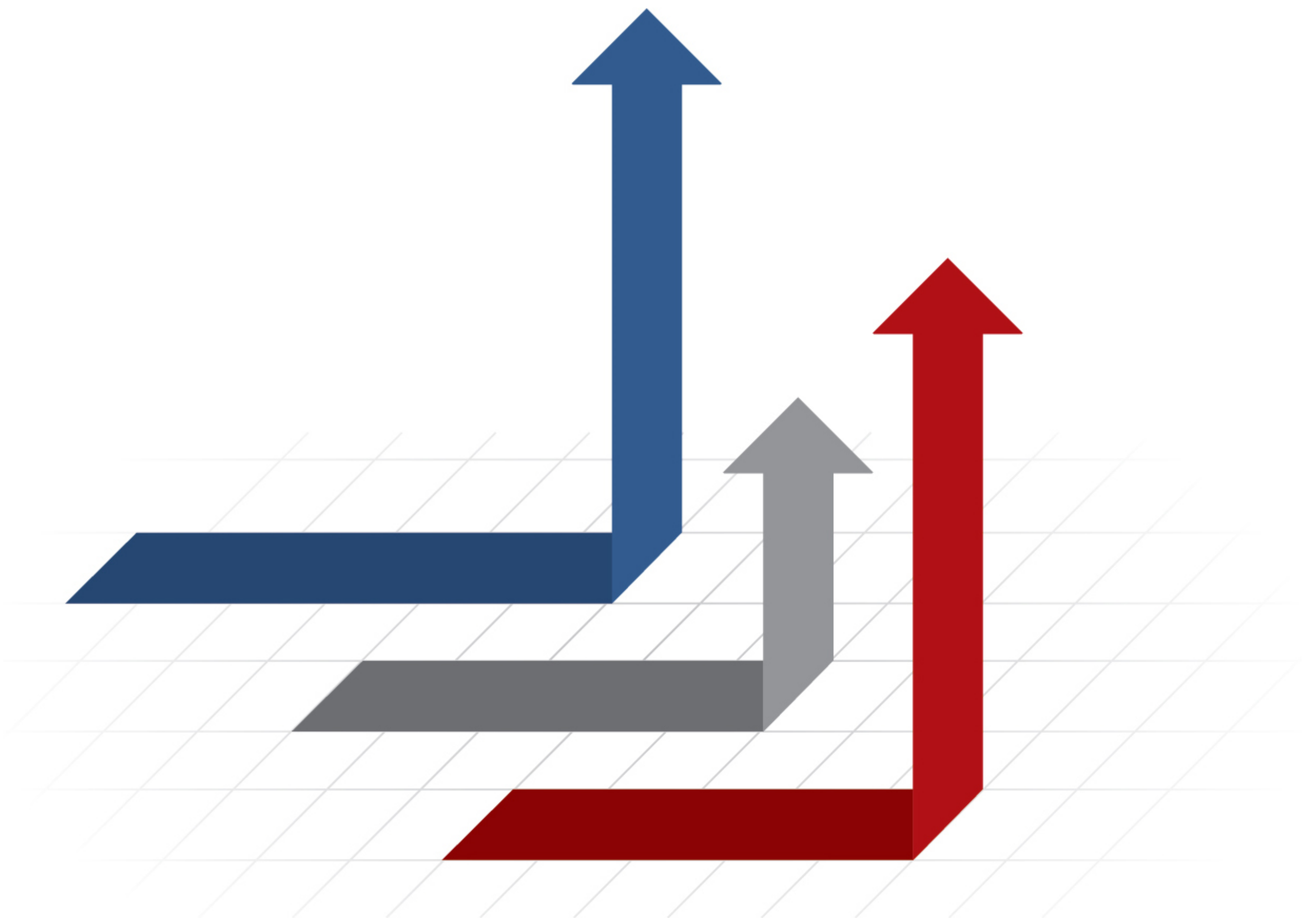
Ministry of Finance

Cyprus Draft Budgetary Plan 2021



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1. INTRODUCTION

The Draft Budgetary Plan (DBP) 2021, 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 22nd October 2020 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 2020, as well as the Budget Bill for 2021 that was submitted to the House of Representatives on 9th October 2020.

[1] The cut-off date for the macroeconomic and fiscal forecasts was 29 September 2020.

2. ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 DEVELOPMENTS IN 2020

During the first half of 2020, the economy contracted by -5.6% in real terms (seasonally adjusted terms), compared to the respective period of 2019. In terms of demand, domestic consumption in the first half of 2020 increased marginally by 1.3% compared to the corresponding half of 2019 (seasonally adjusted data), due to the increase in public consumption by 16.9% and despite the decrease in private consumption by 2.5%. Gross fixed capital formation decreased by 14.6% over the same period.

In terms of external demand, exports decreased by 10.6% (-3.9% in exports of goods and -12.2% in exports of services) while imports decreased by 6.8% in the first half of 2020 compared to the corresponding half of 2019 (-10.9% in imports of goods and -2.8% in imports of services) (seasonally adjusted data).

From a sectoral point of view, contraction was more pronounced in the sectors of: "Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities" (-10.0%), "Construction" (-12.3%), "Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities" (-16.2%), "Professional, scientific and technical activities; administrative and support service activities" (-1.3%), and "Arts, entertainment and recreation, repair of household goods and other services" (-15.5%).

The sectors that exhibited a positive growth rate were: "Agriculture, Forestry and Fishing" (0.4%), "Information and Communication" (4.4%), "Financial and Insurance Activities" (2.2%), "Real estate activities" (1.8%) and "Public administration and defence; compulsory social security; education; human health and social work activities" (1.6%).

Selected monthly indicators point to a gradual improvement of the economy, although the effects of the pandemic crisis on tourism were particularly negative:

- The Retail Trade Volume Index decreased by 0.5% in July 2020, on an annual basis, compared to a decrease of 28.5%, 3.7% and 1.5% in the months April, May and June 2020 respectively.
- The Industrial Production Index decreased by 10.3% in the period of January-July 2020, compared to the corresponding period of 2019. The y-o-y change of the index in July 2020 shows signs of de-escalation, with a percentage decrease of 5.4%, in comparison to a y-o-y percentage decrease of 35.7% back in April 2020.
- The total number of sales contracts in August 2020 amounted to 157, an improvement of 52.4% compared to August 2019. For the period January-August 2020, the sales contracts amounted to 1,238 in total, decreased by 4.0% compared to the same period of 2019, due to a decrease in sales contracts during the months of April and May 2020 (-77.5% and -53.1% respectively).
- From June 2020 onwards, the Economic Sentiment Index (ESI) reflects a gradual recovery of confidence but still at levels lower than the long-term average. In September 2020, the economic climate deteriorated slightly, with the ESI decreasing by 1.0 point compared to the previous month. The fall in the ESI was due to a worsening of the climate in services, construction and manufacturing.
- Tourist arrivals in August amounted to 104,261, recording a decrease of 81.2% compared to August 2019. For the period January-August 2020, tourist arrivals amounted to 424,850 compared to 2,735,839 in the corresponding period of 2019, marking a reduction of 84.5%.
- Revenues from tourism in the period January-July 2020 amounted to €164.5 mn, compared to € 1,425.2 mn in the corresponding period last year, which corresponds to a decrease of 88.5%.
- It is also noted that the Housing Price Index published by the Central Bank of Cyprus, showed a modest increase of 1.8% in the first quarter of 2020 compared to the corresponding quarter of 2019.

Overall, the national authorities estimate a recession of the order of at most 5.5% for 2020, which is an upward revision[2] of the baseline macroeconomic forecast for the year by 1.5 p.p..

The unemployment rate (15+), based on the Labor Force Survey, in the first half of 2020 amounted to 7.1%, compared to unemployment rate of 7.7% in the first half of 2019. The percentage of the long-term unemployed in the labor force in the second quarter of 2020 decreased to 1.8%, compared to 2.1% in the corresponding quarter of 2019, while youth unemployment fluctuated at 17.8% in the second quarter of 2020. For the whole of 2020, the estimate is that unemployment will fluctuate around 8.0%, compared to 7.1% in 2019.

After a modest increase in the Harmonised Index of Consumer Prices (HICP) for the first three months of 2020 (average increase by 0.6%), deflation has settled in, with the HICP decreasing by 2.9% in August 2020 compared to August 2019. HICP decreased by 1% on average in the period January-August 2020, compared to the same period the year before. For the whole of the year, inflation is estimated at an average of -0.6%.

2.2 PROSPECTS FOR 2021

According to the baseline macroeconomic scenario, the outlook of the economy over the medium term indicates a substantial return to positive growth. The recovery in the period 2021-2023 will be supported by domestic consumption, with public consumption remaining a significant positive factor up to 2021. Private consumption is forecast to return to positive growth, as measures to support the economy are expected to have sustained employment, household incomes and businesses, with a positive impact on investment. Exports of goods and services are expected to grow positively and return to pre-pandemic levels by 2023 but the contribution of net exports to growth is expected to be negative.

Overall, in 2021 the economy is projected to grow by 4.5% in real terms. The unemployment rate is projected to fall down to 7% and inflation is expected to moderately pick up and average at around 1%.

The further increase in government consumption estimated for 2020 is mainly the outcome of expenses related to the introduction of the National Health System (NHS), i.e. payments by the Health Insurance Organisation (HIO) to health care providers, as the 2nd phase of the NHS took place as of June 1st, 2020. The impact of the NHS on the government final consumption expenditure growth is estimated at around 7.9 p.p. for 2020. The provision for the health care sector to combat the pandemic, in the context of the measures taken by the government, is also estimated to contribute positively to the growth of government final consumption expenditure by 2.7 p.p. Finally, the impact of the gradual abolition of the wage cuts on the government final consumption expenditure growth is estimated at around 1.4 p.p.

Government final consumption expenditure in 2021 is also expected to record a significant increase, yet to a lesser extent than the year before, mainly due to increased NHS related expenditure, as the 2nd phase of NHS will apply throughout the year, with an estimated impact on the government consumption expenditure growth of about 7.3 p.p. Additionally, the gradual abolition of the wage cuts on the government final consumption expenditure growth is estimated at around 1.1 p.p.

It is important to note that, payments from the HIO to public health care providers are at the same time revenues for the State Health Services Organisation (SHSO), which is another subsector of the general government. As revenues received for services by a subsector of the general government, payments from HIO to SHSO are netted out and do not impact Government final consumption expenditure. In the context of this forecasting round, based

[2] The comparison refers to the April 2020 projections included in the latest the Stability Programme.

on all available information so far, it is assumed that the ratio regarding the HIO payments between private and public providers, will average close to 80:20 during the forecasting period 2020-2023.

Table 1a. Macroeconomic prospects

	2019 rate of change	2020 rate of change	2021 rate of change
1. Real GDP	3.2	-5.5	4.5
2. Potential GDP	2.1	1.9	2.3
contributions:			
- labour	1.0	1.0	0.9
- capital	1.0	0.7	0.8
- total factor productivity	0.0	0.2	0.6
3. Nominal GDP	3.8	-6.4	5.6
Components of real GDP			
4. Private final consumption expenditure	3.0	-3.2	3.5
5. Government final consumption expenditure	14.4	17.2	10.6
6. Gross fixed capital formation	0.1	-9.9	5.0
7. Changes in inventories and net acquisition of valuables (% of GDP)	-1.3	0.0	0.0
8. Exports of goods and services	2.0	-17.6	11.1
9. Imports of goods and services	1.5	-11.1	11.8
Contributions to real GDP growth			
10. Final domestic demand	4.2	-0.8	5.5
11. Changes in inventories and net acquisition of valuables	-1.3	0.0	0.0
12. External balance of goods and services	0.3	-4.7	-1.0

Table 1b. Price developments

	2019 (rate of change)	2020 (rate of change)	2021 (rate of change)
GDP deflator	0.6	-1.0	1.0
Private consumption deflator	0.4	-0.6	1.0
HICP	0.5	-0.6	1.0
Public consumption deflator	2.7	1.5	1.4
GFCF deflator	3.5	-0.7	1.0
Export price deflator (goods and services)	-0.9	-0.6	1.0
Import price deflator (goods and services)	1.2	0.4	0.9

Table 1c. Labour market developments

	2019 (rate of change)	2020 (rate of change)	2021 (rate of change)
Employment, persons[1]	3.1	-2.5	2.0
Employment, hours worked[2]	2.9	-4.0	3.0
Unemployment rate (%)[3]	7.1	8.0	7.0
Labour productivity, persons[4]	-0.1	0.2	0.2
Labour productivity, hours worked	0.2	0.2	0.2
Compensation of employees	6.2	-5.5	4.5
Compensation per employee	2.9	-3.0	2.5

Table 1d. Sectoral balances

	2019 (rate of change)	2020 (rate of change)	2021 (rate of change)
1. Net lending/net borrowing vis-à-vis the rest of the world	-6.7	-7.8	-8.5
of which:			
- *Balance on goods and services*	-0.1	-5.7	-6.5
- *Balance on primary incomes and transfers*	-6.6	-2.1	-2.0
- *Capital account*	-	-	-
2. Net lending/net borrowing of the private sector	-8.4	-3.3	-7.7
3. Net lending/net borrowing of general government	1.7	-4.5	-0.7
4. Statistical discrepancy	0.0	0.0	0.0

2.3 RISKS TO GROWTH

The uncertainty that prevails in the economic environment is still high given the unpredictable development of the pandemic both in Cyprus, the rest of Europe and the rest of the world. The risks in relation to the basic macroeconomic and fiscal scenario of the Ministry of Finance presented in this Draft Budgetary Plan are on the downside, mainly related to the case where the basic assumption that there will be no need to take further restrictive measures, in the form of an extended quarantine, is refuted. Any negative development could lead to a further reduction in economic activity than the one projected in the baseline scenario, a reduction in public revenues and possibly an increase in expenditures for business and employee support packages.

Furthermore, there is a risk of possible negative developments regarding non-performing loans (NPLs) as a result of the pandemic crisis, the rate of which was still relatively high before the outbreak of the pandemic, despite the significant depletion in recent years.

Further potential fiscal risks on the downside relate to the NHS expenditure and increased migration flows. Other fiscal risks stem from possible easing of fiscal policy or contingent liabilities arising from government guarantees granted in previous years to companies, government agencies and businesses and the local government. However, these are risks with a very small possibility of occurrence.

The international economic environment is characterized by a similarly high level of uncertainty, mainly due to the ongoing pandemic of COVID-19 which is showing signs of escalation in many EU countries and the US with persistent ups and downs. As a vaccine does not yet appear to be very close to being released on a large scale, the coming winter raises concerns about how it might evolve. In addition, following the United Kingdom's exit from the EU, a trade agreement is pending, which, on the whole, is considered as a negative risk for the EU. Finally, the international environment of prolonged low interest rates is another downside risk, as it has a negative impact on the profitability of the banking sector.

3. BUDGETARY DEVELOPMENTS AND TARGETS

3.1 BUDGETARY TARGETS

The budget balance of the General Government was in surplus in 2019 of about €380.5 mn (1.7% of GDP), including the one-off fiscal impact of -€285 mn that was the result of the amendment of the Income Tax Law as of March 2019, which allows the conversion of specific Deferred Tax Assets (DTA) into Deferred Tax Credit (DTC). Primary balance was also in surplus of about €931.4 mn (4.2% of GDP). Excluding the one-off fiscal impact, nominal balance reached a surplus of 3% of GDP, recording a marginal deterioration of about 0.6 percentage points of GDP compared to the year before[3].

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

	ESA Code	Year 2020	Year 2021
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	-4.5	-0.7
1a. Central government	S.1311	-5.9	-2.1
1b. State government	S.1312	M	M
1c. Local government	S.1313	-0.1	-0.1
1d. Social security funds	S.1314	1.5	1.4
2. Interest expenditure	D.41	2.3	2.2
3. Primary balance		-2.2	1.4
4. One-off and other temporary measures		0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		-5.5	4.5
6. Potential GDP growth (%) (=2 in Table 1.a)		1.9	2.3
contributions:			
- labour		1.0	0.9
- capital		0.7	0.8
- total factor productivity		0.2	0.6
7. Output gap (% of potential GDP)		-1.8	0.4
8. Cyclical budgetary component (% of GDP)		-0.9	0.2
9. Cyclically-adjusted balance (% of GDP)		-3.6	-0.9
10. Cyclically-adjusted primary balance (% of GDP)		-1.3	1.2
11. Structural balance (% of GDP)		-3.6	-0.9

In the context of the pandemic, the general government budget balance for 2020 is expected to record a substantial deterioration and reach a deficit of about 4.5% percent of GDP, after five consecutive years of fiscal surpluses[4]. This outcome stems both from the effects of the COVID-19 outbreak on the economy, as the baseline macroeconomic scenario suggests a negative growth rate of real GDP of about 5.5%, as well as from the support measures of a one-off nature, which target the current situation in the economy, with an estimated impact on the accounts of the General Government of about -4% of GDP.

[3] Excluding the methodological treatment of the sale of part of assets and liabilities of the Cyprus Cooperative Bank (CCB) to Hellenic Bank of about 7.3 percent of GDP, the budget balance of the general government during 2018 reached a surplus of 3.6% of GDP.

[4] Excluding the methodological treatment of one-off events related to the ex CCB during 2015 and 2018.

In 2021, the budget balance is expected to record a considerable improvement of 3.8 percentage points of GDP compared to the year before, but to remain in deficit of about 0.7 percent of GDP, as in the baseline macroeconomic scenario GDP recovers but does not reach its pre-crisis levels in value terms. Therefore, the expected loss in output results to a budget deficit in 2021 also, which marks a significant deviation compared to the target for 2021 that was forecast prior to the pandemic.

According to the authorities' forecast with regards to the output gap, using the commonly agreed methodology of the European Commission for the estimation of potential growth, structural balance is expected to be in deficit in 2020 reaching -3.6% of GDP, and continue to be in deficit also in 2021 of the order of 0.9% of GDP.

Table 2b. General government debt developments

	ESA Code	Year 2020	Year 2021
		% GDP	% GDP
1. Gross debt		114.8	111.0
2. Change in gross debt ratio		19.3	-3.8
Contributions to changes in gross debt			
3. Primary balance (= item 3 in Table 2.a)		-2.2	1.4
4. Interest expenditure (= item 2 in Table 2.a)	D.41	2.3	2.2
5. Stock-flow adjustment		14.8	-4.5
p.m.: Implicit interest rate on debt		2.3	2.0

The general government gross debt to GDP ratio is expected to record a substantial increase of about 19.3 percentage points of GDP, from a drop to 95.5% in 2019 after a peak at 100.6% of GDP the year before related to the one-off increase attributed to the issuance of domestic bonds in favour of the Cyprus Cooperative Bank of €3.19 bn. The expected significant increase by the end of 2020 is the outcome of the recent revision of the Annual Financing Programme targeted to tackle the challenges of the current pandemic crisis, as well as due to the sharp estimated decrease of GDP in nominal terms during the year under review. In 2021 the general government gross debt-to-GDP ratio is expected to record a decrease of 3.8 percentage points of GDP compared to the year before and fall to 111% of GDP.

Revenue and Expenditure Projections

On the revenue side, an estimated growth of about -3.4% is anticipated for 2020, albeit recording an increase as a percent of GDP, from 41.2 the year before to 42.5 percent of GDP. In 2021, total revenue is forecast to record a positive growth of 9.2%, increasing further by 1.5 percentage points of GDP compared to the year before and reach 44 percent of GDP.

Revenue from taxes on production and imports is expected to decrease by 6% during the current year, and marginally increase as a percentage of GDP to 15.3% compared to 15.2% the year before. The forecasted negative growth of this revenue category is stemming from expected losses from reduced VAT receipts due to the restrictive measures taken by the government related to the COVID-19 crisis, as well as from the estimated impact from the reduction of the special VAT rates as of 1st July 2020 until the end of the year, of about 0.1 percent of GDP. In 2021, revenue from taxes on production and imports are expected to grow by 5.4% and remain unchanged as a percentage of GDP.

Current taxes on income and wealth receipts are expected to exhibit a decrease of 5.4% in 2020, in line with the related to the crisis developments in the labour market. As a percentage of GDP, current taxes on income and wealth are expected to record a marginal increase of 0.1 percentage points of GDP reaching 9.6 percent of GDP compared to 9.5 percent of GDP in 2019, and remain at the same level the year after.

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

	ESA Code	2020	2021
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	42.5	44.0
of which			
1.1. Taxes on production and imports	D.2	15.3	15.3
1.2. Current taxes on income, wealth, etc.	D.5	9.6	9.6
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.4	12.2
1.5. Property income	D.4	0.4	0.4
1.6. Other		5.8	6.6
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		36.3	37.0
2. Total expenditure target	TE	47.1	44.7
of which			
2.1. Compensation of employees	D.1	14.0	13.8
2.2. Intermediate consumption	P.2	9.0	10.1
2.3. Social payments	D.62+D.632	14.2	13.6
of which Unemployment benefits		0.5	0.4
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	2.3	2.2
2.5. Subsidies	D.3	2.9	0.7
2.6. Gross fixed capital formation	P.51g	1.2	1.2
2.7. Capital transfers	D.9	0.3	0.3
2.8. Other		3.2	2.9

Social contributions are expected to exhibit a marginal negative growth of 0.1% compared to the year before, but improve by 0.7 percentage points of GDP, from 10.7 percent of GDP in 2019 to 11.4 percent of GDP in 2020. Despite the worsening of the labour market developments related to the pandemic crisis, the expected outcome on this revenue category is the result of increased contributions during 2020 in the context of the NHS[5], estimated to positively contribute by 4.7 percentage points on the growth of social contributions. The estimated revenue loss from the wage subsidies, which are not subject to any contributions, is expected to be partly compensated from the higher contributions received by the HIO, as contributions apply for the whole year compared to 10 out of 12 months in 2019, as well as from the higher contribution rates in the context of NHS during March 2020, and from July 2020 until the end of the year. In 2021 it is expected that social contributions will record a growth of 12.3% and increase further as a percent of GDP by 0.8 percentage points, reaching 12.2, as (i) the labour market conditions are expected to record an improvement and (ii) the increased contributions in the context of NHS will apply for the whole year.

Property income is estimated to drop by 0.3 percentage points of GDP, falling to 0.4 percent of GDP in 2020 compared to 0.7 percent of GDP the year before, mainly attributed to the methodological treatment of the signature bonus related to the production sharing contracts for the exploration and exploitation of hydrocarbon reserves, which was reflected in the accounts of the general government in the three-year period 2017-2019. In 2021, this revenue category is expected to remain at the same level as in the year before.

Public expenditure in 2020 is estimated to exhibit an increase of 11.5% and reach 47.1 as a percent of GDP compared to 39.5 percent of GDP the year before, attributed both to the expected cost of the COVID-19 related

[5] 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.

measures and to the increased expenditure in the context of the NHS. Excluding the fiscal impact of the methodological treatment of the Income Tax Law amendment in the accounts of the general government in 2019, total expenditure is expected to record a growth of 15.3%. In 2021, government expenditure is forecasted to record a marginal growth of 0.4% compared to the year before, despite last year's estimated impact of about 3.4 percent of GDP during 2020 in relation to the crisis measures of a one-off nature. The expected marginal expenditure increase in 2021 is the result of the increased expenses in the context of the second Phase of the NHS, with a full-year implementation during the year under review. As a percentage of GDP, total expenditure is expected to drop significantly by 2.4 percentage points compared to the year before, falling to 44.7.

More specifically, social payments in 2020 are estimated to reach 14.2 percent of GDP from 12.9 percent of GDP the year before and record an annual increase of 2.6%, as the expected conditions in the labour market due to the COVID-19 crisis will contribute to the increase of this expenditure category. The impact from the cost related to 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, is estimated in total at about 0.2 percent of GDP. In 2021, social payments are projected to increase further by 1.2% compared to the year before and drop as a percent of GDP by 0.6 percentage points, reaching 13.6.

The expenditure category compensation of employees is expected to record a growth of 5.4% in 2020 compared to the year before and as a percentage of GDP increase by 1.5 percentage points, reaching 14 percent of GDP. The outcome of this growth is mainly attributed to (i) the estimated impact from the gradual phasing out of wage cuts (1.8 p.p.) and (ii) the increase of the government's contribution to the NHS as an employer (0.6 p.p.). Expenditure for compensation of employees is expected to further increase by 4.2% in 2021 compared to the year before, attributed partly to the further reduction of the wage cuts, and marginally drop to 13.8 as a percent of GDP compared to the year before.

Intermediate consumption is expected to record a considerable increase of 55.6% in 2020 and reach 9 percent of GDP from 5.4 percent of GDP the year before, contributing the most to the growth of total expenditure with 7.6 percentage points. This outcome is mainly stemming from the increased payments of the Health Insurance Organisation to private and to public health providers in the context of the 2nd phase of the NHS as of 1st June 2020. The provision for the health care sector to combat the pandemic, of about 0.5 percent of GDP also contributes positively to this expenditure category. In 2021 intermediate consumption is expected to further increase, yet to a lesser extent than the year before, by 18.5% and reach 10.1 percent of GDP, as the 2nd phase of the NHS will apply during the whole year.

Expenditure category subsidies is also expected to contribute significantly to the growth of public expenditure with 6.1 percentage points, as it is forecasted to reach 2.9 percent of GDP in 2020 compared to 0.3 percent of GDP the year before. This outcome is solely attributed to the measures taken by the government through the subsidisation of wages of the employees of businesses, which for a consecutive number of months (i) were either forced to suspend their operations by a decree of the Minster of Health and/or a decision of the Council of Ministers, or (ii) they experienced a significant loss[6] of their turnover due to the consequences of the COVID-19 pandemic. The cost from this wage subsidisation that will apply until the end of October 2020, is estimated

[6] In the context of the initial stimulus package of the government as of March 2020, the scheme provided wage compensation to the employees of the businesses that were forced to suspend their operations by a decree of the Minster of Health and/or a decision of the Council of Ministers. Businesses that their operations experienced at least 80% loss of their turnover due to the COVID-19 pandemic, or businesses with partial suspension of operations that experienced at least 25% decline in their turnover compared to the year before, were eligible to the scheme until the 12th June 2020. An extension of the scheme was decided by the Council of Ministers in July 2020, 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.

at around 2 percent of GDP. The one-off cost of the subsidization scheme for small enterprises and self-employed also contributed positively to the increase of this expenditure category, by 0.5 percentage points of GDP.

Given the one-off nature of the abovementioned measures, it is expected that expenditure category subsidies will fall to 0.7 percent of GDP in 2021 compared to 2.9 percent of GDP the year before. Yet, an increase compared to 2019 level of 0.3 percent of GDP, is expected due to the cost from the interest subsidisation scheme for new business loans and for housing loans, estimated at 0.3 percent of GDP.

Interest expenditure is forecasted to experience a drop of 0.2 percentage points of GDP, from 2.5 percent of GDP the year before to 2.3 percent of GDP in 2020, and a further drop of 0.1 percentage point of GDP the year after.

Gross fixed capital formation is expected to exhibit a negative rate of growth of 17% during 2020 and fall to 1.5 as a percent of GDP compared to 1.7 percent of GDP the year before. This outcome is mainly the savings undertaken by the government, by the suspension of selected projects during the year, in order to partly compensate the increased expenditure stemming from the measures to support the economy from the current crisis of the pandemic. In 2021 gross fixed capital formation is expected to increase by 5.8% compared to the year before and remain as a percentage of GDP at 1.5 as in the year before.

Finally, category other expenditure is forecasted to decrease by 28% in 2020 mainly due to the methodological treatment of the one-off impact of the Income Tax Law amendment the year before, falling to 3.2 as a percentage of GDP from 4.2 percentage of GDP in 2019. Other special schemes of the government, as the granting to the media that were affected by the crisis, support to arts and cultural professionals, special plans for farmers, fisheries and animal welfare organizations, etc, are expected to have a positive impact on this expenditure category of about 0.1 percent of GDP. In 2021, it is forecast that category other expenditure will decrease by 3.2% 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, seven additional discretionary measures were adopted during the budgetary process for the forthcoming year (2021) with an estimated fiscal impact on the accounts of the general government of about -1.4 and -0.33 percent of GDP during 2020 and 2021, respectively, aiming directly at targeting the adverse effects of the pandemic on the economy in general.

After the termination of the income support to affected from the crisis workers, 12th June 2020, under the 'Special Plan for suspension of business', with a cost of about 1.2 percent of GDP from 2.6 percent of GDP as initially estimated, new targeted schemes took directly into effect. The *'Special Scheme for Hotel Units and Tourist Accommodation'*, the *'Special Scheme to Support Businesses related to the Tourism Industry or businesses directly affected by Tourism or associated with Businesses that are subject to Mandatory Total Suspension'* and the *'Special Scheme for supporting businesses exercising special predefined activities'* will apply until the end of October 2020 with an estimated impact of about 0.6 percent of GDP in total.

At the same time, an additional impact of about -0.1 percent of GDP on the revenue side of the accounts of the general government at unchanged policies, is stemming from the above-mentioned extended schemes provided that subsidies are not subject to any contribution.

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

	ESA Code	2020	2021
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	42.7	44.0
of which			
1.1. Taxes on production and imports	D.2	15.4	15.3
1.2. Current taxes on income, wealth, etc	D.5	9.6	9.6
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.6	12.2
1.5. Property income	D.4	0.4	0.4
1.6. Other		5.8	6.6
p.m.: Tax burden		36.5	37.0
(D.2+D.5+D.61+D.91-D.995)			
2. Total expenditure at unchanged policies	TE	45.9	44.4
of which			
2.1. Compensation of employees	D.1	14.0	13.8
2.2. Intermediate consumption	P.2	9.0	10.1
2.3. Social payments	D.62+D.632	14.1	13.6
of which Unemployment benefits		0.4	0.4
2.4. Interest expenditure	D.41	2.3	2.2
2.5. Subsidies	D.3	1.8	0.3
2.6. Gross fixed capital formation	P.51g	1.2	1.2
2.7. Capital transfers	D.9	0.3	0.3
2.8. Other		3.1	2.9

On the revenue side again, an estimated impact of -0.1 percent of GDP in 2020 is the decision of the Council of Ministers 27th May 2020 for a reduction of the special VAT rate from 9% to 5%, for tourist accommodations and restaurants as of 1st July 2020 until the end of the year.

During the same day, the Council of Ministers adopted the decision for the subsidisation for small enterprises and self-employed (one-off grants), in order to cover part of their rent and operating costs, with an estimated cost of about 0.5 percent of GDP. Finally, a marginal cost of about 0.03 percent of GDP is estimated under the schemes of the Ministry of Labour, for the support allowance to the unemployed.

The provision of other subsidies approved by the Council of Ministers 27th May 2020 also increases the expenditure side of the accounts of the general government by 0.1 percent of GDP in total. These subsidies include the granting to the media that were affected by the crisis, support to arts and cultural professionals, special plans for farmers, fisheries and animal welfare organizations, etc.

The total impact from the measures described above is estimated at -1.4 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 3.1% in 2020.

The interest subsidy scheme for new loans for businesses and the self-employed, as well as for household house purchases was also adopted by the Council of Ministers after the submission of the latest Stability Programme. According to preliminary estimates, the subsidy cost amounts to €180 mn for businesses and another €45 mn for household's loans (house purchases) during a four-year period starting from 2021 until 2024. The total impact on the accounts of the general government for 2021 from these two measures is estimated at about 0.3 percent of GDP, 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 0.4% in 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 2020	Year 2021
Reduction of the VAT special rates	Reduction of the VAT special rates as from 1st July until the end of 2020	D.2	accrual	adopted	-0.1	-
Extension of the wage subsidization scheme until the end of October 2020	Revenue loss from the wage subsidies, which are not subject to any contribution	D.6 (rev)	accrual	adopted	-0.1	-
Extension of the wage subsidization scheme until the end of October 2020	Additional cost from the extension of the wage subsidisation scheme, as of 13th June 2020 until the end of October 2020, 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.39	accrual	adopted	0.6	-
Subsidization scheme for small enterprises and self-employed	Subsidization scheme for small enterprises and self-employed	D.39	accrual	adopted	0.5	-
Special Support Allowance for the Unemployed	Special Support Allowance for the Unemployed	D.62	accrual	adopted	0.03	-
Interest Subsidy Scheme for new business loans	Interest Subsidy Scheme for new business loans	D.39	accrual	adopted	-	0.28
Interest Subsidy Scheme for housing loans	Interest Subsidy Scheme for housing loans	D.39	accrual	adopted	-	0.05
Other subsidies	Granting to the media affected by the crisis/ support to arts and cultural professionals/ special plans for farmers, fisheries and animal welfare organizations, etc.	D.75	accrual	adopted	0.1	-
TOTAL BUDGETARY IMPACT					-1.4	-0.33

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 line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience and capacity of the health system to ensure quality and affordable services, including by improving health workers' working conditions.	
In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery.	In order to prevent the disruption caused by the pandemic from having a longer lasting impact on the economy and the society at large, the Cyprus Government adopted an Economic Support Package, consisting of a wide range of temporary and one-off measures, aimed primarily at maintaining income and jobs, provide liquidity for businesses and support the health care sector and other critical sectors of the economy that were particularly hit by the consequences of the pandemic. The size of the Economic Support Package as a whole was of the order of €1.7 bn, with measures of a fiscal impact on the accounts of the General Government of around -4% of GDP. Going forward, as the support package is gradually withdrawn, the draft 2021 Budget contains measures with a fiscal impact of the order of €71 mn, or 0.3% of GDP stemming from the interest rate subsidation schemes. Further measures regarding extensions in the labour market measures undertaken by the Ministry of Labour, Welfare and Social Insurance have been announced after the cut-off date of 29 September 2020 and are, therefore, not accounted for in the projections presented in this DBP. In order to support the ensuing recovery, the government aims at utilizing all available instruments, both at the national and EU level, that will promote investments and job creation.
When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.	Given the extraordinary situation we are still facing and the possible risks to the outlook (i.e., possible partial re-imposition of containment measures, Brexit etc), we consider that it is **imperative to gradually phase out the expansionary fiscal policy** in order to safeguard macroeconomic stability and the sustainability of public finances. In this context, **fiscal policy coordination at the EU level remains essential** to ensure, when economic conditions allow, the sustainability of public finances in the medium term. In this Draft Budgetary Plan 2021, the fiscal forecasts of the Ministry of Finance point towards a steadily declining path of the budget deficit, which becomes marginally balanced by the end of 2023, as well a declining debt-to-GDP ratio, from 114,8% that is estimated to reach at the end of 2020, down to 98.1% by the end of 2023. As economic conditions remain highly uncertain, fiscal developments will be closely monitored by the government.

Strengthen the resilience and capacity of the health system to ensure quality and affordable services, including by improving health workers' working conditions.	The Economic Support Package includes support for the public health system in the form of a buffer of up to EUR 100 mn. This provision aims to strengthen health services by supporting spending and investment in: (i) employment of additional medical staff, (ii) enhancing of equipment and infrastructure, (iii) enhancing ambulance services, (iv) testing centre and (v) helpdesk services. In addition, the 2nd phase of the General Health System (GHS) was partially introduced on 1st June 2020, extending GHS to the Inpatient Healthcare Services, with all other healthcare services scheduled within the 2nd phase to commence at a later stage, before the end of 2020.
CSR 2 **Provide adequate income replacement and access to social protection for all. Strengthen public employment services, promote flexible working arrangements and improve labour market relevance of education and training.**	
Provide adequate income replacement and access to social protection for all.	Income replacement and social protection within the Economic Support Package: - **Income support to affected workers** 'Special Plan for suspension of business' (EUR 253 mn disbursed for the partial and full suspension schemes over the period 16/03-12/06/2020). The scheme provided wage compensation to the employees of the businesses that were forced to suspend their operations (or /experiencing at least 25% decline in their turnover compared to the year before due to the Covid-19 pandemic) by a decree of the Minster of Health and/or a decision of the Council of Ministers. Businesses of which operations are directly related to the above mentioned businesses experiencing at least 80% loss of their turnover due to the Covid-19 pandemic are also eligible. An important requirement is that businesses taking part in the scheme shouldn't have dismissed any employee as from 1/3/2020, for the period that the company is in the scheme and an additional period equal to the period the company benefits from the scheme plus 1 month. - **As of 13th June 2020, after the termination of the special plan for income support to affected workers, three new targeted schemes take effect**, namely the '*Special Scheme for Hotel Units and Tourist Accommodation*', the '*Special Scheme to Support Businesses related to the Tourism Industry or businesses directly affected by Tourism or associated with Businesses that are subject to Mandatory Total Suspension*' and the '*Special Scheme for supporting businesses exercising special predefined activities*', with effect until the end of October 2020. The total expected budget costs of the extended income support schemes to affected workers amounts to about EUR 119 in total. - **Self-employed workers support Scheme** part of the Special Plan for suspension of business for the period March 16, 2020 to April 12 (EUR 34 mn over the period 16/03-12/06/2020 – the scheme has elapsed). This will take the form of a special unemployment allowance. This excludes certain categories, inter alia, supermarkets, doctors, pharmacies. Estimates indicate that 40,000 self-employed workers benefited from the scheme. - **Special Absence Leave** (actual disbursements of EUR 18 mn over the period 16/03-12/06/2020). The scheme subsidised leave to parents working in the private and public sector, when schools, private or public, nurseries, childcare or other educational institutions suspended their operations. Authorities estimate that 50.000 recipients benefited from the scheme.

	- **Special support allowance for the self-employed** (EUR 100 mn). The main objective of the Scheme is to cover part of the operating expenses including rent of very small and small businesses and self-employed. - **Subsidised sick leave related to the coronavirus measures** (EUR 18 mn for three months – the scheme has elapsed). This measure will compensate individuals in quarantine and vulnerable workers (estimated number of recipients 20,000 employees). - **Overseas Student Allowance** (EUR 11 mn). A EUR 750 allowance was provided to cover the costs of students attending university overseas so they do would remain abroad during Easter vacations. - **Special Scheme to Support the Unemployed** (EUR 5 mn) - **Freezing of loan's repayment** (decree voted on 29.02.2020). For nine months, loans' capital and interest payment is postponed, while interest is compounding in the meantime. [voted on 29/3]. Given the approval from the European Banking Authority any debt not served in the next nine months is not classified as NPL. - **Suspending of foreclosures** (3 months) and **house evictions** (2 months) - **Temporary suspension of the process of foreclosures by** KEDIPES for a period of 6 months. Also from banks – Announcement by the Association of Cyprus Banks.
Strengthen public employment services, promote flexible working arrangements and improve labour market relevance of education and training.	**Strengthen public employment services** As described in the National Reform Programme 2020, the capacity of the PES to provide quality services was considerably increased with the temporary recruitment of 30 employment counselors until the second part of 2020. Therefore, the Ministry of Labour, Welfare and Social Insurance (MLWSI) promotes the extension of these contracts as well as the safeguarding of new permanent posts. Based on the recommendations of the European Committee and the knowledge and guidance gained from the participation in the two Mutual Assistance Projects, PES started the promotion of the following activities for enhancing its capacity and efficiency: ▪ Two strategic documents are being prepared for PES through a bottom up process. The first document is a strategic plan which will define operational objectives and targets in district and local levels for a two-year period. A supplementary document, the management plan will also be produced aiming to outline the department's activities which will contribute to meeting the objectives set in the strategic document and also to set performance indicators for monitoring progress achieved. The second strategic document concerns a legislative proposal regarding PES operation. ▪ A number of training courses were implemented for PES management team and technical committees consisting with officers from other levels of the hierarchy. These training courses were aiming to upgrade the operational processes of PES and also to provide guidance and improve the knowledge and skills of the management team on the use of performance management tools.

<table>
<tr><td></td><td>Promote flexible working arrangements
The system of labour relations in Cyprus does not prohibit flexible working arrangements and, in some cases, such arrangements are part of collective agreements in some industries. Measures to promote flexible working arrangements have been implemented in the past by the Ministry of Labour, Welfare and Social Insurance (MLWSI), and now an internal dialogue in MLWSI has commenced with the view to propose such arrangements in a more structured way.

Improve labour market relevance of education and training
Efforts geared at improving the labour market relevance of education and training are continuous, especially towards:
- reinforcing the outreach and activation support for young people.
- upgrading skills and address skills mismatch in the labour market
- integrating the unemployed and inactive into employment
Actions are described in detail in the National Reform Programme 2021.</td></tr>
<tr><td colspan="2">CSR 3
Secure adequate access to finance and liquidity, especially for small and medium-sized enterprises. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, waste and water management, sustainable transport, digitalisation, research and innovation.</td></tr>
<tr><td>Secure adequate access to finance and liquidity, especially for small and medium-sized enterprises.</td><td>The 2020 Country Report for Cyprus notes that access to finance for SMEs is improving but still challenging. Acknowledging the limitations in bank credit supply, given amongst others the still high NPLs level, the Government continues its efforts aiming at introducing alternative types of financial support for SMEs. Particular emphasis is also placed on improving the management and hence the effectiveness, of financial instruments supported by national and EU funds. Increasing awareness on available funding is an ongoing process, especially via seminars and info provided through the DG EPCD's Funding Programmes Portal. A detailed description of all relevant measures is provided in the National Reform Programme 2020.

Furthermore, within the Economic Support Package, the following measures were taken to address liquidity for companies:

- Temporary suspension of VAT payments [<u>liquidity measure of EUR 304 mn</u>]. All suspended obligations will be paid back with a delay, by 10th November 2020. Note this could have a major impact on financing needs in the short term.

- The government agreed to the following three lending schemes, in cooperation with the EIB, amounting to up to 1.7 billion (or about 8.5 % of GDP):

o Increase by €500 mn, or about 2.5% of GDP, of the existing credit line of loans to SMEs and mid-caps available under the so-called 'Cyprus Banks Loan for SMEs and Mid-Caps' Scheme, the instrument for Multi-Beneficiary Intermediated Lending (MBIL) of the European Investment Bank (EIB). The scheme was set up in 2014[7].</td></tr>
</table>

[7] Eligible are companies registered and operating in Cyprus and employing up to 3,000 staff. With MBILs, EIB provides a loan to a financial intermediary which commits to finance a similar portfolio of SMEs and midcaps for at least twice the amount of the EIB loan. The credit risk on the loans to final beneficiaries remains with the financial intermediary.

	o Up to of EUR 800 mn of loans to SMEs, (or about 4% of GDP) through an extended lending capacity of the *Cyprus Entrepreneurship Fund (CYPEF)*, a joint venture between the EIB (European investment Fund) and Cyprus which was already implemented since 2015[8]. o Participation in the Pan-European Guarantee Fund. Cyprus is expected to draw €300-€400 mn for SMEs, or about 1.5-2% of GDP. All loan schemes have clauses that protect jobs. Contributions to the Guarantee Fund will take the form of guarantees (unfunded obligation). - **Temporary suspension for income tax return for submission for companies and self-employed** with accounts or obliged to submit a statement with notification issued by the Tax Department - **Applications for VAT or corporate tax refunds** will be processed as soon as possible in particular to the businesses most affected (e.g. restaurants, hotels, tour operators, self-employed, etc.) - **Advance payment of VAT** by certain categories of taxpayers in the interest of the national economy (e.g. supermarkets, pharmacies). - **Reduction of the special VAT rate from 9% to 5%**, for tourist accommodations and restaurants as of 1st July 2020 until the end of the year (EUR 15 mn). - **Interest Subsidy Scheme for New Business Loans:** Interest rate on business loans will be subsidised for 4 years. In the first two years, the subsidy will be up to 3.5 percentage units, while in the third and fourth year, the subsidy rate will be 2 percentage units for SMEs and 1.5 percentage units for large companies. This applies to all loans contracted as of March 1, 2020, up to December 31, 2020. Total estimated cost €180 mn for the period 2021-2024. - **Housing Loan Subsidies to Encourage Home Ownership:** Subsidisation scheme for home loan interest rates for a specific duration and fixed a maximum loan amount. Loans will be subsidised for 4 years, at 1.5 percentage units of the interest rate. This will include all loans up to €300,000, contracted as of March 1, 2020, till December 31, 2020. The average interest rate on such loans is 2%, at present. The construction sector will benefit from this move. Total estimated cost €45 mn for the period 2021-2024. - **Subsidy Scheme for Very Small and Self-Employed Enterprises:** Lump-sum grants for very small companies, along with self-employed enterprises that employ up to 50 workers. The total budget of the scheme amounts to €100 mn. The aim is to provide urgent working capital to these companies, so that they can cover rent and other urgent operating costs. Companies that had enlisted for the government's partial or full suspension scheme between April 13 and May 12, 2020, directly impacted by the health and safety provisions, will be eligible for direct grants of: - €1,250 for up to one person

[8] The liquidity will be allocated through the commercial banks. Contrary to the MBILs, local banks share with CYPEF the portfolio risk. The state provides guarantees for 50% of the amount of the portfolio credit risk. SMEs employing up to 250 people will be eligible beneficiaries of this fund, or about 95% of all businesses in Cyprus.

	- €3,000 for two to five persons - €4,000 for six to nine persons - €6,000 for ten to fifty persons Companies that laid off workers or are considered "not viable" by the state or the Labour Ministry's Social Insurance Department, will be left out of this scheme.
Front-load mature public investment projects and promote private investment to foster the economic recovery.	The strategic guidelines and growth policy orientations, governing the allocation of budgetary resources in response to the main investment needs of the country, over a medium term horizon, are outlined in the Government Strategy Statement and, accordingly, in line Ministries' Strategic Plans which underpin the Government's budget framework. These are additionally reflected and complemented by more detailed policy orientations in sector specific or horizontal national strategies and action plans, as well as in the NRP 2020, serving to the alignment of the reform agenda with the key priorities of the strategic framework for investments. The overall aims of the Government's investment strategy under the above strategic framework are to increase the growth potential of the economy, to improve international competitiveness and safeguard the long term sustainability of growth. The utilization and further development of comparative and competitive advantages, the diversification of the productive base, the enhancement of the competitiveness and extroversion of the Cypriot enterprises and the promotion of economic sectors of high contribution to economic growth and sustainability, both social and environmental, remain key objectives over time. The above objectives relate to investments by both the public and private sectors. Given the COVID-19 outbreak and the subsequent consequences to the real economy and public finances, the Government of the Republic of Cyprus will need to reassess and may re-prioritise its investments for the next few years, taking into account the necessary investments that need to be immediately promoted in order to finance/subsidise the implementation of the emergency measures already decided in response to COVID-19. The full assessment and decision making on the reprioritization of the country's investment portfolio will be completed once the spread of the pandemic is stabilized and some safe conclusions can be drawn about the length and magnitude of its effects. A project has been initiated in 2020, supported by DG REFORM and on the basis of a relevant proposal of the Cyprus Economy and Competitiveness Council, on the development of a new strategy for the sustainable long-term growth of the Cyprus economy. Concrete policy directions for targeted reforms and investment in the next 10-15 years are envisaged and these will inform further our assessment of future investment needs. Currently, being at the first phases of the project and more specifically at the stages of assessing the current situation and policies in place, while identifying existing and potentially new drivers of growth, via both economic analysis and effective stakeholders' involvement, it is envisaged that the differentiated conditions but also perspectives, from the outbreak and the

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<tr><td></td><td>severe consequences of the pandemic, will be properly integrated in the development and the outcomes of the project.

Furthermore, the Cyprus government will aim to front-load mature public investment projects and promote private investment through the utilization of the Reform and Resilience Fund (RRF) and InvestEU. Concerning the RRF, a Committee has been set up under the chairmanship of DG EPCD, which includes the Ministry of Finance, Ministry of Agriculture, Rural Development and Environment (Department of Environment), the Ministry of Energy, Commerce and Industry (Energy Service), the Ministry of Transport, Communications and Works and the Ministry of Research, Innovation and Digital Strategy, as well as the participation, in an expanded form, when necessary, of the Ministry of Labour, Welfare and Social Insurance, Ministry of Interior Affairs, Ministry of Education, Culture, Youth and Sports and Ministry of Health, for coordination purposes in preparation of the Plan.

The outline of the Strategy and the policy axes of the Recovery and Sustainability Plan, as approved by the Council of Ministers, focuses on the following policy axes:

• Public health, civil protection and lessons from the pandemic.

• Labor market, social policy, education and human capital.

• New growth model and economic diversification.

• Promoting an investment-friendly business environment, supporting SMEs and improving the efficiency of the public sector and justice.

• Towards a digital age of efficiency and productivity.

• Accelerate the transition to a green economy.

• Fiscal / Financial.</td></tr>
<tr><td>Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, waste and water management, sustainable transport, digitalisation, research and innovation.</td><td>Please refer to notes above on RRF and InvestEU, as well as detailed description provided in NRP 2020.</td></tr>
<tr><td colspan="2">CSR 4
Step up action to address features of the tax system that facilitate aggressive tax planning by individuals and multinationals. Improve the efficiency and digitalisation of the judicial system and the public sector.</td></tr>
<tr><td>Step up action to address features of the tax system that facilitate aggressive tax planning by individuals and multinationals.</td><td>Cyprus generally supports the European Commission's initiatives to fight Aggressive Tax Planning (ATP), including by adopting Anti-Tax Avoidance Directive II (ATAD II) and Directive on Administrative Cooperation Vol.6 (DAC 6). Cyprus reiterates its commitment and willingness to continue cooperation in all appropriate fora for taxation, in full respect of the respective competencies under the Treaties and in light of the relevant voting procedures that are applicable for such matters. In addition to the European and international measures, Cyprus unilaterally announced two additional measures to address aggressive tax planning, namely by the:</td></tr>
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	• Introduction of withholding tax on dividend, interest, and royalty payments to countries in Annex I of the EU list of non-cooperative jurisdictions on tax matters. • Introduction of corporate tax residency test based on incorporation, in addition to the existing 'management and control'. For these two measures, draft bills have been sent to the Attorney General's office for legal vetting. It is also noted that the unilateral measures have been agreed with relevant stakeholders (Institute of Certified Public Accountants of Cyprus - ICPAC). In relation to the actions taken by the Government to deal with the concerns that the 'Citizenship' and 'Residence by investment' schemes may circumvent the Common Reporting Standard initiative, the Cyprus Tax Authorities, in collaboration with the Immigration Authorities, are in the process of developing the appropriate infrastructure to enable as soon as possible the spontaneous exchange of information (SEOI) mechanism about individuals that have obtained residence rights through the Citizenship by Investment" (CBI) and "Residence by Investment" (RBI) (RBI/CBI) programme with all original jurisdictions of tax residence.
Improve the efficiency and digitalisation of the judicial system and the public sector.	The ongoing efforts towards improving the efficiency and digitilisation of the judicial system and the public sector are described in detail in NRP April 2020 and include the following: The Cypriot government has decided to follow a new disruptive approach for accelerating the digital transformation and from the 1st March 2020 a new Deputy Ministry has been established. The mandate of the DMRID is, inter alia, to lead Cyprus into the digital era, through the promotion of scientific excellence, the support and facilitation of innovative entrepreneurship, and the implementation of a digital transformation programme. The two government departments that were transferred to the Deputy Ministry are the Department of Electronic Communications (DEC), which was previously under the MTCW and the Department of Information Technology Services (DITS), which was previously under the MoF. Digital transformation is an ongoing process for the Cyprus public sector aiming to keep up in an increasingly dynamic competitive environment and provide improved services both within the Government and to the public and businesses. Based on the Cyprus Government priorities and targets set, the CoM and the eGovernment Board approves IT projects aiming to further promote digitization and eGovernment in the Public Sector. Some of the major projects which have been approved by the eGovernment Board are the following: • **Expansion of the Government Data Warehouse (GDW)** in order to support its continuous rollout and cope with more users and government organizations exploiting the possibilities and benefits of the GDW. GDW enables easy access to accurate, consistent and integrated government data for better and faster decision making and for statistical purposes. It is a single cohesive database with a subject-centric approach, and

provides a consolidated view of Civil Service data, optimised for reporting and analysis.

- **Justice:** The tendering process for an e-Justice system has started. Taking into consideration the current status of the project and the delays due to various appeals, the pilot operation of the system is expected to be launched by the end of 2021.

- **Public Finance:** In order to support the Government's efforts towards a better Public Financial Management system an Enterprise Resources Planning System (ERP) will be established to cover core functions of the Treasury of the Republic of Cyprus and of various Directorates of the MoF. ERP will also provide e-Services to citizens and civil servants such as processing of electronic invoices from the suppliers of the government and public financial information available to the public through a specialised reporting tool.

  The contract for the ERP was signed in November 2018 and the implementation of the system is expected to be complete within four years. The implementation plan is divided in two phases:

  - Phase 1: it includes the full deployment of the functions related to accounting and budgeting and is expected to be completed by 1st January 2022.

  - Phase 2: it includes the full deployment of the human resources management function, payroll and pensions, and is expected to be completed by 1st November 2022.

- **Infrastructure:** In the area of network infrastructure a contract was signed (July 2019) for the implementation of the Governmental Unified Network (GUN). GUN is considered to be the largest, up to now, digital infrastructure project in Cyprus as it will connect approximately 18,000 public sector employees in about 400 government buildings in a cost efficient and secure manner. This project will upgrade the entire network infrastructure of the government by combining the use of digital technologies and functional capabilities. The implementation span of the project is estimated to be 18 months. The government targets to unify and enhance its voice and data networks as an additional step forward to put in place strong foundations for delivering innovative and flexible services to government officers and/or citizens and businesses (such as the establishment of a central service phone number for the entire Government). The unified data and voice network shall form the basis for the provision of teleconferencing, videoconferencing and voice over IP telephony services, as well as voice mail, unified messaging and IP desktop/telephony to government officials.

- **Health:** A major focus is also given to initiatives aiming to improve the provision of ehealth services. To this end all relevant processes have been put into place to manage the implementation of a National Health Information System and a Laboratory Information Management System (LIMS), so as to cover the needs in every National Hospital and Health Center around the country for the Ministry of Health. The tenders for the National Health Information System have been submitted and are

	currently being evaluated. The Contract for the LIMS was signed and the implementation of the project started in February 2020. • **Corruption:** The Police Internal Affairs Service, which operates under the Law on the Establishment and Operation of the Internal Affairs Service of the Police (Act 3 (I) 2018), in an effort to fight corruption launched a new online Complaint service aiming to allow the submission of complains related to Police force. • **Employment/Labour:** The strategy which was put in place by Cyprus to clamp down on undeclared work is based on two main pillars: legislative support and the introduction of a computerized system to better monitor employers. As far as the second pillar is concerned, the information system for countering undeclared work called ERGANI has been developed. Through this information system, employers are freed from red-tape procedures and by using existing data can contribute to fight against undeclared work. The System is currently in the test phase and is planned to go to production within 2020. • **Customer Service:** In order to provide better services to the public and specifically to improve the services provided at the Citizen Service Centers, the process of acquiring a Queueing system is under way. The System will automatically manage the priority order, display information on the priority order on screens in Digital Signage, measure citizens' satisfaction for their experience and keep track of statistics for all of its functions. • **Taxation:** The processes for the provision of a new information system for the Cyprus Tax Department are in progress. The aim of the project is the simplification of processes and procedures and the use of more modern Tax Department methods, in order to increase personnel productivity and improve operational efficiency. • **Green Government:** One of the most strategic projects for the Government of Cyprus is to consolidate the Government Data Centers in one main data center and a recovery center ensuring efficiency, cost reduction and Green Government. Within this framework a study has been completed that will indicate among others the most cost-effective way of implementation. • **Business:** The deployment, operation and maintenance of a New Integrated Registry Platform Solution in the Companies and Intellectual and Industrial Property Divisions of the DRCOR aims at the complete digital transformation, optimization of processes and the provision of fast and high-quality services to customers. The contract for the system is expected to be signed by the end of 2020. • **Customs:** Cyprus, along with other Member States in EU, promotes the implementation of a new Information System for the Customs Department aiming to ensure the correct application of the Union Customs Code (UCC) Work Plan of the European Union; UCC was enacted in order to modernise and simplify trade into and within the EU and to harmonise the customs procedures across Member States. The project is in progress.

	• **Collaboration with new technologies:** eCollaboration Platform facilitates the sharing of information across Governmental Organisations in order to enrich collaborative interaction of employees and to streamline business processes. The platform simplifies the existing working environment and eliminates the boundaries of the traditional communication ways and improves productivity by automating employees' daily operations with the use of new, user-friendly and more efficient applications. eCollaboration is based on a unified infrastructure thus minimizing operational and maintenance costs for the Government of Cyprus. The rollout of eCollboration is an ongoing process aiming to cover the needs for all civil servants. Further to the above, the expansion/roll-out is a continued process for other strategic eGovernment horizontal interventions which have already been put in place aiming to further support the needs and demands a) of the public sector and b) for citizens/business: o The Government Gateway - ARIADNI (https://cge.cyprus.gov.cy) provides the foundation for delivery of the vision for a 'Joined-up Government' and constitutes the central portal to all electronic transactions between citizens, businesses, institutions and the Government. ARIADNI provides around 100 public e-services with a full set of information for each Governmental procedure. o eOASIS: the electronic management of the official documents of the Public Service • **Legislation - Digital Society for all:** In an effort to create a digital society equal to all, Cyprus harmonized Cypriot legislation with Directive (EU) 2016/2102 of the European Parliament and of the Council 26 October 2016 on the Accessibility of the Websites and Mobile Applications of Public Sector Bodies. The legislation proposal was submitted to the HoR towards the end of September 2018. The law (N.50(I)/2019) was approved and published on the Official Gazette of the Republic of Cyprus on 5th April 2019.

5. COMPARISON BETWEEN DBP AND THE MOST RECENT STABILITY PROGRAMME

The general government budget balance targets set for the Budget of 2021, deviate by -0.2 and -0.3 percentage points of GDP for the years 2020 and 2021, respectively, vis-à-vis the ones presented in the most recent Stability Programme.

The new targets take into account the positive revision regarding the consequences of the pandemic crisis on the economy's growth during the current year and in addition the revision of the estimated cost from the measures presented in the SP 2020-2023, as well as the estimated cost of additional measures adopted after, until 29th September 2020.

It is worth noticing that the budget deficit for year 2020 presented in the context of the SP 2020-2023, compared to the projection of the budget deficit at unchanged policies for the same year presented in the current DBP, is considerably higher by 1.2 percentage points of GDP. This deviation is the outcome (i) of the revision of a negative growth during 2020 of a significantly lesser extent, from -7% real GDP growth initially forecasted to -5.5%, and (ii) to the overestimation of the cost of the measures undertaken by the government in the context of the initial stimulus package adopted end-March 2020, and additionally from the decision for an extension of the subsidisation schemes up to 12th June 2020.

Table 7. Divergence from latest SP

	ESA Code	Year	Year	Year
		2019	2020	2021
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		2.7	-4.3	-0.4
Draft Budgetary Plan		1.7	-4.5	-0.7
Difference		-1.0 [9]	-0.2	-0.3
General government net lending projection at unchanged policies	B.9			
Stability Programme		2.7	-4.3	-0.4
Draft Budgetary Plan		1.7	-3.1	-0.4
Difference		-1.0 [7]	1.2	0.0

More specifically, the cost from the special schemes of the Ministry of Labour regarding wage subsidisation of the employees' salary for businesses that either fully or partly suspend their operations, the small business support scheme, and the provision for sickness allowance as well as for special absence leave, was initially estimated at 3.5 percent of GDP, in total. Yet, actual data regarding the cost from these schemes, up to 12th June 2020 as initially planned and presented in the context of the SP 2020-2023, suggests a much lower realised cost of 1.4 percent of GDP in total. On the other hand, the projections presented in the SP 2020-2023 didn't take into account the revenue loss stemming from the subsidies in the context of the abovementioned schemes, where the revised forecasts presented in the current report do incorporate this loss, estimated at about 0.6 percent of GDP.

[9] The difference in the figures regarding the budget balance as a percentage of GDP in 2019 presented in Table 7, refers to revisions taken place in the context of the latest EDP notification (April 2020), mainly related to (i) the impact of the Income Tax Law amendment, (ii) EU Funds flow adjustment, and (iii) the recording of a dividend received in the year under review.

Regarding the year after, the deviation in the forecasted budget balance presented in the latest Stability Programme and the current Draft Budgetary Plan, of -0.3 percent of GDP, is mainly attributed to the interest subsidy scheme for new business loans and for house loans, with an estimated cost of 0.3 percent of GDP in the year under review.

APPENDIX: TABLES

Table 0 i). Basic assumptions

	Year 2019	Year 2020	Year 2021
Short-term interest rate[1] (annual average)	-0.4	-0.4	-0.5
Long-term interest rate (annual average)	-0.3	-0.5	-0.5
USD/€ exchange rate (annual average)	1.12	1.1	1.2
Nominal effective exchange rate	-1.2	2.2	0.7
World excluding EU, GDP growth	3	-3.6	4.9
EU GDP growth	1.5	-8.3	5.8
Growth of relevant foreign markets [UK]	1.5	-9.7	6.0
World import volumes, excluding EU	0.1	-10.5	6.8
Oil prices (Brent, USD/barrel)	64.1	42.6	44.7

1 If necessary, purely technical assumptions.

Table 1a. Macroeconomic prospects

	ESA Code	Year 2019	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
		Level (€ mn)	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	21,345.7	3.2	-5.5	4.5	3.5	2.8
2. Potential GDP		20,151.7	2.1	1.9	2.3	2.4	2.5
contributions:							
- labour			1.0	1.0	0.9		
- capital			1.0	0.7	0.8		
- total factor productivity			0.0	0.2	0.6		
3. Nominal GDP	B1*g	21,943.6	3.8	-6.4	5.6	5.0	4.9
Components of real GDP							
4. Private final consumption expenditure	P.3	13,687.4	3.0	-3.2	3.5		
5. Government final consumption expenditure	P.3	3780.5	14.4	17.2	10.6		
6. Gross fixed capital formation	P.51g	4011.2	0.1	-9.9	5.0		
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-263.1	-1.3	0.0	0.0		
8. Exports of goods and services	P.6	15,263.2	2.0	-17.6	11.1		
9. Imports of goods and services	P.7	15,181.1	1.5	-11.1	11.8		
Contributions to real GDP growth							
10. Final domestic demand		21,479.1	4.2	-0.8	5.5		
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-263.1	-1.3	0.0	0.0		
12. External balance of goods and services	B.11	82.1	0.3	-4.7	-1.0		

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 2019	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
		Level (€ mn)	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		102.8	0.6	-1.0	1.0	1.5	2.0
2. Private consumption deflator		104.0	0.4	-0.6	1.0		
3. HICP		100.8	0.5	-0.6	1.0		
4. Public consumption deflator		97.9	2.7	1.5	1.4		
5. Investment deflator		104.4	3.5	-0.7	1.0		
6. Export price deflator (goods and services)		102.3	-0.9	-0.6	1.0		
7. Import price deflator (goods and services)		103.4	1.2	0.4	0.9		

Table 1c. Labour market developments

	ESA Code	Year 2019	Year 2019	Year 2020	Year 2021
		Level	rate of change	rate of change	rate of change
1. Employment, thousand persons[1]		436.8	3.1	-2.5	2.0
2. Employment, thousand hours worked[2]		788,619	2.9	-4.0	3.0
3. Unemployment rate (%)[3]		31,703	7.1	8.0	7.0
4. Labour productivity, persons[4]		48,863	-0.1	0.2	0.2
5. Labour productivity, hours worked[5]		27.1	0.2	0.2	0.2
6. Compensation of employees (€ mn)	D.1	9,733	6.2	-5.5	4.5
7. Compensation per employee (€)		25,149	2.9	-3.0	2.5

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 2019	Year 2020	Year 2021
		% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	-6.7	-7.8	-8.5
of which:				
- Balance on goods and services		-0.1	-5.7	-6.5
- Balance of primary incomes and transfers		-6.6	-2.1	-2.0
- Capital account		-	-	-
2. Net lending/net borrowing of the private sector	B.9	-8.4	-3.3	-7.7
3. Net lending/net borrowing of general government	B.9	1.7	-4.5	-0.7
4. Statistical discrepancy		0.0	0.0	0.0

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

	ESA Code	Year 2020	Year 2021	Year 2022	Year 2023
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	-4.5	-0.7	-0.6	-0.1
1a. Central government	S.1311	-5.9	-2.1		
1b. State government	S.1312	M	M		
1c. Local government	S.1313	-0.1	-0.1		
1d. Social security funds	S.1314	1.5	1.4		
2. Interest expenditure	D.41	2.3	2.2		
3. Primary balance[2]		-2.2	1.4		
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	4.5		
6. Potential GDP growth (%) (=2 in Table 1.a)		1.9	2.3	2.4	2.5
contributions:					
- labour		1.0	0.9		
- capital		0.7	0.8		
- total factor productivity		0.2	0.6		
7. Output gap (% of potential GDP)		-1.8	0.4	1.4	1.7
8. Cyclical budgetary component (% of potential GDP)		-0.9	0.2	0.7	0.9
9. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-3.6	-0.9		
10. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		-1.3	1.2		
11. Structural balance (13 - 8) (% of potential GDP)		-3.6	-0.9	-1.4	-1.0

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 2020	Year 2021	Year 2022	Year 2023
		% GDP	% GDP	% GDP	% GDP
1. Gross debt[1]		114.8	111.0	102.3	98.1
2. Change in gross debt ratio		19.3	-3.8		
Contributions to changes in gross debt					
3. Primary balance (= item 3 in Table 2.a)		-2.2	1.4		
4. Interest expenditure (= item 2 in Table 2.a)	D.41	2.3	2.2		
5. Stock-flow adjustment		14.8	-4.5	-9.4	-4.3
of which:					
- Differences between cash and accruals[2]		-1.2	-0.1		
- Net accumulation of financial assets[3]		9.5	1.6		
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]		2.3	2.0	1.9	1.7

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 2020	Year 2021
	% GDP	% GDP
Public guarantees	19.2	18.4
Of which: linked to the financial sector	9.4	8.5

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

	ESA Code	Year 2020	Year 2021
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	42.7	44.0
of which			
1.1. Taxes on production and imports	D.2	15.4	15.3
1.2. Current taxes on income, wealth, etc	D.5	9.6	9.6
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.6	12.2
1.5. Property income	D.4	0.4	0.4
1.6. Other[1]		5.8	6.6
p.m.: Tax burden		36.5	37.0
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure at unchanged policies	TE[3]	45.9	44.4
of which			
2.1. Compensation of employees	D.1	14.0	13.8
2.2. Intermediate consumption	P.2	9.0	10.1
2.3. Social payments	D.62+D.632	14.1	13.6
of which Unemployment benefits[4]		0.4	0.4
2.4. Interest expenditure	D.41	2.3	2.2
2.5. Subsidies	D.3	1.8	0.3
2.6. Gross fixed capital formation	P.51g	1.2	1.2
2.7. Capital transfers	D.9	0.3	0.3
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 2020	Year 2021
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	42.5	44.0
of which			
1.1. Taxes on production and imports	D.2	15.3	15.3
1.2. Current taxes on income. wealth. etc.	D.5	9.6	9.6
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.4	12.2
1.5. Property income	D.4	0.4	0.4
1.6. Other [1]		5.8	6.6
p.m.: Tax burden		36.3	37.0
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]	47.1	44.7
of which			
2.1. Compensation of employees	D.1	14.0	13.8
2.2. Intermediate consumption	P.2	9.0	10.1
2.3. Social payments	D.62+D.632	14.2	13.6
of which Unemployment benefits[4]		0.5	0.4
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	2.3	2.2
2.5. Subsidies	D.3	2.9	0.7
2.6. Gross fixed capital formation	P.51g	1.2	1.2
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 4b. General government expenditure by function

	ESA Code	Year 2019	Year 2019	Year 2020	Year 2021
		Level (€ mn)	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		53.0	0.2	1.1	0.7
1a. of which investments fully matched by EU funds revenue		31.8	0.1	0.6	0.4
2. Cyclical unemployment benefit expenditure [1]		-17.1	-0.1	0.1	0.1
3. Effect of discretionary revenue measures [2]	D.5	373.5	1.7	0.3	2.0
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 2020		Year 2021	
	% GDP	% general government expenditure	% GDP	% general government expenditure
Education[1]	5.8	12.4	5.6	12.4
Health[1]	6.0	12.8	7.1	15.8
Employment[2]	2.2	4.6	0.3	0.6

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 2020	Year 2021
		% GDP	% GDP
1. General public services	1	7.7	8.7
2. Defense	2	2.3	2.2
3. Public order and safety	3	1.6	1.6
4. Economic affairs	4	5.9	2.6
4. Environmental protection	5	0.3	0.6
6. Housing and community amenities	6	1.5	1.5
7. Health	7	6.0	7.1
8. Recreation culture and religion	8	1.1	1.1
9. Education	9	5.8	5.6
10. Social protection	10	14.8	13.8
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	47.1	44.7

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 2020	Year 2021
Reduction of the VAT special rates	Reduction of the VAT special rates as from 1st July until the end of 2020	D.2	accrual	adopted	-0.1	-
Extension of the wage subsidization scheme until the end of October 2020	Revenue loss from the wage subsidies, which are not subject to any contribution	D.6 (rev)	accrual	adopted	-0.1	-
Extension of the wage subsidization scheme until the end of October 2020	Additional cost from the extension of the wage subsidisation scheme, as of 13th June 2020 until the end of October 2020, 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.39	accrual	adopted	0.6	-
Subsidization scheme for small enterprises and self-employed	Subsidization scheme for small enterprises and self-employed	D.39	accrual	adopted	0.5	-
Special Support Allowance for the Unemployed	Special Support Allowance for the Unemployed	D.62	accrual	adopted	0.03	-
Interest Subsidy Scheme for new business loans	Interest Subsidy Scheme for new business loans	D.39	accrual	adopted	-	0.28
Interest Subsidy Scheme for housing loans	Interest Subsidy Scheme for housing loans	D.39	accrual	adopted	-	0.05
Other subsidies	Granting to the media affected by the crisis/ support to arts and cultural professionals/ special plans for farmers, fisheries and animal welfare organizations, etc.	D.75	accrual	adopted	0.1	-
TOTAL BUDGETARY IMPACT					-1.4	-0.33

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

Table 7. Divergence from latest SP

	ESA Code	Year	Year	Year
		2019	2020	2021
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		2.7	-4.3	-0.4
Draft Budgetary Plan		1.7	-4.5	-0.7
Difference		-1.0	-0.2	-0.3
General government net lending projection at unchanged policies	B.9			
Stability Programme		2.7	-4.3	-0.4
Draft Budgetary Plan		1.7	-3.1	-0.4
Difference		-1.0	1.2	0.0