsidy expenditure is projected to have the largest contribution to the reduction of public expenditure in 2022, which is projected to decrease by 83% (contribution to the reduction of public expenditure by 5 percentage points), due to the withdrawal of both employee and self-employed wage subsidies who suffered a full or partial suspension of operations during the restriction measures period, as well as one-off grants to companies to cover their operating expenses. Expenditure on intermediate consumption is also expected to decrease by 13.7% in 2022, due to the end of expenditure on the health sector and more specifically on expenditure on dealing with the pandemic, while expenditure on staff remuneration is projected to increase by 5.7% compared to 2021, mainly due to the reduced rates for reduction of earnings and pensions compared to 2021. Expenditures for social benefits are projected to increase by 2.6% due to the projected increased expenditures under the NHIS, as well as an increase in capital expenditures in 2022 by 12.3%, in the context of increased projects under the Cyprus Recovery and Resilience Plan. In particular, gross fixed capital formation is forecast to increase by 9.4% in 2022, reaching 3.1% of GDP compared to 3% of GDP expected in 2021. This increase is mainly attributed to capital expenditure planned in the context of the Cyprus Recovery and Resilience Plan contributing to the growth of this expenditure category by 8.8 percentage points in 2022. In nominal terms, capital expenditure financed by the RRF in 2022 is forecast at €118.5 million, out of which €96.4 million is attributed to grants received under the RRF.	
CSR2 **When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.**	
In the medium-term, fiscal policy aims at ensuring fiscal sustainability by setting general government balance and public debt on a downward path from 2023 onwards at an adequate pace. For 2023, a further reduction of the budget deficit to 0.5% of GDP is foreseen, while for 2024 a surplus in the general government fiscal balance of 0.8% of GDP is forecast. The primary balance surplus for the years 2023 and 2024 is projected to rise to 1% and 2% of GDP, respectively. Public debt for 2021 is estimated to fall down to 107.7%, as a percentage of GDP, compared to 119.1% at the end of last year. Thereafter, it is projected to continue its downward trend and decrease to 100.9% of GDP in 2022, to 96.9% in 2023 and by the end of 2024 it is projected to be reduced to 90.2% of GDP.	

The most important tool that will directly enhance investment and boost growth potential is the Cyprus Recovery and Resilience Plan (the Plan). According to the economic impact assessment of the Plan, which has been carried out by the Economics Research Centre of the University of Cyprus (CypERC), the Plan is expected to have significant macroeconomic impact in the short, medium and long term. More specifically, some key results of the relevant assessment show that:

- The Plan can lead to **economic growth** and more specifically **increase the GDP of Cyprus by about 3% in the short-term** (2022-2023) **and by around 7% in the medium-term** (2022-2026), compared to the baseline growth of the economy without the RRP.
- The Plan **increases employment by more than 2.5%**, or by around 11,000 new jobs during the period 2021-2026.
- The **contribution of productivity to GDP and employment** rises from 10.6% and 13.2% in the short-term and 23.5% and 29.3% in the medium-term.

The positive effects of the Plan are projected to be largely maintained in the long-term. GDP levels are expected to be 16.5% higher 20 years ahead (i.e. in 2041) compared to a scenario without the implementation of the Plan. This is mainly due to the lasting contribution of productivity (reforms), if all reforms foreseen in the Plan are realised.

CSR 3

Pay particular attention to the composition of public finances, both on the revenue and expenditure sides of the budget, and to the quality of budgetary measures, to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth enhancing investment, notably supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.

Composition of public finances	In line with the objective of the government to direct public expenditure to growth-enhancing categories, the structure of expenditures over time, exhibits a continued reallocation towards high priority policies such as Environmental Protection and Health. At the same time, there is a reduction in government expenditure on functions such as General Public Services, Defence, Public Order and Safety, Education and Economic Affairs. As presented in Table 4.c (ii) in the Appendix of this Draft Budgetary Plan, government expenditure in 2022, as a % of GDP, in the categories of “Economic Affairs”, “Health” and “Social Protection”, exhibits a marked decrease compared to 2021 which is directly related to the withdrawal of measures related to the pandemic in the health sector, as well as wage subsidization measures, unemployment benefits and subsidization of sickness and parental leave.
Sustainable and growth enhancing investment, notably supporting the green and digital transition	The Draft Budget 2022 aims at supporting growth and includes many large mature projects. Most importantly, the Draft Budget 2022 supports green growth and digitization and includes all the provisions, projects and reforms related to the Cyprus Recovery and Resilience Plan. Cyprus has secured through the Recovery and Resilience Fund € 1.2 billion to finance the National Recovery and Resilience Plan (the Plan) with 2026 as the horizon of implementation. An amount of €1 billion will be in the form of grants and a further €200 million will be in the form of loans. The Plan includes a coherent package of 133 measures, 58 reforms and 75 investments.

	Taking into account the funds of the Plan and the Cohesion Policy Fund, as well as the additional private investments that will result from the implementation of the supported projects, the financial impact of the Plan is over €4 billion. As a result of the implementation of the Plan, in addition to the projected increase in GDP, an additional percentage of 7% will be added, while the implementation of the Plan's funds will create more than 11 thousand new jobs. The investments, reforms, plans and actions that fall under the five (5) main policy pillars of the Plan are distributed as follows: • Public health and civil protection: €74 million. • Rapid transition to a Green Economy: €448 million. • Strengthening the resilience and competitiveness of the Economy: €422 million. • Towards a Digital Age (digital transformation): €89 million. • Employment, education and human capital: €173 million. The disbursement of all resources is inextricably linked to the timely achievement of all 271 targets and milestones set for each of the Plan's investments and reforms, with very specific timelines, set on a quarterly basis.
Fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all	The implementation of the domestic economic recovery passes through holistic strategies of recovery and promotion of necessary reforms aimed at enhancing the competitiveness and productivity of the economy and creating a completely sustainable economy focusing, among other things, on green growth, alternative forms of financing and structural changes in the public service. More specifically, the Cyprus Recovery and Resilience Plan includes the following key Structural Reforms: **Public health:** Gradual adaptation for the introduction of a quality-based compensation model in primary and nursing care. **Green economy and growth:** (a) Introduction of Green Taxation (b) Opening of the electricity market to competition and promotion of the adoption and use of renewable energy sources (RES), as well as creation of a One Stop Shop for the alignment of the licensing of RES projects (c) Creation of a regulatory framework for energy storage aiming at the additional penetration of RES (d) Legislative regulation for the gradual elimination of polluting vehicles and Plans to replace them with friendly vehicles to the environment, low and/or zero pollutants (e) Reform of the water resources management framework. **Strengthening the Resilience and Competitiveness of the Economy:** (a) Strengthening the circular economy in industry (b) Preparing a National Research and Innovation Strategy and creating incentives to encourage and attract both investments and human resources in the above sectors. (c) Establishment of a legislative framework to facilitate strategic investments (d) Further strengthening of the Mechanism for the Rapid Activation of Foreign Companies in Cyprus (e) Modernization of the Companies Law (f) Planning and Establishment of a National Development Organisation (g) Finding a Strategic Investor for the Cyprus Stock Exchange (h) Public Service Reform (i) Reform of Local Government (j) Reform of Courts aiming at the more effective and functional functioning of the Courts, which includes, among others, the digital transformation of the Courts (k) Implementation of the Action Plan on Corruption (l) Implementation of the Action Plan for the confrontation of non-performing loans (m) Strategy for combating

	financial illiteracy (n) Creation and operation of a central knowledge transfer office. **Digital Policy and Development:** (a) Strengthening of the National Broadband Office (b) Digital transformation of school units (c) Action Plan for e-skills (d) Important digital transformation and e-governance projects. **Social issues and Education:** (a) Reform of the Teacher Evaluation System (b) Reform of the Social Insurance System and restructuring of the Social Insurance Services.

5. COMPARISON BETWEEN DBP AND THE MOST RECENT STABILITY PROGRAMME

The general government budget balance targets set for the Budget of 2022, deviate by -0.3 and -0.2 percentage points of GDP for the years 2021 and 2022, respectively, vis-à-vis the ones presented in the most recent Stability Programme.

The new targets for 2021 take into account the substantial upward revision of the estimated GDP growth, as well as the expected further improvement in the labour market, but also the increase of the expenditure side attributed to the expected impact of last three Supplementary Budgets approved during the budgetary process for the forthcoming year.

The budget deficit for year 2021 presented in the context of the SP 2021-2024, compared to the projection of the budget deficit at unchanged policies for the same year presented in the current DBP, is higher by 0.7 percentage points of GDP. This positive deviation is mainly the outcome of the significant upward revision of the GDP growth for the current year by 1.9 percentage points, from 3.9% real GDP growth initially forecasted to 5.5%.

Table 7. Divergence from latest SP

	ESA Code	**Year**	**Year**	**Year**
		2020	**2021**	**2022**
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		-5.8	-4.7	-0.9
Draft Budgetary Plan		-5.7	-5.0	-1.1
Difference		0.1 [4]	-0.3	-0.2
General government net lending projection at unchanged policies	B.9			
Stability Programme		-5.8	-4.7	-0.9
Draft Budgetary Plan		-5.7	-4.0	-1.1
Difference		0.1[4]	0.7	-0.2

Regarding the year after, the deviation in the forecasted budget balance presented in the latest Stability Programme and the current Draft Budgetary Plan, of -0.2 percent of GDP, is mainly attributed to the base effect of the worsening of the projected fiscal position in 2021 by 0.3 percentage points of GDP, from an initial forecast of a budget deficit of 4.7 percent of GDP to a budget deficit of 5 percent of GDP.

[4] The difference in the figures regarding the budget balance as a percentage of GDP in 2020 presented in Table 7, refers to revisions taken place in the context of the latest EDP notification (April 2021).

APPENDIX: Tables

Table 0 i). Basic assumptions

	Year 2020	Year 2021	Year 2022
Short-term interest rate[1] (annual average)	-0.4	-0.5	-0.5
Long-term interest rate (annual average)	0.0	0.0	0.0
USD/€ exchange rate (annual average)	1.14	1.19	1.18
Nominal effective exchange rate	3.4	1.4	-0.6
World excluding EU, GDP growth	-2.9	5.9	4.2
EU GDP growth	-6.0	4.8	4.5
Growth of relevant foreign markets [UK]	-9.8	7.0	4.8
World import volumes, excluding EU	-9.3	9.0	5.7
Oil prices (Brent, USD/barrel)	42.3	67.8	67.3

1/ If necessary, purely technical assumptions.

Table 1a. Macroeconomic prospects

	ESA Code	Year 2020	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
		Level (€ mn)	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	20,528.3	-5.1	5.5	4.0	3.4	3.0
2. Potential GDP			2.4	2.9	3.2	2.9	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	B1*g	20,840.7	-6.5	7.6	5.6	5.5	5.0
Components of real GDP							
4. Private final consumption expenditure	P.3	13,322.9	-3.9	3.3	2.5		
5. Government final consumption expenditure	P.3	4,300.0	13.1	9.5	0.4		
6. Gross fixed capital formation	P.51g	4,077.9	-2.0	6.7	5.5		
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	382.4	1.4	0.0	0.0		
8. Exports of goods and services	P.6	13,634.5	-12.4	3.5	4.3		
9. Imports of goods and services	P.7	15,212.7	-4.2	3.0	2.2		
Contributions to real GDP growth							
10. Final domestic demand		21,700.8	-0.6	5.5	2.8		
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	382.4	1.4	0.0	0.0		
12. External balance of goods and services	B.11	-1,578.2	-5.8	0.1	1.2		

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 2020	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		101.5	-1.5	2.0	1.5	2.0	2.0
2. Private consumption deflator		103.0	-0.9	2.0	1.5		
3. HICP		99.7	-1.1	2.0	1.5		
4. Public consumption deflator		98.6	0.7	2.2	2.1		
5. Investment deflator		103.7	-0.2	2.1	1.5		
6. Export price deflator (goods and services)		103.4	0.5	2.0	1.5		
7. Import price deflator (goods and services)		101.2	-1.1	2.3	1.8		

Table 1c. Labour market developments

	ESA Code	Year 2020	Year 2020	Year 2021	Year 2022
		Level	rate of change	rate of change	rate of change
1. Employment, thousand persons[1]		439.6	-0.6	1.3	2.8
2. Employment, thousand hours worked[2]		746,405	-6.4	4.0	3.0
3. Unemployment rate (%)[3]		34,291	7.6	7.5	6.7
4. Labour productivity, persons[4]		46,700	-4.6	4.1	1.2
5. Labour productivity, hours worked[5]		27.5	1.4	1.4	1.0
6. Compensation of employees (€ mn)	D.1	9,538	-3.8	4.8	4.8
7. Compensation per employee (€)		24,458	-3.2	3.5	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 2020	Year 2021	Year 2022
		% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	-11.8	-9.9	-8.5
of which:				
- Balance on goods and services		-6.2	-6.0	-4.7
- Balance of primary incomes and transfers		-5.7	-4.0	-3.8
- Capital account		0.1	0.1	0.1
2. Net lending/net borrowing of the private sector	B.9	-6.1	-4.9	-7.3
3. Net lending/net borrowing of general government	B.9	-5.7	-5.0	-1.1
4. Statistical discrepancy		0.0	0.0	0.0

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

	ESA Code	Year 2021	Year 2022	Year 2023	Year 2024
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	-5.0	-1.1	-0.5	0.8
1a. Central government	S.1311	-5.9	-1.8		
1b. State government	S.1312	M	M		
1c. Local government	S.1313	0.0	0.0		
1d. Social security funds	S.1314	0.9	0.6		
2. Interest expenditure	D.41	2.0	1.8		
3. Primary balance[2]		-3.0	0.7		
4. One-off and other temporary measures[3]		0.0	0.0	0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		5.5	4.0		
6. Potential GDP growth (%) (=2 in Table 1.a)		2.9	3.2	2.9	2.9
contributions:					
- labour		1.3	1.4		
- capital		1.0	1.1		
- total factor productivity		0.6	0.7		
7. Output gap (% of potential GDP)		0.0	0.7	1.2	1.3
8. Cyclical budgetary component (% of potential GDP)		0.0	0.4	0.6	0.7
9. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-5.0	-1.5		
10. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		-3.1	0.3		
11. Structural balance (13 - 8) (% of potential GDP)		-5.0	-1.5	-1.1	0.1

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 2021	Year 2022	Year 2023	Year 2024
		% GDP	% GDP	% GDP	% GDP
1. Gross debt[1]		107.7	100.9	96.9	90.2
2. Change in gross debt ratio		-11.4	-6.9		
Contributions to changes in gross debt					
3. Primary balance (= item 3 in Table 2.a)		-3.0	0.7		
4. Interest expenditure (= item 2 in Table 2.a)	D.41	2.0	1.8		
5. Stock-flow adjustment		-16.5	-8.0	-4.4	-5.9
of which:					
- Differences between cash and accruals[2]		-0.3	-0.1		
- Net accumulation of financial assets[3]		-7.8	-2.2		
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]		**1.8**	**1.8**	**1.5**	**1.3**

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 2021	Year 2022
	% GDP	% GDP
Public guarantees	15.1	14.2
Of which: linked to the financial sector	6.5	6.1

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

	ESA Code	Year 2021	Year 2022
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	41.3	41.0
of which			
1.1. Taxes on production and imports	D.2	14.0	13.8
1.2. Current taxes on income, wealth, etc	D.5	9.6	9.5
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	12.0	12.1
1.5. Property income	D.4	0.7	0.6
1.6. Other[1]		5.0	4.9
p.m.: Tax burden		35.7	35.4
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure at unchanged policies	TE[3]	45.3	42.1
of which			
2.1. Compensation of employees	D.1	13.7	13.7
2.2. Intermediate consumption	P.2	4.4	3.9
2.3. Social payments	D.62+D.632	16.6	16.3
of which Unemployment benefits[4]		0.5	0.3
2.4. Interest expenditure	D.41	2.0	1.8
2.5. Subsidies	D.3	2.4	0.4
2.6. Gross fixed capital formation	P.51g	2.7	2.8
2.7. Capital transfers	D.9	0.3	0.3
2.8. Other[5]		3.2	2.9

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 2021	Year 2022
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	41.2	41.0
of which			
1.1. Taxes on production and imports	D.2	14.0	13.8
1.2. Current taxes on income. wealth. etc.	D.5	9.6	9.5
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	12.0	12.1
1.5. Property income	D.4	0.7	0.6
1.6. Other [1]		5.0	4.9
p.m.: Tax burden		35.6	35.4
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]	46.3	42.1
of which			
2.1. Compensation of employees	D.1	13.7	13.7
2.2. Intermediate consumption	P.2	4.7	3.9
2.3. Social payments	D.62+D.632	16.8	16.3
of which Unemployment benefits[4]		0.5	0.3
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	2.0	1.8
2.5. Subsidies	D.3	2.8	0.4
2.6. Gross fixed capital formation	P.51g	2.7	2.8
2.7. Capital transfers	D.9	0.3	0.3
2.8. Other[5]		3.4	2.9

1/
P.11+P.12+P.131+D.39rec+D.7rec+D.9r
ec (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 2020	Year 2020	Year 2021	Year 2022
		Level (€ mn)	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		103.7	0.5	1.7	0.6
1a. of which investments fully matched by EU funds revenue		62.2	0.3	1.0	0.3
2. Cyclical unemployment benefit expenditure [1]		25.4	0.1	0.0	0.0
3. Effect of discretionary revenue measures [2]	D.5	21.1	0.0	1.0	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 2021		Year 2022	
	% GDP	% general government expenditure	% GDP	% general government expenditure
Education[1]	6.0	13.0	5.9	13.9
Health[1]	5.0	10.7	4.1	9.8
Employment[2]	1.4	3.1	0.2	0.4

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 2021	Year 2022
		% GDP	% GDP
1. General public services	1	8.3	8.1
2. Defense	2	2.0	1.9
3. Public order and safety	3	1.9	1.9
4. Economic affairs	4	6.0	3.6
5. Environmental protection	5	0.3	0.3
6. Housing and community amenities	6	1.7	1.7
7. Health	7	5.0	4.1
8. Recreation culture and religion	8	1.0	1.0
9. Education	9	6.0	5.9
10. Social protection	10	14.0	13.6
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	46.3	42.1

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 2021	Year 2022
Extension of the wage subsidization scheme from June 2021 until the end of the year	Revenue loss from the extension of wage subsidizations until end-2021, which are not subject to any contributions.	D.61	accrual	adopted	-0.06	-
Extension of the wage subsidization scheme from June 2021 until the end of the year	Additional cost from the extension of the wage subsidization scheme until end-2021, targeted specifically for (i) Hotel Units and Tourist Accommodation, (ii) the Hotel Industry and other businesses providing tourist accommodation, and (iii) businesses exercising special predefined activities.	D.3	accrual	adopted	0.27	-
Additional budget for the strengthening of the public health sector	Additional needs for the strengthening of health (vaccines, additional medical staff, enhancing equipment and infrastructure, enhancing ambulance services, enhancing the centre of testing (Institute of Neurology and Genetics) private testing centres) etc.	P.2	accrual	adopted	0.21	-
Support to the fire victims June-July 2021	Expenses for the reconstruction of the areas after the damages caused by the fire (roads and other infrastructure).	P.51g	accrual	adopted	0.02	-
Support to the fire victims June-July 2021	The assistance relates to compensations to the victims mainly for damage to houses, properties, vehicles, agricultural land, etc.	D.62	accrual	adopted	0.07	-
Special programme to provide incentives to Cypriots to spend their holidays in Cyprus and other needs under the Deputy Ministry of Tourism	Scheme providing subsidization to hotels that joined the programme, aiming to encourage locals to take their holidays in Cyprus through the provision of affordable prices for accommodation.	D.3	accrual	adopted	0.05	-
Other needs related to COVID-19	Provision for various needs that might arise by the end of the year, mostly related to the pandemic.	D.75	accrual	adopted	0.13	-
Implementation of Desalination Plants	Expenses for the implementation of additional Desalination Plants	P.2	accrual	adopted	0.09	-
Increase of the minimum pension	Additional cost to cover expenses under a government decision to raise the minimum pension to €710 per month for around 30,000 elderly people, end-2020.	D.62	accrual	adopted	0.04	-
Increased migration flow	Additional appropriations associated with the increased migration flow, to cover the needs of the applicants for international protection, to cover accommodation needs etc.	D.62	accrual	adopted	0.08	-
TOTAL BUDGETARY IMPACT					**-1.0**	**-**

Table 7. Divergence from latest SP

	ESA Code	Year	Year	Year
		2020	**2021**	**2022**
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		-5.8	-4.7	-0.9
Draft Budgetary Plan		-5.7	-5.0	-1.1
Difference		0.1	-0.3	-0.2
General government net lending projection at unchanged policies	B.9			
Stability Programme		-5.8	-4.7	-0.9
Draft Budgetary Plan		-5.7	-4.0	-1.1
Difference		0.1	0.7	-0.2

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

% of GDP	2020	2021	2022	2023	2024
Revenue from RRF grants					
1. RRF GRANTS as included in the revenue projections	0.0	0.3	0.6	0.8	1.0
2. Cash disbursements of RRF GRANTS from EU	0.0	0.6	0.7	0.9	0.7
Expenditure financed by RRF grants					
3.TOTAL CURRENT EXPENDITURE	0.0	0.0	0.2	0.2	0.3
4. TOTAL CAPITAL EXPENDITURE	0.1	0.2	0.4	0.5	0.7
of which:					
- Gross fixed capital formation	0.1	0.1	0.3	0.4	0.5
- Capital transfers	0.0	0.0	0.1	0.1	0.3
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	2020	2021	2022	2023	2024
Cash flow from RRF loans projected in the programme					
1. Disbursements of RRF LOANS from EU	0.0	0.1	0.0	0.2	0.2
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	0.1
4. TOTAL CAPITAL EXPENDITURE	0.0	0.0	0.1	0.1	0.1
of which:					
- Gross fixed capital formation	0.0	0.0	0.1	0.1	0.1
- 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

Table 10. Table on the stock of guarantees adopted/announced according to the Programme

% of GDP	Date of adoption	Maximum amount of contingent liabilities[1] (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19			
- **Support to the tourism sector in the form of government guarantees related to credit notes issued for the cancellation of contracts due to the pandemic of COVID-19, in case of insolvency of the issuers**	2020	0.4	-
SUBTOTAL		0.4	
Others			
- **Stock of Government Guarantees (excluding related to Covid-19 and linked to the financial sector)**		15.1	-
- **APS exposure (linked to the financial sector)**		6.5	-
SUBTOTAL		21.5	
TOTAL		21.9	-

1/ Any possible budgetary impact related to the call of those guarantees should be provided in the table on the discretionary measures in the SCP.