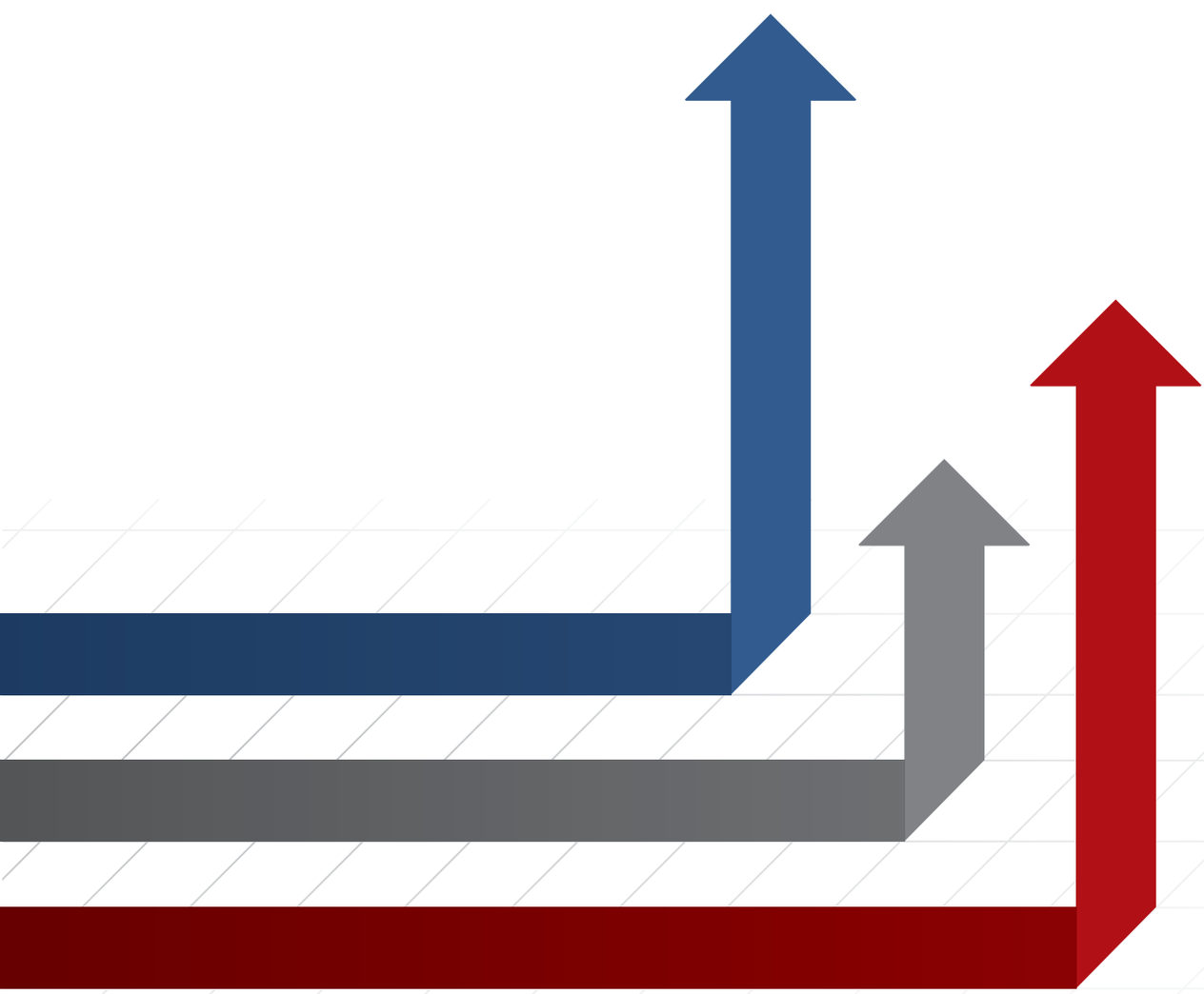
MINISTRY OF FINANCE

CYPRUS DRAFT BUDGETARY PLAN 2023



OCTOBER 2022

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1. Introduction

The Draft Budgetary Plan (DBP) 2023, prepared according to Regulation EU 473/2013, is submitted by the Republic of Cyprus, in the framework of full participation in the regular economic governance framework and procedures. It is noted that Cyprus is in the preventive arm of the Stability and Growth Pact.

The DBP 2023 was approved by the Council of Ministers on 12th October 2022 and will be laid before the House of Representatives. The macroeconomic projections underlying the budgetary outcomes have been endorsed by the Fiscal Council on 27th September 2022.

The format and content of the document are in line with the requirements of the Code of Conduct, and therefore, macroeconomic and budgetary forecasts 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 2022, as well as the Budget Bill for 2023 that was submitted to the House of Representatives on 6th October 2022.

[1] The cut-off date for the macroeconomic and fiscal forecasts was 20 September 2022

2. Economic developments and Outlook

2.1 Developments in 2022

During the first half of 2022, the economy recorded a positive growth rate of 6.0% in real terms (seasonally adjusted), compared to the respective period of 2021. In terms of domestic demand, consumption in the first half of 2022 increased by 4.7% compared to the corresponding half of 2021 (seasonally adjusted data), and more specifically public consumption increased by 0.8% and private consumption increased by 6.0%. Gross fixed capital formation increased by 8.5% over the same period.

In terms of external demand, exports increased by 15.8% (27.3% in exports of goods and 13.9% in exports of services) while imports increased by 18.7% (29.1% in imports of goods and 11.0% in imports of services) in the first half of 2022 compared to the corresponding half of 2021 (seasonally adjusted data).

From a sectoral point of view, growth in 2022 is widespread across sectors, with negative growth recorded only in the Construction sector (-3.9%). The Real Estate Activities sector exhibited only marginal growth at 0.7%.The sectors that grew most prominently in the first half of 2022, compared to the same period of 2021, are "Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities" (16.2%), "Information and communication" (10.6%), "Arts, entertainment and recreation, repair of household goods and other services" (6.8%), as well as "Financial and insurance activities" (4.1%) and "Professional, scientific and technical activities; administrative and support service activities" (3.6%).

Overall, for 2022 as a whole, the economy is expected to grow at around 5.7% in real terms compared to 2.7% which was the previous forecast as included in the Stability Program 2022-2025 (April 2022). This positive outturn is largely due to a better than initially expected developments in the tourist sector and the continued expansion of exports in other services. Especially regarding tourism, due to the Russian invasion in Ukraine in March 2022 and the subsequent sanctions imposed on Russia by the European Union, tourism prospects looked dim as prior to the Russian-Ukraine conflict, Russia has consistently been Cyprus's second largest market in terms of tourist arrivals. However, coordinated and targeted efforts exerted by the competent authorities, to fill the gap of the Russian tourist market, successfully resulted in additional arrivals from other tourist markets (both from other existing main markets and from new markets). Overall, tourist arrivals for the period January-August 2022 reached 78% of their pre-pandemic levels of 2019.

The unemployment rate (15+), based on the data of the Labour Force Survey, during the 1st half of 2022 was 6.7% (6.6% in 2022Q1 and 6.8% in 2022Q2), against an unemployment rate of 8.5% in the 1st half of 2021. The long-term unemployed of the labour force in the 2nd quarter of 2022 fell to 2.5%, compared to 3.0% in the corresponding quarter of 2021, while youth unemployment increased to 17.6% in the 2nd quarter of 2022 compared to 17.0% in the corresponding quarter of 2021. For the whole of 2022, the estimate is that the unemployment rate will hover around 7.0%, down from 7.5% in 2021.

The overall price index, as measured by the Harmonised Index of Consumer Prices (HICP), decreased by 1.1% on a month-on-month basis in September 2022. On an annual basis inflation was at 9% in September 2022. The average inflation for the first nine months of 2022 was at 8.1%, compared to the same period in 2021. The developments in inflation are the result of the rise in oil and energy prices and disruptions to supply chains that have emerged during the pandemic and exacerbated by the war in Ukraine. For the whole year, inflation is estimated at an average of 7.7%.

2.2 Prospects for 2023-25

According to the baseline macroeconomic scenario, growth in the medium term is expected to continue on a positive path, albeit at a decelerated pace, with annual growth in 2023 expected to at a rate of 3%, in real terms. The deceleration is attributed to the expected deterioration of the external economic environment and to the impact of the continued rise of energy prices, coupled with the increases in interest rates, that will put a pressure on both domestic and external demand. Over the period 2024-2025, growth is expected to stabilise, with real GDP growth projected at 3.3% and 3.2% respectively, with the tourism sector and its related sectors expected to fully recover by 2024.

Growth in the period 2023-2025 will be supported mainly by the domestic market and more specifically by private consumption and fixed capital investments. Private consumption is expected to continue at positive growth rates, but with lower growth rates and close to its average. Public consumption will grow at a slower rate than in 2019-2021 after all measures to support the economy due to COVID were terminated at the end of 2021. Exports of goods and services are expected to have lower growth rates in 2023 and to increase gradually from 2024 with net exports contributing positively to growth in the period 2023-2025.

The Recovery and Resilience Plan will contribute positively to the economy, and especially during the years 2024-2025, with significant capital investments and the implementation of structural reforms. Nevertheless, uncertainty around the macroeconomic outlook remains high amid the ongoing Russia-Ukraine war, high energy prices, supply chain disruptions and a possible recession in Europe.

Overall, in 2023 the economy is projected to grow by 3.0% in real terms. The unemployment rate is projected to fall down to 6.4% of the labour force and inflation is expected to settle at around 3.0%.

The growth rate of the economy in the years 2024-2025 is expected to average at around 3.2% in real terms. Regarding the labour market, the unemployment rate in 2024 is expected to fall to 5.7% of the labour force, and then, with the steady growth of the economy, to decrease further to 5.0% in 2025. Inflation for 2024-2025 is expected to hover around 2.0%.

	2021	2022	2023	2024	2025
Real GDP growth (%)	5.5	5.7	3.0	3.3	3.2
Inflation HICP (%)	2.3	7.7	3.0	2.0	2.0
Unemployment rate (%)	7.5	7.0	6.4	5.7	5.0

2.3 Risks to growth

Economic growth in Cyprus following the COVID-19 pandemic crisis has shown robustness that continued amidst the crisis that has emerged with the impact of the Russian invasion in Ukraine and the ongoing conflict also affecting Cyprus, mainly as a result of high inflation and challenges faced in the tourism and business services environment that were successfully circumvent. While growth is expected to remain strong going forward, the uncertainty surrounding the medium-term projections in the Draft Budgetary Plan is high with significant downside risks mainly from external sources:

i. Inflation could remain high for a prolonged period of time and disinflation via higher interest rates could prove costlier than expected, suppressing consumption and investments, leading to stagflation.

ii. Increase in non-performing loans due to the recent increases in interest rates, following relevant ECB decisions and possible future ECB decisions for further increases.

iii. More severe slowdown/recession in the eurozone and other main trade partners, including through an escalation of the war in Ukraine that could, inter alia, lead to more severe repercussions in the energy supply

iv. Geopolitical instability stemming from the recent escalation of tension in the Eastern Mediterranean

v. Effects from global climate change that could lead to adverse domestic and global supply and demand shocks.

vi. Renewed COVID-19 outbreaks that would require the imposition of severe restrictive measures in mobility and economic activity

Table 1a. Macroeconomic prospects

	2021	2022	2023
	rate of change	rate of change	rate of change
1. Real GDP	5.5	5.7	3.0
2. Potential GDP	3.1	3.7	3.8
contributions:			
- labour	0.9	1.1	1.1
- capital	0.8	1.0	1.0
- total factor productivity	1.4	1.6	1.7
3. Nominal GDP	8.4	11.5	6.3
Components of real GDP			
4. Private final consumption expenditure	3.7	6.8	3.0
5. Government final consumption expenditure	8.0	3.4	0.8
6. Gross fixed capital formation	-6.3	8.2	3.0
7. Changes in inventories and net acquisition of valuables (% of GDP)	-0.6	0.0	0.0
8. Exports of goods and services	14.0	10.5	2.5
9. Imports of goods and services	9.2	11.4	2.0
Contributions to real GDP growth			
10. Final domestic demand	2.7	6.4	2.6
11. Changes in inventories and net acquisition of valuables	-0.6	0.0	0.0
12. External balance of goods and services	3.3	-0.7	0.4

Table 1b. Price developments

	2021	2022	2023
	rate of change	rate of change	rate of change
GDP deflator	2.7	5.5	3.2
Private consumption deflator	2.1	7.4	2.8
HICP	2.3	7.7	3.0
Public consumption deflator	1.3	5.1	4.6
GFCF deflator	3.6	6.5	2.7
Export price deflator (goods and services)	1.7	4.4	2.7
Import price deflator (goods and services)	1.3	6.0	2.7

Table 1c. Labour market developments

	2021	2022	2023
	rate of change	rate of change	rate of change
Employment, persons[1]	1.2	1.7	1.0
Employment, hours worked[2]	3.8	4.4	2.0
Unemployment rate (%)[3]	7.5	7.0	6.4
Labour productivity, persons[4]	4.3	3.9	2.0
Labour productivity, hours worked[5]	1.6	1.2	1.0
Compensation of employees	6.0	6.7	7.5
Compensation per employee	4.7	5.0	6.5

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

	2021	2022	2023
	(% GDP)	(% GDP)	(% GDP)
1. Net lending/net borrowing vis-à-vis the rest of the world	-6.5	-8.0	-6.8
of which:			
- Balance on goods and services	1.1	-0.8	-0.4
- Balance of primary incomes and transfers	-8.3	-7.4	-6.6
- Capital account	0.8	0.3	0.3
2. Net lending/net borrowing of the private sector	-4.8	-9.2	-8.5
3. Net lending/net borrowing of general government	-1.7	1.2	1.7
4. Statistical discrepancy	0.0	0.0	0.0

3. Budgetary developments and targets

3.1 Budgetary targets

The budget balance during 2021 remained in deficit of 1.7% of GDP, recording a substantial improvement compared to a deficit of 5.8% of GDP in 2020. The presence of a deficit in the accounts of the general government, despite the rebound of the economy, which recorded a positive rate of growth of 5.5% in real terms during 2021 surpassing already pre-pandemic levels, is attributed to the estimated fiscal impact from the government's one-off measures of about -3% of GDP undertaken to tackle the effects of the COVID-19 outbreak, mainly targeting health, businesses and employment positions.

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

	ESA Code	2022	2023
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	1.2	1.7
1a. Central government	S.1311	0.0	0.6
1b. State government	S.1312	M	M
1c. Local government	S.1313	0.0	0.0
1d. Social security funds	S.1314	1.1	1.1
2. Interest expenditure	D.41	1.5	1.3
3. Primary balance		2.7	3.0
4. One-off and other temporary measures		0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		5.7	3.0
6. Potential GDP growth (%) (=2. in Table 1a)		3.7	3.8
contributions:			
- labour		1.1	1.1
- capital		0.9	0.9
- total factor productivity		1.6	1.7
7. Output gap (% of potential GDP)		1.9	1.2
8. Cyclical budgetary component (% of GDP)		1.0	0.6
9. Cyclically-adjusted balance (% of GDP)		0.2	1.1
10. Cyclically-adjusted primary balance (% of GDP)		1.7	2.4
11. Structural balance (% of GDP)		0.2	1.1

In view of the withdrawal of most of the COVID-19 related measures and taking into account the expected GDP growth during the current year, the general government budget balance in 2022 is expected to turn into a surplus of about 1.2% of GDP, compared to a deficit of 1.7% of GDP the year before. The forecasted further improvement in fiscal position in 2022 by 1.2 percentage points of GDP, compared to

[2] Stability Programme 2022-2025, April 2022

the previous projections of the authorities , is attributed to the upward revision of the estimated GDP growth, taking also into account the fiscal over-performance during the first seven months of the year.

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 surplus in 2022 reaching 0.2% of GDP, and to remain in surplus in 2023 of the order of 1.1% of GDP.

Table 2b. General government debt developments

	ESA Code	2022	2023
		% GDP	% GDP
1. Gross debt		89.3	83.3
2. Change in gross debt ratio		-14.3	-6.0
Contributions to changes in gross debt			
3. Primary balance (= item 3 in Table 2.a)		2.7	3.0
4. Interest expenditure (= item 2 in Table 2.a)	D.41	1.5	1.3
5. Stock-flow adjustment		-13.1	-4.3
p.m.: Implicit interest rate on debt		1.6	1.6

In 2021 the general government gross debt to GDP ratio dropped significantly by 11.4 percentage points of GDP and fell to 103.6% of GDP, after its substantial increase of 115% of GDP in 2020, which was attributed to the revision of the Annual Financing Programme targeted to tackle the challenges of the pandemic crisis from the beginning of the year. In 2022 the general government gross debt to GDP ratio is expected to drop further by 14.3 percentage points of GDP, falling to 89.3% of GDP. The significant decrease by the end of 2022, is the outcome of the expected surplus during the year under review and of the further decrease of cash accumulated (numerator effect), as well of the significant increase of the GDP in nominal terms (denominator effect). In 2023 the general government gross debt to GDP ratio is expected to record further decrease of about 6 percentage points of GDP compared to the year before and fall to 83.3% of GDP.

Revenue and Expenditure Projections

On the revenue side, an estimated growth of about 10.6% is anticipated for 2022, albeit decline as a percent of GDP, from 42.4 the year before to 42.1 percent of GDP. In 2023, total revenue is forecast to record a positive growth of 6.9%, recording in increase of 0.3 percentage points of GDP compared to the year before and reach 42.4 percent of GDP.

Tax revenue in 2022 is expected to exhibit a rate of growth of around 13.6% compared to the year before and increase as a percentage of GDP by 0.5 percentage points, from 25% in 2021 to 25.5%. Revenue from taxes on production and imports is expected to increase by 13.9% during the current year, contributing the most to the growth of public revenue by 4.7 percentage points, and increase as a percentage of GDP to 14.7% compared to 14.4% the year before, in line with the anticipated increase in private consumption. In 2023, revenue under this category is expected to grow by 7.7% and as a percentage of GDP to increase further reaching 14.9%.

Current taxes on income and wealth receipts are expected to exhibit an increase of 13.1% in 2022, in line with the related improved developments in the labour market. As a percentage of GDP, current taxes on income and wealth are expected to record an increase of 0.2 percentage points of GDP reaching 10.8 percent of GDP compared to 10.6 percent of GDP in 2021. In 2023, revenue under this category is expected

to grow by 6% and as a percentage of GDP to remain at the same levels as in the year before.

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

	ESA Code	2022	2023
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	42.1	42.4
of which			
1.1. Taxes on production and imports	D.2	14.7	14.9
1.2. Current taxes on income, wealth, etc.	D.5	10.8	10.8
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.6	11.6
1.5. Property income	D.4	0.4	0.4
1.6. Other		4.5	4.7
p.m.: Tax burden		37.1	37.3
(D.2+D.5+D.61+D.91-D.995)			
2. Total expenditure target	TE	40.9	40.7
of which			
2.1. Compensation of employees	D.1	12.2	12.3
2.2. Intermediate consumption	P.2	4.4	4.2
2.3. Social payments	D.62+D.632	16.2	16.4
of which Unemployment benefits		0.3	0.3
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	1.5	1.3
2.5. Subsidies	D.3	0.6	0.4
2.6. Gross fixed capital formation	P.51g	2.3	2.3
2.7. Capital transfers	D.9	0.5	0.5
2.8. Other		3.2	3.2

Social contributions are expected to exhibit a significant growth of 11.7% in 2022 compared to the year before, attributed to the recent improvements in the labour market conditions, as well as taking into account last year's loss from the wage subsidisations in the context of the COVID-19 related measures to support employment and businesses, which were not subject to any contributions. As a percent of GDP this revenue category is expected to remain at 11.6% of GDP as in the year before. In 2023 social contributions are forecast to increase further by 6.1% and to remain as a percent of GDP at 11.6%.

Property income in nominal terms is expected to remain stable in 2022 and in 2023. As a percent of GDP this revenue category is forecast to marginally decline by 0.1 percentage points compared to 2021 and fall at 0.4% in 2022 and in 2023.

Finally, category 'other revenue' is expected to exhibit a decrease of 4.5% in 2022 compared to the year before, and as a percent of GDP fall by 0.8 percentage points, from 5.3% in 2021 to 4.5%. In 2023 this revenue category is expected to increase by 9.5% in nominal terms and reach 4.7 as a percent of GDP, in line with the expected implementation of the projects under the Cyprus Recovery and Resilience Plan.

Public expenditure in 2022 is estimated to exhibit an increase of 3.5% despite the withdrawal of the majority of the measures in the context of the COVID-19 pandemic, albeit fall as a percent of GDP to 40.9% compared to 44.1% the year before. The increase in public expenditure is mainly attributed to increased social payments, estimated to positively contribute to the growth of total expenditure by 3.8 percentage points. In 2023, public expenditure is expected to record an increase of 5.6%, falling further as a percent of GDP to 40.7%.

More specifically, social payments in 2022 are estimated to record an increase of 10.3%, falling marginally to 16.2% of GDP compared to 16.4% the year before. This increase is attributed to increased payments of the HIO to public health providers, as well as to increased pensions expenditure, taking into account the significant revision during the second half of the year due to the high inflation. In 2023, social payments are projected to increase further by 7.8% compared to the year before and increase as a percent of GDP by 0.2 percentage points, reaching 16.4%.

Expenditure for compensation of employees is expected to record a growth of 5.9% in 2022 compared to the year before and as a percentage of GDP drop by 0.6 percentage points, falling to 12.2 percent of GDP from 12.8% in 2021. The outcome of the growth of this expenditure category is mainly attributed to (i) the estimated impact from the gradual phasing out of wage cuts (1.5 p.p.), (ii) the adjustment of the Cost-of-Living-Adjustment (1.3 p.p.), (iii) increased gratuity payments (1 p.p.), (iv) increments (1 p.p.) and (v) the increased expenses under the State Health Services Organisation (SHSO) (0.7 p.p.). Expenditure for compensation of employees is expected to increase further by 7.8% in 2023 compared to the year before, and reach to 12.3 as a percent of GDP, mainly attributed to the substantial impact from the Cost-of-Living-Adjustment, which is forecast to contribute positively to the growth of this expenditure category by 2.5 percentage points.

Intermediate consumption is expected to record an increase of 10.2% in 2022 and to remain at 4.4 percent of GDP as in the year before brought mainly by the high price increases, taking also into account that the COVID-19 related measures to protect public health are still ongoing. In 2023 intermediate consumption is expected to increase marginally by 0.6% and as a percent of GDP decrease by 0.2 percentage points, falling to 4.2%.

Expenditure category subsidies is expected to decrease by 72.7% in 2022 compared to the year before and as a percent of GDP is expected to fall at 0.6% compared to 2.5% of GDP in 2021. The decrease under this expenditure category is attributed to the termination of the covid related measures taken by the government as of the end of last year, namely the one-off grants to businesses to cover part of their operating costs during the lockdown periods and the subsidisation of wages of the employees of businesses, which were either forced to suspend their operations by a decree of the Minster of Health and/or a decision by the Council of Ministers, or they experienced a significant loss of their turnover due to the consequences of the COVID-19 pandemic. In 2023, expenditure category subsidies, is expected to decrease further by 28.7% and fall as a percent of GDP to 0.4%, attributed to the subsidisation of consumers' electricity bills the year before, covering the period September-December 2022. More specifically, this measure was taken by the government to partly relieve households and businesses from the rising energy prices, after the withdrawal of the reduced VAT rates on electricity bills (end-August 2022), with a cost of around 0.2% of GDP.

Interest expenditure is forecast to experience a drop of 0.3 percentage points of GDP, from 1.8 percent of GDP the year before to 1.5 percent of GDP in 2022, and a further drop of 0.2 percentage points of GDP the year after.

Gross capital formation is forecasted to exhibit a positive rate of growth of 17.5% in 2022, reaching 2.8% of GDP compared to 2.7% of GDP the year before. In 2023 gross fixed capital formation is forecast to increase further by 6.7% compared to the year before, and increase as a percent of GDP to 2.9%. These increases are mainly attributed to capital expenditure planned in the context of the Cyprus Recovery and Resilience Plan.

Finally, category other expenditure is forecast to increase by 3.9% in 2022 and fall by 0.2 percentage points of GDP compared to the year before, reaching 3.2 percent of GDP. In 2023, it is forecast that category 'other expenditure' will increase further by 5.1% compared to the year before, and to remain at 3.2 percent of GDP as in the year before.

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, fourteen additional discretionary measures were adopted during the budgetary process for the forthcoming year (2023) with an estimated negative fiscal impact on the accounts of the general government of about 0.8 percent of GDP in 2022 and with a marginal negative impact in 2023 of around 0.1 percent of GDP.

In the context of the high inflation rates and especially with regards to the significantly increased energy prices, the Government has proceeded with two packages of targeted and horizontal measures to cushion the impact of the rising inflation, estimated at about €0.3 bn in total.

From late-2021, the VAT rates on the electricity consumption on electricity bills were reduced, from 19% to 5% for the vulnerable consumers and from 19% to 9% for the rest of the households and businesses. This measure was initially intended to be terminated before June 2022. Yet, the continued increases in energy prices provided the need for an extension of the reduced VAT rates, and therefore the continuation of this measure was decided until end-August 2022, with an additional estimated impact on the accounts of the general government of about -0.07 percent of GDP.

At the same time, the extension of the reduction of the excise duties on fuels (8.3 cents per litre for all consumers) was decided, from the initially planned termination of the measure as of early-June 2022, to end-February 2023. This extension is forecast to impact negatively the budget balance with 0.04 percentage points of GDP in 2022; its impact in 2023 is expected to be marginal of the magnitude of -0.01 percent of GDP.

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

	ESA Code	2022	2023
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	42.2	42.4
of which			
1.1. Taxes on production and imports	D.2	14.8	14.9
1.2. Current taxes on income, wealth, etc	D.5	10.8	10.8
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.6	11.6
1.5. Property income	D.4	0.4	0.4
1.6. Other		4.5	4.7
p.m.: Tax burden		37.2	37.3
(D.2+D.5+D.61+D.91-D.995)			
2. Total expenditure at unchanged policies	TE	40.3	40.5
of which			
2.1. Compensation of employees	D.1	12.2	12.3
2.2. Intermediate consumption	P.2	4.0	4.1
2.3. Social payments	D.62+D.632	16.2	16.4
of which Unemployment benefits		0.3	0.3
2.4. Interest expenditure	D.41	1.5	1.3
2.5. Subsidies	D.3	0.4	0.4
2.6. Gross fixed capital formation	P.51g	2.3	2.3
2.7. Capital transfers	D.9	0.5	0.5
2.8. Other		3.2	3.2

On the expenditure side, another measure taken by the Government to tackle the consequences from the rising inflation was the one-off grant to support vulnerable population in the context of high energy prices. This measure relates to a lump sum payment for family units with dependent children under the age of 18, whose annual gross income does not exceed a certain threshold, and it is expected to cost about 0.02% of GDP.

The increase in the subsidy of vulnerable beneficiaries for the plan for the installation of photovoltaic systems and roof thermal insulation, as well as the enlargement of the list of the vulnerable energy consumers that are entitled to a higher grant for the schemes of the Ministry of Energy, are two additional energy measures with an expected impact of 0.02 percent of GDP in 2022, respectively, and of 0.04 percent of GDP in 2023, respectively.

The Government has also proceeded with the purchase of animal foodstuffs with a cost of about 0.07 percent of GDP, so that these are disseminated to the farmers when needed. Additionally, a budgeted amount of 0.07 percent of GDP was decided for 2022 to support the agriculture sector, as a partial refund of energy expenses.

The scheme for the subsidization of childcare services up to four years old to family units whose annual gross income does not exceed certain thresholds, was also included in the packages of the Government targeting the rising inflation, with an estimated cost of about 0.02 percent of GDP in 2022. In 2023 the cost from this measure is estimated at 0.04 percent of GDP. It should be noted that this measure is a permanent one.

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 2022	Year 2023
Extension of the reduced VAT rates for the vulnerable consumers, from 19% to 5%	From late-2021 the reduced VAT rates were applicable, from 19% to 5% for the vulnerable consumers. This measure was initially planned to be terminated in June 2022. During the budgetary process, in view of the continued rising energy prices, the extension of the reduced VAT rates was decided up to August 2022.	D.2	accrual	adopted	-0.02	-
Extension of the reduced VAT rates for the rest of the households and businesses, from 19% to 9%	From late-2021 of 2022 the reduced VAT rates were applicable, from 19% to 9% for households and businesses. This measure was initially planned to be terminated in June 2022. During the budgetary process, in view of the continued rising energy prices, the extension of the reduced VAT rates was decided up to August 2022.	D.2	accrual	adopted	-0.05	-
Extension of the reduced excise duties on petroleum	In March 2022, in view of the rising energy prices, the reduction of the excise duties on petroleum products was decided, initially planned for a 3-month period. During the budgetary process, in view of the continued rising energy prices, the extension of this measure was decided up to end-February 2023.	D.2	accrual	adopted	-0.04	-0.01
Subsidisation of consumers' electricity bills covering the period September-December 2022	The subsidisation will be covered in stages from 50% to 85% of the expected new increase in electricity tariffs, with the coverage reaching 100% for the vulnerable households. The Government will reimburse this amount to the Electricity Authority, so as to be adjusted accordingly on the invoices.	D.3	accrual	adopted	0.19	-
One-off grant to support vulnerable population in the context of high energy prices	Lump sum payment to family units with dependent children under the age of 18 whose annual gross income does not exceed certain threshold.	D.62	accrual	adopted	0.02	-
Scheme for subsidising childcare services up to four years old	Subsidisation of childcare services up to four years old to family units whose annual gross income does not exceed certain threshold.	D.62	accrual	adopted	0.02	0.04
Subsidy for renewables and energy efficiency measures	Increase in subsidy of vulnerable beneficiaries for the plan for the installation of photovoltaic systems and roof thermal insulation.	D.9	accrual	adopted	0.02	0.04
Enlarging the list of vulnerable energy consumers	The eligible vulnerable energy consumers are entitled to a higher grant for the schemes of the Ministry of Energy. Approximately 19,500 family units with annual gross income of up to €19,500 will be added to the list.	D.9	accrual	adopted	0.02	0.04
Support for the agriculture sector	Support in crop production to cover part of employees' expenses, and support to livestock and agriculture sectors to cover part of price increases. The support covers partial refund of energy expenses.	D.3	accrual	adopted	0.07	-

Increased migration flow	Additional appropriations associated with the increased migration flow, to cover the needs of the applicants for international protection, to cover accommodation needs etc.	D.62	accrual	adopted	0.08	-
Purchase of water	The increase in energy prices affected also the expenses for the implementation of additional Water Desalination Plants, therefore an additional appropriation was included in the Supplementary Budgets.	P.2	accrual	adopted	0.14	-
Purchase of Animal Foodstuffs	Purchase of animal foodstuffs to be disseminated to the farmers when needed, given its significant increase in line with the invasion of Russia to Ukraine.	P.2	accrual	adopted	0.07	-
Purchase of consumable supplies, equipment and services	In the context of the continued need for covid related spending, targeted to safeguard public health, an additional appropriation was included in the Supplementary Budgets for 2022, to cover various services as well as consumable supplies.	P.2	accrual	adopted	0.09	-
Cost related to people fleeing Ukraine in Cyprus – Accommodation costs	Accommodation costs on a full board basis for the Ukrainian nationals who came to Cyprus after the Russian invasion	P.2	accrual	adopted	0.04	0.02
Cost related to people fleeing Ukraine in Cyprus – Lump sum amount granted by the Social Welfare Services	Ukrainian nationals who came to Cyprus after the Russian invasion are entitled to a one-off financial support granted by the Social Welfare Services. The lump sum amount is proportional to the family composition (€423 on average)	D.62	accrual	adopted	0.01	0.004
TOTAL BUDGETARY IMPACT					-0.78	-0.14

In addition to the above, a new package was adopted by the Government to support households and businesses from the increases in electricity prices for domestic, commercial and industrial users. This measure provides subsidisation in stages, from 50% to 85% of the expected new increase in electricity tariffs, with the coverage reaching 100% for vulnerable households and will be applied during the last four months of 2022. The impact on the accounts of the general government from this measure is estimated at -0.2 percent of GDP, since the Government will reimburse this amount to the Electricity Authority, so as all invoices are adjusted accordingly.

The recent increases in prices also affected the expenditure for the implementation of additional Water Desalination Plants, thus an appropriation of about 0.14 percent of GDP was included in the context of the Supplementary Budgets of 2022.

In the context of the continued need for covid related spending, targeted to safeguard public health, an appropriation of about 0.1 percent of GDP was included in the Supplementary Budgets for 2022, to cover various services as well as consumable supplies.

Finally, the Cyprus government is providing assistance to Ukrainian nationals permanently residing in Ukraine and left the country to escape war from 24 February 2022 onwards, and who are entitled to temporary protection according to the Council Implementing Decision (EU) 2022/382 of 4 March 2022. The Republic of Cyprus having fully harmonized with directive 2001/55/EC dated 20/7/2001 of the Council of the European Union (temporary protection directive), established the Refugee Law 6(I)/2000-2020, while at the same time it has defined the rights of persons under temporary protection status. Temporary protection will last for at least one year and it may be extended depending on the situation in Ukraine. Rights under the Temporary Protection Directive include a residence permit, access to the labour market and housing, medical assistance, and access to education for children. In this context,

a lump sum emergency financial assistance is provided to single persons and families[3] that apply for temporary protection, with an estimated cost of around €2.8 mn in 2022 and an additional of €1.1 mn in 2023 (by end-February 2023). In addition, the expenditure for the temporary accommodation of persons under temporary protection status in hotels on a full board basis is estimated to amount to €15.5 mn by end-February 2023 (€11 mn in 2022 and €4.5 mn in 2023). At the same time, a Rent Subsidisation Scheme is being implemented as of August 2022 to assist in securing suitable accommodation outside hotels, where the amount of the subsidisation is in line with the Minimum Income Law. Furthermore, a monthly assistance €102 per child is provided to partially cover child care costs for children aged 0-4 years and 8 months, for families where the parents have secured a job.

The total impact from the measures described above is estimated at around -0.78 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 surplus of about 2% in 2022. For the year after, under the no-policy change scenario, the impact is estimated at around -0.1 percent of GDP, therefore the forecasted budget balance of the general government in the absence of these measures would amount to an estimated surplus of about 1.8% in 2023.

[3] The emergency financial assistance is provided as a lump sum of €340 for a single person, with an additional amount of €170 for every dependent person over 14 and €100 for every dependent person of 14 years of age and under.

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:

CSR1
In 2023, ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people feeling Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.
In 2023, ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people feeling Ukraine. Stand ready to adjust current spending to the evolving situation. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions: In 2023, general government fiscal balance is projected to be in surplus of the order of €470.4m or 1.7% of GDP, recording an increase 0.5 percentage points, compared to an estimated budget balance in 2022 of the order of 1.2% of GDP. Public expenditure in 2023 is expected to record an increase of 6%, falling further as a percent of GDP to 40.7%, compared to an estimate of 40.8% in 2022. Current expenditure in 2023, excluding expenditure due to RRP implementation and temporary and targeted support to households and firms, is projected to increase by 6.5%, compared to an estimated increase of 7.4% in 2022 and, therefore, decelerates despite the substantial impact from the Cost-of-Living-Adjustment. Excluding expenditure due to COLA, current expenditure is projected to increase by 5.5% in 2023, compared to an estimated increase of 6.4% in 2022. General government budget surplus in 2024-2025 is projected to increase at around €685.2m and €718.7m, or 2.3% of GDP respectively. Public expenditure decelerates at 5.1% and 4% respectively, while when excluding expenditure due to RRP implementation and COLA expenditure, current expenditure of projected to increase by 4.5% and 4% respectively. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds: The Draft Budget 2023 aims at supporting growth and includes many large mature projects. Most importantly, the Draft Budget 2023 supports green growth and digitization and includes all the provisions, projects and reforms related to the Cyprus Recovery and Resilience Plan. Cyprus has secured through the Recovery and Resilience Fund €1.2 billion to finance the National Recovery and Resilience Plan (the Plan) with 2026 as the horizon of implementation. An amount of €1 billion will be in the form of grants and a further €200 million will be in the form of loans. The Plan includes a coherent package of 133 measures, 58 reforms and 75 investments. Taking into account the funds of the Plan and the Cohesion Policy Fund, as well as the additional private investments that will result from the implementation of the supported projects, the financial impact of the Plan is over €4 billion. The investments, reforms, plans and actions that fall under the five (5) main policy pillars of the Plan are distributed as follows: ▸ Public health and civil protection: €74 million. ▸ Rapid transition to a Green Economy: €448 million. ▸ Strengthening the resilience and competitiveness of the Economy: €422 million. ▸ Towards a Digital Age (digital transformation): €89 million. ▸ Employment, education and human capital: €173 million. Further to the RRP, Cyprus has also initiated all the necessary deliberations for the utilization of its financial envelope under the EU's Cohesion Policy Funds for the 2021-2027 period. In this context, a single Cohesion Policy Programme, endorsing all Cohesion Policy Funds and Just Transition Fund, entitled "THALIA 2021-2027", has been formulated and received the European Commission's approval on 8 July 2022, with a budget of €1.8bn (including a national contribution of €840m). As regards the digital transition, funds allocated to Policy Objective 1 – "Smart Europe" (providing funding for research innovation, digitalization and entrepreneurship) correspond to 18 % of the total Programme Budget. Under this Objective - and in the context of the Smart Specialization Strategy - digital transition funding will be channelled for: i) the development of new innovative information systems to modernize the operation of various Governmental Departments, ii) the provision of new governmental electronic services, iii) further strengthening e-health, iv) the development of "smart city" systems through digital networks and applications and v) strengthening the degree of integration of digital technology in SMEs, including e-commerce. Regarding the green transition, funding directed to Policy Objective 2 – Green Europe (providing funding for green energy, environment protection and climate change adaptation) corresponds to 45% of the total Programme Budget. These funds will be directed to: i) energy upgrade projects of public buildings, schools and residences, ii) projects to reduce and recycle municipal waste, iii) water management and climate change projects, iv) urban mobility projects and v) biodiversity protection projects. With the support of the Just Transition Fund, further penetration of RES will be facilitated, while increasing the security of the electricity system. Specifically, investments are promoted for : i) the creation of a Green Technical School, ii) the creation of new and upgrade of existing energy systems/infrastructure, iii) the installation of Storage Systems and iv) the promotion of RES and Energy Saving in SMEs.

CSR2

Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 28 July 2021. Swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents with a view to starting their implementation.

The implementation of the national Resilience and Recovery Plan is well underway. In this respect the 1st Payment Application was submitted in July 2022. The national Resilience and Recovery Plan includes 41% of green transition projects and 26% digital transition projects. Furthermore, the relevant authorities are currently examining the utilization of the RepowerEU component.

Cyprus's Cohesion Policy programming documents for the 2021-2027 period (namely the Partnership Agreement and the single Operational Programme "THALIA") have been officially approved by the European Commission on 8 July 2022. This has rendered Cyprus the first Member State having all of its programming documents endorsed.

CSR3

Take measures to improve governance of the state-owned entities in line with international standards.

Considering the current governance framework, and despite the fact that the area of the SOEs governance, is an area where many actions have been accomplished recently, we do acknowledge that there is room for improvement.

In this respect, and since the CSR refers to international standards, we are in the process of exploring the possibility to receive expertise from international organizations.

CSR4

Reduce overall reliance on fossil fuel and further diversify energy supply by accelerating the deployment of renewables, in particular by further streamlining permitting procedures and expanding photovoltaics. Develop energy interconnections with neighbouring countries, while extending and accelerating energy efficiency measures, including in the transport sector.

Energy sector:

The National Energy and Climate Plan (NECP) for the years 2021 - 2030 elaborates on the five dimensions of the Energy Union and sets the national targets as well as polices and measures necessary for reaching the national energy and climate obligations for 2030. A mixture of polices and measures is being implemented.

Policies and Measures in place related to CSR4:

(1) «Support scheme for the production of electricity from renewable energy sources for self-consumption» with categories of net-metering, net-billing, stand-alone off-grid RES systems and virtual net-metering category. A revision of the Scheme is being prepared in order to be more attractive to consumers.

(2) Mass deployment of smart meters

(3) The concepts of 'citizens' energy communities' and 'renewable energy communities' introduced in national legislation. The regulatory framework is being prepared. A study is being drafted to identify the ICT requirements necessary to support the novel electricity market and consumer's active participation.

(4) Creation of a "Digital One-Stop-Shop" to streamline RES projects permitting and to facilitate Energy Renovation in Buildings. It will provide guidance and facilitation throughout the entire permitting process and will be the single point of contact for all applicants for the permitting of RES projects.

(5) New Law on RES, sets maximum timeframes for the completion of the licensing process for RES projects are set:

a. seven months (7) for RES power plants

b. four (4) months for RES power plants with a capacity of less than 150 kW

c. four (4) months for the renewal of the license of existing RES plants (possibility of an additional 4 months' extension in exceptional and duly justified cases).

In order to implement the above, all competent authorities involved in the licensing of RES projects will set measures to simplify and accelerate their procedures regarding the licensing of RES projects.

(6) Completion of the Strategic Environmental Impact Assessment in relation to the siting of RES projects and issuance of relevant secondary legislation which sets that it is no longer necessary to obtain a building permit for the PV system either on the roof or on the ground, when there is already a building for which a building permit has been obtained.

(7) Promotion of Renewable Energy Sources and Energy Efficiency in wider public sector, non-governmental organizations, households and enterprises, operated by Ministry of Energy, Commerce and Industry. Main instruments: Financial Support Programs in place utilizing National and EU Funds (RRF, JTF, Cohesion Funds). More projects and Schemes are implemented by other responsible Ministries/Authorities (energy efficiency and RES for central governments buildings as well as for schools, hospitals, fire stations, universities, wider public sector and grant scheme for CO2 reduction in industries and enterprises), energy efficient street lighting, action plan for increasing energy efficiency the road transport and for promoting electromobility energy efficiency measures in water sector).

(8) A national hydrogen strategy is being drafted.

(9) An LNG Import Terminal is expected to be in operation by the end of 2023. It will improve Cyprus's security of energy supply and diversification of imported energy sources and fuels and also contribute to the reduction of GHG emissions in the island.

(10) Full liberation of the electricity market is planned by the end of 2022. A competitive electricity will help increasing the share of RES in the electricity mix and in creating competitive pressure to electricity retail prices.

(11) Promotion of Energy Storage schemes. The relevant regulatory framework has been enacted and funding schemes for storage are in the pipeline.

(12) Promotion of Electricity interconnection. The project is expected to be operational in early 2026. Electricity storage and interconnections will allow for much faster integration of RES to the electricity system and for exporting produced RES electricity.

(13) Ongoing information campaign to promote energy efficiency and Press releases proposing a series of measures for the rational use of energy in the workplace and at home-widely circulated.

(14) National Energy Efficiency Obligation Scheme with obligation for energy distributors (from January 2023).

(15) Obligations for transport fuel suppliers to blend biofuels with conventional transport fuels (petrol and diesel).

(16) The National Energy and Climate Plan is being revised, with the aim of incorporating additional measures and policies that will lead to the green transition and the achievement of new and higher national RES and EE targets by 2030 and 2050, for the optimal implementation of the requirements and obligations set out in the European acquis and in particular in the context of the new "fit for 55" and "REPowerEU" packages.

Transport sector:
In July 2021, a general policy framework was approved by the Council of Ministers on 24 November 2021, aiming at boosting electric vehicle (EV) registration to 25% of new registration by 2030 and by 100% by 2035, in a bid to reduce Cyprus' carbon footprint.
The general policy for the promotion of the EVs includes incentives for the purchase of EV, private cars, motorcycles, scooters, buses, commercial vehicles and taxies and sets strategic targets, the necessary actions to establish the legal framework and measures to be implemented in pursuing these targets.
A significant number of actions to promote EVs will be funded by the Cyprus national Recovery and Resilience Fund.
The Plan is part of the National Energy and Climate Plan of Cyprus, while the Subsidy Plan for the Purchase of Electric Vehicles is also part of the General Policy Framework for the Promotion of the Use of Electric Vehicles of the Ministry of Transport, Communications and Works.
In the context of the financial incentives, the two annual announcements of the first phase of the subsidy plans, the electric vehicle subsidy plan and the plan to withdraw old polluting vehicles and replace them with purely or partially electric vehicles, were approved end of 2021 and are already being implemented.
In addition, the Ministry of Transport, Communication and Works is actively engaged in developing Sustainable Urban Mobility Plans (SUMPs) for all the cities of Cyprus.

5. Comparison Between DBP and the most recent Stability Programme

The general government budget balance targets set for the Budget of 2023, deviate by 1.2 and 1.3 percentage points of GDP for the years 2022 and 2023, respectively, vis-à-vis the ones presented in the most recent Stability Programme.

The new targets for 2022 take into account the substantial upward revision of the estimated real GDP growth by 3 percentage points and the expected further improvement in the labour market, as well as the increase on the expenditure side attributed to the expected impact from the measures taken by the Government during the budgetary process for the forthcoming year.

The projection regarding the general government budget balance at unchanged policies for year 2022 presented in the current DBP, is higher by 2 percentage points of GDP compare to the forecast presented in the context of the SP 2022-2025. This positive deviation is mainly the outcome of the significant upward revision of the GDP growth for the current year, from a 2.7% real GDP growth initially forecasted to 5.7%.

Table 7. Divergence from latest SP

	ESA Code	Year 2021	Year 2022	Year 2023
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		-2.1	0.0	0.4
Draft Budgetary Plan		-1.7	1.2	1.7
Difference		0.4[4]	1.2	1.3
General government net lending projection at unchanged policies	B.9			
Stability Programme		-2.1	0.0	0.4
Draft Budgetary Plan		-1.7	2.0	1.8
Difference		0.4[4]	2.0	1.4

Regarding the year after, the deviation of 1.4 percent of GDP between the current forecast for the general government budget balance and the corresponding one presented in the latest Stability Programme, is mainly attributed to the base effect of the improved forecasted fiscal position in 2022, from an initial forecast of a balanced fiscal position to a surplus of 1.2 percent of GDP, taking also into account the higher than initially planned expenses related to the rising inflation rates during 2023, mostly through the indexation of the Cost-of-Living-Adjustment on the wages of public servants and on pensions.

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

Appendix: Tables

Table 0 i). Basic assumptions

	Year 2021	Year 2022	Year 2023
Short-term interest rate[1] (annual average)	-0.5	0.3	2.2
Long-term interest rate (annual average)	-0.4	1.2	1.8
USD/€ exchange rate (annual average)	1.18	1.06	1.05
Nominal effective exchange rate	1.2	-3.9	-0.4
World excluding EU, GDP growth	5.8	3.4	3.7
EU GDP growth	5.4	2.7	1.5
Growth of relevant foreign markets [UK]	7.4	3.2	0.5
World import volumes, excluding EU	10.7	4.5	4.5
Oil prices (Brent, USD/barrel)	70.7	108.2	95.6

1/ If necessary, purely technical assumptions

Table 1a. Macroeconomic prospects

	ESA Code	Year 2021	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
		Level (€ mn)	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	22,433.5	5.5	5.7	3.0	3.3	3.2
2. Potential GDP		22,437.1	3.1	3.7	3.8	3.4	3.4
contributions:							
- labour			1.2	1.3	1.4		
- capital			0.9	1.0	1.1		
- total factor productivity			0.3	0.6	0.7		
3. Nominal GDP	B1*g	23,436.7	8.4	11.5	6.3	5.4	5.2
Components of real GDP							
4. Private final consumption expenditure	P.3	13,874.0	3.7	6.8	3.0		
5. Government final consumption expenditure	P.3	4705.2	8.0	3.4	0.8		
6. Gross fixed capital formation	P.51g	3942.7	-6.3	8.2	3.0		
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-205.6	-0.6	0.0	0.0		
8. Exports of goods and services	P.6	18,071.2	14.0	10.5	2.5		
9. Imports of goods and services	P.7	18,008.6	9.2	11.4	2.0		
Contributions to real GDP growth							
10. Final domestic demand		22,522.0	2.7	6.4	2.6		
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-205.6	-0.6	0.0	0.0		
12. External balance of goods and services	B.11	62.6	3.3	-0.7	0.4		

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 2021	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		104.5	2.7	5.5	3.2	2.0	2.0
2. Private consumption deflator		104.8	2.1	7.4	2.8		
3. HICP		101.9	2.3	7.7	3.0		
4. Public consumption deflator		99.9	1.3	5.1	4.6		
5. Investment deflator		106.0	3.6	6.5	2.7		
6. Export price deflator (goods and services)		105.1	1.7	4.4	2.7		
7. Import price deflator (goods and services)		104.0	1.3	6.0	2.7		

Table 1c. Labour market developments

	ESA Code	Year 2021	Year 2021	Year 2022	Year 2023
		Level	rate of change	rate of change	rate of change
1. Employment, thousand persons[1]		448.1	1.2	1.7	1.0
2. Employment, thousand hours worked[2]		782,085	3.8	4.4	2.0
3. Unemployment rate (%)[3]		34,787	7.5	7.0	6.4
4. Labour productivity, persons[4]		50,063	4.3	3.9	2.0
5. Labour productivity, hours worked[5]		28.7	1.6	1.2	1.0
6. Compensation of employees (€ mn)	D.1	10,475	6.0	6.7	7.5
7. Compensation per employee (€)		26,264	4.7	5.0	6.5

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 2021	Year 2022	Year 2023
		% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	-6.5	-8.0	-6.8
of which:				
- Balance on goods and services		1.1	-0.8	-0.4
- Balance of primary incomes and transfers		-8.3	-7.4	-6.6
- Capital account		0.8	0.3	0.3
2. Net lending/net borrowing of the private sector	B.9	-4.8	-9.2	-8.5
3. Net lending/net borrowing of general government	B.9	-1.7	1.2	1.7
4. Statistical discrepancy		0.0	0.0	0.0

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

	ESA Code	Year 2022	Year 2023	Year 2024	Year 2025
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	1.2	1.7	2.3	2.3
1a. Central government	S.1311	0.0	0.6		
1b. State government	S.1312	M	M		
1c. Local government	S.1313	0.0	0.0		
1d. Social security funds	S.1314	1.1	1.1		
2. Interest expenditure	D.41	1.5	1.3		
3. Primary balance[2]		2.7	3.0		
4. One-off and other temporary measures[3]		0.0	0.0	0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		5.7	3.0		
6. Potential GDP growth (%) (=2 in Table 1.a)		3.7	3.8	3.4	3.4
contributions:					
- labour		1.1	1.1		
- capital		0.9	0.9		
- total factor productivity		1.6	1.7		
7. Output gap (% of potential GDP)		1.9	1.2	1.1	0.9
8. Cyclical budgetary component (% of potential GDP)		1.0	0.6	0.6	0.5
9. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		0.2	1.1		
10. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		1.7	2.4		
11. Structural balance (13 - 8) (% of potential GDP)		0.2	1.1	1.8	1.9

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 2022	Year 2023	Year 2024	Year 2025
		% GDP	% GDP	% GDP	% GDP
1. Gross debt[1]		89.3	83.3	76.5	72.3
2. Change in gross debt ratio		-14.3	-6.0		
Contributions to changes in gross debt					
3. Primary balance (= item 3 in Table 2.a)		2.7	3.0		
4. Interest expenditure (= item 2 in Table 2.a)	D.41	1.5	1.3		
5. Stock-flow adjustment		-13.1	-4.3	-4.5	-1.9
of which:					
- Differences between cash and accruals[2]		-0.4	-0.1		
- Net accumulation of financial assets[3]		-1.9	1.0		
of which:					
- privatisation proceeds		0.0	0.0		
- Valuation effects and other[4]		0.0	0.0		
p.m.: Implicit interest rate on debt[5]		1.6	1.6	1.6	1.8

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 2022	Year 2023
	% GDP	% GDP
Public guarantees	5.0	4.7
Of which: linked to the financial sector	1.8	1.7

Note: The change of the presentation in this table, compared to the previous DBPs and SPs of the Republic of Cyprus, relates to the methodological treatment of the Asset Protection Scheme (APS). The guarantee under the Scheme was at €155 mn for 2018, with a negative impact on B.9 as a capital transfer during that year.

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

	ESA Code	Year 2022	Year 2023
		% GDP	% GDP
General government (S13)			
1. Total revenue at unchanged policies	TR	42.2	42.4
of which			
1.1. Taxes on production and imports	D.2	14.8	14.9
1.2. Current taxes on income, wealth, etc	D.5	10.8	10.8
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.6	11.6
1.5. Property income	D.4	0.4	0.4
1.6. Other[1]		4.5	4.7
p.m.: Tax burden		37.2	37.3
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure at unchanged policies	TE[3]	40.3	40.5
of which			
2.1. Compensation of employees	D.1	12.2	12.3
2.2. Intermediate consumption	P.2	4.0	4.1
2.3. Social payments	D.62+D.632	16.2	16.4
of which Unemployment benefits[4]		0.3	0.3
2.4. Interest expenditure	D.41	1.5	1.3
2.5. Subsidies	D.3	0.4	0.4
2.6. Gross fixed capital formation	P.51g	2.3	2.3
2.7. Capital transfers	D.9	0.5	0.5
2.8. Other[5]		3.2	3.2

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 2022	Year 2023
		% GDP	% GDP
General government (S13)			
1. Total revenue target	TR	42.1	42.4
of which			
1.1. Taxes on production and imports	D.2	14.7	14.9
1.2. Current taxes on income, wealth, etc	D.5	10.8	10.8
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.6	11.6
1.5. Property income	D.4	0.4	0.4
1.6. Other[1]		4.5	4.7
p.m.: Tax burden		37.1	37.3
(D.2+D.5+D.61+D.91-D.995)[2]			
2. Total expenditure target	TE[3]	40.9	40.7
of which			
2.1. Compensation of employees	D.1	12.2	12.3
2.2. Intermediate consumption	P.2	4.4	4.2
2.3. Social payments	D.62+D.632	16.2	16.4
of which Unemployment benefits[4]		0.3	0.3
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	1.5	1.3
2.5. Subsidies	D.3	0.6	0.4
2.6. Gross fixed capital formation	P.51g	2.3	2.3
2.7. Capital transfers	D.9	0.5	0.5
2.8. Other[5]		3.2	3.2

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 2021	Year 2021	Year 2022	Year 2023
		Level (€ mn)	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		321.2	1.4	1.0	0.8
1a. of which investments fully matched by EU funds revenue		192.7	0.8	0.6	0.5
2. Cyclical unemployment benefit expenditure [1]		0.1	0.0	0.0	0.0
3. Effect of discretionary revenue measures [2]	D.5	201.8	0.9	0.3	0.5
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.

4.c.i) General government expenditure on education, healthcare and employment

	Year 2022		Year 2023	
	% GDP	% general government expenditure	% GDP	% general government expenditure
Education [1]	5.2	12.8	5.1	12.6
Health [1]	5.0	12.2	5.4	13.2
Employment [2]	0.1	0.3	0.1	0.3

1/ These expenditure categories should correspond respectively to items 9 and 7 in table 4.c.ii)
2/ This expenditure category should contain. inter alia. government spending related to active labour market policies (ALMPs) including public employment services. On the contrary. items such as compensation of public employees or vocational training programmes should not be included here.

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

	COFOG Code	Year 2022	Year 2023
		% GDP	% GDP
1. General public services	1	7.5	7.4
2. Defense	2	1.8	1.7
3. Public order and safety	3	1.7	1.7
4. Economic affairs	4	3.6	3.3
5. Environmental protection	5	0.6	0.7
6. Housing and community amenities	6	1.6	1.6
7. Health	7	5.0	5.4
8. Recreation culture and religion	8	1.0	1.0
9. Education	9	5.2	5.1
10. Social protection	10	12.8	12.7
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	40.9	40.7

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 2022	Year 2023
Extension of the reduced VAT rates for the vulnerable consumers, from 19% to 5%	From the beginning of 2022 the reduced VAT rates were applicable, from 19% to 5% for the vulnerable consumers. This measure was initially planned to be terminated in June 2022. During the budgetary process, in view of the continued rising energy prices, the extension of the reduced VAT rates was decided up to August 2022.	D.2	accrual	adopted	-0.02	-
Extension of the reduced VAT rates for the rest of the households and businesses, from 19% to 9%	From the beginning of 2022 the reduced VAT rates were applicable, from 19% to 9% for households and businesses. This measure was initially planned to be terminated in June 2022. During the budgetary process, in view of the continued rising energy prices, the extension of the reduced VAT rates was decided up to August 2022.	D.2	accrual	adopted	-0.05	-
Extension of the reduced excise duties on petroleum	In March 2022, in view of the rising energy prices, the reduction of the excise duties on petroleum products was decided, initially planned for a 3-month period. During the budgetary process, in view of the continued rising energy prices, the extension of this measure was decided up to end-February 2023.	D.2	accrual	adopted	-0.04	-0.01
Subsidisation of consumers' electricity bills covering the period September-December 2022	The subsidisation will be covered in stages from 50% to 85% of the expected new increase in electricity tariffs, with the coverage reaching 100% for the vulnerable households. The Government will reimburse this amount to the Electricity Authority, so as to be adjusted accordingly on the invoices.	D.3	accrual	adopted	0.19	-
One-off grant to support vulnerable population in the context of high energy prices	Lump sum payment to family units with dependent children under the age of 18 whose annual gross income does not exceed certain threshold.	D.62	accrual	adopted	0.02	-
Scheme for subsidising childcare services up to four years old	Subsidisation of childcare services up to four years old to family units whose annual gross income does not exceed certain threshold.	D.62	accrual	adopted	0.02	0.04
Subsidy for renewables and energy efficiency measures	Increase in subsidy of vulnerable beneficiaries for the plan for the installation of photovoltaic systems and roof thermal insulation.	D.9	accrual	adopted	0.02	0.04
Enlarging the list of vulnerable energy consumers	The eligible vulnerable energy consumers are entitled to a higher grant for the schemes of the Ministry of Energy. Approximately 19,500 family units with annual gross income of up to €19,500 will be added to the list.	D.9	accrual	adopted	0.02	0.04
Support for the agriculture sector	Support in crop production to cover part of employees' expenses, and support to livestock and agriculture sectors to cover part of price increases. The support covers partial refund of energy expenses.	D.3	accrual	adopted	0.07	-
Purchase of water	The increase in energy prices affected also the expenses for the implementation of additional Water Desalination Plants, therefore an additional appropriation was included in the Supplementary Budgets.	P.2	accrual	adopted	0.14	-

Purchase of Animal Foodstuffs	Purchase of animal foodstuffs to be disseminated to the farmers when needed, given its significant increase in line with the invasion of Russia to Ukraine.	P.2	accrual	adopted	0.07	-
Purchase of consumable supplies, equipment and services	In the context of the continued need for covid related spending, targeted to safeguard public health, an additional appropriation was included in the Supplementary Budgets for 2022, to cover various services as well as consumable supplies.	P.2	accrual	adopted	0.09	-
Cost related to people fleeing Ukraine in Cyprus – Accommodation costs	Accommodation costs on a full board basis for the Ukrainian nationals who came to Cyprus after the Russian invasion	P.2	accrual	adopted	0.04	0.02
Cost related to people fleeing Ukraine in Cyprus – Lump sum amount granted by the Social Welfare Services	Ukrainian nationals who came to Cyprus after the Russian invasion are entitled to a one-off financial support granted by the Social Welfare Services. The lump sum amount is proportional to the family composition (€423 on average)	D.62	accrual	adopted	0.01	0.004
TOTAL BUDGETARY IMPACT					-0.78	-0.14

Table 7. Divergence from latest SP

	ESA Code	Year 2021	Year 2022	Year 2023
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		-2.1	0.0	0.4
Draft Budgetary Plan		-1.7	1.2	1.7
Difference [1]		0.4	1.2	1.3
General government net lending projection at unchanged policies	B.9			
Stability Programme		-2.1	0.0	0.4
Draft Budgetary Plan		-1.7	2.0	1.8
Difference [1]		0.4	2.0	1.4

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

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

	2021	2022	2023	2024	2025
Revenue from RRF grants					
1. RRF GRANTS as included in the revenue projections	0.2	0.2	0.7	0.9	0.8
2. Cash disbursements of RRF GRANTS from EU	0.6	0.7	0.8	0.7	0.6
Expenditure financed by RRF grants					
3. Total Current Expenditure	0.0	0.1	0.2	0.3	0.2
4. Total Capital Expenditure	0.1	0.1	0.5	0.7	0.6
of which:					
- Gross fixed capital formation	0.1	0.1	0.4	0.4	0.3
- Capital transfers	0.0	0.1	0.1	0.2	0.3
Other costs financed by RRF grants					
5. Reduction in tax revenue	0.0	0.0	0.0	0.0	0.0
6. Other costs with impact on revenue	0.0	0.0	0.0	0.0	0.0
7. Financial transactions	0.0	0.0	0.0	0.0	0.0

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

	2021	2022	2023	2024	2025
Cash flow from RRF loans projected in the programme					
1. Disbursements of RRF LOANS from EU	0.1	0.0	0.2	0.2	0.1
2. Repayments of RRF LOANS to EU	0.0	0.0	0.0	0.0	0.0
Expenditure financed by RRF grants					
3. Total Current Expenditure	0.0	0.0	0.1	0.1	0.1
4. Total Capital Expenditure	0.0	0.0	0.1	0.1	0.1
of which:					
- Gross fixed capital formation	0.0	0.0	0.1	0.1	0.1
- Capital transfers	0.0	0.0	0.0	0.0	0.0
Other costs financed by RRF grants					
5. Reduction in tax revenue	0.0	0.0	0.0	0.0	0.0
6. Other costs with impact on revenue	0.0	0.0	0.0	0.0	0.0
7. Financial transactions	0.0	0.0	0.0	0.0	0.0

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

% of GDP	Date of adoption	Maximum amount of contingent liabilities[1] (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19			
- Support to the tourism sector in the form of government guarantees related to credit notes issued for the cancellation of contracts due to the pandemic of COVID-19, in case of insolvency of the issuers	2020	-	-
- Government guarantee scheme towards credit institutions for the granting of loan to businesses and self-employed individuals	2021	0.02	-
SUBTOTAL		0.02	-
Others			
- Stock of Government Guarantees (excluding related to Covid-19 and linked to the financial sector)		3.2	
- Linked to the financial sector		1.8	
SUBTOTAL		5.0	
TOTAL		5.0	

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

MINISTRY OF FINANCE