NOTE FOR ANNEX I – CYPRUS FISCAL DEVELOPMENTS DURING THE 1ST QUARTER OF 2013

This note provides a short assessment of the progress made by Cyprus with respect to its fiscal developments during the first quarter of 2013, and serves as a brief explanation to Annex tables (please see ANNEX I attached – Table 5a.).

Analysis of Developments in the 1st Quarter of 2013

- *Overall, the outcome of the 1st Quarter of 2013 is better than initial forecast*

General Government Budget Balance (GGBB) turned into surplus reaching €44.2 million during the period under review comparing favourably with the forecast of a deficit of €83.8 m. As a percentage of GDP, the GGBB during the period under review is estimated at a surplus of 0.3% compared to a forecast deficit of 0.5%.

REVENUE

Total revenue reached €1.606,2 million during the period under review compared to a forecast of €1.654,9 million exhibiting a shortfall vis-à-vis the forecast of €48.7 million. This deviation is attributed to the extended bank holiday applied in March due to the developments in the banking industry. This effectively led to a timing shift of receipts.

- **Taxes on production and imports** reached €451,5 million during the period under review compared to a forecast of €612,6 million exhibiting a shortfall vis-à-vis the forecast of €161.1 million. This deviation is mainly attributed to the fact that March VAT receipts were recorded in April due to the aforementioned bank holiday.

- **Current taxes on income and wealth** reached €411,7 million during the period under review compared to a forecast of €402,4 million exhibiting a positive deviation vis-à-vis the forecast of €9.3 million. This deviation is mainly attributed to a higher yield from the application of the increased special defence fund tax rates (dividend income).

- **Social Security Fund Contributions** reached €345,7 million during the period under review compared to a forecast of €364,9 million exhibiting a shortfall vis-à-vis the forecast of €19,2 million. This deviation is mainly attributed to the fact that March receipts were recorded in April due to the aforementioned bank holiday.

- **Other current resources reached** €396,7 million during the period under review compared to a forecast of €274,6 million exhibiting a positive deviation vis-à-vis the forecast of €122,1 million. This deviation is mainly attributed to a higher dividend income from the Central Bank of Cyprus, as well as to higher proceeds from the assigning of exploration rights.

Expenditure

Total expenditure fell to €1.562 million during the period under review compared to a forecast of €1.738,8 million exhibiting a negative shortfall vis-à-vis the forecast of €176,8 million. This deviation is attributed to the extended bank holiday applied in March due to the developments in the banking industry. This effectively led to a timing shift of certain payments.

- **Compensation of employees** fell to €609,6 million during the period under review compared to a forecast of €617,5 million exhibiting a negative deviation vis-à-vis the forecast of €7,9 million. This deviation is mainly attributed to the higher yield in the reduction of wages and salaries despite the acceleration in early retirements.

- **Social transfers other than in kind** fell to €449,1 million during the period under review compared to a forecast of €545,4 million exhibiting a negative deviation vis-à-vis the forecast of €96,3 million. This deviation is mainly attributed to the fact that March payments were recorded in April due to the aforementioned bank holiday.

- **Other current expenditure** fell to €82,6 million during the period under review compared to a forecast of €97,9 million exhibiting a negative deviation vis-à-vis the forecast of €15,3 million. This deviation is mainly attributed to lower appropriations incorporated in the 2013 Budget.

- **Total capital expenditure** fell to €56,9 million during the period under review compared to a forecast of €72,7 million exhibiting a negative deviation vis-à-vis the forecast of €15,8 million. This deviation is mainly attributed to the delay in paying land annexation obligations.