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To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Cyprus and delivering a Council opinion on the 2023 Stability Programme of Cyprus

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2023) 613 final.

Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of Cyprus and delivering a Council opinion on the 2023 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 to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular to promote the green and digital transition and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

[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 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[4], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it identified Cyprus as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on the 2023 draft budgetary plan of Cyprus. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

(3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.

4 COM(2022) 780 final.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[5] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[6], structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 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.

5 COM(2023) 62 final.
6 COM(2023) 168 final.

(6) The REPowerEU Regulation[7] adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.

[7] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[8]. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023–2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its Communication on orientations for a reform of the EU economic governance framework[9], the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

[8] COM(2023) 141 final.
[9] COM(2022) 583 final.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023, the objective is to conclude the legislative work in 2023.

(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 of Annex V to that Regulation. On 28 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Cyprus[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, 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 Council Implementing Decision of 28 July 2021 on the approval of the assessment of the recovery and resilience plan for Cyprus (ST 10686/2021; ST 10686/2021 ADD 1).

(10) On 9 May 2023, Cyprus submitted its 2023 National Reform Programme and, on 2 May 2023, its 2023 Stability Programme, in line with Article 4(1) 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 2023 National Reform Programme also reflects Cyprus's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2023 country report for Cyprus[11] on 24 May 2023. It assessed Cyprus's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Cyprus's implementation of the recovery and resilience plan. Based on this 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. It also assessed Cyprus's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

[11] SWD(2023) 613 final.

(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 24 May 2023[12]. It concluded that Cyprus is experiencing macroeconomic imbalances. In particular, vulnerabilities related to private, government and external debt have overall declined but remain a concern. In particular, high debts including non-performing loans have decreased significantly and are expected to continue doing so, while current account deficits remain an issue. Private debt has been decreasing since 2015, except in 2020 amid the COVID-19 crisis, and is expected to continue declining this year and next supported by nominal GDP growth. Still, higher interest rates could put pressure on debt service though, as variable interest rate loans prevail. Private and external debt stocks are affected by the presence of special purpose entities in Cyprus, which elevate the levels but pose limited risks to the economy. Non-performing loans held by banks have declined very markedly over recent years thanks to non-performing loans sales, write-offs, cash repayments, curing and debt-to-asset swaps. The government debt has been steadily falling; it declined below its pre-pandemic level and is expected to fall further in 2023 and 2024. Despite the recovery in tourism, the large current account deficit widened in 2022, reflecting robust domestic demand as well as high energy prices; it is expected to decrease somewhat this year and next but to remain large. The policy response has been favourable. Several measures included in the RRP are expected to help diversifying the economy, support export growth, and alleviate the over-reliance on oil imports. As part of the RRP, a package of amending laws on credit-acquiring companies and credit servicers was adopted in mid-2022, improving their working environment and supporting non-performing loans reduction. Following several extensions, the suspension of foreclosures came to an end this February: an effective foreclosure framework is key to encourage borrowers to participate in loan restructuring, further reduce non-performing loans in the economy, help reduce private indebtedness, and enhance payment discipline.

12 SWD(2023) 635 final.

(13) Based on data validated by Eurostat,[13] Cyprus's general government balance improved from a deficit of 2.0% of GDP in 2021 to a surplus of 2.1% in 2022, while general government debt fell from 101.2% of GDP at the end of 2021 to 86.5% at the end of 2022.

(14) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included a reduction of the excise duty on fuel products (petrol and diesel by 7 cents per litre and heating fuel by 5.37 cents per litre) for all consumers, and a reduction of the VAT rate on electricity consumption for households, from 19% to 9% (with a further reduction for vulnerable households to 5%); while such expenditure-increasing measures included a subsidisation of the increase in the electricity tariffs, covering 50% to 100% of the increase. For the implementation of the latter measure, the government is providing payments to the Electricity Authority of Cyprus, a fully State-owned entity. The Commission estimates the net budgetary cost of all these measures at 0.7% of GDP in 2022. The general government balance has also been impacted by the budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.1% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 0.3% of GDP in 2022, from 2.9% in 2021.

(15) On 18 June 2021, the Council recommended that in 2022 Cyprus[14] maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

[13] Eurostat-Euro Indicators, 47/2023, 21.4.2023.

[14] 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.

(16) According to the Commission estimates, the fiscal stance[15] in 2022 was neutral, which was appropriate in a context of high inflation. As recommended by the Council, Cyprus continued to support the recovery with investments to be financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.4% of GDP in 2022 (1.6% of GDP in 2021). The decrease in expenditures financed by Recovery and Resilience Facility grants and other EU funds in 2022 was due to the starting phase of the new programming period for other EU funds. Nationally financed investment provided a contractionary contribution of 0.1 percentage point to the fiscal stance.[16] Cyprus therefore did not preserve nationally financed investment, which is not in line with the Council recommendation. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a neutral contribution to the fiscal stance. Cyprus therefore sufficiently kept under control the growth in nationally financed current expenditure.

(17) The macroeconomic scenario underpinning the budgetary projections in the 2023 Stability Programme is more favourable than the Commission 2023 Spring Forecast for 2023 and in line with it thereafter. The government projects real GDP to grow by 2.8% in 2023 and 3.0% in 2024. By comparison, the Commission 2023 spring forecast projects a lower real GDP growth of 2.3% in 2023 and 2.7% in 2024, mainly due to a lower contribution to growth from domestic demand.

15 The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

16 Other nationally financed capital expenditure provided an expansionary contribution of 0.2 percentage point of GDP.

(18) In its 2023 Stability Programme, the government expects that the general government surplus will decrease marginally from 2.1% in 2022 to 2.0% of GDP in 2023. According to the Programme, the general government debt-to-GDP ratio is expected to decrease from 86.5% at the end of 2022 to 81.1% at the end of 2023. The Commission 2023 spring forecast projects a government surplus of 1.8% of GDP for 2023. This is in line with the surplus projected in the Stability Programme. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 80.4% at the end of 2023.

(19) The government balance in 2023 is expected to continue to be impacted by the fiscal measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 (in particular: a reduction of the excise duty on fuel products for all consumers, and a subsidisation of the increase in the electricity tariffs). The net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 0.4% of GDP in 2023[17]. Most measures in 2023 do not appear targeted to the most vulnerable households or firms, and many of them do not fully preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the recommendation for 2023, is estimated in the Commission 2023 spring forecast at 0.0% of GDP in 2023 (compared to 0.1% of GDP in 2022).

[17] The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

(20) On 12 July 2022, the Council recommended[18] that Cyprus take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[19], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Cyprus should stand ready to adjust current spending to the evolving situation. Cyprus was also recommended to 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.

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18 Council Recommendation of 12 July 2022 on the National Reform Programme of Cyprus and delivering a Council opinion on the 2022 Stability Programme of Cyprus, OJ C 334, 1.9.2022, p. 104.

19 Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of Cyprus, which is used to measure the fiscal stance, is estimated at 8.2% in nominal terms.

(21) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be broadly neutral (-0.1% of GDP). This follows a neutral fiscal stance in 2022 (0.0% of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a neutral contribution of 0.0% of GDP to the fiscal stance. This includes the reduced cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. In sum, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 0.8% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.8 percentage point.[20] Therefore, Cyprus plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security, such as a market management system for the Cyprus electricity market, construction of new energy efficient buildings including a new mental health hospital, energy efficiency upgrading of schools and enhancing of water security for Nicosia and Larnaca regions through a construction of a reservoir, which are partly funded by the Recovery and Resilience Facility and other EU funds.

[20] Other nationally financed capital expenditure is projected to provide a neutral contribution of 0.0 percentage point of GDP.

(22) According to the Stability Programme the general government surplus is expected to increase to 2.3% of GDP in 2024. The increase in 2024 mainly reflects the increase in social security contributions as from 1 January 2024. The programme expects the general government debt-to-GDP ratio to decrease to 72.9% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government surplus of 2.1% of GDP in 2024. This is in line with the surplus projected in the programme. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 72.5% at the end of 2024.

(23) The Stability Programme envisages the phasing out of all of the energy support measures in 2024. The Commission also assumes full phasing out of energy support measures in 2024. This hinges upon the assumption of no renewed energy price increases.

(24) In the programme, Cyprus plans to meet the medium-term budgetary objective – a structural budget balance of 0.0% of GDP – in 2023 and to maintain it throughout the rest of the programme period. Based on the Commission 2023 spring forecast, the structural balance is forecast at +0.9% of GDP in 2023 and +1.3% of GDP in 2024, above the medium-term budgetary objective. Prudent fiscal policy in 2024 will also contribute to strengthening the external position.

(25) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure[21] to grow at 3.6% in 2024.

(26) According to the programme, government investment is expected to decrease from 3.0% of GDP in 2023 to 2.8% of GDP in 2024. The lower investment reflects constant nominal investment level at higher GDP.

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[21] Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

(27) The Stability Programme outlines a medium-term fiscal path until 2026. According to the programme, the general government surplus is expected to stay constant at 2.3% of GDP in 2025 and to increase to 2.4% by 2026. The general government balance is therefore planned to meet the relevant Treaty reference value over the programme horizon. According to the programme, the general government debt-to-GDP ratio is expected to decrease from 72.9% at the end of 2024 to 60.1% by the end of 2026.

(28) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The implementation of Cyprus' recovery and resilience plan is underway, however, with risk of some delays. Cyprus submitted 1 payment request, corresponding to 14 milestones in the plan and resulting in an overall disbursement of EUR 85 million. The Cypriot recovery and resilience plan is relatively large and complex in nature. To minimise the risk of delays, strong governance and continuous monitoring of the recovery and resilience plan are essential. The Cypriot recovery and resilience plan is expected to be revised to include REPowerEU measures and take into account the decreased maximum financial contribution. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Cyprus's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, 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 plan, to ensure broad ownership of the overall policy agenda.

(29) The Commission approved all of Cyprus' cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience as well as achieving balanced territorial development in Cyprus.

(30) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Cyprus faces a number of additional challenges related to the business environment, in particular on the governance of state-owned entities (SOEs), deployment of renewables, the upgrade and modernisation of the electricity grid, energy interconnections, energy efficiency, sustainable transport and green skills.

(31) The governance system shows gaps with respect to international standards (e.g. the OECD guidelines on corporate governance of SOEs and the World Bank Toolkit for Corporate Governance of SOEs). In particular, increased transparency of and higher accountability for financial performance and public objectives would increase the efficiency and effectiveness of SOEs. This also goes for the implementation of best practices such as a merit-based and transparent process for nominations to SOE management bodies. Shifting the SOE ownership function from the policy-oriented line ministries to a dedicated central body or at least establishing a centralised monitoring unit in the Ministry of Finance would also improve the current situation. Improving governance would help ensure that key public investment projects by SOEs are completed in time, in turn facilitating the green and digital transition. 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 semi-government organisations and create the right incentives for innovation and efficiency' initiative area). Policies aimed at improving SOE governance can also help increase public sector efficiency. Cyprus has requested technical assistance from the IMF on SOE's governance.

(32) The full potential of renewable energy sources in Cyprus could be further unlocked, in particular by making further investments to upgrade and modernise the electricity grid, and by opting for grid-scale energy storage facilities. Power purchase agreements and contracts for difference can be suitable economic instruments to accelerate the rollout of renewables. Cyprus currently uses no gas, although oil represents 83.2% of the total energy supply 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 which it imports entirely. To diversify energy supplies and reduce import dependence, Cyprus would benefit from electricity interconnections and the expansion of renewables, as well as new infrastructure and network investments. In addition, energy efficiency policies could be extended and accelerated to curb the growth in energy consumption. Energy efficiency measures are expected to also help address the energy poverty experienced by a high share of the population (19.4% in 2021), including by using cohesion policy funds as appropriate. Cyprus would benefit from a shift towards sustainable transport. The island currently relies on private transport, and the whole transport sector was responsible for 21% of total greenhouse gas emissions in 2020, while the share of electric vehicles in new registrations and the number of charging points per vehicle is the lowest in the EU. Greater ambition is needed to reduce greenhouse gas emissions and increase renewable energy and energy efficiency so that Cyprus is in line with the 'Fit for 55' objectives.

(33) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. In 2022, several occupations with specific skills or knowledge required for the green transition faced labour shortages and key sectors (e.g. construction, manufacturing) registered an increasing job vacancy rate. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition.

(34) In light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[22] is reflected in recommendation (1) below.

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[22] Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

(35) 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 euro area Member States take action, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain high public investment and promote private investment to support the green and digital transition; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary, targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macro-financial stability and monitor risks while continuing to work on completing the Banking Union. For Cyprus, recommendations (1), (2), (3) and (4) contribute to the implementation of the first, second, third and fourth euro area recommendations.

(36) In light of the Commission's in-depth review and this assessment, the Council has examined the 2023 National Reform Programme and the 2023 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (1) below. Policies referred to in recommendation (1) help address vulnerabilities linked to private, government and external debt. Recommendation (2) contributes to addressing recommendation (1). Policies referred to in recommendation (1) contribute to both addressing imbalances and implementing the recommendations for the euro area, in line with recital 35.

HEREBY RECOMMENDS that Cyprus take action in 2023 and 2024 to:

1. Wind down the emergency energy support measures in force, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. While maintaining a sound fiscal position in 2024, preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.

   Facilitate the reduction of private debt, including by implementing an effective foreclosure framework.

   For the period beyond 2024, continue to pursue investment and reforms conducive to higher sustainable growth and preserve a prudent medium-term fiscal position.

2. Accelerate the implementation of its recovery and resilience plan, also by ensuring an adequate administrative capacity, and swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

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

4. Reduce reliance on fossil fuels and diversify the energy supply. To better exploit all untapped potential for renewable energy generation, accelerate renewables deployment by using suitable economic instruments and making further investments to upgrade and modernise the electricity grid, including energy storage facilities. Speed up the development of electricity interconnections. Extend and accelerate energy efficiency measures, also to address energy poverty, as well as the shift towards sustainable transport. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council
The President