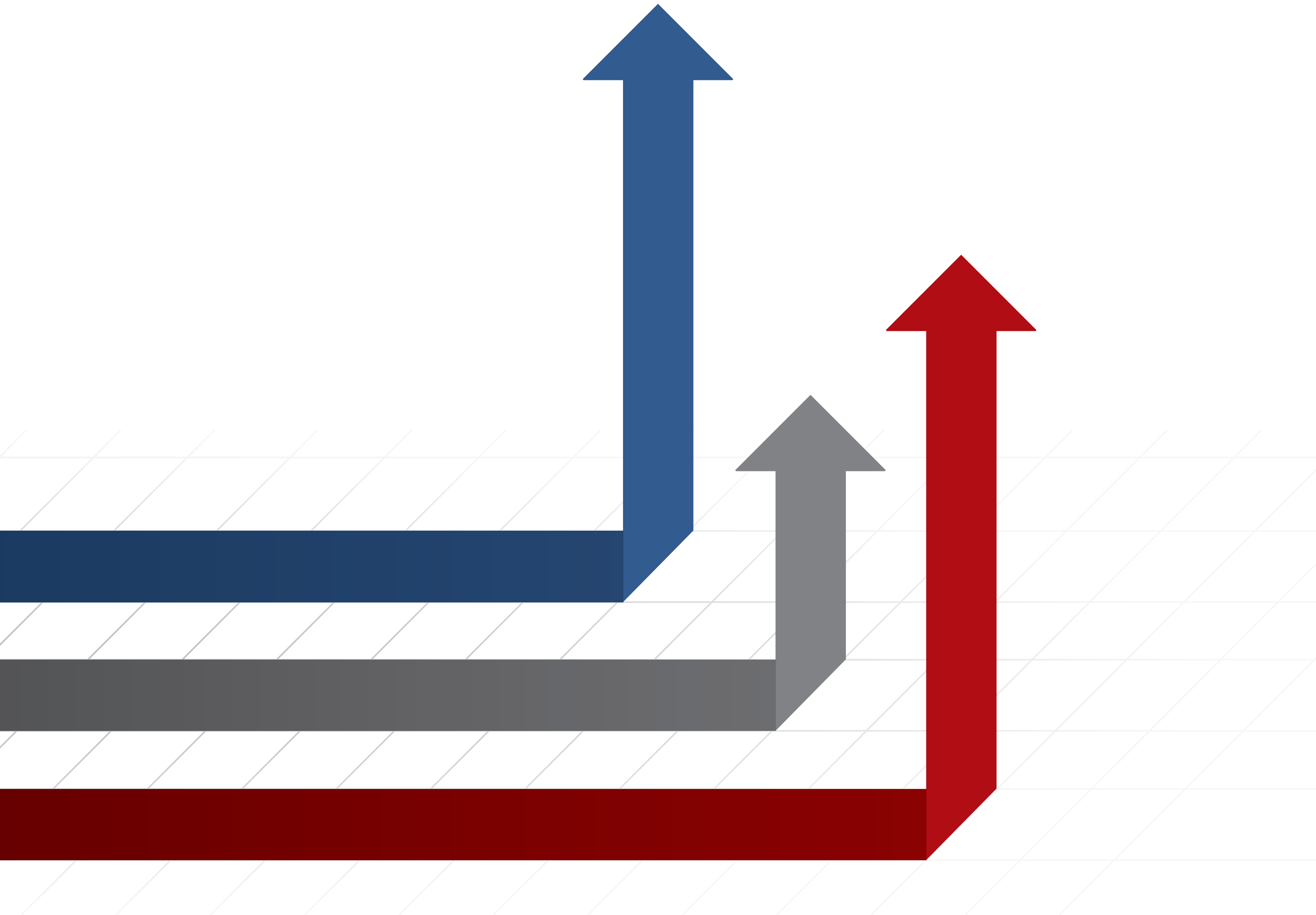
MINISTRY OF FINANCE

STABILITY PROGRAMME UPDATE 2024-2027



APRIL 2024

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TABLE OF CONTENTS

PIO 98/2024 – Electronic Edition
ISSN 2672-8362 (online)
Published by the Press and Information Office
Design: Antimonium Design

PREFACE

In accordance with the provisions of the Stability and Growth Pact (SGP), the Republic of Cyprus submits its Stability Programme (SP) for the period 2024-2027 as approved by the Council of Ministers on 30th April 2024. The SP has been prepared in line with the updated Code of Conduct, which sets out the "Guidelines on the format and content of the Stability and Convergence Programmes". The SP was submitted to the European Commission in April 2024 in accordance with the requirements of the European Semester and takes into account the key policy orientations provided in the Annual Sustainable Growth Survey.

This SP shall, at the same time, be considered as the national medium-term fiscal plan in the sense of Regulation 473/2013 and should be read in conjunction with the National Reform Programme (NRP).

In this context, the budgetary developments and targets in the SP are consistent with the structural reforms and policy ambitions set out in the NRP. Where appropriate, cross references are included in both documents.

The analysis and forecasts contained in this document are based on data available as at end- March 2024. The macroeconomic forecasts contained herein have been endorsed by the Fiscal Council.

CHAPTER 1: OVERALL POLICY FRAMEWORK AND OBJECTIVES

This Stability Programme is prepared in the context of the introduction of the new economic governance framework agreed by the European Parliament and the Council on 10th February 2024, while the European Parliament formally approved the new fiscal rules for the EU on 23rd April 2024. The new framework will be operational as of this year, therefore 2024 is a transitory year, whereby member states will submit their Stability Plans in April for the last time, while preparing for the submission of the new medium-term fiscal structural plans later on in the year, which are at the centre of the new framework, along with the annual progress plans.

Therefore, this Stability Programme is drafted along the lines of the existing Code of Conduct, albeit more concise, focusing on presenting the spring forecast of the Cyprus government for the period 2024-2027, as prepared by the Ministry of Finance. The macroeconomic and fiscal forecasts underlying this Stability Programme update have been submitted to the Fiscal Council for endorsement and the Council concluded that the headline GDP and budget balance figures as forecast by the Ministry of Finance are considered realistic for the programming period under consideration.

Policy Strategy

The overall objective of the fiscal policy strategy outlined in this Stability Programme is to support economic growth, while maintaining fiscal sustainability through a sound fiscal position in the medium term and reducing public debt as a percentage of GDP in a sustainable manner. The fiscal strategy of the government takes into account the deactivation of the general escape clause at the end of 2023 and the focus is driven by the implementation of the National Reform and Resilience Programme (RRP), which encompasses the main national policies for sustainable growth and competitiveness enhancement.

Growth in 2023 was supported by a deceleration in inflationary pressures. However, the rising inflation in the previous period, attributed mainly through the rise in energy prices, imposed the need for targeted and horizontal measures in order to alleviate the negative impact on households and companies, starting from end-2021. The impact of these measures on the accounts of the general government was marginal during 2021, estimated at about -0.02% of GDP, where in 2022 and in 2023 it stood at around 0.6% of GDP, respectively. These measures included, among others, (i) the covering in stages, from 50% to 85%, of the expected new increase in electricity tariffs, with the coverage reaching 100% for vulnerable households, (ii) the reduction of excise duties on gasoline, diesel and on heating fuel and (iii) the application of a zero VAT rate on basic goods, like for example on bread, milk, eggs, baby foods, etc. From the beginning of 2024, the reduction of excise duties on gasoline-diesel-heating fuel was applicable until end-March 2024, where the subsidisation the subsidisation of the increase in electricity tariffs and the zero VAT rate on basic goods is still applicable and will be terminated by the end of June 2024. The total cost of the energy measures during 2024 is estimated at around 0.2% of GDP.

The efforts to decarbonize the Cypriot economy through the green strategy agenda of the EU, including the Fit-for-55 package, encompass the longer term energy policy agenda and this will be reflected in the updated Energy and Climate Plan that is underway. While combating the repercussions of climate change is at the forefront of the government's agenda, policy formulation should take into account the fiscal impact of the green transition and the socio-economic and re-distributive impacts. In this context, the government is also in the process of a tax reform, that will include a green tax reform, in order to improve the Long-term Strategic Development framework of Cyprus.

CHAPTER 2: ECONOMIC OUTLOOK

2.1 Macroeconomic Developments 2023

2.1.1 Global economy

According to the European Commission Winter Forecast 2024, the world economy (excluding the EU) is expected to expand by an estimated 3.5% in 2023, 3.3% in 2024 and 3.5% in 2025. Growth is mainly due to economic developments in China and the US, especially due to better than anticipated outturn in the US, with stronger than previously expected growth in 2023.

The pattern across countries varies depending on the fiscal and monetary mix and price developments, with growth in the UK, one of the most important trade partners of Cyprus outside the EU, estimated at 0.1% in 2023, after a growth rate of 4.3 percent in 2022 and despite entering into a technical recession in the last two quarters of 2023. Going forward, growth in the UK economy is expected to continue on a slow pace in 2024, and gain some momentum in 2025. The mix of a persistently high inflation, high interest rates and weaker wage growth is one of the main driving forces behind international economic developments, via the channel of domestic demand, along with a collapse in external demand and on the backdrop of disruptions in supply chains due to the events in the Red Sea. The ease of inflationary pressures going forward, following a decline in energy prices, is expected to drive economic growth going into 2024 and beyond.

Economic expansion in 2023 both in the EU and the euro area is estimated at 0.5%, which is 0.1 pps lower than in the 2023 Autumn Forecast of the European Commission. Going forward, GDP in EU is projected to grow by 0.9% in 2024 and 1.7% in 2025, revised down by 0.4 pps compared to the autumn forecast. In the euroarea, the economy is projected to grow by 0.8% in 2024 and 1.5% in 2025, also revised down by 0.4 pps compared to the 2023 Autumn Winter Forecast.

EU HICP inflation in the EU, according to Eurostat, was at 2.8% in February 2024 (annual rate of change), compared to a 3.1% in January 2024 and 3.4% in December 2023, continuing on a deceleration path since May 2025 when the average EU27 HICP inflation reached its peak at 7.1%. In the euroarea, average HICP inflation was at 2.6% (annual rate of change), after a peak of 6.1% in May 2025. Core inflation (inflation excluding energy and seasonal food), however, remains somewhat higher at 3.6% as an average of the EU27 in February 2.24 and 3.3% the euroarea. The fall of the inflation is attributed to the decrease in energy retail prices, where average energy inflation was at -3.2% in February 2024 in the EU27 and -3.7% in the euroarea.

According to the European Commission Winter Forecast 2024, EU HICP inflation is forecast to fall from 6.3% in 2023 to 3.0% in 2024 and 2.5% in 2025. In the euro area, it is projected to decelerate from 5.4% in 2023 to 2.7% in 2024 and to 2.2% in 2025.

2.1.2 Domestic economy

The Cypriot economy grew by 2.5% in real terms in 2023, recording thus a slowdown compared to 2022 when the respective growth rate was at 5.1%. The positive developments in the economy, despite the challenging external economic environment and the increased uncertainty due to the ongoing conflicts in Ukraine and the Middle East, demonstrate the resilience of the Cypriot economy to external shocks, on the backdrop of healthy financial indicators and the good performance of the economy, especially in the tourism and other services sectors. From the expenditure side, growth was mainly driven by private consumption, which grew by 4.2% and by a 19.5% growth in gross fixed capital formation, while government consumption recorded an increase of 1.6%. Private consumption in 2023 was supported by the decrease in inflation which boosted disposable incomes. Exports of goods and services decreased by 1.5%, mainly due to the effect on the exports of financial services of the sanctions against Russia. However, exports were supported by the tourist sector, where tourist arrivals amounted to 3.8 million compared to 3.2 million in 2022. The increase in tourist arrivals was accompanied by an increase in revenue from tourism by 22.6%. In par with private consumption, imports in real terms increased at a rate of 5.1%.

On the production side of GDP, value added increased in almost all sectors except in professional activities due to the effect of the sanctions (-3.0%) and a less pronounced decrease in financial and insurance activities (-1.1%). The sector with the largest contribution to growth was the "Accommodation and food service activities" with a growth of 13.1%, while the sectors of "Information and Communication" (growth of 5%), "Administrative services" (growth of 5.3%) and "Transport" (growth of 4.2%) continued to significantly support growth.

Outcomes in the labour market improved in the last year in par with the continued favourable economic conditions. This is reflected in an increase of 6,970 in the number of employed persons, which corresponds to an increase of 1.5% compared to 2022, while employment measured in hours worked increased by 1.7%. The number of registered unemployed persons fell compared to the previous year by 6.1% (12,720 persons in 2023 compared to 13,545 persons in 2022), and the unemployment rate in 2023, as measured by the Labour Force Survey, averaged at 6.1%, compared with 6.8% in 2022. Youth unemployment averaged at 16.9%, compared to 18.6% in 2022, while long-term unemployment averaged at 1.9%, compared to 2.3% in 2022. In the last year, the number of job vacancies increased by 21.2% compared to 2022 (12,417 vacancies in 2023 compared with 10,217 vacancies in 2022).

Inflation, as measured by the Harmonized Index of Consumer Prices (HICP), subsided significantly in 2023 and averaged at 3.9% in 2023 from a rate of 8.1% in 2022. The ease in inflationary pressures is driven by the developments in international oil prices and consequently retail energy prices, in conjunction with the effect of government measures taken in 2023, targeted to curb inflation especially in the food and energy sectors. For the period January-December 2023, compared to the corresponding period of the previous year, the largest changes were noted in "Food and Non-alcoholic beverages" (8%), "Hotels and Restaurants" (6.4%), "Housing, Water, Electricity, Gas and Other Fuels" (4.9%), while HICP decreased by 1.5% and 1.8% in "Transport" and "Communications" respectively.

According to the preliminary Balance of Payments data for 2023 published by the Cyprus Central Bank (CBC) in April 2024, the current account balance in 2023 was in a deficit of €3,607.2 million, compared to a deficit of €2,202.7 million in 2022, corresponding to 12.1% and 7.9% of the GDP respectively. The deterioration in the deficit resulted from the deterioration of the deficit in goods (driven mainly by the increase in imports and in less degree than the decrease in exports), the deficit of primary income and the deficit of secondary income. These developments were partly offset by the improved surplus in services.

Adjusted for the impact of Special Purpose Entities (SPEs), that is, classifying SPEs as non-Cypriot residents, the deficit stood at €3,434.2 million in 2023, compared with a deficit of €2,540.9 million in 2022, which corresponds to 11.5% and 9.2% of the GDP, respectively.

Cyprus' international investment position (IIP) recorded a deterioration in 2023, with a net liability position of €28,743.3 million, compared with a net liability position of €26,713.5 million in 2022.

Adjusting for SPEs Cyprus' IIP recorded a net liability position of €10,847.3 million in 2023, compared with a net liability position of €9,359.1million in 2022.

The gross external debt increased to €171,696.6 million in 2023 from €169,326.4 million in 2022. According to the CBC, the external assets in debt instruments increased to €154,615.2 million, up from €147,388.9 million in 2022. Consequently, the net external debt decreased by €4,857 million to €17,081.4 million in 2023, the CBC added.

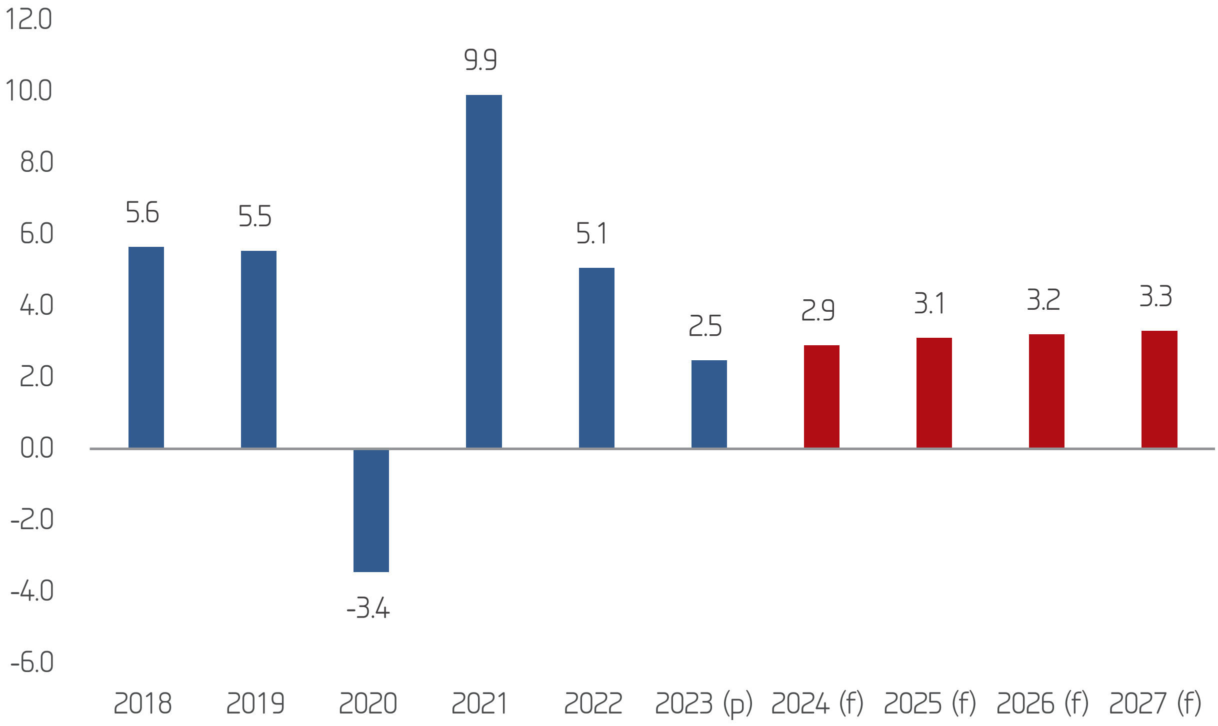
Adjusted for the impact of SPEs, gross external debt reached €58,448.5 million in 2023, compared to €58,444.7 million, in 2022 with the corresponding net external debt indicator decreased to -€15,141.3 million in 2023, compared with -€11,861.7 million in 2022.

2.2 Macroeconomic outlook 2024-2027

2.2.1 GDP prospects 2024-2027

The medium-term baseline scenario presented in this Stability Programme projects that the economy will turn to recovery trajectory again from 2024 onwards, following the slowdown with a rate of 2.5% in 2023. Real GDP growth is forecast at 2.9% in 2024, 3.1% in 2025, 3.2% in 2026 and 3.3% in 2027.

Figure 1: Real GDP growth, 2018-2027, annual % change



Source: CYSTAT and Ministry of Finance forecast 2024-2027

A high degree of uncertainty is surrounding this year's forecasting profile again due to the ongoing war between Russia and Ukraine, the US/UK sanctions imposed but also due to the conflict in the Middle East. There are economic consequences due to the US/UK sanctions imposed to professional services (accountants and lawyers) and consequences to the tourism sector due to Middle-East conflict. It appears though that tourism and investment have only been affected by a small extent from the outbreak of the conflict in the Middle East but the new conflict between Israel and Iran adds an extra degree of uncertainty to the growth outlook. Due to cut-off date of end of March 2024, this forecast does not include any potential impact from a possible new conflict between Iran and Israel.

Despite the slowdown in growth in 2023, the Cypriot economy exhibits continued strength and resilience even with the new external shock deriving from the conflict in the Middle East that year. Growth in 2024 will be supported by domestic demand. Investment will be reinforced by the implementation of a significant number of projects included in the pipeline (in the sectors of tourism, transport, energy, health and education) supported also by the RRF projects which will have an impact on growth during the period 2023-2026, but mainly in 2024-2025.

Private consumption is expected to follow a decelerating path in 2024, but it is projected to remain the main GDP growth driver along with government consumption. Gross fixed capital formation, following the significant increase by 19.5% in 2023, which was affected by transport equipment (a vessel), it is expected to grow by around 3% (non-residential private sector investments) and support the GDP growth in 2024.

Net exports in 2024 will contribute negatively to growth, due to the effects, albeit small, from the ongoing Russian-Ukrainian war on the turnover of professional services (accountants and lawyers) and also due to the expected loss of tourists from Israel. Thus, exports are expected to have a marginal growth in 2024 while imports are expected to increase in line with private consumption and GFCF.

Regarding the ICT sector, which presented a significant increase in recent years, it will continue supporting growth through the expansion in turnover of foreign owned companies in the technology sector mainly that have established in Cyprus in recent years.

The economy performed slightly better than projected in 2023 (by 2.5%), but close to the Ministry of Finance's forecast of 2.4% as included in the previous forecast. Thus, the growth forecast for 2024 has not been revised and remains unchanged at 2.9% similar to the projection included in the DBP 2024 (October 2023).

In the medium-term period 2025-2027, growth is forecast to accelerate further and remain robust. The expected improvement in the growth pace is driven by domestic demand (due to higher real disposable income and continued resilience in the labour market). External demand will contribute positively to GDP since 2025, due to the expected recovery in tourism and non-tourism exports of services (export of ICT, shipping and business services). These are made under the assumption of the normalization of the conflict in the Middle East and additionally to the diversification of tourism and non-tourism services exports towards other markets.

Real consumption, following the very strong growth over the period 2021-23, partly due to a recovery in the real private consumption after COVID and lockdowns, is expected to decelerate to around 2% per year in 2025-2027. The deceleration in private consumption is in line with a gradual upswing in the saving ratio. Despite the deceleration in the private consumption path, it remains an important growth driver during the whole forecast horizon.

Gross fixed capital formation will present an acceleration in 2025 and then hover close to 5% and it will be supported by the significant and ongoing investment projects that are in the pipeline, which are widespread among districts and sectors like health, education, tourism, shipping and energy. Also, the RRP projects will continue to contribute significantly to the investment outlook.

The decelerating effects in 2024 in net exports, and thus, the negative contribution, are expected to weaken in the medium-term and support growth again, due to diversification of the markets for the provision of tourist and professional services. Business services exports are expected to normalize in 2024, in line with the normalization in the sector. The expected decrease in tourist arrivals and per capita spending from Israel in 2024 will be partially offset by increased arrivals from other countries, such as high spending countries, like the Scandinavian countries, Switzerland and France. Tourism is expected to continue improving in 2025-2027 but at a slower pace since it reached its pre-crisis levels.

Real GDP growth is forecast to accelerate further to about 3.1% in 2025, 3.2% in 2026 and 3.3% in 2027.

From a sectoral perspective, growth is expected to be broad based and it is not expected to denote any negative growth in any sector. The sectors that are expected to contribute the most to growth over the period 2024-2027 include mainly those related to trade and tourist activities. Other growth drivers, but to a lesser extent, include information and communication activities (since the increase in the turnover of the ICT companies that were set up in Cyprus in previous years but to lower rates than recorded in 2021-2022), the construction sector (non-residential private sector investment due to the large and multi-year infrastructure projects in the pipeline and additionally, by the RRF financed projects) and lastly by the manufacturing sector (export-oriented pharmaceutical industry) as well.

Following 2023, in which only two sectors recorded a small negative growth, the financial and insurance activities and other business services (due to the US/UK sanctions imposed against Russia), in 2024, and is expected and over the period 2025-2027 a slight positive contribution is envisaged.

Inflation, as measured by the CPI, is estimated to decrease further compared with 2023 to 2.5% in 2024 and then fluctuate to 2.0% in the years 2025-2027. The further decline of inflation is expected from the projected continued weakening of inflationary pressures shaped in previous years by exogenous and mainly supply-side factors as well as due to the impact of the ECB single monetary policy which continues to have a repressive effect. Additionally, lower energy prices, the expected normalization in firms' profit margins and restrained wage increases are an additional factor for the growth slowdown in 2024-2027.

The current account (CA) deficit has remained high in recent years, mostly due to the deficit denoted in the income account. In 2020, due to the COVID crisis, the deficit increased significantly to 10.0% of GDP falling again in 2021 to 6.1% of GDP, following the recovery of the economy, and increased to 7.9% of GDP in 2022. In 2023, it increased significantly at 12.1% of GDP due to the deterioration of the deficits of Goods and those of Primary and Secondary Incomes.

The deterioration in primary income account in recent years is related to the expansion of services exports (especially ICT-related exports) due to the profits of the foreign companies that have established on the island which are accounted for as outflows.

Nonetheless, the recent increase in the CA deficit is partly due to circumstantial reasons, which are expected to reverse in the medium-term or to decline significantly, but also due to the change in the structure of the balance of services which leads to an increase in the deficit. At the same time, it is accompanied with FDI, which is the best possible form of financing that supports the sustainability of the CAs.

The further growth prospects of the sectors of ICT, tourism, financial services and transport will continue improving the services balance in the medium-term, while in the long-term the exploitation of hydrocarbons and renewable energy sources are expected to significantly improve the goods balance. Additionally, attracting high value-added investment from inward FDI ensures the financing of the Current Account deficit and lays the foundation for the sustainable growth of the economy.

Over the medium-term, the deficit is expected to gradually improve, but remain though at relatively high levels, as long as the goods and services balances are expected to improve, and thus, the trade balance, which is expected to gradually improve too. The income balance is also expected to gradually improve over time as mentioned above.

Although the current account balance will decrease over time, it will still remain above the threshold set by the European Commission of -4/+6%.

Labour market

The labor market continues supporting the Cyprus economy. Unemployment is expected to fall to 5.8% of the labor force in 2024 from 6.1% in 2023 with employment envisaged to increase by 1.0%.

The baseline macroeconomic scenario projects that the labour market will continue to be resilient and record further improvements in the medium-term. Job creation, employment and thus, unemployment are set to continue improving further over the period 2024-2027.

From 2025 onwards, employment is projected to grow at a rate of around 1.3% on average. At the same time, the average annual unemployment rate is envisaged to pursue a downward path. In line with expected GDP growth, unemployment is expected to decline further to 5.5% in 2025, 5.3% in 2026 and 5.1% in 2027, near its natural rate of unemployment, thus ensuring macroeconomic stability.

Wages

Wage growth, as reflected in the compensation per employee, following the increase by 5.6% in 2023 is expected to increase significantly in 2024 by 6.9% in nominal terms. This increase is inter alia, due to the social insurance contributions increases in 2024. Afterwards, wages are expected to record moderate growth rates following the prices deceleration.

Productivity and ULC

Labour productivity increased significantly in 2021 by 6.6% due to the impact of the pandemic, the lockdowns and the government measures to secure the labour force and thus, productivity decelerated to 2.0% in 2022 and 1.0% in 2023. The GDP growth rate slowdown of 2.5% in 2023 was reflected in the slower increase in hours worked by 1.7% compared with 4.1% in 2022. In 2024-2027, productivity is projected to return to more normal rates by increasing to 1.9%, signalling a moderate improvement and returning to more steady levels.

Nominal Unit Labour Cost (NULC) is forecast to follow a similar path to compensation per employee. In 2023 NULC increased by 4.6% following a decrease of 0.9% in 2022. NULC is forecast to exhibit a significant increase in 2024 due to wages growth by 6.9% in 2024 and then, decelerate to 1.6% and 1.3% and 0.2% in 2025-2027 respectively.

Real Unit Labour Cost (RULC) growth in 2023 was positive by 1.1%. In 2024 it is estimated to hover around 2.4%. Over the forecasting horizon 2025-2027, it is envisaged that RULC will pursue a negative pace of -0.4%, - 0.7% and -1.8%, whereby price inflation is expected above productivity fluctuation.

2.2.2 Risks to economic outlook

The risks associated with the forecasts presented in this update of the Stability Programme are tilted mostly to the downside, given the highly uncertain external economic environment.

More specifically, the ongoing conflict in the Middle East and a potential escalation, could lead to a negative deviation from the basic macroeconomic scenario presented in this Stability Programme, mainly through its effect on tourism and investments. Additionally, the ongoing conflict between Russia and Ukraine that does not show signs of significant de-escalation which poses risks via the channel of further sanctions that would adversely impact the services sector.

Moreover, considering the high sensitivity of Cyprus to the price of oil and its impact on the cost of electricity production in the country, the geopolitical unrest around the Middle East region and the Ukraine poses the threat of a renewed round of oil price hikes. An increase in the cost of electricity is transmitted to the final products' price, thus suppressing disposable incomes and, hence, consumption. Private consumption and investment can also be adversely affected by tighter than expected financing conditions.

Banking sector developments are still regarded as a source of downside risk due to the percentage of non-performing loans (NPLs), although the risk can be characterised as moderate to low, taking into consideration the ongoing efforts towards effectively reducing the level of NPLs, the expected reductions in interest rates and the strong capital position and ample liquidity of the Cyprus banking system.

Lastly, the baseline scenario does not yet incorporate any climate-related risks into assessments of financial stability, debt sustainability and the economy.

On the upside, the output growth forecasts presented in the Stability Programme, can positively deviate from the baseline scenario from a better than expected investment implementation, including through the RRP.

CHAPTER 3: GENERAL GOVERNMENT BALANCE AND DEBT

3.1 Policy Strategy

The overall objective of the fiscal policy strategy outlined in this Stability Programme is to support economic growth, while maintaining fiscal sustainability through a sound fiscal position in the medium term and reducing public debt as a percentage of GDP in a sustainable manner. The focus of the government strategy is driven by the implementation of the National Reform and Resilience Programme (RRP), which encompasses the main national policies for sustainable growth and competitiveness enhancement.

In 2023 the fiscal position improved further, despite the impact of the Energy-related measures of about -0.6% of GDP on the accounts of the general government, with the budget balance reaching a surplus of 3.1% of GDP, corresponding to a further improvement on the fiscal position of 0.4 percentage points of GDP compared to the surplus during 2022 of 2.7% of GDP. At the same time, the debt-to-GDP ratio declined further in 2023 by 8.2 percentage points of GDP, falling to 77.4% from 85.6% in 2022, below its pre-Adjustment Programme levels.

The increase in energy prices at this particular juncture poses a significant challenge for economic policy makers. The impact of these measures taken to alleviate the negative impact on households and companies on the accounts of the general government stood at around 0.6% of GDP during 2022 and 2023, respectively. From the beginning of 2024, the reduction of excise duties on gasoline-diesel-heating fuel was applicable until end-March 2024, where the subsidisation of the increase in electricity tariffs and the zero VAT rate on basic goods still applies and will be terminated by the end of June 2024. The total cost of the energy measures during 2024 is estimated at around 0.2% of GDP.

3.2 General Government Balance 2023

The budget balance during 2023 improved significantly, from a surplus of 2.7% of GDP in 2022 to a surplus of 3.1% of GDP. The improvement in the fiscal position of 0.4 pp. of GDP during the year under review is mainly attributed to the increases, which were recorded in most revenue categories, reflecting the continued improvements in the economy. In nominal terms, the budget balance of the general government reached €919 million in 2023 compared to €758 million the year before. Primary balance increased to €1,349 million (4.7% of GDP) in 2023 from €1,166 million in 2022 (4.5% of GDP).

Revenue

In 2023, total revenue as a percentage of GDP recorded an increase of 1.9 percentage points from 41.5% in 2022 to 43.4%. In value terms, total revenue increased significantly by 11.9% compared to 2022, from €11,539.8 million in 2022 to €12,913.8 million in 2023, with almost all revenue categories recording an increase compared to the year before.

Tax revenue increased by 10.7% during 2023, from €6,958.2 million (25.1% of GDP) in 2022 to €7,702 million (25.9% of GDP). Receipts from taxes on production and imports had the highest contribution to the growth of tax revenue, of about 5.8 percentage points, which recorded an increase of 10% in value terms, from €4,033.5 million in 2022 to €4,437.1 million in 2023, benefited from high inflation rates and increased consumption.

Revenue from taxes on income and wealth increased by 11.7%, from €2,924.2 million in 2022 to €3,264.9 million in 2023, reflecting the further improved performance of businesses as well as the sustained employment growth. As a percentage of GDP, current taxes on income and wealth increased by 0.5 percentage points during 2023, from 10.5% in 2022 to 11%.

Revenue from social security contributions increased by 14.5% during 2023, from €3,122 million in 2022 to €3,573.7 million, contributing the most to the increase of public revenue by 3.9 pp. attributed to the improved labour market conditions and consequently to the increased contributions of the SSF and in the context of the NHS. As a percent of GDP, revenue from social security contributions increased from 11.2% in 2022 to 12% in 2023.

Property income as a percent of GDP increased to 0.5% in 2023 from 0.4% in 2022, and finally, category 'other revenue' reached 5.1% from 4.8% of GDP in 2022, reflecting the continued pick-up in the rate of absorption from the EU's Structural and Cohesion Funds.

Expenditure

Total expenditure in 2023 as a percentage of GDP, exhibited an increase of 1.5 percentage points, from 38.8% of GDP in 2022 to 40.3% of GDP in 2023. In value terms, public expenditure increased by 11.3%, from €10,781.8 million in 2022 to €11,995.1 million in 2022.

Compensation of employees increased significantly by 12.8%, from €3,179.2 million in 2022 to €3,587.2 million in 2023, contributing the most to the growth of public expenditure by 3.8 percentage points. This was mainly the outcome of the increased COLA adjustment (+5.3 pp.) taking into account (i) the high inflation rate during 2022 and (ii) the increased inflation incorporation to the index for COLA calculation purposes, from 50% to 66.7% as of 1st June 2023, the termination of the wage cuts as of 1st January 2023 (+2.3 pp.), the increased expenditure for pensions and gratuities (+1.8 pp.), and increments (approximately +1 pp.). As a percentage to GDP, compensation of employees recorded an increase of 0.7 percentage points, from 11.4% in 2022 to 12.1% of GDP in 2023.

Intermediate consumption recorded a negative rate of growth of 3.5%, falling from €1,240.6 million in 2022 to €1,197 million in 2023. As a percentage of GDP, intermediate consumption decreased by 0.5 percentage points, falling to 4% in 2023 from 4.5% the year before.

Social payments increased at a rate of 7.6% during 2023, reaching €4,532.6 million from €4,211.7 million in 2022, contributing significantly to the growth of public expenditure by 3 percentage points. This outcome was attributed both to the increased expenditure in the context of the NHS as well as to the expenditure for old-age pensions (contribution 3.5 pp. and 1.9 pp., respectively). As a percentage of GDP, social payments remained at 15.2% as in the year before.

Expenditure category subsidies recorded an increase of 17.4%, from €139.3 million in 2022 to €163.6 million in 2023, mainly due to the subsidisation of the electricity bills of consumers, in the context of the package of the Energy related measures. As a percentage of GDP, subsidies remained at 0.5% as in the year before.

Interest expenditure reached €429.8 million in 2023 from €407.8 million in 2022, recording an increase of 4.3%. As a percentage of GDP, interest expenditure declined marginally from 1.5% in 2022 to 1.4% of GDP in 2023.

Finally, category 'other expenditure' recorded an increase of 11.3% in 2023, from €889.9 million in 2022 to €990.4 million in 2023, increasing as a percentage of GDP at 3.3% from 3.2% the year before.

3.3 Budget 2024

The budget balance is expected to remain in surplus during 2024, driven mainly by the expected economic performance during the year, taking also into account the increase of the contribution rates in the context of the Social Security Fund as from 1st January 2024. As a percent of GDP, general government budget balance is forecast to decline by about 0.3 percentage points compared to 2023 and reach 2.9%, where the primary balance estimated to reach 4.3 as a percent of GDP compared to 4.5 in the year before.

Revenue

In accordance with the baseline macroeconomic scenario, total revenue during 2024 is anticipated to record a positive rate of growth of the order of 9.2% compared to 2023, estimated to increase as a percentage to GDP by 1.4 percentage points, from 43.4% the year before to about 44.8% of GDP.

Tax revenue in 2024 is expected to exhibit a rate of growth of about 5.3% compared to 2023, though to record a marginal decline as a percentage of GDP at 25.8% compared to 25.9% in the year before. The forecasted increase of tax revenue in value terms, is mainly attributed to the expected growth in revenue from taxes on production and imports, which is forecast to exhibit an y-o-y increase of 5.1%, driven mainly from the anticipated increase in private consumption. As a percent of GDP, revenue from taxes on production and imports is expected to fall marginally at 14.8% compared to 14.9% as in the year before. Revenue from taxes on income and wealth as a percent of GDP is expected to remain at 11% as in the year before and to record a y-o-y increase of 5.7% in nominal terms.

Revenue from social security contributions is forecast to exhibit an increase of about 16.7% in 2024, driven mainly from the increase in the contribution rates in the context of the Social Security Fund as from 1st January 2024, as well as due to the expected increase in nominal earnings. As a percent of GDP, revenue from social security contributions is expected to increase by 1.2 percentage points in 2024, reaching 13.2% from 12% of GDP in 2023.

Revenue from property income in value terms is forecast to decrease by 14.2% as a percent of GDP marginally to decline to 0.4% in 2024 from 0.5% in 2023.

Finally, category "other revenue" is expected to record an increase of about 13.3% stemming mainly from the expected increase of grants to be received in the context of the RRF. As a percent of GDP, category "other revenue" is expected to increase to 5.4% in 2024 from 5.1% in the year before.

Expenditure

Total expenditure is expected to exhibit an increase of 10.1% and to reach 41.9% of GDP from 40.1% in 2023.

In more detail, compensation of employees is forecast to exhibit a significant increase of 13.2% in 2024 compared to the year before, contributing the most to the growth of public expenditure by 4 percentage points. This y-o-y increase is expected to be brought mainly by the contribution of the government in the context of the new pensions scheme for public servants hired after 2011 (+3.6 pp.), to the provision of Cost-of-Living Adjustment (+3 pp.), to the increased contribution of the government as an employer in the context of the SSF (+0.9 pp.), as well as to annual increments (+1 pp.). As a percent of GDP, compensation of employees is forecast to increase at 12.9 percent of GDP from 12.1 percent of GDP the year before.

Intermediate consumption is forecast to record an increase of 4.3% during 2024 and a percent of GDP to remain at 4% of GDP as in the year before.

Social payments are expected to increase by 9.6% in 2024, contributing to the growth of public expenditure by 3.6 percentage point. This increase is mainly attributed to the expected increased payments for old-age pensions, higher expenditure of the HIO to public health providers, as well as to the increased SSF contribution of the government as a third party. As a percent of GDP, this expenditure category is expected to increase by 0.6 percentage points, from 15.2% in 2023 to 15.8% in 2024.

Interest expenditure is forecast to record an increase of 2.2% in 2024 and to remain at 1.4 as a percentage of GDP an in 2023.

Gross fixed capital formation as a percent of GDP is forecast to exhibit an increase of 0.1 percentage point, and to reach 3.6% from 3.5% of GDP in 2023. The y-o-y increase of 10.1% in this expenditure category, in value terms, is mainly attributed to the impact of the RRP.

Finally, category 'other expenditure' is estimated to reach 3.8% of GPD during 2024 from 3.5% of GDP the year before and to increase in value terms by 15.4%.

3.4 Medium-Term Budget Balance 2025-2027

In 2025 it is forecast that the fiscal position will remain positive with the budget balance reaching 3.8% of GDP and to slightly deteriorate over the period 2026-2027 at around 2.4% of GDP, on average.

Total revenue in nominal terms is projected to record a y-o-y growth of 5.6% in 2025 and then grow further by 4.5% in 2026. In 2027, total revenue in nominal terms is expected to decline by 0.4% as a result of the RRP treatment. As a percent of GDP, total revenue is forecast to remain at 44.8% in 2025, as in the year before, and then drop at 44.5% and 42.1% in 2026 and 2027, respectively.

On the expenditure side, it is forecast that public spending will increase by 5.8% in 2025 compared to the year before, and then exhibit y-o-y increases of 4.9% and 0.5% in 2026 and 2027, respectively. As a percent of GDP, total expenditure is forecast to reach 42% in 2025 from 40.9% in 2024, and then fall at 41.8% of GDP in 2026 and further to 40% of GDP in 2027, according to the RRP projected path.

Finally, public debt is estimated to decrease further by 5.1 percentage points of GDP, declining to 65.5% of GDP at end-2025 compared to 70.6% of GDP at the end of the year before, and continue its downward trend during 2026 and 2027, falling to 59.2% and 54.6% of GDP, respectively.

APPENDIX: STABILITY TABLES

Table 1a. Macroeconomic prospects

		2023	2023	2024	2025	2026	2027
		€ million	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	25,697.9	2.5	2.9	3.1	3.2	3.3
2. Nominal GDP	B1*g	29,757.1	7.1	5.8	5.5	5.4	5.2
3. Private consumption expenditure	P.3	15,912.5	4.2	2.3	2.1	2.0	2.0
4. Government consumption expenditure	P.3	4,707.1	1.6	8.6	2.9	3.1	0.4
5. Gross fixed capital formation	P.51	5,984.0	19.5	3.1	5.4	4.8	4.8
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	847.5	2.0	0.0	0.0	0.0	0.0
7. Exports of goods and services	P.6	23,421.5	-1.5	0.2	2.0	2.3	2.8
8. Imports of goods and services	P.7	25,318.2	5.1	0.8	1.8	1.8	1.7
Contributions to real GDP growth							
9. Final domestic demand		26,603.6	6.8	3.7	3.1	2.9	2.4
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	847.5	2.0	0.0	0.0	0.0	0.0
11. External balance of goods and services	B.11	-1,896.7	-6.3	-0.5	0.0	0.3	0.8

Notes
(1) The chain-linking method, is not applicable to the variable "changes in inventories (incl. valuables)", since negative values are observed for certain years. This method is followed by all Member States and Eurostat. For completeness purposes of this table, the difference between Total Investment and Gross Fixed Capital Formation is used.
(2) The volume measures (reference year 2010) is the result of the chain-linking method, as well as the application of the non-additivity approach, as required by Eurostat so the total GDP is not the same as the sum of its components. This applies for 2021 while for the forecasted years, total GDP is the sum of its components. So for 2022, the sum of the component's contribution to growth is not the same as total GDP growth due to the non-additivity in 2021.

Table 1b. Price developments

	2023	2023	2024	2025	2026	2027
	level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator	115.8	4.6	2.8	2.3	2.1	1.9
2. Private consumption deflator	112.2	3.2	2.2	2.0	2.0	2.0
3. HICP[1] [2015=100]	114.5	3.9	2.5	2.0	2.0	2.0
4. Public consumption deflator	119.9	8.3	2.6	2.2	1.9	1.1
5. Investment deflator (GFCF)	116.7	2.8	2.3	2.0	1.9	1.8
6. Export price deflator (goods and services)	113.4	2.1	2.3	2.1	2.0	2.0
7. Import price deflator (goods and services)	107.3	-1.8	2.1	1.9	1.9	1.9

Table 1c. Labour market developments

	ESA Code	2023 level	2023 rate of change	2024 rate of change	2025 rate of change	2026 rate of change	2027 rate of change
1. Employment. persons (thousands)[1]		474.2	1.5	1.0	1.2	1.3	1.3
2. Employment. hours worked[2] (thousands)		868,231.0	1.7	1.2	1.3	1.4	1.4
3. Unemployment rate (%)[3]		30.1	6.1	5.8	5.5	5.3	5.1
4. Labour productivity. persons[4]		54,187.2	1.0	1.9	1.9	1.9	1.9
5. Labour productivity. hours worked[5]		29.6	0.7	1.7	1.8	1.8	1.8
6. Compensation of employees (€ million)	D.1	12,233.8	7.4	8.0	4.7	4.5	3.4
7. Compensation per employee (in €)		28,854.2	5.6	6.9	3.5	3.2	2.1

[1] Persons with occupation. 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

% of GDP	ESA Code	2023	2024	2025	2026	2027
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-12.1	-11.8	-10.3	-8.9	-7.3
of which:						
- Balance on goods and services		-0.9	-2.2	-1.9	-1.4	-0.4
- Balance of primary incomes and transfers		-11.2	-9.6	-8.5	-7.7	-7.0
2. Net lending/borrowing of the private sector	B.9	-2.2	-14.7	-13.1	-11.6	-9.4
3. Net lending/borrowing of general government	EDP B.9	3.1	2.9	2.8	2.6	2.1
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 2a: General government budgetary prospects

	ESA Code	2023	2023	2024	2025	2026	2027
Net lending (EDP B.9) by sub-sector		€mn	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. General government	S.13	918.7	3.1	2.9	2.8	2.6	2.1
2. Central government	S.1311	-177.0	-0.6	-2.1	-2.4	-3.0	-3.4
3. State government	S.1312	M	M	M	M	M	M
4. Local government	S.1313	-40.2	-0.1	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	1,135.9	3.8	5.0	5.3	5.6	5.6
General government (S13)							
6. Total revenue	TR	12,913.8	43.4	44.8	44.8	44.5	42.1
7. Total expenditure	TE1	11,995.1	40.3	41.9	42.0	41.8	40.0
8. Net lending/borrowing	EDP B.9	918.7	3.1	2.9	2.8	2.6	2.1
9. Interest expenditure	EDP D.41	429.8	1.4	1.4	1.5	1.4	1.3
10. Primary balance[2]		1,348.5	4.5	4.3	4.3	4.0	3.4
11. One-off and other temporary measures[3]		0.0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)		7,702.0	25.9	25.8	25.7	25.6	25.4
12a. Taxes on production and imports	D.2	4,437.1	14.9	14.8	14.8	14.6	14.5
12b. Current taxes on income. wealth. etc	D.5	3,264.9	11.0	11.0	10.9	10.9	10.9
12c. Capital taxes	D.91	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D.61	3,573.7	12.0	13.2	13.1	12.9	12.7
14. Property income	D.4	134.1	0.5	0.4	0.3	0.3	0.3
15. Other[4]		1,504.0	5.1	5.4	5.7	5.6	3.7
16=6. Total revenue	TR	12,913.8	43.4	44.8	44.8	44.5	42.1
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[5]		11,275.7	37.9	39.0	38.8	38.5	38.1
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	4,784.2	16.1	16.9	16.8	16.7	16.1
17a. Compensation of employees	D.1	3,587.2	12.1	12.9	12.8	12.8	12.4
17b. Intermediate consumption	P.2	1,197.0	4.0	4.0	3.9	3.9	3.8
18. Social payments (18=18a+18b)		4,532.6	15.2	15.8	16.0	16.2	16.2
of which Unemployment benefits[6]		67.0	0.2	0.2	0.2	0.2	0.2
18a. Social transfers in kind supplied via market producers	D.6311. D.63121. D.63131	1,021.8	3.4	3.6	3.6	3.6	3.6
18b. Social transfers other than in kind	D.62	3,510.8	11.8	12.2	12.4	12.6	12.6
19=9. Interest expenditure	EDP D.41	429.8	1.4	1.4	1.5	1.4	1.3
20. Subsidies	D.3	163.6	0.5	0.4	0.3	0.2	0.2
21. Gross fixed capital formation	P.51	1,043.0	3.5	3.6	3.6	3.7	2.9
22. Other[6]		1,041.9	3.5	3.8	3.9	3.7	3.2
23=7. Total expenditure	TE[1]	11,995.1	40.3	41.9	42.0	41.8	40.0
p.m.: Government consumption (nominal)	P.3	5,707.9	19.2	20.1	20.0	20.0	19.3

1. TR-TE=B.9.
2. The primary balance is calculated as B.9 (item 4) plus D.41 (item 5).
3. A plus sign means deficit-reducing one-off measures.
4. P.11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91).
5. Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995). if appropriate.
6. 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.
7. D.29pay+D4pay (other than D.41pay) + D.5pay+D.7pay+P.52+P.53+NP+D.8.

Table 2b. No policy-change projections

	2023	2023	2024	2025	2026	2027
	Level (€mn)	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Total revenue at unchanged policies	13,049.9	43.9	44.3	44.1	43.5	41.1
2. Total expenditure at unchanged policies	11,746.2	39.5	40.6	40.6	40.2	38.1

Table 2c. Amounts to be excluded from benchmark

	2023	2023	2024	2025	2026	2027
	Level (€mn)	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	114.0	0.4	0.6	0.6	0.7	0.5
2. Cyclical unemployment benefit expenditure	-12.9	0.0	0.0	0.0	0.0	0.0
3. Effect of discretionary revenue measures	-136.1	-0.5	0.5	0.8	0.9	1.0
4. Revenue increases mandated by law	-	-	-	-	-	-

Table 3. General Government expenditure by function

% of GDP	COFOG Code	2022	2027
1. General public services	1	6.1	6.1
2. Defence	2	1.6	1.6
3. Public order and safety	3	1.6	1.6
4. Economic affairs	4	3.0	3.0
5. Environmental protection	5	0.7	1.0
6. Housing and community amenities	6	2.0	1.9
7. Health	7	6.2	7.3
8. Recreation, culture and religion	8	0.7	0.9
9. Education	9	5.1	4.8
10. Social protection	10	11.8	11.8
11. Total expenditure (=item 3=22 in Table 2a)	TE	38.8	40.0

Table 4. General government debt developments

% of GDP	ESA Code	2023	2024	2025	2026	2027
1. Gross debt		77.4	70.6	65.5	59.2	54.6
2. Change in gross debt ratio		-21.8	-6.8	-5.1	-6.3	-4.6
Contributions to changes in gross debt						
3. Primary balance	B.9+D.41	4.5	4.3	4.3	4.0	3.4
4. Interest expenditure	D.41	1.4	1.4	1.5	1.4	1.3
5. Stock-flow adjustment		-5.1	-3.9	-2.3	-3.7	-2.5
of which:						
- Differences between cash and accruals		0.5	0.3	0.8	1.0	-0.1
- Net accumulation of financial assets		0.1	0.0	0.5	-1.3	0.5
p.m.: Implicit interest rate on debt						
6. Liquid financial assets		29.6	28.0	27.1	24.4	23.7
7. Net financial debt (7=1-6)		47.8	42.5	38.4	34.8	30.8

Table 5. Cyclical Developments

% of GDP	ESA Code	2023	2024	2025	2026	2027
1. Real GDP growth (%)		2.5	2.9	3.1	3.2	3.3
2. Net lending of general government	B.9	3.1	2.9	2.8	2.6	2.1
3. Interest expenditure	D.41	1.4	1.4	1.5	1.4	1.3
4. One-off and other temporary measures[1]		0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)		4.4	3.6	3.4	3.3	3.3
contributions:						
- labour		1.4	1.0	0.9	0.9	0.9
- capital		1.7	1.6	1.7	1.7	1.7
- total factor productivity		1.3	1.0	0.8	0.7	0.7
6. Output gap		1.4	0.7	0.4	0.3	0.3
7. Cyclical budgetary component		0.7	0.3	0.2	0.1	0.2
8. Cyclically-adjusted balance (2-7)		2.4	2.5	2.6	2.5	2.0
9. Cyclically-adjusted primary balance (8+3)		3.8	3.9	4.1	3.8	3.3
10. Structural balance (8-4)		2.4	2.5	2.6	2.5	2.0

[1] A plus sign means deficit-reducing one-off measures

Table 6. Divergence from previous update

	ESA Code	2023	2024	2025	2026	2027
Real GDP growth (%)						
Previous update		2.4	2.9	3.1	3.2	n.a.
Current update		2.5	2.9	3.1	3.2	3.3
Difference		0.1	0.0	0.0	0.0	n.a.
General government net lending (% of GDP)	B.9					
Previous update		2.5	2.8	2.8	2.6	n.a.
Current update		3.1	2.9	2.8	2.6	2.1
Difference		0.6	0.1	0.0	0.0	n.a.
General government gross debt (% of GDP)						
Previous update		81.8	74.7	69.5	63.0	n.a.
Current update		77.4	70.6	65.5	59.2	54.6
Difference		-4.4	-4.1	-4.0	-3.8	n.a.

Table 7. Long-term sustainability of public finances

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	37.8	41.7	44.2	39.9	41.3	41.6	42.8
Of which: age-related expenditures	15.1	17.8	21.7	22.7	24.1	24.4	25.6
Pension expenditure	6.0	6.8	8.9	9.3	10.4	11.0	12.0
Social security pension	4.0	4.7	6.6	7.9	9.2	10.4	11.8
Old-age and early pensions	2.9	3.6	5.3	7.6	8.9	10.2	11.6
Other pensions (disability, survivors)	1.1	1.2	1.2	0.3	0.3	0.2	0.2
Occupational pensions (if in general government)[1]	2.0	2.1	2.3	1.4	1.2	0.6	0.2
Health care	2.6	3.0	5.9	7.6	7.9	8.1	8.2
Long-term care	0.2	0.2	0.3	0.2	0.2	0.3	0.3
Education expenditure[2]	5.6	6.5	5.7	4.9	4.9	4.4	4.4
Other age-related expenditures	0.8	1.3	0.9	0.7	0.7	0.7	0.7
Interest expenditure[3]	...	...	...	...	...	...	...
Total revenue	41.0	37.0	38.5	42.4	43.4	43.4	43.4
Of which: property income	0.6	1.4	0.5	0.3	0.3	0.3	0.3
Of which: from pensions contributions (or social contributions if appropriate)	5.8	6.8	7.9	9.0	10.0	10.0	10.0
Pension reserve fund assets	32.7	35.9	36.5	42.7	55.9	61.4	54.6
Of which: consolidated public pension fund assets (assets other than government liabilities)	...	...	...	...	...	...	...
Systemic pension reforms	...	...	...	...	...	...	...
Social contributions diverted to mandatory private scheme	...	...	....	...	...	...	...
Pension expenditure paid by mandatory private scheme	...	...	...	...	...	...	...
Assumptions							
Labour productivity growth	-0.9	1.8	3.1	1.8	1.8	1.5	1.4
Real GDP growth	5.1	2.3	-3.4	1.6	1.9	1.5	1.1
Participation rate males (aged 20-64)	82.9	80.4	82.3	88.9	89.1	88.6	89.6
Participation rates females (aged 20-64)	65.4	67.4	69.7	79.4	79.9	79.8	81.2
Total participation rates (aged 20-64)	73.9	73.6	75.8	84.0	84.3	84.2	85.4
Unemployment rate (15+)	3.9	6.3	7.6	7.8	7.3	6.3	6.2
Population aged 65+ over total population	12.4	12.7	16.4	19.1	21.5	24.1	27.8

[1] Occupational Pension expenditure projection results are extracted from an expert actuarial study and also take into account the lump-sum.
[2] National estimates based on EPC-AWG projection methodology and assumptions.
[3] Possible interest rate effects were not taken into account.

Table 7a. Contingent liabilities

% of GDP	2023	2024
Public guarantees	4.4	4.2
Of which: linked to the financial sector	1.4	1.3

Table 8. Basic assumptions

	2023	2024	2025	2026	2027
EA: Short-term interest rate (3-months money markets)	3.4	3.2	2.2	...	...
EA: Long-term interest rate (10-year government bonds, Germany)	2.4	2.3	2.3	...	...
USD/€ exchange rate (annual average)	1.08	1.09	1.09	1.09	1.09
Nominal effective exchange rate of the EU (% change)	5.8	1.5	0.0	...	...
World growth excluding EU (in PPP terms)					
EU 28 GDP growth	3.5	3.3	3.5	...	...
Growth of relevant foreign markets [UK]	0.4	0.9	1.7	2.0	1.8
World import volumes. excluding EU	0.1	0.6	1.6	2.1	1.8
Oil prices (Brent. USD/barrel)	0.2	3.5	3.7	...	...

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

% of GDP	2023	2024	2025	2026	2027
Revenue from RRF grants					
1. RRF GRANTS as included in the revenue projections	0.4	0.7	0.9	0.9	-
2. Cash disbursements of RRF GRANTS from EU	0.0	0.8	0.8	0.7	0.1
Expenditure financed by RRF grants					
3. TOTAL CURRENT EXPENDITURE	0.1	0.2	0.2	0.2	-
4. TOTAL CAPITAL EXPENDITURE	0.2	0.5	0.6	0.7	-
of which:					
- Gross fixed capital formation	0.1	0.3	0.3	0.3	-
- Capital transfers	0.1	0.3	0.4	0.3	-
Other costs financed by RRF grants					
5. Reduction in tax revenue	0.0	0.0	0.0	0.0	-
6. Other costs with impact on revenue	0.0	0.0	0.0	0.0	-
7. Financial transactions	0.0	0.0	0.0	0.0	-

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

% of GDP	2023	2024	2025	2026	2027
Cash flow from RRF loans projected in the programme					
1. Disbursements of RRF LOANS from EU	0.0	0.2	0.3	0.0	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	0.0	-
4. TOTAL CAPITAL EXPENDITURE	0.0	0.0	0.1	0.4	-
of which:					
- Gross fixed capital formation	0.0	0.0	0.1	0.4	
- Capital transfers	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	
6. Other costs with impact on revenue	0.0	0.0	0.0	0.0	-
7. Financial transactions	0.0	0.0	0.0	0.0	-

MINISTRY OF FINANCE