



Cyprus National Reform Programme 2014

Europe 2020 Strategy for: Smart, Sustainable and Inclusive Growth



APRIL 2014

Table of Contents

| | |
|---|-----------|
| 1. INTRODUCTION | 3 |
| 1.1 MACROECONOMIC CONTEXT AND SCENARIO | 3 |
| 1.2 PROGRESS WITH RESPECT TO THE IMPLEMENTATION OF THE MOU | 4 |
| 2. DEVELOPMENTS OF NATIONAL TARGETS | 5 |
| 2.1 EMPLOYMENT NATIONAL TARGET | 6 |
| 2.2 POVERTY NATIONAL TARGET | 8 |
| 2.3 EDUCATION NATIONAL TARGET | 10 |
| 2.4 R&D NATIONAL TARGET | 12 |
| 2.5 CLIMATE AND ENERGY NATIONAL TARGETS | 13 |
| 2.6 STRENGTHENING COMPETITIVENESS AND GROWTH | 16 |
| 2.7 NATIONAL TARGETS FOR DIGITAL SOCIETY | 20 |
| 3. COUNTRY SPECIFIC RECOMMENDATIONS | 22 |
| 4. ANNEX: FISCAL TABLES OF THE STABILITY CONVERGENCE PROGRAMME | 27 |

CYPRUS NATIONAL REFORM PROGRAMME 2014

1. INTRODUCTION

Cyprus submits its National Reform Programme (NRP) on Europe 2020 for smart, sustainable and inclusive growth, as well as the fiscal tables (Annex I), in the context of the fourth European Semester and having completed one year of implementation of the Macro-economic Adjustment Programme (MoU) agreed with the programme partners. The NRP 2014 has been prepared in collaboration with all pertinent Ministries and has been approved by the Council of Ministers on 30 April 2014.

1.1 MACROECONOMIC CONTEXT AND SCENARIO

This year's NRP has been prepared in the context of a very challenging economic environment, being the first year of implementation of the MoU. The Adjustment Programme aims to build the foundation for sustainable growth over the long run, nevertheless, in the short run, the economic outlook remains challenging. Even though the MoU is on track, the positive results stemming from the envisaged reforms are mostly expected to materialise in the medium term. The disposable incomes of households and the liquidity of enterprises have been severely impacted by the bail-in process of the two largest commercial banks, where an aggregate amount of approximately €8 bln of deposits has been converted into equity. The banking sector is undergoing a major restructuring and consolidation process, with capital movement restrictions (gradually being relaxed) introduced to protect against a possible bank run, following the bail-in. All the above have significantly affected consumption and investment demand and consequently economic growth. This, compounded by the impact of fiscal consolidation already undertaken and the new measures agreed, has resulted in a significant drop of economic activity and a sharp rise in unemployment. The business operating environment is also constrained by the tight lending conditions and the relatively high interest rates.

It is noted that despite the negative environment, recession in 2013 was less severe compared to expectations of rating agencies and other organisations. In the initial MoU the contraction of the economy forecast for 2013 was of the magnitude of 8,7% while estimates of some rating agencies were of the magnitude of 10% compared to 5,4% that was the final figure. The main factors explaining the less than expected recession of the Cyprus economy, were the smaller than anticipated decrease of private consumption (due to, among other, the existence of financial and non-financial assets held by Cypriots), increased tourism from Russia and better than expected performance of the professional services sector.

However, in the labour market, the unemployment has increased to unprecedented levels, reaching 15,9% in 2013, from 7,9% in 2011, reflecting the effect of an abrupt slowdown in economic activity. The category mostly affected is youth, whereas particularly worrying is the rapid increase in long-term unemployment. The projection for 2014 is that GDP will continue to shrink, albeit at a much slower pace than the previous year, while unemployment will reach 19% by the end of the year. A small increase of GDP of the order of 0,9% is forecasted for 2015. Under such a scenario, it is estimated that 90.000 additional new jobs have to be created in order to bring the employment rate to the pre-Programme rate of about 70%.

The economic crisis has had a considerable impact on poverty and the living conditions as the number of people exposed to poverty or social exclusion has increase according to the last available data to 27,1% in 2012 compared to 24,6% in 2011. The 2013 figures are expected to be even worse.

The unprecedented economic crisis also necessitates that Cyprus unlocks its growth potential and diversifies its sources of income. While in search of a new economic model, following the blow on the dominant financial sector due to the bail-in, studies have given some results with respect to promising sectors. For one, the **Strategy for Smart Specialisation** has identified growth prospects in the sectors of special interest Tourism, Energy including RES, Agriculture (particularly organic agriculture), Transport (shipping), Health, and Construction (energy efficiency of buildings). For another, the Cyprus Investment Promotion Agency (CIPA) has carried out a survey with respect to sectors that could attract foreign investment and such sectors are shipping, energy, banking and financial services, professional services, education, large scale development projects, R&D, ICT and wellness tourism. Efforts to attract foreign investments have accentuated. In the current macroeconomic environment, bringing the economy back to a path of sustainable growth remains a huge challenge. In view of the marked deterioration of poverty indicators, substantial efforts are also focused on the reform of the social welfare system, that will protect more effectively and in a targeted way, the vulnerable groups of the population.

1.2 PROGRESS WITH RESPECT TO THE IMPLEMENTATION OF THE MoU

On the reforms side, the economic adjustment programme is well underway and substantial progress has been achieved. The third review mission has confirmed that the banking system is at the stage of stabilisation. The banking institutions have been recapitalized and further relaxation of the capital restrictive measures have been taking place, with the aim to have them totally lifted by the end of 2014. The fiscal targets for 2013 have not only been met, but surpassed. This is attributed to both continued prudent budget execution and a less severe recession than anticipated.

The structural reforms are on the right track and considerable progress has been achieved in this area. A key priority is the reform of the social welfare system, with one of its main aims being the minimisation of the consequences of the economic crisis on the most vulnerable groups of the population and promoting social inclusion. The reformed welfare system will improve the targeting of benefits, while providing work incentives to avoid welfare dependency. On taxation, implementation of the various measures to improve the efficiency and effectiveness of revenue administration and collection are on the right track. An important step has already been made, with the reform plan for the integration of the two tax departments being completed. Substantial steps have been taken with regards to privatisation of state-owned enterprises and every effort is being undertaken for the timely adoption of the necessary measures. To this end, a more detailed privatization was approved by the Council of Ministers on 13 February 2014. Public financial management will be strengthened by implementing the Fiscal Responsibility and Budget Systems Law, which was adopted by the House of Representatives in February. In relation to pension reform, measures have been taken to ensure that the reform measures applied to Government Employee Pension System (GEPS) will also apply to the broader public sector. The reform of the public sector is progressing according to plan, with the three studies in relation to the pilot Ministries having been submitted to the pertinent authorities for evaluation. Additionally, measures to facilitate staff mobility within the public and broader public sector have been undertaken through the amendment of the relevant law and alignment with the Services Directive has been completed.

The fourth mission of May 2014 will evaluate inter alia the situation of the economy against the risks of high percentage of Non- Performing Loans and the resulting vulnerability of the banking sector.

2. DEVELOPMENTS OF NATIONAL TARGETS

Against this adverse economic background, the deterioration of many national targets was inevitable, with the severest impact on employment and poverty. In fact, the employment rate for the age group 20-64 fell from 76,5% in 2008 to 70,2% in 2012 and to 67,1% in 2013, thus deviating considerably from the national target of 75%-77%. The share of people at risk of poverty or social exclusion (AROPE) has increased to 27,1% in 2012 compared to 24,6% in 2011 leading to a deterioration of the social situation in Cyprus and undermining the achievement of the national target of 19,3%. The share of the population of aged 30-34 years old having completed tertiary or equivalent education declined in 2013 to 47,8%, compared to 49,9% in 2012, but still remains above the target of 46%, while the early leavers from education and training rate improved from 11,4% in 2012 to 9,1% in 2013 satisfying the national target of 10%. This is partly due to the decrease in the number of non-Greek speaking children in public schools, following a respective decrease in the number of immigrants in the country. The R&D target has also suffered falling to 0,47% in 2012 from 0,50% in 2011 due both to a decrease of the public but mainly the private spending in the sector given the financial constraints and lack of liquidity in Cyprus. The climate targets remain on path, with two of them doing better than anticipated due to decreased demand. In fact, the decreased economic activity in the economy decreased also the demand for electricity thus improving the energy efficiency indicator and decreasing the ETS emissions. It must be stressed, however, that even though the crisis has led to a decrease of non-ETS emissions, still in 2012 they continued to be above the 2005 level. Therefore, Cyprus still faces a potential challenge in achieving the annual goal of approximately 5.500 Gg CO₂ eq. over the 2013-2020 period for the non-ETS sectors. As for the RES target, it is also above the set milestone (of 7,45%) for the years 2015-2016, since the share of RES in the gross final energy consumption was 7,7%, already in 2012. The last developments are depicted in the table below:

| EU HEADLINE & NATIONAL TARGETS | EU TARGET | CYPRUS TARGET | CYPRUS 2013/(most recent) | EU 28 2013/(most recent) |
|--|-------------------|----------------------------|----------------------------------|---------------------------------|
| Employment rate (20-64 years old) | 75% | 75-77% | 67,1% | 68,3% |
| Reduce poverty (%) (People out of poverty) | 20 mln | 19,3% or 27.000 | * 27,1% | *24,8% |
| Decrease Early school leavers to | 10% | 10% | 9,1% | 11,9% |
| Increase Tertiary educational attainment to | 40% | 46% | 47,8% | 36,8% |
| R&D (% of GDP) | 3% | 0,50% | * 0,47% | * 2,06 ^e % |
| CO₂ emission (non-ETS) | -20% (cf 1990) | -5% (cf to 2005) | * +1,5% (cf 2005) | -18% (cf 1990) |
| Renewable energy | 20% | 13% | * 7,7% | * 14,1% |
| Energy efficiency | 20% | 14,3% | * 12,3% | * 10,5% |
| e=estimated, cf= compared to | | * 2012 data | | |

2.1 EMPLOYMENT NATIONAL TARGET

75%-77% of the population aged 20–64 should be employed by 2020.
Dropped to 67,1% in 2013 compared to 70,2% in 2012.

Following the decision of March 2013 for the bailing-in, the restructuring of the banking sector and the imposed restrictions on capital transactions, the country experienced an abrupt and steep reduction of economic activity, causing a further loss of jobs and increased unemployment. The estimates of the Programme Partners is that the unemployment rate will continue to rise during 2014 and is expected to reach 19,2% in 2014 and 18,4% in 2015. Considering though that, the impact of economic recovery on employment is usually observed about six months later, unemployment may continue to rise in 2015, at least during the first semester.

The overall employment rate for the age group of 20-64 years old fell from 73,4% in 2011 to 67,1% in 2013, while a year ago the average was at 70,2%. In 2008, the employment rate was 76,5%. According to the distribution of employment by sector, during 2013, the biggest percentage of employed persons was concentrated in services with 79,3%, whereas industry followed with 17,6% and lastly agriculture with only 3,1%.

Based on the EUROSTAT latest forecasts, in January 2014 unemployment stood at 16,8% while the Euro area unemployment rate was at 12%. Compared with a year ago, Cyprus recorded one of the highest increases in the unemployment rate among the other EU countries, going from 14,4% in 2012 to 16,8% in 2013. According to the Labour Force Survey, the unemployment rate between 2011 (yearly average) and 2013 rose from 7,9% to 15,9%, while in 2008 the unemployment rate was only 3,7%.

For 2013, the unemployment rate for male workers stood at 16,5% and for female workers at 15,2%, while the respective employment rates were 72,6% and 62,2% (for the age group of 20-64 years). Youth unemployment followed the European trend and increased significantly, from 9% in 2008 to 38,9% in 2013 (for the age group 15-24 years). The respective employment rate for the above age group went down from 38% in 2008 to 23,5% in 2011.

The number of job vacancies notified to the Public Employment Services has decreased over the last years dramatically. Specifically, the decrease between 2010 and 2013 was almost 40%, from 20.632 down to 12.712. Out of the total number of notified job vacancies, 25% are from Agricultural, Animal Breeding and Household Sectors which are considered unattractive to both Cypriots and EU workers due to inferior terms of employment and working conditions.

The projection for 2014 is that GDP will continue to shrink at a much slower pace than the previous year, while unemployment is forecasted that it will reach 19,2% by the end of the year. A mere increase of GDP of the order of 0,9% is forecasted for 2015. If the above forecasts materialise it is estimated that 90.000 additional new jobs have to be created between 2016 and 2020 to bring the employment rate (20-64) to about 70%.

2.1.1 New Measures promoted for increasing employment and improving skills:

Currently, the **biggest challenge of the country's economy is the creation of adequate number of new and quality jobs.** Therefore, the major emphasis of the measures implemented in 2013 and foreseen for 2014 is on the facilitation of creating new jobs either

directly or indirectly. Such measures include subsidised employment schemes, placements for acquiring work experience, enhancement of the skills and competencies of the unemployed and the promotion of entrepreneurship, the extension of the working hours of retail shops and fighting undeclared work.

The measures aim to serve a number of additional objectives such as supporting sectors which currently present high potential for growth, facilitate transition from school to work, improve the attractiveness of technical professions, address skills mismatch and long term unemployment, promote innovation and address youth unemployment. To this end, the country concluded an **Action Plan for Youth Employment** (Draft), part of which is the Youth Guarantee Implementation Plan which has been submitted to the Commission for comments at the end of 2013. Additionally, by the end of April 2014 the Youth Employment Action Plan and consequently the Youth Guarantee Implementation Plan is expected to be finalised.

Two of the newly introduced measures have been concluded successfully by placing about 2.000 university graduates for the acquisition of work experience in enterprises/organisations and by employing 1.257 unemployed in the Hotel and Catering Industry and Tourism sector in general. The third measure which is aiming to facilitate the employment with flexible forms of 1.000 unemployed is currently in the process of the signing of the employment agreements with the applicants, enterprises and individuals. In addition, a National Strategy for Education and Training in the Sector of Hydrocarbons is being formulated and will be submitted for approval to the Council of Ministers. Furthermore, nine new measures have been announced for 2014, six of which have already been launched:

- Two measures of total budget of €17 mln for the placement for 6 months, of 2.500 young unemployed school leavers of lower secondary, upper secondary and post-secondary education, being less than 25 years old and of 2.500 young unemployed, of tertiary education graduates, being less than 35 years old with limited work experience.
- Two measures for supporting enterprises of the retail sector, one of which is aiming to retain 1.000 jobs in micro enterprises employing 1 – 4 employees and the other aiming to facilitate training and subsequent employment of 1.000 unemployment benefit recipients, in enterprises of the specific sector employing 1 – 49 employees.
- Two measures for supporting enterprises of the Hotel Industry, one of which is aiming to support Hotels to improve the skills of their employees and at the same time shorten the period for which they temporarily suspend their activities due to seasonality and the other to facilitate the training and subsequent employment by Hotels of 1.500 long term unemployed without experience in the specific sector.

2.1.2 On-going Measures

Among the **measures which have been in place and their implementation will continue in 2014** are the New Modern Apprenticeship, the Post Secondary Vocational Education Institutes, the job placement and training of young unemployed tertiary education graduates, the accelerated training of young newcomers and other unemployed persons, training programmes for upgrading the skills of unemployed persons, a scheme for the improvement of the employability of the unemployed, a scheme for the improvement of the employability of economically inactive women, the enhancement of cooperation between universities and enterprises, the development of a competence-based system of vocational qualifications, the reform of the curricula at secondary and tertiary education, employment forecasting as well as the evaluation of the impact of the Human Resource Development Authority's (HRDA) activities. In particular, an evaluation study covering the participants in the HRDA's Special Prevention Scheme-Action Plan during the period 2009-2013 is expected to be completed by May 2014.

All these measures have mainly an alleviating role to the unemployment problem which will only be solved effectively and definitely only when the economy comes back to sustainable growth, producing permanent and quality jobs.

2.2 POVERTY NATIONAL TARGET

Reduce the number of people-at-risk-of-poverty and social exclusion by 27.000 people (from 181.000 in 2008 to 154.000 by 2020) or decrease the percentage from 23,3% in 2008 to 19,3% by 2020.

Increased to 27,1% (234.000 people) in 2012 compared to 24,6% (207.000 people) in 2011.

The ongoing economic downturn and the significant increase in unemployment from 5,4% in 2009 to an estimated rate of 15,9% in 2013 has led to declining household incomes. Consequently, it has greatly impacted on poverty and social cohesion, having increased the number of people exposed to poverty or social exclusion from 181.000 in 2008 to 207.000 in 2011 and to 234,000 in 2012, thus undermining the progress towards the achievement of the national poverty target. The most recent data on income poverty and social exclusion available for 2012 reveal a deterioration of the social situation in Cyprus, with 2013 expected to depict an even gloomier one. Since 2008 the share of the population at-risk-of-poverty or social exclusion (AROPE) has increased by almost 4 percentage points, reaching 27,1% in 2012. The main cause is the large increase in the number of people affected by severe material deprivation: for the period 2008-2012 the severe material deprivation rate went up by 5,9 percentage points – reaching 15% of the total population. The share of people living in very low work intensity households increased as well (from 4,5% in 2008 to 6,4% in 2012). There has also been a considerable increase in the AROPE of children (to 27,5% in 2012 from 21,5% in 2008).

Consequently, there is escalating pressure on the Social Welfare System (SWS) to extend its benefits to the growing number of persons and their families found to be living in poverty. Thus the Government of Cyprus has committed to reforming the System as part of its Economic Adjustment Programme. One of its main aims is to minimise the consequences of the economic crisis on the most vulnerable groups of the population, and comprises the rationalisation and better targeting of the allowances granted as well as the formulation of the social assistance system in such a way, that dependence on benefits is circumvented and motivation for social inclusion is promoted. The SWS reform that is underway is intended to radically change the existing system in order to protect more effectively vulnerable groups of the population from these adverse impacts.

At the core of the reformed SWS is the reformed public assistance programme, the Guaranteed Minimum Income (GMI) programme, which will be implemented as of 1 July 2014. The GMI will be supported by active labour market programmes focusing on getting back into employment those who can work and enhancing their labour market prospects.

The level of the GMI, that will replace the existing public assistance benefit, will be determined in an objective and scientific way, using the Minimum Consumption Basket and the Normative Budget Standards of Living and will take into consideration the needs of every citizen and household including food, clothing, personal care, health, transport, communication, household energy and social inclusion.

Active labour market programmes (ALMP) will be scaled up in order to reinforce work incentives and enhance the labour market prospects of various unemployed groups.

The above two programmes (GMI, ALMP) will be supplemented by other need-driven benefits, such as family, disability and health benefits as well as education grants. The levels, coverage and total budget for these benefits will depend, to a great extent, on the fiscal space available after the allocation of the funds necessary for financing the GMI programme, given the commitment that the spending envelope for social protection will be protected, and through the utilisation of the ESF budget allocated to Cyprus. The need-driven benefits will be consolidated, streamlined and targeted in a way that additional fiscal space will be created in order to finance the scaling-up of the GMI programme and taking into account that in coming fiscal years the total spending envelope for social protection will be smaller compared to that of 2014.

Other targeted measures for the provision of quality services to better support the most vulnerable are:

Cash support to large families and single parent families is provided through the child benefit and the single parent benefit, according to the provisions of the Child Benefit Law. In 2012, the provision of child benefit changed fundamentally towards a more targeted approach, with the introduction of income and economic criteria. In addition, the amount of child benefit is inversely related to family income. As from January 2014 the family income threshold for the families having two or more dependent children, has decreased from €99.000 to €59.000 and the family income threshold for single parent benefit, has decreased from €89.000 to €49.000.

Financial assistance schemes for students have been re-designed on the basis of income-related criteria, and new measures have also been introduced (i.e. provision of breakfast to students whom their school units identify as children in need, lifting of fees for exams and for the issuance of Leaving Certificates).

Accessible and affordable child care services: Great emphasis is also given to the provision of accessible and affordable child care services and to the involvement of relevant stakeholders in the provision of quality social care services at local level. In this direction, in 2013 the Government modified the existing procedure for subsidising non-governmental organisations and local authorities taking into account the EU Regulation 360/2012 for de minimis aid granted to undertakings providing services of general economic interest. State-aid to NGOs or Local Authorities continues and is provided on an annual basis for the operation of affordable social care programmes (Homes or Day Care Centers for the elderly, or persons with disabilities, Adult Day Care Centers, Day-care Centres for pre-school Children, Day-care Centres for School-age Children etc.).

In addition, two new schemes are in the planning phase:

- a Scheme to subsidise the home care services of the low income elderly.
- a Scheme that subsidises Child Care Services for families whose monthly family income is low.

Protecting people with disabilities: The Government is currently promoting the implementation of the National Disability Action Plan 2013-2015, which was approved by the Council of Ministers, after the ratification of the UN Convention on the Rights of Persons with Disabilities and in line with the European Disability Strategy 2010 - 2020.

Integration of Migrants: It has been decided to initiate the design and implementation of an updated Action Plan for the Integration of Third Country Nationals to cover the years 2014-2016.

Securing Electricity to vulnerable groups: a Decree which includes the definition of vulnerable categories of electricity customers and measures to be taken for their protection, was issued in June 2013. Seven categories of vulnerable customers of electricity have been defined and they have a right to apply for receiving financial incentives (€900/kW) for installing photovoltaic systems with maximum capacity of 3kW/per system on their residential buildings, using the net-metering method. In addition, an electricity reduced cost tariff is applied for five out of the seven aforementioned vulnerable categories of electricity customers.

2.3 EDUCATION NATIONAL TARGET

- Reduce the dropout rate to 10% by 2020 from 11,9% in 2009.
Decreased to 9,1% in 2013 compared to 11,4% in 2012. Target achieved
- Increase the share of the population aged 30-34 having completed tertiary education to at least 46% by 2020 from 44,7% in 2009.
Decreased to 47,8% in 2013 compared to 49,9% in 2012, but still above the national target.

2.3.1 Reducing the rate of early school leavers to 10%

The rate of early leavers from education and training marked a significant decrease reaching 9,1% in 2013 leading to over-exceeding the national target of decreasing it to 10%. According to the 2013 data, the percentage of early school leavers was the lowest ever reported and could be attributed to two main reasons: Firstly the number of non-native students in public schools has decreased following a decrease in the number of immigrants, who have chosen to return to their country of origin, due to the crisis in Cyprus. Secondly, the attractiveness of the tertiary education has increased due to the measures adopted in the recent years, offering an alternative path to weak students. The promoted measures, in conjunction with the economic crisis, have contributed to a significant increase in the number of pupils who opt to enroll in Technical Schools. Over the past three years, the percentage of pupils attending Technical Schools has increased from 13% to 19%. In addition, there have been important improvements regarding the performance of pupils enrolling in Technical Schools. It is striking that 85% of pupils who wish to attend Technical Schools enroll during the enrolments of June, implying that they are pupils who complete their studies in lower secondary education successfully and have technical education as their first choice.

The measures facilitating the integration of students at risk in the school system will continue to be in effect, with ESF co-funding. These measures include Restructuring Upper Secondary and Secondary Technical and Vocational Education, including the New Modern Apprenticeship System. Further measures include enhancing and strengthening schemes and services such as the “Zones of Educational Priority” focusing on the individual needs of each school unit eliminating the criterion of regional/geographical categorisation which might lead to discrimination. Designing, developing and implementing a comprehensive holistic migrant policy which embraces all aspects of the integration process including teacher training and modernisation of the curricula, as well as continuing the operation of the Task Force on School Violence (Observatory for Violence in Schools) to address issues related with antisocial behavior and youth delinquency.

2.3.2 Increasing participation in higher education to 46%

Cyprus continues to be above the set target of 46% of higher education graduates, reaching 49,9% in 2012 and 47,8% in 2013. However, due to the adverse economic situation and the decrease of income in most households, it is expected that less people will be able to afford tertiary level studies in the future.

Despite the crisis, the tendency of Cypriots graduating from secondary education and continuing their studies in tertiary education remains high. During the academic year 2010-2011, 78% of secondary education graduates continued their studies, either in Cyprus or abroad. The employed persons with tertiary education jobs account for 43% of all employed persons and thus there is a difference between the propensity of secondary education graduates for further studies and the needs of the labour market. As a consequence, a large percentage of persons with tertiary education are employed in middle level occupations and some are even employed in low level occupations. Specifically 43,2% of clerical workers, 29,8% of service and sales workers and even 12,7% of unskilled workers have tertiary education.

Thus in Cyprus, the problem is not to attract more people in tertiary education but rather to encourage more people in vocational tertiary education on the one hand and on creating high value added jobs to absorb the university graduates on the other. Both issues have been extensively discussed during a bilateral meeting between the Commission and Cyprus that was held on 18 February 2014. The measures promoted to this end, which have been analyzed extensively during the meeting, include: the provision of training opportunities and job placements for the unemployed, the development of a Competence-Based System of Vocational Qualifications, conducting of studies on sectoral employment forecasts, identification of skills gaps and evaluation of the impact of its activities, measures to make vocational training more attractive, enhancement of the cooperation between universities and enterprises, the promotion of entrepreneurship, further enhancement of educational and career counseling services and measures that facilitate transition from school to work. (More reference on better linking education to labour market needs, is presented under CSR 5.)

The **Erasmus+ programme** will be an important tool in promoting transnational mobility in the current period of limited resources by the young, since it aims to boost skills and employability, Training, and Youth work. The programme provides to Cyprus a budget of about €8 mln and it will offer the opportunity to Cypriots to study, train, gain work experience and volunteer abroad.

Most importantly, the highly educated workforce of the country has been one of its main competitive advantages and the aim is, to enhance the creation of high value added jobs, including through the Smart Specialisation Strategy, so as to prevent the crisis from negatively impacting on the propensity of Cypriots to follow higher studies.

2.4 R&D NATIONAL TARGET

Increase R&D expenditure to 0,50% of GDP by 2020.

Dropped to 0,47 % in 2012 from 0,50 % in 2011.

The national target for R&D expenditures as a percentage of GDP has been set to reach 0,50% by the year 2020, from 0,42% in 2008, taking into due consideration the particularities of Cyprus in terms of both the size of the research community, as well as the structure of the productive web (lack of big manufacturing firms) and the very small size of the Cypriot enterprises.

In 2012, according to the latest figures, R&D expenditures as a percentage of GDP accounted for 0,47% compared to 0,50% in 2011. The severe fiscal restrictions resulted in an inevitable freezing of the public funds available for R&D. On the other hand, the enterprises are in a phase of striving for survival due to the difficult economic environment following the bail-in and the Economic Adjustment Programme restrictions, included in the MoU, thus being able to devote only very limited resources to R&D. Cyprus is doing better though in the field of Innovation. According to the Innovation Union Scoreboard 2014, Cyprus is among the “innovation followers” with innovation performance above the EU average.

Recognising the high potential of R&D&I to growth, the Council of Ministers appointed, in September 2013, a National Committee for Research, Innovation and Technological Development which was entrusted with the task of evaluating the current research and innovation system and procedures in Cyprus and giving recommendations for its adjustment and upgrading, so as to become more effective and efficient. The work of the Committee was completed in March 2014. Its findings are currently under consideration as to the best way they can be linked to the forthcoming national strategy for research and innovation.

In the meantime, a **Smart Specialisation Strategy for Research and Innovation (RIS3)** has been prepared with a view to maximise the knowledge based development potential of the Cyprus economy through targeted support to Research and Innovation. A number of sectors where Cyprus has a competitive advantage have been identified. These are Tourism, Energy, Construction, Shipping, Health, ICT and Environment.

Innovative products/Services Scheme: The grant scheme, implemented in 2012, that promoted the development of innovative products/services, is progressing smoothly and producing encouraging results with approximately 40 innovative products expected to enter the market in 2014 and 2015. Cypriot companies invest in innovation and target the international market despite the small size of Cyprus and other obstacles. Based on the knowledge accumulated, the same grant scheme with some improvements will be issued again in 2014. The new scheme will be open to new companies so as to encourage young people and new enterprises to turn to innovation. Moreover it will encourage cooperation of enterprises with research centers and among them, so as to widen the range of possible innovative products/services, integrated in the value chain and cultivate smart specialisation. Also the new scheme will cover innovative processes so as to cover all forms of innovation. It is expected that the scheme will help develop approximately 100 innovative products/services/processes, 30 cooperation agreements of enterprises with research centers, create 80 new positions, raise €5 mln in private funding and help establish 30 new SMEs.

A scheme that promotes Innovation Houses where unemployed and students can receive guidance, training and work space in order to start their own innovative enterprises or acquire

the necessary skills to become employed in an innovative enterprise, will also be announced in 2014, to strengthen the productivity of the labor force through innovation. It is expected that the scheme will help create 40 new SMEs and create 100 new positions.

Linking Academia to Business: In the context of the project “Development and operation of Industry Liaison Offices at the Universities operating in the Republic of Cyprus” six Industry Liaison Offices in three public and three private universities are in full development and operation at the moment. It is the first time that a wide channel of communication and a common database among the Universities is established and furthermore between the academic community and the business world, in order to achieve a wider promotion of knowledge transfer, student internships, and entrepreneurship. So far, the operating six liaison offices managed to place 937 students in businesses (target was 400), have carried out dissemination activities and promotion through the Website (www.liaisonoffices.ac.cy). In addition, four successful workshops have been organised, more than 600 academic profiles from all universities have been completed, more than 446 enterprise profiles have been collected and completed from all over Cyprus and 175 research labs profiles have been collected.

Cyprus Science Technology Park (STP): The STP is expected to accommodate knowledge intensive enterprises/organisations and applied research centers both local and foreign, that will promote applied research and innovation for the development of competitive innovative products and services. The Government announced in December 2013, with a deadline of 10 March 2014, an Initial Expression of Interest from any investors that wish to undertake the establishment and operation of the STP and from any enterprises, organisations that wish to be accommodated and develop activities in the STP. It was an initial attempt to explore potential interest, capacities and to seek for suggestions. A number of investors and enterprises, organisations, research centers, universities submitted their Initial Expression of Interest. The Government at this stage is considering outsourcing a techno-economic/feasibility study for the STP and after that, the preparation and announcement of a formal tendering procedure, for the establishment and operation of the STP.

2.5 CLIMATE AND ENERGY NATIONAL TARGETS

2.5.1 REDUCTION OF GHG EMISSIONS

Reduce greenhouse gas emissions by 5% by 2020 compared to 2005.

Increased by 1,5% in 2012 compared to 2005.

Cyprus did not have an EU greenhouse gas emissions reduction target for the first commitment period of the Kyoto Protocol, since the Republic of Cyprus ratified the United Nations Framework Convention on Climate Change as a non-Annex I party. The Department of Environment publishes annual inventories of and projections for greenhouse gas emissions. The latest inventory was submitted in February 2014 and was for the period 1990-2012. The GHG emissions in 2012 were 9240 CO₂ eq. including land use, land use change and forestry (LULUCF) and 9259 Gg CO₂ eq. excluding LULUCF. Between 1990 and 2012, the total national emissions excluding LULUCF increased by 52%. Based on 2014 projections, Cyprus faces a potential challenge of achieving the annual goal of approximately 5500 Gg CO₂ eq. over the 2013-20 period. Consistent with the Government’s progressive approach to the development of national climate policy, the primary focus for securing compliance with EU law in the period to 2020 will be domestic mitigation.

In December 2013 the Department of Environment forwarded to the UNFCCC Secretariat, the National Communication containing the latest update of the national policies for the reduction of greenhouse gas emissions. Such policies include the introduction of natural gas to Cyprus, primarily for use in electricity generation, increase of the Renewable Energy Sources share to electricity, heating, cooling and transport, increase of energy savings from energy efficiency in buildings, promotion of public transport and low emissions' vehicles, improvement of solid waste disposal sites and promotion of anaerobic digestion of the treatment of animal waste.

In view of the discussions at European level for the 2030 targets, the obligation to prepare a low carbon economy development roadmap for 2050 in 2015 and the monitoring of the effort sharing targets, an ad-hoc committee has been set up for the detailed revision of the policies and measures already in place, into a more detailed strategy for the reduction of greenhouse gas emissions. Additionally, the obligation to use 20% of the EU funds for climate change will facilitate the implementation of several measures that will contribute significantly towards the reduction of greenhouse gas emissions.

2.5.2 ENERGY EFFICIENCY

Achieve an increase of 14,3% (463 ktoe) in energy savings in the projected primary energy consumption of the year 2020.

Energy savings increased to 12,3%, in 2012 from 4,3% in 2011.

The Cyprus a national target for saving 14,3% primary energy in 2020 seems to be facilitated by the economic crisis, since the lower economic activity and the lower income levels for both enterprises and households result in lower energy demands. This decrease in demand, in conjunction with the ongoing measures included in the 2nd National Energy Efficiency Plan resulted in a higher reduction than the projected in the national energy efficiency scenario. More specifically, in 2011 the energy reduction was 4,3% and in 2012 was 12,3%, while the projected reductions were only 0,9% and 1,6% respectively.

The Energy Service of the MECIT is currently preparing the 3rd National Energy Efficiency Action Plan (3rd NEEAP), in the framework of which, all future steps and measures to achieve the national 2020 target will be reconsidered and reevaluated. It is anticipated that the 3rd NEEAP will be notified to the European Commission by the end of April 2014.

It must be noted however that, even though the reductions in primary energy consumption for the years 2011 and 2012 were higher than those projected, the achievement of the national 2020 target is highly dependent on the introduction of natural gas in the national energy system. Thus the Government is currently studying the possibility of an interim solution for gas supply for the needs of electricity production, until gas from indigenous sources will be available for domestic use. The gas supply from Block 12 via pipelines is anticipated around 2018 under an optimistic scenario.

Hydrocarbon Exploration: With the recent natural gas discovery and the continuing hydrocarbon exploration activities offshore Cyprus, the country's energy sector profile is set to change radically. Current developments include ongoing exploration activities, an interim solution for gas supply, a long-term solution for gas supply from indigenous sources and an LNG Plant for gas exports to EU and International Markets. In parallel, the installation of a gas export pipeline and a subsea power cable are under evaluation.

Exploration for oil and gas is in an ongoing phase, with Block No 12 being the first to be licensed on 24 of October 2008. On 28 of December 2011 a natural gas discovery was announced indicating an estimated gross resource range of 5 to 8 trillion cubic feet (Tcf), with a gross mean of 7 Tcf. The Cyprus Block 12 field covers approximately 40 square miles and will require additional appraisal drilling prior to development. On 11 February 2012, the Republic of Cyprus announced the second licensing round offshore Cyprus concerning the authorisation for hydrocarbon exploration in Blocks 1-11 and 13 of the Republic's Exclusive Economic Zone. On January 2013 licenses were granted for blocks 2, 3 and 9 and on February 2013 licenses were granted for blocks 10 and 11.

For Block 12 the "Appraisal Well" operations are estimated to reach completion in the beginning of 2015. The gas supply from Block 12 via pipeline is anticipated around 2018. The Block 12 Development Plant consists of the Verification (exploratory) well drilling, the Reservoir appraisal and assessment, studies on the installation of offshore and onshore equipment, the completion of production of drilling and well, the installation of subsea system, the host commissioning of deep water and the installation of export pipe. Studies are underway regarding the pipeline routing from the gas field to Cyprus' shore.

The political decision for the establishment of an onshore LNG plant has been taken and there is available land for the construction of up to 3 trains (5MT/year each). The plant will handle additional gas flows from other upstream fields (EEZ of the Republic of Cyprus and the neighboring countries). It is expected to be the largest investment in the island's history with an indicative timetable for its completion set in 2019.

In addition, the Cyprus Natural Gas Company (DEFA) is planning the development of the internal pipeline network for the transmission of natural gas to the Power Stations at Vasilikos, Moni and Dekhelia. The project consists of two phases: (a) delivery of gas to EAC's Power Plants (at Vasiliko, Moni and Dekhelia) and (b) gas delivery to the Industrial sector (Power and thermal generation), Commercial sector (Thermal generation), Tourism industry (Thermal generation), Residential sector (far future) and Transportation.

2.5.3 RENEWABLE ENERGY SOURCES (RES)

Increase of the contribution of RES to 13% of the total energy consumption by the year 2020.

Increased to 7,7% in 2012 from 6,8% in 2011.

In accordance with the requirements of the European Directive 2009/28/EC for the promotion of the use of energy from renewable sources, Cyprus has the legally binding target to increase the contribution of renewable energy sources to 13% of the gross final energy consumption by 2020. Cyprus has already over-achieved its first, second and third indicative trajectory, which according to the provisions of the RES Directive was 4,92% for the years 2011-2012, 5,93% for the years 2013-2014 and 7,45% for the years 2015-2016, since the share of RES in the gross final energy consumption was 7,7%, in 2012.

In the action plan it is estimated that in order to achieve the target of 13% of RES to the gross final energy consumption by 2020, the contribution of RES must increase to 16% for electricity, 23,5% for heating/cooling and 4,9% for transport. More specifically, it is estimated that 300MW of wind parks, 192MW of photovoltaic systems, 17MW of biomass/biogas utilisation plants and 75MW of Concentrated Solar Thermal Plants must be installed so as to achieve 16% of RES contribution to the electricity production by the year 2020. The present

status of RES (end of January 2014) in the electricity sector is encouraging since 146,7MW of wind parks 32,5MW of photovoltaic systems (autonomous and grid connected), and 10,4MW of biomass utilisation units have already been installed. Another 55 MW of photovoltaic systems, 7 MW of biomass utilisation, 27,4MW of wind parks and 100 MW of solar/thermal plants are under construction, while 40MW of photovoltaic systems are under evaluation.

| RES Source | Wind | Photovoltaic | Biomass | Solar/thermal |
|-----------------------|--------|--------------|---------|---------------|
| Target by 2020 | 300 MW | 192 MW | 17 MW | 75 MW |
| Completed | 147 MW | 33 MW | 10 MW | 0 MW |
| In pipe-line | 27 MW | 55 MW | 7 MW | 100 MW |

In 2013 the following innovative measures were announced:

Net metering: In 2013, Cyprus Energy Regulating Authority (CERA) announced a program for 5000 installations of small photovoltaic systems up to 3kW each, on the roofs of households. 2000 of them were offered to vulnerable consumers who were able to request financial support of €900 per installed kW which is equal to about 50% of the total installation cost. By the end of 2013, 4.894 applications were submitted. Until February 2014, 1498 systems were already connected to the grid. The programme is expected to be announced again in 2014 for additional 5.000 installations.

Self-Generation from Photovoltaic: In 2013, Cyprus Energy Regulating Authority (CERA) announced a program for 10MW of installations of self-generation PVs from companies. By the end of 2013, 41 applications were submitted of a total capacity of 1,3MW. The program is expected to be announced again in 2014 for additional installations.

The Electricity Authority of Cyprus (EAC) has tendered out for implementation of an **Advanced Metering Infrastructure (AMI) in Cyprus**. The system will be covering at least 3000 electricity meters and a more limited number of water meters. It is expected that a contract will be awarded before the end of 2014. The specifications that cover this first phase implementation are in line with the most update proposals of the EC and cover completely the functionalities that are included in the EC recommendations.

2.6 STRENGTHENING COMPETITIVENESS AND GROWTH

- The promotion of Cyprus as an attractive regional centre for the provision of high value added services, including in the financial, legal, health, shipping and education sectors.
- Reduction of the Administrative Burden on national legislation by 20% and improving the efficiency of the Public Sector.

Restarting the economy is a very big challenge for the Government of Cyprus, in order to reverse the unprecedentedly high unemployment rate. Even though the MoU is on track, the envisaged reforms will need some time to give positive results. Efforts are underway to develop a comprehensive and coherent growth strategy, based on Cyprus competitive advantages, in order to restart the economy. Efforts are concentrated on attracting foreign investments, on increasing the competitiveness of the key sectors of the economy and on improving business environment and the efficiency of the public sector. The Public Financial Management (PFM) reform is envisaging a model of bringing together the Strategic Planning

and Budgetary Process, in order to achieve overall fiscal discipline and allocation of resources to growth priority needs, for a growth friendly fiscal consolidation (more details below, under Improving the Efficiency of the Public sector.)

One of the main policy priorities is the restructuring of the economy towards innovation, by giving incentives and by shifting the emphasis towards high-skilled, high value-added activities, mainly in the services sector, including tourism, shipping and health. Cultivating an entrepreneurial and innovative culture, as well as facing the challenges that the public sector is facing as a result of technological developments, is important.

Attracting Foreign Direct Investment

As the attraction of foreign investments is of vital importance for the recovery of the Cyprus economy, the Cyprus Investment Promotion Agency (CIPA) has implemented a clearly defined strategy, in an effort to restore the image of Cyprus and to increase the potential of attracting foreign direct investments into the country. The strategy focuses on certain tactical initiatives that urgently address the need to restore the image of Cyprus, identify key sectors of the economy, formulates high-level strategies for the development of each focus sector and outlines a roadmap of defined promotional activities and events in targeted geographical locations. Furthermore, particular emphasis is placed on facilitating focused Diaspora events, as well as by utilising market intelligence and the support of Cyprus' Embassies and trade offices around the globe.

Investor facilitation is an equally important aspect that serves both new and existing investors. The Agency is placing special attention on how to manage the perception and expectations of existing investors through conducting surveys and by enhancing the flow of direct communication, while it has also developed an investor handling procedure to ensure best practices are followed.

Improving the Competitiveness of the Tourism Sector

Significant effort is put at enriching the tourist product, increasing competitiveness, as well as extending the tourist season targeting on a better utilisation of the tourist infrastructure and investments in the sector.

Concerning particularly the issue of competitiveness, the competent Ministry (Ministry of Energy, Commerce, Industry and Tourism, MCIT) has entered into intensive talks with all relevant stakeholders in order to agree on ways to reduce the cost of the Cypriot holiday package in a comprehensive way. In this context, it is also important to mention that the Ministry of Energy, Commerce Industry and Tourism is promptly promoting the establishment of an integrated casino resort in Cyprus.

Also, the Cyprus Tourism Organisation (CTO), taking into consideration the current economic situation and the resilience of the tourism sector to the economic crisis, proceeded with the revision and upgrading of the Tourism Strategy 2011-2015, with the aim to improve the tourism sector business model, in particular, with a view to lengthening the tourist season, increasing occupancy rates of hotels and promoting resident tourism during winter time, developing a multi-dimensional and high quality tourism, *inter alia*, by defining thematic niches, such as sport, cultural, rural and medical tourism, developing individual tourism, promoting professionalism of tourist service providers, ensuring the dissemination of best-practices on upgrading the quality of the services provided and improving the role of tourism-related infrastructure investment. To support the implementation of priority actions and

measures of the Tourism Strategy, EU co-funding opportunities are sought and exploited, where possible.

CTO's efforts to further enhance the competitiveness of the sector include the enrichment of the tourist product and the encouragement of the development of alternative forms of tourism (i.e. thematic tourism). This strategically planned development of a balanced and a complete package of alternative forms of tourism / tourist special products aims to help Cyprus face/impepe seasonality problems and move towards tourism sustainability.

Some of the most important envisaged actions in the sector are the following:

A. Product Enrichment and Alternative forms of tourism / Special Interest products:

- i) Enrichment of the "Sun and Sea" product with a variety of special interest products (sport tourism, cycling, weddings and honeymoon trips, hiking, religious and cultural tourism, wellness tourism, rural tourism, cruising, gastronomic and wine tourism, organization of special events), aiming at enhancing the overall tourist experience, giving alternative options for activities, improving tourists' satisfaction and increasing average tourist's spend.
- ii) Special interest market segments/products: Due to the broad band, good infrastructure, great quality and high level of professionalism of the offer of certain specific special interest products, Cyprus succeeded in attracting special interest markets, other than the traditional "Sun and Sea" segment, that can definitely contribute positively in overcoming Cyprus tourism seasonality problems. Amongst others, these are: Conference and incentives tourism, sports tourism, agrotourism and rural tourism, marine tourism, cycling, golf, religious, medical, wedding and learning tourism.
- iii) The development of alternative forms of tourism includes efforts related to the attraction of new investments in big infrastructural projects (casinos, golf courses and marinas) and activity for the promotion of Cyprus as a respective thematic destination. Also, on the cooperation between local authorities and other government and private sector bodies (in the form of a PPP) in a number of areas, such as product development, organisation and promotion

B. Cooperation with Tour Operators to specifically allow for the addition of flights, by cooperating with airlines to have them add new routes from main or regional airports and by carrying out own promotional and advertising activities in all markets of interest.

C. Condo hotel facilitation: It has been the subject of systematic deliberations between private and public stakeholders involved. CTO has prepared an extensive concept document involving all aspects of the project which could form the basis for enacting the necessary amendments of relevant laws and regulations, the removal of current legal impediments and the introduction of the scheme. The paper will be discussed with all stakeholders in order to formulate the final proposal which will then be submitted to the Council of Minister for decision.

Improving Access to Finance

Access to finance remains one of the main challenges of firms and particularly SMEs in Cyprus. The ability of the banking sector to provide financing to the real economy has been curtailed by the bail-in and the increased capitalization needs. The government, recognising the market failure in the provision of finance to SMEs, has secured loans from EIB that will be directed to SMEs through the:

- **Cyprus Entrepreneurship Fund (CYPEF)** which will facilitate access to finance for SMEs through financial instruments in the form of loans with favorable financing terms. The initial capital of €100 mln dedicated by the government for the CYPEF were acquired through a loan from EIB and will be matched by equal contributions from selected financial intermediaries. It is expected that loans will be available to SMEs by May 2014.
- **Trade Finance Facility** which is a €150 mln facility from EIB approved last October is expected to re-activate credit lines with international banks and support short term trade-related instruments maintaining the capacity of the Cypriot banking sector to provide a sufficient volume of products such as letters of credit, despite the deterioration of their credit rating. Through leverage, it will support export and import flows to the tune of €300-450 mln per year, mainly by SME's, who are most suffering from the credit squeeze.
- **JEREMIE**: On 4 December 2013 the Bank of Cyprus (the selected FI) has signed an agreement with the EIF for the continuation of the implementation of JEREMIE Cyprus, for the remaining €8 mln of the committed Structural Funds. Consequently, €16 mln in total will be made available to SMEs and each SME can benefit from a loan of up to €100.000.
- **Other Financial Engineering Instruments**: A number of schemes will be available to SMEs in the framework of the European Structural and Investment Funds for the period 2014-2020, both in the form of grants and in the form of **Financial Engineering Instruments** such as loans or guarantees. The schemes are expected to become available to SMEs at the end of 2014.

Improving the Efficiency of the Public sector

Public administration reform: The main objectives of the reforms are enhancing staff mobility, adopting efficient and effective human resource policies relating to selection, recruitment and promotion, achieving sustainability of the payroll/ wage bill, adopting Strategic Planning in each public sector organisation, based on key performance indicators, focusing on the delivery of strategically important policies and programs, enhancing the capacity of public sector organisations in managing their resources, and at the same time, strengthening managerial responsibility and accountability, achieving a more accountable and transparent public service and reinforcing ethical behaviour, modernising, streamlining and strengthening the Public Administration's administrative structures and service delivery processes and adopting an integrated approach to reforms.

Actions/measures for the reform of the Public Administration are included in the Action Plan for the Civil Service Reform which was approved by the Council of Ministers in September 2013, as well as in the MoU on Specific Economic Policy Conditionality.

As per the MoU, an independent external review is currently being conducted of possible further reforms of the public administration. The review includes:

The horizontal element: includes reviews of the appropriate system of remuneration and working conditions/conditions of employment in the public sector and the introduction of a new performance based appraisal system in the public sector, for development and promotion purposes, linking performance with the remuneration system/ increments. The results of these reviews will be presented by Q3-2014, and based on the findings, the Cypriot authorities will agree on a reform after consultation with the programme partners and submit it to the House of Representatives for approval and implementation by Q4-2014.

The sectoral element: examines the role, competences, organisational structure, size and staffing of relevant ministries, services and independent authorities; the possibility of abolishing, merging or consolidating non-profit organisations or companies and state-owned

enterprises (SOEs); and the possibilities for the re-organisation and re-structuring of local government.

In addition, a reform plan for the modernisation of the Public Financial Management (PFM) system is underway. PFM includes all phases of the budget cycle of the general government and SOE's (the preparation of the budget, project appraisal, assessment of fiscal risks, public debt management, internal control and audit, procurement, monitoring and reporting arrangements, and external audit). The broad objectives of PFM are to achieve overall fiscal discipline, allocation of resources to priority needs, for an efficient and effective delivery of public services in an efficient manner. Emphasis is placed on outputs instead of inputs and on mid-term budgeting on the basis of strategic planning.

2.7 NATIONAL TARGETS FOR DIGITAL SOCIETY

By 2020 all households and businesses will have access to the Internet coverage with at least 30 Mbps (high speed networks).

In January 2014 broadband networks capable of providing at least 30 Mbps was available to 73,1% of households and businesses.

ICT has been recognised by the Smart Specialisation Study as an important tool of horizontal application that can contribute significantly to innovation and smart growth. Taking into account the Government's Programme, which aims to revive and restructure the economy and create new jobs and given the current economic situation, the objectives of Digital Strategy have been prioritised; it has been decided to promote as a matter of priority, three of its significant objectives:

(i) Connect Cyprus: The focus is to achieve the broadband targets of 2020. In 2013, the spectrum policy, where the procedure for the authorization of the available spectrum in the frequency bands 800 MHz, 900 MHz, 1800 MHz, 2100 MHz and 2.6 GHz has been completed by the end of 2013. The authorisation procedure was completed and the License was granted on 7th of February 2014 for the development of a broadband electronic communications network (3G and/or 4G) that will provide a variety of new services, with higher data rates to the public. Also, the authorisations of the current mobile operators in order to be allowed to use new technologies in the 900MHz, 1800MHz and 2100MHz bands have been amended in October 2013. Special obligations have been imposed to existing and to new operator including coverage and data rate obligations that will contribute towards the achievement of national broadband targets.

(ii) Modernise public administration to provide public electronic services: acknowledging that the provision of more e-services will stimulate demand and proliferate internet uptake, efforts were exerted for expediting the general reorganisation and modernisation of the public sector and of local authorities, with the widespread use of ICT (achieve a paperless government and promote the development of all public services electronically) which is another prime goal of the digital strategy. In this context, the development of the Government Secure Gateway went live on a pilot basis (8 months) in March 2014; the Central Government Data Warehouse will be completed by end of 2015; the e-filing system for online registration of companies has been completed and as of 1st April 2014 all applications can be submitted electronically; the expansion of the Point of Single Contact (PSC) in the MECIT is expected to be completed by the end of 2014; the creation of a computer centre for all departments of the Ministry of Labour and Social Insurance is currently being promoted; the tender proposals for the establishment of

the Integrated Information System of the Department of Town Planning and Housing is currently evaluated and the establishment of more Citizen Service Centers (CSCs) all over the country continues. The activities that concern e-health, and e-Identity will be completed in the first semester of 2014. The implementation of the legal framework for electronic signatures (e-signatures) has been completed in July 2013. The Department of Information Technology Society (DITS) will become the Government Certification Service Provider by the beginning of 2015.

(iii) Digital Entrepreneurship: The subsidy program introduced to help SMEs to develop innovative ICT products or services, will continue in the New Programming Period 2014-2020. Also, a new subsidy program for financial support of companies to use ICT for their internal procedures and for the provision of customer services (e-Business) is under study. The aim is for a scheme that will help the micro companies with less than 10 employees, (approximately 30,000 such companies exist in Cyprus, comprising 90% of the total companies) to become more productive and competitive, with the use of ICT (by using ecommerce, cloud services, ICT vouchers etc). This scheme will include micro companies in rural areas. The scheme can include advisory services. Also, incentives are given to businesses to use public electronic services.

3. COUNTRY SPECIFIC RECOMMENDATIONS

In this section an analysis of the progress achieved towards the implementation of the CSRs is presented:

CSR 1: Concerns the excessive deficit, the medium-term budgetary objective, the multiannual budgetary framework, tax compliance and tax evasion.

In the context of the implementation of the MoU, Cyprus has adopted significant fiscal consolidation measures, amounting to 6% of GDP in 2012-13 and 2½ % of GDP in 2014. As a result of these measures, the budget balance was contained to 5,1% of GDP in 2013, compared to 6,4% the year before. The structural budget balance was contained to a deficit of 2,9% of GDP in 2013 compared to 5,2% the year before, exhibiting an improvement of 2,3% of GDP in structural terms.

The debt to GDP rose considerably, reaching 112,6% in 2013 from 86,6% the year before, the increase attributed, among others, to the recapitalisation of the Cooperative sector in parallel to the contraction of GDP.

In the context of the objective of improving tax compliance and fighting against tax evasion, a reform plan for the establishment of the new integrated tax agency and flanking reforms have been approved by the Government. The reform plan was drawn up with the support of technical assistance by the IMF and the Commission. Intense technical assistance support is foreseen over the course of 2014, and will be provided in close collaboration with the project team on the authorities' side.

The next step will be the adoption of the enabling legislation to formally establish the new integrated tax agency by July 2014. The integration plan foresees a "phoenix approach". First, the shell of the new agency, replacing the existing Inland Revenue Department (IRD) and VAT Services (VS), will be created together with the appointment of senior management. As a second step, the integrated units will be put into operation progressively, starting in the second half of 2014.

The reforms will also comprise measures to be completed in 2014 relating to attributing personal responsibility to directors for payment of company taxes, making omission of paying withholding taxes a criminal offence, strengthening powers by the tax authorities to ensure payment of outstanding tax obligations, enacting the necessary legislation to establish self-assessment for all income taxpayers and conducting an independent formal review to recommend changes to legislation to determine the appropriate level of discretion available to the tax administration management and how it is exercised.

Budgetary Framework

For ensuring fiscal sustainability, a modern framework for fiscal management has been established, with the enactment of a high-level umbrella law, adopted by the House of Representatives on 13 February 2014, the Fiscal Responsibility and Budget System Law (FRBSL).

This Law, which is applicable to the entire general government sector, takes into account and deepens existing provisions, transposing Council Directive 2011/85/EU on requirements for budgetary frameworks and implementing the Two-Pack EU Regulation 473/2013 and the Fiscal Compact of the Treaty on Stability, Coordination and Governance (TSCG). It is noted that with the enactment of the FRBSL law, the MTBF, which was enacted to Law in the summer of 2012, has been abolished.

The Law encompasses, inter alia, macro-fiscal policy-making and budget formulation, approval and execution. It provides for the achievement of the Medium-Term Budgetary Objective over the medium term, through the introduction of expenditure and debt brake rules. The Law also provides for the introduction of a Medium-Term Budgetary Framework, which intends to lead to a containment of expenditures by line ministries and, at the same time, promote the reallocation of expenditure in favour of growth - enhancing activities, consistent with the priorities set by the National Reform Programme.

It is also noted that the Fiscal Council is expected to be established, with some delay, by the end of the first Semester of 2014, with a statutory regime, functions, nomination procedures for its governing body and funding arrangements grounded in the FRBSL.

CSR 2: Concerns the supervisory and the regulatory framework for the cooperative credit societies and the recapitalisation of the financial institutions.

The political agreement reached by the Eurogroup on 25 March 2013, included the restructuring and substantial downsizing of the banking sector. At the same time, the House of Representatives adopted legislation, establishing a comprehensive framework for the recovery and resolution of credit institutions. Under the terms of that legislation, the Central Bank of Cyprus (CBC) is the single resolution authority for banks and cooperative credit institutions (CCIs). Applying this framework, the Government has proceeded with (i) the carve-out of the Greek operations of the largest Cypriot banks, (ii) the resolution of Cyprus Popular Bank and the absorption of selected assets and liabilities by the Bank of Cyprus and (iii) the recapitalisation of the Bank of Cyprus through a debt to equity conversion, without the use of public money. As a result of these actions, the Cypriot banking sector was downsized significantly.

Furthermore, Cyprus has undertaken the following measures:

- Concerning regulation and supervision of the financial sector, a number of additional steps have been taken to strengthen the regulatory and legislative framework:
 - The Central Bank of Cyprus has become the single supervisory authority for banks, as well as for cooperative credit institutions, since September 2013.
 - An amendment of the banking law in order to enable the creation of the credit register and issuance of a directive governing the operational aspects of the credit register, has been approved and published in the official gazette of the Republic on 3 December 2013.
 - Issuance by the CBC of a directive on the loan origination processes on the 3 December 2013, by which the main criterion for granting a loan should be the ability of the borrower to repay it. The CBC issued another directive for provision and disclosure requirements on February 2014.
- As far as the restructuring and recapitalisation of banks and cooperative credit institutions:
 - Successful recapitalisation of the Hellenic Bank (HB) from private sources was achieved.
 - The Restructuring Plan of the Bank of Cyprus was approved by the Central Bank of Cyprus in November 2013, while the restructuring plan of the Cooperative Central Bank was approved by the European Commission on 24 February 2014.
 - A comprehensive strategy to restructure and recapitalise the CCI sector and ensure its long-term viability has been developed. €1,5 billion of state funds will be injected in the

Central Cooperative Bank in exchange for common shares. A Ministerial Decree was issued for the recapitalisation of the CCI sector. The mergers are proceeding according to the agreed plan. The new board of directors of the CCB was put in place early November 2013 and a relationship agreement between the Republic and the CCB was signed on 5 December 2013 and was posted on the MoF website. A roadmap specifying key interim actions for the next three months was prepared by the new BoD of the CCB and was published on 3 December 2013.

CSR 3: Concerns the long-term sustainability and adequacy of the pensions system, the high at risk of poverty rate for the elderly and the alignment of the statutory retirement age with the increase in life expectancy.

A special actuarial valuation was conducted in 2013 in order to assess the financial impact of the reform measures onto the public pension expenditure, based on demographic and economic frameworks which were agreed with the Ageing Working Group (AWG) of the Economic Policy Committee (EPC). The evaluated measures were those adopted in December 2012, relating to the two public pension schemes, providing for the following:

1. The **General Social Insurance Scheme (GSIS)**, the **Social Insurance Law N.193(I)/2012**, enacted on 21 December 2012 refers to the following reform measures: (i) actuarial reduction of pension entitlements for the period 2013-2016, (ii) freeze of pensions for the period 2013-2016, (iii) abolishment of the increase of pensions for a working dependent spouse (for new pensioners), (iv) stricter eligibility conditions to old age pension over the period 2013-2017, (v) increase of contributions as of 1.1.2014 of salaried employees and employers by an additional 1 percentage point of the increase which was legislated to take effect in 2014 as per 2009 GSIS reform and (vi) automatic adjustment of the statutory retirement age every 5 years in line with changes in life expectancy at the statutory age to be applied in 2018.
2. The **Government Employees Pension Scheme (GEPS)**, the occupational pension plan which provide supplementary pensionable benefits to civil servants. The projections incorporate a series of GEPS amendments as a result of the enactment of the **Pension Law N.216(I)/2012** in December 2012 which refer to the following reform measures: (i) pension calculation for any service after the 1st of January 2013, will be based on the career average salary, revalued based on the changes of the Basic Insurable Earnings under the GSIS, (ii) the factor for calculating the lump sum benefit for service after the 1st of January 2013, will be based on a factor of 14/3, irrespective of the total period of service, (iii) early and normal retirement ages are gradually increased. Normal retirement age is gradually extended by 2 years, (iv) early retirement pensions are actuarially reduced by certain factors, but only the part that corresponds to the service after 1.1.2013 is affected, (v) the portion of the lump sum benefit which corresponds to the service after 1.1.2013 is taxable; and (vi) members have the option to commute part or all of their lump sum benefit into an annuity.

Furthermore, future increases of GEPS pensions in payment will be awarded in a rate being set at 50% of the rate of increase of the COLA indexation over the previous year (it is stipulated by the Budget Law).

The results of the valuation, which were evaluated and endorsed by the AWG in September and by EPC in October 2013 showed that the public pension expenditure is projected to decrease significantly by 6 percentage points by 2060 from 16,4% to 10,4%.

In relation to the risk-of-poverty for the elderly, this indicator has continued its downward trend. In particular, over the period 2008 to 2012, it decreased by almost 17 percentage points,

from 50% in 2008 to 33,5% in 2012. The continued increase in the level of GSIS pensions due to maturation of the scheme as well as the continuation of the various schemes which are targeted to support income of low-income pensioners, have contributed at a great extent to the above downward trend.

CSR 4: Concerns the implementation of the national healthcare system

The Government of the Republic of Cyprus, remains committed to the implementation of a National Health System (NHS), to be fully in place by mid-2016, according to the provisions of the MoU. The NHS will ensure its financial sustainability while providing universal coverage.

Following the results of the updated actuarial study and taking into account the current economic conditions, the Ministry of Health (MOH) and the Health Insurance Organisation (HIO) are currently preparing the revised roadmap together with an action plan which will be submitted to Troika by the end of April 2014, after its approval by the Council of Ministers. The NHS will be implemented in stages. The MOH and the HIO are examining various scenarios in order to decide which services will be included in the first stage that will be put in place by mid 2015. The MOH already began negotiations with social partners regarding the rate of contribution and the introduction of Co-Payments within the framework of the NHS.

In parallel, the MOH in cooperation with the HIO, are working on the preparation of the amending bill for the NHS. The amending bill will be submitted to the House of Representatives by Q2-2014.

CSR 5: Concerns the improvement of the skills of the workforce, youth unemployment, self-employment and stimulation of business innovation.

In order to assess progress with respect to the issue of skills mismatch, a bilateral meeting between the Commission and Cyprus' delegates was held on 18 February 2014. The meeting was part of the European semester and the discussions for the progress in the implementation of the Europe 2020 Strategy with emphasis on education and skills.

During the discussion, the Cyprus delegates noted that the issue of skills mismatch is not of the magnitude indicated by the Beveridge Curve or other similar indicators currently used. In principle, using the number of unfilled job vacancies to justify skills mismatches is not an accurate method, since it is not known whether vacancies remain unfilled due to skills mismatch or because the terms of employment and or working conditions are unattractive. CEDEFOP confirmed this view during a relevant conference organised in February 2013 and thus suggested that the particular tool should be used only for raising a flag for further analysis.

Nevertheless, in an effort to improve the skills of the workforce in Cyprus, the Government of Cyprus is promoting a number of measures including the Youth Guarantee Implementation Plan and an Employment Action Plan, in the framework of the Partnership Agreement for the utilization of Structural and Investment Funds.

The Cypriot delegates supported during the bilateral meeting that at this juncture and given the unprecedented unemployment level the problem is mainly the lack of adequate, quality jobs to absorb the unemployed, most of whom are also very experienced. To this end the Government is giving great emphasis on measures to stimulate growth and encourage enterprises to innovate so as to create high quality jobs. A group of experts has prepared a study on Research

Innovation and Entrepreneurship, which was handed to the Government on 26 February 2014. The study puts the emphasis on research that is related to the needs of the business sector, the linkage of academia and business world in order to use innovation in a manner that produces economic value to the enterprise. (*More details are presented in paragraph 2.4, under the R&D National target*).

CSR 6: Concerns the obstacles in the service markets.

The full implementation of the Services Directive was promoted in 2013 through the enactment of the following amending sectoral legislations: (i) Law on Registration and Control of Building Contractors and Contractors for Civil Engineering, (ii) Law on Car Rental Services (iii) Law on Travel Agencies, (iv) Opticians Law (v) Vets Law and Regulations (vi) Law for the Private Higher Institutions (vii) Law on Private Employment Agencies and (viii) Law on Driving Instructors/ driving schools.

The Foreshore Protection Law as voted by the House of Representatives was revoked by the President of the Republic. The House of Representatives did not accept the Presidents' return of the Law and the President instructed the Attorney General to refer the issue to the Supreme Court in order to decide whether the law is repugnant to or inconsistent with the relevant provisions of EU law. The Attorney General submitted the matter to the Supreme Court; the hearing of the case is set for April 2014.

CSR 7: Concerns the reform of the wage indexation and the diversification of the economy.

To ensure that wage growth better reflects developments in labour productivity and competitiveness, in both expansions and recessions, the Cypriot authorities are reforming the wage-setting framework for the public and private sector in such a way as to improve real wage adjustment. To this end, the effective application of the reform of the wage indexation system (COLA) applicable to the broader public sector, as determined in the budget of 2013 and embedded in the Medium-Term Budget, will be ensured. This reform acts on relevant elements of the indexation system, as follows:

- a lower frequency of adjustment, with the base period for calculating the indexation (COLA) being lengthened from the current period of six months to twelve months. Indexation would take place on 1st January each year;
- a mechanism for automatic suspension of application and derogation procedures during adverse economic conditions, such that if in the second and third quarters of a given year negative rates of growth of seasonally adjusted real GDP are registered, no indexation would be effected for the following year; and
- a move from full to partial indexation, with the rate of wage indexation being set at 50% of the rate of increase of the underlying price index over the previous year.

The suspension of wage indexation in the wider public sector will remain in place until the end of the programme (end-Q1-2016).

A tripartite agreement will be pursued with social partners for the application of the reformed system in the private sector by Q2-2014.

4. ANNEX: FISCAL TABLES OF THE STABILITY CONVERGENCE PROGRAMME

Table 2: General government budgetary prospects

| | ESA Code | Year | Year | Year | Year | Year | Year |
|---|----------|----------|----------|----------|----------|----------|----------|
| | | 2013 | 2013 | 2014 | 2015 | 2016 | 2017 |
| | | Level | % of GDP | % of GDP | % of GDP | % of GDP | % of GDP |
| <i>Net lending (EDP B.9) by sub-sector</i> | | | | | | | |
| 1. General government | S.13 | -896.90 | -5.4 | -5.8 | -6.1 | -2.8 | -1.0 |
| 2. Central government | S.1311 | -834.30 | -5.1 | -5.1 | -5.4 | -2.2 | -0.4 |
| 3. State government | S.1312 | M | M | M | M | M | M |
| 4. Local government | S.1313 | 24.6 | 0.1 | -0.1 | 0.0 | 0.0 | 0.0 |
| 5. Social security funds | S.1314 | -87.2 | -0.5 | -0.7 | -0.6 | -0.6 | -0.6 |
| <i>General government (S13)</i> | | | | | | | |
| 6. Total revenue | TR | 6,655.80 | 40.3 | 41.5 | 40.2 | 40.7 | 40.1 |
| 7. Total expenditure | TE1 | 7,552.70 | 45.8 | 47.3 | 46.3 | 43.5 | 41.1 |
| 8. Net lending/borrowing | EDP B.9 | -896.90 | -5.4 | -5.8 | -6.1 | -2.8 | -1.0 |
| 9. Interest expenditure | EDP D.41 | 559.9 | 3.4 | 4.1 | 4.0 | 4.0 | 3.9 |
| 10. Primary balance² | | -337 | -2.0 | -1.8 | -2.1 | 1.2 | 2.9 |
| 11. One-off and other temporary measures³ | | -190 | -1.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>Selected components of revenue</i> | | | | | | | |
| 12. Total taxes (12=12a+12b+12c) | | 4,312.50 | 26.1 | 26.1 | 26.1 | 26.5 | 27.0 |
| 12a. Taxes on production and imports | D.2 | 2,396.20 | 14.5 | 14.8 | 14.9 | 15.2 | 15.2 |
| 12b. Current taxes on income, wealth, etc | D.5 | 1,915.90 | 11.6 | 11.3 | 11.2 | 11.3 | 11.8 |
| 12c. Capital taxes | D.91 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 13. Social contributions | D.61 | 1,474.60 | 8.9 | 9.4 | 9.3 | 9.1 | 9.1 |
| 14. Property income | D.4 | 111.4 | 0.7 | 1.5 | 0.4 | 0.4 | 0.3 |
| 15. Other⁴ | | 757.3 | 4.6 | 4.4 | 4.4 | 4.7 | 3.6 |
| 16=6. Total revenue | TR | 6,655.80 | 40.3 | 41.5 | 40.2 | 40.7 | 40.1 |
| p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) ⁵ | | 5,786.70 | 35.1 | 35.5 | 35.4 | 35.6 | 36.1 |
| <i>Selected components of expenditure</i> | | | | | | | |
| 17. Compensation of employees + intermediate consumption | D.1+P.2 | 3,308.10 | 20.0 | 20.4 | 19.6 | 18.6 | 18.4 |
| 17a. Compensation of employees | D.1 | 2,566.70 | 15.6 | 15.3 | 14.6 | 13.9 | 13.8 |
| 17b. Intermediate consumption | P.2 | 741.4 | 4.5 | 5.1 | 5.0 | 4.7 | 4.6 |
| 18. Social payments (18=18a+18b) | | 2,594.80 | 15.7 | 17.1 | 17.0 | 15.7 | 15.5 |

| | | | | | | | |
|--|--------------------------------|----------|------|------|------|------|------|
| 18a. Social transfers in kind supplied via market producers | D.6311, D.63121, D.63131 | 5.8 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| 18b. Social transfers other than in kind | D.62 | 2,589.00 | 15.7 | 17.0 | 16.9 | 15.6 | 15.4 |
| 19=9. Interest expenditure | EDP D.41 | 559.9 | 3.4 | 4.1 | 4.0 | 4.0 | 3.9 |
| 20. Subsidies | D.3 | 95.1 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 |
| 21. Gross fixed capital formation | P.51 | 346.5 | 2.1 | 2.3 | 2.3 | 2.3 | 2.3 |
| 22. Other⁶ | | 648.3 | 3.9 | 2.9 | 2.8 | 2.3 | 0.5 |
| 23=7. Total expenditure | TE1 | 7,552.70 | 45.8 | 47.3 | 46.3 | 43.5 | 41.1 |
| p.m.: Government consumption (nominal) | P.3 | 3,070.10 | 18.6 | 18.9 | 18.2 | 17.3 | 17.0 |
| ¹ Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9. | | | | | | | |
| ² The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9). | | | | | | | |
| ³ A plus sign means deficit-reducing one-off measures. | | | | | | | |
| ⁴ P.11+P.12+P.131+D.39+D.7+D.9 (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 D.29+D4 (other than D.41) + D.5+D.7+D.9+P.52+P.53+K.2+D.8. | | | | | | | |

Table 3: General government expenditure by function

| % of GDP | COFOG Code | Year | Year |
|---|------------|-------------|-------------|
| | | 2011 | 2016 |
| 1. General public services | 1 | 11.1 | 10.7 |
| 2. Defence | 2 | 2.0 | 1.9 |
| 3. Public order and safety | 3 | 2.3 | 2.2 |
| 4. Economic affairs | 4 | 3.8 | 3.1 |
| 5. Environmental protection | 5 | 0.3 | 0.4 |
| 6. Housing and community amenities | 6 | 2.7 | 2.3 |
| 7. Health | 7 | 3.4 | 3.2 |
| 8. Recreation, culture and religion | 8 | 1.3 | 1.1 |
| 9. Education | 9 | 7.2 | 6.5 |
| 10. Social protection | 10 | 12.1 | 11.9 |
| 11. Total expenditure (=item 7=23 in Table 2) | TE | 46.3 | 43.5 |

Table 4: General government debt developments

| % of GDP | ESA Code | Year | Year | Year | Year | Year |
|--|----------|-------|-------|-------|-------|-------|
| | | 2013 | 2014 | 2015 | 2016 | 2017 |
| 1. Gross debt¹ | | 111.5 | 120.4 | 118.0 | 111.1 | 105.9 |
| 2. Change in gross debt ratio | | 24.9 | 8.9 | -2.4 | -6.9 | -5.2 |
| <i>Contributions to changes in gross debt</i> | | | | | | |
| 3. Primary balance ² | | -2.0 | -1.8 | -2.1 | 1.2 | 2.9 |
| 4. Interest expenditure ³ | EDP D.41 | 3.4 | 4.1 | 4.0 | 4.0 | 3.9 |
| 5. Stock-flow adjustment | | 22.8 | 7.0 | -4.5 | -5.7 | -2.3 |
| <i>of which:</i> | | | | | | |
| - Differences between cash and accruals ⁴ | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Net accumulation of financial assets ⁵ | | 9.7 | 1.3 | 3.7 | 3.6 | 0.6 |
| <i>of which:</i> | | | | | | |
| - privatisation proceeds | | 0 | 0 | 0 | 0 | 0 |
| - Valuation effects and other ⁶ | | 0 | 0 | 0 | 0 | 0 |
| p.m.: Implicit interest rate on debt ⁷ | | 3.6 | 3.5 | 3.4 | 3.5 | 3.6 |
| <i>Other relevant variables</i> | | | | | | |
| 6. Liquid financial assets ⁸ | | 5.2 | 6.3 | 4.8 | 1.0 | -1.2 |
| 7. Net financial debt (7=1-6) | | 106.3 | 114.1 | 113.3 | 110.1 | 107.1 |
| ¹ As defined in Regulation 3605/93 (not an ESA concept). | | | | | | |
| ² Cf. item 10 in Table 2. | | | | | | |
| ³ Cf. item 9 in Table 2. | | | | | | |
| ⁴ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant. | | | | | | |
| ⁵ Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant. | | | | | | |
| ⁶ Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant. | | | | | | |
| ⁷ Proxied by interest expenditure divided by the debt level of the previous year. | | | | | | |
| ⁸ AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares). | | | | | | |

Table 5: Cyclical developments

| % of GDP | ESA Code | Year | Year | Year | Year | Year |
|--|----------|------|------|------|------|------|
| | | 2013 | 2014 | 2015 | 2016 | 2017 |
| 1. Real GDP growth (%) | | -5.5 | -4.8 | 0.9 | 1.9 | 2.3 |
| 2. Net lending/borrowing of general government | EDP B.9 | -5.4 | -5.8 | -6.1 | -2.8 | -1.0 |
| 3. Interest expenditure | EDP D.41 | 3.4 | 4.1 | 4.0 | 4.0 | 3.9 |
| 4. One-off and other temporary measures¹ | | -1.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| 5. Potential GDP growth (%) | | -2.7 | -2.8 | -2.7 | -0.6 | 0.6 |
| contributions: | | | | | | |
| - labour | | | | | | |
| - capital | | | | | | |
| - total factor productivity | | | | | | |
| 6. Output gap | | -3.5 | -5.4 | -2.0 | -1.3 | -0.7 |
| 7. Cyclical budgetary component | | -1.4 | -2.1 | -0.8 | -0.5 | -0.3 |
| 8. Cyclically-adjusted balance (2 - 7) | | -4.1 | -3.7 | -5.3 | -2.3 | -0.7 |
| 9. Cyclically-adjusted primary balance (8 + 3) | | -0.7 | 0.3 | -1.3 | 1.7 | 3.2 |
| 10. Structural balance (8 - 4) | | -2.9 | -3.7 | -5.3 | -2.3 | -0.7 |

¹ A plus sign means deficit-reducing one-off measures.

Table 6: Divergence from previous update

| | ESA Code | Year | Year | Year | Year | Year |
|--|----------|-------|-------|-------|-------|-------|
| | | 2013 | 2014 | 2015 | 2016 | 2017 |
| Real GDP growth (%) | | | | | | |
| Previous update | | -8.7 | -3.9 | 1.2 | 1.9 | n/a |
| Current update | | -5.5 | -4.8 | 0.9 | 1.9 | 2.3 |
| Difference | | 3.2 | -0.9 | -0.3 | 0.0 | n/a |
| General government net lending (% of GDP) | | | | | | |
| Previous update | | -6.0 | -7.6 | -5.7 | -2.2 | n/a |
| Current update | | -5.4 | -5.8 | -6.1 | -2.8 | -1.0 |
| Difference | | 0.6 | 1.8 | -0.4 | -0.6 | n/a |
| General government gross debt (% of GDP) | | | | | | |
| Previous update | | 108.8 | 118.4 | 120.7 | 118.4 | n/a |
| Current update | | 111.5 | 120.4 | 118.0 | 111.1 | 105.9 |
| Difference | | 2.7 | 2.0 | -2.7 | -7.3 | n/a |