Council of the European Union

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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee
No. Cion doc.:	ST 8186/20 - COM(2020) 513 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2020 National Reform Programme of Cyprus and delivering a Council opinion on the 2020 Convergence Programme of Cyprus

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission Proposal COM(2020) 513 final.

COUNCIL RECOMMENDATION

of …

on the 2020 National Reform Programme of Cyprus and delivering a Council opinion on the 2020 Stability Programme of Cyprus

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

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1 OJ L 209, 2.8.1997, p. 1.

2 OJ L 306, 23.11.2011, p. 25.

(1) On 17 December 2019, the Commission adopted the Annual Sustainable Growth Strategy, marking the start of the 2020 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. On 17 December 2019, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified Cyprus as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area.

(2) The 2020 country report for Cyprus was published on 26 February 2020. It assessed Cyprus's progress in addressing the country-specific recommendations adopted by the Council on 9 July 2019[3] ('the 2019 country-specific recommendations'), the follow-up given to the country-specific recommendations adopted in previous years and Cyprus's progress towards its national Europe 2020 targets. It also included an in-depth review under Article 5 of Regulation (EU) No 1176/2011, the results of which were also published on 26 February 2020. The Commission's analysis led it to conclude that Cyprus is experiencing excessive macroeconomic imbalances. In particular, the financial sector is burdened by a very high share of non-performing loans and high stocks of private, public and external debt weigh on the economy, in a context of moderate potential growth.

(3) On 11 March 2020, the World Health Organization officially declared the COVID-19 outbreak a global pandemic. It is a severe public health emergency for citizens, societies and economies. It is putting national health systems under severe strain, disrupting global supply chains, causing volatility in financial markets, triggering consumer demand shocks and having negative effects across various sectors. It is threatening people's jobs and incomes as well as companies' business. It has delivered a major economic shock that is already having serious repercussions in the Union. On 13 March 2020, the Commission adopted a communication calling for a coordinated economic response to the crisis, involving all actors at national and Union level.

3 OJ C 301, 5.9.2019, p. 80.

(4) Several Member States have declared a state of emergency or introduced emergency measures. Any emergency measures should be strictly proportionate, necessary, limited in time, and in line with European and international standards. They should be subject to democratic oversight and independent judicial review.

(5) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97[4], facilitates the coordination of budgetary policies in times of severe economic downturn. In its communication of 20 March 2020, the Commission considered that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for the activation of the general escape clause had been met and asked the Council to endorse this conclusion. On 23 March 2020, the ministers of finance of the Member States agreed with the assessment of the Commission. They agreed that the severe economic downturn requires a resolute, ambitious and coordinated response. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

[4] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

(6) Continued action is required to limit and control the spread of the COVID-19 pandemic, strengthen the resilience of the national health systems, mitigate the socioeconomic consequences of the pandemic through supportive measures for business and households, and ensure adequate health and safety conditions at the workplace with a view to resuming economic activity. The Union should fully use the various tools at its disposal to support Member States' efforts in those areas. In parallel, Member States and the Union should work together to prepare the measures necessary to bring about a return to the normal functioning of our societies and economies and to sustainable growth, integrating inter alia the green transition and the digital transformation, and drawing lessons from the crisis.

(7) The COVID-19 crisis has highlighted the flexibility that the internal market offers to adapt to extraordinary situations. However, in order to ensure a swift and smooth transition to the recovery phase and the free movement of goods, services and workers, exceptional measures that prevent the internal market from functioning normally should be removed as soon as they are no longer indispensable. The current crisis has shown the need for crisis preparedness plans in the health sector. Improved purchasing strategies, diversified supply chains and strategic reserves of essential supplies are among the key elements for developing broader crisis preparedness plans.

(8) The Union legislator has already amended the relevant legislative frameworks by means of Regulations (EU) 2020/460[5] and (EU) 2020/558[6] of the European Parliament and of the Council to allow Member States to mobilise all unused resources from the European Structural and Investment Funds so they can address the exceptional effects of the COVID-19 pandemic. Those amendments will provide additional flexibility, as well as simplified and streamlined procedures. To alleviate cash-flow pressures, Member States can also benefit from a 100 % co-financing rate from the Union budget in the 2020-2021 accounting year. Cyprus is encouraged to make full use of those possibilities to help the individuals and sectors most affected.

(9) The socioeconomic consequences of the COVID-19 pandemic are likely to be unevenly distributed across the country because of different specialisation patterns, in particular in areas markedly relying on tourism and more generally on face-to-face business with consumers. This entails a risk of widening territorial disparities within Cyprus. Combined with the risk of a temporary unravelling of the convergence process between Member States, the current situation calls for targeted policy responses.

(10) On 7 May 2020, Cyprus submitted its 2020 National Reform Programme and its 2020 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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5 Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020 amending Regulations (EU) No 1301/2013, (EU) No 1303/2013 and (EU) No 508/2014 as regards specific measures to mobilise investments in the healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak (Coronavirus Response Investment Initiative) (OJ L 99, 31.3.2020, p. 5).

6 Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investments Funds in response to the COVID-19 outbreak (OJ L 130, 24.4.2020, p. 1).

(11) Cyprus is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule.

(12) In its 2020 Stability Programme, the government plans the headline balance to deteriorate from a surplus of 1,7 % of gross domestic product (GDP) in 2019 to a deficit of 4,3 % of GDP in 2020. The deficit is projected to decline to 0,4 % of GDP in 2021. After decreasing to 95,5 % of GDP in 2019, the general government debt-to-GDP ratio is expected to increase to 116,8 % in 2020 according to the 2020 Stability Programme. The macroeconomic and fiscal outlook is affected by high uncertainty because of the COVID-19 pandemic. In addition, there are risks underlying the budgetary projections, namely explicit contingent liabilities and potential financing needs of public hospitals during the first years of the implementation of the National Health Insurance System.

(13) In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Cyprus has adopted timely budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the 2020 Stability Programme, those budgetary measures amounted to 4,4 % of GDP. The measures include strengthening health care services with an extra budget of up to 0,5 % of GDP, subsidised wages to keep employees on the payroll in case of suspended business operations (2,7 % of GDP) and income support for the small businesses and the self-employed (0,3 % of GDP). In addition, Cyprus has announced measures that, while not having a direct budgetary impact, will contribute to providing liquidity support to businesses, including for example the deferral of VAT payment for a period of two months. Overall, the measures taken by Cyprus are in line with the guidelines set out in the Commission communication of 13 March 2020. The full implementation of the emergency measures and of supportive fiscal measures, followed by a refocusing of fiscal policies towards achieving prudent medium-term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term.

(14) Based on the Commission 2020 spring forecast under unchanged policies, Cyprus's general government balance is forecast at -7 % of GDP in 2020 and -1,8 % of GDP in 2021. The general government debt ratio is projected to reach 115,7 % of GDP in 2020 and 105 % of GDP in 2021.

(15) On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty because of Cyprus's non-compliance with the debt rule in 2019 and the planned breach of the 3 %-of-GDP deficit threshold in 2020. Overall, the Commission's analysis suggests that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/97 has been complied with, while the deficit criterion has not been fulfilled.

(16) Cyprus reacted to the COVID-19 outbreak with a range of measures to mitigate the economic impacts of the crisis. On 15 March 2020 the government put forward a financial support programme to safeguard public health and ensure the economic survival of businesses and employers. The programme earmarks EUR 100 million for financial support to the health sector to combat the pandemic, including for the recruitment of additional medical, nursing and support staff, and for equipment and infrastructure. It sets out a series of measures to support enterprises by enhancing liquidity, e.g. support schemes for businesses and the self-employed, and temporary suspension of VAT payments for companies**.** The package also includes dedicated support of EUR 11 million to help the tourism sector recover.

(17) The COVID-19 crisis demonstrates the need to channel investments to improve and modernise public healthcare, restore capacity and implement the healthcare reform. The new healthcare system offers better access to primary care services, appropriate guidance and treatments based on clinical protocols. It also provides for universal entitlement to affordable health services in the context of the COVID-19 outbreak. Cyprus has an established emergency pandemic plan and allocated additional resources to prevent and manage the impact of infection and contagion. In the medium term, Cyprus needs to steer investments towards increasing the health system's effectiveness, accessibility and overall resilience. Additional resources for the health system should prevent future shortages of medical staff, critical medical supplies and infrastructure. The smooth implementation of the healthcare reform, as planned, is central to ensuring access to healthcare and universal coverage. Digital health solutions and new applications would contribute to stepping up the deployment of e-health services and improving teleconsultations and alert mechanisms. Policies that improve hospital capacity, address health workers' working conditions and ensure the deployment of personal protective equipment, testing, medicines and medical devices are vital. Integration with long-term care as well as primary and community care is crucial in light of demographic change and the need to support the most vulnerable, including people with disabilities.

(18) After consistent positive labour market developments in recent years, Cyprus will now be facing challenges in terms of employment levels due to the health crisis. Further efforts are needed to minimise the socioeconomic impact of the crisis. Cyprus has already adopted emergency measures including short-time work schemes and the extension of unemployment benefits to the self-employed. It will be important to retain employment and ensure the implementation of announced measures, in close consultation with the social partners. Strengthening the capacity of the public employment services with permanent staff will be key, in particular by safeguarding the continuation of services of employment counsellors under temporary contracts expiring in the second half of 2020. This will avoid putting the services under further strain and provide efficient support to the newly unemployed and other vulnerable groups, such as young people not in education, employment or training, the long-term unemployed and persons with disabilities. Support for school-to-work transition and outreach to young people in particular require further attention, as recent graduates might face additional difficulties in finding a job.

(19) The outbreak of COVID-19 requires appropriate measures to mitigate social impacts and to support households' income and sustain a prompt recovery of the economy. According to the Commission 2020 spring forecast, unemployment is expected to rise to 8,6 % in 2020 and decrease to 7,5 % in 2021. External demand for services is set to dip significantly, as the tourism sector is expected to be particularly hard hit by the crisis. Adequate income replacement should be ensured for all affected workers and self-employed people, including those facing gaps in terms of access to social protection. Social protection schemes need to protect those in employment, self-employment and unemployment. There is scope for strengthening the overall social protection system in order to prevent increases in poverty and inequality levels, in particular by reaching out to the most vulnerable, including children, inactive people, undeclared workers, and people with a migrant background.

(20) The promotion of flexible working arrangements with the involvement of social partners, particularly in the form of teleworking, is of high importance. In the short term, these will support workers with unforeseen caring responsibilities for children and other dependants, while in the long term they will facilitate labour market re-entry of the high share of inactive women due to caring responsibilities. Since the elderly and people with chronic diseases have increased risks of severe illness due to the virus, investing in quality long-term care services is of high importance to ensure their continued provision and efficiency in the short and medium term.

(21) Improving the quality, efficiency and labour market relevance of education and training is crucial in this crisis context and to ensure a fast labour-market recovery. Equipping people with the right skills is even more important in times where increased numbers might lose their jobs and need to be ready for job transitions thereafter. The mobility restrictions highlighted the challenges related to the low digital skills levels in Cyprus. This negatively affects online activities, such as teleworking, distance learning and the use of e-health services. Equal access to IT infrastructure and internet, including for disadvantaged learners, along with well-trained teachers, are key for quality digital education and distance learning. To address low overall educational and training outcomes and improve skills more broadly, it is essential to continue with the education reform, while investing in solutions for digital learning, work-based learning and apprenticeship training, and in developing teachers' and trainers' competences to use IT tools effectively. There is scope to address underachievement in basic skills, as well as raise participation in adult learning. To accelerate application, retraining programmes could, to the extent possible, be designed for online use and then, once the pandemic is contained, integrate physical presence, as appropriate.

(22) For the duration of the crisis and its aftermath, significant funds are and will be needed to support businesses. Securing adequate access to finance and liquidity is essential, especially for small and medium-sized enterprises (SMEs), in order to keep companies in business and people at work. In the process of designing and implementing these measures the resilience of the banking sector needs to be taken into account. Cyprus has implemented a specific small-business support scheme that subsidises the salary payments of businesses with up to five employees. In addition, the suspension of the increased contributions to the national health system and the postponement of tax payments (e.g. VAT) will ease the immediate pressure. Swift administrative coordination, practical support and effective communication on the backing available to SMEs, in cooperation with the SME support structures and business organisations, are essential. The speeding-up of contractual payments by public authorities can also help improve the cash flow of SMEs. Newly founded start-ups and scale-ups may need specific support, e.g. in the form of equity stakes by public institutions and incentives for venture capital funds to increase their investments in these firms. It remains important to implement financial instruments prepared before the crisis (Cyprus Energy Fund of Funds).

(23) To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms. Protecting and using the country's natural resources efficiently is of paramount importance to ensure a sustainable economic recovery and future growth. To maintain the country's appeal to tourists, it is necessary to address challenges related to the green energy transition, effective waste and water management and the protection of nature and biodiversity. While significant investments have already started, more investments in these areas need to be front-loaded. Cyprus faces important challenges in reaching its 2030 target for greenhouse gas emissions not covered by the EU emissions trading system. These challenges need to be addressed by planning and adopting additional measures in a timely manner in accordance with the country's National Energy and Climate Plan. Such measures will require investments, in particular in areas like renewable energy, energy efficiency and sustainable transport, which can also help to provide a robust green stimulus. Cyprus also needs to improve its waste management system and the circular economy. Waste generation remains significantly higher than the Union average, while recycling rates remain significantly lower than the Union average. The landfilling rate is also very high. Water and waste water management, especially in urban areas, is characterised by inefficiencies. Droughts and water scarcity are major concerns and an insufficient policy response might affect the country's rural economy and tourism. The programming of the Just Transition Fund, which is the subject of a Commission proposal, for the period 2021-2027 could help Cyprus to address some of the challenges posed by the transition to a climate-neutral economy, in particular in the territories covered by Annex D to the 2020 country report. This would allow Cyprus to make the best use of that Fund.

(24) The importance of a modern digital infrastructure, universal internet access and the availability of digital services was highlighted by the COVID-19 mobility restrictions. Investing in the digital economy is essential for bolstering productivity and boosting the economic recovery after the crisis. Cyprus ranks at the low end of the Commission's Digital Economy and Society Index (DESI) 2020. Only 45 % of Cypriots between 16 and 74 years of age have at least basic digital skills and ICT specialists still represent a lower proportion of the workforce compared to the Union average (2,7 % vs 3,9 %), hampering the potential of the digital economy. There is a low level of online interaction between public authorities and citizens, with only 51 % of Cypriots interacting online. The level of e-commerce (i.e. SMEs selling online, e-commerce turnover and online cross-border sales) is improving (31,8 % in 2019 against 29,4 % in 2018) but it is still below the Union average of 40,1 %.

(25) Cyprus can further improve its research and innovation system to support productivity growth and the required digital and environmental transition in a post-pandemic scenario. Firms' low research and innovation absorption capacity hamper Cyprus's competitiveness. Improved cooperation between academia and business and the commercialisation of research results remain key bottlenecks and require urgent action. However, recent measures such as the creation establishment of a new Deputy Ministry of Research, Innovation and Digital Policy, the appointment of a new Deputy Minister for Research, Innovation and Digital Policy as well as the new Cyprus Research and Innovation Strategy Framework 2019-2023 ("Innovate Cyprus"), which sets a higher research and development target of 1,5 % of GDP by 2023 (up from the current 0,56 %) are promising steps.

(26) Tackling aggressive tax planning is key to improving the efficiency and fairness of tax systems, as acknowledged in the 2020 Recommendation on the economic policy of the euro area. Spillover effects of taxpayers' aggressive tax-planning strategies call for coordinated national action to complement Union legislation. The economic evidence suggests that Cyprus's tax rules are used for aggressive tax-planning purposes. Cyprus has taken steps to address this by implementing international and European initiatives and taking some additional national measures. However, features of the system such as the absence of withholding taxes on outbound dividend, interest and royalty payments by Cyprus-based companies to third country residents, and the corporate tax residency rules, may continue to facilitate aggressive tax planning. The notional interest deduction scheme needs to be closely monitored. Finally, the scheme for the naturalisation of investors in Cyprus by exception and the residence-by-investment scheme have been listed by the OECD as having a potentially high risk for being misused. Cyprus has prepared and submitted for legal vetting draft laws introducing withholding taxes on dividend, interest and royalty payments to countries included in Annex I to the EU list of non-cooperative jurisdictions for tax purposes. Cyprus has also prepared and submitted for legal vetting the introduction of a corporate tax residency test based on incorporation, in addition to the existing management and control. The effectiveness of these measures in tackling aggressive tax planning will need to be assessed.

(27) An effective justice system remains a key factor for an attractive investment- and business-friendly economy and will be crucial in the recovery process. Serious inefficiencies in the justice system continue to undermine contract enforcement and prevent the swift resolution of civil and commercial cases. A series of reforms have been announced to address the most critical problems in the justice system in Cyprus, in particular the outdated civil procedures rules and digitalisation of the courts, the clearance of the large backlog of cases and the lack of lifelong training for judges, but progress remains slow.

(28) Strengthening the resilience and efficiency of the public administration is key to ensuring the swift and effective implementation of the COVID-19 recovery measures in Cyprus. Improving the coordination between central and local government and tackling the fragmentation and inefficiencies at local level are necessary to remove the bottlenecks for coherent implementation, investments and service delivery in the country. Pushing forward the digitalisation of public administration is key to ensuring its own business continuity, as well as the continued and effective access to public services for citizens and the businesses.

(29) While the country-specific recommendations set out in this Recommendation ('the 2020 country-specific recommendations') focus on tackling the socioeconomic impacts of the pandemic and facilitating the economic recovery, the 2019 country-specific recommendations also covered reforms that are essential to address medium- to long-term structural challenges. The 2019 country-specific recommendations remain pertinent and will continue to be monitored throughout next year's European Semester. That includes the 2019 country-specific recommendations regarding investment-related economic policies. All of the 2019 country-specific recommendations should be taken into account for the strategic programming of post-2020 cohesion policy funding, including for mitigating measures and exit strategies with regard to the current crisis.

(30) Safeguarding the overall soundness of the banking system and managing financial stability risks are essential for weathering the COVID-19 crisis and supporting the economy. While the stability of the banking sector improved significantly in recent years, the pandemic is posing strains on banks, through an increase in credit risk and pressures on profitability and capitalisation. Vulnerabilities and challenges stem from an over-indebted private sector and a high stock of non-performing loans (NPLs), which limit the scope of credit support. The Cypriot banking sector has the second highest NPL ratio in the euro area. Therefore, efforts to reduce NPLs remains a priority, in particular addressing legacy NPLs that are long overdue before the onset of the COVID-19 crisis. To achieve this aim, progress on the State-owned asset management company (KEDIPES), including on its organisational model and strategy, is essential. The ESTIA scheme appropriately seeks to support and protect vulnerable borrowers, but it is remains essential to balance this aim with improving payment culture. In this respect, strengthening the enforcement of claims and promoting the use of insolvency framework would help underpin a sustainable workout of bad loans. Moreover, reducing the backlog in the issuance of title deeds by implementing a structural solution to address the inadequacies of the property transaction system (i.e. the issuance and transfer of title deeds) remains an important task.

(31) Continuing efforts to strengthen the framework to prevent and penalise corruption is key to ensuring recovery in the aftermath of the COVID-19 crisis and achieving an efficient, accountable and transparent allocation and distribution of funds and resources. While an action plan against corruption is being implemented, key measures and legislation are still pending adoption, notably the draft Acts for the enhancement of transparency in public decision making, the establishment of the independent authority against corruption, reporting corruption and the protection of whistle-blowers. The provisions related to the Law Office’s separation of functions and recruitment procedures are still pending completion.

(32) The European Semester provides the framework for continuous economic and employment policy coordination in the Union, which can contribute to a sustainable economy. In their 2020 National Reform Programmes, Member States have taken stock of progress made in the implementation of the United Nations Sustainable Development Goals (SDGs). By ensuring the full implementation of the 2020 country-specific recommendations, Cyprus will contribute to the progress towards the SDGs and to the common effort of ensuring competitive sustainability in the Union.

(33) Close coordination between economies in the economic and monetary union is key in achieving a swift recovery from the economic impact of the COVID-19 pandemic. As a Member State whose currency is the euro, Cyprus should ensure that its policies remain consistent with the 2020 euro-area recommendations and coordinated with those of the other Member States whose currency is the euro, taking into account political guidance from the Eurogroup.

(34) In the context of the 2020 European Semester, the Commission has carried out a comprehensive analysis of Cyprus's economic policy and published it in the 2020 country report. It has also assessed the 2020 Stability Programme, the 2020 National Reform Programme and the follow-up given to the country-specific recommendations addressed to Cyprus in previous years. The Commission has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Cyprus, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(35) In the light of this assessment, the Council has examined the 2020 Stability Programme and its opinion[7] is reflected in particular in recommendation (1) below.

[7] Under Article 5(2) of Regulation (EC) No 1466/97.

(36) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2020 National Reform Programme and the 2020 Stability Programme. The 2020 country-specific recommendations take into account the need to tackle the COVID-19 pandemic and facilitate the economic recovery as a necessary first step to allow for an adjustment of imbalances. The 2020 country-specific recommendations directly addressing the macroeconomic imbalances identified by the Commission under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (3) and (4),

HEREBY RECOMMENDS that Cyprus take action in 2020 and 2021 to:

1. Take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience and capacity of the health system to ensure quality and affordable services, including by addressing health workers' working conditions.

2. Provide adequate income replacement and access to social protection for all. Strengthen public employment services, promote flexible working arrangements and improve the labour-market relevance of education and training.

3. Secure adequate access to finance and liquidity, especially for SMEs. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, waste and water management, sustainable transport, digitalisation, research and innovation.

4. Step up action to address features of the tax system that facilitate aggressive tax planning by individuals and multinationals. Improve the efficiency and digitalisation of the judicial system and the public sector.

Done at Brussels,

For the Council
The President