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COVER NOTE

From:	Dr Nicholas EMILIOU, Ambassador, Permanent Representation of the Republic of Cyprus to the European Union
date of receipt:	15 October 2019
To:	Mr Carsten PILLATH, Director General, Council of the European Union
Subject:	Cyprus: Draft Budgetary Plan of Cyprus as laid down in Article 6(1) of Regulation (EU) 473/2013 on Common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the member states in the euro area

Delegations will find attached the Draft Budgetary Plan for 2020 of the Republic of Cyprus.
This document is aimed for discussion in the Eurogroup.



AMBASSADOR, PERMANENT REPRESENTATIVE OF CYPRUS
TO THE EUROPEAN UNION

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Brussels, 15 October 2019

Dear Mr. Pillath

Republic of Cyprus – Draft Budgetary Plan 2020

Attached find please the Draft Budgetary Plan 2020 (DBP 2020) of the Republic of Cyprus, in accordance with Regulation EU 473/2013. The DBP 2019 has been prepared in line with the requirements of the Code of Conduct, which sets out “Guidelines on the format and content of draft budgetary plans, economic partnership programmes and debt issuance reports”.

I remain at your disposal for any further information you may need.

Yours sincerely,

Nicholas EMILIOU (Dr.)

Mr. Carsten PILLATH
Director-General
General Secretariat of the Council

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Cyprus Draft Budgetary Plan 2020

in accordance to regulation (EU) No 473/2013

October 2019

CONTENTS

Introduction	3
1. Economic developments and Outlook	4
2. Budgetary developments and targets	8
Budgetary targets	8
Public expenditure and revenue under the no-policy-change scenario and discretionary budgetary measures.....	12
3. Union’s Strategy for Growth and Jobs Targets and Country Specific Recommendations	13
4. Comparison between DBP and the most recent Stability Programme	27
APPENDIX: TABLES	28

INTRODUCTION

The Draft Budgetary Plan (DBP) 2020, prepared according to Regulation EU 473/2013, is submitted by the Republic of Cyprus, resulting in the full participation in the regular economic governance framework and procedures. It is noted that Cyprus is in the preventive arm of the Stability and Growth Pact.

The DBP 2020 was approved by the Council of Ministers on 15th October 2019 and will be laid before the House of Representatives. The macroeconomic projections underlying the budgetary outcomes have been endorsed by the Fiscal Council.

The format and content of the document are in line with the requirements of the Code of Conduct, and therefore, macroeconomic and budgetary forecasts¹ are presented for the current and forthcoming year, whereas broad categories are also presented for the medium-term. The analysis and forecasts contained in this document are based on the latest available results of 2019, as well as the Budget Bill for 2020 that was submitted to the House of Representatives on 11th October 2019.

¹ The cut-off date for the macroeconomic and fiscal forecasts was 16 September 2019.

1. ECONOMIC DEVELOPMENTS AND OUTLOOK

Developments in 2019

During the first half of 2019, the economy exhibited a growth rate of 3.2% in real terms (seasonally adjusted terms), compared to the respective period of 2018. Growth was supported by a strong private consumption, coupled with continued positive developments in the labour market, and expanded at a rate of 5% in seasonally adjusted terms. Government consumption increased by 11.9% during the first semester of 2019. Gross fixed capital formation exhibited an increase of 37.5%. Exports recorded a decrease of 0.8% in the first half of 2019, on an annual basis. In line with private consumption, imports increased by 6.9%, on an annual basis, during the first half of 2019.

From a sectoral point of view, growth in 2019 was broad based attributed to the sectors of construction, information and communication, professional, scientific and technical activities, administrative and support service activities and arts, entertainment and recreation. Negative growth was recorded by the sector of financial and insurance activities due to the deleveraging that has been taking place in the banking sector.

For tourism, 2019 proved to be intensely competitive, while bearing the effects of the uncertainty around Brexit and negative developments in certain airline carriers. Nevertheless, tourist arrivals increased marginally by 0.6% y-o-y during the period of January-August 2019, following a record year of 2018 in terms of arrivals and revenues. Tourism revenues, on the other hand, recorded a decrease of 3.1% during the period January-June 2019 compared to the corresponding period of 2018.

Monthly data indicate an increase of 2.8% in the turnover volume index of retail trade during the period January-July 2019, compared to the corresponding period of 2018. Other monthly indicators for the construction sector show signs of continued recovery, with demand for immovable property rebounding significantly. Specifically, building permits, which is a leading indicator, exhibited an annual increase of 52.1% during the period January-June 2019 compared to the corresponding period of 2018. At the same time, sales contracts for new properties exhibited an increase of 17% during the period January-August 2019 compared to the corresponding period of 2018.

The less strong positive growth the economy is exhibiting in 2019 is due to the external environment that has deteriorated (global slowdown and Brexit) which has resulted in a downward revision² of the national authorities macroeconomic forecast for the year by 0.4 p.p., with y-o-y growth estimated to hover around 3.2%. The course of the lower but still strong growth path is reflected in the labour market where the unemployment rate fell significantly in the first half of 2019 to 7.7%, from 8.4% in 2018. The estimate for the year as a whole is for an average unemployment rate of 7% in 2019.

No significant pressure on prices is forecast for the year, as inflation, measured with the Harmonised Index of Consumer Prices (HICP), is estimated at 0.5% for 2019, compared to an increase of 0.8% in 2018.

Prospects for 2020

According to the baseline macroeconomic scenario, the outlook of the economy over the medium term is expected to continue on a positive trend but at a dissipated pace, mainly due to weakening of exports. Private consumption is expected to remain strong but to a lesser degree, while unemployment is expected to continue

² The comparison refers to the April 2019 projections included in the Stability Programme.

on a declining trend. These developments, combined with the anticipated investment opportunities in the energy and tourism sector, maintain the positive outlook for the Cypriot economy.

Overall, in 2020 the economy is projected to grow by 2.9% in real terms. The trends in the labour market are expected to continue positively with the unemployment rate for 2020 projected to decline further to about 6%. Inflation in 2020 is expected to pick up and average at around 1.2%.

	2018	2019	2020
Real GDP growth (%)	3.9	3.2	2.9
Inflation HICP (%)	0.8	0.5	1.2
Unemployment (%)	8.4	7.0	6.0

Table 1a. Macroeconomic prospects

	2018 rate of change	2019 rate of change	2020 rate of change
1. Real GDP	3.9	3.2	2.9
2. Potential GDP			
contributions:			
- labour			
- capital			
- total factor productivity			
3. Nominal GDP	5.5	3.6	4.1
Components of real GDP			
4. Private final consumption expenditure	3.7	4.0	2.8
5. Government final consumption expenditure	4.3	10.4	7.4
6. Gross fixed capital formation	-7.1	19.8	10.7
7. Changes in inventories and net acquisition of valuables (% of GDP)	1.5	0.0	0.0
8. Exports of goods and services	3.3	-1.5	0.8
9. Imports of goods and services	2.0	6.1	4.6
Contributions to real GDP growth			
10. Final domestic demand	1.7	8.2	5.6
11. Changes in inventories and net acquisition of valuables	1.5	0.0	0.0
12. External balance of goods and services	0.7	-5.0	-2.7

The high increase in government consumption estimated for 2019 and 2020 is driven mainly by expenses related to the introduction of the National Health System (NHS), i.e. payments by the Health Insurance Organisation (HIO) to health care providers. The impact of the NHS introduction on the government final consumption expenditure growth is estimated at around 6.0 p.p. in 2019 and at around 4.0 p.p. in 2020.

It is important to note, that payments from the HIO to public health care providers, are at the same time revenues for the State Health Services Organisation (SHSO), which is another subsector of the general government. As revenues received for services by a subsector of the general government, payments from HIO to SHSO are netted out and do not impact Government final consumption expenditure. In 2019, payments are expected to marginally cover services provided by public health care providers to the system, due to temporary billing issues the SHSO is facing at the moment. In 2020, billing issues are expected to be resolved

and it is assumed that payments from the HIO to health care providers will be equally distributed between private and public health care providers.

It should also be stressed that, public consumption projections between the fiscal accounts and the national accounts are not comparable. As the projections stand in this Draft Budgetary Plan (DBP), public consumption in the fiscal accounts includes the government contribution as a third party and the HIO payments to SHSO. The Statistical Service of the Republic of Cyprus is in the process of correcting the above with a re-classification of NHS related revenue and expenditure in the fiscal accounts. In order to avoid a misleading macroeconomic forecast in this DBP, the re-classification is taken into account in the public consumption in the context of the national accounts, hence the incomparability.

Table 1b. Price developments

	2018 (rate of change)	2019 (rate of change)	2020 (rate of change)
GDP deflator	1.6	0.4	1.2
Private consumption deflator	1.2	0.5	1.2
HICP	0.8	0.5	1.2
Public consumption deflator	1.4	4.0	2.5
GFCF deflator	2.6	0.8	1.4
Export price deflator (goods and services)	1.4	0.0	1.2
Import price deflator (goods and services)	0.0	1.0	1.6

Table 1c. Labour market developments

	2018 (rate of change)	2019 (rate of change)	2020 (rate of change)
Employment, persons ¹	4.0	3.0	2.7
Employment, hours worked ²	3.6	3.0	2.7
Unemployment rate (%) ³	8.4	7.0	6.0
Labour productivity, persons ⁴	-0.1	0.2	0.2
Labour productivity, hours worked	0.2	0.2	0.2
Compensation of employees	4.3	6.6	6.1
Compensation per employee	0.1	3.5	3.3

Table 1d. Sectoral balances

	2018 (% GDP)	2019 (% GDP)	2020 (% GDP)
1. Net lending/net borrowing vis-à-vis the rest of the world	-7.0	-10.8	-12.4
of which:			
- Balance on goods and services	-2.2	-8.0	-10.7
- Balance on goods and services	-4.9	-2.8	-1.8
- Capital account			
2. Net lending/net borrowing of the private sector	-2.3	-14.6	-15.1
3. Net lending/net borrowing of general government	-4.8	3.8	2.7
4. Statistical discrepancy	0.0	0.0	0.0

Risks to growth

Risks to the baseline forecast are tilted on the downside. The main macroeconomic risks over the medium term stem from the internal environment and in particular the developments in the financial sector. The still high percentage of non-performing loans (NPLs), compared to the EU average, is the remaining legacy

challenge facing the banking sector. Budgetary risks that can destabilize the economy are also focused on the internal environment. These relate to contingent liabilities to the Republic that may arise from judicial cases pending before the courts and, notably, the Supreme Court's imminent rulings on the appeals submitted by the Republic on the Administration Court's ruling that the Reduction of Salaries and Pensions of Public Service Officials, Employers and Pensioners of the Public Sector Law of 2012 (168 (I) / 2012) was unconstitutional. The most important external risk is also tilted on the downside and concerns the uncertainty about the timing and manner of exit of the United Kingdom (UK) from the EU and associated repercussions on the UK's economy. Other external risks are concentrated on the relatively volatile global economic environment, due to the continuing tension in trade relations and geopolitical developments in the surrounding Eastern Mediterranean region, including migration issues. If the slowdown in the growth of the EU and eurozone economies continues further than what is currently projected, it will impact negatively on the growth trajectory.

2. BUDGETARY DEVELOPMENTS AND TARGETS

BUDGETARY TARGETS

The budget balance of the General Government was in deficit in 2018 of about €990 mn (-4.8% of GDP), due to the one-off fiscal burden of €1,685 mn, which was the result of the sale of part of assets and liabilities of the ex-Cooperative Central Bank (CCB) to the Hellenic Bank.³ Primary balance was also in deficit of about €475 mn (-2.3% of GDP). Excluding the abovementioned one-off fiscal burden, nominal balance was in surplus and reached 3.4% of GDP compared to 1.8% of GDP the year before, recording an improvement of 1.6 percentage points of GDP. Respectively, primary balance improved by 1.5 percentage points of GDP, reaching 5.8% compared to 4.3% of GDP the year before.

In 2019, the general government budget balance is expected to record a substantial improvement and reach a surplus of about 3.8 percent of GDP. This improvement is partly associated with an estimated surplus of the Health Insurance Organisation⁴ of about 0.5% of GDP, as well as from a surplus of KEDIPES estimated at about 0.1% of GDP. The high general government revenue growth during the current year, stemming both from the continuous improvements in the economic environment, as well as from the increase in social security contributions as of 1st January 2019 according to the relevant Law, is expected to overcompensate the loss from the further reduction of the wage cuts, which is estimated to have a negative fiscal impact in the current year of about 0.3 percent of GDP. The primary surplus of the General Government is expected to register an improvement of 8.5 percentage points of GDP in 2019 and reach 6.2% of GDP compared to a primary deficit of 2.3% of GDP in 2018.

In 2020, the budget balance is expected to drop by 1.1 percentage points of GDP but to remain in surplus of about 2.7 percent of GDP. The drop in the budget balance of the general government compared to the year before, is mainly due to (i) the further reductions in wage cuts estimated at 0.3 percent of GDP, (ii) the assumption of a fiscally neutral impact of the NHS compared to a positive impact of 0.5 percent of GDP the year before, as well as from (iii) the methodological treatment of the signature bonus related to the production sharing contracts for the exploration and exploitation of hydrocarbon reserves, received in April 2017, which was apportioned over the years 2017, 2018 and 2019, of about 0.2 p.p. each year. Primary balance is also expected to continue to be in surplus of the order of 5.1 percent of GDP dropping by 1.1 percentage points of GDP compared to the year before.

According to the authorities' forecast with regards to the potential output using the commonly agreed methodology for the estimation of potential growth and the output gap, structural balance is expected to be in surplus in 2019 reaching 2.2% of GDP, and continue to be in surplus also in 2020 of the order of 1.0% of GDP.

³ The sale process of part of the assets and liabilities of the Cyprus Cooperative Bank Ltd (CCB) to the Hellenic Bank resulted in the establishment of two new entities, namely the Cooperative Asset Management Company Ltd (SEDIPES) and Cyprus Asset Management Company Ltd (KEDIPES), which are both classified within the General Government sector as of September 2018.

⁴ The Health Insurance Organisation (HIO) and the State Health Services Organisation (SHSO) are included in the accounts of the General Government, in the context of the introduction of the National Health System.

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

	ESA Code	Year	Year
		2019	2020
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	3.8	2.7
1a. Central government	S.1311	2.8	1.6
1b. State government	S.1312	M	M
1c. Local government	S.1313	0.0	0.0
1d. Social security funds	S.1314	1.0	1.0
2. Interest expenditure	D.41	2.3	2.4
3. Primary balance		6.2	5.1
4. One-off and other temporary measures		0.0	0.0
5. Real GDP growth (%) (=1. in Table 1a)		3.2	2.9
6. Potential GDP growth (%) (=2 in Table 1.a)		2.1	2.7
contributions:			
- labour		1.2	1.3
- capital		1.5	1.6
- total factor productivity		0.0	0.1
7. Output gap (% of potential GDP)		3.2	3.1
8. Cyclical budgetary component (% of GDP)		1.6	1.6
9. Cyclically-adjusted balance (% of GDP)		2.2	1.0
10. Cyclically-adjusted primary balance (% of GDP)		4.5	3.5
11. Structural balance (% of GDP)		2.2	1.0

Table 2b. General government debt developments

	ESA Code	Year	Year
		2019	2020
		% GDP	% GDP
1. Gross debt		97.4	91.1
2. Change in gross debt ratio		14.0	-2.0
Contributions to changes in gross debt			
3. Primary balance (= item 3 in Table 2.a)		5.4	5.6
4. Interest expenditure (= item 2 in Table 2.a)	D.41	2.5	2.6
5. Stock-flow adjustment		16.9	1.1
p.m.: Implicit interest rate on debt		2.8	2.6

The general government gross debt to GDP ratio is expected to record a decline of about 5.1 percentage points of GDP, from a peak of 102.5% in 2018 that was related to the one-off increase attributed to the issuance of domestic bonds in favour of the Cyprus Cooperative Bank of €3.19 bln, to 97.4% of GDP by the end of the current year. In 2020 the general government gross debt to GDP ratio is expected to record a further decrease of 6.3 percentage points of GDP compared to the year before and decline to 91.1% of GDP.

Revenue and Expenditure Projections

On the revenue side, an estimated growth of about 10.5% is anticipated for 2019, leading to an increase as a percent of GDP, from 39.7 the year before to 42.3 percent of GDP. In 2020, total revenue is forecast to record a growth of 10%, increasing further by 2.3 percentage points of GDP compared to the year before and reach 44.6 percent of GDP.

Revenue from taxes on production and imports is expected to increase by 2.3% during the current year, albeit declining as a percentage of GDP to 15.7% compared to 15.9% the year before, related to the reduction of fuel prices by 5 cents per litter, as from December 2018. In 2020, revenue from taxes on production and imports are expected to grow by 3% and decrease by 0.2 percentage points of GDP, associated with the declining path of tax arrears expected to be collected compared to the year before, owing to the tax arrears scheme introduced mid-2017.

Current taxes on income and wealth receipts are expected to exhibit an increase of 8.5% in 2019, in line with the further improvements in the labour market as well as from the profitability of companies associated with the favourable economic conditions. As a percentage of GDP, current taxes on income and wealth are expected to record an increase of 0.4 percentage points of GDP reaching 9.7% compared to 9.3% in 2018, and remain at the same level the year after.

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

	ESA Code	2019	2020
General government (\$13)		% GDP	% GDP
1. Total revenue target	TR	42.3	44.6
<i>of which</i>			
1.1. Taxes on production and imports	D.2	15.7	15.5
1.2. Current taxes on income, wealth, etc.	D.5	9.7	9.7
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.5	14.6
1.5. Property income	D.4	0.7	0.4
1.6. Other		4.7	4.5
p.m.: Tax burden		36.9	39.8
(D.2+D.5+D.61+D.91-D.995)			
2. Total expenditure target	TE	38.4	42.0
<i>Of which</i>			
2.1. Compensation of employees	D.1	12.5	12.9
2.2. Intermediate consumption	P.2	4.1	3.9
2.3. Social payments	D.62+D.632	14.4	17.8
<i>of which Unemployment benefits</i>		0.3	0.3
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	2.3	2.4
2.5. Subsidies	D.3	0.3	0.3
2.6. Gross fixed capital formation	P.51g	1.9	1.9
2.7. Capital transfers	D.9	0.4	0.4
2.8. Other		2.5	2.4

Social contributions are expected to exhibit an increase of 34.1% compared to the year before, and improve by 2.6 percentage points of GDP, from 8.9 percent of GDP in 2018 to 11.5 percent of GDP in 2019, attributed to (i) the contributions related to the National Health System (NHS) as of 1st March 2019, (ii) the pre-legislated increases in social security contributions as of 1st January 2019, as well as (iii) from the improving labour market conditions. In 2020, revenue from social contributions are estimated to increase by 32.1% due to the increase

in the contribution rates in the context of the NHS, starting from 1st March 2020, contributing 7.7 percentage points in total revenue growth.

Property income is estimated to reach 0.7 percent of GDP in 2019 and then drop by 0.3 percentage points of GDP reaching 0.4 percent of GDP in 2020, mainly attributed due to the methodological treatment of the signature bonus related to the production sharing contracts for the exploration and exploitation of hydrocarbon reserves, which was reflected in the accounts of the general government in the three-year period 2017-2019.

Total expenditure in 2019 is estimated to exhibit a decrease of 10.3%, and drop as a percentage to GDP to 38.4 percent compared to 44.5 percent of GDP the year before, attributed to the one-off expenditures related to the inclusion of KEDIPES in the general government accounts end-2018, of about 8.4% of GDP. Excluding the abovementioned impact, total government expenditure is expected to grow by 10.7% and increase by 2.4 percentage points of GDP compared to the year before. In 2020, government expenditure is expected to record a growth of 13.8% compared to the year before and as a percentage of GDP increase by 3.6 percentage points.

More specifically, social payments in 2019 are estimated to increase to 14.4 percent of GDP from 13.1 percent of GDP the year before, recording an annual increase of 14.6%, with 11 percentage points of this growth stemming both from the contribution of the government as a third party in the context of the NHS, as from 1st March 2019, as well as from NHS related expenditure. In 2020, social payments are projected to increase further by 28.6% compared to the year before and reach 17.8 percent of GDP. The increase in the NHS contribution rates as of 1st March 2020 is estimated to contribute 12.8 percentage points on the growth of social payments during 2020, and also expenses in the context of the introduction of the 2nd second phase of the National Health System are expected to contribute 12.1 percentage points on social payments' growth.

The expenditure category compensation of employees is expected to record a growth of 9.5% in 2019 compared to the year before, and as a percentage of GDP increase by 1.7 percentage points, reaching 12.5 percent of GDP. The outcome of this growth is mainly attributed to (i) the estimated impact from the gradual phasing out of wage cuts (3 p.p.), (ii) the government's contribution to the NHS as an employer (1.3 p.p.), (iii) the increase of the wage bill in the Health Sector (1.2 p.p.), (iv) annual increases and Cost of Living Allowance (total contribution 1.8 p.p.), and (v) increased payments for pensions and gratuities (0.9 p.p.). Expenditure for compensation of employees is expected to further increase by 7.5% in 2020 compared to the year before and reach 12.9 percent of GDP, attributed partly to the increased contribution rates of employees as of 1st March 2020 in the context of NHS, as well as from the further reduction of the wage cuts.

Intermediate consumption is expected to increase by 7.7% in 2019 compared to the year before and reach 4.1 percent of GDP, mainly due to expected increased expenditure related to KEDIPES (contribution to growth 4 p.p.), and then drop to 3.9 percent of GDP the year after. Interest expenditure is expected to decrease by 0.2 percentage points of GDP in 2019 compared to the year before and reach 2.3 percent of GDP, associated to the repayment part of the bonds issued in favor of ex-CCB mid-2018, and then marginally increase in 2020 by 0.1 percentage points of GDP.

Gross fixed capital formation is expected to drop by 3.4 percentage points of GDP during 2019 compared to the year before and reach 1.9 percent of GDP, exhibiting a negative growth rate of 63.5%, related to the inclusion of KEDIPES in the general government sector, end-2018. In 2020, gross fixed capital formation is expected to grow by 4% compared to the year before and as a percentage of GDP remain at the same levels as in the year before.

PUBLIC EXPENDITURE AND REVENUE UNDER THE NO-POLICY-CHANGE SCENARIO AND DISCRETIONARY BUDGETARY MEASURES

During the budgetary process for the forthcoming year (2020) no additional measures were included. Therefore, the budgetary outcomes for the years 2019 and 2020 remain the same under the no-policy change scenario, as in the baseline scenario.

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

General government (\$13)	ESA Code	2019	2020
		% GDP	% GDP
1. Total revenue at unchanged policies	TR	42.3	44.6
of which			
1.1. Taxes on production and imports	D.2	15.7	15.5
1.2. Current taxes on income, wealth, etc	D.5	9.7	9.7
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.5	14.6
1.5. Property income	D.4	0.7	0.4
1.6. Other		4.7	4.5
p.m.: Tax burden		36.9	39.8
(D.2+D.5+D.61+D.91-D.995)			
2. Total expenditure at unchanged policies	TE	38.4	42.0
Of which			
2.1. Compensation of employees	D.1	12.5	12.9
2.2. Intermediate consumption	P.2	4.1	3.9
2.3. Social payments	D.62+D.632	14.4	17.8
of which Unemployment benefits		0.3	0.3
2.4. Interest expenditure	D.41	2.3	2.4
2.5. Subsidies	D.3	0.3	0.3
2.6. Gross fixed capital formation	P.51g	1.9	1.9
2.7. Capital transfers	D.9	0.4	0.4
2.8. Other		2.5	2.4

3. UNION'S STRATEGY FOR GROWTH AND JOBS TARGETS AND COUNTRY SPECIFIC RECOMMENDATIONS

The table below summarises the progress in relation with each one of the CSRs:

Country Specific Recommendation	Progress to date
CSR 1	
<p>Adopt key legislative reforms to improve efficiency in the public sector, in particular as regards the functioning of the public administration and the governance of state-owned entities and local governments. Address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, in particular by means of outbound payments.</p>	
<p>Adopt key legislative reforms to improve efficiency in the public sector, in particular as regards the functioning of the public administration.</p>	<p>Reforming Public Administration The following draft laws / regulations were approved by the Council of Ministers at its meeting on October 2nd, 2019:</p> <p>(a) The Public Service (Amendment) Act primarily aimed at delegating to the Public Service Commission (PSC) the power to monitor the proper implementation of the performance appraisal system of civil servants and the introduction of a new category of posts for scientific / occupational Scale A13(ii) (Inter-departmental promotion posts), which may be claimed by civil servants serving anywhere in the public service at the immediately lower payroll, provided they have the required qualifications academic / professional qualifications and relevant experience.</p> <p>(b) The Candidate Evaluation for Promotion, Interdepartmental Promotion and First Appointment and Promotion in the Public Service Law aimed at introducing new provisions for the evaluation and selection of candidates by the PSC in public service-based positions, based on modern methods and tools that define specific criteria for evaluating candidates and their relevance.</p> <p>(c) The Civil Service (Employee Evaluation) Regulations aiming at introducing a new civil servants' performance appraisal system, which will be linked to the promotion of officials in promotion and cross-promotion positions. An analytical framework of competences and criteria is defined which vary by hierarchical level of staff. A new way of scoring is introduced, numerical scoring for officials up to Scale A11 whose evaluation will be taken into account for promotion purposes and descriptive for officials in Scale A13 and above, whose evaluation will only be used for development purposes.</p>
<p>Governance of state-owned enterprises.</p>	<p>The Council of Ministers approved on 9/4/2019 that all State Owned Entities:</p> <p>(a) Prepare a three-year period Mid-Term Financial Framework as from 2020 with the first covering the period 2020-2022. (b) Proceed with the preparation of Strategic Plans and link them to the budget, similarly to the Strategic Plans of the State Sector, in consultation with the Ministry of Finance.</p>

	<p>(c) Prepare a Risk Report by regularly updating the Board of Directors of each Organization, the responsible Minister and the Minister of Finance and submitting it to the Council of Ministers once a year, within the second quarter, for information or for the adoption of policy action if and when necessary.</p> <p>In addition, the Council of Ministers with a decision dated 25/7/2019, has:</p> <ul style="list-style-type: none"> (a) approved the implementation of a Code of Public Governance (Code) by State Organizations and State-owned Enterprises. The Code was prepared by the New Governance Group, which operates on a voluntary basis under the auspices of the Cyprus Institute of Managers and was developed, in co-operation with the Ministry of Finance, specifically to meet the needs of State Organizations and State-owned Enterprises, (b) authorized the responsible Ministers, where appropriate, to request from the State Organizations and State-owned Enterprises (SO/SOE) under their supervision to prepare the qualifications profile (academic, professional and experience qualifications) of the Chair and Members to be appointed in each SO/SOE and each subcommittee, depending on the work carried out by each organization / enterprise, and (c) authorize the relevant Ministers, where appropriate, to request from the Committee members under their supervision to submit annually a statement of application of the Code on a relevant form to be determined by the Minister of Finance. <p>On 11/9/2019, the Council of Ministers approved an investment framework that will apply to Public Legal Entities (PLEs) that fall within the scope of the Public Legal Entities (Investment) Act of 1991. This framework sets the investment parameters in which the PLEs covered by the above legislation can invest their cash, setting as its basic elements the measurement and mitigation of risks, the appropriate liquidity of the organizations and finally investment return.</p> <p>Further, eligible investments are recorded as well as some qualitative and quantitative restrictions depending on the type of investment.</p>
<p>Local government reform</p>	<p>The Ministry of Interior is preparing new bills for Local Government Reform in place of the three bills that were tabled in the House of Representatives in 2015 and the debate has not proceeded.</p> <p>1. Municipalities Bill: The Ministry's goal is to send the new bill to Parliament before the end of this year.</p>

	<p>Following the preparation of a new External Expert Policy Paper as well as the new bills, the Minister of Interior held several meetings with the Union of Cyprus Municipalities on Local Government Reform last March. At the same time, the technical committees are working intensively to finalize the Bill on Municipalities.</p> <p>2. Communities Bill The Bill was submitted for legal vetting last June. It foresees the creation of 37 local clusters, which will provide central services to citizens such as garbage collection, technical, accounting and secretarial services, management of green areas (e.g. parks) etc. This will result in an improved provision of services and the implementation of economies of scale.</p> <p>3. Bill on the Creation of Five Provincial Clusters The Bill has been submitted to the House of Parliament, where discussion in the relevant Committee has been concluded and is expected to be enacted into law by the end of October 2019. It provides for the consolidation of the existing Water Boards, Sewerage Boards Solid Waste Management Boards.</p>
<p>Address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, in particular by means of outbound payments.</p>	<p>As of 1st January 2020, further rules will be set in relation to the Hybrid Mismatch Arrangements, in order to prevent companies from exploiting the mismatches between two EU Member States and achieve double non-taxation, as well measures will be taken to ensure that profits transferred from the Republic of Cyprus are taxable (tax on exit).</p> <p>We anticipate to introduce in 2020 withholding taxes on dividend, interest and royalty payments with reference to entities based in jurisdictions that are included in the EU list of non-cooperative jurisdictions.</p> <p>Amendments of our corporate tax residency rules is under discussion. We anticipate to introduce in 2020 an additional residency test based on incorporation/registration.</p> <p>The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting is expected to be updated within Fall 2019.</p>
<p>CSR 2</p> <p>Facilitate the reduction of non-performing loans including by setting up an effective governance structure of the State-owned asset management company, taking steps to improve payment discipline and strengthening the supervision of the credit acquiring companies. Strengthen the supervision capacities in the non-bank financial sector, including by fully integrating the insurance and pension funds supervisors.</p>	
<p>Facilitate the reduction of non-performing loans including by setting up an effective governance structure of the State-owned asset management company, taking steps to improve payment discipline and strengthening</p>	<p>(a) Facilitate the reduction of non-performing loans - ESTIA Scheme Launch of the ESTIA scheme that has been developed in co-operation with specialized consultants and in constant consultation with the European Institutions, aiming at: a) the protection of the Primary Residence and b) the mitigation of the issue of non-performing loans in the Cypriot banking system. The primary objective of the Estia Scheme (the "Scheme") is to achieve a socially acceptable solution by facilitating fiscal assistance from</p>

<p>the supervision of the credit acquiring companies.</p>	<p>the Cypriot State to borrowers with non-performing loans secured by Eligible Primary Residence with Open Market Value (“OMV”) of less than €350.000 (“EPR”). Non-performing borrowers that meet certain eligibility criteria will be restructured and granted a state subsidy of 1/3 (the “Subsidy”) of the total restructured loan instalments.</p> <p>The deadline for the submission of applications is 15th November 2019.</p> <p>(b) Improve payment discipline</p> <ul style="list-style-type: none"> - Work has been undertaken towards strengthening the legal framework related to the management of non-performing exposures. A comprehensive list of legal amendments was enacted in July 2018, focusing among others, on improvements of practical nature, establishment of an efficient secondary loan market and the creation of an effective, efficient, and transparent foreclosure framework to act as a credible deterrent to strategic defaulters. - According to the ESTIA Plan, in case the borrower does not serve the loan then the state terminates the payment of state sponsorship and the plan ends with the simultaneous initiation of the divestiture process in order to provide a repayment incentive. <p>(c) Effective governance structure of the State-owned asset management company (KEDIPES)</p> <p>KEDIPES, following an open procedure, purchased consulting services from BDO Ireland on May 8, 2019, in relation to the following main issues which are directly related to the Commitments of the Republic of Cyprus to the European Commission:</p> <ul style="list-style-type: none"> • Business plan and organizational model • Sale of the stake in Altamira Asset Management Cyprus Ltd • Submit a recommendation for the Altamira Asset Management Cyprus Ltd to continue as a Servicer after evaluating and adjusting the contract to ensure compliance with the purchase agreement or the selection of a new manager through bidding procedures. Advisory services include implementation according to the decision. <p>Because the project deliverables are linked to the Commitment List, the Monitoring Agent and the Directorate-General for Competition of the European Commission are being kept informed. (Completion by November 2019).</p> <p>(d) Strengthening the supervision of the credit acquiring companies</p> <p>As part of the amendment to the Sale of Credit Facilities and Related Issues Law, the provisions for the supervision of Authorized Credit Institutions (ACIs) are strengthened. Amongst others, provisions are added regarding the ex-ante evaluation and approval of the ACI’s management bodies, the obligation for the ACI’s to submit information to the Central Bank (CBC) for prudential purposes, the evaluation by the CBC of the reputation of the</p>
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	<p>proposed ACI shareholders in the event of the acquisition or increase of the qualifying holding as well as the knowledge and skills and eligibility criteria of the ACI advisors in the event of a new appointment. (By the end of 2020).</p>
<p>Strengthen the supervision capacities in the non-bank financial sector, including by fully integrating the insurance and pension funds supervisors.</p>	<p>Integrating the insurance and pension funds supervisors Aiming to consolidate and strengthen the supervision of insurance companies and occupational retirement funds, a bill entitled "Cyprus Insurance and Occupational Pensions Authority Law" has been prepared. The bill seeks to establish a single supervisory authority for insurance companies and occupational retirement funds.</p> <p>The new authority will replace the Commissioner for Occupational Pension Funds, under the Ministry of Labour and the Superintendent of Insurance of the Insurance Companies Control Service of the Ministry of Finance into a new single independent supervisory authority which will operate on the model of the Cyprus Securities and Exchange Commission.</p> <p>The Cyprus Insurance and Occupational Pensions Authority is established as an independent legal entity governed by public law with the powers, powers and duties vested and enforced, respectively, by any law and / or regulatory act in the Superintendent of Insurance and / or the Commissioner of Occupational Pension Funds. (Completion December 2019).</p>
<p>CSR 3</p>	
<p>Complete reforms aimed at increasing the effectiveness of the public employment services and reinforce outreach and activation support for young people. Deliver on the reform of the education and training system, including teacher evaluation, and increase employers' engagement and learners' participation in vocational education and training, and affordable childhood education and care. Take measures to ensure that the National Health System becomes operational in 2020, as planned, while preserving its long-term sustainability.</p>	
<p>Complete reforms aimed at increasing the effectiveness of the public employment services and reinforce outreach and activation support for young people.</p>	<p>Δημόσιες Υπηρεσίες Απασχόλησης Public Employment Services (PES) are adequately staffed with qualified staff since 2017, with the appointment of 30 consultants from the private sector, with two-year contracts. The Department of Labour will submit a proposal to the Minister of Finance to obtain approval for the recruitment of 30 Permanent Employment Advisors with the aim of implementing Personalized Guidance.</p> <p>A Strategy Paper setting out specific quantitative and qualitative objectives for each process is being prepared in parallel with the design of a Monitoring and Evaluation System for these objectives and is expected to be completed by the end of 2019.</p> <p>A draft law setting out the framework for the operation of the Public Employment Services is under preparation.</p> <p>The Cyprus PESs have successfully participated in two Technical Support Programs offered by the European Employment Committee (EMCO) in collaboration with the European Public Employment Services Network with</p>

	<p>the aim of upgrading and adopting new procedures for servicing vulnerable groups and unemployed workers, obtaining guidance on technological upgrading and upgrade of the PES customer information systems, expanding the use of IT to customer service and implementing new processes, in order to reach out and support the unemployed and inactive young people.</p> <p>Counseling and Vocational Guidance for NEETs The project "Counseling and Vocational Guidance for NEETs" aims to extend the counseling and vocational training services offered to people who are not in education, employment or training (NEET), aged 15-29, in order to include all persons in Cyprus with a work permit.</p>
<p>Deliver on the reform of the education and training system, including teacher evaluation, and increase employers' engagement and learners' participation in vocational education and training, and affordable childhood education and care.</p>	<p>Reform of the education and training system On 5/7/2019, the Ministry of Education, Culture, Sport and Youth submitted a complete proposal on the New Educational and Teacher Evaluation System to all stakeholders with the aim of reaching an agreement by the end of December 2019.</p> <p>The new evaluation plan includes many innovations concerning, inter alia, evaluation of school performance, teacher evaluation and promotion procedures.</p> <p>Employers engagement and learners participation in vocational education and training (1) Cooperation of Ministry of Education, Culture, Sport and Youth (MECSY) with employer organizations (Employers and Industrialists Federation - Cyprus Chamber Of Commerce and Industry):</p> <ul style="list-style-type: none"> ○ Actions have been taken to upgrade and further enhance the Ministry's cooperation with the employers' organizations, which aim, inter alia, at designing and promoting new curricula or modernizing existing ones, utilizing new technologies in Industry through organizing student training visits to the workplace, as well as providing incentives for the employment of students and students of the Technical and Vocational Education and Training System. To this end, Memoranda of Cooperation have already been signed with both employers' organizations. ○ Certification of new Adult Education Centres Curricula - During the academic year 2018-2019, three new certified AEC programs were launched, namely "Industrial and Home Automation" in Nicosia, "Bakery and Confectionery and Electronics" in Nicosia in Paphos. From the academic year 2019-2020, Limassol will be offered the new curriculum "Electromechanical Refrigeration Facilities in Industry", which has already been certified by the Higher Education Quality Assurance and Certification Authority.

	<p>(2) Implementation of the co-funded project "Business Liaison Offices" The Ministry of Education, Culture, Sport and Youth supports the implementation of the project with actions such as: practical training of students in industry, utilization of university research structures by businesses, student training seminars etc. In the period 2016-2023 the above actions are continued and strengthened. For the 2016-2023 programming period the amount is € 7.2m (co-financed by 85% of EU funds and 15% of the University of Cyprus budget - as the co-financed project sponsor).</p> <p>Affordable childhood education and care</p> <p>1. «De minimis State-aid Plan» of the Ministry of Labour, Welfare and Social Insurance, based on Regulation EU 360/2012. The State Aid Scheme provides state support / grants to non-governmental organizations and local authorities for the operation of social programs (eg nurseries / kindergartens, child protection centers and day care centres for preschool and school age children).</p> <p>Among the priorities of the 2019 Plan were "Strengthening state policies aimed at reconciling work with family life, developing high quality care services for dependent family members by extending their working hours to facilitate working parents".</p> <p>In 2018, 60 Kindergartens / kindergartens Centers, 68 Child Protection and Day Care Centers and 3 Programs for the Disabled (Minors) were subsidized.</p> <p>2. Beneficiaries of Minimum Guaranteed Income (MGI) "Care Services Subsidy Plan". The MLSI is also implementing a Beneficiary Care Benefits Scheme, which provides a child support and protection grant of up to €102 per month.</p>
<p>Take measures to ensure that the National Health System becomes operational in 2020, as planned, while preserving its long-term sustainability.</p>	<p>National Health System full operation on 1st June 2020 Phase I of the National Health System (NHS) began on June 1, 2019, covering Outpatient Health Care Services from Family Doctors, Outpatient Specialties, Pharmacies and Laboratories.</p> <p>Upon completion of the NHS implementation on 01/06/2020 with Phase II, inpatient hospitalization, relevant health care services, palliative care, medical rehabilitation services, Accident and Emergency Services, and Ambulances will be covered, in addition to preventive dental care.</p> <p>The following actions / measures are planned as part of Phase II (Final Phase) of implementation:</p> <ol style="list-style-type: none"> 1. Completion of the NHS Information Systems infrastructure. (By end April 2020) 2. Completion of the Legislative Framework. (By end April 2020) 3. Completion of discussions with representatives of Health Service Providers. (By end March 2020) 4. Contracting with Health Service Providers. (Ongoing process) 5. Communication Campaign. (Ongoing process)

	<p>Sustainability of the National Health System</p> <p>(1) Implementation of the NHS expenditure budget on the basis of a Global Budget, as stipulated by Law. This is the case also for Budget 2020 where an expenditure ceiling is set concerning the remuneration of health care providers based on Health Insurance Organization (HIO) projections.</p> <p>(2) HIO as a General Government entity submits a three-year medium-term budgetary framework, the current covering period 2020-2022, setting specific ceilings for expenditure to keep NHS expenditure at a sustainable level.</p> <p>(3) The smooth implementation and completion of the IT System, which will allow for adjustments to demand and supply flows within the NHS in a way that avoids abuse and waste.</p> <p>(4) Promote an effective HIO internal control plan to achieve better allocation of available resources and to exercise more efficient control over projects deemed to be high risk.</p> <p>(5) The effective management of cash reserves at the disposal of the NHS Fund to achieve a reasonable return while maintaining the risk to the permissible limits.</p> <p>Additional measures planned:</p> <ul style="list-style-type: none"> • Long-term HIO cooperation with the International Labor Organization (ILO) on the provision of actuarial services to the HIO for: <ul style="list-style-type: none"> ○ Adoption of an actuarial model for the needs of the NHS Fund ○ Conducting actuarial studies ○ Acquisition of skills internally by the HIO for actuarial evaluations • Conduct regular actuarial studies on the long-term viability of the GEF Fund. • Submit regular reports to the Minister of Health at least every 3 years for the purpose of assessing the viability of the NHS, including for recommendations on required changes to the NHS funding contribution rates, the level of co-payments and the package of services covered. • Implement protocols / guidelines to prevent abuse / misuse of health services.
<p>CSR 4</p> <p>Focus investment-related economic policy on sustainable transport, environment, in particular waste and water management, energy efficiency and renewable energy, digitalisation, including digital skills, and research and innovation, taking into account territorial disparities within the Member State. Adopt legislation to simplify the procedures for strategic investors to obtain necessary permits and licences. Improve access to finance for small and medium-sized enterprises, and resume the implementation of privatisation projects.</p>	
<p>Focus investment-related economic policy on sustainable transport, environment, in particular waste and water management, energy efficiency and renewable energy, digitalisation, including digital skills, and research and innovation, taking into account territorial disparities within the Member State.</p>	<p>National Energy and Climate Plan 2021-2030</p> <p>The Draft Integrated National Energy and Climate Plan for the period 2021-2030 was submitted to the European Commission on 24/1/2019. Consultations are under way in order for timely submission to the European Commission by 31/12/2019.</p> <p>Green Tax Reform</p> <p>The introduction of a “Green Tax Reform” by 2021 has been set in motion, which envisages a fiscally neutral comprehensive environmental taxation</p>

	<p>reform, focusing on the introduction of a carbon tax and touching, inter alia, upon waste and water management. The Ministry, in cooperation with the academia, is currently finalizing a policy proposal, which will be launched for public consultation early next year, so that it could be implemented by 2021. The design of the reform will aim to contribute in the efforts to achieve 2030 greenhouse gas target for sectors outside the EU emissions trading system and to boost competitiveness and job creation.</p> <p>Deputy Ministry of Innovation and Digital Policy. The Council of Ministers on 4th September approved a Bill for the setup of a Deputy Ministry of Innovation and Digital Policy. The relevant Bill has been submitted to the House of Parliament. Στόχος είναι η λειτουργία του Υφυπουργείου από 1.1.2020. The budget for the establishment of the Deputy Ministry is included in the 2020 state budget.</p> <p>Up to now, the Ministry of Finance was responsible for promoting a series of actions for research, innovation and digital transformation of the state. Substantial progress has been made and steps were taken such as the appointment of the National Chief Scientist for Research and Innovation, who also drafted the aforementioned Bill. The Department of Information Technology Services of the Ministry of Finance will now be under the umbrella of the new Deputy Ministry.</p> <p>Increase the level of (public and private) R&D investment by focusing on specific areas of smart specialization. Enhance collaboration and interaction between universities and businesses. Enhance innovation capacity and access to R&D funding.</p> <p>(1) Implementation of the Strategic Framework for Research and Innovation 2019-2023: The 2019-2023 Strategic Framework for Research and Innovation (R&I) entered into force in May 2019, which prioritises, among other things, substantial investment growth in R&I. To this end, the Framework contains a number of actions / measures that lead to an increase in the level of such investments (both public and private). The Lead Scientist coordinates the implementation of the Strategic Framework in collaboration with DG EPCD. For measures concerning Ministries', implementation is monitored and coordinated by the established R&I Coordinators Committee, chaired by the Senior Scientist and administratively supported by DG EPCD. Implementation of the Strategic Framework is ongoing.</p> <p>(2) Implementation of the Smart Specialization Strategy: The existing Smart Specialization Strategy is supported by a € 144 million R&I Action Plan for the period 2016-2020. It is noted that most of the projects included in the Plan aim to increase private sector involvement in R&I actions and consequently increase R&I investment. The implementation of the Action Plan is at an advanced stage.</p> <p>(3) Both the R&I Strategic Framework 2019-2023 and the Smart Specialization Strategy contain measures and plans aimed at enhancing</p>
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	<p>cooperation and interaction between universities and businesses. One of the most important measures is the establishment of a Technology Transfer Office, which aims to promote cooperation between universities and businesses. In addition, the 6 Centers of Excellence in R&I, which are currently being implemented, will significantly promote this interaction and collaboration between universities and businesses.</p>
<p>Adopt legislation to simplify the procedures for strategic investors to obtain necessary permits and licences.</p>	<p>Promotion of the Investment Facilitation Bill 2019 The bill provides all the necessary measures to facilitate the licensing of strategic investments, including in particular a recommendation on the establishment of a Directorate for Strategic Investments to authorize, among other things, investment, issuance / approval of licenses and the appointment of a Project Manager. These provisions of the bill are expected to enhance speed and uniformity in the application examination and at the same time act as a one stop shop for the investor.</p> <p>At this stage, the bill has been forwarded to the Attorney General for the necessary legal scrutiny.</p>
<p>Improve access to finance for small and medium-sized enterprises</p>	<p>(1) Development of alternative sources of financing - Creation of an Equity Fund:</p> <ul style="list-style-type: none"> - Preparation of bidding documents for the recruitment of a Fund Manager. (Status: imminent) - Tender announcement and award to the successful Fund Manager. (Status: End October - Beginning January) - Establishment of the Fund and supervision by the Securities and Exchange Commission. (Status: January- March 2020) <p>(2) Better coordination of the various business support measures to make better use of the different forms of financing</p> <ul style="list-style-type: none"> - Establishment and implementation of the Financial Instrument in the fields of SMEs and Energy Efficiency / Renewable Energy Sources, where a funding gap has been identified from the Ex-ante Evaluation Study for the use of Financial Instruments under the European Structural and Investment Instruments. <p>For the creation and for the imminent implementation of this Tool, DG EPCD is in constant and close cooperation with the Ministries of Finance and Energy, Commerce and Industry, which will be represented on the Investment Board of that Tool. Furthermore, almost all financial institutions in Cyprus and the Employers and Industrialists Federation have been consulted in the design this tool.</p> <p>The EIB was entrusted with the management of the Tool at the end of 2018. During the first half of 2019, a relevant EIB study was conducted. Before the end of 2019, the EIB will launch a Call of Interests for the Selection of Financial Intermediaries (IFIs). It is also noted that the Tool will target both the private sector (SMEs & households) and public bodies.</p> <ul style="list-style-type: none"> - Creation and implementation of new Equity Funds - Technical assistance from the Structural Reform Support Service (SRSS) has been provided for this action.

	<p>- Proposals for existing and future structure for managing financial instruments - Technical assistance has been provided by the Structural Reform Support Service (SRSS) for this action.</p>
<p>Resume the implementation of privatisation projects.</p>	<p>(1) Cyprus Telecommunications Authority On November 9, 2017, a relevant bill was submitted to the House of Representatives along with two related proposed Regulatory Acts providing for the transfer of commercial activities to a private limited company, whose share capital (whole or majority) will be controlled by the state. The same bill guarantees the status and rights of employees while maintaining the prospect of attracting a strategic partner / investor. (Status: Pending discussion in Parliament).</p> <p>(2) National Lottery On August 3, 2017, and after public consultation, a bill was submitted to the House of Representatives as the current legal framework does not provide for the licensing of the State Lottery's activities to a private administrator / investor or its regulation by the state. (Status: Pending discussion in Parliament)</p> <p>(3) Larnaca Port Privatization and development process for the port of Larnaca and the Marina area. (Status: Evaluation of successful tender proposal submitted by revised proposal in July).</p>
<p>CSR 5</p>	
<p>Step up efforts to improve the efficiency of the judicial system, including the functioning of administrative justice and revising civil procedures, increasing the specialisation of courts and setting up an operational e-justice system. Take measures to strengthen the legal enforcement of claims and ensure reliable and swift systems for the issuance and transfer of title deeds and immovable property rights. Accelerate anti-corruption reforms, safeguard the independence of the prosecution and strengthen the capacity of the law enforcement.</p>	
<p>Step up efforts to improve the efficiency of the judicial system, including the functioning of administrative justice and revising civil procedures, increasing the specialisation of courts and setting up an operational e-justice system.</p>	<p>(1) Modernization of civil procedure provisions - The Ministry of Justice and Public Order has prepared a bill to amend the Civil Procedure Law to strengthen the legal framework for the enforcement of judgments. The provisions of the bill include measures that will facilitate the execution of warrants or seizure and render the enforcement process more effective. (Status: Legal vetting has been completed).</p> <p>- Review and authorization of the Institutions of Civil Procedure: The Final Expert Report was submitted to the Supreme Court at the end of June 2019 and received the approval of the Supreme Court in principle. The necessary forms are expected to be prepared by a competent person. The Institutions will be translated and re-submitted to the Supreme Court for corrections, additions, comments and then for approval. Judges and lawyers will be trained on the new Institutions.</p> <p>(2) Specialization of courts - Establishment and operation of a Commercial Court and a Maritime Court. (Status: Bills sent to House of Representatives on 6.5.2019).</p>

	<ul style="list-style-type: none"> - Reopening of the Supreme Constitutional Court and the Supreme Court and Appeal. (Status: Bills sent to House of Representatives on 30.5.2019). - The creation, within the District Court, of new special jurisdiction to adjudicate disputes arising out of or in connection with credit facilities and securities. (Status: The bill was sent to the House of Representatives for filing on 25.1.2019). <p>(3) E-justice The state is in the process of purchasing e-Justice services through a Strategic Investor, using an open tender procedure. The process is ongoing.</p> <p>(4) Lifelong training of judges The Ministry of Justice and Public Order prepared two bills for the establishment of a School of Judges. (Status: Bills sent to House of Representatives on 5.9.2019).</p> <p>(5) Reduction of the large volume of pending cases The appointment of new Judges is expected by the end of 2019 and the start of the trial of all the old cases by January 2020.</p> <p>(6) Stricter enforcement of judgments The Ministry of Justice and Public Order has prepared a bill amending the Civil Procedure Law so as to strengthen the legal framework for the enforcement of judgments. The provisions of the bill include measures that will facilitate the execution of warrants of seizure and make the enforcement process more effective.</p> <p>Legal vetting has been completed and will soon be submitted to the Council of Ministers for approval.</p> <p>(7) Other legislative measures to accelerate judicial reform</p> <ul style="list-style-type: none"> - An amending bill has been prepared with which the number of Superior District Judges and Presidents of District Courts required to carry out the task of backlog litigation is reduced. It is expected that this arrangement will bring more flexibility to the system. (Status: Pending legal vetting). - The Administrative Court for International Protection was established in June 2019. - Digital Audio Recording of Court Proceedings (DAR). A study financed by the European Commission has been completed and decision is pending on its pilot implementation.
<p>Take measures to strengthen the legal enforcement of claims and ensure reliable and swift systems for the issuance and transfer of title deeds and immovable property rights.</p>	<p>1. New policy on building permits The New Authorization Policy document was prepared by the Ministry of the Interior with the aim of alleviating the problems of authorization, taking steps to create a modern, concise and well-structured legislative framework supported by approved documents (technical rules) and carrying safety clauses to ensure its application, etc.</p> <p>In the New Licensing Policy document, short-term measures are proposed</p>

	<p>as a package of measures (eg introduction of a new form of Planning and Construction License, categorization of types of development according to risk analysis, etc.) as well as long-term measures such as a radical revision of the legislative framework for licensing.</p> <p>At this stage, the framework of the New Licensing Policy has been finalized and Cyprus Scientific and Technical Chamber is expected to submit a timetable and budget proposal.</p> <p>2. Local Government Reform (listed previously in the table)</p>
<p>Accelerate anti-corruption reforms, safeguard the independence of the prosecution and strengthen the capacity of the law enforcement.</p>	<p>(1) National Horizontal Action Plan against Corruption The National Horizontal Action Plan against Corruption was adopted by the Council of Ministers on 15/5/2019 (No. 87.512) and aims to improve the political, economic, social and legislative environment through coordinated actions in 6 key pillars: prevention, education, awareness raising, legislative modernization, repression and monitoring. The implementation of the Action Plan, which will be evaluated annually, is already at an advanced stage.</p> <p>(2) Ensuring independence of Prosecuting Authorities</p> <ul style="list-style-type: none"> - The Attorney General, is constitutionally independent and his powers are set out in Articles 112-114 of the Constitution - Legal Officers acting on his behalf are not independent and are subject to the status of Public Service, that is, they are civil servants. - The issue of the independence of Prosecuting Authorities (i.e. Lawyers of the Republic and Public Prosecutors) is handled by the Ministry of Finance and is still pending. <p>(3) Independence of the Prosecution There are strong Constitutional Guarantees on the issue of Independence of Persecution as this power belongs to the Attorney General of the Republic who is one of the Independent Officials provided by the Constitution.</p> <p>(4) Strengthen the capacity for law enforcement</p> <p><u>Action 1:</u> Setting up a task force for financial investigations into serious criminal cases, including corruption cases. It is planned to set up the group in late 2019 by early 2020. The team will consist of police investigators and forensic accountants whose recruitment is already under way.</p> <p><u>Action 2:</u> Amendment of Law 92 (I)/96, which will allow police investigators investigating corruption cases to monitor telephone conversations, which will significantly improve the ability of the Police to investigate such cases. It is noted that the law on the abolition of personal and corporate communication has already entered into force in the context of investigating corruption cases. A related bill is under development.</p>

	<p><u>Action 3:</u> Corruption Education in Cyprus and abroad. An educational program is being held annually at the Cyprus Police Academy on "Economic Crime and Corruption", which is attended by police investigators. Lecturers in this educational program are members of the Cyprus Association of Certified Accountants, Lawyers of the Republic from the Legal Service and Academics. In addition, the Police gives priority to attending seminars and other educational activities in Cyprus and abroad.</p> <p><u>Action 4:</u> The functioning of the Internal Audit Service of the Police is a continuous Action from 2018 onwards. Within the framework of tackling Police Corruption, the Internal Audit Service of the Police has been established and operating since March 2018. This Service was established on the basis of a separate Law (Law.3 (I) / 2018), according to which it is an autonomous service, subject directly to the Chief of Police, while its authorities and/or powers are supervised by the Attorney General. Its members are selected by a committee on the basis of the criteria laid down in the relevant legislation.</p>
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4. COMPARISON BETWEEN DBP AND THE MOST RECENT STABILITY PROGRAMME

The general government budget balance targets set for the Budget of 2020, deviate by 0.8 and 0.1 percentage points of GDP for the years 2019 and 2020, respectively, vis-à-vis the ones presented in the most recent Stability Programme.

The new targets regarding 2019 resulted after taking into account the estimated positive impact stemming from the introduction of the National Health System, the projected results of the accounts of KEDIPES, as well as from more favorable than expected revenue outcome. In the most recent Stability Programme, keeping a more conservative approach, it was assumed that the introduction of the National Health System would have a fiscally neutral impact for all years of the programming period. The latest figures of the accounts of the Health Insurance Organisation though, suggest a budget surplus for 2019 of about 0.5 percent of GDP, due to the introduction of contributions as of 1st March 2019, three months earlier than the commencement of the expenditures related to the NHS as of 1st June 2019. Also, the latest available data of KEDIPES accounts suggest an estimated surplus of about 0.1 percent of GDP for 2019, also included in the target set in the current Draft Budgetary Plan, whereas a fiscally neutral impact was assumed in the Stability Programme, again adopting a more conservative stance in the Spring in the absence of hard data. Finally, the latest revenue developments are more favorable than estimated during the drafting of the Stability Programme, mainly due to further improvements in the labour market as well as from increased profitability of the companies, leading thus to re-evaluating upwards the main revenue categories in the targets set in the current Draft Budgetary Plan compared to the most recent Stability Programme.

As of 2020, the marginal upward revision of about 0.1 percentage points of GDP is due to the base effect of the more favorable than expected outcome of the year before. It has to be mentioned that the projections for 2020 in this Draft Budgetary Plan, maintain the assumption adopted in the Stability Programme back in the Spring of a neutral fiscal impact regarding the accounts of KEDIPES and the National Health System, despite the surpluses observed during 2019.

Table 7. Divergence from latest SP

	ESA Code	Year	Year	Year
		2018	2019	2020
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		-4.8	3.0	2.6
Draft Budgetary Plan		-4.8	3.8	2.7
Difference		0.0	0.8	0.1
General government net lending projection at unchanged policies	B.9			
Stability Programme		-4.8	3.0	2.6
Draft Budgetary Plan		-4.8	3.8	2.7
Difference		0.0	0.8	0.1

Table 0 i). Basic assumptions

	Year 2018	Year 2019	Year 2020
Short-term interest rate ¹ (annual average)	-0.32	-0.37	-0.54
Long-term interest rate (annual average)	0.4	-0.28	-0.44
USD/€ exchange rate (annual average)	1.18	1.12	1.1
Nominal effective exchange rate	6.54	-1.16	-0.25
World excluding EU, GDP growth	4	3.2	3.3
EU GDP growth	2.1	1.2	1.4
Growth of relevant foreign markets [UK]	1.3	1.3	1.3
World import volumes, excluding EU	4.7	0.6	2.1
Oil prices (Brent, USD/barrel)	71.5	64.2	59.2

¹ If necessary, purely technical assumptions.

Table 1a. Macroeconomic prospects

	ESA Code	Year 2018	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
		Level (€ mn)	rate of change				
1. Real GDP	B1*g	20,290.2	3.9	3.2	2.9	2.7	2.7
2. Potential GDP		19,768.8	2.1	2.7	2.9	2.9	2.7
contributions:							
- labour			1.3	1.4	1.4		
- capital			1.0	1.5	1.6		
- total factor productivity			-0.2	-0.1	-0.1		
3. Nominal GDP	B1*g	20,730.9	5.5	3.6	4.1	4.3	4.3
Components of real GDP							
4. Private final consumption expenditure	P.3	13,571.9	3.7	4.0	2.8		
5. Government final consumption expenditure	P.3	3,293.9	4.3	10.4	7.4		
6. Gross fixed capital formation	P.51g	3,937.0	-7.1	19.8	10.7		
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	110.3	1.5	0.0	0.0		
8. Exports of goods and services	P.6	12,779.4	3.3	-1.5	0.8		
9. Imports of goods and services	P.7	13,469.4	2.0	6.1	4.6		
Contributions to real GDP growth							
10. Final domestic demand		20,802.8	1.7	8.2	5.6		
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	110.3	1.5	0.0	0.0		
12. External balance of goods and services	B.11	-690.0	0.7	-5.0	-2.7		

^{1/} Please report here the estimated impact on real GDP growth of the aggregated budgetary measures contained in the DBP.

Table 1b. Price developments

	ESA Code	Year 2018	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
		Level (€ mn)	rate of change				
1. GDP deflator		102.2	1.6	0.4	1.2	1.5	1.5
2. Private consumption deflator		103.1	1.2	0.5	1.2		
3. HICP		100.2	0.8	0.5	1.2		
4. Public consumption deflator		95.3	1.4	4.0	2.5		
5. Investment deflator		102.2	2.6	0.8	1.4		
6. Export price deflator (goods and services)		104.3	1.4	0.0	1.2		
7. Import price deflator (goods and services)		101.6	0.0	1.0	1.6		

Table 1c. Labour market developments

	ESA Code	Year 2018	Year 2018	Year 2019	Year 2020
		Level	rate of change	rate of change	rate of change
1. Employment, thousand persons ¹		417.7	4.0	3.0	2.7
2. Employment, thousand hours worked ²		745,938	3.6	3.0	2.7
3. Unemployment rate (%) ³		36,617	8.4	7.0	6.0
4. Labour productivity, persons ⁴		48,579.2	-0.1	0.2	0.2
5. Labour productivity, hours worked ⁵		27.2	0.2	0.2	0.2
6. Compensation of employees (€ mln)	D.1	8,946.6	4.3	6.6	6.1
7. Compensation per employee (€)		24,248.8	0.1	3.5	3.3

1/ Occupied population, domestic concept national accounts definition.

2/ National accounts definition.

3/ Harmonised definition, Eurostat; levels.

4/ Real GDP per person employed (€).

5/ Real GDP per hour worked (€).

Table 1d. Sectoral balances

	ESA Code	Year 2018	Year 2019	Year 2020
		% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	-7.0	-10.8	-12.4
<i>of which:</i>				
- Balance on goods and services		-2.2	-8.0	-10.7
- Balance of primary incomes and transfers		-4.9	-2.8	-1.8
- Capital account				
2. Net lending/net borrowing of the private sector	B.9	-2.3	-14.6	-15.1
3. Net lending/net borrowing of general government	B.9	-4.8	3.8	2.7
4. Statistical discrepancy		0.0	0.0	0.0

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

	ESA Code	Year	Year	Year	Year
		2019	2020	2021	2022
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	5.13	3.8	2.7	2.5	2.3
1a. Central government	5.1311	1.4	0.3		
1b. State government	5.1312	M	M		
1c. Local government	5.1313	0.1	0.1		
1d. Social security funds	5.1314	2.3	2.2		
2. Interest expenditure	D.41	2.3	2.4		
3. Primary balance²		6.2	5.1		
4. One-off and other temporary measures³		0.0	0.0	0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		3.2	2.9		
6. Potential GDP growth (%) (=2 in Table 1.a)		2.7	2.9	2.9	2.7
contributions:					
- labour		1.4	1.4		
- capital		1.5	1.6		
- total factor productivity		-0.1	-0.1		
7. Output gap (% of potential GDP)		3.2	3.1	2.9	3.0
8. Cyclical budgetary component (% of potential GDP)		1.6	1.6	1.5	1.6
9. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		2.2	1.0		
10. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		4.5	3.5		
11. Structural balance (13 - 8) (% of potential GDP)		2.2	1.0	1.0	0.8

1/ TR-TE= B.9.

2/ The primary balance is calculated as (B.9, item 1) plus (D.41, item 2).

3/ A plus sign means deficit-reducing one-off measures.

Table 2b. General government debt developments

	ESA Code	Year 2019	Year 2020	Year 2021	Year 2022
		% GDP	% GDP	% GDP	% GDP
1. Gross debt¹		97.4	91.1	85.9	81.1
2. Change in gross debt ratio		-5.1	-6.3		
Contributions to changes in gross debt					
3. Primary balance (= item 3 in Table 2.a)		6.2	5.1		
4. Interest expenditure (= item 2 in Table 2.a)	D.41	2.3	2.4		
5. Stock-flow adjustment		-1.3	-3.7	-2.6	-2.5
<i>of which:</i>					
- Differences between cash and accruals ²		0.7	0.0		
- Net accumulation of financial assets ³		1.7	0.2		
<i>of which:</i>					
- privatisation proceeds		0.0	0.0		
- Valuation effects and other ⁴		0.0	0.0		
p.m.: Implicit interest rate on debt⁵		2.4	2.6	2.6	2.6

1/ As defined in amended Regulation 479/2009.

2/ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

3/ Currency and deposits, government debt securities, government controlled enterprises and the difference between listed and unlisted shares could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

4/ Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

5/ Proxied by interest expenditure divided by the debt level of the previous year.

6/ Liquid assets are here defined as stocks of AF.1, AF.2, AF.3 (consolidated for general government, i.e. netting out financial positions between government entities), AF.511, AF.52 (only if listed on stock exchange).

Table 2c. Contingent liabilities

	Year 2019	Year 2020
	% GDP	% GDP
Public guarantees	20.9	19.4
Of which: linked to the financial sector	11.8	10.6

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

	ESA Code	Year 2019	Year 2020
General government (S13)			
		% GDP	% GDP
1. Total revenue at unchanged policies	TR	42.3	44.6
Of which			
1.1. Taxes on production and imports	D.2	15.7	15.5
1.2. Current taxes on income, wealth, etc	D.5	9.7	9.7
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.5	14.6
1.5. Property income	D.4	0.7	0.4
1.6. Other¹		4.7	4.5
p.m.: Tax burden		36.9	39.8
(D.2+D.5+D.61+D.91-D.995) ²			
2. Total expenditure at unchanged policies	TE ³	38.4	42.0
Of which			
2.1. Compensation of employees	D.1	12.5	12.9
2.2. Intermediate consumption	P.2	4.1	3.9
2.3. Social payments	D.62+D.632	14.4	17.8
of which Unemployment benefits⁴		0.3	0.3
2.4. Interest expenditure	D.41	2.3	2.4
2.5. Subsidies	D.3	0.3	0.3
2.6. Gross fixed capital formation	P.51g	1.9	1.9
2.7. Capital transfers	D.9	0.4	0.4
2.8. Other⁵		2.5	2.4

1/ $P.11+P.12+P.131+D.39rec+D.7rec+D.9rec$ (other than D.91rec)

2/ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995), if appropriate.

3/ $TR-TE = B.9$.

4/ Includes social benefits other than social transfers in kind (D.62) and social transfers in kind via market producers (D.632) related to unemployment benefits.

5/ $D.29pay + D.4pay$ (other than D.41pay) + $D.5pay + D.7pay + P.52+P.53+NP+D.8$.

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

	ESA Code	Year	Year
		2019	2020
General government (S13)			
1. Total revenue target	TR	42.3	44.6
Of which			
1.1. Taxes on production and imports	D.2	15.7	15.5
1.2. Current taxes on income, wealth, etc.	D.5	9.7	9.7
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	11.5	14.6
1.5. Property income	D.4	0.7	0.4
1.6. Other¹		4.7	4.5
p.m.: Tax burden		36.9	39.8
(D.2+D.5+D.61+D.91-D.995) ²			
2. Total expenditure target	TE ³	38.4	42.0
Of which			
2.1. Compensation of employees	D.1	12.5	12.9
2.2. Intermediate consumption	P.2	4.1	3.9
2.3. Social payments	D.62+D.632	14.4	17.8
of which Unemployment benefits⁴		0.3	0.3
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	2.3	2.4
2.5. Subsidies	D.3	0.3	0.3
2.6. Gross fixed capital formation	P.51g	1.9	1.9
2.7. Capital transfers	D.9	0.4	0.4
2.8. Other⁵		2.5	2.4

1/ P.11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec)

2/ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995), if appropriate.

3/ TR-TE = B.9.

4/ Includes social benefits other than social transfers in kind (D.62) and social transfers in kind via market producers (D.632) related to unemployment benefits.

5/ D.29pay + D.4pay (other than D.41pay) +D.5pay +D.7pay +P.52+P.53+NP+D.8.

Table 4b. General government expenditure by function

	ESA Code	Year	Year	Year	Year
		2018	2018	2019	2020
		Level (€ mn)	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		172	0.8	0.3	0.5
1a. of which investments fully matched by EU funds revenue		103	0.5	0.2	0.3
2. Cyclical unemployment benefit expenditure¹		-13.4	-0.1	-0.1	-0.1
3. Effect of discretionary revenue measures²	D.5	81.0	0.4	1.9	3.0
4. Revenue increases mandated by law		0.0	0.0	0.0	0.0

1/ Please detail the methodology used to obtain the cyclical component of unemployment benefit expenditure. It should build on unemployment benefit expenditure as defined in COFOG under the code 10.5

2/ Revenue increases mandated by law should not be included in the effect of discretionary revenue measures: data reported in rows 3 and 4 should be mutually exclusive.

Table 4c. General government expenditure by function

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

	Year 2019		Year 2020	
	% GDP	% general government expenditure	% GDP	% general government expenditure
Education ¹	5.8	15.2	6.3	15.1
Health ¹	2.7	7.1	3.1	7.3
Employment ²	0.1	0.3	0.1	0.2

1/ These expenditure categories should correspond respectively to items 9 and 7 in table 4.c.ii)

2/ This expenditure category should contain, inter alia, government spending related to active labour market policies (ALMPs) including public employment services. On the contrary, items such as compensation of public employees or vocational training programmes should not be included here.

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

Functions of the Government	COFOG Code	Year 2019	Year 2020
		% GDP	% GDP
1. General public services	1	7.4	8.1
2. Defense	2	2.1	2.3
3. Public order and safety	3	1.7	1.9
4. Economic affairs	4	2.4	2.6
4. Environmental protection	5	0.3	0.4
6. Housing and community amenities	6	1.6	1.8
7. Health	7	2.7	3.1
8. Recreation, culture and religion	8	0.9	1.0
9. Education	9	5.8	6.3
10. Social protection	10	13.4	14.6
11. Total Expenditure (= item 2 in Table 2.c.i)	TE	38.4	42.0

Table 5. Description of discretionary measures included in the draft budget

Table 5.a Discretionary measures taken by General Government

List of measures	Detailed description ¹	Target (Expenditure / Revenue component)	Accounting principle	Adoption Status	Budgetary impact % GDP	
		ESA Code			Year 2019	Year 2020
TOTAL BUDGETARY IMPACT					0.0	0.0

^{1/} Please describe in further detail in case of major fiscal policy reform plans with potential spillover effects for other Member States in the euro area.

Table 7. Divergence from latest SP

	ESA Code	Year 2018	Year 2019	Year 2020
		% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		-4.8	3.0	2.6
Draft Budgetary Plan		-4.8	3.8	2.7
Difference		0.0	0.8	0.1
General government net lending projection at unchanged policies	B.9			
Stability Programme		-4.8	3.0	2.6
Draft Budgetary Plan		-4.8	3.8	2.7
Difference		0.0	0.8	0.1