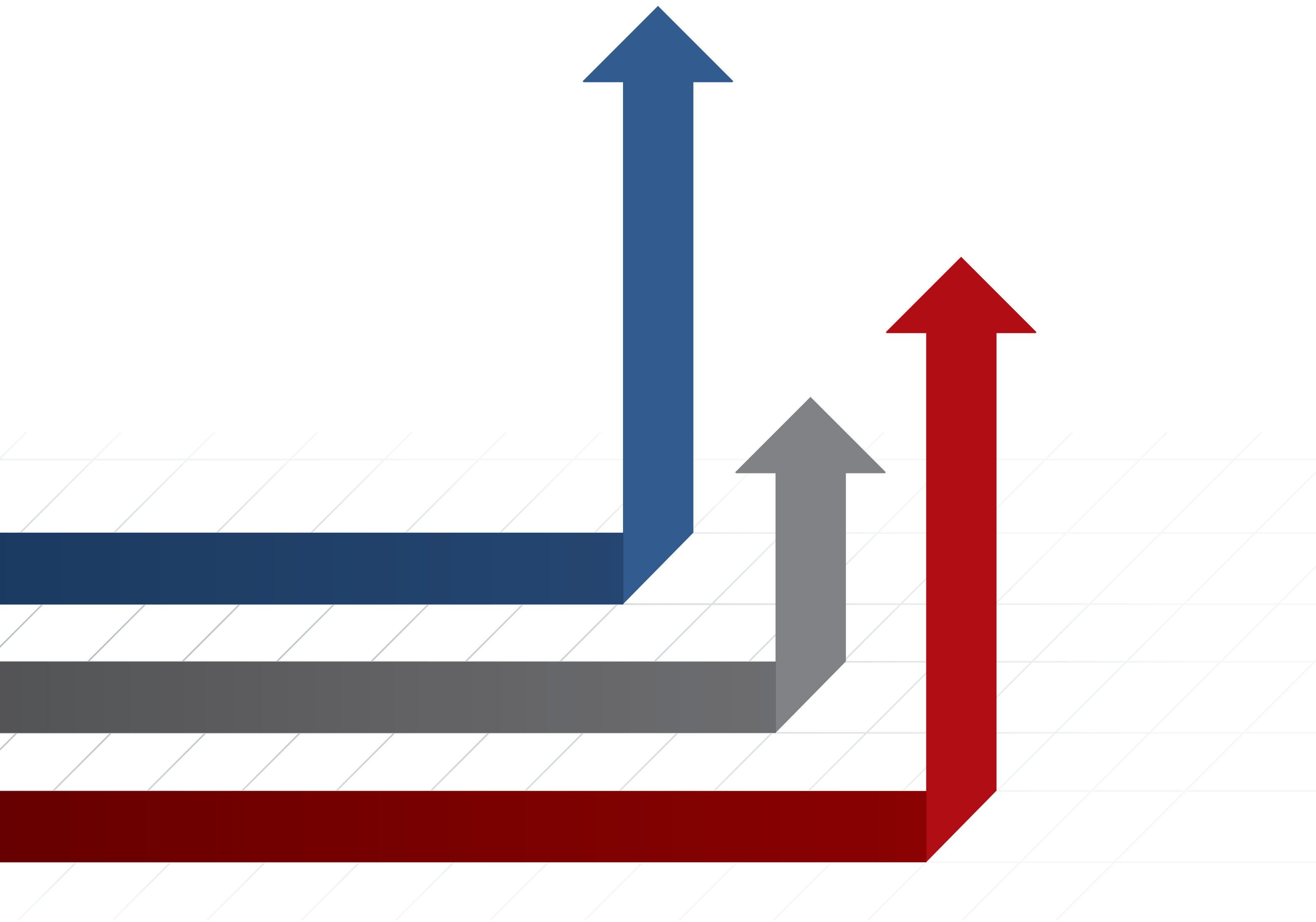
MINISTRY OF FINANCE

CYPRUS DRAFT BUDGETARY PLAN 2025



OCTOBER 2024

CYPRUS DRAFT BUDGETARY PLAN 2025

MINISTRY OF FINANCE

OCTOBER 2024

TABLE OF CONTENTS

PIO 240/2024 – Electronic Edition
ISSN 2672-8508 (online)
Published by Press and Information Office
Design: Antimonium Design

1. Introduction

The Draft Budgetary Plan (DBP) 2025, 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 2025 was approved by the Council of Ministers on 9th October 2024 and will be laid before the House of Representatives. The macroeconomic projections underlying the budgetary outcomes have been endorsed by the Fiscal Council on 30th September 2024.

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 2024, as well as the Budget Bill for 2025 and Medium-Term Budgetary Framework 2025-2027 that was submitted to the House of Representatives on 2nd October 2024.

[1] The cut-off date for the macroeconomic and fiscal forecasts was 30th September 2024

2. Economic developments and Outlook

2.1 Developments in 2024

During the first half of 2024, the economy recorded a positive growth rate of 3.5% in real terms (seasonally adjusted), compared to the respective period of 2023. In terms of domestic demand, consumption in the first half of 2024 increased by 4.5% compared to the corresponding half of 2023 (seasonally adjusted data), and more specifically public consumption increased by 4.4% and private consumption increased by 4.5%. Gross fixed capital formation decreased by 16.4% over the same period.

In terms of external demand, exports decreased by 2.8% (-7.9% in exports of goods and 5.0% in exports of services) while imports decreased by 3.8% (-18.2% in imports of goods and 8.0% in imports of services) in the first half of 2024 compared to the corresponding half of 2023 (seasonally adjusted data).

From a sectoral point of view, the growth of the economy is attributed to the following sectors: "Agriculture, forestry and fishing" (1.2%), "Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities" (4.9%), "Manufacturing" (3.4%), "Construction" (10.0%), "Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities" (3.8%), "Information and communication" (6.1%), "Real estate activities" (1.0%), "Professional, scientific and technical activities; administrative and support service activities" (3.8%), "Public administration and defense; compulsory social security; education; human health and social work activities" (3.3%) and "Arts, entertainment and recreation, repair of household goods and other services" (2.0%).

The only sector that exhibited a negative growth rate was: " Financial and insurance activities" (-0.9%).

The tourism sector and its related sectors consist an important source of growth in the first eight months of 2024. The sector, who had received a significant hit following the invasion of Russia to Ukraine and the sanctions imposed on Russia and then from the war in Israel. The gap lost of the Russian tourist market was replaced by other main tourist markets while the Israeli market has recovered since June 2024 and is again the second biggest market (with a share of 11.1% in January-August) after the United Kingdom.

Overall, for 2024 as a whole, real activity will accelerate compared with 2023, with the growth rate expected to hover around 3.7% in real terms compared to 2.9% which was the previous forecast as included in the Stability Program 2024-2027 (April 2024).

The unemployment rate (15+), based on the data of the Labour Force Survey, during the 1st half of 2024 was 5.2% (5.8% in 2024T1 and 4.6% in 2024T2), against an unemployment rate of 6.2% in the 1st half of 2023. The long-term unemployed as a % of the labour force in the 1st half of 2024 fell to 1.6%, compared to 2.1% in the corresponding half in 2023, while youth unemployment decreased to 15.1% in the 1st half of 2024 compared to 15.7% in the corresponding half of 2023. For the whole of 2024, the estimate is that unemployment will hover around 5.0%, down from 5.8% in 2023.

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 2.3% in January-August 2024 compared to the same period in 2023. For the whole year, inflation is estimated at an average of 2.2%.

2.2 Prospects for 2025-27

According to the baseline macroeconomic scenario, the real activity in Cyprus in 2025 is expected continue to be robust and record a strong growth, with the GDP rate of growth to be estimated to hover around 3.1%.

Growth in the period 2025-2027 will be supported mainly by the domestic market and more specifically by private consumption and fixed capital investments. The expected improvement in the growth pace is driven by robust domestic demand (due to higher real disposable income and continued resilience in the labour market). Also due to the easing of inflationary pressures and the monetary policy normalization which will cause gradual declines in the interest rates. External demand will contribute positively to GDP as well, due to further improvement in tourism and non-tourism exports of services.

From a sectoral perspective, growth is expected to be broad based and it is not expected to denote any negative growth in any sector. The sectors that are expected to contribute the most to growth over the period 2025-2027 include mainly those related to trade and tourist activities. Other growth drivers, but to a lesser extent, include information and communication activities, the construction sector (non-residential private sector investment due to the large and multi-year infrastructure projects in the pipeline and additionally, by the RRF financed projects) and lastly by the manufacturing sector (export-oriented pharmaceutical industry) as well.

Nevertheless, uncertainty around the macroeconomic outlook remains high due the challenging external environment. 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 and as well lower-than-expected performance of non-tourist related exports. On upside risks, a better-than-expected realization of private investment projects and performance of the tourism sector.

Overall, in 2025 the economy is projected to grow by 3.1% in real terms. The unemployment rate is projected to fall down to 4.8% of the labour force and inflation is expected to settle at around 2.0%.

The growth rate of the economy in the years 2026-2027 is expected to average at around 3.2% in real terms. Regarding the labour market, the unemployment rate in 2026 is expected to fall to 4.6% of the labour force, and then, with the further improvement of the economy, to be reduced to 4.5% in 2027. Inflation for 2026-2027 is expected to hover around 2.0%.

	2022	2023	2024	2025	2026	2027
Real GDP growth (%)	5.1	2.5	3.7	3.1	3.2	3.3
Inflation HICP (%)	8.1	3.9	2.2	2.0	2.0	2.0
Unemployment rate (%)	6.2	5.8	5.0	4.8	4.6	4.5

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, the war in Israel, the global climate change, as well as general political instability in the Eastern Mediterranean.

Table 1a. Macroeconomic prospects

	2023	2024	2025
	rate of change	rate of change	rate of change
1. Real GDP	2.5	3.7	3.1
2. Potential GDP	4.1	3.9	3.6
contributions:			
- labour	1.6	1.4	1.2
- capital	1.8	1.7	1.7
- total factor productivity	0.7	0.8	0.7
3. Nominal GDP	7.3	7.5	5.6
Components of real GDP			
4. Private final consumption expenditure	4.2	3.4	2.2
5. Government final consumption expenditure	2.3	4.1	2.7
6. Gross fixed capital formation	12.5	-5.7	6.1
7. Changes in inventories and net acquisition of valuables (% of GDP)	-0.2	0.0	0.0
8. Exports of goods and services	-1.2	1.0	1.8
9. Imports of goods and services	1.7	-1.7	1.7
Contributions to real GDP growth			
10. Final domestic demand	5.5	1.6	3.1
11. Changes in inventories and net acquisition of valuables	-0.2	0.0	0.0
12. External balance of goods and services	-2.8	2.6	0.1

Table 1b. Price developments

	2023	2024	2025
	(rate of change)	(rate of change)	(rate of change)
GDP deflator	4.7	3.8	2.4
Private consumption deflator	3.2	2.2	2.0
HICP	3.9	2.2	2.0
Public consumption deflator	8.3	6.0	2.9
GFCF deflator	2.8	2.0	2.2
Export price deflator (goods and services)	2.2	2.2	2.1
Import price deflator (goods and services)	0.5	1.6	1.9

Table 1c. Labour market developments

	2023 (rate of change)	2024 (rate of change)	2025 (rate of change)
Employment, persons[1]	1.5	2.1	1.8
Employment, hours worked[2]	1.7	2.3	2.0
Unemployment rate (%)[3]	5.8	5.0	4.8
Labour productivity, persons[4]	1.0	1.5	1.3
Labour productivity, hours worked[5]	0.7	1.3	1.1
Compensation of employees	7.4	7.1	4.9
Compensation per employee	5.6	4.9	3.1

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

	2023 (% GDP)	2024 (% GDP)	2025 (% GDP)
1. Net lending/net borrowing vis-à-vis the rest of the world	-12.1	-8.5	-7.6
of which:			
- Balance on goods and services	-0.9	1.9	2.2
- Balance of primary incomes and transfers	-11.2	-10.5	-9.8
- Capital account	0.0	0.1	0.0
2. Net lending/net borrowing of the private sector	-15.5	-12.4	-10.3
3. Net lending/net borrowing of general government	3.3	3.9	2.7
4. Statistical discrepancy	0.0	0.0	0.0

BOX: MACROECONOMIC EFFECTS OF CLIMATE CHANGE: THE IMPACT OF ENERGY TRANSITION ON THE ECONOMY OF CYPRUS.[2]

UNIVERSITY OF CYPRUS – ECONOMICS RESEARCH CENTRE

1. Background and policy context

We conduct a model-based assessment of the macroeconomic impacts of energy transition policies aimed at reducing carbon emissions and increasing the share of renewable energy resources in the economy of Cyprus, within the framework of the revised Integrated National Energy and Climate Plan (NECP).

The consequences of the energy transition, particularly the "net-zero transition" outlined in the European Green Deal and the recently adopted Fit-for-55 package, may have significant implications for macroeconomic dynamics and the transmission of policy shocks, especially those of a fiscal nature. Specifically, we assess the impact of selected "green" fiscal discretionary measures and their contribution to achieving various NECP targets, such as a 28% reduction in greenhouse gas emissions (GHG) by 2030 (compared to 2005 levels) and an increase in the share of renewable energy in total energy consumption from 20% to 28%. To this end, we illustrate the short- to medium-term macroeconomic impact under different policy scenarios using model simulations.

Discretionary 'green' fiscal measures are typically implemented either on the revenue side, through energy taxes (primarily targeting carbon-intensive goods like fuels), or on the expenditure side, via green subsidies for clean energy production. These measures can be tailored to households or firms, such as specific taxes on high-emission production activities or subsidies supporting clean energy production, household income and consumption. Ultimately, these 'green' measures are expected to positively contribute to climate change adaptation by promoting energy transition and improving energy efficiency.

Given the significant role of the tradable sector (e.g. tourism and financial services) compared to the non-tradable sector in Cyprus's economic structure, our analysis evaluates the energy transition's impact at both aggregate and sectoral levels. This is crucial because, although the Cypriot economy is not heavily reliant on high-emission industries, the introduction of a carbon tax still generates widespread effects across sectors through inter-sectoral forward and backward linkages.

2. Model description

We use the in-house Small Open Economy DSGE model developed by the Economics Research Center of the University of Cyprus augmented with an energy production sector, where intermediate-goods firms in the tradable and non-tradable sectors and households demand an energy composite for production and consumption purposes.[3] We follow closely the methodology in Coenen, Losej and Priftis (2024), where the energy composite is produced using "dirty" and "clean" inputs.[4] These inputs are in

[2] The findings in this summary report are derived from a project funded by the Ministry of Finance and the Economics Research Centre on "Climate Change and its Impacts on the Cypriot Economy," as well as from the research grant "Economic Policy Modelling Hub," financed by the European Commission's Recovery and Resilience Plan (RRP) for Cyprus. Specifically, these results are part of the ongoing study, "Macroeconomic Impact Assessment of the Energy Transition Using a Three-Sector DSGE Model for the Cypriot Economy" (Mavrigiannakis K. and Sakkas S., 2024, forthcoming).

[3] See Mavrigiannakis and Sakkas, 2024, EU Sanctions against Russia and implication for a Small Open Economy: the case of Cyprus, Open Economies Review, for the baseline model.

[4] See Coenen, Losej and Priftis, 2024. Macroeconomic Effects of Carbon Transition Policies: An assessment based on ECB's New Area Wide Model with a disaggregated energy sector, European Economic Review.

turn produced from imported fossil resources, the use of which causes carbon emissions, and from domestic renewable resources respectively.

3. Simulation design

We conduct a number of energy transition simulation scenarios that provide us a qualitative, and to some extent, a quantitative assessment on the impact of carbon taxes and the main channels through which they affect macroeconomic aggregates such as output, employment and inflation. We also examine to what extent these measures contribute to the fulfillment of the Fit-for-55 targets such as GHG emission reduction and the increase in the share of renewable energy. We also examine policy mixes, that is we combine fiscal policy discretionary measures along with structural policies affecting productivity in the clean energy production sector. Finally, we propose ways of leveraging taxation policies to strengthen price incentives and to create the context for broad-based tax reforms, shifting the tax burden from labour income to pollution or from corporate income to pollution. All of the scenarios under consideration are assumed fiscally-neutral. The scenarios are described below:

S1. Effective Carbon tax rate increase (benchmark): This benchmark scenario is grounded on Effective Carbon Tax Rates changes and their contribution in the total tax revenues as share of GDP.[5] More concretely, we assume an increase in the effective carbon tax rate of about 32.5%, linearly for 6 years (from 2025 to 2030) so that tax revenues from energy taxes are increased by 0.8% as share of GDP (by 2030), that is from 1.8% to 2.6% as a share of GDP. Carbon taxes are imposed both on the households' side (e.g. tax on motor fuels) and on the firms' side (e.g. motor fuel for industries, production tax) at equal shares of the total carbon tax.[6] Note that the final increase in the level of the effective carbon tax rate of 32.5% is substantially lower than the increase suggested by international organizations and energy authorities for achieving the net-zero target.[7]

S2. Green subsidies: In the second scenario we assume an increase in subsidies in clean energy production. To give a more functional role to energy taxation schemes, other than revenue generation, we assume that these subsidies are financed from the revenues generated by the increase of carbon taxes in S1.

S3. Policy mix (fiscal and structural changes): The third scenario assumes a policy mix. That is on top of the measures examined in S2 we assume a simultaneous gradual increase of 10% in the productivity of the clean energy production sector.[8] This is grounded on technological and innovation improvements in the clean energy production along with possible legislative and environmentally friendly reforms that will also take place during the energy transition period.[9]

S4 and S5. Tax shifts: The fourth scenario considers a tax shift from labour income taxation to energy taxation, while the fifth scenario considers a tax shift from capital/corporate income taxation to energy taxation. Empirically this is grounded on empirical evidence showing that in Cyprus, in recent years, energy tax revenues (in particular environmental) are not increasing as much as labour tax revenues do.[10] On theoretical grounds it is widely accepted that environmental taxes are less distortive than other more commonly used types of taxation (e.g., labour or capital taxation) that were designed mostly for revenues raising purposes while at the same time they are supposed to correct negative externalities.

---

[5] European Commission, Annual Taxation Report 2023.
[6] Based on Economic Research Center's estimates in the context of the Cyprus Tax Reform.
[7] See International Energy Agency, World Economic Outlook 2023.
[8] See OECD Green Growth Papers, 2023-01, Environmentally Adjusted Multifactor Productivity: Accounting for renewable natural resources and ecosystem services.
[9] The number of green reforms and initiatives is vast and diverse. A macroeconomic model cannot possibly reflect this diversity; however, we assume that all this boils down to productivity enhancement.
[10] European Commission, Annual Taxation Report, 2023, Figure 47.

4. Simulation results

Figure 1 shows the evolution of the main aggregate macro variables for each scenario studied. The figure also shows the evolution of energy related measures. Overall, there is a trade-off between the macroeconomic outcomes and the EU targets.

The benchmark scenario, S1 implies that an increase in carbon taxes lower the demand for dirty energy and induce firms to substitute less costly clean energy for production of the aggregate energy good. The increase in the post-tax price of dirty energy, combined with the rise in the price of clean energy due to substitution effects, results in aggregate energy prices increases which pass through the rest of the production sectors in the economy by increasing their respective marginal costs. In turn this translates into an inflation increase in the short run. Consequently, firms' and households' real profits and real income fall, which in turn slices investment and consumption, and hence GDP and employment. The reduction in GDP and employment is 0.43% and 0.48% respectively, by 2030. When we disaggregate output at the sectoral level we see that the non-tradable sector is the one carrying most of the burden, since it is more energy and emissions intensive. This translates into a 0.37% drop in tradable's sector output versus a 0.61% in the non-tradable by 2030. Note also that the recovery in the tradable sector is faster while the effects in the non-tradable are persistent. The inflationary pressures are mild, that is 0.03 percentage points increase in the first 5 years.

On the positive side, dirty energy production and carbon emissions decline by 2.4% and 1.7% respectively (or about 22% relative to 2005). However, the economy cannot experience a "green transition", since the share of clean energy to total energy barely increases (from 20.0% to 20.2%). This means that, even a substantial increase of 32.5% in carbon taxes is not enough to meet the EU targets in terms of emissions and renewable resources share.

In the second scenario (S2), when we assume that all the revenues generated by the increase in carbon tax can be used for the financing of green subsidy model simulations show that the negative effects on aggregate and sectoral output still persists, though attenuated (0.32% compared with 0.43% in S1, that is 26% reduction). Interestingly, output in the tradable sector increases, rising by almost 0.5% in 2030, pointing to the fact that green subsidies have productivity enhancing effects and mitigate the carbon tax distortion for a large share of the production activity in Cyprus. Regarding the energy transition EU targets, the share of renewables increases more relative to S1, reaching a level of 22% but still is far from reaching the EU target of 28%. In a sense, there is a double dividend compared to S1 since we obtain better macroeconomic outcomes and energy transition is stronger. Inflationary pressures are stronger reaching an increase of 0.07 percentage point and appear earlier in the transition possibly due to stronger demand effects relative to the benchmark scenario.

Regarding the third scenario (S3), that is a combination of fiscal measures and productivity reforms, the plots show that negative effects on output are substantially attenuated while closing the gap with the actual Fit-for-55 targets. Aggregate output falls 0.23% by 2030 (that is 50% less than in the baseline scenario) while output in the tradable sector increases gradually. Instead output in the non-tradable sector falls slightly in the early years of the transition and turns positive later on. The reaction of aggregate employment follows a similar pattern but remains persistently negative. At the same time the share of clean energy production increases to 22.5%. Moreover, dirty energy production and carbon emissions decline by almost 7% and 4.5% (or about 25% relative to 2005) respectively, which are the highest values among the scenarios examined, significantly contributing to closing the gap with the Fit-for-55 targets. These results highlight the strong and positive complementarities stemming from the combination green subsidies and productivity reforms in terms of both aggregate efficiency and environmental outcomes.

Model simulations in S4 demonstrate that adjusting the tax mix—where an increase in carbon taxes is offset by a corresponding reduction in labor income taxes, in a debt-neutral manner—significantly mitigates the negative effects on output and employment, particularly in the short run. By 2030, aggregate output declines by around 0.3% and employment by 0.27%. In S5, reducing capital income tax proves to be the most economically beneficial, with output increasing by 0.2% by 2030. However, this also leads to stronger short-term inflationary pressures due to heightened demand.

While S4 and S5 perform better compared to other scenarios in terms of economic efficiency, their impact on EU energy tax goals is negligible in terms of emissions reduction and increasing the share of green energy. This is because lowering capital and labor income taxes significantly boosts demand for all goods (tradable, non-tradable, dirty, and green energy) and in turn sectoral outputs, effectively neutralizing any positive effects from carbon taxes.

5. Concluding remarks and caveats

Our main finding is that the cost of the net-zero energy transition depends heavily on the chosen policy mix, particularly regarding the efficient use of carbon tax revenues. Allocating carbon tax revenue to reduce other distortive taxes, such as capital income or labor income taxes, can lead to more efficient economic outcomes. Conversely, using carbon taxes to fund clean energy subsidies and productivity reforms results in output losses, but with clear environmental benefits. Similarly inflationary pressures are quite small. All this is in line with findings from international organizations focusing at the EU level. For instance, European Commission (2021) reports a long run output losses at the EU level range from 1.86% to 0.61% by 2050, while carbon taxes need to increase by 94% in order to reach net zero targets by 2050. Similarly, the European Central Bank assumes that increasing effective average carbon tax rates so as to meet EU targets, can result in higher HICP inflation in the euro area by 0.2 to 0.4 percentage points in the short run than the benchmark with no additional measures, while the level of real GDP is lower by 2.2% in 2030. Additional compensatory measures such as clean subsidies and productivity reforms can mitigate the output losses to around 1.3%.

The following caveats should be noted. This analysis does not account for the effects of ongoing climate change on macroeconomic performance, including potential physical risks such as temperature fluctuations and natural disasters, or pollution. Additionally, we do not evaluate the effectiveness of these measures in mitigating climate change. Moreover, this analysis does not take into consideration possible socio-economic aspects of climate change, like for instance the impact of climate change on public health, demographic change and education. Regarding policy interventions, our focus remains on the impact of carbon taxes as the primary fiscal policy tool during the energy transition. However, the net-zero transition also encompasses various public and private investments under initiatives like the Recovery and Resilience Fund, the Just Transition Fund and the EU Structural Funds. These investments, along with energy saving technological progress and structural reforms, are expected to have a positive macroeconomic impact.[11] That being, the short run estimated output losses for the Cypriot economy, ranging from 0.43% to 0.2% of GDP by 2030, are not considered substantial if one considers long term effects from investment on green public infrastructure and technological improvements.

[11] See Cyprus's revised NECP, Chapter 5.

Figure 1: Impact on macroeconomic and energy variables

Note: Impacts are expressed in the vertical axis as percentage deviations from the baseline year, except for inflation and the share of clean energy production, which are expressed in percentage points changes and levels respectively.

3. Budgetary developments and targets

3.1 Budgetary targets

In 2023, the general government budget balance improved significantly, from a surplus of 2.7% of GDP in 2022 to a surplus of 3.3% of GDP. The improvement in the fiscal position by 0.6 pp. of GDP during the year under review is mainly attributed to the increases, which were recorded in most revenue categories, reflecting the continuous improvements in the economy. In nominal terms, the budget balance of the general government reached €993 million in 2023 compared to €758 million the year before. Primary balance increased to €1,400 million (4.7% of GDP) in 2023 from €1,166 million in 2022 (4.2% of GDP).

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

	ESA Code	2024	2025
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	3.9	2.7
1a. Central government	S.1311	-0.3	-1.1
1b. State government	S.1312	M	M
1c. Local government	S.1313	0.0	0.0
1d. Social security funds	S.1314	4.2	3.8
2. Interest expenditure	D.41	1.4	1.6
3. Primary balance		5.4	4.3
4. One-off and other temporary measures		0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		3.7	3.1
6. Potential GDP growth (%) (=2. in Table 1a)		3.9	3.6
contributions:			
- labour		1.4	1.2
- capital		1.7	1.7
- total factor productivity		0.8	0.7
7. Output gap (% of potential GDP)		2.4	1.9
8. Cyclical budgetary component (% of GDP)		1.2	1.0
9. Cyclically-adjusted balance (% of GDP)		2.7	1.8
10. Cyclically-adjusted primary balance (% of GDP)		4.2	3.3
11. Structural balance (% of GDP)		2.7	1.8

Taking into account the expected economic growth, the improvements in the labour market, as well as the fiscal over-performance during the first seven months of the year, the budget balance is expected to remain in surplus during 2024 reaching €1,261.4 million, driven mainly by the expected economic performance during the year, benefited also by the increase in the Social Security Fund's contribution rates as from 1st January 2024. As a percent of GDP, general government budget balance is forecast to reach 3.9% of GDP, recording an improvement of 0.6 percentage points compared to 2023. Primary balance is forest to reach €1,717.1 million, corresponding to 5.4% as a percent of GDP compared to 4.7% of GDP in the year before.

According to the Commission forecast with regards to the output gap[12], using the commonly agreed methodology for the estimation of potential growth, structural balance is expected to be in surplus in 2024 reaching 2.7% of GDP, and to remain in surplus in 2025 of the order of 1.8% of GDP. Structural primary balance is expected to reach 4.2% of GDP in 2024 from 3.4% of GDP in 2023, falling to 3.3% of GDP in 2025, albeit remain at a strong position.

Table 2b. General government debt developments

	ESA Code	2024	2025
		% GDP	% GDP
1. Gross debt		68.9	64.1
2. Change in gross debt ratio		-8.5	-4.8
Contributions to changes in gross debt			
3. Primary balance (= item 3 in Table 2.a)		5.4	4.3
4. Interest expenditure (= item 2 in Table 2.a)	D.41	1.4	1.6
5. Stock-flow adjustment		0.8	1.6
p.m.: Implicit interest rate on debt		2.0	2.4

At the end of 2023, the debt-to-GDP ratio fell at 77.4% of GDP, recording a cumulative decline of more than 37.7 percentage points since 2020. This significant reduction was both attributed to the utilization of a significant amount of cash reserves to cover a part of gross financing needs and to the increase of the nominal GDP. In nominal terms, public debt fell at €23,075.8 million end-2023 from €23,813.3 million end-2022. Public debt is expected to decrease further by end-2024, falling at €22,088.8 million from €23,075.8 million end-2023. As a percent of GDP public debt is forecast to exhibit a decline of 8.5 percentage points of GDP and to drop below 70%, from 77.4% of GDP in 2023 to 68.9% of GDP by end 2024. In 2025 debt-to-GDP ratio is forecast to decline further by 4.8 percentage points of GDP falling at 64.1% and at €21,717.4 million in nominal terms.

Revenue and Expenditure Projections

In accordance with the baseline macroeconomic scenario, total revenue during 2024 is anticipated to record a positive rate of growth of the order of 11.8% compared to 2023, reaching €14,498.4 million from €12,972.6 million in 2023, driven mainly by the expected increase from receipts from social contributions (+4.6 pp.) and from taxes from income and wealth (+3.5 pp.), as well as from the expected increase of grants expected to be received in the context of the RRF. As a percent of GDP, public revenue is forecast to increase by 1.7 percentage points, from 43.5% the year before to about 45.2% of GDP. In 2025, public revenues are expected to record a rate of growth of 4.4% and to decline as a percent of GDP at 44.7%, reaching €15,135.5 million in nominal terms.

More specifically, tax revenue in 2024 is forecast to exhibit a significant growth rate of 10.1% and to reach €8,485.8 million compared to €7,706.9 million in 2023, mainly due to the expected increase in the receipts from current taxes from income and wealth (+6 pp.), taking into account the overperformance of this revenue category during the first seven months of 2024. As a percentage of GDP revenue from taxes is forecast to reach 26.5% from 25.9% in the year before. During the year after, tax revenue is forecast to grow further by 4.5%, although fall as a percent of GDP at 26.2%, reaching €8,870.9 million in nominal terms, attributed mainly to the expected increase in consumption and consequently to the increase in direct taxes.

[12] Output gap explanation as in MTFSP

Revenue from social security contributions is forecast to exhibit an increase of about 16.6% in 2024, driven mainly from the increase in the contribution rates in the context of the Social Security Fund as from 1st January 2024, the retroactive payments of the government to the Fund under the New Pension Scheme, as well as from the expected increase in nominal earnings. As a percent of GDP, revenue from social security contributions is expected to increase by 1.1 percentage points in 2024, reaching 13.1% from 12% of GDP in 2023, and then marginally decline at 13% of GDP the year after. In nominal terms, social security contributions are forecast to reach €4,185.4 million and €4,392.4 million in 2024 and in 2025, respectively, from €3,590.2 million in 2023.

The growth in category "other revenue" is expected to reach 9.5% and 2.4% in 2024 and in 2025, respectively, stemming mainly from the expected increase of the expenditure that will take place in the context of the RRP and consequently to be takin into account as revenue from grants received (neutralization methodology). As a percent of GDP, category "other revenue" is expected to increase to 5.3% in 2024 from 5.2% in the year before, and then marginally fall at 5.1% of GDP in 2025. In nominal terms revenue under this category is forecast to reach €1,684.6 million in 2024 and €1,725.2 million in 2025, from €1,538 in 2023.

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

	ESA Code	2024	2025
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	45.2	44.7
of which			
1.1. Taxes on production and imports	D.2	14.8	15.0
1.2. Current taxes on income, wealth, etc.	D.5	11.6	11.2
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	13.1	13.0
1.5. Property income	D.4	0.4	0.4
1.6. Other		5.3	5.1
p.m.: Tax burden		39.5	39.2
(D.2+D.5+D.61+D.91-D.995)			
2. Total expenditure target	TE	41.3	42.0
of which			
2.1. Compensation of employees	D.1	12.7	12.7
2.2. Intermediate consumption	P.2	4.2	4.3
2.3. Social payments	D.62+D.632	15.2	15.3
of which Unemployment benefits		0.2	0.2
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	1.4	1.6
2.5. Subsidies	D.3	0.4	0.4
2.6. Gross fixed capital formation	P.51g	3.5	4.0
2.7. Capital transfers	D.9	0.8	0.9
2.8. Other		3.1	2.9

Public expenditure is expected to exhibit an increase of 10.5% and to reach 41.3% as a percent of GDP from 40.2% in 2023. In nominal terms public expenditure is forecast to reach €13,237 million from €11,980.1 million during 2023, mainly due to the expected increases that will be recorded under payments for compensation of employees and for social payments (+3.9 pp. and +3.1 pp., respectively).

In more detail, compensation of employees is forecast to exhibit a significant increase of 13.1% in 2024 compared to the year before and to reach €4,064 million from €3,591.8 million, contributing the most to the growth of public expenditure. This y-o-y increase is expected to be brought mainly by the retroactive payments paid by the government to the New Pensions Scheme for public servants hired after 2011 (+3.6 pp.), starting from 2024 until 2026, to the provision of Cost-of-Living Adjustment (+3 pp.), to the increased contribution of the government as an employer in the context of the SSF (+0.9 pp.), as well as to the provision of annual increments (+1 pp.). As a percent of GDP, compensation of employees is forecast to reach 12.7% from 12.1%.

Social payments are forecast to marginally increase as a percent of GDP and to reach 15.2% from 15.1% in the year before, albeit increase in nominal terms by 8.2% reaching €4,882.4 million from €4,513.9 million 2023. This increase is mainly attributed to the expected increased payments for old-age pensions, higher expenditure of the HIO to public health providers, as well as to the increased SSF contribution of the government as a third party.

Intermediate consumption is expected to record an increase of 4% in 2024 falling marginally as a percent of GDP at 4.4 compared to 4.2 percent of GDP the year before, taking into account the withdrawal of expenditure related to covid-19 that took place in 2023. In 2025 intermediate consumption is expected to increase by 6.9% and to marginally increase as a percent of GDP reaching 4.3%. In nominal terms, intermediate consumption is forecast to reach €1,353.5 million and €1,447.1 million in 2024 and in 2025, respectively, from €1,301.2 million in 2023.

Expenditure category subsidies is expected to decrease significantly by 25.3% in 2024 compared to the year before and to fall as a percent of GDP at 0.4% compared to 0.5% of GDP in 2023. The expected decrease under this expenditure category is attributed mainly to the termination of the subsidisation of consumers' electricity bills, in the context of the measures to compact the inflationary pressures. In 2025 this expenditure category is forecast to increase by 1.2% remaining as a percent of GDP at 0.4% as in the year before, and to reach in nominal terms at €122.1 million from €120.6 and €161.4 million in 2024 and in 2023, respectively.

Interest expenditure is forecast to remain at 1.4 percent of GDP in 2024 as in the year before, and to experience an increase of 0.2 percentage points of GDP in 2025, reaching 1.6 percent of GDP. In nominal terms, interest expenditure is expected to reach €455.7 million €530.1 million in 2024 and in 2025, respectively, from €407 million in 2023.

Finally, gross fixed capital formation is forecast to exhibit significant rates of growth in 2024 and in 2025 of about 13.6% and 21.4%, respectively, attributed to capital expenditure planned in the context of the Cyprus Recovery and Resilience Plan. As a percent of GDP this expenditure category is forecast to reach 3.5% and 4%, where in nominal terms it is expected to reach €1,118.4 million and €1,358.3 million in 2024 and in 2025, respectively, from €984.5 million in 2023.

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 (2025) with an estimated negative fiscal impact on the accounts of the general government of about 0.23 percent of GDP in 2024 and with a negative impact in 2025 of around 0.14 percent of GDP.

In the context of the 2025 budgetary process the extension of the zero VAT rate on basic goods until end-September 2024 was decided. More specifically, from early-May 2023 until end-September 2024 (initially decided until end-October 2023, then until end-April 2024 and then until end June-2024), a zero VAT rate was applied on bread, milk, eggs, baby foods, baby and adult diapers, as well as female hygiene products. Sugar and coffee were added to the list as of November 2023, as well as meat and vegetables as of December 2023. The measure is expected to have a cost of 0.03 percent of GDP in 2024 and no cost the year after due to its termination.

Furthermore, the House of Representatives voted, in December 2023, for the reduction of the extraordinary defence levy on interest receivable from 30% to 17%. In effect from 1 January 2024, the Special Defence Contribution rate on interest received or credited by every person (individual and company) who is resident in the Republic is reduced from 30% to 17%.[13]

Lastly, on the revenue side, in order to follow Commission's intention to change the recording practices for fiscal policy measures for countries that have maintained non-indexation of personal income tax brackets for a prolonged period of time, a new measure has been introduced. In particular, the measure concerns a methodological treatment to adjust the personal income tax brackets to the inflation rate. The difference between the non-indexation and the hypothetical full annual indexation at the inflation rate is recorded as a revenue increasing measure which has an impact of around 0.11 percent of GDP for 2024 and 0.18 percent of GDP for 2025.

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

	ESA Code	2024	2025
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	45.2	44.6
of which			
1.1. Taxes on production and imports	D.2	14.9	15.0
1.2. Current taxes on income, wealth, etc	D.5	11.6	11.1
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	13.1	13.0
1.5. Property income	D.4	0.4	0.4
1.6. Other		5.3	5.1
p.m.: Tax burden		39.5	39.0
(D.2+D.5+D.61+D.91-D.995)			
2. Total expenditure at unchanged policies	TE	41.0	41.7
of which			
2.1. Compensation of employees	D.1	12.6	12.6
2.2. Intermediate consumption	P.2	4.2	4.3
2.3. Social payments	D.62+D.632	15.1	15.3
of which Unemployment benefits		0.2	0.2
2.4. Interest expenditure	D.41	1.4	1.6
2.5. Subsidies	D.3	0.4	0.3
2.6. Gross fixed capital formation	P.51g	3.5	4.0
2.7. Capital transfers	D.9	0.7	0.8
2.8. Other		3.1	2.9

[13] It is noted that this measure was not taken into account in the authorities' projections in the context of the Stability Programme 2024-2027.

On the expenditure side, the government, in July 2024, signed an agreement granting all workers in the central government and the broader public sector a 1.5 per cent rise on their base salary, which was the first such across-the-board increase since 2009. This is expected to increase public expenditure by 0.04 percent of GDP in 2024 and by 0.12 percent of GDP in 2025.

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 2024	Year 2025
Extension of the Zero/ reduced VAT rate in a number of goods/ services, for the period July-September 2024	A zero VAT rate was applied on bread, milk, eggs, baby foods, baby and adult diapers, as well as female hygiene products. Sugar and coffee were added to the list as of November 2023, as well as meat and vegetables as of Dec-2023	D.2	accrual	adopted	(0.03)	-
Reduction of the extraordinary defence levy on interest receivable from 30% to 17%	In effect from 1/1/2024, the Special Defence Contribution rate on interest received or credited by every person (individual and company) who is resident in the Republic is reduced from 30% to 17%.	D.5	accrual	adopted	(0.05)	(0.05)
Methodological treatment of the non-indexation of personal income tax brackets	For countries that have maintained non-indexation of personal income tax brackets for a prolonged period of time, a new measure has been introduced by the Commission, concerning a methodological treatment to adjust the personal income tax brackets to the inflation rate.	D.5	accrual	adopted	0.11	0.18
General increases 1.5% on the basic salaries of general government employees, applicable on 1st October 2024.	General increases 1.5% on the basic salaries of general government employees, applicable on 1st October 2024.	D.1	accrual	adopted	0.04	0.12
"At every beginning together!" student support package	Grants to students for the purchase of school supplies, grants to families with least three children who attend Pre-Primary, Primary, Secondary and Technical Education and discount on Public Passenger Transport fares to all students of Secondary General and Secondary Technical Education.	D.62+D.63	accrual	adopted	0.03	-
Photovoltaics for all	Aims at the encouragement of the use of Renewable Energy Sources and Energy Savings in Dwellings by subsidising the Installation of a Photovoltaic System and bonus reward in the event of installation of roof insulation.	D.9	accrual	adopted	0.09	0.09
One-off specific lump sum grants for low-income population	A zero VAT rate is applied on basic goods is applied aiming to relieve households from higher prices for essential products	D.62+D.63	accrual	adopted	0.07	-
Other housing policy scheme	Targeted one-off grants to specific households receiving benefits on criteria.	D.3	accrual	adopted	-	0.06
Extension of the subsidisation of consumers' electricity bills	Extension of the subsidisation of consumers' electricity bills, covering the period July-October 2024	D.3	accrual	adopted	0.02	-
TOTAL BUDGETARY IMPACT					-0.23	-0.14

A new package of measure was introduced aiming at alleviating the family budget, as part of the measures to deal with increased energy prices, which includes the grants to students for the purchase of school supplies, tablets, laptops, grants to families who are entitled to child benefit and have at least three children who attend Pre-Primary, Primary, Secondary and Technical Education. The package also includes discount on Public Passenger Transport fares to all students of Secondary General and Secondary Technical Education, with a total cost of about 0.03 percent of GDP in 2024.

The 'Photovoltaics for all" measure aims at the encouragement of the use of Renewable Energy Sources and Energy Savings in Dwellings by subsidising the Installation of a Photovoltaic System and bonus reward in the event of installation of roof insulation, with a total cost of 0.09 percent of GDP in 2024 and in 2025, respectively.

In addition, the provision of monthly (for 4 months) targeted one-off grants to specific households receiving benefits on income and assets criteria and the provision of a monthly lump sum grant, for 3 months, to households of low pensioners that are not recipients of the Minimum Guaranteed Income, with an impact of -0.07 percent of GDP on the accounts of the general government.

An interest rate subsidy scheme for Housing Loans, run by the Ministry of Finance, is included in the housing policy announced by the Government in October 2023. The scheme, applicable to loans concluded between January 1, 2022 and December 31, 2023, specifically targets the purchase or construction of primary residences for families with an annual income of €50,000. It concerns borrowers with loans of up to €350,000 and it will cover a subsidy of 2 percentage points for two years. The estimated negative impact on the accounts of the general government is at 0.06 percent of GDP for 2025.

Finally, the extension of the subsidisation of consumers' electricity bills was decided, covering the period July-October 2024, with an estimated cost of 0.02 percent of GDP.

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 2024 CSRs:

CSR1
Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with putting the general government debt on a plausibly downward trajectory over the medium term and respecting the 3% of GDP deficit Treaty reference value. According to the current Programme, the Republic of Cyprus commits to a net expenditure path, estimated at 5.8% in 2025, consistent with the requirements of the reformed Stability and Growth Pact, putting the general government debt on a plausibly downward trajectory over the medium term and respecting the 3% of GDP deficit Treaty reference value.
Submit the medium-term fiscal-structural plan in a timely manner. The draft MTFSP has been submitted to the European Commission on 20th of September 2024 and the final version will be submitted on 15th of October 2024. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and respecting the 3% of GDP deficit Treaty reference value. According to the current Programme, the Republic of Cyprus commits to a net expenditure path, which averages to 4.9% over the period 2025-2028, consistent with a continuous declining path of the debt-to-GDP ratio, estimated at below 60% from 2027 onwards.
CSR2
Strengthen administrative capacity to manage the recovery and resilience plan, accelerate investments and maintain momentum in the implementation of reforms. Address emerging delays to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of the cohesion policy programme. In the context of its mid-term review, continue focusing on the agreed priorities, taking action to better address the needs in the area of prevention and preparedness against climate change-related risks, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.
Cyprus RRP includes 282 milestones and targets and its implementation is well underway. Cyprus received €157 mln on the 9th of September 2021, as pre-financing. On December 2nd 2022, €85 mln were disbursed to Cyprus following the successful assessment of its first payment request and on the 15th of December 2023, a 2nd payment request was submitted to the European Commission for the disbursement of the 2nd and 3rd grant instalment of €152 mln. The second disbursement is expected to take place before the end of 2024. €21 mln were disbursed to Cyprus as pre-financing for the RePower EU chapter on the 25th of January 2024. On the 3rd of July 2024, Cyprus submitted its 3rd payment request for the disbursement of the 4th instalment of €77 mln, which is currently under assessment by the European Commission. The 4th payment request for the disbursement of the 5th grant instalment of €120 mln is expected to be submitted to the European Commission by the end of 2024. Cyprus' single investment Programme named "THALIA 2021-2027" that covers all four Cohesion Policy Funds (ERDF, Cohesion Fund, European Social Fund+ and Just Transition Fund) was approved in July 2022. Cyprus was the first Member State that signed the Partnership Agreement and relevant Cohesion Policy Programme. The Programme has a budget of €1.5 bln (EU contribution: €969 mln and national contribution €519 mln). Apart from this allocation, the Government of the Republic of Cyprus committed to invest additional €300 mln to the Programme (20% overbudgeting), showing its dedication towards green and digital transition, which make up the main pillars of investment in the Programme. The Programme' s activation is well under way with around €900 mln (more than 60% of the Programme' s budget) already announced and published in calls for submitting proposals.
CSR3
Strengthen the competitiveness of the economy by accelerating efforts to improve the governance of state-owned enterprises in line with international standards and further improving skill levels and educational outcomes. Strengthen continuous teacher training and address the imbalances between labour supply and demand by further increasing the capacity and attractiveness of Vocational Education and Training programmes as well as fostering adult learning.
Strengthen the competitiveness of the economy by accelerating efforts to improve the governance of state-owned enterprises in line with international standards Cyprus government aims to further enhance the governance framework of the State-Owned Entities. Relevant technical assistance has been received by the International Monetary Fund and the final technical report, entitled "Strengthening the Governance of the State-Owned Enterprises", was concluded in late August 2023. Notwithstanding the positive steps that have been undertaken by the Ministry of Finance over the last few years towards the improvement of the governance framework of the SOEs, the report recognizes that additional measures are needed to strengthen SOEs corporate governance and accountability practices. Following the detailed examination of the expert's findings, as well as other horizontal initiatives, the Ministry of Finance submitted, in March 2024 an informative proposal to the Council of Ministers, highlighting the main recommendations. Based on these, an Action Plan has been formulated, which includes four pillars of actions, namely: (1) Categorization of the SOEs, (2) Enhancement of the monitoring framework, (3) Strengthening of the SOE's institutional framework and (4) Issues related with the SOE's boards. It is anticipated that the Action Plan, following the conclusion of the consultation with the main public bodies, will be submitted to the Council of Ministers by the end of October 2024.

and further improving skill levels and educational outcomes. Strengthen continuous teacher training and address the imbalances between labour supply and demand by further increasing the capacity and attractiveness of Vocational Education and Training programmes as well as fostering adult learning.

Cyprus government promotes measures to improve the outcomes in labour and education, such as the followings:

- Addressing Skills Mismatch Between Education and the Labour Market: This reform aims to address the skills mismatch between the labour market and the Secondary and Higher Education system. It started in November 2022 with the implementation of the research project of the Department of Higher Education (DHE) of the Cyprus Ministry of Education, Sport and Youth (MESY) entitled "Development of a National Graduate Tracking Mechanism and Design and Implementation of an Employers' Skills Survey". The following actions are currently under development and scheduled to be completed by end of 2026: Reform of Curricula in Secondary General Education and Secondary Technical and Vocational Education and Training, Upgrade of labs, Professional Development of educators, Development of new programs of study. This reform is funded by RRP.

- New System of Evaluation of the Educational Work and the Educators: This reform aims to improve the quality of education and consequently students' educational outcomes by modernizing and updating the current teachers and schools' evaluation system and developing a single evaluation scheme for primary, secondary and technical and vocational education with differentiated elements. This contemporary evaluation system of schools and teachers will incorporate the training of teachers and evaluators. Based on the decision of the Council of Ministers (6th of September 2023) the process of the new Teacher and School Evaluation mechanism is institutionalized. Consultation with the three major teacher unions commenced in September 2024. The implementation of the reform will be completed by 30 June 2025. The relevant law will be implemented from the school year 2025-2026 and upon its entry into force at least 1100 teaching staff (teachers, deputy heads and school heads) will be trained for the new Teachers and School Evaluation system. At the same time, the process of self-evaluation and development of a Unified Action Plan for Improvement of the school unit is institutionalized. Its implementation in schools started in the school year 2024-2025. This reform is funded by RRP.

- Teachers' Professional Learning: This reform aims at providing opportunities for continuous professional learning to all teachers of all levels, in a systematic way, on a needs assessment basis, both of school and individual teachers. Around 45 schools of all levels participate in the program every year since 2017 when the reform was started. Teachers' professional development and learning is supported by the necessary facilitators, supporters, trainers, tools, and resources to enhance teaching and learning and provide an all-rounded experience to both educators and students. Also, around 13,000 in-service teachers attend professional learning activities and programs (compulsory courses, optional courses, intervention programs in schools) each year on different thematic areas. This reform responses to CSR 2024.3 Sub.2 as it strengthens continuous teacher training and improves learning outcomes. This reform is funded by national funds.

- Development of Technical Vocational Education and Training (TVET): This reform aims to develop and improve technical and vocational education and training in Cyprus, by improving the correlation between technical and vocational education and training and labour market needs, facilitating the transition from education to work, improving the overall quality of teaching and learning taking place in VET schools and structures and increasing student participation in VET education. The project started under THALIA for the period 2021-2027 with a total budget of €36 mln. Indicative actions and initiatives implemented via this project are the following: Introduction of new programmes of study in STVET, purchase of and access to modern technical equipment and infrastructures, evaluation and improvement of curricula, preparation of teaching materials, promotional actions to encourage increased student participation in STVET Improvement of special rooms and laboratories, purchasing teaching services from business experts and professionals, evaluations of STVET structures. Also, STVET Pupils' and MIEEK Students' work placements in industry, Inspections of pupils during their work placement, actions to increase the general public's awareness about the advantages of STVET in contemporary economical and societal context, creation of a national monitoring system tracking SVET graduates' access and success in the labour market, creation of a StVET online alumni community platform. This reform is funded by THALIA 2021-2027 Cohesion Policy - ESF+.

- Cyprus Lifelong Learning Strategy (CyLLLS): This reform provides a long-term strategic framework for the development of a knowledge-based society, in which every citizen will have learning opportunities for his knowledge, skills and attitudes, which will facilitate his personal and social growth, professional development, social inclusion, resilience and well-being. This will be achieved by improving the quality of the adult education sector, providing incentives to individuals and businesses, removing barriers, as well as increasing the visibility and strengthening of information and communication. The CyLLLS 2021-2027 was approved by the Council of Ministers on 30th of September 2022 (Decision No.: 93.682). This reform responses to CSR 2024.3 Sub.2 with regards to enhancing adult learning. This reform is funded by national funds.

- Training programmes for young people aged 15-29 not in education, employment, or training (NEETs): The acquisition of basic knowledge and skills to help young people aged 15-29 to enter the labour market. The reform was adopted on 8th July 2022 and it will be operational by Q4 2024. This response to CSR 2024.3 Sub.2, CSR 2020.2 Sub.4 and CSR 2019.3 Sub.2 by upgrading existing and acquiring new knowledge and skills in order to help young people to exploit the employment opportunities that arise in dynamic sectors of economic activity, such as the green and blue economy. Furthermore, it will prepare them suitably for the changing nature of work, especially to that related to digital transition. This reform is funded by THALIA2021-2027 Cohesion Policy - ESF+.

- Individual Learning Accounts (ILAs) (pilot project): This reform provides credits to eligible groups of employed and unemployed persons to attend training programmes within the HRDA Scheme "Standard Multi-Company Training Programmes", in order to acquire new and/or upgrade existing knowledge and skills. It was adopted on 8th July 2022 and it will be operational by Q1 2025. This reform is funded by THALIA 2021-2027 Cohesion Policy - ESF+.

▸ Training programmes focused on digital, green, blue, and entrepreneurship skills: This investment refers to training programmes implemented by certified Vocational Training Centres, for the acquisition of new and upgrading of existing digital skills, knowledge and skills related to the green and blue economy, and entrepreneurship knowledge and skills of the human resources of Cyprus (public, broader public and private sector employees, the self-employed and the unemployed). The investment began in December of 2023 and will be completed by 31st of December 2025. This responses to CSR 2020.2 Sub.4 and CSR 2019.3 Sub.2 as it increases participation in vocational education and training and helping persons to exploit the employment opportunities that arise in dynamic sectors of economic activity, such as the green and blue economy and will prepare them for the changing nature of work, especially to that related to digital and green transition. This reform is funded by RRP.

CSR4

Upgrade and expand the grid and storage to accommodate an increasing share of renewables. Improve the implementation of climate adaptation measures, by focusing on fostering the institutional framework governing climate adaptation and implementing sustainable water management practices in agriculture.

Upgrade and expand the grid and storage to accommodate an increasing share of renewables.

▸ Upgrading and connecting the Grid remains a huge challenge for Cyprus, in its efforts to increase energy security as well as the share of renewable energy sources to its energy mix. Measures are already in progress, such as the following: Electricity Interconnection Between Cyprus, Greece, and Israel: This investment, the "Great Sea Interconnector" is a significant energy infrastructure project that aims to connect the electrical grids of Israel, Cyprus, and Greece (via Crete) through a 1,000 MW subsea high-voltage direct current (HVDC) cable. The project's implementation will end Cyprus's energy isolation, achieve the EU member states' target of 15% electrical interconnection by 2030, contribute to the completion of the EU's internal energy market, enhance supply security, and reduce carbon emissions through electricity generated from natural gas and renewable energy sources. The project is in the final stage of permitting and is expected to be operational by 2029. This investment is partially funded by RRP.

▸ Guidance Documents for Renewable Energy Sources (RES) applications: This reform concerns the development of an online manual of procedures for developers of renewable energy production projects, addressing distinctly also small-scale projects and renewables self-consumers projects. The online information will indicate the One-Stop-Shop of the Ministry of Energy, Commerce and Industry as the single contact point for applications. The guidance documents are expected to be in place by the end of 2024. This reform responses as it accelerates the deployment of renewables, in particular by further streamlining permitting procedures. This reform is funded by RRP and THALIA 2021-2027 Cohesion Policy- JTF.

▸ Support Schemes for Energy Storage: This investment concerns the installation of energy storage systems in combination with the scheme of renewable energy sources, with the aim to improve RES penetration to Cyprus energy mix, reduce curtailments and enhance stability of the system. Three different schemes (namely Part A1, A2 and B) are envisioned targeting existing and new RES producers. The first scheme (A1) that involves existing RES producers with contract with the EAC Supply is expected to be completed by Q4 2024. Parts A2 and B are expected to be completed by Q1 2025. This investment if funded by THALIA 2021-2027 Cohesion Policy-JTF and national funds.

▸ Grant Scheme for the Encouragement of the Use of Renewable Energy Sources (RES): This investment promotes the installation of photovoltaic systems in existing dwellings, including residences used as the main and permanent place of residence by vulnerable electricity consumers. The first grand scheme launched in 2019 and over 30,000 dwellings have been granted. This investment is funded by RRP.

▸ Saving – Upgrading Houses" Programme: This investment provides grants related to thermal insulation of the building shell, replacement of windows, installation of shading systems as well as the installation and/or replacement of technical systems (such as solar, photovoltaic, air conditioners, storage batteries, control systems, etc.) The first two calls of the scheme were announced in 2021 and 2023 with a total budget of €85 mln. By the end of July 2024, 1335 applicants finished their investments and received a total subsidy amount of €20,6 mln. The first two calls (total budget €85 mln) are funded through the THALIA 2021-2027 Programme – Cohesion Policy- ERDF. The third call funded from RRF with a budget of €30 mln and was announced on July 2024. This investment is funded by national funds.

▸ PEDIA project: This investment aims to transform schools to zero energy schools and improve their energy efficiency and resilience. It sets a procedural framework to select existing buildings, based on pre-defined criteria, to implement energy renovations, while providing innovative financial solutions, which minimise transaction costs and engage the private finance community. The selection process of 25 schools from all the educational levels out of 167 which have applied was concluded in December 2021, the relevant infrastructure works started in 2022. The project entered at the 3rd phase of implementation where the first 5 schools have already been restructured and another 5 schools are in the process to become zero energy schools. The project was initially funded by the project Horizon and National Funds with the amount of €5 mln and now it is funded by THALIA with the amount of €22 mln until 2027. This investment is funded by THALIA 2021-2027 Cohesion Policy – ERDF.

▸ Digital One-Stop Shop to streamline RES projects permitting and to facilitate Energy Renovation in Buildings: The objective of the measure is to promote the implementation of RES projects by streamlining the RES projects permitting process. The reform also aims at accelerating the energy renovation of buildings. The reform shall consist in digitalizing the licensing permitting process for RES projects and establishing a single point of contact for technical and financial support for the purposes of energy renovation of buildings. The first phase, which concerns the digital submission of applications for the licensing of energy production projects from RES is under operation while, the second phase, which will enable the full digitalisation of procedures and electronic approvals of applications is expected to be completed before the end of 2024. This reform is funded by RRP.

Improve the implementation of climate adaptation measures, by focusing on fostering the institutional framework governing climate adaptation and implementing sustainable water management practices in agriculture.

With regards the implementation of climate adaption measures and the water management, Cyprus promotes the following measures:

- Cyprus is promoting the revision and update of the Cyprus National Strategy on Adaptation to Climate Change, that takes into consideration the new available information of climate change in the eastern Mediterranean and Middle East region and the contents of the new EU adaptation strategy and foreseeing to the support for the deployment of Cyprus climate-related risk assessment and stress test, institutional, administrative and sectoral capacity building contributing to enhancing stakeholder engagement. A TSI project was granted for this strategy that was signed in November 2023, started in January 2024 and expected to be finalised in late 2025. This reform is funded by THALIA 2021-2027 Cohesion Policy- Cohesion Fund.

- National Circular Economy Action Plan: This Plan includes targeted policies and actions aimed to strengthen and promote the Circular Economy in Cyprus. It also includes measures to promote separate collection and appropriate management of waste. The Action Plan, with an implementation period up to 2027, includes 22 measures 10 of them to be funded by the RRF and the rest by national or EU Cohesion Policy funds. It addresses specific priorities such as the promotion of synergies in achieving economies of scale, creating favourable market conditions to boost circular products, boosting new economic activities, restructuring existing modes of operations and regulatory reform requirements. This reform is funded by RRF C3.1R4 C3.1I12 C3.1I9 and THALIA 2021-2027 Cohesion Policy - Cohesion Fund.

- Water Treatment Plants: This investment involves the refurbishment of the treatment systems at Water Development Department's water treatment plants in order to conform with the requirements of the new Directive (EE 2020/2184) on the quality of water intended for human consumption. These refurbishments will include installation of activated carbon polishing units at three water treatment plants (WTPs) (Tersefanou, Asprokremmos, Lemesos), the replacement of chlorination infrastructure at five WTPs (Kornos, Lemesos, Asprokremmos, Tersefanou, Kanaviou) and the expansion of the Asprokremmos WTP capacity by 10,000 m3/day. The installation at Tersefanou WTP was completed in March 2024, the Contract for the installation at Asprokremmos WTP was signed on 31st of July 2024, the contract for the installation of activate carbon polishing for Lemesos WTP is expected to be signed in the end of October 2024, the Contract for Kornos WTP was signed on 28.06.2024, The Tender documents for the WTPs of Lemesos, Asprokremmos, Tersefanou, Kanaviou are currently under preparation. This reform is funded by RRP.

- Kokkinokremmos Conveyor Project: The aim of this investment is to provide sufficient water to the District of Famagusta (Ayia Napa, Paralimni, Deryneia and Sotira Municipalities), ensuring a 48-hour water storage supply in the case of disruption to supply, while also providing an additional conveyor pipeline once the existing one is rehabilitated. The works include a 25km pipeline, 2 water storage tanks, a pumping station and chlorination building. The Contract on the delivery of the pipes and parts for the conveyor system was signed in 02/2024 and delivery will be completed in the end of October 2024. The tender for the construction of the water storage tanks and the chlorination building are expected to be announced in Q1 2025. This investment is funded by THALIA 2021-2027 Cohesion Policy – ERDF.

5. Comparison Between DBP and the most recent Stability Programme

The projection regarding the general government budget balance at unchanged policies for year 2024 presented in the current DBP, is higher by 1.2 percentage point of GDP compare to the forecast presented in the context of the SP 2024-2027. This positive deviation is mainly the outcome of the significantly higher growth of public revenues during the seven six months of the year, compared to what was initially expected.

Table 7. Divergence from latest SP

	ESA Code	Year 2023	Year 2024	Year 2025
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		3.1	2.9	2.8
Draft Budgetary Plan		3.3	3.9	2.7
Difference		0.2[14]	1.0	-0.1
General government net lending projection at unchanged policies	B.9			
Stability Programme		3.1	2.9	2.8
Draft Budgetary Plan		3.3	4.1	2.8
Difference		0.2	1.2	0.0

Regarding the year after, the deviation of -0.1 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 expected impact of the discretionary measures undertaken in the context of the Budgetary process for year 2025.

[14] The difference in the figures regarding the budget balance as a percentage of GDP in 2023 presented in Table 7, refers to revisions taken place in the context of the latest EDP notification (April 2024).

Appendix: Tables

Table 0 i). Basic assumptions

	Year 2023	Year 2024	Year 2025
Short-term interest rate[1] (annual average)	3.43	3.56	2.82
Long-term interest rate (annual average)	2.43	2.43	2.46
USD/€ exchange rate (annual average)	1.08	1.07	1.07
Nominal effective exchange rate	5.50	2.14	1.32
World excluding EU, GDP growth	3.6	3.5	3.6
EU GDP growth	0.4	1.0	1.6
Growth of relevant foreign markets [UK]	0.1	0.5	1.4
World import volumes, excluding EU	0.9	3.2	3.5
Oil prices (Brent, USD/barrel)	82.5	85.4	80.0

1/ If necessary, purely technical assumptions

Table 1a. Macroeconomic prospects

	ESA Code	Year 2023	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
		Level (€ mn)	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	25,699.5	2.5	3.7	3.1	3.2	3.3
2. Potential GDP		25,053.3	4.1	3.9	3.6	3.3	3.3
contributions:							
- labour			1.6	1.4	1.2		
- capital			1.8	1.7	1.7		
- total factor productivity			0.7	0.8	0.7		
3. Nominal GDP	B1*g	29,807.2	7.3	7.5	5.6	5.3	5.3
Components of real GDP							
4. Private final consumption expenditure	P.3	15,912.5	4.2	3.4	2.2		
5. Government final consumption expenditure	P.3	4,760.7	2.3	4.1	2.7		
6. Gross fixed capital formation	P.51g	5,633.5	12.5	-5.7	6.1		
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	284.1	-0.2	0.0	0.0		
8. Exports of goods and services	P.6	23,480.9	-1.2	1.0	1.8		
9. Imports of goods and services	P.7	24,503.0	1.7	-1.7	1.7		
Contributions to real GDP growth							
10. Final domestic demand		26,306.7	5.5	1.6	3.1		
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	284.1	-0.2	0.0	0.0		
12. External balance of goods and services	B.11	-1,022.1	-2.8	2.6	0.1		

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 2023	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		116.0	4.7	3.8	2.4	2.0	2.0
2. Private consumption deflator		112.2	3.2	2.2	2.0		
3. HICP		114.5	3.9	2.2	2.0		
4. Public consumption deflator		119.9	8.3	6.0	2.9		
5. Investment deflator		116.8	2.8	2.0	2.2		
6. Export price deflator (goods and services)		113.4	2.2	2.2	2.1		
7. Import price deflator (goods and services)		109.8	0.5	1.6	1.9		

Table 1c. Labour market developments

	ESA Code	Year 2023	Year 2023	Year 2024	Year 2025
		Level	rate of change	rate of change	rate of change
1. Employment, thousand persons[1]		474.2	1.5	2.1	1.8
2. Employment, thousand hours worked[2]		868,231	1.7	2.3	2.0
3. Unemployment rate (%)[3]		29,661	5.8	5.0	4.8
4. Labour productivity, persons[4]		54,190.6	1.0	1.5	1.3
5. Labour productivity, hours worked[5]		29.6	0.7	1.3	1.1
6. Compensation of employees (€ mn)	D.1	12,233.7	7.4	7.1	4.9
7. Compensation per employee (€)		28,853.8	5.6	4.9	3.1

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 2023	Year 2024	Year 2025
		% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	-12.1	-8.5	-7.6
of which:				
- Balance on goods and services		-0.9	1.9	2.2
- Balance of primary incomes and transfers		-11.2	-10.5	-9.8
- Capital account		0.0	0.1	0.0
2. Net lending/net borrowing of the private sector	B.9	-15.5	-12.4	-10.3
3. Net lending/net borrowing of general government	B.9	3.3	3.9	2.7
4. Statistical discrepancy		0.0	0.0	0.0

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

	ESA Code	Year 2024	Year 2025	Year 2026	Year 2027
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	3.9	2.7	2.6	2.1
1a. Central government	S.1311	-0.3	-1.1		
1b. State government	S.1312	M	M		
1c. Local government	S.1313	0.0	0.0		
1d. Social security funds	S.1314	4.2	3.8		
2. Interest expenditure	D.41	1.4	1.6		
3. Primary balance[2]		5.4	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)		3.7	3.1		
6. Potential GDP growth (%) (=2 in Table 1.a)		3.9	3.6	3.2	3.2
contributions:					
- labour		1.4	1.2		
- capital		1.7	1.7		
- total factor productivity		0.8	0.7		
7. Output gap (% of potential GDP)		2.4	1.9	0.6	0.3
8. Cyclical budgetary component (% of potential GDP)		1.2	1.0	0.3	0.2
9. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		2.7	1.8		
10. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		4.2	3.3		
11. Structural balance (13 - 8) (% of potential GDP)		2.7	1.8	1.6	1.1

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 2024	Year 2025	Year 2026	Year 2027
		% GDP	% GDP	% GDP	% GDP
1. Gross debt[1]		68.9	64.1	58.8	53.3
2. Change in gross debt ratio		-8.5	-4.8		
Contributions to changes in gross debt					
3. Primary balance (= item 3 in Table 2.a)		5.4	4.3		
4. Interest expenditure (= item 2 in Table 2.a)	D.41	1.4	1.6		
5. Stock-flow adjustment		0.8	1.6	0.4	-0.6
of which:					
- Differences between cash and accruals[2]		-0.1	0.3		
- Net accumulation of financial assets[3]		0.9	1.3		
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]		2.0	2.4	2.4	2.5

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 2024	Year 2025
	% GDP	% GDP
Public guarantees	4.0	3.7
Of which: linked to the financial sector	1.2	1.1

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 2024	Year 2025
		% GDP	% GDP
General government (S13)			
1. Total revenue at unchanged policies	TR	45.2	44.6
of which			
1.1. Taxes on production and imports	D.2	14.9	15.0
1.2. Current taxes on income, wealth, etc	D.5	11.6	11.1
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	13.1	13.0
1.5. Property income	D.4	0.4	0.4
1.6. Other[1]		5.3	5.1
p.m.: Tax burden		39.5	39.0
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure at unchanged policies	TE[3]	41.0	41.7
of which			
2.1. Compensation of employees	D.1	12.6	12.6
2.2. Intermediate consumption	P.2	4.2	4.3
2.3. Social payments	D.62+D.632	15.1	15.3
of which Unemployment benefits[4]		0.2	0.2
2.4. Interest expenditure	D.41	1.4	1.6
2.5. Subsidies	D.3	0.4	0.3
2.6. Gross fixed capital formation	P.51g	3.5	4.0
2.7. Capital transfers	D.9	0.7	0.8
2.8. Other[5]		3.1	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 2024	Year 2025
		% GDP	% GDP
General government (S13)			
1. Total revenue target	TR	45.2	44.7
of which			
1.1. Taxes on production and imports	D.2	14.8	15.0
1.2. Current taxes on income, wealth, etc	D.5	11.6	11.2
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	13.1	13.0
1.5. Property income	D.4	0.4	0.4
1.6. Other[1]		5.3	5.1
p.m.: Tax burden		39.5	39.2
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]	41.3	42.0
of which			
2.1. Compensation of employees	D.1	12.7	12.7
2.2. Intermediate consumption	P.2	4.2	4.3
2.3. Social payments	D.62+D.632	15.2	15.3
of which Unemployment benefits[4]		0.2	0.2
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	1.4	1.6
2.5. Subsidies	D.3	0.4	0.4
2.6. Gross fixed capital formation	P.51g	3.5	4.0
2.7. Capital transfers	D.9	0.8	0.9
2.8. Other[5]		3.1	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 4b. General government expenditure by function

	ESA Code	Year 2023	Year 2023	Year 2024	Year 2025
		Level (€ mn)	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		190.0	0.6	1.0	1.1
1a. of which investments fully matched by EU funds revenue		114.0	0.4	0.6	0.6
2. Cyclical unemployment benefit expenditure [1]		-25.3	-0.1	0.0	0.0
3. Effect of discretionary revenue measures [2]	D.5	76.9	0.3	0.9	0.2
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 2024		Year 2025	
	% GDP	% general government expenditure	% GDP	% general government expenditure
Education [1]	5.2	12.6	5.2	12.4
Health [1]	7.0	17.0	7.3	17.5
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

	COFOG Code	Year 2024	Year 2025
		% GDP	% GDP
1. General public services	1	6.6	6.6
2. Defense	2	1.7	1.7
3. Public order and safety	3	1.6	1.7
4. Economic affairs	4	3.6	3.5
5. Environmental protection	5	0.6	0.7
6. Housing and community amenities	6	1.9	2.0
7. Health	7	7.0	7.3
8. Recreation culture and religion	8	0.8	0.8
9. Education	9	5.2	5.2
10. Social protection	10	12.2	12.4
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	41.3	42.0

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 2024	Year 2025
Extension of the Zero/ reduced VAT rate in a number of goods/ services, for the period July-September 2024	A zero VAT rate was applied on bread, milk, eggs, baby foods, baby and adult diapers, as well as female hygiene products. Sugar and coffee were added to the list as of November 2023, as well as meat and vegetables as of Dec-2023	D.2	accrual	adopted	(0.03)	-
Reduction of the extraordinary defence levy on interest receivable from 30% to 17%	In effect from 1/1/2024, the Special Defence Contribution rate on interest received or credited by every person (individual and company) who is resident in the Republic is reduced from 30% to 17%.	D.5	accrual	adopted	(0.05)	(0.05)
Methodological treatment of the non-indexation of personal income tax brackets	For countries that have maintained non-indexation of personal income tax brackets for a prolonged period of time, a new measure has been introduced by the Commission, concerning a methodological treatment to adjust the personal income tax brackets to the inflation rate.	D.5	accrual	adopted	0.11	0.18
General increases 1.5% on the basic salaries of general government employees, applicable on 1st October 2024.	General increases 1.5% on the basic salaries of general government employees, applicable on 1st October 2024.	D.1	accrual	adopted	0.04	0.12
"At every beginning together!" student support package	Grants to students for the purchase of school supplies, grants to families with least three children who attend Pre-Primary, Primary, Secondary and Technical Education and discount on Public Passenger Transport fares to all students of Secondary General and Secondary Technical Education.	D.62+D.63	accrual	adopted	0.03	-
Photovoltaics for all	Aims at the encouragement of the use of Renewable Energy Sources and Energy Savings in Dwellings by subsidising the Installation of a Photovoltaic System and bonus reward in the event of installation of roof insulation.	D.9	accrual	adopted	0.09	0.09
One-off specific lump sum grants for low-income population	A zero VAT rate is applied on basic goods is applied aiming to relieve households from higher prices for essential products	D.62+D.63	accrual	adopted	0.07	-
Other housing policy scheme	Targeted one-off grants to specific households receiving benefits on criteria.	D.3	accrual	adopted	-	0.06
Extension of the subsidisation of consumers' electricity bills	Extension of the subsidisation of consumers' electricity bills, covering the period July-October 2024	D.3	accrual	adopted	0.02	-
TOTAL BUDGETARY IMPACT					-0.23	-0.14

Table 7. Divergence from latest SP

	ESA Code	Year 2023	Year 2024	Year 2025
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		3.1	2.9	2.8
Draft Budgetary Plan		3.3	3.9	2.7
Difference [1]		0.2	1.0	-0.1
General government net lending projection at unchanged policies	B.9			
Stability Programme		3.1	2.9	2.8
Draft Budgetary Plan		3.3	4.1	2.8
Difference [1]		0.2	1.1	0.8

1/ The difference in the figures regarding the budget balance as a percentage of GDP in 2021 presented in Table 7, refers to revisions taken place in the context of the latest EDP notification (April 2022).

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

	ESA Code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
Revenue from RRF grants		% GDP						
1. RRF GRANTS as included in the revenue projections		-	0.18	0.17	0.34	0.67	1.01	0.77
2. Cash disbursements of RRF GRANTS from EU		-	0.53	0.31	-	0.78	0.74	0.70
Expenditure financed by RRF grants								
3. Total Current Expenditure		0.02	0.02	0.08	0.10	0.16	0.25	0.19
of which:								
- Compensation of employees	D.1	-	-	0.00	0.01	0.01	0.01	0.01
- Intermediate consumption	P.2	-	0.00	0.03	0.06	0.05	0.13	0.09
- Social Payments	D.62+ D.632	-	-	-	-	-	-	-
- Interest expenditure	D.41	-	-	-	-	-	-	-
- Subsidies, payable	D.3	-	-	0.00	0.01	0.03	0.06	0.05
- Current transfers	D.7	0.02	0.02	0.04	0.02	0.06	0.05	0.04
4. Total Capital Expenditure		0.08	0.08	0.09	0.24	0.51	0.76	0.58
of which:								
- Gross fixed capital formation	P.51g	0.08	0.05	0.06	0.12	0.26	0.44	0.31
- Capital transfers	D.9	-	0.02	0.03	0.12	0.25	0.32	0.27
Other costs financed by RRF grants								
5. Reduction in tax revenue		-	-	-	-	-	-	-
6. Other costs with impact on revenue		-	-	-	-	-	-	-
7. Financial transactions		-	-	-	-	-	-	-

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

	ESA Code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
Cash flow from RRF loans projected in the programme		% GDP						
1. Disbursements of RRF LOANS from EU		-	0.10	-	-	0.16	0.25	-
2. Repayments of RRF LOANS to EU		-	-	-	-	-	-	-
Expenditure financed by RRF loans								
3. Total Current Expenditure		-	-	-	0.00	0.01	0.02	0.28
of which:								
- Compensation of employees	D.1	-	-	-	-	-	-	-
- Intermediate consumption	P.2	-	-	-	0.00	0.01	0.01	-
- Social Payments	D.62+ D.632	-	-	-	-	-	-	-
- Interest expenditure	D.41	-	-	-	-	-	-	-
- Subsidies, payable	D.3	-	-	-	-	-	-	-
- Current transfers	D.7	-	-	-	-	-	0.00	0.28
4. Total Capital Expenditure		0.00	0.01	0.01	0.02	0.06	0.09	0.09
of which:								
- Gross fixed capital formation	P.51g	0.00	0.01	0.01	0.02	0.06	0.09	0.09
- Capital transfers	D.9	-	-	-	-	-	-	-
Other costs financed by RRF loans								
5. Reduction in tax revenue		-	-	-	-	-	-	-
6. Other costs with impact on revenue		-	-	-	-	-	-	-
7. Financial transactions		-	-	-	-	-	-	-

Table 10. Net expenditure growth

	ESA Code	2023	2023	2024	2025
		Level (€ mn)	% GDP	% GDP	% GDP
1. Total expenditure	TE	11,980.1	40.2	41.3	42.0
2. Interest expenditure	D.41p	407.0	1.4	1.4	1.6
3. Cyclical unemployment expenditure		-25.3	-0.1	-0.0	-0.0
4. Expenditure funded by transfers from the EU		107.1	0.4	0.7	1.1
4a. Of which: Investments (GFCF)					
5. National co-financing of EU programmes		213.4	0.7	0.8	0.7
6. One-off expenditure (levels, excl. EU funded)		0.0	0.0	0.0	0.0
7. Net nationally financed primary expenditure (before DRM) (ne = 1-2-3-4-5-6)		11,277.9	37.8	38.4	38.6
8. DRM (excl. one-off revenue, incremental impact)		-	-	0.9	0.2
9. Net nationally financed primary expenditure (after DRM) (ne - drm = 7 - 8)		-	-	37.5	38.4
				rate of change	
10. Nominal GDP growth (g) (growth rate)				7.5	5.6
11. Net expenditure growth (growth rate) $= \frac{ne_t - drm_t}{ne_{t-1}} * (1 + g_t) - 1$				6.5	5.8

MINISTRY OF FINANCE