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ENER 256
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Objet:	Recommandation de RECOMMANDATION DU CONSEIL concernant le programme national de réforme de Chypre pour 2022 et portant avis du Conseil sur le programme de stabilité de Chypre pour 2022

Les délégations trouveront ci-joint le projet de recommandation du Conseil visé en objet, fondé sur la proposition COM(2022) 604 final de la Commission, tel que revu et approuvé par différents comités du Conseil.

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Cyprus and delivering a Council opinion on the 2022 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:

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility will be updated in June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

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3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the Porto Social Commitment signed on 7 May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, 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 needed. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2022 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[4] ('2022 Recommendation on the euro area') on 5 April 2022 and the Joint Employment Report on 14 March 2022.

4 Council Recommendation of 5 April 2022 on the economic policy of the euro area (OJ C 153, 7.4.2022, p.1).

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt through, inter alia, higher prices for energy, food and raw materials, and weaker growth prospects. The higher energy prices weigh particularly heavily on the most vulnerable households experiencing or at risk of energy poverty as well as on firms most vulnerable to energy prices hikes. The Union is also seeing an unprecedented inflow of people fleeing Ukraine. The economic effects stemming from Russia's war of aggression have impacted Member States asymmetrically. In this context, on 4 March 2022, Council Directive 2001/55/EC[5] was triggered for the first time by Council Implementing Decision (EU) 2022/382[6], granting displaced persons from Ukraine the right to legally stay in the Union, as well as access to education and training, the labour market, healthcare, housing and social welfare.

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5 Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof (OJ L 212, 7.8.2001, p.12).

6 Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection (OJ L 71, 4.3.2022, p. 1).

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 European Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any other country-specific recommendations issued up to the date of submission of such revised, updated or amended recovery and resilience plans.

(5) The general escape clause of the Stability and Growth Pact has been active since March 2020. In its communication of 3 March 2021 entitled 'One year since the outbreak of COVID-19: fiscal policy response', the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply-chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council Recommendation of 18 June 2021[7] delivering a Council opinion on the 2021 Stability Programme of Cyprus, the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth[8]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed[9] primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

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7 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Cyprus (OJ C 304, 29.7.2021, p. 58).

8 The estimates on the fiscal stance and its components in this Recommendation are Commission estimates based on the assumptions underlying the Commission's 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the recovery and resilience plan and that can boost potential growth.

9 Not financed by grants under the Recovery and Resilience Facility or other Union funds.

(7) On 2 March 2022, the Commission adopted a communication providing broad guidance for fiscal policy in 2023 (‘the fiscal guidance’) aimed at supporting the preparation of Member States’ Stability and Convergence Programmes and thereby strengthening policy coordination. The Commission noted that, on the basis of the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020–2022 to a broadly neutral aggregate fiscal stance, while standing ready to react to the evolving economic situation, would appear appropriate in 2023. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate between Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its European Semester spring package of late May 2022.

(8) With respect to the fiscal guidance, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the Commission’s 2022 winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transitions and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second-round effects via targeted and temporary measures. Fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, including challenges that arise from Russia’s war of aggression against Ukraine with regard to defence and security, and has to differentiate between Member States according to their fiscal and economic situation, including as regards their exposure to the crisis and the inflow of displaced persons from Ukraine.

(9) On 17 May 2021, Cyprus submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V to that Regulation. On 20 July 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Cyprus[10]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating that Cyprus has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(10) On 5 May 2022, Cyprus submitted its 2022 National Reform Programme and, on 2 May 2022, its 2022 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Cyprus's biannual reporting on the progress made in implementing its recovery and resilience plan.

10 ST 10686/2021 INIT; ST 10686/2021 ADD 1.

(11) The Commission published the 2022 country report for Cyprus on 23 May 2022. It assessed Cyprus's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Cyprus's implementation of the recovery and resilience plan, building on the Recovery and Resilience Scoreboard. On the basis of that analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. It also assessed Cyprus's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Cyprus and published its results on 23 May 2022. The Commission concluded that Cyprus is experiencing excessive macroeconomic imbalances. In particular, the large current-account deficit deteriorated significantly during the COVID-19 crisis, placing an additional burden on the already high external, public and private debt, while non-performing loans in the financial sector remain high despite significant reduction.

(13) In its Recommendation of 20 July 2020[11], the Council recommended Cyprus to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Cyprus to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, according to data validated by Eurostat, Cyprus's general government deficit decreased from 5,8 % of GDP in 2020 to 1,7 %. The fiscal policy response by Cyprus supported the economic recovery in 2021, while temporary emergency measures decreased from 3,6 % of GDP in 2020 to 3,0 % in 2021. The measures taken by Cyprus in 2021 were in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were temporary or matched by offsetting measures. According to data validated by Eurostat, general government debt fell from 115,0 % of GDP in 2020 to 103,6 % of GDP in 2021.

11 Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Cyprus and delivering a Council opinion on the 2020 Stability Programme of Cyprus (OJ C 282, 26.8.2020, p. 82).

(14) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is realistic. The government projects real GDP to grow by 2,7 % in 2022 and 3,8 % in 2023. By comparison, the Commission's 2022 spring forecast projects a lower real GDP growth of 2,3 % in 2022 and 3,5 % in 2023, mainly due to an expected weaker external demand in the Commission's forecast, thus a negative contribution of net exports compared to a muted one in the 2022 Stability Programme. In its 2022 Stability Programme, the government expects that Cyprus will reach a balanced budgetary position in 2022 and a budgetary surplus of 0,4 % of GDP in 2023. The improvement in 2022 mainly reflects the unwinding of most emergency measures. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to decrease to 93,9 % in 2022, and to decline to 88,2 % by 2023. Based on policy measures known at the cut-off date of the forecast, the Commission's 2022 spring forecast projects a government deficit for 2022 and 2023 of 0,3 % of GDP and 0,2 % respectively. This is lower than the balances projected in the 2022 Stability Programme, mainly due to more conservative tax revenue projections in the Commission's forecast. The Commission's 2022 spring forecast projects a broadly similar general government debt-to-GDP ratio, of 93,9 % in 2022 and 88,8 % in 2023. According to the Commission's 2022 spring forecast, the current estimate of the medium-term (10-year average) potential output growth is 2,6 %. However, that estimate does not include the impact of the reforms that are part of the recovery and resilience plan and can boost Cyprus's potential growth.

(15) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency measures are projected to decline from 3,0 % of GDP in 2021 to 0,4 % in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission's 2022 spring forecast are estimated at 0,2 % of GDP in 2022 and expected to be phased out in 2023.[12] Those measures mainly consist of social transfers to poorer households, cuts to indirect taxes on energy consumption and price caps on retail and wholesale prices. Those measures have been announced as temporary. However, in the event that energy prices remain elevated in 2023, some of those measures could be continued. Some of those measures are not targeted, in particular the reduction of the tax rate for household electricity bills, the reduction of the price of consumer tariffs and the reduction of excise duties on petroleum. The government deficit is also impacted by the cost of offering temporary protection to displaced persons from Ukraine, which in the Commission's 2022 spring forecast is projected at 0,1 % of GDP in 2022 and 0,2 % in 2023[13].

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12 The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

13 It is assumed that the total number of persons displaced from Ukraine to the Union will gradually reach 6 million by the end of 2022, and their geographical distribution is estimated on the basis of the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the Union as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

(16) In its Recommendation of 18 June 2021, the Council recommended that in 2022 Cyprus maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. The Council also recommended Cyprus to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term and, at the same time, to enhance investment to boost growth potential.

(17) In 2022, according to the Commission's 2022 spring forecast and including the information incorporated in Cyprus's 2022 Stability Programme, the fiscal stance is projected to be contractionary, at +0,9 % of GDP, while the Council recommended a supportive fiscal stance.[14] Cyprus plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to increase by 0,7 percentage points of GDP compared to 2021. Nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0,6 percentage points in 2022.[15] Therefore, Cyprus does not plan to preserve nationally financed investment. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a contribution of 1,1 percentage points to the overall fiscal stance. This includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0,1 % of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0,1 % of GDP).

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14 A positive sign of the indicator corresponds to a shortfall of primary expenditure growth compared with medium-term economic growth, indicating a contractionary fiscal policy.

15 Other nationally financed capital expenditure is projected to provide an neutral contribution of 0,0 percentage points of GDP.

(18) In 2023, the fiscal stance is projected in the Commission's 2022 spring forecast at +0,1 % of GDP on a no-policy-change assumption.[16] Cyprus is projected to continue using the grants under the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to increase by 0,3 percentage points of GDP compared to 2022. Nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0,1 percentage points in 2023.[17] At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a broadly neutral contribution of 0,1 percentage points to the overall fiscal stance. This includes the impact from the phasing-out of the measures addressing the increased energy prices (0,2 % of GDP) and additional costs to offer temporary protection to displaced persons from Ukraine (0,1 % of GDP).

(19) In the 2022 Stability Programme, the general government surplus is expected to gradually increase to 1,5 % of GDP in 2024 and to 1,7 % by 2025. Therefore, the general government deficit is planned to remain below 3 % of GDP within the Programme horizon. These projections assume that certain public expenditure, in particular subsidies, will decrease and that the growth of others, including intermediate consumption and social transfers in kind, will be limited. A decline in public investments as a percentage of GDP is also envisaged after the peak in 2022. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to decrease by 2025, specifically with a decrease to 81 % in 2024, and a decline to 76,7 % in 2025. According to the Commission's analysis, debt-sustainability risks appear to be medium over the medium term.

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16 A positive sign of the indicator corresponds to a shortfall of primary expenditure growth compared with medium-term economic growth, indicating a contractionary fiscal policy.

17 Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,2 percentage points of GDP.

(20) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments with an indicative timetable for implementation to be completed by 31 August 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Cyprus by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a recovery and resilience plan. In particular, they relate to public finances and healthcare, the labour market and social policy, education and skills, public and private investment and the green and digital transitions, as well as structural reforms to improve the functioning of the public sector, fight corruption and facilitate the reduction of non-performing loans in the banking sector.

(21) The implementation of the recovery and resilience plan of Cyprus is expected to contribute to making further progress on the green and digital transitions. Measures supporting the climate objectives in Cyprus account for 41 % of the recovery and resilience plan’s total allocation, while measures supporting digital objectives account for 23 % of the recovery and resilience plan’s total allocation. The fully-fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Cyprus swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the recovery and resilience plan, to ensure broad ownership of the overall policy agenda.

(22) Cyprus submitted the Partnership Agreement, provided for in Regulation (EU) 2021/1060 of the European Parliament and of the Council[18], and the other cohesion policy programmes on 30 December 2021. In line with Regulation (EU) 2021/1060, Cyprus is to take into account the relevant country-specific recommendations in the programming of the 2021–2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting coordination, complementarity and coherence between those cohesion policy funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transitions and balanced territorial development.

18 Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159).

(23) Beyond the economic and social challenges addressed by the recovery and resilience plan, Cyprus faces an additional challenge related to the governance of State-owned entities (SOEs). The governance system shows gaps with respect to international standards (e.g. the guidelines on corporate governance of SOEs of the Organisation for Economic Co-operation and Development and the World Bank Toolkit for Corporate Governance of SOEs), which weighs on Cyprus's productivity and business environment. In particular, increased transparency of and higher accountability for financial performance and public objectives would increase SOEs' efficiency and effectiveness. So would implementation of best practices such as a merit-based and transparent process for nominations to SOE management bodies and a shift of the SOE ownership function from the policy-oriented line ministries to a dedicated central body. Opening up commercially viable markets where SOEs currently have a dominant position (e.g. in the energy market) would make these markets more efficient, accelerate the green and digital transitions, and help diversify the economy. Taking action on SOEs would make governance in Cyprus more effective and the market for local and foreign businesses fairer and more transparent. This is in line with the objectives of the long-term strategy for Cyprus and the action plan underpinning it (under the 'Modernise state-owned enterprises and create the right incentives for innovation and efficiency' initiative area). Policies aimed at improving SOE governance can be conducive to reducing government debt, as better SOE governance would increase public-sector efficiency. It can also help improve the business environment and increase potential growth.

(24) In response to the mandate by the Union Heads of State or Government set out in the Versailles Declaration, the Commission’s proposal for a REPowerEU plan aims to phase out the Union’s dependence on fossil-fuel imports from Russia as soon as possible. For this purpose, the Commission intends to identify the most-suitable projects, investments and reforms at national, regional and Union level in dialogue with Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil-fuel imports away from Russia.

(25) The full potential of renewable energy sources in Cyprus could be further unlocked and accelerated, in particular by further streamlining permitting procedures and further investing in solar facilities. Cyprus currently uses no gas, though oil represents 85,6 % of the energy mix. Given the widely fluctuating energy prices on global markets, it is crucial for the sustainability of the Cypriot economy to reduce its heavy reliance on oil. Oil supply is fully dependent on imports, though at only 1 %, oil imports from Russia are well below the Union average of 23 %.[19] To diversify energy supplies and reduce import dependence, Cyprus would benefit from expediting the development of gas import infrastructure, which could be hydrogen-compatible in the future, gas interconnection, which will also be hydrogen-ready in the future, and electricity interconnections to facilitate the expansion of renewable energy sources. Moreover, recently discovered offshore gas fields offer a significant opportunity for Cyprus to build further its energy independence in parallel with its efforts to accelerate measures concerning renewables and energy efficiency. New infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to facilitate their long-term sustainability through future repurposing for sustainable fuels. In addition, energy-efficiency policies could be extended and accelerated, including in transport. Energy-efficiency measures are also expected to help address the energy poverty experienced by a high share of the population (20,9 %), including by using cohesion policy funds where appropriate. A further increase in ambition in respect of reducing greenhouse-gas emissions and increasing of renewable energy and energy efficiency will be needed in order for Cyprus to be in line with the 'Fit for 55' objectives.

[19] Eurostat (2020), share of Russian imports over total imports of natural gas, oil and hard coal. For the EU27 average, the total imports are based on extra-EU27 imports. For Cyprus, total imports include intra-EU trade. Oil includes crude oil and refined oil products.

(26) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Cyprus can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socioeconomic impact of the transition in the most-affected regions. In addition, Cyprus can make use of the European Social Fund Plus, established by Regulation (EU) 2021/1057 of the European Parliament and of the Council[20], to improve employment opportunities and strengthen social cohesion.

(27) In the light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion[21] is reflected in recommendation (1).

(28) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the recommendations set out in the 2022 Recommendation on the euro area. For Cyprus, this is reflected in particular in recommendations (1) and (2).

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20 Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231 30.6.2021, p. 21).

21 Under Article 5(2) of Regulation (EC) No 1466/97.

(29) In the light of the Commission's in-depth review and its assessment, the Council has examined the 2022 National Reform Programme and the 2022 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2), (3) and (4). The recommendations (1) and (2) also contribute to the implementation of the 2022 Recommendation on the euro area, in particular the first and fourth euro-area recommendations. Fiscal policies referred to in recommendation (1) help address, inter alia, imbalances linked to high government debt. Policies referred to recommendation (2) help address, inter alia, imbalances linked to high private debt, by limiting excess borrowing of the private sector. They also address imbalances linked to high government debt and the current-account deficit, by diversifying the economy, as well as imbalances linked to the high stock of non-performing loans. Policies referred to in recommendation (3) help address, inter alia, imbalances linked to high government debt, by increasing government efficiency and long-term growth, and imbalances linked to private and external debt, by increasing long-term growth. Policies referred to in recommendation (4) help address, inter alia, vulnerabilities linked to high external debt in the longer term,

HEREBY RECOMMENDS that Cyprus take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.

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

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

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

Done at Brussels,

For the Council

The President