Cyprus Draft Budgetary Plan 2018

in accordance to regulation (EU) No 473/2013

October 2017

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INTRODUCTION

The Draft Budgetary Plan (DBP) 2018, 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 2018 was approved by the Council of Ministers on 11 October 2017 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 2017, as well as the Budget Bill for 2018 that was submitted to the House of Representatives on 4th October 2017.

[1] The cut-off date for the macroeconomic and fiscal forecasts was 29 September 2017.

1. ECONOMIC DEVELOPMENTS AND OUTLOOK

Developments in 2017

The economy exhibits robust growth rate in 2017 following the strong growth of 2.8% in 2016 and 1.7% in 2015. The better than expected[2] outcome in the economy, together with the gradual restructuring taking place in the banking sector, have created a sustained environment of improved confidence.

During the first half of 2017, the economy grew at a rate of 3.6% with all components of domestic demand contributing positively to growth. Private consumption as well as government consumption expanded at a rate of 3% and 4%, respectively. Investment accelerated and increased at a rate of 19.5%, primarily due to investments in transport equipment while investment in construction also exhibited an increase of 22.1%. Net export growth was negative, with exports declining by 3.5% in the first half of 2017, and imports decreasing marginally by 0.1%.

From a sectoral point of view, growth in 2017 was broad based with the increase mainly attributed to the sectors of hotels and restaurants, retail and wholesale trade, construction, and manufacturing. Negative growth rate was only recorded by the sector of financial and insurance activities.

Tourist arrivals for the period of January-August 2017 exhibited an increase of 14.7%, compared with the corresponding period of 2016 and at the same time, revenues of the tourist sector increased by 15.3% for the period January-July 2017 compared with the corresponding period of 2016. Other sectors that contributed particularly positively to growth are the wholesale and retail trade, manufacturing, construction and transport sectors. Monthly data indicate an increase of 4.8% in the turnover volume index of retail trade during the period January-July 2017, compared to the corresponding period of 2016. Other monthly indicators for the construction sector show signs of a gradual recovery, with demand for immovable property also rebounding slowly but steadily. Specifically, building permits, which is a leading indicator, exhibited an annual increase of 31.1% during the period January-June 2017 compared with the corresponding period of 2016. At the same time, sales contracts for new properties exhibited an increase of 18.9% during the period January-September 2017 compared to the corresponding period of 2016.

The course of the steady recovery path is reflected in the labour market and consolidates the climate of confidence and stability. The unemployment rate, which began to show a downward trend since the second quarter of 2015, fell significantly in the first half of 2017 to 12.1% of the active labour force. The estimate for the year as a whole is for an average unemployment rate of 11.0% in 2017.

As measured with the Harmonised Index of Consumer Prices, the price level in 2017 is expected to exhibit an increase of 1.0%, compared to a decrease of 1.2% in 2016. The developments in inflation in Cyprus are essentially a result of the developments in international oil prices.

Prospects for 2018

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

[2] The better than expected outcome refers to a comparison with the April 2017 projections included in the Stability Programme.

with the improved expectations regarding the investment opportunities provided in the energy and tourism sector, create a positive outlook for the Cypriot economy.

Specifically, the economy is projected to expand also in 2018 at about 3.0% in real terms. The trends in the labour market are anticipated to be positive with employment anticipated to continue to grow in 2018 by 2.4%, while the unemployment rate for 2018 is projected to decline further to about 9.5%. Inflation in 2018, based on the latest monthly data and estimates, is expected positive at around 1%.

	2016	2017	2018
Real GDP growth (%)	2.8	3.6	3.0
Inflation HICP (%)	-1.2	1.0	1.0
Unemployment (%)	12.9	11.0	9.5
Employment (%)	3.2	3.0	2.4

Risks to growth

Delays in the normalization of Non-Performing Loans (NPLs) of the banking system, Brexit and adverse developments in the external environment are the main downside risks to the outlook. On the other hand, the significant investment opportunities on the horizon, the prospects on the energy sector, the lower oil prices, the euro depreciation, and EU investment plans are an upside risk.

Table 1a. Macroeconomic prospects

	2016	2017	2018
	rate of change	rate of change	rate of change
1. Real GDP	2.8	3.6	3.0
2. Potential GDP	0.7	1.5	2.0
contributions:			
- labour	0.2	0.7	0.8
- capital	0.5	0.4	0.5
- total factor productivity	0.0	0.4	0.6
3. Nominal GDP	1.5	5.0	4.0
Components of real GDP			
4. Private final consumption expenditure	2.9	3.0	2.5
5. Government final consumption expenditure	-1.4	1.9	0.9
6. Gross fixed capital formation	25.9	0.2	6.5
7. Changes in inventories and net acquisition of valuables (% of GDP)	-1.5	0.0	0.0
8. Exports of goods and services	3.6	3.2	3.6
9. Imports of goods and services	5.3	1.2	3.3
Contributions to real GDP growth			
10. Final domestic demand	5.3	2.4	2.9
11. Changes in inventories and net acquisition of valuables	-1.5	0.0	0.0
12. External balance of goods and services	-1.0	1.2	0.2

Table 1b. Price developments

	2016 (rate of change)	2017 (rate of change)	2018 (rate of change)
GDP deflator	-1.3	1.4	1.0
Private consumption deflator	-1.1	1.4	1.0
HICP	-1.2	1.0	1.0
Public consumption deflator	-0.4	2.2	1.8
GFCF deflator	1.8	1.3	1.5
Export price deflator (goods and services)	-0.8	1.4	1.0
Import price deflator (goods and services)	-1.2	1.6	1.4

Table 1c. Labour market developments

	2016 (rate of change)	2017 (rate of change)	2018 (rate of change)
Employment, persons[1]	3.2	3.0	2.4
Employment, hours worked[2]	3.2	3.0	2.4
Unemployment rate (%)[3]	12.9	11.0	9.5
Labour productivity, persons[4]	-0.4	0.6	0.6
Labour productivity, hours worked	-0.3	0.6	0.6
Compensation of employees	2.2	4.0	3.9
Compensation per employee	-1.0	1.0	1.5

Table 1d. Sectoral balances

	2016 (rate of change)	2017 (rate of change)	2018 (rate of change)
1.Net lending/net borrowing vis-à-vis the rest of the world *of which:*	-5.3	-4.4	-4.3
- *Balance on goods and services*	0.0	0.6	0.6
- *Balance on goods and services*	-5.3	-5.0	-4.8
- *Capital account*			
2.Net lending/net borrowing of the private sector	-5.6	-5.4	-5.6
3.Net lending/net borrowing of general government	0.4	1.0	1.3
4.**Statistical discrepancy**	0.0	0.0	0.0

2. BUDGETARY DEVELOPMENTS AND TARGETS

BUDGETARY TARGETS

The General Government budget balance, recorded a substantial improvement in 2016 reaching a surplus of 0.4 percent of GDP, compared to a deficit of the order of 1.2 percent of GDP in 2015, including the recapitalization of the Cooperative Cyprus Bank. Over the medium term, the government opts for a broadly neutral fiscal stance, which will safeguard the fiscal achievements and the respect of the national MTO.

In 2017, the General Government budget balance is expected to be in surplus reaching 1 percent of GDP, compared to a surplus of the order of 0.4 percent of GDP the year before, despite the abolition of the temporary contribution on emoluments of public and private sector employees, as well as the total abolition of the immovable property tax as of 1st January 2017, with a total fiscal impact of the order of about 0.7 percent of GDP. The primary surplus of the General Government is expected to register an improvement of 0.5 percentage points of GDP in 2017, reaching 3.5% of GDP compared to a primary surplus of 3% of GDP in 2016. In 2018, the budget balance is expected to remain in surplus and reach 1.3 percent of GDP mainly due to the expected further improvements in the labour market, as well as the anticipated performance in revenues owing to the positive developments in economic activity in conjunction with a prudent growth in public expenditures. Primary balance is expected to be in surplus of the order of 3.8 percent of GDP.

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

	ESA Code	**Year 2017**	**Year 2018**
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	1.0	1.3
1a. Central government	S.1311	0.5	0.8
1b. State government	S.1312	M	M
1c. Local government	S.1313	0.0	0.0
1d. Social security funds	S.1314	0.5	0.5
2. Interest expenditure	D.41	2.5	2.5
3. Primary balance		3.5	3.8
4. One-off and other temporary measures		0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		3.6	3.0
6. Potential GDP growth (%) (=2 in Table 1.a)		1.5	2.0
contributions:			
- labour		0.7	0.8
- capital		0.4	0.5
- total factor productivity		0.4	0.6
7. Output gap (% of potential GDP)		0.5	1.5
8. Cyclical budgetary component (% of GDP)		0.3	0.8
9. Cyclically-adjusted balance (% of GDP)		0.7	0.5
10. Cyclically-adjusted primary balance (% of GDP)		3.2	3.0
11. Structural balance (% of GDP)		0.7	0.5

According to the authorities' forecast with regards to the potential output using the commonly agreed methodology for the estimation of potential growth and the output gap, structural balance is expected to be positive in 2017 reaching 0.7% of the GDP, whereas in 2018 it is estimated to remain positive of the order of 0.5% of the GDP.

The general government gross debt to GDP ratio is expected to significantly decrease in 2017 falling to 99% of GDP compared to 107.8% of GDP the year before, following a domestic debt prepayment of €0.6 bn, which is expected to be completed before year end. Further decrease of 2.8 percentage points of GDP is expected by the end of 2018, after the completion of planned domestic debt prepayments of approximately €0.3 billion.

Table 2b. General government debt developments

	ESA Code	Year 2017	Year 2018
		% GDP	% GDP
1. Gross debt		99.0	92.4
2. Change in gross debt ratio		-3.6	-2.8
Contributions to changes in gross debt			
3. Primary balance (= item 3 in Table 2.a)		3.5	3.8
4. Interest expenditure (= item 2 in Table 2.a)	D.41	2.5	2.5
5. Stock-flow adjustment		-2.6	-1.5
p.m.: Implicit interest rate on debt		2.4	2.6

Revenue and Expenditure Projections

On the revenue side, an estimated growth of about 7% is anticipated for 2017, leading to an increase, as a percentage to GDP, reaching 40% of GDP, compared to 39.2% of GDP in 2016. Taxes on production and imports, as well as social contributions are expected to exhibit an increase of 9.9% and 9.5% in 2017, respectively, compared to the year before, reflecting both increasing domestic demand and improving labour market conditions.

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

	ESA Code	2017	2018
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	40.0	39.9
of which			
1.1. Taxes on production and imports	D.2	16.0	15.9
1.2. Current taxes on income, wealth, etc.	D.5	9.6	9.5
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	9.0	9.0
1.5. Property income	D.4	0.9	0.9
1.6. Other		4.6	4.5
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		34.5	34.4
2. Total expenditure target	TE	39.0	38.6
Of which			
2.1. Compensation of employees	D.1	12.5	12.3
2.2. Intermediate consumption	P.2	3.7	3.6
2.3. Social payments	D.62+D.632	14.1	13.8
of which Unemployment benefits		0.4	0.3
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	2.5	2.5
2.5. Subsidies	D.3	0.5	0.5
2.6. Gross fixed capital formation	P.51g	2.7	2.8
2.7. Capital transfers	D.9	0.3	0.3
2.8. Other		2.6	2.7

Revenue from current taxes on income and wealth is estimated to increase at a lower rate, of about 2.5% in 2017 compared to the year before, due to the impact of the abolition of the temporary contribution on emoluments of private sector employees, as well as the total abolition of the immovable property tax as of 1st January 2017. The effect of both measures mentioned above on this revenue category is estimated at 0.5 percentage points of GDP.

The strong performance mainly of the corporate tax receipts as well as personal income tax receipts, stemming from an improved corporate profitability and an improving labour market, respectively, is estimated to overcompensate the loss of the abolition of the two measures.

Property income is estimated to exhibit a decline of about 10% and decrease by about 0.2 percentage points of GDP compared to the year before, reaching 0.9 percent of GDP in 2017 compared to 1.1 percent of GDP in 2016. The lower than the previous year's Central Bank dividend by about 0.2 percentage points of GDP is compensated by the revenue of the signature bonus[3] related to the production sharing contracts for the exploration and exploitation of hydrocarbon reserves singed early-April 2017.

In 2018, revenue is forecast to increase by 3.8% but exhibit a marginal decline as a percentage of GDP to 39.9%. Based on the macroeconomic scenario, taxes on production and imports and current taxes on income and wealth are forecast to expand at a rate of 3.6% and 3.2% in 2018 compared to the year before, respectively.

Total expenditure is estimated to exhibit an increase of 5.3%, and as a percentage to GDP marginally increase to 39.0% of GDP in 2017 compared to 38.9% the year before. Compensation of employees is expected to increase at a rate of 4.1%, mainly due to the recruitment of additional personnel for security forces, as well as the abolition of the temporary contribution on emoluments of public sector employees, leading to a marginal decline, as a percentage of GDP, by 0.1 percentage points to 12.5% in 2017. Social payments, estimated to decline to 14.1% of GDP in 2017 from 14.3% the year before, are expected to record a y-o-y increase of the order of 3.4% attributed to an increase in pensions. In 2018, expenditure is forecast to exhibit an increase of the order of 3%, leading to its decline, as a percentage of GDP, to 38.6% from 39.0% the year before.

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

On July 2016, the plenary of the House of Representatives voted the reduction of the immovable property tax burden by up to 75% for the year 2016 and its total abolishment as from January 1st 2017, with a fiscal impact of this measure estimated at 0.3 percentage points of GDP in 2017. Furthermore, the termination of the temporary contribution on private and public sector employees' emoluments as of 1st January 2017 is estimated to have an additional impact on the revenue and expenditure of the order of 0.2 percentage points of GDP, respectively.

More specifically, under the no-policy change scenario, current taxes on income and wealth would reach 10.1 percent of GDP in 2017, exhibiting a y-o-y growth of about 8.1%, compared to an estimated increase of the order of 2.5% under the baseline scenario. In 2018, current taxes on income and wealth under the no-policy change scenario remain as in the baseline scenario since the measures mentioned above do not have an incremental impact after 2017.

[3] It is noted that, as the above-mentioned contracts are foreseen for a 3-year operating license, the presentation of the total amount of the collection to the general government accounts will be ⅓ for the years 2017, 2018 and 2019.

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

	ESA Code	2017	2018
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	40.5	39.9
of which			
1.1. Taxes on production and imports	D.2	16.0	15.9
1.2. Current taxes on income, wealth, etc.	D.5	10.1	9.5
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	9.0	9.0
1.5. Property income	D.4	0.9	0.9
1.6. Other		4.6	4.5
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		34.5	34.4
2. Total expenditure at unchanged policies	TE	38.8	38.6
Of which			
2.1. Compensation of employees	D.1	12.5	12.3
2.2. Intermediate consumption	P.2	3.7	3.6
2.3. Social payments	D.62+D.632	14.1	13.8
of which Unemployment benefits		0.4	0.3
2.4. Interest expenditure	D.41	2.5	2.5
2.5. Subsidies	D.3	0.5	0.5
2.6. Gross fixed capital formation	P.51g	2.7	2.8
2.7. Capital transfers	D.9	0.3	0.3
2.8. Other		2.6	2.7

General government expenditure and revenue projections at unchanged policies broken down by main components, as well as details on the measure explained above are presented in Tables 3 and 5a.

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 2017**	**Year 2018**
Immovable property tax	Immovable Property Tax for 2016 was based on 1980 values but reduced by 75 per cent on the amount of the tax imposed the year before; IPT was totally abolished in 2017	D.5	accrual	adopted	-0.3	0.0
Temporary contribution	abolition of the temporary contribution on emoluments of private sector employees as of 1st Jan. 2017	D.5	accrual	adopted	-0.2	0.0
Temporary contribution	abolition of the temporary contribution on emoluments of public sector employees as of 1st Jan. 2017	D.1	accrual	adopted	0.2	0.0
TOTAL BUDGETARY IMPACT					-0.7	0.0

Government expenditure would exhibit an estimated decrease of the about 0.2 percentage points of GDP under the no-policy scenario, whereas revenue would exhibit an estimated increase of the order of 0.5 percentage points of GDP in 2017. Both general government expenditure and revenue remain unchanged under the no policy-scenario in 2018.

DISTRIBUTIONAL IMPACT OF THE MAIN REVENUE AND EXPENDITURE MEASURES

The discretionary measures of the government that are potentially relevant for a discussion on distributional effects are the abolition of the temporary contribution of employees in 2017 and the full abolition of the immovable property tax in 2017. It is noted that the biggest impact of the reform of the immovable property tax already occurred in 2016, where a reduction of the immovable property tax burden has been applied reaching 75% of the tax imposed the year before. The above-mentioned measures do not have an effect in the year 2018.

Both measures will have a positive effect on disposable incomes but they are not expected to have a large enough effect in order to affect either the income distribution or the Gini coefficient.

It is noted that, in accordance with the relevant acquis on VAT, the Council of Ministers have approved the introduction of the standard VAT rate on building land transactions, which has already been tabled before the House of Representatives for adoption. The forecast budgetary impact of above measure is estimated at about 0.2 percent of GDP and it is not factored in the calculation of the total discretionary measures taken by the government.

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

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

Country Specific Recommendation	Progress to date
CSR 1	
Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which implies to remain at its medium-term budgetary objective in 2018	The structural balance, as a percentage of GDP, is estimated to be in surplus falling to 0.5%, based on updated output gap estimates derived from the common methodology, therefore respecting the medium-term budgetary objective of a balanced budget.
By end-2017, adopt key legislative reforms aiming to improve efficiency in the public sector, notably on the functioning of public administration, governance of State-owned entities and local governments	**Public Sector Reform** It is noted that a law governing the indefinite suspension of public and broader public sector hiring of new personnel has been enacted in July 2017 by the House of Parliament. The Law provides for the indefinite freeze on new hiring with the simultaneous introduction of a mechanism governing a procedure for exemptions. The Bill regarding mobility between the Public Service and State Owned Organisations (SOEs) as well as among SOEs was approved by the House of Representatives (HoR) in May 2017. As regards the remaining five Bills relating to the horizontal reforms, which were rejected by the HoR in December 2016, a revised set of Bills has been drafted which is currently under legal vetting by the Law Office, and is expected to be submitted to the House of Representatives by the end of the year. As regards in particular the introduction of a control mechanism ensuring that any increase in the wage Bill will be based on the fiscal conditions and the increase in nominal GDP, this is currently under implementation in the civil service and the broader public sector through agreements that the Government signed with the main trade unions for the years 2017 and 2018. Furthermore, a Law has been enacted providing for the indefinite suspension of recruitment of new personnel in the public sector and the introduction for a mechanism regulating exceptions. **State-owned entities** The draft law on SOEs aims to improve their corporate governance and ensure a more effective monitoring of their functioning. The Bill was submitted to the HoR in April 2015. **Local Governments** Another integral reform with a systemic effect on the economy is the local government reform. It essentially influences the delivery of qualitative local public services and enhances the processes of issuing title deeds. The reform particularly aims at making the issuing of building permits and certificates more efficient. It also addresses the current gaps in local government financial reporting, by establishing a common accounting and reporting framework. The authorities have submitted to the Parliament a set of bills for the gradual decrease on the number of Municipalities, within the next three (3) years of the implementation of the reform. A Roadmap for the implementation of the Reform has been prepared, including the framework which encompasses the criteria used for the proposed reduction in the number of Municipalities. The said bills are under consideration by the Interior Parliamentary Committee of the House of Representatives (HoR). A prerequisite set by the competent Parliamentary Committee for adopting the bills was to prepare and submit relevant Regulations that will accompany the three pieces of legislation, along with the Report that elucidates the argumentation for the streamlining of the Municipalities.

	The relevant Regulations have been drafted and submitted together with the Report to the relevant Parliamentary Committee.
CSR 2	
Increase the efficiency of the judicial system by modernising civil procedures, implementing appropriate information systems and increasing the specialisation of courts	Acknowledging the need to increase the efficiency of the justice system, the Supreme Court of Cyprus together with the Ministry of Justice and Public Order, have promoted a number of measures, including the following: The procurement procedure for the setting up of a court administration/ management information system for the courts (e-justice system) has been initiated. This system will result in the computerisation of all administrative processes between legal and physical persons and the court's administration as well as all processes within the courts' procedures. The tender was launched in March 2017 and the deadline for the submission of tenders is 22.9.2017. It is anticipated that the system will become operational in Q3 2018. A Bill prepared by the Ministry of Justice amending the Courts of Justice Law by filtering the right of filing an appeal in civil cases as regards interlocutory decisions during the proceedings was approved by the HoR on 7 July and published in the Offical Gazette on 21 July 2017. The rules on foreclosure have been put in place. In addition, the Supreme Court completed the Procedural Rules aiming at improved procedures in relation to insolvency of natural persons, with technical assistance by SRSS, which were published in the Official Gazette on 11 November 2016. The preparation of a draft amendment of the bankruptcy rules on legal entities is underway. The establishment of an Administrative Court since 1.1.2016 which has taken on board all first instance administrative resources, has discharged the Supreme Court of this task and is enabling it to carry out more expeditiously its second instance jurisdiction (appeals). Two new Judges have been appointed in relation to the Administrative Court. The Ministry of Justice and Public Order prepared a bill for the establishment of an Administrative Court of International Protection. This court will only deal with recourses/cases concerning the international protection procedures. So, these specific cases will be transferred to this court, leaving the Administrative Court to deal with all the other administrative cases. The decisions of the Court will be subject to appeal before the Supreme Court for any reason concerning only a legal point. The Ministry of Justice and Public Order prepared the relevant bill which is now under consultation with the competent authorities in the Republic. The Ministry of Justice and Public Order has prepared a draft Bill for the establishment and operation of a Commercial Court in Cyprus. The said Bill will be available for public consultation among relevant stakeholders before its finalisation. A Bill has been prepared amending the Civil Procedure Law, so as to strengthen the legal framework for the enforcement of judgments. The provisions of the Bill include measures which facilitate the execution of warrants concerning the seizure of movable property. The Bill is under legal vetting by the Legal Service of the Republic. The matter of the increase of court fees is under examination by all the stakeholders. The Ministry of Justice and Public Order will also assign to an expert a study concerning mediation. The study will, among other issues, pertain to the accreditation of mediators, their qualifications, their training, their disciplinary supervision, the dissemination of information to the general public. The study will also include concrete suggestions for the amendment of the law as needed. The public procurement is now running. The whole procedure, including the completion and delivery of the final report/ study, will be completed by the end of this year (2017).

	Further to the above, the Supreme Court has requested technical assistance from SRSS for the modernisation of the judicial system and the management of the courts, including the use and implementation of information technology and communication systems. The work of the experts on court reform is expected to be completed in the first quarter of 2018. A study was undertaken in relation to the establishment of the training school for judges. The study was completed in May 2017 and the implementation of the recommendations will now be promoted. To this end a three day workshop for the training of trainers is scheduled at the end of October.
Take additional measures to eliminate impediments to the full implementation of the insolvency and foreclosure frameworks	A working group for the Assessment of the Insolvency Framework and Foreclosure Law has been established in March 2017 and it is comprised of the Ministry of Energy, Commerce, Industry and Tourism, Ministry of Finance, Ministry of Interior and Central Bank of Cyprus. Insolvency Service and Department of Land and Surveys participate to this working group. The working group is coordinated by MECIT and aims to conduct an assessment of the functioning of these frameworks in order to prepare an action plan to correct any deficiencies. The authorities will step up efforts in order to ensure a full functioning of the Insolvency Service and review the existing legal framework.
Ensure reliable and swift systems for the issuance of title deeds and the transfer of immovable property rights	• Issuance of title deeds: Regarding the issue of planning and building permits and certificates, a great effort was given by the Ministry of Interior (MOI) following technical assistance provided by the SRSS. In the context of the technical assistance, the experts presented on September 2017 their Final Report to the authorities. The authorities are preparing the policy response based on the findings and proposals presented in the Final Report. • Transfer of immovable property rights: the authorities are monitoring the implementation of the Transfer and Mortgage Law 9/65 as amended by L139 (I)/2015 (Trapped Buyers Law), which is designed to protect "Trapped Buyers", namely those who have submitted their sale contracts at the Lands Registry Department prior to December 31st, 2014 (legacy cases), by releasing the property from any encumbrances thus allowing for the transfer to take place. Furthermore, the authorities are in the process of resolving non-legacy and new property transactions. Furthermore, a bill amending Immovable Property (Specific Performance) Law (Law no. 81 (I)/2011) and the Transfer and Mortgage Law for trapped buyers (Law no. 139(I)/2015) has been prepared ensuring effective transfer of property titles at all times. The bill is to be sent to the Republic's Legal Services for legal vetting.
CSR 3	
Accelerate the reduction of non-performing loans by setting related quantitative and time-bound targets for banks and ensuring accurate valuation of collateral for provisioning purposes	The Central Bank of Cyprus has set quantitative and time-bound targets for the reduction of non-performing loans. The progress is closely monitored while guidance was provided regarding the appropriate valuation of collaterals.
Create the conditions for a functional secondary market for non-performing loans	A Law on the sale of loans has been enacted. However, its application by banking institutions has not been substantial.
Integrate and strengthen the supervision of insurance companies and pension funds	Aiming towards the strengthening of supervisory capacity for insurance companies and occupational pension funds, a study was conducted for the setting up of a new supervisory authority which will become responsible for the supervision of the two sectors. The study which was prepared by experts of the European Insurance and Occupational Pensions Authority (EIOPA) and the Spanish supervisory authority, analyses the needs and sets up the necessary steps for establishing this new Supervisory body based on international best practices. The Council of Ministers, in September 2016, has approved this reform policy entailing the establishment of an independent supervisory body. The preparation of the necessary legal framework has been completed by a private law firm and is currently being reviewed by the competent authorities.
CSR 4	
Accelerate the implementation of the action plan for growth, focusing in particular on	**<u>Action Plan for growth</u>**

fast-tracking strategic investments and improving access to finance and by end-2017, resume the implementation of the privatisation plan	The relevant actions for the promotion of investments in the context of the action plan for growth implementation, include the preparation of a bill for the attraction and facilitation of big investments, as well as the review of the policy framework for promoting investments. **<u>Improving access to finance</u>** As regards the ex-ante assessment for the use of financial engineering instruments in the context of the Operational Programme "Competitiveness and Sustainable Growth", for the preparation of which a contract was signed between DG EPCD and the EIB, the final report was submitted in July 2017. In short, the study has identified substantial financing gaps in the areas of SMEs and energy and has recommended the possible creation of a guarantee instrument or a small scale co-investment (equity) instrument for SMEs and a dedicated loan instrument for energy efficiency and renewable energy projects. In June 2017 a series of meetings were organized by the competent government services between the EIF/EIB and representatives of financial institutions in Cyprus (banks, investment funds association, business angels network) aiming at the participation of these institutions in competitive programmes (e.g. Horizon 2020, COSME). The ultimate aim is that adoption of new financial instruments in order to finance higher risk investment and operational needs. An agreement was signed between MECIT and the EBRD in May 2017 aiming at the management and operation of the programme "Advice for Small Business Facility", aiming at helping SMEs to improve their viability and competitiveness, as well as to improve their exporting capability, mainly through providing consultative support and training. **<u>Resume the implementation of the privitisation plan</u>** The Limassol Port Privatisation Plan has been implemented. The signing of the concession agreements for the commercialisation of the port (container terminal, multi-purpose terminal and marine services) took place in April 2016 and following the lapsing of the 9-month transitional period during which the Cyprus Ports Authority continued to operate the Port while the private operators undertook the required activities for a smooth transition, the private operators took over the three concessions in January 2017. The implementation of the Privatisation Plan for the Larnaca Port is under way. Following an open call for the expression of interest for the development of the Larnaca Marina and Port in November 2016, 5 economic operators expressed interest on 20.3.2017. After evaluation, 3 of these were prequalified on 14.6.2017. The prequalified parties will be given an Invitation to Tender document and a Draft Concession Agreement. The Proposals are expected to be submitted before the end of 2017. Draft legislation has been prepared for the transfer of CYTA's commercial operations to a 100% state owned limited liability company, which and it has been legally vetted by the Law Office. The draft bill allows for a proves to attract strategic investor at a later stage through a structure that will entail management control. As far as the Cyprus Stock Exchange (CSE) is concerned, following approval by the competent Parliamentary Committee in February for the use of budgetary funds, the Privatisation Unit has launched on behalf of the Ministry of Finance, in June 2017, an open tender for the appointment of an advisor who will prepare a study and recommendations in relation to the strategic planning for the CSE. The appointed advisors will be mandated to prepare a study for the identification, analysis and evaluation of feasible strategic options for the CSE. Submitted offers are being evaluated by a competent evaluation committee. It is expected that the final study will be submitted by no later than May 2018.

	Following the relevant approval by the Council of Ministers in November 2016, a Bill was prepared providing for the licensing of the National Lottery's activities to a private investor/operator for 15 years, under the supervision of the national lotteries authority. The Bill was approved by the Council of Ministers in August 2017 and has been submitted to the Parliament. Following the discussion at a parliamentary committee level, the bill will be submitted to the European Commission for approval of Technical Characteristics. The launch of the process for the selection of a licensee will depend on the duration of the above-described steps, whose exact duration is outside the control of the Government, the advisors and the PU. Assuming that these 2 steps are completed by April 2018, the process for the selection of a licensee will be completed in July 2018, even though all relevant parameters will be re-assessed on the basis of actual developments. As far as the development of the wider Troodos area is concerned, the advisors that were appointed have submitted the Options Assessment Report regarding the exploitation of the specific assets falling under the relevant decree. The Options Assessment Report has been approved by the Interministerial Committee for Privatisations. The assets have been classified in clusters, and the aim is to launch the transaction process for the first, most attractive cluster(s), within 2017. In relation to the real estate assets, it is noted that no State plots were brought to the market, as the bill providing for the sale of state-owned real estate assets remains pending at the Parliament for a long time, with limited prospects for its activation. The Government is currently examining the exploitation of the specific plots within the overall framework for re-thinking the process/strategy for the administration of real estate assets held/employed by the State. One scenario might be the creation of a State owed company that will utilize the whole portfolio of state assets without disposing them i.e. through lease or concession agreements. This is indented to happen within the first quarter of 2018. As regards the licencing of Cyprus Airways logos and trademarks, following conclusion of the international tender procedure and the signing of the Licence Agreement with the successful tenderer for a period of 10 years, the latter has started operating its flight programme as of June 2017. A law which repeals the Privatisations Law has been voted by the Parliament on 14 July 2017. The President of the Republic has referred the said law to the Supreme Court for review. The referral was decided on the basis of a legal assessment by the Attorney General that the repealing law is considered to be in breach with specific Articles of the Constitution.
Carry out the ownership unbundling of the Electricity Authority of Cyprus by the end of 2017.	The Cyprus Energy Regulatory Authority, with its Regulatory Decision 01/2017, has set an obligatory timeline for the operation of the competitive electricity market by July 2019. The operation of the competitive electricity market implies the legal and functional separation of the Market Operator (who is also the Transmission System Operator, TSO) from the vertically integrated Electricity Authority of Cyprus. To this end, a relevant proposal is to be submitted to the Council of Ministers for discussion and approval.
CSR 5	
Speed up reforms aimed at increasing the capacity of public employment services and improving the quality of active labour market policies delivery.	As far as the reinforcement of the capacity of the Public Employment Services (PES), it is noted that: The Department of Labour responding to the Country Specific Recommendation (CSR) to enhance the capacity of the Cyprus PES, requested (16th March 2017) Technical Support from the PES Network to enhance and develop specific aspects of its services which was approved to be included in the PES Network Programme for 2017. As regards the recruitment of the 30 Employment Counselors, the relevant call of application is expected to be announced by the end of October, while the realization of the recruitment by the end of this year.

	A web platform has been developed to assist employers in finding the proper personnel for their enterprises. (The launching of the platform will be done by the Minister). A new innovative employment project is currently implemented, on a pilot basis, in cooperation with licenced Private Employment Agencies (PrEA). According to this project registered unemployed persons who fulfil the criteria of the target group (secondary or lower education graduates registered for a period of 12 up to 24 months) are referred to PrEAs through the issuance of an Employment Voucher. The role of PrEAs is to place these jobseekers in employment. Upon placement and after six months of employment, PrEAs will receive a compensation of €500. The Budget of the Scheme is €500000 for 1000 placements. The duration of the project is for one(1) year (May 2017-May 2018), with the possibility for extension up to 3 years.
Complete the reform of the education system to improve its labour market relevance and performance, including teachers' evaluation	Education and training is a horizontal policy element, affecting the growth prospects of all economic sectors. Increasing the skills, knowledge and skills of the citizens is a critical element in the ability of the sectors to achieve their potential for growth. A large number of measures have been promoted towards the holistic improvement of the educational system and its alignment with the needs of the labour market. Some of the recent measures are: • The strategy for the improvement for VET is being implemented. Expansion and upgrading of infrastructure and facilities of the Technical School of Paralimni and Limassol and the inclusion of a Hotel administration section in the First Technical School of Nicosia is under way. • Official discussions have started for the establishment of new School of Secondary Technical Education at Larnaca. A preliminary study for the project is programmed to be derived in 2018. • Some new specialisations are offered in Technical Schools in line with the demands of the labour market: Natural Gas Transmission and Distribution, Renewable Energy Sources, Digital Technology and Programming, Industrial Design, Pisciculture, Shipping Professions. • The Cyprus Agency of Quality Assurance and Accreditation in Higher Education have accredited the Post-Secondary Institutes of Vocational Education and Training (PSIVET) as Public Schools of Tertiary Vocational Education and Training in April 2017. Following the assignment of the New Modern Apprenticeship Scheme to MOEC and the approval of a proposal for upgrading and operation of the Scheme in August 2015, the implementation of the proposal is currently underway. • A new law for a more effective system of teacher appointment has been approved by the Parliament. The new system will take into consideration, further to the candidate's exam results, their university degree grade, additional academic qualifications and teaching experience. As per the new regulations, the first examinations for the New Appointment System for all public schools will be held in November 2017. The MoEC's have tabled a detailed proposal for «New System for the Evaluation of Teachers and Educational Work» was published on December 2016. Meetings with Teachers Unions (OELMEK, POED and OLTEK) are scheduled during October 2017 in order to discuss specific modifications on «2011 Law for the Inspection and Evaluation of Educators».
By end-2017, adopt legislation for a hospital reform and universal health care coverage	Health reform is based on two interrelated targets. The first relates to the financial and administrative autonomy of public hospitals. This procedure is based upon internationally approved medical and financial best practices and medical protocols. Its aim is to render public hospitals more competitive under a National Health Insurance System (NHIS) environment where public hospitals should freely compete with the corresponding private hospitals. To this end, in June 2017 the Parliament voted the: - The establishment of the State Health Service Organization Law of 2017 (N. 73(I)/2017)

	The second target is the implementation of the National Health Insurance System. The aim is to lead to a more efficient coverage of the population to quality health care and to foster current health care provision towards better implementation of international medical protocols. In parallel, NHIS implementation can lead to a more efficient allocation of health economic resources, the improvement of the human resources management in the health sector as well as to a more effective utilization of health care apparatus. Moreover, it is expected that through NHIS health expenditure can be contained more efficiently through the family doctor concept, global budgeting, better utilization of health resources and the reduction of drugs abuse. The aforementioned shall be facilitated by the IT system for the NHIS. To this end, in June 2017 the Parliament voted the: - The General System of Health Law 2001-2017 (N. 89(I)/2001) According to the above mentioned laws, the first phase of the NHIS implementation will be in June 1st 2019 for outpatient clinics, whereas full scale implementation will is scheduled for 1st June 2020. In addition, the Ministry of Finance is currently in the process of commissioning a study which will assess the economic impact of the above-mentioned health reform measures focusing on the impact on potential growth and the public finances. The study includes an innovative analysis such as the impact on labour cost, labour demand, employment and potential growth.

4. COMPARISON BETWEEN DBP AND THE MOST RECENT STABILITY PROGRAMME

The general government budget balance targets set for the Budget of 2018, deviate by 0.8 and 0.9 percentage points of GDP for the years 2017 and 2018, respectively, vis-à-vis the ones presented in the most recent Stability Programme. These new targets resulted taking into account the revised macroeconomic scenario as well as current developments reflected in a strong performance of tax revenues, and the better than projected labour market developments. For both 2017 and 2018, a positive deviation, of 0.2 percentage points of GDP vis-à-vis the most recent Stability Programme, on the revenue performance is attributed to the success fee accompanying the production sharing contracts for the exploration and exploitation of hydrocarbon reserves singed in April 2017. Under the DBP no-policy change scenario, the deviation from the SP target for 2017 is of the order of 1.5 percentage points of GDP.

APPENDIX: TABLES

Table 0 i). Basic assumptions

	Year 2016	Year 2017	Year 2018
Short-term interest rate[1] (annual average)	-0.26	-0.30	-0.14
Long-term interest rate (annual average)	0.09	0.38	0.59
USD/€ exchange rate (annual average)	1.11	1.07	1.08
Nominal effective exchange rate	0.29	-0.18	0.02
World excluding EU, GDP growth	3.2	3.7	3.9
EU GDP growth	1.9	1.8	1.8
Growth of relevant foreign markets	1.6	2.2	2.3
World import volumes, excluding EU	0.9	3.0	3.8
Oil prices (Brent, USD/barrel)	44.8	53.5	53.2

*1*If necessary, purely technical assumptions.

Table 1a. Macroeconomic prospects

	ESA Code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level (€ mn)	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	15,789.9	2.8	3.6	3.0	2.7	2.7
2. Potential GDP		16,030.2	0.7	1.5	2.0	2.2	2.4
contributions:							
- labour			0.2	0.7	0.8		
- capital			0.5	0.4	0.5		
- total factor productivity			0.1	0.4	0.6		
3. Nominal GDP	B1*g	17,901.4	1.5	5.0	4.0	4.2	4.7
Components of real GDP							
4. Private final consumption expenditure	P.3	10,677.7	2.9	3.0	2.5		
5. Government final consumption expenditure	P.3	2,529.7	-1.4	1.9	0.9		
6. Gross fixed capital formation	P.51g	2,697.4	25.9	0.2	6.5		
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-68.0	-1.5	0.0	0.0		
8. Exports of goods and services	P.6	9,930.3	3.6	3.2	3.6		
9. Imports of goods and services	P.7	9,977.3	5.3	1.2	3.3		
Contributions to real GDP growth							
10. Final domestic demand		15,904.8	5.3	2.4	2.9		
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-68.0	-1.5	0.0	0.0		
12. External balance of goods and services	B.11	-47.0	-1.0	1.2	0.2		

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

Table 1b. Price developments

	ESA Code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level (€ mn)	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		113.4	-1.3	1.4	1.0	1.5	2.0
2. Private consumption deflator		116.8	-1.1	1.4	1.0		
3. HICP		98.8	-1.2	1.0	1.0		
4. Public consumption deflator		107.6	-0.4	2.2	1.8		
5. Investment deflator		111.3	1.8	1.3	1.5		
6. Export price deflator (goods and services)		111.8	-0.8	1.4	1.0		
7. Import price deflator (goods and services)		112.0	-1.2	1.6	1.4		

Table 1c. Labour market developments

	ESA Code	Year 2016	Year 2016	Year 2017	Year 2018
		Level (€ mn)	rate of change	rate of change	rate of change
1. Employment, persons[1]		0.38	3.2	3.0	2.4
2. Employment, hours worked[2]		680.12	3.2	3.0	2.4
3. Unemployment rate (%)[3]		0.05	12.9	11.0	9.5
4. Labour productivity, persons[4]		0.042	-0.4	0.6	0.6
5. Labour productivity, hours worked		0.00002	-0.3	0.6	0.6
6. Compensation of employees	D.1	8,036	2.2	4.0	3.9
7. Compensation per employee		0.024	-1.0	1.0	1.5

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 2016	Year 2017	Year 2018
		% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	-5.3	-4.4	-4.3
of which:				
- Balance on goods and services		0.0	0.6	0.6
- Balance of primary incomes and transfers		-5.3	-5.0	-4.8
- Capital account				
2. Net lending/net borrowing of the private sector	B.9	-5.6	-5.4	-5.6
3. Net lending/net borrowing of general government	B.9	0.4	1.0	1.3
4. Statistical discrepancy		0.0	0.0	0.0

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

	ESA Code	Year 2017	Year 2018	Year 2019	Year 2020
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	1.0	1.3	1.4	1.4
1a. Central government	S.1311	0.5	0.8		
1b. State government	S.1312	M	M		
1c. Local government	S.1313	0.0	0.0		
1d. Social security funds	S.1314	0.5	0.5		
2. Interest expenditure	D.41	2.5	2.5		
3. Primary balance[2]		3.5	3.8		
4. One-off and other temporary measures[3]		0.0	0.0	0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		3.6	3.0		
6. Potential GDP growth (%) (=2 in Table 1.a)		1.5	2.0	2.2	2.4
contributions:					
- labour		0.7	0.8		
- capital		0.4	0.5		
- total factor productivity		0.4	0.6		
7. Output gap (% of potential GDP)		0.5	1.5	2.0	2.3
8. Cyclical budgetary component (% of potential GDP)		0.3	0.8	1.0	1.2
9. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		0.7	0.5		
10. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		3.2	3.0		
11. Structural balance (13 - 8) (% of potential GDP)		0.7	0.5	0.4	0.2

1/ TR-TE= B.9.

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

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

Table 2b. General government debt developments

	ESA Code	Year 2017	Year 2018	Year 2019	Year 2020
		% GDP	% GDP	% GDP	% GDP
1. Gross debt[1]		99.0	92.4	86.5	81.8
2. Change in gross debt ratio		-3.6	-2.8		
Contributions to changes in gross debt					
3. Primary balance (= item 3 in Table 2.a)		3.5	3.8		
4. Interest expenditure (= item 2 in Table 2.a)	D.41	2.5	2.5		
5. Stock-flow adjustment		-2.6	-1.5	-0.7	0.6
of which:					
- Differences between cash and accruals[2]		0.0	0.0		
- Net accumulation of financial assets[3]		-2.6	-1.5		
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]		2.4	2.6	2.8	3.0

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 2017	Year 2018
	% GDP	% GDP
Public guarantees	9.4	9.0
Of which: linked to the financial sector	0.0	0.0

Table 3. General government expenditure and revenue targets, broken down by main components

	ESA Code	Year 2017	Year 2018
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	40.5	39.9
Of which			
1.1. Taxes on production and imports	D.2	16.0	15.9
1.2. Current taxes on income, wealth, etc	D.5	10.1	9.5
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	9.0	9.0
1.5. Property income	D.4	0.9	0.9
1.6. Other[1]		4.6	4.5
p.m.: Tax burden		34.5	34.4
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure at unchanged policies	TE[3]	38.8	38.6
Of which			
2.1. Compensation of employees	D.1	12.3	12.3
2.2. Intermediate consumption	P.2	3.7	3.6
2.3. Social payments	D.62+D.632	14.1	13.8
of which Unemployment benefits[4]		0.4	0.3
2.4. Interest expenditure	D.41	2.5	2.5
2.5. Subsidies	D.3	0.5	0.5
2.6. Gross fixed capital formation	P.51g	2.7	2.8
2.7. Capital transfers	D.9	0.3	0.3
2.8. Other[5]		2.6	2.7

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 projections at unchanged policies broken down by main components

	ESA Code	Year 2017	Year 2018
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	40.0	39.9
Of which			
1.1. Taxes on production and imports	D.2	16.0	15.9
1.2. Current taxes on income, wealth, etc.	D.5	9.6	9.5
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	9.0	9.0
1.5. Property income	D.4	0.9	0.9
1.6. Other [1]		4.6	4.5
p.m.: Tax burden		34.5	34.4
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]	39.0	38.6
Of which			
2.1. Compensation of employees	D.1	12.5	12.3
2.2. Intermediate consumption	P.2	3.7	3.6
2.3. Social payments	D.62+D.632	14.1	13.8
of which Unemployment benefits[4]		0.4	0.3
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	2.5	2.5
2.5. Subsidies	D.3	0.5	0.5
2.6. Gross fixed capital formation	P.51g	2.7	2.8
2.7. Capital transfers	D.9	0.3	0.3
2.8. Other[5]		2.6	2.7

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 2016	Year 2016	Year 2017	Year 2018
		Level (€ mn)	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		60.0	0.3	0.5	0.5
1a. of which investments fully matched by EU funds revenue		36.0	0.2	0.3	0.3
2. Cyclical unemployment benefit expenditure [1]		23.6	0.1	0.0	0.0
3. Effect of discretionary revenue measures [2]	D.5	-47.7	-0.3	-0.5	0.0
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 2017		Year 2018	
	% GDP	% general government expenditure	% GDP	% general government expenditure
Education[1]	5.6	14.4	5.6	14.4
Health[1]	2.7	6.9	2.6	7.1
Employement[2]	0.2	0.5	0.0	0.1

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

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

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

Functions of the Government	COFOG Code	Year 2017	Year 2018
		% GDP	% GDP
1. General public services	1	10.1	9.9
2. Defense	2	1.4	1.4
3. Public order and safety	3	1.7	1.7
4. Economic affairs	4	2.4	2.4
4. Environmental protection	5	0.4	0.5
6. Housing and community amenities	6	1.8	1.8
7. Health	7	2.7	2.8
8. Recreation, culture and religion	8	0.9	0.9
9. Education	9	5.6	5.5
10. Social protection	10	11.9	11.8
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	39.0	38.6

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

Table 5.a Discretionary measures taken by General Government

List of measures	Detailed description[1]	Target (Expenditure / Revenue component)	Accounting principle	Adoption Status	Budgetary impact % GDP	
		ESA Code			Year 2017	Year 2018
Immovable property tax	Immovable Property Tax for 2016 was based on 1980 values but reduced by 75 per cent on the amount of the tax imposed the year before; IPT was totally abolished in 2017	D.5	accrual	adopted	-0.3	0.0
Temporary contribution	abolition of the temporary contribution on emoluments of private sector employees as of 1st Jan. 2017	D.5	accrual	adopted	-0.2	0.0
Temporary contribution	abolition of the temporary contribution on emoluments of public sector employees as of 1st Jan. 2017	D.1	accrual	adopted	0.2	0.0
TOTAL BUDGETARY IMPACT					-0.7	0.0

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 2016	Year 2017	Year 2018
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		0.4	0.2	0.4
Draft Budgetary Plan		0.4	1.0	1.3
Difference		0.0	0.8	0.9
General government net lending projection at unchanged policies	B.9			
Stability Programme		0.4	0.2	0.4
Draft Budgetary Plan		0.6	1.7	1.3
Difference[1]		0.3	1.5	0.9