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To:	Permanent Representatives Committee/Council
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Subject:	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 discussed by the Council and European Council, based on the Commission Recommendation COM(2023) 613 final.

COUNCIL RECOMMENDATION

of …

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 Article 121(2) and Article 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,

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

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) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester, the Facility contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular reforms and investments to promote the green and digital transitions and to 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 Union and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the 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, marking the start of the 2023 European Semester for economic policy coordination. On 23 March 2023, the European Council endorsed the priorities of the 2023 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. 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. As such 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 and a proposal for the 2023 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] ('2023 Recommendation on the euro area') on 16 May 2023 and the Joint Employment Report on 13 March 2023.

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

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[4] Council Recommendation of 16 May 2023 on the economic policy of the euro area (OJ C 180, 23.5.2023, p. 1).

(4) On 1 February 2023, the Commission issued a communication entitled 'A Green Deal Industrial Plan for the Net-Zero Age' ('the Green Deal Industrial Plan'). The aim of the Green Deal Industrial Plan is to boost the competitiveness of the Union's net-zero industry and support the fast transition to climate neutrality. It complements ongoing efforts under the European Green Deal and REPowerEU. It also aims to provide a more supportive environment for scaling up the Union's manufacturing capacity for the net-zero technologies and products required to meet the Union's ambitious climate targets, and to ensure 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 Green Deal Industrial Plan is based on four pillars: a predictable and simplified regulatory environment, faster access to finance, the enhancement of skills, and open trade for resilient supply chains. On 16 March 2023, the Commission issued a further communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', structured along nine mutually reinforcing drivers with the objective of working towards a growth-enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well-focused investment and regulatory measures for the long-term competitiveness of the Union 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 Facility. The full implementation of 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 for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) Regulation (EU) 2023/435 of the European Parliament and of the Council[5] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to rapidly phase out the Union's dependence on Russian fossil-fuel imports. This will contribute to energy security and the diversification of the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The REPowerEU 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. Those reforms and investments will also help boost the competitiveness of the Union's net-zero industry as outlined in the Green Deal Industrial Plan 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 in order to finance new energy-related reforms and investments under their recovery and resilience plans.

[5] 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 ('the communication of 8 March 2023'). It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination. 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 and raise potential growth in a sustainable manner and invited Member States to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the Treaty reference value of 3 % of gross domestic product (GDP) is adhered to and ensure plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission also 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 better target such measures at vulnerable households and firms. The Commission stated that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its communication of 9 November 2022 on orientations for a reform of the EU economic governance framework, the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States continue to protect nationally financed investment and ensure the effective use of the Facility and other Union funds, in particular in light of the green and digital transitions 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) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the Union'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 to improve national ownership, simplify the framework and move towards a greater medium-term focus, in combination with effective and more coherent enforcement. According to the Council conclusions of 14 March 2023 on orientations for a reform of the EU economic governance framework, 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 set out in Annex V to that Regulation. On 28 July 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Cyprus[6]. 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.

[6] 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) On 24 May 2023, the Commission published the 2023 country report for Cyprus. 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. On the basis of that analysis, the country report identified gaps with regard 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 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 24 May 2023. The Commission concluded that Cyprus is experiencing macroeconomic imbalances. In particular, vulnerabilities related to private, government and external debt have declined overall 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 during the COVID-19 crisis, and is expected to continue declining in 2023 and 2024, supported by nominal GDP growth. Still, higher interest rates could put pressure on debt servicing, as variable interest rate loans prevail. Private and external debt stocks are affected by the presence of special purpose entities in Cyprus, which elevate debt levels but pose limited risks to the economy. Non-performing loans held by banks have declined very markedly over the 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 in 2023 and 2024 but to remain large. The policy response has been favourable. Several measures included in the recovery and resilience plan are expected to help diversify the economy, support export growth and alleviate the over-reliance on oil imports. As part of the recovery and resilience plan, a package of amending laws on credit-acquiring companies and credit servicers was adopted in mid-2022, improving their working environment and supporting the reduction of non-performing loans. Following several extensions, the suspension of foreclosures came to an end this February: an effective foreclosure framework is key to encouraging borrowers to participate in loan restructuring, to further reducing non-performing loans in the economy, to helping reduce private indebtedness, and to enhancing payment discipline.

(13) According to data validated by Eurostat, 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 taken to mitigate the economic and social impact of the increase in energy prices. In 2022, such fiscal policy 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 value-added tax rate on electricity consumption for households, from 19 % to 9 % (with a further reduction for vulnerable households to 5 %), while such fiscal policy expenditure-increasing measures included a subsidisation of the increase in the electricity tariffs, covering 50 % to 100 % of the increase. For the implementation of that subsidisation 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 those measures at 0,7 % of GDP in 2022. The general government balance has also been impacted by the budgetary cost of offering 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 temporary emergency measures related to the COVID-19 crisis 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[7] maintain a supportive fiscal stance, including from the impulse provided by the Facility, and preserve nationally financed investment.

[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).

(16) According to the Commission estimates, the fiscal stance[8] 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 Facility. Expenditure financed by grants under the Facility and other Union 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 Union funds in 2022 was due to the starting phase of the new programming period for other Union funds. Nationally financed investment provided a contractionary contribution of 0,1 percentage point to the fiscal stance[9]. 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's 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's 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.

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

9 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 2023 Stability 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's 2023 spring forecast projects a government surplus of 1,8 % of GDP for 2023. This is in line with the surplus projected in the 2023 Stability Programme. The Commission's 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 80,4 % at the end of 2023.

(19) The general government balance in 2023 is expected to continue to be impacted by the fiscal measures taken 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's 2023 spring forecast at 0,4 % of GDP in 2023[10]. Most measures in 2023 do not appear to be targeted at 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 Council Recommendation of 12 July 2022[11], is estimated in the Commission's 2023 spring forecast at 0,0 % of GDP in 2023 (compared to 0,1 % of GDP in 2022).

10 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.

11 Council Recommendation of 12 July 2022 on the 2022 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).

(20) In its Recommendation of 12 July 2022, the Council recommended 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[12], 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 Facility and other Union funds.

(21) In 2023, the fiscal stance is projected in the Commission's 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 of 12 July 2022. Expenditure financed by grants under the Facility and other Union 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.[13] Therefore, Cyprus plans to finance additional investment through the Facility and other Union 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 Facility and other Union funds.

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[12] Based on the Commission's 2023 spring 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.

[13] Other nationally financed capital expenditure is projected to provide a neutral contribution of 0,0 percentage points of GDP.

(22) According to the 2023 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. According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to decrease to 72,9 % at the end of 2024. On the basis of the policy measures known at the cut-off date of the forecast, the Commission's 2023 spring forecast projects a government surplus of 2,1 % of GDP in 2024. This is in line with the surplus projected in the 2023 Stability Programme. The Commission's 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 is based on the assumption of no renewed energy price increase.

(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. On the basis of the Commission's 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's 2023 spring forecast projects net nationally financed primary expenditure[14] to grow by 3,6 % in 2024.

(26) According to the 2023 Stability 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 a constant nominal investment level at a higher GDP.

14 Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure and cyclical unemployment expenditure.

(27) The 2023 Stability Programme outlines a medium-term fiscal path until 2026. According to the 2023 Stability 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. Therefore, the general government balance is planned to meet the relevant Treaty reference value over the Programme horizon. According to the 2023 Stability 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), 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 to be implemented by 2026. The implementation of Cyprus's recovery and resilience plan is underway, albeit with risk of some delays. Cyprus submitted one payment request, corresponding to 14 milestones in the recovery and resilience 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 to 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 that plan, in order to ensure broad ownership of the overall policy agenda.

(29) The Commission approved all Cyprus's 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 transitions, increasing economic and social resilience, and 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 skills needed for the green transition.

(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, as would 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, which would in turn facilitate 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 International Monetary Fund on SOE 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 also expected to 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 the 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 Union. Greater ambition is needed to reduce greenhouse gas emissions and to 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, those measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition.

(34) In the light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[15] is reflected in recommendation (1).

[15] Under Articles 5(2) and 9(2) of 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 the 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 a high level of public investment and promote private investments to support the green and digital transitions; (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 and 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 recommendations set out in the 2023 Recommendation on the euro area.

(36) In the light of the Commission's in-depth review and its 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). 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 set out in the 2023 Recommendation on 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 such support measures are targeted at protecting vulnerable households and firms, are 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 grants under the Facility and of other Union 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, including by ensuring adequate administrative capacity, and swiftly finalise the REPowerEU chapter with a view to rapidly starting the implementation thereof. 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 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 the deployment of renewables 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 in order to address, *inter alia*, energy poverty. Extend and accelerate 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