



Brussels, 13 June 2025
(OR. en)

9847/25
ADD 1

ECOFIN 689
UEM 224
SOC 360
EMPL 230
COMPET 470
ENV 452
EDUC 204
ENER 194
JAI 755
GENDER 74
JEUN 104
SAN 277
ECB
EIB

COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	4 June 2025
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2025) 213 final
Subject:	COMMISSION STAFF WORKING DOCUMENT 2025 Country Report - Cyprus Accompanying the document Recommendation for a COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Cyprus

Delegations will find attached document SWD(2025) 213 final.

Encl.: SWD(2025) 213 final

9847/25 ADD 1

ECOFIN 1A/LIFE 4

EN



EUROPEAN
COMMISSION

Brussels, 4.6.2025
SWD(2025) 213 final

COMMISSION STAFF WORKING DOCUMENT

2025 Country Report - Cyprus

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Cyprus

{COM(2025) 213 final}



European
Commission

Cyprus

2025 Country Report



ECONOMIC DEVELOPMENTS AND KEY POLICY CHALLENGES

Robust economic growth is expected to continue

Economic growth remains strong, despite a fragile international environment. Cyprus's economy has rebounded since the pandemic, with real GDP in 2024 standing almost 30% above its level of 2020 and annual real GDP growth averaging 4.3% per year. Growth was driven by domestic demand, with particularly strong growth in private consumption (around 28% between 2020 and 2024). Job creation has continued at a sustained pace: unemployment fell to 4.9% while the employment rate reached 79.8% in 2024. Net exports fluctuated between negative and positive contributions ⁽¹⁾, but in 2024 turned strongly positive thanks to robust surpluses in ICT, tourism and sea transport. This strong growth coincided with a steady stream of foreign-owned companies relocating offices and workers to Cyprus, temporarily fuelling domestic demand, but also the current account deficit (see below), although a gradual slow-down has been observed in recent quarters.

Growth is expected to remain strong in the coming years. According to the Commission's Spring 2025 Economic Forecast, real GDP is expected to increase by 3.0% and 2.5% in 2025 and 2026 respectively. Despite uncertainty in global trade, the economy is expected to maintain its solid export

performance, bolstered by a favourable outlook for tourism and continued rapid growth in ICT. At the same time, employment growth is expected to slow to 1.3% in 2025 and 1.1% in 2026. Private consumption is expected to cool off as purchasing power grows. Public and private investment, particularly in the construction sector, will continue to support growth, thanks in part to actions financed under the recovery and resilience plan.

The fiscal situation and outlook remain robust.

The general government budget hit a surplus of 4.3% of GDP in 2024, while debt has continued to fall, reaching 65.0% of GDP by the end of 2024. Fiscal performance is mainly fuelled by solid revenue from corporate income tax as well as social security contributions. Fiscal performance is expected to remain positive with general government surpluses reaching 3.5% and 3.4% of GDP in 2025 and 2026 respectively. The debt is projected to fall quickly and is forecast to reach 51.9% of GDP by the end of 2026.

Net expenditure growth is projected above the path recommended by the Council. In 2024, net expenditure ⁽²⁾ in Cyprus grew by 2.9% (see Annex 1). This increase is mainly driven by higher intermediate consumption in

⁽¹⁾ Figures not corrected for the impact of ships and aircrafts.

⁽²⁾ Net expenditure is defined in Article 2(2) of Regulation (EU) 2024/1263 as government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-off and other temporary measures.

this year. In 2024, discretionary revenue measures of 0.1% of GDP were added to net expenditure growth, whereas in 2023 they were deducted for 0.3% of GDP. In 2025, net expenditure is forecast by the Commission to grow by 7.3%, which is above the maximum growth rate recommended by the Council ⁽³⁾. The cumulative growth rate of net expenditure in 2024 and 2025 taken together is projected at 10.4%, which is above the maximum rate recommended by the Council. Expenditure growth above the Council recommendation in both years is mainly driven by strongly growing compensation for employees, intermediate consumption as well as social transfers in kind. This development has however to be contrasted in the context that at the same time Cyprus is achieving high government surpluses and a fast-declining government debt-to-GDP ratio.

Cyprus's tax system is characterised by a strong reliance on corporate taxation, which plays an outsized role in public revenue collection. Cyprus offers a favourable corporate tax rate (12.5%) and collects one of the highest shares of corporate tax revenues among EU Member States. This represents more than 18% of total tax revenue of Cyprus (vs. EU 8%) and corresponds to more than 6% of the GDP of Cyprus (twice as large the EU average, 3.2% of GDP) in 2023. The tax regime and targeted incentives for foreign investors have attracted companies (see also below) that register as taxpayers in Cyprus. Accordingly, while these high corporate tax revenues support the budget surplus, they may also make the budget balance more vulnerable to external shocks. Since Cyprus imposes low or zero taxes on other potentially stable revenue sources—such as immovable property, capital transfers, and pollution (see

also Annex 2 on Taxation)—its current tax structure remains relatively concentrated and less diversified.

Vulnerabilities relating to external and private debt remain but are steadily receding, while government debt is rapidly falling. Long-standing challenges in this area were discussed as part of an in-depth review carried out earlier this year under the macroeconomic imbalance procedure ⁽⁴⁾. Public debt has shown considerable improvement in recent years, declining by almost 50 pp since its peak in 2020. It is expected to fall below the Treaty value of 60% of GDP by 2026. Private debt has fallen from its record high of 350% almost a decade ago, to 183% of GDP as of September 2024. Although originally triggered by active deleveraging efforts, the main driver for this has been the high nominal GDP growth seen in recent years. Given their significant external component, improvements in public and private debt have also contributed to reducing external sector debt. As a result, the net international investment position is projected to improve to 80.2% by the end of 2024, a notable improvement from its all-time low of -164% in 2014. In aggregate terms, this improvement was driven by strong nominal GDP growth and positive valuation effects, despite a persistent current account deficit. The current account deficit has been primarily financed by foreign direct investment inflows.

Ongoing efforts to transform and diversify the economy are showing results

Cyprus is the most service-intensive economy in the EU. By leveraging its strategic location,

(3) Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Cyprus (OJ C, C/2025/639, 10.2.2025, ELI: <http://data.europa.eu/eli/C/2025/639/oj>).

(4) See 'In-depth review of Cyprus' 2025 – Institutional Paper 311, May 2025, Brussels.

Box 1: UN Sustainable Development Goals (SDGs)

Cyprus is improving on all SDGs (apart from SDGs 3, 4, 5, 11 and 17). Cyprus is catching up with the EU average on some SDGs related to fairness (SDGs 1, 3 and 10) and environmental sustainability (SDGs 6, 14 and 15) but is moving away from the EU average on all other SDGs, including those related to productivity (SDGs 4, 8 and 9) and macroeconomic stability (SDGs 8, 16, 17).

highly skilled workforce, favourable tax regime, and stable political framework, Cyprus has gained a competitive

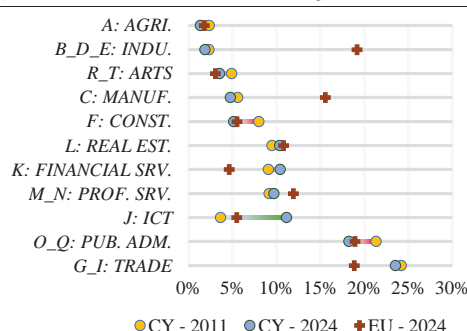
advantage in services, as the small domestic market does not support an industrial deepening of the economy. Domestic production predominantly focuses on trade, sea freight transport, financial services and tourism, which employ more than half of the workforce. Cyprus derives over 83% of total gross value added from services, the largest share of any EU country.

Cyprus's business model is currently undergoing transformation through policy initiatives to attract foreign investment in new economic sectors. To diversify Cyprus's service production, reduce its reliance on a limited range of service exports, and to lessen its vulnerability to external shocks, the Cypriot authorities have introduced incentives aimed at making Cyprus an international business hub. Tax and administrative incentives have been introduced to encourage multinational companies to relocate their headquarters and workforce, in particular tech companies. As a result, Cyprus has now become more attractive to foreign investment.

A growing ICT sector is contributing to productivity and domestic output. Diversification has resulted in economic activity gradually moving away from sectors with low capital intensity and limited innovation uptake, and towards the ICT sector, boosting aggregate productivity growth (see Graph 1.2 below). As a result, by the end of 2024, ICT accounted for 10% of output (see Graph 1.1 above) and a third of

total exports – doubling in a decade. However, sizeable investment continues to flow into less productive sectors, such as housing, which, combined with persistent low R&D investment across the economy, is holding back aggregate productivity growth.

Graph 1.1: Breakdown of GVA by sector.

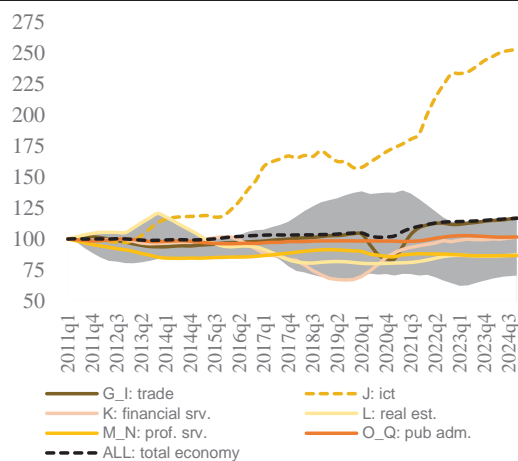


Notes: (1) horizontal bars in green (red) indicate an improvement (deterioration) between Q1-11 and Q4-24.

NACE sectors: (A) agriculture, (C) manufacturing, (B_D_E) other industry, (F) construction, (G_I) trade & accommodation, (J) ICT, (K) finance & insurance, (L) real estate, (M_N) prof. & admin. services, (O_Q) public admin., education & health, (R_T) art & recreation.

Source: Eurostat.

Graph 1.2: Cyprus - real GVA per employee.



Notes: (1) the shaded area represents the range of all NACE sectors except ICT.

Source: Eurostat and Commission's calculations.

Competitiveness and sustainable growth face further challenges

Despite recent progress, there are still challenges to address in critical fields such as innovation, access to finance, energy, climate adaptation, labour and skills shortages. In particular, despite the growing presence of tech firms in Cyprus, the country's innovation output remains weak (see Annex 2). Access to finance is still a problem for companies, with bank loans remaining

inaccessible or expensive for new companies, and equity finance still underdeveloped (see Annex 2). The energy sector faces challenges in diversifying its energy mix, developing connections with other countries, and increasing the capacity of the electricity grid. At the same time, climate-related risks such as wildfires, floods and water scarcity are worsening, threatening key economic activities such as tourism and agriculture (see Annex 3). Additionally, the domestic labour market is struggling to supply workers with the necessary qualifications and skills, while the ageing population is only expected to amplify these shortages (see Annexes 4 and 10).

Box 2: Barriers to private and public investment

Investment accounts for a large share of domestic demand but is primarily concentrated in less productive activities. The economy boasts a sizeable aggregate investment rate (see In-depth Review of Cyprus, 2025), however this mostly comes from households and concerns property and housing (see Graph 1.1). By contrast, according to Eurostat data, the share of business investment in GDP is the third lowest in the EU after Luxembourg and Greece (8.4% compared to an EU average of 13% in 2023). This potentially points to the following structural barriers that hinder corporate economic activity:

- Persistent barriers to finance for Cypriot businesses. Strict bank lending requirements, an underdeveloped capital market, low equity financing, limited access to alternative financing instruments (abroad) and limited institutional and household investment are stifling funding opportunities, notably for start-ups and scale-ups.
- Business environment. Cyprus has inefficient regulatory processes which are hindering simplification efforts and slowing down private investments.
- Labour and skills shortages. The low number of ICT and science, technology, engineering, and mathematics graduates alongside limited enrolment in secondary vocational education and training in areas such as healthcare and energy are resulting in workforce shortages, creating barriers to private investment.

Slow progress in modernising the public service is an additional obstacle to business development. Public sector modernisation could make transactions between business and the public sector more efficient, however progress has been slow. This is partly due to Cyprus's public procurement system which is still moving towards a more strategic and professionalised approach. Public investment projects are often subject to delays or reversals creating negative spillover effects and uncertainty for private investment. Barriers to efficient public spending remain, such as:

- **Administrative and capacity constraints.** Bureaucratic delays, limited expertise within public administration, weak administrative capacity of local government and slow procurement processes are hindering the timely execution of projects and fund absorption.
- **Coordination and governance challenges.** Fragmented stakeholder collaboration, inadequate monitoring and reporting mechanisms, and delayed legislative amendments are undermining efficient fund management.
- **Project planning and implementation risks.** Weak initial planning, shifting project priorities, and slow execution remain challenges.

These challenges also act as a bottleneck to the implementation of EU funds. The implementation of Cyprus's RRP is significantly delayed. At present, Cyprus has fulfilled 24% of the milestones and targets in its RRP.

It remains important to accelerate the implementation of the cohesion policy programme. The mid-term review offers opportunities to speed up progress and better address EU strategic priorities related to competitiveness, defence, housing, water resilience and the energy transition.

Cyprus has not yet taken advantage of the opportunities provided by the Strategic Technologies for Europe Platform under Cohesion Policy and the Recovery and Resilience Facility to reallocate resources towards this priority. However, Cyprus can still seize these opportunities to support the development or manufacturing of critical technologies in the areas of digital and deep tech, clean and resource efficient technologies, and biotechnologies.

INNOVATION, BUSINESS ENVIRONMENT AND PRODUCTIVITY

Cyprus's competitiveness and productivity are hindered by weaknesses in the innovation ecosystem, an insufficiently supportive business environment and difficulties in accessing funding opportunities. Cyprus has a fragmented innovation ecosystem, lacks a longer-term R&I strategy and is characterised by low levels of R&D intensity. These act as barriers to the commercialisation of scientific output and the creation of linkages to acquire and deepen know-how from foreign tech companies. Difficulties remain in securing funding for business development and expansion, with bank loans essentially the only source of financing. Furthermore, delays in aligning corporate governance of state-owned enterprises with international standards are slowing down efforts to modernise critical sectors such as electricity, telecommunications and water supply, while regulatory barriers are preventing Cyprus from achieving optimal economic growth, competitiveness, and efficiency across key sectors.

Innovation is being held back by low R&D spending while the fragmented R&I ecosystem lacks strong linkages

Public and private R&D investment in Cyprus remains very low. Public R&D intensity has stagnated over the past decade, with Cyprus ranking among the bottom five in the EU in terms of R&D investment (0.29% of GDP in 2023 compared to an EU average of 0.72%)

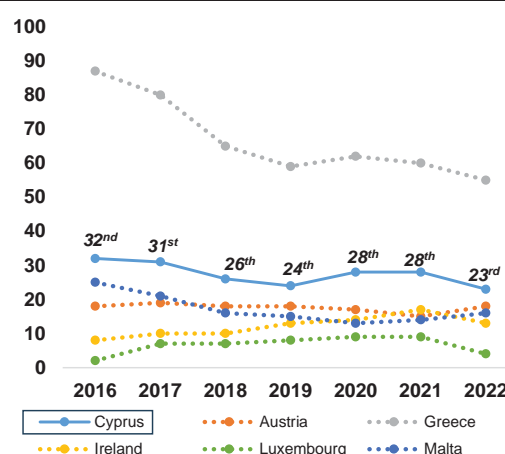
(see Annex 3). Cyprus has a limited number of large enterprises, a service-based economy and a relatively small budget available for tax- and other incentives, which are all structural challenges and obstacles to private-sector investment in technological innovation and knowledge creation. Business R&D expenditure fell to 0.28% of GDP in 2023, a reduction of one-third compared to 2020 and five times lower than the EU average (1.47%). Additionally, access to financing other than bank loans, e.g. equity financing for innovation and venture capital, remains difficult for small to medium-sized enterprises and well below the EU average (see paragraph on access to finance below). For these reasons, Cyprus's small to medium-sized enterprises and public R&I institutions have been actively seeking support under the EU's Horizon Europe funding programme, reflecting significant unmet national demand for innovation financing. Moreover, the country's openness, EU membership, and the high educational attainment ⁽⁵⁾. Cyprus has a strong foundation in place for advancing innovation and technology. Numerous ICT companies have recently relocated to Cyprus, presenting new opportunities for stronger synergies with local research institutions and potentially generating significant spillover effects for innovation and the wider economy.

Despite low R&D funding, Cyprus boasts a strong scientific output, but commercialisation of research results remains weak. More than

(5) Educational attainment refers to the highest level of education an individual has completed, typically measured by degrees, diplomas, or certificates earned.

11% of Cypriot research publications ranked among the top 10% most cited publications worldwide in 2021 (latest available data), compared to an EU average of 9.6%. However, in 2022, Cyprus filed only 0.7 patent applications per billion GDP under the Patent Cooperation Treaty, well below the EU average of 2.8. This is partly due to Cyprus's innovation ecosystem which is fragmented and lacks strong linkages, thereby making it difficult for universities, start-ups, large companies, the government, possible intermediators and innovation financing institutions to connect and collaborate effectively to develop new technologies. At the same time, the number of science, technology, engineering and mathematics graduates is falling and few researchers are employed in the public sector (1.8 researchers per thousand economically-active population in 2023 vs. 4.2 EU average) and private sector (1.1 vs. 5.7). These present barriers to acquiring knowledge and expanding innovation capability. The Cypriot R&I short-term strategy currently has no clear input-output indicators, defined targets, impact assessments, and multi-annual institutional funding. The legislation does not lay down a unified framework for commercialising research results which covers intellectual property rights, start-ups, and spin-offs. Moreover, knowledge could be better exploited through stronger linkages between local Knowledge Transfer Offices (KTOs) and the central KTO.

Graph 2.1: Global innovation index: business sophistication ranking for selected countries



Source: World Intellectual Property Organisation (WIPO).

Persistent difficulties in accessing finance are hindering innovation, start-ups and scale-ups

New and potentially innovative businesses face major difficulties in securing finance. Bank loans remain the main source of financing for businesses, accounting for 45% of the total financing needs of non-financial corporations, well above the EU average of 27%⁽⁶⁾. Although lending to established non-financial corporations is expected to stay strong given the ample liquidity of Cyprus's banking sector (the highest in the eurozone), prospects for new businesses to secure financing are expected to remain underwhelming. Strict lending requirements naturally imposed by traditional banks without specialised facilities for riskier investments limit the ability of new businesses without an established credit history to access loans. In addition, financing through capital markets remains underdeveloped, with Cyprus

⁽⁶⁾ Source: [Non-financial corporations - statistics on financial assets and liabilities - Statistics Explained - Eurostat](#)

recording one of the lowest rates in the EU. Capital market financing in Cyprus represents only 9.5% of GDP, compared to an EU average of nearly 50%. Underutilisation of alternative funding sources points to a structural weakness within Cyprus's business and financial systems to establish appropriate linkages to domestic and foreign financing instruments for all categories of start-ups, whether innovative or not.

Under the recovery and resilience plan, initiatives are being funded to strengthen alternative financing opportunities for small to medium-sized enterprises and start-ups, however Cyprus's capital market remains underdeveloped overall. In December 2023, the Cyprus Equity Fund was launched with the support of the recovery and resilience plan and the private sector. It is expected to enhance the ecosystem for equity and venture capital investments by providing initial financing to emerging businesses and direct investments to innovative companies. With funding from the Recovery and Resilience Facility, a reform is underway to privatise the Cyprus Stock Exchange and select a strategic investor to buy a controlling stake in it, which is expected to enhance capital market access and attract more investment. As of December 2024, there were 338 investment funds operating in Cyprus. However, the overall private equity and venture capital market remains significantly underdeveloped. The value of annual venture capital investment stood at just 0.02% of GDP in December 2023, four times lower than the EU average, while no major private equity investments were recorded in 2022 and 2023. The lack of financing options is exacerbated by a limited household and institutional participation in private investment. In the absence of an established investment culture and reliable investment alternatives, households prefer to invest in real estate or hold their financial assets in savings rather than other types of investments, with only 3% investing their financial assets in investment

funds, as compared to an EU average of 10%. At the same time, Cyprus's pension and insurance funds are fragmented, hindering efficient asset management and, as a result, limiting financing options for small businesses (see Annex 5).

Removing barriers to boost competitiveness and business dynamism

The performance of state-owned enterprises risks holding back economic and business development in key sectors. While state-owned enterprises make up only 2% of total employment, they are natural monopolies in key sectors such as electricity, telecommunications, water, wastewater management and infrastructure. A recent IMF report requested by the Cypriot authorities highlighted that the governance of state-owned enterprises falls short in several key areas covered by international and OECD standards. These include merit-based board nominations, ownership policy, performance-driven management, and transparency and accountability in financial performance. Such weaknesses hold back the modernisation of these companies and may impact Cyprus's potential to achieve key policy targets in fields such as the green transition, digitalisation and increased value-added of products and services. To address the IMF's recommendations, Cyprus is preparing an action plan; however, its adoption has been significantly delayed. Cyprus has also recently established an Advisory Council for the nomination of SOE board members. Further legal steps may also be needed, for instance to address managerial appointments and transparency and performance criteria.

Further regulatory reforms could improve the business environment. In 2024, 34% of Cypriot firms (EU average of 24.5%) cited

regulation as a major investment barrier, up from 31.5% in 2023. Obtaining permits from various competent authorities is a common challenge for companies, particularly approvals for new construction projects, such as town planning permits and building permits. Over the past five years, Cyprus's performance has fallen further below the EU average in this area. With a Product Market Regulation score of 1.63 (OECD average: 1.34), Cyprus lags behind many other EU countries. Further efforts to reduce administrative burdens, simplify processes and improve licensing and permit procedures could enhance the business environment (see Annex 4).

Slow progress in developing Cyprus's infrastructure and modernising its public service are also hampering competitiveness and weakening the business environment. Large public infrastructure projects are often subject to major delays or changes, creating negative spillover effects and uncertainty for private investment. Similarly, slow progress is being made to modernise the public sector to potentially make transactions between business and the public sector more efficient. The technologies chosen to assist in these efforts are often obsolete before modernisation projects or systems come to fruition. This is partly related to Cyprus's public procurement system which is still evolving towards a more strategic and professionalised approach. In addition, procurement processes frequently face appeals and litigation, further delaying the development of essential infrastructure.

DECARBONISATION, ENERGY AFFORDABILITY AND SUSTAINABILITY

Cyprus faces significant challenges in its energy transition, environmental sustainability and climate resilience. The country is only slowly diversifying its energy mix away from fossil fuels. The energy sector still faces considerable challenges related to the slow implementation of the Great Sea Interconnector, the diversification of its energy supply and the modernisation of its electricity grid, all of which will impact energy affordability for consumers and businesses. Increased energy efficiency will be key to decarbonisation. Moreover, Cyprus would benefit from increasing support to the transport sector to help its transition and become sustainable. Despite relevant measures already being taken, Cyprus still faces significant challenges and resource constraints in the areas of risk preparedness and climate adaptation. Water and wastewater management remain major environmental concerns, with sustainable water use and wastewater treatment continuing to present a challenge. Additionally, the country's transition to a circular economy is progressing only slowly, highlighting the need for further efforts to improve resource efficiency, waste reduction, and sustainable practices.

Additional action to improve the energy mix and contain prices

Cyprus has seen an upward trend in the production and use of renewable energy sources. 24% of Cyprus's electricity mix was supplied by renewables in 2024, compared to

20% in 2023, however this remains below the EU average. The majority comes from solar energy projects, while wind and biomass energy projects have been contributing to a lesser but growing extent. Cyprus's target is to increase the share of renewable energy sources in its energy mix to one-third by 2030.

The Great Sea Interconnector project will end Cyprus's energy isolation. The aim of this project is to interconnect the Greek, Cypriot and Israeli power grids via a submarine power cable, however the project has been beset by delays. To connect users of renewable energy sources to the grid and to support the green transition, further efforts to expand and upgrade Cyprus's electricity system and grid would be required. Developing renewable energy storage systems will also be important for increasing renewable energy capacity in the transmission network and reducing energy curtailment.

Affordable electricity is a pressing issue. In 2024, Cyprus was again one of the countries with the highest household electricity prices in the EU, placing consumers under considerable financial pressure (regarding energy poverty, see Annex 8). Electricity prices for non-household consumers in Cyprus were the highest in the EU, creating substantial challenges for the competitiveness of Cypriot businesses.

Decarbonisation remains a challenge in many sectors

Cyprus is not on track to reach its effort sharing target of a 32% reduction in greenhouse gas emissions in effort sharing sectors by 2030 compared to 2005. To meet the target, planned measures and infrastructure projects, alongside additional measures, will have to be implemented in a timely manner. Additional policies and measures in sectors covered by the Effort Sharing Regulation—such as transport, buildings, small industry, waste, and non-CO₂ agriculture—beyond those in the final NECP, along with their potential emission reduction impacts, financing needs, and funding sources, can be reflected in the 2027 NECP progress report.

Cyprus's energy mix is still characterised by high emission intensity, for example from the manufacturing sector. Further electrification across sectors would help to progress towards the cost-effective decarbonisation of the economy while also bringing benefits for consumers.

Increased energy efficiency in the building and transport sectors is also key to decarbonisation. Energy efficiency investments in Cyprus mainly consist of grants and tax rebates. Between 2005 and 2023, greenhouse gas emissions from buildings decreased by 14%, far less than the EU average of 33%. Faster implementation of climate mitigation measures in this sector will help households and businesses. Furthermore, Cyprus would benefit from focusing more on helping the transport sector to transition and become sustainable, since it is still in the very early stages of electrification. The carbon price set by the carbon tax and later the EU's Emissions Trading System 2 will provide a market incentive for investing in building renovations and low-emission mobility while

offering additional direct support for vulnerable energy and transport users. The creation of innovative financing tools and the promotion of the European Energy Efficiency Financing Coalition to the national financial institutions could also contribute to the same direction.

Sustainable mobility remains a priority. The transport sector, which is Cyprus's biggest energy consumer, saw an increase in its final energy consumption of 7.7% in 2023 (see Annex 6). Furthermore, all domestic freight is transported by road as Cyprus has no rail network. There are also very few incentives for greening and electrifying the vehicle fleet, while the necessary infrastructure for doing so is lacking (see Annex 5).

Cyprus is particularly exposed to climate change and environmental risks

Cyprus is subject to a range of climate risks and extreme weather events, with wildfires posing the greatest risk. Over the period 2006-2023, an average of 1 728 hectares was impacted each year by wildfires in Cyprus. The country is vulnerable to extreme weather events such as irregular but intense rainfall, drought and storms, with flash flooding occurring in urban and rural areas. Cyprus is prone to high summer temperatures, with heatwaves becoming increasingly frequent and severe. This has resulted in serious public health and environmental impacts (see Annex 9). In response to climate-related challenges, the Ministry of Finance has started to integrate climate risks into its fiscal planning, aiming to assess and mitigate their impact on the country's economy.

Although Cyprus has put in place a certain number of strategies and measures, it is lacking the substantial resources needed to invest in disaster preparedness and climate

adaptation. Measures are already in the pipeline to address water resources, agriculture and health. Furthermore, the national adaptation strategy (2017) is currently under review. A relevant Technical Support Instrument (TSI) project, which was signed in November 2023 and initiated in January 2024, is currently in the implementation phase, with key assessments and stakeholder engagements underway to revise and update the national adaptation strategy and action plan with the aim of increasing the capacity to implement climate adaptation actions. The revision of the National Adaptation Strategy and Action Plan is progressing in accordance with the established timeline. The new (draft) version contains an action plan that will cover the period 2025-2050, i.e. a long-term vision for boosting the country's resilience to the impact of climate change. With support from the Recovery and Resilience Facility, actions are also under consideration for improving governance and sharing responsibilities between ministries and local authorities (see Annex 9).

Water and wastewater management are a major environmental concern. Cyprus is affected by severe water scarcity, particularly when compared to the EU average. Cyprus's water exploitation index plus (WEI+), which compares water use against renewable water resources, was a staggering 70.6 in 2022, indicating a critical situation. At the same time, Cyprus has demonstrated poor water use efficiency. The agricultural sector, which is Cyprus's primary consumer of water resources, accounted for 88% of all water resource consumption in 2022. Cyprus faces a EUR 30 million annual water investment gap (0.11% of GDP), approximately half of which is needed for investing in drinking water. Wastewater treatment is also a cause for concern, with 28 agglomerations not complying with the requirements of Directive (EU) 2024/3019 concerning urban wastewater treatment. Some of these agglomerations are set to receive cohesion policy funding to

construct sewage collection networks and pumping stations. Additionally, investment in wastewater measures needs to increase by EUR 10 million per year, with an additional EUR 5 million a year needed to meet the requirements of the Water Framework Directive on top of existing financing (see Annex 9).

The circular economy is only progressing slowly. Cyprus's 2021-27 Circular Economy Action Plan, reinforced by the recovery and resilience plan, is advancing the country's transition to sustainable resource management, with a focus on priority sectors such as agriculture, food, manufacturing and hospitality. However, the plan appears to be insufficient, as the country's circular material use rate and resource productivity is still below the EU average. The plan's effectiveness in addressing every dimension of the circular economy is also uncertain, as Cyprus is at risk of missing municipal waste and packaging waste targets and requires additional investment to unlock its circular economy potential. The country's waste management performance is still lagging, with only 15% of municipal waste prepared for re-use or recycled and 70% of packaging waste recycled in 2022. Additionally, in the same year, Cyprus produced the highest volume of food waste per person in the EU, at 294 kg. In 2023, the country generated 674 kg of municipal waste per capita, which is significantly above the estimated EU27 average of 511 kg per capita. The introduction of a landfill charge under Cyprus's recovery and resilience plan has the potential to promote more sustainable waste management practices if it is properly operated and enforced. This reform, which has proven successful in other Member States, will be crucial for Cyprus (see Annex 7).

SKILLS, QUALITY JOBS AND SOCIAL FAIRNESS

Challenges in developing a competitive labour market and effective social policies are standing in the way of robust economic growth in Cyprus. Cyprus's labour market is faced with skills and labour shortages and mismatches, and low integration of underrepresented groups. At the same time, low attainment levels in basic skills and limited enrolment in adult learning is a barrier to growing the workforce. The ongoing transformation and diversification of Cyprus's economy is creating opportunities for tackling some of these challenges, with the emergence of new economic sectors and inflows of skilled workers from abroad helping to increase productivity and value added. At the same time, Cyprus's ageing population is resulting in new demands such as access to long-term care, while the country is still faced with social challenges, such as energy poverty.

Labour and skills shortages are holding back economic potential

Overcoming the weak integration of underrepresented groups, especially that of young people, is a challenge for Cyprus. The labour market is expanding in line with Cyprus's rapid economic growth. 2024 saw a further rise in the employment rate, from 79.5% in 2023 to 79.8% in 2024 (see the Social Scoreboard in Annex 13). However, for certain categories of the population such as young people, older women and persons with disabilities, obstacles to entering the labour market persist (see Annex 10). The share of young people neither in employment nor in education and training (12.9%) remainshigher

than the EU average (11%), especially for young women (14.1% vs EU: 12.1%). At the same time, the gender employment gap has widened, with the employment rate of young men (36.9%) outpacing that of young women (33.8%) by 3.9 percentage points, while the employment rate among men aged 55-64 (78.9%) surpassed that of women (62.4%) by 16.5 percentage points. There is a growing influx of non-EU citizens, providing additional potential for further employment growth. Efforts to promote integration are underway, supported by active labour market policies and incentives, however they would benefit from more targeted focus on those whose participation is a priority (see Annex 10). The public employment service could improve support for employers in hiring persons with disabilities and offering targeted employment schemes for older women. In addition to these measures, easing institutional restrictions on employment as well as up- and reskilling of foreign workers, promoting legal migration and attracting talent from non-EU countries, could help sustain the labour supply in vital sectors and enhance Cyprus's competitiveness.

Labour and skills shortages are restricting economic development. Despite strong overall labour market outcomes, labour and skills shortages are limiting businesses' capacity to expand, innovate and improve productivity, thereby restricting economic development overall. Labour shortages have worsened in sectors such as construction and energy (see Annex 10). Working conditions are contributing to labour shortages, including the nursing profession and long-term care. There are also persistent skills shortages and mismatches in agriculture,

accommodation and food services due to an over-qualified workforce (see Annex 12). A reform is included in the recovery and resilience plan to address skills mismatches between education and the labour market, alongside investments in training in digital, green and blue skills. Moreover, with the support of the European Social Fund Plus, the individual learning accounts pilot project is being rolled out, together with training for young persons not in employment or education ⁽⁷⁾.

Underperformance in basic skills and low participation in training are a barrier to growing the workforce

Cyprus is witnessing a concerning trend of falling levels in basic skills among young people which is hindering their access to training and skilled employment. According to the results of the 2022 OECD's Programme for International Student Assessment tests, since 2018 Cyprus has seen the biggest increase in underachievement in basic skills in the EU – numeracy, literacy and science – among 15-year-olds (see Annex 12). Factors behind this downward trend may include low levels of participation in early childhood education and care, incomplete policy implementation and a lack of school autonomy which is generally associated with better outcomes. Cyprus also has one of the highest rates of underachievement in basic digital skills in the EU. The decline in attainment of basic skills was pronounced among students irrespective of their socio-economic background. Low basic skills are generally a barrier to effective reskilling and

upskilling of the workforce. Furthermore, very few students have advanced skills in all three fields covered by the Programme for International Student Assessment which, combined with a low share of students who are top performers in creative thinking, is restricting Cyprus's potential for innovation and competitiveness. Several measures are underway as part of the recovery and resilience plan to improve participation in early childhood education and care, including an action plan for better education outcomes, revision of curricula, competency-based teaching and learning methods, and monitoring and evaluation mechanisms with an emphasis on teacher evaluation. However, the effectiveness of these measures is yet to be determined.

Challenges in the attainment of basic skills are compounded by limited participation in secondary vocational education and training, and inadequate digital skills. Participation in secondary vocational education and training and opportunities for work-based learning are limited (see Annex 12). Key components of the adult learning system, such as the national qualifications framework, could be rolled out faster, with particular focus on vulnerable groups and those in need of reskilling, in order to address skills shortages. Efforts to increase the attractiveness of vocational education and training could focus on digital skills, with support in particular for persons with disabilities, in order to meet rising demand for such skills. Cyprus could upgrade its vocational education and training infrastructure more quickly and involve employers in designing vocational education and training programmes in order to better align post-secondary vocational and training institutes (MIEEK) with labour market needs.

Digital skills remain low among Cyprus' working-age population. Digital skills, especially among vulnerable groups, are exacerbating skills shortages, with only 49.5% of adults having basic digital skills in 2023. To

(7) Individual learning accounts are digital wallets designed for all adults of working age to address three common training barriers: motivation, time, and funding. More information is [here](#).

enhance digital skills and ensure continuous skills development across all demographic groups, Cyprus is implementing its national e-skills action plan 2021-2025. Training programmes are launched for improving employees' digital and green skills, funded by the Recovery and Resilience Facility. Gradually expanding these programmes to cover the entire population could significantly improve overall digital skills levels. Moreover, there is scope for more effective communication regarding the available training programmes and initiatives, and incentives for acquiring qualifications.

Graduates in science, technology, engineering and mathematics fields are in short supply, exacerbating skills shortages. In Cyprus, the proportion of students enrolled in science, technology, engineering and mathematics (STEM) fields relative to total tertiary enrolments is 13.7%, the lowest in the EU, despite policy efforts. Skills and labour shortages remain acute especially in STEM fields as well as in the broader context of the green and digital transitions (see Annex 12). Policy efforts have been intensified in recent years, including with support from the Recovery and Resilience Facility and the European Social Fund Plus. However, targeted measures to enhance enrolment in STEM fields at tertiary level (levels 5-8 under the International Standard Classification of Education) by increasing their attractiveness and highlighting the importance of STEM education for society could help further alleviate skills shortages.

Low participation of adult in learning is hampering reskilling from a life cycle perspective. Cyprus saw a significant decline in adult learning participation between 2016 and 2022 (from 44.3% to 28.3%). In addition, women and unemployed people are less likely to engage with learning. In a fast-changing labour market, this lack of lifelong learning creates vulnerabilities for both individuals and the economy. Cyprus is piloting individual

learning accounts, an innovative way to support adult participation in learning. Mainstreaming this approach, ensuring universal accessibility and encouraging training uptake among the entire working-age population could help achieve much needed-improvements in this area.

Long-term care services are insufficient, while energy poverty remains high

Against a backdrop of growing demographic challenges, access to long-term care services is limited. Recent data (2019) shows that in Cyprus, the proportion of people aged 65 and over who require long-term care due to severe difficulties with personal care or household activities, is one of the highest in the EU, at 34.3% (see Annex 11) ⁽⁸⁾. Demand for long-term care is expected to rise further in the years to come, with the share of the population aged 65 and over expected to increase from 16.5% in 2022, to 19% by 2030 to 23.9% by 2050. However, the proportion of spending dedicated to residential care and the number of long-term care workers – key factors in social care provision for older people – are well below the EU average. To improve the availability, access and quality of services, Cyprus's existing funded integrated long-term care model could be rolled out faster. This model includes strong quality assurance mechanisms for all types of long-term care.

Energy poverty remains high. In Cyprus, despite recent improvements, the share of the population who struggle to heat their homes (14.6%), and especially the share of those at risk of energy poverty (42.5%), remains one of

⁽⁸⁾ European Health Interview Survey, [\[hlth_ehis_tadle\]](#). The value sums the share of those having difficulty with personal care, household activities or both.

the highest in the EU. Cooling is an additional challenge. The recovery and resilience plan includes measures aimed at improving energy efficiency and supporting vulnerable consumers through reduced electricity tariffs and protection against grid disconnections. However, there is scope to make further improvements to the housing stock to mitigate the effects of high energy costs.

KEY FINDINGS

To boost competitiveness, sustainability and social fairness, Cyprus would benefit from:

- **accelerating the implementation of the recovery and resilience plan**, including the REPowerEU chapter. Making optimal use of EU instruments, including InvestEU STEP, to improve competitiveness and swiftly implementing **cohesion policy**, taking advantage of the opportunities under the mid-term review;
- **strengthening the commercialisation of R&D outcomes** by increasing public and private R&D investment, enhancing research-business linkages and synergies, and incorporating input-output indicators and multiannual funding into the long-term R&I strategy;
- **improving the business environment** by reducing regulatory and administrative barriers, enhancing the transparency and efficiency of state-owned enterprise governance, and further refining the regulatory framework focusing on simplification;
- **expanding public infrastructure and modernising public services** by accelerating relevant investments, including in digital networks and systems, and by improving public procurement, including through the professionalisation of procedures;
- **enhancing access to finance** for businesses by enabling alternative financing opportunities, including venture capital, private equity and investment funds;
- **increasing individual investor participation** in capital markets, including through incentives to invest in mutual funds and alternative financial products;
- **accelerating decarbonisation and enhancing energy affordability** by accelerating the development of electricity interconnections, promoting sustainable mobility, increasing the share of renewable energy, modernising and expanding the grid, improving energy efficiency and adopting the green taxation reform;
- **boosting resilience to climate change and speeding up the transition to a circular economy** by improving water management practices especially in agriculture, improving and investing in wastewater treatment, and increasing recycling rates;
- **enhancing long-term stability of tax revenues** by diversifying the tax mix;
- **strengthening educational outcomes and addressing labour and skills shortages** by improving basic and digital skills, increasing participation in science, technology, engineering and mathematics fields and in vocational education and training, adapting adult learning to employment needs, and better integrating young people in the labour market;
- **improving social protection for vulnerable groups and reducing energy poverty** by strengthening access to quality long-term care, improving the energy efficiency of homes, and providing targeted support to vulnerable households.

ANNEXES

LIST OF ANNEXES

Fiscal	21
A1. Fiscal surveillance and debt sustainability	21
A2. Taxation	28
Productivity	32
A3. Innovation to business	32
A4. Making business easier	36
A5. Capital markets, financial stability and access to finance	41
A6. Effective institutional framework	49
Sustainability	54
A7. Clean industry and climate mitigation	54
A8. Affordable energy transition	60
A9. Climate adaptation, preparedness and environment	65
Fairness	70
A10. Labour market	70
A11. Social policies	73
A12. Education and skills	76
A13. Social Scoreboard	80
A14. Health and health systems	81
Horizontal	84
A15. Sustainable development goals	84
A16. CSR progress and EU funds implementation	87
A17. Competitive regions	94

LIST OF TABLES

A1.1. General government balance and debt	29
A1.2. Net expenditure growth	29
A1.3. Net expenditure (outturn and forecasts), annual and cumulated deviations vis-à-vis the recommendation	30
A1.4. Defence expenditure	30
A1.5. Macroeconomic developments and forecasts	31
A1.6. General government budgetary position	31
A1.7. Debt developments	32
A1.8. RRF – Grants	32

A1.9.	RRF - Loans	33
A1.10.	Projected change in age-related expenditure in 2024-2040 and 2024-2070	34
A1.11.	Fiscal Governance Database Indicators	34
A2.1.	Taxation indicators	36
A3.1.	Key innovation indicators	43
A4.1.	Making Business Easier: indicators.	50
A5.1.	Financial sector indicators	59
A6.1.	Selected indicators on administrative burden reduction and simplification	61
A6.2.	Key Digital Decade targets monitored through the Digital Economy and Society Index	62
A7.1.	Key clean industry and climate mitigation indicators: Cyprus	70
A8.1.	Key Energy Indicators	75
A9.1.	Key indicators tracking progress on climate adaptation, resilience and environment	80
A13.1.	Social Scoreboard for Cyprus	93
A14.1.	Key health indicators	95
A16.1.	Selected EU funds with adopted allocations - summary data (million EUR)	103
A16.2.	Summary table on 2019-2024 CSRs	104
A17.1.	Socio-economic indicators by degree of urbanisation, 2024	110

LIST OF GRAPHS

A2.1.	Tax revenue shares in 2023	35
A2.2.	Tax wedge for single and second earners, % of total labour costs, 2024	37
A3.1.	Public expenditure on R&D as % of GDP, 2013-2023	40
A3.2.	Business R&D investment as % of GDP in strong innovator countries, 2013-2023	41
A4.1.	Making Business Easier: selected indicators.*	46
A5.1.	Net savings-investments balance	51
A5.2.	Net international investment position	52
A5.3.	Capital markets and financial intermediaries	53
A5.4.	Composition of NFC funding as % of GDP	56
A5.5.	Composition of HH financial assets per capita and as % of GDP	57
A6.1.	Trust in justice, regional / local authorities and in government	60
A6.2.	Indicators of Regulatory Policy and Governance (iREG)	61
A7.1.	GHG emission intensity of manu-facturing and energy-intensive sectors, 2022	67
A7.2.	Greenhouse gas emissions in the effort sharing sectors in Mt CO ₂ eq, 2005-2023	68
A7.3.	Municipal waste treatment	68
A8.1.	Retail energy price components for household and non-household consumers, 2024	71
A8.2.	Cyprus' installed renewable capacity (left) and electricity generation mix (right)	73
A9.1.	Direct dependency(1) on ecosystem services(2) of the gross value added generated by economic sector in 2022	78
A9.2.	Investment needs and gaps in EUR million, in 2022 constant prices	79
A10.1.	Share of young people neither in employment nor in education and training (15-29; NEET rate) and disability employment gap (20-64)	81
A10.2.	Labour shortages (%) and the job vacancy rate (%)	83
A10.3.	Foreign workers in Cyprus (thousands, 20-64)	83
A11.1.	At-risk-of-poverty or social exclusion rate, selected population groups	86
A12.1.	Underachievement rates by field, PISA 2012, 2018 and 2022 (%)	88
A12.2.	Participation in education and training (during the past 12 months), by educational attainment level for 2016 and 2022	92
A14.1.	Life expectancy at birth, years	94
A14.2.	Treatable mortality	94
A15.1.	Progress towards the SDGs in Cyprus	97
A16.1.	Distribution of RRF funding in Cyprus by policy field	101
A16.2.	Distribution of cohesion policy funding across policy objectives in Cyprus	101
A17.1.	The evolution of labour productivity per hour in Cyprus	108

This Annex contains a series of tables relevant for the assessment of the fiscal situation in Cyprus, including how Cyprus is responding to Council recommendations issued under the reformed Economic Governance Framework.

The reformed framework, which entered into force on 30 April 2024 ⁽⁹⁾, aims to strengthen debt sustainability and promote sustainable and inclusive growth through growth-enhancing reforms and priority investments. The medium-term fiscal-structural plans (hereinafter, MTPs or plans) constitute the cornerstone of the framework, setting the budgetary commitment of Member States over the medium term. The latter is defined in terms of net expenditure growth, which is the single operational indicator for fiscal surveillance.

Cyprus submitted its plan on 15 October 2024. The plan covers the period until 2028, presenting a fiscal adjustment over four years. On 21 January 2025, the Council adopted the Recommendation endorsing Cyprus's plan ⁽¹⁰⁾.

The assessment of the implementation of the Council Recommendation endorsing Cyprus's plan is carried out on the basis of outturn data from Eurostat, the Commission Spring 2025 Forecast and taking into account the Annual Progress Report (APR) that Cyprus submitted on 30 April 2025. Furthermore, in the context of the Commission Communication of 19 March 2025 ⁽¹¹⁾, on accommodating defence expenditure within the Stability and Growth Pact, the Annex reports the projected increase in defence expenditure based on the Commission Spring 2025 Forecast.

The Annex is organised as follows. First, developments in **government deficit and debt** are presented based on the figures reported in Table A1.1. Then, the assessment of the **implementation of the Council Recommendation endorsing the plan** follows, based on the relevant figures presented in Tables A1.2 to A1.9, including data on defence expenditure.

The Annex also provides information on the **cost of ageing** and the **national fiscal framework**. Fiscal sustainability risks are discussed in the Debt Sustainability Monitor 2024 ⁽¹²⁾.

Developments in government deficit and debt

Cyprus's government surplus amounted to 4.3% of GDP in 2024. Based on the Commission Spring 2025 Forecast, it is projected to decrease to 3.5% of GDP in 2025. The government debt-to-GDP ratio

⁽⁹⁾ Regulation (EU) 2024/1263 of the European Parliament and of the Council (EU) on the effective coordination of economic policies and on multilateral budgetary surveillance, together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure, and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States are the core elements of the reformed EU economic governance framework.

⁽¹⁰⁾ OJ C, C/2025/639, 10.02.2025, ELI: <http://data.europa.eu/eli/C/2025/639/oj>.

⁽¹¹⁾ Communication from the Commission accommodating increased defence expenditure within the Stability and Growth Pact of 19 March 2025, C(2025) 2000 final.

⁽¹²⁾ Commission (2025) 'Debt Sustainability Monitor 2024,' *European Economy-Institutional Papers* 306.

amounted to 65.0% at the end of 2024 and, according to the Commission, it is projected to decrease to 58.0% end-2025.

Table A1.1: General government balance and debt

	Variables		2024	2025		2026	
			Outturn	APR	COM	APR	COM
1	General government balance	%GDP	4.3	3.5	3.5	3.7	3.4
2	General government gross debt	%GDP	65.0	57.4	58.0	52.6	51.9

Source: Commission Spring 2025 Forecast (COM), Annual Progress Report (APR)

Developments in net expenditure

The net expenditure ⁽¹³⁾ growth of Cyprus in 2025 is forecast by the Commission ⁽¹⁴⁾ to be above the recommended maximum, corresponding to a deviation of 0.5% of GDP. Considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also projected above the recommended maximum cumulative growth rate, corresponding to a deviation of 0.5% of GDP. Differences between the Commission's calculations compared to the estimates of the Annual Progress Report by the national authorities are due to lower total expenditure and higher deductions for the national co-financing of EU programmes, reflecting more recent available data. The annual deviation in 2025 is above the 0.3% of GDP threshold.

Table A1.2: Net expenditure growth

	Annual			Cumulative*		
	REC	APR	COM	REC	APR	COM
	Growth rates					
2024	na.	3.2%	2.9%	na.	na.	na.
2025	6.0%	6.8%	7.3%	8.9%	10.2%	10.4%
2026	5.0%	4.6%	5.4%	14.3%	15.3%	16.4%

* The cumulative growth rates are calculated by reference to the base year of 2023.

Source: Council Recommendation endorsing the national medium-term fiscal-structural plan of Cyprus (REC), Annual Progress Report (APR) and Commission's calculation based on Commission Spring 2025 Forecast (COM).

General government defence expenditure in Cyprus amounted to 1.7% of GDP in 2021, 1.5% of GDP in 2022 and 1.9% of GDP in 2023 ⁽¹⁵⁾. According to the Commission 2025 Spring Forecast, expenditure on defence is projected at 1.4% of GDP in 2024 and 2025.

⁽¹³⁾ Net expenditure is defined in Article 2(2) of Regulation (EU) 2024/1263 as government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-off and other temporary measures.

⁽¹⁴⁾ Commission Spring 2025 Forecast, *European Economy-Institutional paper 318*, May 2025.

⁽¹⁵⁾ Eurostat, government expenditure by classification of functions of government (COFOG)

Table A1.3: Net expenditure (outturn and forecasts), annual and cumulated deviations vis-à-vis the recommendation

	Variables		2023	2024	2025	2026
			Outturn	Outturn	COM	COM
1	Total expenditure	bn NAC	13.1	13.4	14.6	15.3
2	Interest expenditure	bn NAC	0.4	0.4	0.4	0.5
3	Cyclical unemployment expenditure	bn NAC	0.0	0.0	0.0	0.0
4	Expenditure funded by transfers from the EU	bn NAC	0.3	0.2	0.5	0.4
5	National co-financing of EU programmes	bn NAC	0.1	0.1	0.1	0.1
6	One-off expenditure (levels, exd. EU funded)	bn NAC	0.0	0.0	0.0	0.0
7=1-2-3-4-5-6	Net nationally financed primary expenditure (before discretionary revenue measures, DRM)	bn NAC	12.5	12.7	13.7	14.4
8	Change in net nationally financed primary expenditure (before DRM)	bn NAC		0.3	0.9	0.7
9	DRM (exd. one-off revenue, incremental impact)	bn NAC		-0.1	0.0	0.0
10=8-9	Change in net nationally financed primary expenditure (after DRM)	bn NAC		0.4	0.9	0.7
11	Outturn / forecast net expenditure growth	% change		2.9%	7.3%	5.4%
12	Recommended net expenditure growth*	% change		2.7%	6.0%	5.0%
13=(11-12) x 7	Annual deviation	bn NAC		0.0	0.2	0.0
14 (cumulated from 13)	Cumulated deviation	bn NAC		0.0	0.2	0.2
15=13/17	Annual balance	% GDP		0.1	0.5	0.1
16=14/17	Cumulated balance	% GDP		0.1	0.5	0.7
17	p.m. Nominal GDP	bn NAC	31.3	33.6	35.5	37.2

* The growth rate for 2024 is not a recommendation but serves to anchor the base, as the latest year with outturn data when setting the net expenditure path is year 2023.

Source: Commission Spring 2025 Forecast and Commission's calculation

Table A1.4: Defence expenditure

			2021	2022	2023	2024	2025	2026
1	Total defence expenditure	% GDP	1.7	1.5	1.9	1.4	1.4	1.4
2	of which: gross fixed capital formation	% GDP	0.3	0.2	0.6	0.3	0.3	0.2

Source: Eurostat (COFOG), Commission Spring 2025 Forecast. and Commission's calculation

Table A1.5: Macroeconomic developments and forecasts

	Variables		2024	2025		2026	
			Outturn	APR	COM	APR	COM
1=7+8+9	Real GDP	% change	3.4	3.1	3.0	3.1	2.5
2	Private consumption	% change	3.8	2.5	2.5	2.3	2.2
3	Government consumption expenditure	% change	1.5	4.5	3.7	2.7	2.5
4	Gross fixed capital formation	% change	0.1	1.0	3.5	4.5	3.0
5	Exports of goods and services	% change	5.3	1.7	3.7	1.8	3.5
6	Imports of goods and services	% change	2.4	0.8	3.6	1.5	3.5
	Contributions to real GDP growth						
7	- Final domestic demand	pps	2.6	2.5	2.8	2.8	2.3
8	- Change in inventories	pps	-2.0	0.0	0.0	0.0	0.0
9	- Net exports	pps	2.8	0.8	0.2	0.3	0.2
10	Output gap	% pot GDP	2.8	1.6	2.2	1.4	1.7
11	Employment	% change	2.0	1.8	1.3	1.7	1.1
12	Unemployment rate	%	4.9	4.7	4.7	4.7	4.6
13	Labour productivity	% change	1.4	1.3	1.7	1.4	1.4
14	HICP	% change	2.3	1.9	2.0	2.1	2.0
15	GDP deflator	% change	3.5	2.0	2.6	2.1	2.3
16	Compensation of employees per head	% change	4.5	3.8	3.6	3.4	3.3
17	Net lending/borrowing vis-à-vis the rest of the world	% GDP	-6.7	na.	-6.2	na.	-5.6

Source: Commission Spring 2025 Forecast (COM), Annual Progress Report (APR)

Table A1.6: General government budgetary position

	Variables (% GDP)	2024	2025		2026	
		Outturn	APR	COM	APR	COM
1=2+3+4+5	Revenue	44.3	45.3	44.7	44.8	44.4
	<i>of which:</i>					
2	- Taxes on production and imports	14.0	14.3	14.1	14.3	14.3
3	- Current taxes on income, wealth, etc.	11.3	11.3	11.2	11.2	11.1
4	- Social contributions	13.5	13.6	13.5	13.6	13.5
5	- Other (residual)	5.5	6.1	6.0	5.7	5.5
8=9+16	Expenditure	40.0	41.7	41.2	41.0	41.0
	<i>of which:</i>					
9	- Primary expenditure	38.7	40.4	40.0	39.7	39.8
	<i>of which:</i>					
10	- Compensation of employees	11.6	12.0	11.8	11.9	11.9
11	- Intermediate consumption	4.6	4.6	4.5	4.5	4.5
12	- Social payments	15.8	16.2	16.2	16.2	16.2
13	- Subsidies	0.5	0.4	0.5	0.3	0.4
14	- Gross fixed capital formation	3.0	3.4	3.2	3.3	3.2
15	- Other	3.2	3.8	3.8	3.5	3.6
16	- Interest expenditure	1.2	1.3	1.2	1.3	1.2
18=1-8	General government balance	4.3	3.5	3.5	3.7	3.4
19=1-9	Primary balance	5.5	4.8	4.7	5.0	4.6
20	Cyclically adjusted balance	2.9	na.	2.4	na.	2.6
21	One-offs	0.0	0.0	0.0	0.0	0.0
22=20-21	Structural balance	2.9	2.1	2.4	2.4	2.6
23=22+16	Structural primary balance	4.1	3.4	3.6	3.7	3.8

Source: Commission Spring 2025 Forecast (COM), Annual Progress Report (APR)

Table A1.7: Debt developments

	Variables	2024	2025		2026	
		Outturn	APR	COM	APR	COM
1	Gross debt ratio* (% of GDP)	65.0	57.4	58.0	52.6	51.9
2=3+4+8	Change in the ratio (pps. of GDP)	-8.6	-8.0	-7.0	-4.7	-6.1
3	Primary balance	-5.5	-4.8	-4.7	-5.0	-4.6
4=5+6+7	'Snow-ball' effect	-3.6	3.7	-2.3	3.9	-1.5
	of which:					
5	- Interest expenditure	1.2	1.3	1.2	1.3	1.2
6	- Real growth effect	-2.4	3.1	-1.9	3.1	-1.4
7	- Inflation effect	-2.5	1.9	-1.7	2.1	-1.3
8	'Stock-flow' adjustment	0.5	-4.4	0.0	-1.0	0.0

* End of period.

** The 'snow-ball' effect captures the impact of interest expenditure on accumulated general government debt, as well as the impact of real GDP growth and inflation on the general government debt-to-GDP ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting (including leads and lags in Recovery and Resilience Facility grant disbursements), accumulation of financial assets, and valuation and other residual effects.

Source: Commission Spring 2025 Forecast and Commission's calculation (COM), Annual Progress Report (APR)

Table A1.8: RRF – Grants

Revenue from RRF grants (% of GDP)								
		2020	2021	2022	2023	2024	2025	2026
1	RRF grants as included in the revenue projections	n.a.	0.2	0.2	0.3	0.4	1.0	0.7
2	Cash disbursements of RRF grants from EU	n.a.	0.5	0.3	0.0	0.3	0.7	0.7

Expenditure financed by RRF grants (% of GDP)								
		2020	2021	2022	2023	2024	2025	2026
3	Total current expenditure	0.0	0.0	0.1	0.1	0.1	0.3	0.2
4	Gross fixed capital formation	0.1	0.1	0.1	0.1	0.1	0.4	0.3
5	Capital transfers	0.0	0.0	0.0	0.1	0.2	0.3	0.2
6=4+5	Total capital expenditure	0.1	0.1	0.1	0.2	0.3	0.7	0.5

Other costs financed by RRF grants (% of GDP)								
		2020	2021	2022	2023	2024	2025	2026
7	Reduction in tax revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	Other costs with impact on revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	Financial transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Annual Progress Report

Table A1.9: RRF - Loans

Cash flow from RRF loans projected in the Plan (% of GDP)		2020	2021	2022	2023	2024	2025	2026
1	Disbursements of RRF loans from EU	n.a.	0.1	0.0	0.0	0.2	0.2	0.0
2	Repayments of RRF loans to EU	n.a.	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure financed by RRF loans (% of GDP)		2020	2021	2022	2023	2024	2025	2026
3	Total current expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.3
4	Gross fixed capital formation	0.0	0.0	0.0	0.0	0.1	0.1	0.1
5	Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6=4+5	Total capital expenditure	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Other costs financed by RRF loans (% of GDP)		2020	2021	2022	2023	2024	2025	2026
7	Reduction in tax revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	Other costs with impact on revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	Financial transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Annual Progress Report

Cost of ageing





















Total age-related spending in Cyprus is projected to rise from 21% of GDP in 2024 to about 23.5% in 2040 and 25% in 2070 (see Table A1.10). This increase predominantly stems from pension spending. In 2070, age-related spending would be close to the projected EU average. Public pension spending is projected to rise by 3.5 pps of GDP by 2070, of which 2.1 pps by 2040. The increase expected by 2040 represents one of the largest of all Member States for this period. In 2024, Cyprus' pension spending of 8.4% of GDP was well below the EU average of 11.6%, though.

Public healthcare expenditure is projected at 7.5% of GDP in 2024 (above the EU average of 6.6%) and is expected to increase by 0.4 pps by 2040 and by a further 0.4 pps by 2070 ⁽¹⁶⁾. Public expenditure on long-term care is projected at 0.2% of GDP in 2024 (well below the EU average of 1.7%) and is expected to increase by 0.1 pp of GDP by 2040 and by a further 0.1 pp of GDP by 2070. The projected increase is due to an ageing population but is relatively low due to underdeveloped long-term care services ⁽¹⁷⁾.

⁽¹⁶⁾ Key performance characteristics, recent reforms and investments of the Cypriot healthcare system are discussed in Annex 14 'Health and health systems'.

⁽¹⁷⁾ The adequacy and quality of the Cypriot long-term care system are covered in Annex 11 'Social policies'.

Table A1.10: Projected change in age-related expenditure in 2024-2040 and 2024-2070

	age-related expenditure 2024 (% GDP)	change in 2024-2040 (pps GDP) due to:					age-related expenditure 2040 (%GDP)	
		pensions	healthcare	long-term care	education	total		
CY	21.0	 2.1	 0.4	 0.1	 -0.1	 2.4	23.4	CY
EU	24.3	 0.5	 0.3	 0.4	 -0.3	 0.9	25.2	EU
	age-related expenditure 2024 (% GDP)	change in 2024-2070 (pps GDP) due to:					age-related expenditure 2070 (%GDP)	
		pensions	healthcare	long-term care	education	total		
CY	21.0	 3.5	 0.8	 0.1	 -0.4	 4.0	25.0	CY
EU	24.3	 0.2	 0.6	 0.8	 -0.4	 1.3	25.6	EU

Source: 2024 Ageing Report (EC/EPC).

National fiscal framework

The Fiscal Council of Cyprus (FCC), which has a relatively narrow mandate, could benefit from staffing and access-to-information measures to improve its independence. The Secretariat is exclusively staffed by government officials on secondment to the FCC and staff numbers are by law limited to six (currently almost half of which is administrative staff). Moreover, the FCC has reported access-to-information issues. Despite reporting a fairly high visibility in traditional media, the FCC could achieve higher visibility still by activating social media accounts and improving the website (e.g. currently no names or pictures of the Chair and the other Members on the FCC website), but insufficient staffing continues to be a problem in this regard.

The Cypriot Ministry of Finance has started integrating climate risks into its fiscal planning. Both the 2025 draft budgetary plan and the 2025-2028 medium-term fiscal-structural plan present findings from an assessment of the macroeconomic impacts of energy transition policies. These findings stem from a three-year project on Climate Change and its Effects on the Cypriot Economy, launched in 2023 by the Ministry of Finance in collaboration with the Research Centre of the University of Cyprus. The project aims to assess the economic and fiscal impacts of climate change on key sectors and to examine implications for public debt and Cyprus' development model.

Table A1.11: Fiscal Governance Database Indicators

2023	Cyprus	EU Average
Country Fiscal Rule Strength Index (C-FRSI)	12.38	14.52
Medium-Term Budgetary Framework Index (MTBFI)	0.82	0.73

The Country Fiscal Rule Strength Index (C-FRSI) shows the strength of national fiscal rules aggregated at the country level based on i) the legal base, ii) how binding the rule is, iii) monitoring bodies, iv) correction mechanisms, and v) resilience to shocks. The Medium-Term Budgetary Framework Index (MTBFI) shows the strength of the national MTBF based on i) coverage of the targets/ceilings included in the national medium-term fiscal plans; ii) connectedness between these targets/ceilings and the annual budgets; iii) involvement of the national parliament in the preparation of the plans; iv) involvement of independent fiscal institutions in their preparation; and v) their level of detail. A higher score is associated with higher rule and MTBF strength.

Source: [Fiscal Governance Indicators](#)

This annex provides an indicator-based overview of Cyprus's tax system. It includes information on: (i) the tax mix; (ii) competitiveness and fairness aspects of the tax system; and (iii) tax collection and compliance. It also provides information on the risks of aggressive tax planning (ATP) activity.

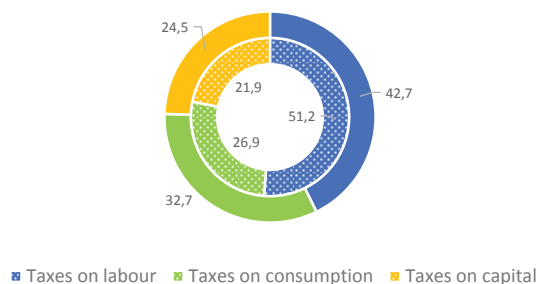
Cyprus's tax revenues expressed as a percentage of GDP are slightly lower than the EU average, and property taxes are low. Table A2.1 shows that Cyprus's tax revenues as a share of GDP were still below the EU average in 2023, although they were also almost 3 pps higher than in 2022. The difference with the EU average decreased from 5.2 pps of GDP in 2022 to 1.6 pps in 2023. Labour taxes, expressed as a share of both GDP and total tax revenues, were below the EU average in 2023. Revenues from consumption taxes were above the EU average and environmental taxes were at the EU average. Cyprus is still lagging behind the rest of the EU in the implementation of pollution and resources taxes following the 'polluter pays' principle. In this respect, Cyprus could consider introducing taxes on fertilisers, pesticides and plastic products. Revenues from property taxes in Cyprus were relatively low as a percentage of both GDP and total tax revenue in 2023. Recurrent property tax, which is one of the taxes least detrimental to growth, was abolished in Cyprus in 2017 ⁽¹⁸⁾. Tax revenues could therefore be increased by making greater use of currently underused taxes, such as recurrent property tax.

Cyprus's recovery and resilience plan (RRP) includes measures to make Cyprus's tax system greener. Cyprus has made progress towards adopting a green taxation reform to address environmental challenges related to climate change, air pollution, waste management, water pollution and water management. The reform consists of the introduction of a carbon tax, a levy on water consumption, and a charge on landfill waste as of 2025. The reform is also expected to

introduce compensatory measures to alleviate the impact of the new taxes on affected sectors. The government aims to ensure that this tax reform is budget-neutral, with revenue generated from green taxes being returned to households and businesses through reimbursements or incentives, such as subsidies for electric vehicles or support for the adoption of renewable energy sources like photovoltaic systems. In 2027, the new emissions trading system (ETS2) will be fully implemented in Cyprus, replacing the carbon tax on road transport while extending the scope of the emissions trading system to heating fuels in the building sector.

Graph A2.1: Tax revenue shares in 2023

Tax revenue shares in 2023, Cyprus (outer ring) and EU (inner ring)



Source: Taxation Trends Data, DG TAXUD

Corporate taxation plays an important role in promoting competitiveness in Cyprus. Cyprus collects one of the highest corporate-income-tax revenues as a share of GDP in the EU (6.6%) thanks to the significant presence of foreign companies in the country. At the same time, corporate-tax rates are among the lowest in the EU. There is a proposal under consultation to increase the corporate-income-tax rate from 12.5% to 15%. In addition to a low rate of corporate-income tax, Cyprus has also several tax incentives, including: (i) for R&D and the green transition; (ii) a corporate equity allowance to deduct a notional interest from the taxable profits in proportion to equity held in the company; and (iii) beneficial tax rules for film production, shipping activities, and intellectual property. As part of Cyprus' RRP, the special venture-capital tax incentive to support risk-finance investments

⁽¹⁸⁾ Revenues from recurrent property taxes since 2017 have related to past tax obligations that had not been paid before. Although Cyprus still had positive revenues from recurrent property taxes in 2023, these were among the lowest in the EU as a percentage of GDP.

in innovative SMEs has been expanded to include not only individuals but also legal entities.

Cyprus's labour tax burden is relatively low across the various income levels, although the redistributive power of the tax and benefit system is also limited. Graph shows that the labour tax wedge for Cyprus in 2024 was much lower than the EU average for single people at various income levels⁽¹⁹⁾. Moreover, the 2025 tax reform is expected to further reduce the tax wedge by increasing the tax-free income threshold (from EUR 19 500 to EUR 20 500) and increasing the threshold at which the highest tax rate applies (from EUR 60 000 to EUR 80 000). Although the first measure is targeted at low-and middle-income earners, the latter benefits high-income earners, reflecting a commitment to attract high-skilled workers to Cyprus.

Overall, labour taxation is less progressive in Cyprus than the EU average. The limited progressivity of the tax-and-benefit system is also reflected in the fact that the tax-and-benefit system reduced income inequality (as measured by the Gini coefficient) by less than the EU average in 2023 (Table A2.1). The tax-and-benefit system reduced the Gini coefficient by only 4.5 points, while the reduction was 7.7 points for the EU on average in 2023.

⁽¹⁹⁾ The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer).

Table A2.1: Taxation indicators

Cyprus					EU-27				
2010	2021	2022	2023	2024	2010	2021	2022	2023	2024
31,9	34,0	34,5	37,4		37,8	40,2	39,7	39,0	
11,3	13,8	13,7	16,0		19,8	20,5	20,1	20,0	
8,0	10,7	10,6	12,6		12,9	13,0	12,7	12,7	
12,2	11,6	11,9	12,3		10,9	11,2	10,9	10,5	
8,2	8,5	9,2	9,5		6,8	7,3	7,4	7,1	
8,5	8,7	8,9	9,2		7,1	8,5	8,7	8,5	
3,4	3,2	3,3	3,7		8,6	9,6	9,4	9,3	
5,5	6,1	6,2	6,3		2,2	2,9	3,2	3,2	
1,2	0,7	0,7	0,7		1,9	2,2	2,1	1,9	
1,0	0,2	0,2	0,2		1,1	1,1	1,0	0,9	
3,0	2,5	2,1	2,1		2,5	2,4	2,1	2,0	
NA	80,2	NA	76,5		NA	86,0	NA	84,8	
na	22,5	22,5	22,5	23,3	33,9	31,8	31,5	31,5	31,8
na	23,4	24,6	25,6	26,8	40,9	39,9	39,9	40,2	40,3
12,9	12,0	11,8	10,4		21,3	19,3	19,1	18,9	
5,1	6,5	5,5	4,5		8,6	8,2	7,9	7,7	
	34,2	46,1				35,5	32,6		
	6,2	-0,7				6,6	7,0		

(1) Forward-looking effective tax rate (KPMG).

(2) A higher value indicates a stronger redistributive impact of taxation.

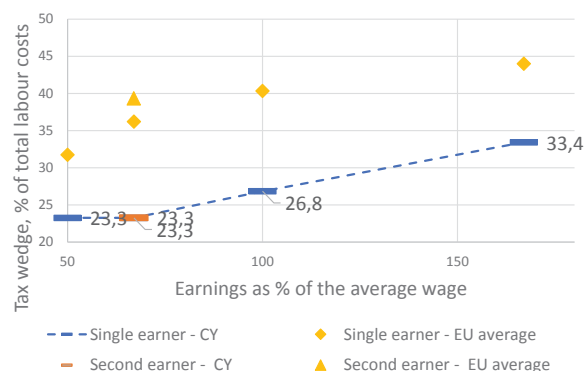
(*) EU-27 simple average.

(**) For more details on the VAT gap, see European Commission, Directorate-General for Taxation and Customs Union, VAT gap in the EU - 2024 report, <https://data.europa.eu/doi/10.2778/2476549>

For more data on tax revenues as well as the methodology applied, see the Data on Taxation webpage, https://ec.europa.eu/taxation_customs/taxation-1/economic-analysis-taxation/data-taxation_en.

Source: European Commission, OECD

Graph A2.2: Tax wedge for single and second earners, % of total labour costs, 2024



The tax wedge for second earners assumes a first earner at 100% of the average wage and no children. For the full methodology, see OECD, 2016, Taxing Wages 2014-2015.
Source: European Commission

Cyprus has a number of preferential tax rules for personal income. Salaries of persons who were not resident in Cyprus during the 15 previous years and who were employed abroad for at least three consecutive years before they came to live in Cyprus are partially exempted from tax. By providing these benefits, Cyprus is aiming to attract workers from other countries. In addition, foreign-sourced pensions are only taxed up to 5% or they are tax-free upon paying a lump sum amount of taxes. Moreover, the 'non-domiciled' residents are exempted from tax on all their capital gains, dividend, and interest income, regardless of their source, as well as on salaries for work done for more than 90 days outside of Cyprus.

Property and wealth-based taxes in Cyprus are low compared with other EU countries. Cyprus has no wealth, inheritance or gift tax. Capital gains on shares, bonds and other securities are in principle untaxed. The only exception is the 20% tax on capital gains from immovable property located in Cyprus, which also applies to shares in companies owning such properties. Cyprus still applies a transfer tax on immovable property, but abolished its recurrent immovable property tax in 2017.

Cyprus's performance on tax compliance and administration is mixed. Outstanding tax arrears increased from 34.2% of total net revenue in 2021 to 46.1% in 2022. This is well above the EU-27 average of 32.6%. However, the estimated VAT gap (the gap between revenues actually collected and the theoretical tax liability) decreased from 6.2% in 2021 to -0.7% in 2022. Negative VAT compliance gaps are not feasible in practical terms, but can occur in some cases due to statistical and measurement inaccuracies. The negative VAT compliance gap may also be due to collection campaigns of VAT arrears, which took place in Cyprus in the recent years. Consequently, the VAT compliance gap estimates for 2022 in Cyprus should be viewed with caution. The

actionable VAT policy gap, which is an estimate of the foregone VAT revenues that can be attributed to reduced rates and exemptions that could potentially be discontinued or eliminated, is 21.9% in 2022, well above the EU average of 16.6%. A recent study that compares the actual situation with a counterfactual hypothetical scenario where all commodities and services are subject to the standard VAT rate, finds that reduced rates are estimated to reduce VAT revenues from the household sector by 27%, which is equivalent to 2.3% of GDP ⁽²⁰⁾. Moreover, Cyprus had a high e-filing rate for VAT, personal-income tax and corporate-income tax, above the EU average. Nevertheless, the country was among the worst performers in the EU for on-time filing of both corporate and personal income tax returns in 2022 ⁽²¹⁾.

Data suggest that Cyprus's tax system may be used for ATP. Outgoing dividends as a share of GDP, as well as foreign-direct-investment stock held through special purpose entities, are significantly higher than the EU average. Historically, Cyprus has also attracted Russian financial flows, but this has changed following Russia's war of aggression against Ukraine.

Cyprus is taking steps to tackle ATP strategies, although this remains a challenge. Large flows of foreign direct investment and the high level of dividend, interest and royalty payments as a percentage of GDP both suggest that Cyprus could be being used by companies engaged in ATP. In 2023, Cyprus started to partially address ATP risks by: (a) imposing withholding tax on interest, dividend and royalty payments to jurisdictions included in Annex I of the EU list of non-cooperative jurisdictions for tax purposes; and (b) introducing an extra corporate-tax

⁽²⁰⁾ Turrini, A., Guigue, J., Kiss, A., Leodolter, A., Van Herck, K., Neher, F., Leventi, C., Papini, A., Picos, F., Ricci, M. and F. Lanterna (2024). Tax Expenditures in the EU: Recent Trends & New Policy Challenges. Discussion Paper 212, European Commission.

⁽²¹⁾ Source: CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, <https://data.rafit.org>.

residency test based on incorporation. Cyprus' RRP also aims to prevent double non-taxation by providing for the introduction of new legislation to make outbound payments of dividends, interest and royalties to low-tax jurisdictions subject to withholding taxes or non-deductibility. This new legislation is planned to enter into force in 2025. Cyprus also assessed the effectiveness of its overall set of measures related to ATP via an independent evaluation. This evaluation will be the basis of further policy action.

Despite this recent progress, tackling ATP remains a priority. Data indicating ATP and several features of the Cypriot tax system should be closely monitored. For instance, Cyprus has a residence-by-investment scheme and exempts the income of 'non-domiciled' residents (tax residency in Cyprus for less than 17 of the 20 past years). As mentioned above, Cyprus also has preferential tax rules for foreign-sourced pension income, as well as for workers coming from abroad.

Cyprus's research and innovation (R&I) performance presents a mixed picture. Despite a good uptake of scientific production and digital technology, limited R&D investment continues to hold back the country's full innovation potential. According to the 2024 European Innovation Scoreboard (EIS) ⁽²²⁾, Cyprus is a strong innovator, but the country's R&D intensity ⁽²³⁾ increased from 0.48% of GDP in 2013 to 0.68% of GDP in 2023, far below the EU average of 2.24%. Cyprus's business innovation ecosystem is dominated by small enterprises and traditional service sectors. It therefore struggles to attract investment, in particular to new sectors, and to develop a stronger and deeper talent pool. Cyprus's innovation potential is also held back by the lack of a long-term R&D strategy – including a multiannual R&D investment programme – and performance-based funding of public research institutions. There is also a need for further reform, such as targeted financial measures aimed at improving knowledge transfer and public research infrastructure, which could help improve the commercialisation of research results ⁽²⁴⁾. In contrast, Cyprus performs above the EU average for most business digitalisation indicators and meets the EU's Digital Decade targets ⁽²⁵⁾.

⁽²²⁾ 2024 European Innovation Scoreboard (EIS), country profile: [Cyprus](#). The EIS provides a comparative analysis of innovation performance in EU countries, including the relative strengths and weaknesses of their national innovation systems.

⁽²³⁾ R&D intensity is defined as gross domestic expenditure (GERD) on research and development (R&D) as a percentage of gross domestic product (GDP).

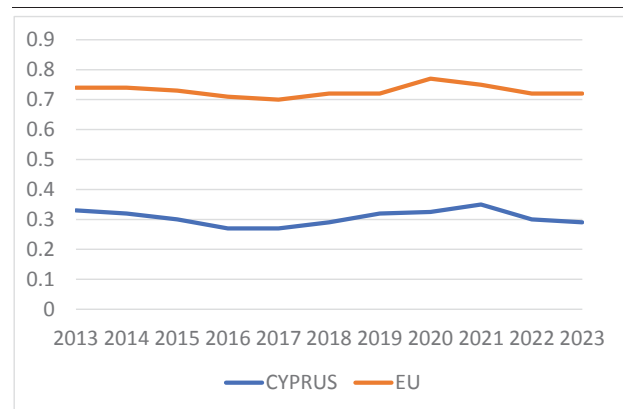
⁽²⁴⁾ PSF [Specific Support to Cyprus](#) Optimal Utilisation of Publicly Funded Research Laboratories by the Business Community (2020).

⁽²⁵⁾ The Digital Decade policy programme sets out a pathway for the EU's digital transformation, including specific commitments by Member States to jointly achieve certain objectives (e.g. competitiveness, resilience, sovereignty) and digital targets by 2030.

Science and innovative ecosystems

Low public investment in research and development (R&D) holds Cyprus back from reaching its full scientific potential. The country's share of research publications, as a percentage of its total publications, among the top 10% most cited ones worldwide, an indicator of scientific excellence, stands at 11.1%, well above the EU average of 9.6% (see the indicators table). However, public R&D intensity has stagnated in the last decade; in 2023 it stood at 0.29% of GDP (see Graph A3.1), far below the EU average of 0.72%. This underinvestment hampers the country's ability to further expand its scientific potential.

Graph A3.1: Public expenditure on R&D as % of GDP, 2013-2023



Source: Eurostat

The R&I ecosystem is currently composed of 12 universities (three public, nine private), nine research institutions and seven centres of excellence. The seven centres of excellence have received funding through the Teaming Programme in Horizon 2020 and Horizon Europe and have created the necessary infrastructure for research. However, the lack of a coherent long-term strategy, with predictable multiannual funding for institutional R&D, threatens the sustainability of these centres and of the science ecosystem in general. Currently, the recovery and

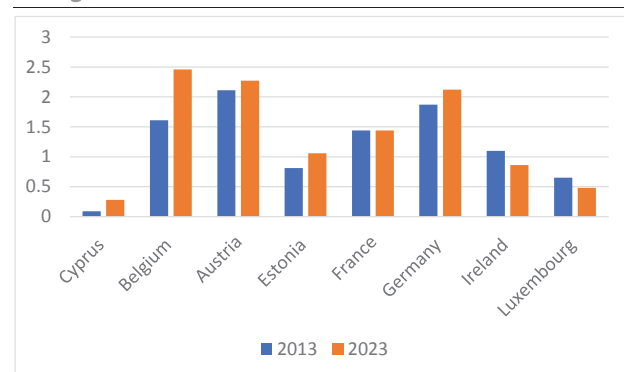
resilience plan (RRP) for Cyprus and cohesion funding account for most public investment, amounting to nearly 200 million euro in 2021-2027. Going forward, it will be crucial to mobilise national funding for R&I, especially as the RRP investments end in mid-2026.

Business innovation

Cyprus's innovation performance is hampered by low and decreasing private R&D investment, mostly by a small number of companies in traditional sectors. Technology production remains weak. There are some 400 start-ups and scale-ups in Cyprus. Over a hundred of them have been certified as innovators by the Deputy Ministry of Research, Innovation and Digital Policy, as have 140 medium-sized and large technology companies. Most innovative companies in Cyprus carry out their activities in the areas of financial technology (15%), life sciences (7%), retail technology (7%), entertainment/media (7%), human resources (7%), clean technology (5%), data analytics (4%) and manufacturing (4%)⁽²⁶⁾. According to a recent report from McKinsey⁽²⁷⁾, market capitalisation of start-ups and scale-ups in Cyprus reached 15% of national GDP in 2022, second only to Estonia in the ranking of strong innovators. However, despite this strong performance, these companies employ only 2.6% of the national workforce. Business expenditure on R&D as a percentage of GDP has tripled since 2013, reaching its peak in 2020 at 0.37% of GDP, albeit from a very low starting point. However, in 2023 business R&D expenditure fell to 0.28% of GDP (vs 1.49% for the EU average), only 75% of its 2020 peak. This contrasts with the investment levels observed in other strong innovator countries in the EU (see Graph A3.2). This low private-sector investment in R&D is partly due to the Cypriot economy specialising in products and

services with low added value and to Cypriot companies' limited participation in R&D activities, with the notable exception of pharmaceutical companies. Low R&D investment translates into weak innovation outputs, with Cyprus filing 0.7 patent applications per billion GDP under the Patent Cooperation Treaty in 2022, compared to an EU average of 2.8. Moreover, Cyprus would benefit from participating in the unitary patent system, which offers key advantages in terms of promoting innovation and enhancing competitiveness⁽²⁸⁾.

Graph A3.2: Business R&D investment as % of GDP in strong innovator countries, 2013-2023



Source: Eurostat

Policy attention on business-science linkages has increased in recent years, but low levels of R&D investment, in both the public and the private sector, affect the potential for stronger linkages. While public-private scientific collaboration, measured by the number of public-private co-publications as a proportion of total publications, has increased over the last decade (from 5.8% in 2013 to 8.5% in 2023) and is now above the EU average (7.7%), technological collaboration has not followed suit. Business sector involvement in financing public R&D is almost 10 times lower than the EU average (0.006% vs 0.05% in 2021), hampering the knowledge valorisation efforts of a rather good science system. A number of measures under the RRP are specifically designed to support and boost stronger collaboration

⁽²⁶⁾ Cyprus Research and Innovation Strategy (2024-2026).

⁽²⁷⁾ [McKinsey – Reinventing our economy from within. How Europe's start-up ecosystems can learn from each other to ignite and scale up entrepreneurship](#) (Nov 2023).

⁽²⁸⁾ The country is expected to join by ratifying the Unified Patent Court Agreement.

between businesses and academia⁽²⁹⁾. In particular, the Cyprus Government set up the Central Knowledge Transfer Office as part of a network of such offices. If this investment is coupled with more funding, it could become pivotal in commercialising research results. Cyprus has also introduced measures designed to promote entrepreneurship under the new programmes⁽³⁰⁾. As the impact of these measures will take time to materialise, it remains to be seen how effective they are in addressing current shortcomings.

The adoption of advanced digital technologies by enterprises in Cyprus is gaining traction. Cyprus contributes positively to the EU-level Digital Decade target⁽³¹⁾, i.e. 90% of SMEs to be digitalised by 2030, with 74.3% of SMEs having at least a basic level of digital intensity in 2024, above the EU average of 72.9%. The business take-up of cloud services in Cyprus increased to 45.5% in 2023, above the EU average of 38.9%. Also, 33.5% of enterprises in Cyprus reported using data analytics in 2023, which is close to the EU average of 33.2%. In 2024 the take up of AI by enterprises in Cyprus increased to 7.9%, still well below the average 13.48%. The RRP and cohesion funds include measures to boost the digital transition of Cyprus and further develop the ecosystem for start-ups and scale-ups. While these efforts will help advance the country's digital

capabilities, sustained financial support for these and other measures will be necessary to achieve the digital transformation targets.

Financing innovation

The start-up ecosystem relies heavily on support from public institutions due to an underdeveloped private equity and venture capital market. Venture capital provision in Cyprus is decreasing and remains far below the EU average. This hampers Cyprus' capacity to generate further innovation. Between 2019 and 2023, venture capital provision decreased sharply, from 0.05% of GDP in 2019 to 0.017% of GDP in 2023, and remained very low compared to the EU average of 0.078%. At the same time, investments from private equity funds in Cyprus are close to zero, again hampering Cyprus's ability to generate further innovation. Initiatives such as the State-funded Equity Fund under the RRP aim to foster synergies between public and private investment, by offering equity financing, mentorship and market access⁽³²⁾. The establishment of a National Promotion Agency and a Regulatory Sandbox for FinTech are also expected to improve access to finance and attract global start-ups, while enabling Cypriot firms to scale up innovative solutions. The start-up & scientific visa schemes, provided by the Cyprus government, as well as the pre-seed and seed grants offered through the Research and Innovation Foundation, are examples of well-designed good practices. While the limited allocated budget paves the way for progress, further steps could be taken to help strengthen business innovation through public funds.

(29) For example: i) launching a digital tool available to all stakeholders of the R&I ecosystem, providing services to facilitate collaborative partnership arrangements between different R&I organisations and teams (public and private) for publicly funded research facilities and laboratories; ii) introducing measures and incentives (such as including a clause on opening up funded infrastructure in Research and Innovation Foundation grant agreements) to strengthen cooperation between research organisations and businesses and spin-offs.

(30) Examples: the PRE-SEED programme to support the creation and initial development of start-ups with an international orientation, the 'PhD in industry' programme and proof of concept for technology/knowhow applications.

(31) The Digital Decade policy programme sets out a pathway for the EU's digital transformation, including concrete commitments of Member States to jointly achieve objectives (e.g. competitiveness, resilience, sovereignty) and digital targets by 2030.

(32) This fund, which was entered in the business register of the Dutch Chamber of Commerce in 2023, is the first sizeable venture capital fund in Cyprus. Its investment strategy is to invest primarily in SMEs in the seed, pre-seed and start-up stages and to provide direct investments to innovative companies.

Innovation talent

Fewer STEM graduates, coupled with the limited number of researchers employed in both the public and the private sector, inhibits Cyprus's performance in science and innovation. The number of new science and engineering graduates per thousand population aged 25-34, a measure of scientific capacity, decreased substantially from 2016 to 2022 (from 8.5 to 7.4). The EU average stands at 17.6. For the same period, there was an increase in the number of researchers employed both in the public sector (from 1.5 in 2016 to 1.8 in 2023) and in the private sector (from 0.6 in 2016 to 1.1 in 2022), but Cyprus still has one of the lowest rates in the EU. In addition to a low share of top performers in basic skills, Cypriot 15-year-olds also proved to be the weakest in creative thinking, with a top performance rate of only 10.4% vs the EU-23 average of 25.1%. This lack of excellence constitutes a major barrier to participation in STEM studies and hurts the country's innovation capacity economy (see Annex 12 on education and skills). Also, entrepreneurship education is a weakness of the Cypriot entrepreneurship ecosystem. There is no integrated training approach between educational levels, limited funding, no national strategy and a lack of clear objectives, monitoring and evaluation that pose barriers to the growth of entrepreneurial activity. Cypriot entrepreneurship education is therefore highly fragmented and relies heavily on external partners. To strengthen research capacity, persistent shortcomings need to be addressed, in terms of improving researchers' careers, talent circulation and intersectoral mobility. There are some factors affecting career progression and working conditions of researchers in Cyprus. Apart from RRP measures to incentivise the attraction of scientific talent from abroad, continued financial support for these and additional measures could be helpful for a lasting impact.

Table A3.1: Key innovation indicators

Cyprus	2012	2017	2020	2021	2022	2023	2024	EU average (1)	USA
Headline indicator									
R&D intensity (gross domestic expenditure on R&D as % of GDP)	0.44	0.54	0.83	0.78	0.7	0.68	:	2.24	3.45
Science and innovative ecosystems									
Public expenditure on R&D as % of GDP	0.31	0.27	0.35	0.35	0.30	0.29	:	0.72	0.64
Scientific publications of the country within the top 10% most cited publications worldwide as % of total publications of the country	9.3	8.7	10.3	11.1	:	:	:	9.6	12.3
Researchers (FTEs) employed by public sector (Gov+HEI) per thousand active population	1.50	1.60	1.90	1.90	1.80	1.80	:	4.20	:
International co-publications as % of total number of publications	64.6	63.5	71.9	72.9	74	73.9	:	55.9	39.3
R&D investment & researchers employed in businesses									
Business enterprise expenditure on R&D (BERD) as % of GDP	0.07	0.20	0.37	0.33	0.29	0.28	:	1.49	2.70
Business enterprise expenditure on R&D (BERD) performed by SMEs as % of GDP	0.05	0.16	0.32	0.28	:	:	:	0.40	0.30
Researchers employed by business per thousand active population	0.40	0.60	1.20	1.20	1.10	1.10	:	5.70	:
Innovation outputs									
Patent applications filed under the Patent Cooperation Treaty per billion GDP (in PPS €)	0.40	0.50	0.90	0.70	0.70	:	:	2.80	:
Employment share of high-growth enterprises measured in employment (%)	11.66	:	2.85	:	:	:	:	12.51	:
Digitalisation of businesses									
SMEs with at least a basic level of digital intensity % SMEs (EU Digital Decade target by 2030: 90%)	:	:	:	:	70.05	:	74.29	72.91	:
Data analytics adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	:	33.50	:	33.17	:
Cloud adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	42.22	:	45.47	:	38.86	:
Artificial intelligence adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	2.59	:	4.67	7.90	13.48	:
Academia-business collaboration									
Public-private scientific co-publications as % of total number of publications	9.60	7.10	8.30	9.00	8.10	8.50	:	7.70	8.90
Public expenditure on R&D financed by business enterprise (national) as % of GDP	0.003	0.003	0.007	0.006	:	:	:	0.050	0.020
Public support for business innovation									
Total public sector support for BERD as % of GDP	0.017	0.021	0.054	0.052	:	:	:	0.204	0.251
R&D tax incentives: foregone revenues as % of GDP	:	:	:	:	0.002	:	:	0.102	0.141
Business enterprise expenditure on R&D (BERD) financed by the public sector (national and abroad) as % of GDP	0.017	0.021	0.054	0.052	:	:	:	0.100	0.110
Financing innovation									
Venture capital (market statistics) as % of GDP, total (calculated as a 3-year moving average)	0.014	0.022	0.069	0.061	0.046	0.017	:	0.078	:
Seed funding (market statistics) as % of GDP	0.0	0.0	4.3	6.0	3.2	46.6	:	7.3	:
Start-up and early-stage funding (market statistics) as % of GDP	69.0	99.8	89.2	94.0	90.9	39.5	:	44.0	:
Later stage and scale-up funding (market statistics) as % of GDP	31.0	0.2	6.4	0.0	5.9	14.0	:	48.7	:
Innovative talent									
New graduates in science and engineering per thousand population aged 25-34	9.2	8.1	7.2	7.2	7.4	:	:	17.6	:
Graduates in the field of computing per thousand population aged 25-34	1.9	1.8	1.9	2.4	2.2	:	:	3.6	:

(1) EU average for the last available year with the highest number of country data.

Source: Eurostat, DG JRC, OECD, Science-Metrix (Scopus database), Invest Europe, European Innovation Scoreboard

Cyprus has become more competitive and is making business easier but still faces challenges and there is room for further improvement in its business environment. The focus is on reducing administrative burden and creating a more entrepreneurial culture. Moreover, further trade integration in goods and reduction of barriers to competition in regulated professions and public procurement would also boost Cyprus's competitiveness.

Economic framework conditions

Cyprus is experiencing some material shortages but performs better than the EU average. Cyprus's supply chains experienced a significant worsening in material shortages in 2024. 5.7%⁽³³⁾ of Cypriot businesses reported that they were facing related constraints (compared with 1.3% in 2023 and 3.7% in 2022). Even so, Cyprus came fifth in the EU and the EU-27 average for 2024 was 10%.

Labour supply constraints have increased, but Cyprus still outperforms its EU peers. Cyprus performed worse in terms of labour shortages in 2024. 5.15%⁽³⁴⁾ of firms reported labour supply constraints (3.28% and 2.25% in 2023 and 2022 respectively). Nevertheless, Cyprus had the lowest levels of labour shortages in the EU and the EU-27 average was 20.2% in 2024. Similarly, Cyprus's vacancy rate slightly worsened to 3.5%⁽³⁵⁾ from 3.1% in 2023 and 2.8% in 2022. The EU-27 average vacancy rate was 2.36% in 2024.

The entrepreneurial environment in Cyprus has hardened. According to the GEM 2023/2024 Global Report⁽³⁶⁾, 53.3% of the surveyed respondents stated that starting a business was more difficult than a year earlier. 30.1% reported that their household income had significantly fallen in 2023 (from 40% in 2022), reducing their

investment capacity to start a business. The assessed quality of the overall Cypriot entrepreneurial environment declined during the COVID-19 pandemic. What looked like the beginning of a recovery in 2022 was reversed in 2023, when the Cypriot National Entrepreneurial Context Index (NECI) score was well below pre-pandemic levels. The ambitions of new entrepreneurs in Cyprus were very much economic in nature. More than 80% said that their ambition was to build up great wealth or a very high income – or simply to earn a living because jobs are scarce. Two out of five new entrepreneurs had customers outside Cyprus. 46.6% expected to use more digital technologies in the next six months.

Cyprus has recently made progress in digital infrastructure and particularly in deploying gigabit connectivity infrastructure. In 2023, very high-capacity network (VHCN) and the Fiber to the Premises (FTTP) coverage in Cyprus were 77.1% and had progressed significantly faster than the EU average. However, the share of fixed broadband subscriptions to services providing at least 1 Gbps (2.1%) is much lower than the EU average (18.5%) and the share of fixed broadband subscriptions of at least 100 Mbps (63.6%) is also below the EU average (65.9%). The recovery and resilience plan (RRP) foresees investment measures to expand coverage of VHCN in areas where there are no private investments and to increase the take-up of VHCN services as well as programme measure to upgrade internet connections to be 'Gigabit-ready' and promote connectivity take-up. As regards 5G connectivity overall, Cyprus already reached the target of 100% coverage of populated areas in 2022. However, in terms of 5G coverage on the 3.4-3.8 GHz spectrum band⁽³⁷⁾, only 35% of populated areas in Cyprus are covered (below the EU average of 50.6%).

Regarding the resilience of digital infrastructures, cybersecurity awareness and implementation in

⁽³³⁾ European Commission, ECFIN BCS.

⁽³⁴⁾ European Commission, ECFIN BCS.

⁽³⁵⁾ European Commission, ECFIN BCS.

⁽³⁶⁾ [GEM Global Entrepreneurship Monitor. Report 2023.](#)

⁽³⁷⁾ 3.4-3.8 GHz spectrum band is essential for enabling advanced applications requiring large spectrum bandwidth.

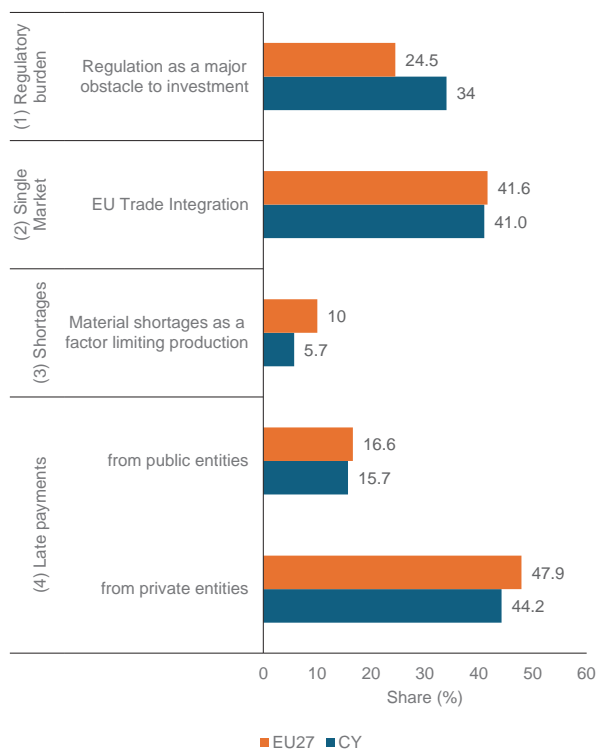
enterprises has been increasing. The number of enterprises that experienced ICT security attacks (e.g. ransomware attacks and denial of service attacks) decreased significantly in Cyprus from 4.59% in 2022 to 2.79% in 2024 (vs 3.43% in the EU in 2024).

Cyprus can benefit from improving its logistics infrastructure. The World Bank’s 2023 Logistics Performance Index (LPI) ⁽³⁸⁾ ranks Cyprus 25th out of the EU-27 and 51st worldwide. Cyprus is therefore among the three worst performers in the EU. Its poorest scores are in infrastructure (2.8 out of 5), customs (2.9) and international shipments (3.1).

Cyprus’s domestic infrastructure remains a major obstacle to investment. In 2024, 21.7% of Cyprus’s firms stated that domestic transport infrastructure was a major obstacle for investment (an improvement on 25.9% in 2023). However, Cyprus remains well above the EU average (13.4%). Moreover, looking at the five-year average, Cyprus has barely improved over time (Cyprus 22.7% vs the EU average of 14.4%) ⁽³⁹⁾.

⁽³⁸⁾ [2023 Logistics Performance Index \(LPI\) of the World Bank](#).
⁽³⁹⁾ [EIBIS 2024 - Cyprus](#).

Graph A4.1: Making Business Easier: selected indicators.*



Share of (1) enterprises, (2) average intra-EU exports and imports in GDP, (3) firms, (4) SMEs.
 *Q4 data on trade integration is not yet available.
Sources: (1) EIB IS, (2) Eurostat, (3) ECFIN BCS, (4) SAFE survey.

Cyprus has attracted attention from foreign investors. In terms of foreign direct investment (FDI), a 2022 survey ⁽⁴⁰⁾ found that 29% of respondents had plans to establish or expand operations in Cyprus in 2023. This was a noteworthy increase from 24% in 2020 but still well below the EU average of 53%. Most respondents (53%) expected Cyprus’s attractiveness to improve over the following three years (the EU average was 64%). As for the type of investment activity, 35% of companies mentioned supply chain and logistics, 24% mentioned sales and marketing offices and activities, and 14% mentioned establishing headquarters. Manufacturing was also mentioned by 7% of respondents, possibly driven by efforts to increase near-shore manufacturing. Investors perceived Cyprus’s telecommunication and digital infrastructure (43%), good quality of life (33%),

⁽⁴⁰⁾ [EY Attractiveness Survey Cyprus 2022](#).

favourable corporate taxation (29%) and R&D availability and quality (29%) as its most attractive attributes for investors.

There is scope to further improve the competitiveness environment, reduce administrative burden and create a more entrepreneurial culture. Priorities identified by respondents⁽⁴¹⁾ for further improving Cyprus's competitiveness include allowing regulation to keep pace with technological and other disruptions (43%), support for high-tech industries and innovation (40%) and investing more in major infrastructure and urban projects (34%). There were also calls to reduce administrative burden and to create a more entrepreneurial culture by being more supportive of start-ups and SMEs. Other areas for improvement include: the availability of venture capital and alternative forms of financing; intellectual property protection; decarbonisation of supply chains; investment in green and digital skills; increased penetration of renewable energy sources (RES); and improving collaboration between business and academia.

The late payments situation in Cyprus has improved. In business-to-business (B2B) transactions, 44.2% of Cypriot SMEs experienced late payments from private entities in the previous 6 months in 2024, making Cyprus perform better than the EU average (47.94%). In government-to-business (G2B) transactions, 15.73% of Cypriot SMEs had in 2024 experienced late payments from public entities in the previous six months (vs EU average of 16.61%)⁽⁴²⁾.

Regulatory and administrative barriers

The general regulatory framework still has room for improvement. According to the EIB Investment

Survey⁽⁴³⁾, 34% (vs EU 24.5%) of Cyprus's firms stated in 2024 that regulation has been a major obstacle for investment (worsening from 31.5% in 2023). As regards the five-year average, Cyprus has worsened over time (Cyprus 32.8% vs the EU average of 23.6%).

Further efforts to reduce regulatory and administrative barriers would improve the business environment⁽⁴⁴⁾. In the overall OECD Product Market Regulation (PMR) indicator, Cyprus scored 1.63 out of 6, performing worse than the average OECD economy (1.34), but it has made some progress since 2018. The various indicators suggest that Cyprus would benefit from reducing administrative and regulatory burden and especially from focusing on simplification (including better communication) as well as from improving licensing and permitting. Improving the governance of state-owned enterprises (SOEs) would contribute to ensuring a level playing field for private competitors. Most notably, focus should be on the rationale for ownership, the degree of protection from political interference and the degree of insulation from market discipline.

Some professions and the retail sector in Cyprus have high barriers to entry and competition. This is especially significant in retail sale of medicines (3.88 in Cyprus vs the EU average of 2.96⁽⁴⁵⁾) as well as some professional services such as lawyers (3.86 in Cyprus vs the EU average of 3.55), civil engineers (2.21 vs 1.39), architects (2.21 vs 1.39) and real estate agents (2.21 vs 0.61).

Further reforms can help reduce regulatory barriers for lawyers and real estate agents. There are 115 specific regulated professions in Cyprus, which is at the low end of the EU average⁽⁴⁶⁾. Cyprus has implemented some reforms to reduce regulatory barriers for certain professions, such as

⁽⁴¹⁾ [EY Attractiveness Survey Cyprus 2022](#).

⁽⁴²⁾ [SAFE Survey 2024](#); these figures need to be treated with caution because the size of the survey sample was less than 100, which therefore reduced its representativeness.

⁽⁴³⁾ [EIBIS 2024 - Cyprus](#).

⁽⁴⁴⁾ [2023 OECD Product Market Regulation \(PMR\) Report](#).

⁽⁴⁵⁾ EU Average (without Romania, due to lack of data).

⁽⁴⁶⁾ European Commission, [Regulated Professions Database](#).

architects and civil engineers⁽⁴⁷⁾. Further progress can be made in the case of lawyers and real estate agents (for instance, on the proportionality of the measures reserving activities related to industrial property solely to lawyers). For real estate agents, Cyprus could consider opening access to exclusively reserved activities to other professionals; reevaluate the duration of mandatory qualification requirements; and reassess the justification for and proportionality of requiring 100% of shares to be held by real estate agents. Patent agents do not exist in Cyprus as a self-standing profession, because these services are exclusively reserved to lawyers. Other professions, such as accountants and tax advisers, remain unregulated.

The retail sector would benefit from a reduction of administrative and regulatory barriers. Cyprus has a higher Retail Restrictiveness Indicator (2.9) than the EU median (1.7)⁽⁴⁸⁾. The most notable administrative and regulatory barriers are in establishing a retail store (for example, the number of entities to contact; permitting and impact assessments; economic data requirements; location-specific rules; the size threshold; and the length of the procedure).

Tax compliance costs for SMEs in Cyprus are the highest in the EU. Cyprus has the highest ratio of total enterprise tax compliance costs (TETCC) to turnover for SMEs in the EU, with a mean average of 2.3% in 2022⁽⁴⁹⁾. The EU aggregate mean is 1.8%.

Cyprus has the lowest score of business bankruptcy declarations in 2024 in the EU and has introduced reforms to increase new business registrations. Cyprus's score of 35.5 was by far the

lowest score in the EU in 2024 (125.7)⁽⁵⁰⁾. In terms of business registrations, Cyprus had a score of 100.7 in 2024, just below the EU average score of 101⁽⁵¹⁾. In this regard, Cyprus government introduced a reform (as part of its RRP) of a one-stop-shop for the simplification of new business registrations, especially for foreign corporations interested in investing in the country⁽⁵²⁾.

Cyprus is falling behind in entrepreneurial education and this could have serious long-term consequences for its business environment and competitiveness. Successive Global Reports have pointed to persistent low scores in Cyprus for the two educational Entrepreneurial Framework Conditions (EFCs): Entrepreneurial Education at School (2.1 out of 10) and Entrepreneurial Education Post-School (4.3 out of 10)⁽⁵³⁾. Cyprus's score in Entrepreneurial Education at School has fallen by more than 25% since 2021. The GEM Report warns that Cyprus needs to recognise that many new businesses may never come to fruition because a generation of schoolchildren has grown up unaware that they have the option of starting a business. Of most concern was the fall in the assessed quality of Social and Cultural Norms in support of entrepreneurship, in which Cyprus was ranked 43rd out of 49 economies in 2023.

Single market

Cyprus has a relatively high level of trade integration in services⁽⁵⁴⁾ in the single market but not in goods⁽⁵⁵⁾⁽⁵⁶⁾. Cyprus ranks third in the EU

⁽⁴⁷⁾ European Commission, [Communication on updating the reform recommendations for regulation in professional services](#), COM(2021) 385. 9 July 2021.

⁽⁴⁸⁾ European Commission, [Retail restrictiveness indicator](#), 2022.

⁽⁵⁰⁾ European Commission, ECFIN BCS. (Index 2021 = base 100).

⁽⁵¹⁾ European Commission, ECFIN BCS. (Index 2021 = base 100).

⁽⁵²⁾ European Commission, Cyprus recovery and resilience plan, RRP measure C3.3R2.

⁽⁵³⁾ [GEM Global Entrepreneurship Monitor. Report 2023](#).

⁽⁵⁴⁾ Trade integration in services: percentage of a country's GDP represented by EU trade in services (excluding financial and transport services) with other EU countries (average of imports and exports).

⁽⁵⁵⁾ Trade integration in goods: percentage of a country's GDP represented by EU trade in goods with other EU countries (average of imports and exports).

in terms of trade integration in services in the single market. Its intra-EU imports and exports in services represented 25.7% of its GDP in 2023 (the EU average was 7.57%). By contrast, Cyprus's intra-EU imports and exports in goods represented 13.9% of its GDP in 2023 while the EU average was 23.81%. Only 5.69% of Cypriot SMEs in the industrial sector exported goods to other EU Member States in 2022, while the EU average was 13.08% ⁽⁵⁷⁾.

The conformity of the transposition of the single market directives into national legislation has improved but the SOLVIT case resolution rate has decreased. Cyprus improved its conformity deficit in 2024. Only 0.4% of single market directives had been transposed incorrectly (it was 0.9% in 2023). Cyprus is therefore one of the best-performing EU Member States on this point and doing better than the EU average of 0.9%. Cyprus's transposition deficit was 0.9% in 2023, so just below the EU average of 0.8%. The number of pending single market infringement cases (17) was below the EU average (24) and the duration of the proceedings was shorter than the EU average. As for SOLVIT, Cyprus resolved 88.1% of the cases it handled as the lead centre in 2024 (the EU average of 84.9%) ⁽⁵⁸⁾.

Cyprus would benefit from participation in the unitary patent system and its impact in promoting innovation and competitiveness. It is expected that Cyprus will begin participating by ratifying the Unified Patent Court Agreement that it has already signed ⁽⁵⁹⁾.

(1.66 vs 0.50 for the EU). This indicator value barely improved between 2018 and 2023.

Some gender-responsive and green public procurement has been implemented, but a general lack of knowledge and development of socially responsible public procurement (SRPP) persists. The SRPP possibilities offered in the legal framework seem to be underused. Awareness-raising campaigns on the opportunities that SRPP offers to contracting authorities, as well as tailored training for procurement officers would encourage a broader adoption of SRPP. The development of a national strategy or action plan on SRPP could boost the uptake of socially responsible procurement practices.

Public procurement

Public procurement competition in Cyprus has significant room for improvement (see table of indicators). According to the OECD PMR, Cyprus is less competition-friendly than the EU average

⁽⁵⁶⁾ EC, [2025 Single Market and Competitiveness Scoreboard](#).

⁽⁵⁷⁾ European Commission, ECFIN BCS.

⁽⁵⁸⁾ European Commission, ECFIN BCS.

⁽⁵⁹⁾ European Commission.

Table A4.1: Making Business Easier: indicators.

Cyprus								
POLICY AREA	INDICATOR NAME	2020	2021	2022	2023	2024	EU-27 average	
Investment climate								
Shortages	Material shortage, firms facing constraints, % ¹	2.8	2.3	3.7	1.3	5.7	10.0	
	Labour shortage, firms facing constraints, % ¹	2.0	0.6	2.3	3.3	5.2	20.2	
	Vacancy rate, vacant posts as a % of all available ones (vacant + occupied) ²	1.6	2.5	2.8	3.1	3.5	2.3	
Infrastructure	Transport infrastructure as an obstacle to investment, % of firms reporting it as a major obstacle ³	21.8	24.6	19.4	25.9	21.7	13.4	
	VHCN coverage, % ⁴	-	41.4	60.0	77.1	-	78.8	
	FTTP coverage, % ⁴	-	41.4	60.0	77.1	-	64.0	
	5G coverage, % ⁴	-	75.0	100	100	-	89.3	
Reduction of regulatory and administrative barriers								
Regulatory environment	Impact of regulation on long-term investment, % firms reporting business regulation as a major obstacle ³	25.4	33.4	39.7	31.5	34.0	24.5	
Late payments	Payment gap - corporates B2B, difference in days between offered and actual payment ⁵		-	-	-	-	15.6	
	Payment gap - public sector, difference in days between offered and actual payment ⁵		-	-	-	-	15.1	
	Share of SMEs experiencing late payments, %* ⁶	from public or private entities in the last 6 months	52.3	63.6	63.6	41.6	-	-
		from private entities in the previous or current quarter	-	-	-	-	44.2	47.9
		from public entities in the previous or current quarter	-	-	-	-	15.7	16.6
Single Market								
Integration	EU trade integration, % (Average intra-EU imports + average intra EU exports)/GDP ²	31.8	37.1	41.6	39.3	41.0	41.6	
	EEA Services Trade Restrictiveness Index ⁷	-	-	-	-	-	0.050	
Compliance	Transposition deficit, % of all directives not transposed ⁸	1.9	1.8	0.9	0.9	0.9	0.8	
	Conformity deficit, % of all directives transposed incorrectly ⁸	1.1	1.0	0.7	0.9	0.4	0.9	
	SOLVIT, % resolution rate per country ⁸	93.3	97.0	98.0	95.0	88.1	84.9	
	Number of pending infringement proceedings ⁸	23.0	23.0	20.0	23.0	17.0	24.4	
Public procurement								
Competition and transparency in public procurement	Single bids, % of total contractors** ⁸	25	23	16	17	4	-	
	Direct awards, %** ⁸	26	28	39	31	21	7.0	

*Change in methodology in 2024: reporting late payments from public and private entities separately.

**The 2024 data on single bids is provisional and subject to revision. Please note that approximately 95% of the total data is currently missing, which may impact the accuracy and completeness of the information. Due to missing data, the EU average of direct awards data is calculated without Romania.

Sources: (1) ECFIN BCS, (2) Eurostat, (3) EIB IS, (4) Digital Decade Country reports, (5) Intrum Payment Report, (6) SAFE survey, (7) OECD, (8) up to 2023: Single Market and Competitiveness Scoreboard, 2024: Public procurement data space (PPDS).

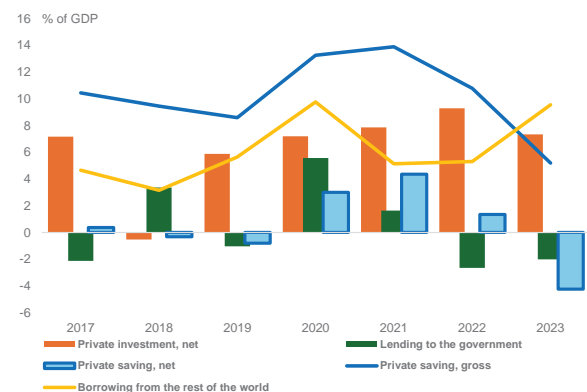
Against the backdrop of comparatively low net private savings, Cyprus's capital markets are insufficiently deep. Banks, which dominate the financial sector, are robust, both in terms of capital and liquidity, and are well prepared to tackle future risks. At the same time, there is scope for the further development of all non-bank financial intermediaries to bridge the gap with their EU peers. Cypriot non-financial corporations (NFCs) rely heavily on bank financing while their demand for capital market funding is limited. In turn, the supply of capital market funding is hindered by Cypriot households' preference for bank deposits as a means of savings, limiting the flow of capital into more sophisticated financial investments. Institutional investors, such as insurance and pension funds, are key to developed capital markets. However, Cyprus's pension funds sector is fragmented, which limits their ability to play a major role in the country's capital markets. Furthermore, innovative companies and start-ups face funding challenges due to limited access to funding from private equity and venture capital firms. While the funds industry is growing and contributes to the real economy, its impact is limited. Encouraging Cypriot households and institutional investors to channel additional funds into capital markets would reduce reliance on deposits, enhance financial stability, boost competitiveness and ultimately, foster economic growth.

Availability and use of domestic savings

The Cypriot economy is a net borrower from the international community, as domestic net private savings are insufficient to finance all investment needs of the economy. Over the last decade, the gross savings rate of the private sector in Cyprus has hovered around 10% of GDP, which is below the euro area average of 23.8%. The net private savings ratio (adjusted for fixed capital consumption) has seen significant fluctuations. Notably, it evolved from a net borrowing position in 2014, to a net savings position reaching a peak of 4.4% in 2021, and then reverting to a net

borrowing position of -4.2% in 2023. On average, net private savings ratio stands at zero, indicating that private savings are just sufficient to meet fixed capital consumption without external borrowing. However, they are insufficient to fund further investment via capital markets, either domestically or internationally. The net private investment position has averaged around 7.5% over the past five years, in contrast to the financial crisis years when the net investment position was negative. The amount lent to the government has also shown variability over last years, fluctuating between positive and negative values, reflecting the interaction between the government's funding needs and the private sector's savings behaviour. As domestic savings alone have not consistently sufficed to finance new investment and maintain the existing capital infrastructure coupled with the government irregular net saving position, Cyprus has remained a net borrower from the international community, averaging borrowing of about 5.1% of its GDP.

Graph A5.1: Net savings-investments balance



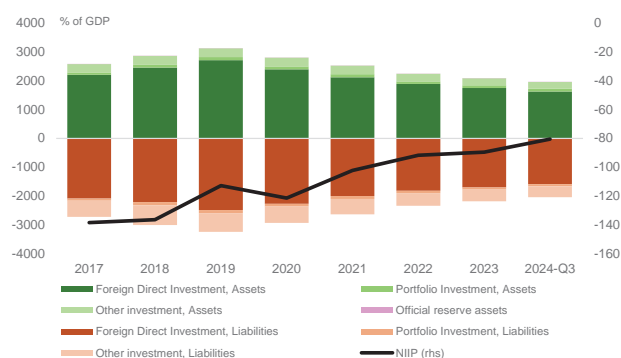
Source: AMECO.

The Cypriot economy has accumulated substantial foreign debt, resulting in a negative net international investment position (NIIP) that is, however, showing signs of improvement. In September 2024, Cyprus's NIIP stood at -81% of GDP (see Graph A5.2). The accumulated net foreign direct investment (FDI) ⁽⁶⁰⁾, which reached

⁽⁶⁰⁾ The disproportionate high level of accumulated FDIs, which reached 1627% of GDP in Q3 2024, and the equivalent liability of 1592%, is attributed to the favourable tax system and the country's role as financial

35% of GDP as of Q3 2024, contribute positively to the NIIP ⁽⁶¹⁾. Foreign reserve assets amounted to less than 5% of GDP are also a positive contribution. The net portfolio investments, which are directly affected by the price volatility of equity valuations abroad (assets) and in Cyprus (liabilities), were also a positive contributor in 2024 of around 23% of GDP. However, all the above were more than offset by the net stock of other investments, which amounted to -144% of GDP at the same time ⁽⁶²⁾. Cyprus's NIIP has improved over the years from -139% in 2017 to -80.5% in 2024 but remains highly negative. When SPEs ⁽⁶³⁾ are excluded, the NIIP is less negative at around -30% of GDP ⁽⁶⁴⁾. Overall, while the Cypriot economy is well integrated in international capital flows, including as a source of foreign capital, it remains a net capital importer from the rest of the world.

Graph A5.2: Net international investment position



Source: ECB.

Structure of the capital markets and size of the financial sector

Cypriot capital markets remain small and play a limited role in financing domestic firms. The market-funding ratio, which encompasses funds raised through equity markets (stocks), debt markets (bonds) and other market instruments (including venture capital and private equity funds), has more than doubled over the past decade. However, at 9.5% of GDP, Cyprus's market-funding ratio is one of the lowest in the EU, where the average is close to 50% (see Table A5.1).

Cyprus's equity market remains inefficient and underutilised, despite having the necessary infrastructure in place. The Cyprus Stock Exchange (CSE) facilitates market transactions through its main and alternative markets ⁽⁶⁵⁾. In September 2024, its market capitalisation was equal to only 36% of the country's GDP, mostly driven by investor interest in banks' shares. The shares of financial corporations were valued three times more than those of NFCs (refer to Graph A5.3). This reflects the extent to which the stock market in Cyprus is not geared towards funding the non-banking segment of the real economy. Despite recent improvements, the Cypriot equity market remains less efficient than its European counterparts. This is evidenced by higher bid-ask

hub, where Cyprus is often selected as an intermediary for routing investments to third countries.

⁽⁶¹⁾ The net FDI is comprised predominantly of equity excluding reinvested earnings (59% of total), followed by reinvested earnings (36.4% of total), and debt instruments (4.5% of total). Inward FDI transactions are mostly related to real estate activities for both commercial and residential purposes, as well as ICT.

⁽⁶²⁾ The stock of liabilities in other investments includes the portfolios of non-performing loans that have been transferred from the banks to foreign CACs and amount to approximately 33% of the GDP.

⁽⁶³⁾ Special purpose Entities (SPEs), mostly ship-owning, contribute significantly to the negative headline NIIP. Ship-owning SPEs are mostly funded by foreign financial institutions or other related non-resident entities and own assets located outside Cyprus and thus NIIP appears inflated because of these SPEs.

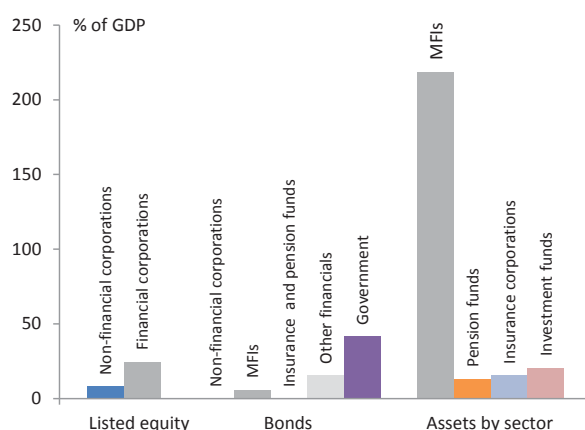
⁽⁶⁴⁾ See Commission SWP, 2025, In-depth review for Cyprus, for more details.

⁽⁶⁵⁾ CSE [Annual report and Fact book 2023](#)

spreads, which may have decreased from 7.6% in 2015 to 3.7% in 2023 but remain significantly above the EU average of 1.6% ⁽⁶⁶⁾. A lack of investable assets, shallow market depth, and higher perceived risks associated with traded stocks – partly rooted in legacy issues ⁽⁶⁷⁾ – are key factors contributing to the inefficiency and underutilisation of the CSE. With its announced privatisation ⁽⁶⁸⁾, the CSE aims to reposition itself as a significant player in the country's financial landscape. Further measures, such as offering tax incentives to companies to get listed, and to investors to participate, could significantly improve its performance.

The bond market remains virtually untapped by local NFCs. Although the government is active in the market and issues bonds to finance public spending, the corporate bond market, other than banks', is underdeveloped. This is partly attributed to the economy's structure. Cyprus is a service-oriented economy that requires less capital investment. In addition, large NFCs, are scarce as the backbone of the economy is formed by small and medium enterprises (SMEs), and in particular very small family business that mostly rely on readily available bank loans. Moreover, investor appetite for Cypriot corporate bonds, other than those issued by credit institutions, is uncertain given the absence of credit ratings.

Graph A5.3: Capital markets and financial intermediaries



Source: ECB, EIOPA, AMECO

Resilience of the banking sector

The banking sector in Cyprus is dominated by a few large institutions, with a high concentration of assets. It comprises five local authorized credit institutions, four subsidiaries of Greek credit institutions and one subsidiary of a foreign credit institution from a non-EU member state ⁽⁶⁹⁾ ⁽⁷⁰⁾. Additionally, there are three foreign credit institutions from EU member states and five from non-EU members operating via branches in Cyprus. The market is dominated by the two largest banks, namely Bank of Cyprus and Hellenic Bank ⁽⁷¹⁾, while the five largest banks hold approximately 92% of the total banking assets, offering a diverse range of financial services.

The Cypriot banking sector has significantly downsized and transformed over the previous 10 years. From approximately 720% of GDP at the

⁽⁶⁶⁾ The bid-ask spread is a measure of market liquidity. Typically, the higher the liquidity of a market, the lower the bid-ask spread.

⁽⁶⁷⁾ The CSE stock market bubble and crash of 1999–2000, just three years after trading began, severely undermined investors' trust in the exchange.

⁽⁶⁸⁾ See C3.3R5 of the [Cypriot recovery and resilience plan](#); the reform has already been approved by the Council of Ministers.

⁽⁶⁹⁾ Refer to the [Register of Credit Institutions operating in Cyprus](#)

⁽⁷⁰⁾ Alpha Services (parent of Alpha Bank SA in Greece) agreed to acquire Astrobank's assets, liabilities, and personnel via Alpha Bank Cyprus, with completion expected in Q4 2025.

⁽⁷¹⁾ Eurobank Ergasias Services and Holdings S.A. became the majority shareholder of Hellenic Bank in Cyprus through a series of acquisitions in 2024 and 2025, but the legal merger of Eurobank Cyprus Ltd and Hellenic Bank has not been completed yet.

onset of the crisis in 2013, total banking assets stood at 200% of GDP in September 2024, below the EU average of 248%. This downsizing is also reflected in the number of bank branches and employees. While in 2008, Cyprus operated 117.3 bank branches per 100,000 inhabitants, twice the EU average at the time, by 2023 the number of commercial bank branches in Cyprus had reduced to 21.6 branches per 100 000 population, well below the EU average for 2023 of 28.7 branches ⁽⁷²⁾. Similarly, the number of bank employees per 100 000 inhabitants has declined significantly from 1 596 in 2008 to 704 in 2023. Despite the significant reduction, this ratio is the fourth highest in the Euro area and significantly higher compared to the EU average of 504 employees per 100 000 inhabitants. The high density of bank employees in Cyprus reflects the significant role that the banking sector plays in the local economy, both as a major employer and as a crucial part of financial and economic activities.

In 2024, Cypriot banks maintained the high profitability level achieved in the previous year, supported by a sustained high level of net interest income. Interest income originated from the banks' excess liquidity placed with the European Central Bank (ECB) as well as loans' -still- wide lending spread ⁽⁷³⁾ was the main driver of profitability ⁽⁷⁴⁾. A decline in dividend income partially offset a rise in net interest income. Despite efforts to diversify income, banks remain highly dependent on net interest income. Impairments further declined compared to the corresponding period of the previous year, reflecting improved asset quality. Staff costs have risen, comparing to the corresponding period of 2023, but overall, have stabilized at levels below those observed in the more distant past. As a result, the cost-to-income ratio remained low at 34%, with the (annualised) return-on-equity at 19.4% (as shown in Table A5.1). Both metrics

compare favourably with the corresponding EU averages of 53% and 10%, respectively.

Banks' solvency reached a record high level in 2024, and liquidity remained high. In September 2024, the CET1 ratio of the banking sector, boosted by the high profits of the year, has increased by 2.0% to 23.5%. This is the highest level ever recorded and the highest across EU. The banking system buffer availability i.e., the level of capital which exceeds P2G (Pillar 2 Guidance), stood at 10.5%, thus enhancing the capability of the banking sector to absorb unexpected losses. Cypriot banks are primarily funded by customer deposits and this aspect of their operations remained stable. As a result, the sector's average liquidity coverage ratio of 333% and average net stable funding ratio of 187% remain among the highest in the EU ⁽⁷⁵⁾. Additionally, all Cyprus's banks subject to MREL requirements met their respective MREL targets by December 2024 ⁽⁷⁶⁾.

The asset quality continues to improve thanks to the rigorous efforts to reduce legacy non-performing loans (NPLs). In September 2024, the NPL ratio declined to 3.3% ⁽⁷⁷⁾ from 3.7% in 2023. The coverage ratio for NPLs has improved to 56%, higher than the EU average of 42%. Despite the significant progress, the NPL ratio in Cyprus's banking sector remains among the highest in the EU, where the average stands at 1.9%. The past two years, deleveraging was driven mostly by organic actions, such as loan repayments, cures, and write-offs. Progress in reducing NPLs has varied across different banks, with systemic banks performing better than less-significant institutions

⁽⁷⁵⁾ Refer to [EBA Risk Dashboard - Q4 2024](#).

⁽⁷⁶⁾ Refer to European Banking Authority's [MREL dashboard](#).

⁽⁷⁷⁾ The NPL ratio referred to in this report is based on the ECB's data that include, in the denominator, loans and advances to central banks and credit institutions. In particular, the NPL ratio is here calculated as the amount of NPLs as a proportion of the total amount of loans and advances, including loans and advances to central banks and credit institutions. This ratio differs from the NPL ratio in [Post-Programme Surveillance Report – Cyprus, Spring 2024](#), which was based on Central Bank of Cyprus's data and excluded from the denominator, loans and advances to central banks and credit institutions. Using Central Bank of Cyprus's data, the NPL ratio in December 2024 was 6.6%.

⁽⁷²⁾ Refer to ECB's [The changing landscape of bank offices in the euro area](#)

⁽⁷³⁾ Refer to ECB Data Portal [lending margins in Cyprus](#)

⁽⁷⁴⁾ Refer to Central Bank of Cyprus, September 2024, [Aggregate Cyprus Banking Sector Data](#)

(LSIs). Approximately a third of all NPLs in the banking system are held by LSIs, which continue facing ongoing challenges in managing them.

The main risks to financial stability arising from the banking sector remain little changed. Households' and NFCs' repayment ability has been challenged by the high level of interest rates over the last two years but thankfully has not been translated to an overall asset quality deterioration. Although profitability is expected to decline due to lower interest rates, it is projected to remain strong overall. The high exposure of financial institutions to the real estate sector makes them vulnerable. However, concerns are mitigated by a resilient real estate market, improved asset quality and the low loan to value ratio, providing a buffer to the banking sector against potential collateral devaluation. The banking sector's direct exposure to the broad real estate sector has been on a steady declining trend over past years and seems to be stabilising at around 26%. This exposure level is considered still high thus credit institutions remain vulnerable to real estate sector developments. Lastly, other cross-cutting issues such as challenges from cyber risk and climate risk, particularly transition risk, remain significant.

Resilience of the non-bank financial intermediaries

The Cypriot insurance market, although highly concentrated and smaller than its EU counterparts, plays a critical role in the country's financial landscape. In September 2024, there were 33 locally authorized insurers and reinsurers operating in Cyprus. The insurance sector's total assets amounted to 15.8% of GDP ⁽⁷⁸⁾, a level that is significantly lower than the EU average of 54.8%. The sector registered a new record in gross life and non-life premiums combined in 2023, equal to EUR 1.3 bn ⁽⁷⁹⁾. The upward trend, that

continues in 2024 ⁽⁸⁰⁾, indicates resilience to market adversities and further growth prospects. Overall, the insurance sector maintained strong solvency, with the life sector corresponding ratio standing at a robust 286% and being at par with the EU average, while the non-life insurers solvency ratio of 272% surpassed the respective EU average of 256%, though varying across insurers. Recent acquisitions of insurance companies by financial institutions ⁽⁸¹⁾ underscore the sector's significance in the country's economy.

Cyprus has a relatively small and rather fragmented second and third pillar pension system. The first-pillar pension system is the main public pension scheme in Cyprus and forms the backbone of the country's retirement system. The second pillar typically consists of employer-sponsored occupational schemes, while the third pillar encompasses private, voluntary retirement savings through personal pension plans or investments. However, the size of, and participation in, the second and third pillars are relatively low compared to other EU countries. Access to second-pillar pensions is often limited to employees in large companies or unionised sectors, leaving many workers in small family businesses or non-unionised sectors without access to occupational pension funds. As a result, in December 2023, the total pension fund assets stood at 13.1% of GDP, compared to the EU average of 23.4%. A pension reform was announced and is underway. Its primary objectives include strengthening the adequacy of state-provided pensions, rationalising first-pillar investment policies, and improving the second and third pillars. Encouraging the build-up of universal funded supplementary pension schemes would positively contribute to (i) the sustainability and adequacy of pension benefits; (ii) investment in equity; (iii) access to finance; (iv) growth; and (v) innovation.

⁽⁷⁸⁾ Refer to EIOPA's [Insurance statistics](#)

⁽⁷⁹⁾ Refer to [Insurance Association of Cyprus statistical results](#)

⁽⁸⁰⁾ In September 2024, the gross life and the non-life premiums were up by 9.7% and 5.5%, respectively.

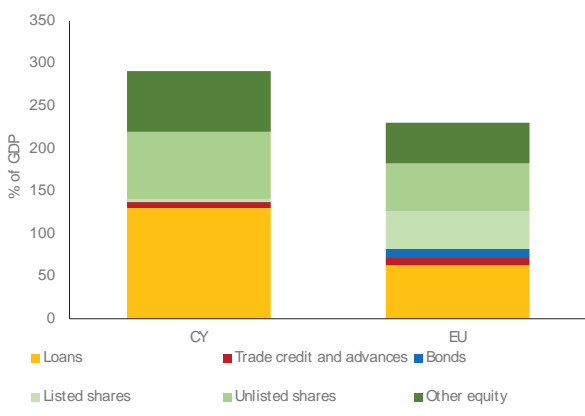
⁽⁸¹⁾ Refer to [Hellenic Bank's agreement with CNP Assurances on CNP Cyprus Insurance Holdings](#)

The fund management sector is flourishing, and Cyprus has matured as a destination for investment funds. In September 2024, there were 323 licensed companies managing a total of EUR 9.1 bn, an increase of 6.35% since the beginning of the year ⁽⁸²⁾. The main types of funds operating in Cyprus are alternative investment funds (AIFs) and undertakings for collective investment in transferable securities (UCITS).

Sources of business funding and the role of banks

Loans are the primary source of financing for NFCs in Cyprus, with corporate bonds and listed shares being underutilised. Cyprus operates a bank-based financial system, where banks serve as the primary source of funding for individuals and corporations. Specifically, bank loans account for 45% of NFCs' total financing needs, a level significantly higher than the EU average of 27%. In contrast, other forms of financing, such as unlisted equity and participation in quasi-corporations (e.g. partnerships), account for 52% of total financing, exceeding the EU average of 45%. Consequently, the level of financing through capital markets in Cyprus is substantially lower than the EU average. In particular, listed shares account for just over 1% of total financing needs, while NFC bond issuance is virtually non-existent, compared to the respective EU averages of 19% and 5%.

Graph A5.4: Composition of NFC funding as % of GDP



(1) Reference period is end-2023
Source: Eurostat.

The Cypriot banking sector has experienced consistent growth in lending over the past several years. Despite the high-interest-rate environment and geopolitical challenges in 2024, credit activity remained robust. The first half of the year saw a weak annual growth rate for pure new loans to households. In contrast, NFCs reduced their demand for credit during the same period, amidst growing uncertainty about the impact of geopolitical risks on the business environment, prices and investor confidence. This led to a deceleration in NFC credit growth in the first six months of the year. However, as concerns eased in the second half of the year, lending to NFCs gained momentum. As a result, for the entire year, banks provided EUR 3.86 bn in pure new lending to households and NFCs, marking an 18% year-on-year increase, driven largely by a robust 27% growth in NFC lending ⁽⁸³⁾. Repayments broadly offset the volume of pure new lending, leaving the outstanding amount of loans, as shown in Table A5.1, largely unchanged. The most recent Bank Lending Survey by the ECB indicates that demand is expected to increase further ⁽⁸⁴⁾.

Bank credit is expected to remain accessible for corporates. The banking system's abundant

⁽⁸²⁾ Cyprus Securities and Exchange Commission [Quarterly statistics report of Q3-2024](#).

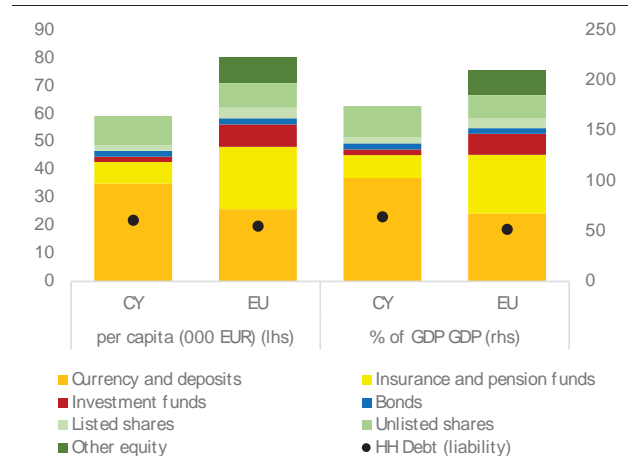
⁽⁸³⁾ Refer to CBC [Monetary and Financial Statistics December 2024](#)
⁽⁸⁴⁾ Refer to ECB Data Portal, April 2025, [Bank Lending Survey statistics: Loan demand-Overall-Enterprise-Cyprus](#).

liquidity ⁽⁸⁵⁾ indicates that there is sufficient headroom for additional lending. Businesses are therefore unlikely to face challenges in accessing stable and affordable bank loans in the near term. However, this may not be the case for firms with no established credit history, such as innovative start-up companies, which may continue to face difficulties in securing credit.

The participation of retail investors in capital markets

Cypriot households heavily favour holding their financial assets in deposits over other types of investments. On average, they allocate 59% of their financial assets to deposits, significantly higher than the EU average of 32%. Their second largest exposure is in unlisted shares, which indicates a strong culture of private or family-owned businesses. Unlike most EU households, Cypriot households tend to avoid diversified investment products, allocating only 13% of their financial assets to insurance and pension funds, and 3% to investment funds, compared to the EU averages of 28% and 10%, respectively. A key factor contributing to this investment behaviour is the higher private indebtedness of Cypriot households, which results in a lower saving rate and restricts the availability of funds for investment in capital markets.

Graph A5.5: Composition of HH financial assets per capita and as % of GDP



(1) Reference period is end-2023

Source: Eurostat

Getting Cypriot household to fund productive investments with their savings requires reforms. The stark gap between Cypriots and other Europeans in investing in alternative products suggests a lack of access to diversified investment types or a lack of trust in the capital markets. Other factors, such as fewer market offerings, inadequate incentives and weak financial literacy may also contribute to this investing behaviour. To address this issue, the government may consider introducing tax incentives and further advancing financial literacy through public awareness campaigns. For example, tax incentives for investing in innovative SMEs, which are already in place until 2026 ⁽⁸⁶⁾, could be expanded to include other investment options. A dedicated long-term investment savings account with appropriate tax advantages, which has been successfully implemented in other EU countries ⁽⁸⁷⁾, could encourage alternative saving strategies.

The role of domestic institutional investors

Insurance and pension fund's role in financing the economy becomes increasingly important. In

⁽⁸⁵⁾ The system's "loan-to-deposit" ratio stood at 48% in June 2024 and was the lowest in EU. See ECB data portal, [Loan-to-deposit ratio, Cyprus, quarterly data](#)

⁽⁸⁶⁾ See the [tax incentives for legal and natural persons investing in innovative SMEs](#).

⁽⁸⁷⁾ See for example the [Swedish ISK](#).

terms of asset allocation⁽⁸⁸⁾, the insurance sector invests approximately 44% of its portfolio in collective investment undertakings⁽⁸⁹⁾, ensuring risk diversification. A third of the portfolio is invested in government bonds (20%) and corporate bonds (11%), in line with the traditional insurance approach of seeking stable returns. Equity investments account for less than 7% of the total portfolio, roughly the same proportion as cash and deposits. The remaining 11% is allocated to properties, deposits and other holdings. As regards the pension funds, the existence of many small company-specific independent funds⁽⁹⁰⁾ leads to inefficiencies and limits their ability to play a major role in the country's capital markets. In contrast, the third pillar, which includes voluntary retirement savings through professionally managed personal pension plans or investments, is underutilised due to unaffordability or lack of awareness. Pension funds invest 92% of their assets either domestically or in the euro area, with only 8% of their total assets invested in the rest of the world, including the US. The majority of their assets are allocated to investment funds, mainly bond and equity funds, and the rest are invested in deposits, debt securities and listed and unlisted shares.

The investment fund industry in Cyprus is thriving, channelling significant amounts of private capital into the real economy and financing innovation and development. Of a total of EUR 9.1bn of assets under management in September 2024⁽⁹¹⁾, approximately 28% (EUR 2.6 bn), is invested in key sectors of the Cypriot economy, such as energy, sustainable investments, shipping, and financial technology, thus contributing to the country's

transition towards a more sustainable economic model.

The depth of venture and growth capital

The domestic venture capital and private equity market in Cyprus is underdeveloped, failing to meet the financing needs of innovative firms. Start-ups and innovative companies face significant challenges in accessing credit due to the inherently riskier nature of their activities, compared to other NFCs, and the lack of tangible assets. As a result, access to funding remains a major obstacle for these companies. Funding from venture capital (VC) firms and private equity funds is limited, with the value of annual venture capital investment relative to GDP standing at 0.02% in December 2023, which was approximately 60% lower than the EU average VC fund intensity in that year. Furthermore, there were no significant investments from private equity funds in Cyprus in 2022 and 2023 (see Table A5.1)⁽⁹²⁾. As a result, innovative firms and start-ups in Cyprus largely rely on the public sector for funding, including commercialisation of research results⁽⁹³⁾. To address this finance gap from private non-bank sources, increasing participation from domestic institutional investors and attracting foreign investment could help bridge the funding gap and enable the creation of scalable enterprises in innovative sectors.

Financing the green transition

Cyprus made significant strides in sustainable finance both by means of government and corporate initiatives. In 2023, the government introduced a national Sustainable Finance Framework, resulting in the country's first

⁽⁸⁸⁾ See the European Insurance and Occupational Pensions Authority's (EIOPA) [Insurance statistics – Asset Exposures](#).

⁽⁸⁹⁾ The investment holdings of Cypriot insurers in CIUs were mainly split between equity funds (39%), debt funds (41%) and money market funds (15%), but virtually nothing (0.03%) was invested in private equity funds.

⁽⁹⁰⁾ In September 2024, there were 837 pension funds in Cyprus, a number that is disproportionately large compared to bigger EU Member States with more developed pension systems.

⁽⁹¹⁾ Cyprus Securities and Exchange Commission [Quarterly statistics report of Q3-2024](#).

⁽⁹²⁾ See also Commission staff working document [Monitoring progress towards a Capital Markets Union: a toolkit of indicators](#).

⁽⁹³⁾ See Annex on Innovation to business.

Table A5.1: Financial sector indicators

	2017	2018	2019	2020	2021	2022	2023	2024-Q3	EU	
Banking sector	Total assets of MFIs (% of GDP)	395.9	320.9	280.0	290.1	280.1	230.5	218.8	200.2	248.4
	Common Equity Tier 1 ratio	14.9	14.8	17.4	17.6	17.6	17.8	21.5	23.5	16.6
	Total capital adequacy ratio	16.3	17.1	19.9	20.3	20.6	21.3	25.8	27.8	20.1
	Overall NPL ratio (% of all loans)	30.7	20.2	18.1	11.0	5.6	4.5	3.7	3.3	1.9
	NPL (% loans to NFC-Non financial corporations)	48.3	33.7	24.8	14.6	8.2	7.9	6.6	5.5	3.5
	NPL (% loans to HH-Households)	52.4	37.7	35.2	23.7	14.8	12.0	10.2	8.5	2.2
	NPL-Non performing loans coverage ratio	46.4	49.8	53.7	46.3	43.5	48.0	49.7	55.7	42.1
	Return on Equity ¹	-11.9	7.1	3.5	-3.3	0.6	5.1	21.8	19.4	10.0
	Loans to NFCs (% of GDP)	100.0	79.7	76.3	56.7	47.1	38.0	28.7	26.6	30.0
	Loans to HHs (% of GDP)	101.3	65.6	60.2	59.6	48.2	43.1	35.5	33.1	44.5
	NFC credit annual % growth	0.4	1.5	0.8	1.5	2.7	1.6	-3.4	-1.0	0.8
HH credit annual % growth	0.0	-0.2	-0.2	3.0	2.5	7.3	1.3	1.8	0.7	
Non-banks sector	Stock market capitalisation (% of GDP)	23.7	38.3	39.5	38.5	36.0	36.8	32.7	36.0	69.3
	Initial public offerings (% of GDP)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	0.05
	Market funding ratio	5.3	6.1	9.2	9.0	9.5	9.5	9.5	-	49.6
	Private equity (% of GDP)	0.06	0.07	0.45	0.21	0.13	0.03	0.02	-	0.41
	Venture capital (% of GDP)	0.06	0.03	0.06	0.11	0.01	0.02	0.02	-	0.05
	Financial literacy (composite)	-	-	-	-	-	-	45.5	-	45.5
	Bonds (as % of HH financial assets)	2.4	2.5	2.6	2.5	2.2	2.4	3.4	-	2.7
	Listed shares (as % of HH financial assets)	2.3	2.3	2.1	2.0	2.7	2.4	3.4	-	4.8
	Investment funds (as % of HH financial assets)	0.9	1.1	1.6	1.6	2.0	1.5	3.2	-	10.0
	Insurance/pension funds (as % of HH financial assets)	11.4	12.1	13.7	13.1	13.3	12.1	13.1	-	27.8
	Total assets of all insurers (% of GDP)	19.8	17.5	17.5	18.6	17.8	15.0	15.6	15.8	54.8
Pension funds assets (% of GDP)	-	-	-	-	-	13.6	13.2	13.1	23.4	
1-3 4-10 11-17 18-24 25-27 Colours indicate performance ranking among 27 EU Member States.										
¹ Annualized data.										
Credit growth and pension funds EU data refers to the EA average.										

Source: ECB, Eurostat, EIOPA, GD FISMA CMU dashboard, AMECO.

sustainable bond issuance, a EUR 1 bn ten-year bond in April 2023. The CSE introduced initiatives to promote green bond listings, leading to the first Cypriot company to list a green bond in March 2024. The two largest banks, Bank of Cyprus and Hellenic Bank, are progressing their Environmental, Social, and Governance (ESG) agendas. Building on this commitment, the Bank of Cyprus issued the first EUR 300 mn green bond in April 2024, earmarked for eligible green projects. These developments demonstrate Cyprus's commitment to environmental sustainability and its growing presence in the green finance market.

Financial literacy

Low financial literacy in Cyprus has significant repercussions, including poor saving habits and hindered capital market growth. Low financial literacy ⁽⁹⁴⁾ – recognised as a major issue – is

linked to high private indebtedness and increased financial vulnerability. To address this, the Cypriot Council of Ministers adopted a national strategy to combat financial illiteracy in June 2022⁽⁹⁵⁾, as part of the Cypriot recovery and resilience plan (RRP). The strategy aims to promote financial literacy and education, including the use of digital financial products and services, among all demographic groups. Several initiatives are recommended, including the introduction of a financial education course for all high school students. Once fully implemented, these measures are expected to improve financial literacy, leading to better management of everyday financial issues, improved saving habits, and increased participation in the financial markets.

⁽⁹⁴⁾ [Monitoring the level of financial literacy in the EU - July 2023 - Eurobarometer survey \(europa.eu\)](#).

⁽⁹⁵⁾ [National strategy for financial literacy and education in Cyprus](#).

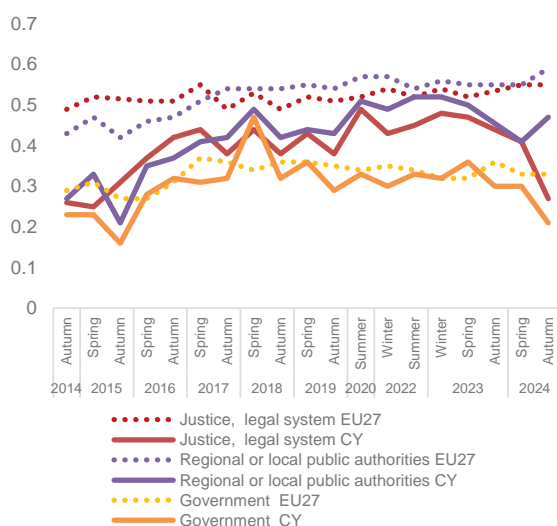
Cyprus's institutional framework influences its competitiveness. Although public trust in the national government remains relatively low, trust in regional and local authorities has recently increased. Cyprus could enhance its regulatory practices, tackle bureaucracy and reduce administrative burdens. Efforts are being made to digitalise public services although Cyprus still lags behind the EU average. The implementation of several reforms under the recovery and resilience plan has been delayed. The efficiency of the justice system also faces challenges.

quality of government has deteriorated and remains below the EU average ⁽⁹⁷⁾. A local government reform, which came into effect in July 2024, has consolidated municipalities, reducing the number from 30 to 20, while introducing new governance frameworks to improve efficiency and responsiveness to local needs.

Quality of legislation and regulatory simplification

Public perceptions

Graph A6.1: Trust in justice, regional / local authorities and in government



(1) EU27 from 2019; EU28 before

Source: Standard Eurobarometer surveys

Trust in public institutions is below the EU average. Trust in the national government is relatively low, standing at 21% in autumn 2024. This is below the level of trust in the judiciary and in the regional and local public authorities (Graph A6.1). Aspects which could increase public trust in the public administration are lower bureaucracy, better skilled civil servants and more communication with citizens ⁽⁹⁶⁾. The perceived

Performance in developing and evaluating legislation remains below the EU average. Practices in regulatory tools like ex-ante impact assessments, public consultation and reviews of existing regulations have shown little change over 2021-2024. Performance is stronger for primary laws than for subordinate regulations and for ex-ante impact assessments and stakeholder engagement than for ex post evaluation of legislation. Compared with the EU average, Cyprus has an underdeveloped oversight and quality control systems as well as weak methodological and transparency requirements for these regulatory tools (Graph A6.2). Through the Technical Support Instrument, Cyprus will receive dedicated technical support for building capacity on evidence-informed policy-making ⁽⁹⁸⁾

Cyprus can strengthen further its mechanisms for simplifying regulation. For example, periodic ex post evaluations of primary legislation are not mandatory. When conducted, these evaluations are not required to contain an assessment of administrative burdens and of substantive compliance costs either. Other practices, like doing in depth reviews of specific regulatory areas and public stocktakes of legislation could further enhance the abovementioned mechanisms (Table A6.1).

⁽⁹⁷⁾ Inforegio - European Quality of Government Index

⁽⁹⁸⁾ Supporting evidence-informed policymaking and science for policy in seven European Member States, TSI request 25CY16.

⁽⁹⁶⁾ [Understanding Europeans' views on reform needs - April 2023 - Eurobarometer survey](#), Country Fact Sheet.

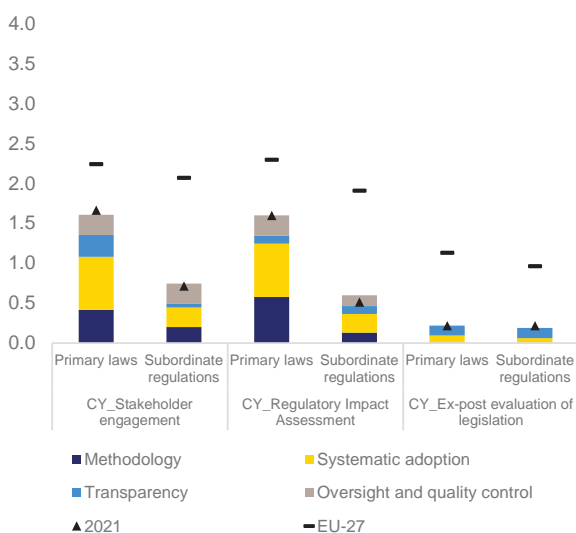
Table A6.1: Selected indicators on administrative burden reduction and simplification

	Ex ante impact assessment of legislation	Ex post evaluation of legislation
When developing new legislation, regulators are required to ...	Identify and assess the impacts of the baseline or 'do nothing' option. <input type="radio"/>	Is required to consider the consistency of regulations and address areas of duplication. <input type="radio"/>
	Identify and assess the impacts of alternative non-regulatory options. <input type="radio"/>	Is required to contain an assessment of administrative burdens. <input type="radio"/>
	Quantify administrative burdens of new regulations. <input type="radio"/>	Is required to contain an assessment of substantive compliance costs. <input type="radio"/>
	Quantify substantial costs of compliance of new regulations. <input type="radio"/>	Compares the impact of the existing regulation to alternative options. <input type="radio"/>
	Assess macroeconomic costs of new regulations. <input type="radio"/>	Periodic ex post evaluation of existing regulations is mandatory. <input type="radio"/>
	Assess the level of compliance. <input type="radio"/>	Government uses stock-flow linkage rules when introducing new regulations (e.g., one-in one-out). <input type="radio"/>
	Identify and assess potential enforcement mechanisms. <input type="radio"/>	A standing body has published an in-depth review of specific regulatory areas in the last 3 years. <input type="radio"/>
		In the last 5 years, public stocktakes have invited businesses and citizens to assess the effectiveness, efficiency, and burdens of legislation. <input type="radio"/>
<input checked="" type="radio"/> Yes / For all primary laws <input type="radio"/> For major primary laws <input type="radio"/> For some primary laws <input type="radio"/> No / Never		

(1) This table presents a subset of iREG indicators focusing on regulatory costs. The indicators refer to primary legislation.

Source: OECD (2025), Regulatory Policy Outlook 2025 [<https://doi.org/10.1787/56b60e39-en>] and Better Regulation across the European Union 2025 (forthcoming).

Graph A6.2: Indicators of Regulatory Policy and Governance (iREG)



Source: OECD (2025), Regulatory Policy Outlook 2025 and Better Regulation across the European Union 2025 (forthcoming).

Efficiency of selected administrative procedures

Selected indicators point to Cyprus's public administration taking longer than other Member States to complete procedures. For example, the mean time for decision-making by public buyers, measured as the time between the deadline for receiving offers and the date of the contract award, is well above the EU average (144 days in Cyprus compared to an EU average of 99 days), thus contributing to uncertainty for companies. Furthermore, the OECD product market regulation indicators show that Cyprus's licensing system is slightly more burdensome than the EU-27 average and could be further aligned with best practices. Although the government keeps an up-to-date inventory of all permits and licences required/issued to businesses by public bodies, the inventory is not available online for consultation. Furthermore, there is no requirement for the government to regularly assess whether such licences and permits are still required or should be withdrawn. Moreover, public bodies at central/federal level are not required to observe the once-only principle and ask for the same information from citizens or business more than once (see also Annex 4).

Table A6.2: Key Digital Decade targets monitored through the Digital Economy and Society Index

		Cyprus			EU-27	Digital Decade target by 2030
		2022	2023	2024	2024	EU-27
Digitalisation of public services						
1	Digital public services for citizens Score (0 to 100)	56 2021	64 2022	74 2023	79 2023	100 2030
2	Digital public services for businesses Score (0 to 100)	86 2021	85 2022	86 2023	85 2023	100 2030
3	Access to e-health records Score (0 to 100)	na 2021	70 2022	68 2023	79 2023	100 2030

Source: State of the Digital Decade report 2024

Social dialogue

The labour relations system in Cyprus is based on free collective bargaining, but the coverage remains low. Industrial relations in Cyprus are based on two pillars: i) the commitment of the government and social partners to use social dialogue and tripartite cooperation; and ii) the safeguarding of the fundamental rights to organise and to bargain collectively provided for by the Constitution and by International Standards ratified by the Republic of Cyprus. Despite these commitments and high historical levels (reaching almost 90% in the 1980s), the coverage by collective agreements is currently around 40% ⁽⁹⁹⁾. To increase participation, Cyprus is in the process of developing an action plan to promote collective bargaining, according to the Council Recommendation of 12 June 2023 ⁽¹⁰⁰⁾ on strengthening social dialogue in the European Union. Furthermore, there are actions under the ESF+ for enhancing the administrative capacity of social partners.⁽¹⁰¹⁾

⁽⁹⁹⁾ [Cyprus: Developments in working life 2023 | European Foundation for the Improvement of Living and Working Conditions](#)

⁽¹⁰⁰⁾ [Council Recommendation of 12 June 2023 on strengthening social dialogue in the European Union](#)

⁽¹⁰¹⁾ For an analysis of the involvement of Cyprus' social partners at national level in the European Semester and the Recovery and Resilience Facility, see Eurofound

Digital public services

There is room for improving the digitalisation of public services (Table A6.2). Despite a recent positive trend in its average annual progress in digital public services for citizens, Cyprus remains below the EU average, with a score 74 out of 100 (EU average of 79.4) and has progressed almost five times faster (16.3%) than the EU average (3.1%). In terms of the availability of digital public services for businesses, Cyprus was slightly above the EU average, scoring 86.1 out of 100 (EU average of 85.4). Most digital investment under Cyprus's recovery and resilience plan is dedicated to digitalisation of public services and the administration (EUR 100.8 million). The percentage of e-government users demonstrates potential for improvement at 72.4%, below the EU average of 75%. As part of the digitalisation of public services, Cyprus will acquire 100.000 eIDs from the national eID provider to be offered to Cypriot citizens. The eID adoption will enable (a) access to governmental systems using eID as alternative login method, (b) integration of electronic signature into information systems and (c) electronic submission of not fully digitalized services, transitioning away from paper-based process.

(2025), [National-level social governance of the European Semester and the Recovery and Resilience Facility](#).

In terms of access to e-health records, Cyprus is significantly below the EU average, scoring 68.1 out of 100 in 2023 compared to an EU average of 79.1. This also represents a slight decrease compared to 2022 (70.2)⁽¹⁰²⁾. The main gaps in Cyprus's e-health maturity concern the lack of user authentication via a notified eID scheme and an access service which fails to follow web accessibility guidelines. As part of this ongoing digitalization process of eHealth, the integration of an enhanced authentication login method through the notified eID scheme is being evaluated as part of forthcoming implementation stages. Whilst Cyprus notified an eID scheme to the Commission in 2023, Cyprus has not yet set up and notified eID schemes for legal persons under the eIDAS Regulation⁽¹⁰³⁾. This means that Cypriot businesses cannot authenticate themselves to access public services provided by other Member States, including those enabled by the Once-Only Technical System, part of the EU Single Digital Gateway⁽¹⁰⁴⁾.

Cyprus is advancing towards seamless, automated exchange of authentic documents and data across the EU. It has developed the necessary infrastructure and is beginning the process of connecting the first authorities to the Once-Only Technical System⁽¹⁰⁵⁾.

Civil service

Cyprus aims to enhance merit and performance of its civil service, but there have been delays in these efforts. A significant reform implemented on 1 January 2024 as part of the critical milestones frontloaded in the recovery and resilience plan introduced a new evaluation system for public

sector appointments and promotions, shifting the focus from knowledge-based assessments to skills and abilities. Transitional issues caused the promotion weighting criteria to be temporarily revised, with the reform due to be phased in by 2026⁽¹⁰⁶⁾. The examination centres responsible for conducting recruitment examinations for middle and senior managers have faced several challenges. Concerns over examination frequency, fairness, and procedural clarity have been expressed by the public servants' trade unions.

There is a shift towards an ageing civil service. This trend may signal the need for targeted workforce planning strategies, including strategies to increase the attractiveness of the public sector as an employer⁽¹⁰⁷⁾.

Integrity

A far higher percentage of companies than the EU average consider corruption to be widespread and a problem when doing business. In Cyprus, 96% of companies consider that corruption is widespread (EU average 64%), while 72% consider that corruption is a problem when doing business (EU average 36%)⁽¹⁰⁸⁾. Moreover, only 10% of companies believe that people and businesses caught for bribing a senior official are appropriately punished (EU average 31%)⁽¹⁰⁹⁾. While there have been some improvements in the staffing and performance of the law enforcement authorities investigating corruption, few cases advanced including cases of high-level corruption, and the number of convictions remained limited⁽¹¹⁰⁾. The government has put forward an

⁽¹⁰²⁾ European Commission. [Digital Decade 2024: Country reports](#)

⁽¹⁰³⁾ European Commission, [eIDAS Dashboard](#).

⁽¹⁰⁴⁾ European Commission, [The Once Only Principle System: A breakthrough for the EU's Digital Single Market](#).

⁽¹⁰⁵⁾ European Commission, [Once-Only Technical System Accelerator meter](#).

⁽¹⁰⁶⁾ In-Cyprus, 2024, available at: <https://in-cyprus.philenews.com/local/new-civil-service-evaluation-system-to-commence-in-2024/> (Accessed on 25/01/2025).

⁽¹⁰⁷⁾ Eurostat. Employment by sex, age and economic activity.

⁽¹⁰⁸⁾ Flash Eurobarometer 543 on businesses' attitudes towards corruption in the EU (2024).

⁽¹⁰⁹⁾ Ibid.

⁽¹¹⁰⁾ See the 2024 country specific chapter for Cyprus of the Rule of Law Report, pp. 15-16.

ambitious reform of the Office of the Attorney General aiming to strengthen the independence and accountability of the prosecution service and address previously identified concerns ⁽¹¹¹⁾. Moreover, the Independent Authority against Corruption, established under the recovery and resilience plan, has made steady progress in building up its human and technical resources in order to function effectively. Cyprus is not a signatory party to the OECD Anti-Bribery Convention.

Public procurement continues to be an area at high risk of corruption in Cyprus, with the Government having taken specific initiatives. 61% of companies (EU average 27%) think that corruption has prevented them from winning a public tender or a public procurement contract in practice in the last three years ⁽¹¹²⁾. The government adopted a set of guidelines to oversee the implementation of projects related to the national recovery and resilience plan, including a measure to strengthen the verification of public procurement against corruption. It is also promoting an incentive scheme for the implementation of the international standard against bribery and corruption in the private and public sectors, including local administrations ⁽¹¹³⁾.

Cyprus has implemented a public register for lobbyists, but there is scope for improvement. Since November 2023, lobbyists have been able to register on the lobbying register held by the independent Authority Against Corruption and since March 2024, as in most Member States, lobbying activities shall be entered, too. However, there is no information on the implementation of existing measures on conflicts of interest for public officials ⁽¹¹⁴⁾. This would help to strengthen transparency in corporate lobbying.

Justice

The efficiency of the justice system continues to face serious challenges, despite positive trends. The disposition time in civil and commercial cases at first instance courts has decreased further (from 761 days in 2022 to 605 days in 2023). However, it continues to be one of the highest in the EU. The disposition time for administrative cases at first instance has also decreased (from 461 days in 2022 to 380 days in 2023). Efforts to improve the quality of the justice system are ongoing, in particular regarding the level of digitalisation, which remains low. The lack of an integrated electronic case management system impacts adversely on the digital transformation of justice ⁽¹¹⁵⁾. Plans to upgrade the existing i-justice system are still at an early stage. As regards judicial independence, no systemic deficiencies have been reported ⁽¹¹⁶⁾.

⁽¹¹¹⁾Ibid., pp. 4-6.

⁽¹¹²⁾Flash Eurobarometer 543 on businesses' attitudes towards corruption in the EU (2024).

⁽¹¹³⁾Ibid., p.20.

⁽¹¹⁴⁾Ibid., pp. 17-18.

⁽¹¹⁵⁾Ibid., pp. 7-8.

⁽¹¹⁶⁾For more detailed analysis of the performance of the justice system in Cyprus, see the upcoming 2025 EU Justice Scoreboard and the 2024 Rule of Law Report.

Cyprus faces significant challenges regarding its clean industry transition and climate mitigation: The country has minimal clean tech manufacturing capacity, and its reliance on petrol-powered cars indicates a lack of incentives and infrastructure for greener vehicles. Dependence on imported critical raw materials underscores Cyprus's strategic vulnerability, exacerbated by a low circular material use rate. Additionally, the nation struggles with high emissions intensity in manufacturing sectors and lags in waste management, necessitating urgent policy enhancements. This annex reviews the areas in need of urgent attention in Cyprus's clean industry transition and climate mitigation, looking at different dimensions.

Strategic autonomy and technology for the green transition

Net zero industry

Cyprus has no net zero industry, and its clean tech manufacturing capacity is minimal. Nevertheless, in 2023, Cyprus surpassed the required minimal installed solar photovoltaic capacity of 500 MW required by 2025, reaching 581 MW of installed capacity. That is a 36.9% increase with respect to 2022. ⁽¹¹⁷⁾

Transforming the car industry

Cyprus has no car industry. However, it may be worth noting that, in 2023, the highest shares of petrol-powered cars (including hybrids) among new registrations were noted in Cyprus (91.6%) ⁽¹¹⁸⁾. This shows a lack of incentives to green and electrify the vehicle fleet, mainly due to the lack of the necessary infrastructure.

⁽¹¹⁷⁾ EC, Net Zero Technologies (NZT) Monitoring Dashboard.

⁽¹¹⁸⁾ Eurostat, [Passenger Cars in the EU](#) (December 2024).

Critical raw materials

Cyprus is implementing policies to strengthen supply chains and the uptake of circular solutions for critical raw materials. Cyprus has adopted measures to improve the performance of Extended Responsibility Schemes (EPR) for products rich in critical raw materials (CRM), such as waste electric and electronic equipment (WEEE), batteries and construction and demolition waste. EPR schemes have been established for batteries, WEEE, construction and demolition waste, while for vehicles end-of-life procedures are in place for their rational management. As regards the use of secondary critical raw materials, public procurement will be considered in the future; when it comes to research and innovation aspects, Cyprus is planning to carry out a mapping of old mining waste to extract copper (Cu). Finally, Cyprus has reported the deployment of measures that could remove regulatory barriers to cross-border waste treatment.

Cyprus does not extract any critical raw materials and depends entirely on imports. Cyprus' main critical raw material imports are aluminium (EUR 14.7m) and nickel (EUR 3.18m). Aluminium is mainly imported from the United Arab Emirates (UAE), while nickel is mostly imported from Switzerland and Cote d'Ivoire (in smaller quantities). ⁽¹¹⁹⁾ As regards the level of strategic dependency on raw materials, Cyprus finds itself below the EU average (0.21 vs 0.23). ⁽¹²⁰⁾

The circular use of material would help reduce Cyprus' dependency on imports. In this regard, Cyprus' circular material use rate is well below the

⁽¹¹⁹⁾ EC, [Raw Materials Information System \(RMIS\) – Country Profile - Cyprus](#)

⁽¹²⁰⁾ EC, 2025 Single Market and Competitiveness Scoreboard.



EU average (5.4 vs 11.8%) and could be improved. ⁽¹²¹⁾

Climate mitigation

Industry decarbonisation

The greenhouse gas emissions intensity of Cyprus's manufacturing sector is very high, dominated by industrial processes and product use. 17% of Cyprus's total greenhouse gas emissions comes from the manufacturing sector, less than in the EU overall (21%) ⁽¹²²⁾. In 2022, industrial production in Cyprus emitted 1.4 kg CO₂eq of greenhouse gases per euro of gross value added (GVA), the highest level in the EU. Since 2017, the emissions intensity of Cyprus's manufacturing industry declined by 13%, less than the EU average reduction (20%). In Cyprus's greenhouse gas emissions from manufacturing, the shares of energy and non-energy-related emissions account for 30% and 70% respectively, with the latter relating to industry processes and product use. The share of process and product use -related emissions is comparatively high in Cyprus and has increased lately ⁽¹²³⁾.

In recent years, energy-related greenhouse emissions intensity in Cypriot manufacturing has improved in line with the EU average, unlike the process and product use-related part ⁽¹²⁴⁾. Between 2017 and 2022, the intensity of manufacturing in Cyprus with regard to emissions related to industry process and product use declined by 7%, the lowest improvement in the EU and much less than the average of 23%. In the same period, emissions intensity in manufacturing related to energy use improved by 17%, comparable to the EU average (16%). Between 2017 and 2022, the share of electricity and renewables in the final energy consumption of Cyprus's manufacturing sector increased by 10 percentage points, to 40%, the largest increase in the EU. The energy intensity of manufacturing production declined by about 4%, from 2.5 GWh per euro of gross value added in 2017 to 2.3 GWh/€ in 2022.

The manufacture of non-metallic minerals contributes to the high emissions intensity of manufacturing in Cyprus in particular. Energy -intensive industries ⁽¹²⁵⁾ account for 17% of Cyprus's manufacturing gross value added (2022). Of this, 11 percentage points are accounted for by the processing of non-metallic minerals. With 11 kg CO₂eq per euro of GVA, the

⁽¹²¹⁾EC, 2025 Single Market and Competitiveness Scoreboard.

⁽¹²²⁾ In 2023. Manufacturing includes all divisions of the "C" section of the NACE Rev. 2 statistical classification of economic activities. In the remainder of this section, unless indicated otherwise, data on manufacturing refer to the divisions of the NACE section C excluding division C19 (manufacture of coke and refined petroleum products), and the year 2022. The source of all data in this section is Eurostat; data following the UNFCCC Common Reporting Framework (CRF) are from the European Environment Agency (EEA), republished by Eurostat.

⁽¹²³⁾The significant increase in emissions from industrial processes appears to relate to increased emissions from the use of F-gases. The change rests on a methodology used to calculate emissions that relies on the use of GDP as an indicator for emissions. This is estimated to overestimate emissions, as installed equipment is considered to be constantly increasing; it will be revised once the equipment inventory is completed, before the 2026 emissions inventory.

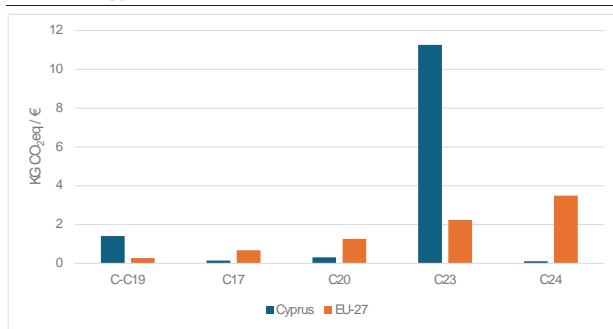
⁽¹²⁴⁾ For the GHG emissions intensity of GVA related to energy use and industrial processes and product use respectively, GHG emissions are from inventory data in line with the UNFCCC Common Reporting Format (CRF), notably referring to the source sectors CRF1.A.2 – fuel combustion in manufacturing industries and construction and CRF2 – industrial processes and product use. The CRF1.A.2 data broadly correspond to the NACE C and E sectors, excluding C-19. GVA data (in the denominator for both intensities) are aligned with this sectoral coverage. Therefore, they are not fully consistent with the data referred to in other part of this section.

⁽¹²⁵⁾Notably, the manufacture of paper and paper products (NACE division C17), of chemicals and chemical products (C20), "other" non-metallic mineral products (C23; this division includes manufacturing activities related to a single substance of mineral origin, such as glass, ceramic products, tiles, and cement and plaster), and basic metals (C24). To date, these industries are energy-intensive – i.e. consuming much energy both on site and/or in the form of purchased electricity – and greenhouse gas emissions intensive, in various combinations.

emissions intensity of production in this sector is the highest in the EU, more than five times the EU average of 2.2 kg/€. High energy prices and global competition more broadly put pressure on energy-intensive industries. In the first half of 2024, Cyprus had the third highest average electricity price in the EU ⁽¹²⁶⁾.

Cyprus envisages some policies to promote the decarbonisation of manufacturing production in the longer term. In addition to the policies and measures presented in its final energy and climate plan (December 2024), for achieving decarbonisation by 2050, Cyprus is considering introducing (i) a carbon tax and (ii) carbon capture and storage activities for ETS installations in the electricity, cement, and ceramics sectors (20% in 2040-2049, 70% in 2050), and a plan to phase down F-gases.

Graph A7.1: GHG emission intensity of manufacturing and energy-intensive sectors, 2022



Source: Eurostat.

Reduction of emissions in the effort sharing sectors

To attain its 2030 effort sharing target, Cyprus needs to swiftly specify and implement further climate mitigation policies ⁽¹²⁷⁾. In 2023, GHG

emissions from Cyprus' effort sharing sectors are expected to have been 4.6% above those of 2005. By 2030, current policies are projected to reduce them by 3.8% relative to 2005 levels. Additional policies considered in Cyprus's final updated NECP are projected to entail reductions by a further 22.1 percentage points. This results in a shortfall regarding Cyprus's effort sharing target, -32%, by 6.1 percentage points ⁽¹²⁸⁾. Given this shortfall and the large distance between current and additional measures, swift and steady adoption will be critical for the implementation of the full set of measures. While Cyprus could use domestic flexibilities available under the effort sharing regulation, this would not be sufficient to close the gap to target.

Swift action on decarbonising buildings appears particularly needed in Cyprus. Between 2005 and 2023, greenhouse gas emissions from buildings decreased by 14 % in Cyprus, much less than by the 33 % seen in the EU overall. Speeding up climate mitigation in this sector would help protect households and businesses in Cyprus from the impact of the forthcoming carbon price.

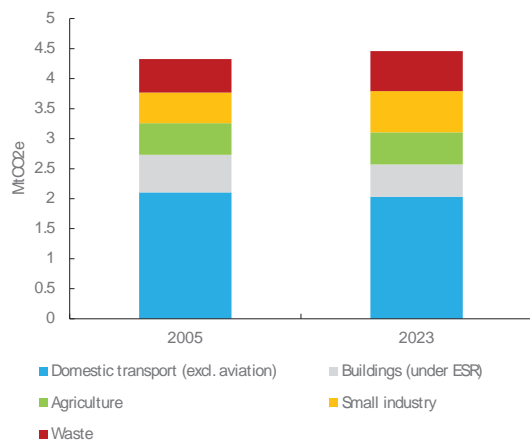
⁽¹²⁶⁾With an average electricity price of EUR 0.1776 per KW/h (against an EU average of 0.1389). Source: European Commission, Eurostat. For a detailed analysis of energy prices, see Annex 8 on the affordable energy transition.

⁽¹²⁷⁾The national greenhouse gas emission reduction target is defined in Regulation (EU) 2023/857 (the Effort Sharing Regulation), to align action in the concerned sectors with the objective of reaching the EU-level, economy-wide reductions target of at least 55% relative to levels of 1990. The target applies together to the sectors outside the current EU Emissions Trading System, buildings (heating

and cooling), road transport, agriculture, waste, and small-scale industry (known as the effort sharing sectors).

⁽¹²⁸⁾ The effort sharing emissions for 2023 are based on approximated inventory data. The final data will be established in 2027 after a comprehensive review. Projections on the impact of current policies ("with existing measures", WEM) and additional policies ("with additional measures", WAM) as per Cyprus' final updated NECP.

Graph A7.2: Greenhouse gas emissions in the effort sharing sectors in Mt CO₂eq, 2005-2023



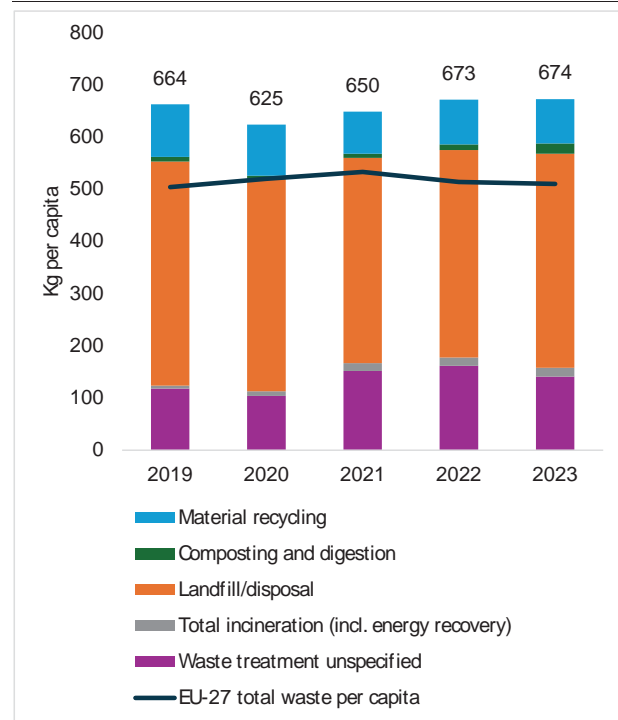
Source: European Environment Agency

Sustainable industry

Circular economy transition

Cyprus's circular transition is progressing slowly, but with some encouraging policy steps. Circular use of material in Cyprus was at its highest rate in 2022, when it reached 8.5% following a steady increase, thus showing the country's potential. However, with a decrease to 5.4% in 2023, it is far behind the EU average of 11.8%. With EUR 1.36 generated per kg of material consumed in 2023, resource productivity in Cyprus is well below the EU average of EUR 2.22 EUR per kg. Cyprus's 2021-27 Circular Economy Action Plan, reinforced by the Recovery and Resilience Plan (RRP), is advancing the country's transition to sustainable resource management. Coordinated across several ministries, the action plan focuses on cultivating circular economy awareness, encouraging investment, developing essential infrastructure and managing municipal waste effectively. Priority sectors such as agriculture, food, manufacturing, and hospitality are being targeted, due to their economic impact and potential for circular integration.

Graph A7.3: Municipal waste treatment



Source: Eurostat

Cyprus's waste management performance is still lagging significantly behind. Municipal waste generation per capita in Cyprus slightly decreased between 2010 and 2023. In 2023, the country generated 674 kg of municipal waste per capita, which is significantly above the estimated EU27 average of 511 kg per capita (see Graph A7.3). For municipal waste, little progress has been made recently: in 2022, only 15% of the municipal waste was prepared for re-use or recycled, significantly below the 49% EU27 average in the same year. The country's overall packaging waste recycling rate reached 70% in 2022. However, data quality issues are likely to result in overestimating the recycling rate. Cyprus is in the category of countries at risk of missing both the municipal waste and the packaging waste targets. Cyprus is also at risk of not meeting the 2035 target of max 10% of municipal waste landfilled. The preparing for re-use and recycling rate of mineral construction and demolition waste in Cyprus in 2022 was 92.3%, compared to the EU average of 79.8%.

To meet its circular economy and waste objectives, Cyprus needs to increase circular economy investment by an estimated EUR 40

million a year, with an additional EUR 13 million for waste management action not belonging to the circular economy. Combined, this amounts to EUR 53 million a year, representing 0.2% of Cyprus' GDP. Of the circular economy gap, EUR 11 million relates to recent initiatives, such as eco-design for sustainable products, packaging and packaging waste, labelling and digital tools, critical raw materials recycling, and measures proposed under the amendment of the Waste Framework Directive, and EUR 30 million constitutes further investment needed to unlock Cyprus' circular economy potential.

Zero pollution industry

Air quality in Cyprus is generally good with some exceptions. The emissions of several air pollutants have decreased significantly in Cyprus since 2005, while GDP growth has continued. Cyprus is meeting its emission reduction commitments for 2020-2029 for air pollutants NO_x, non-methane volatile organic compounds (NMVOC), ammonia (NH₃) and PM_{2.5}. It is not meeting them for sulphur dioxide (SO₂). Cyprus projects to meet its emission reduction commitments for 2030 onwards for NO_x, NMVOC, SO₂, NH₃ and PM_{2.5}.

Emissions to water in Cyprus are low compared to other EU Member States. Cyprus ranks last in the EU in terms of both the amount of emissions of heavy metals to water, and emissions intensity (EU average intensity is 0.864 kg/billion EUR GVA). The main contributor to emissions to water in Cyprus is the livestock sector for total phosphorus and total nitrogen.

The costs of pollution remain higher than the investment into pollution prevention and control. The latest available annual estimates (for 2022) by the European Environment Agency ⁽¹²⁹⁾ for Cyprus attribute 690 deaths a year (or 6 600 years of life lost (YLL)) to fine particulate matter (PM_{2.5}) ⁽¹³⁰⁾,

⁽¹²⁹⁾ European Environment Agency, [Harm to human health from air pollution in Europe: burden of disease 2024](#).

⁽¹³⁰⁾ Particulate matter (PM) is a mixture of aerosol particles (solid and liquid) covering a wide range of sizes and chemical compositions. PM₁₀ refers to particles with a diameter of 10 micrometres or less. PM_{2.5} refers to particles with a diameter of 2.5 micrometres or

260 deaths a year (or 2 500 YLL) to nitrogen dioxide (NO₂) ⁽¹³¹⁾, and 140 deaths a year (or 1 400 YLL) to ozone ⁽¹³²⁾. At the same time, to meet its environmental objectives on pollution prevention and control (towards zero pollution), Cyprus needs to provide an additional EUR 33 million per year (0.12% of GDP), mostly related to clean air.

less. PM is emitted from many human sources, including combustion.

⁽¹³¹⁾ Nitrogen dioxide (NO₂) pertains to a group of gases called NO_x, which also comprises nitrogen monoxide (NO). NO_x is emitted during fuel combustion e.g. from industrial facilities and the road transport sector.

⁽¹³²⁾ Low-level ozone is produced by photochemical action on pollution. This year, for the first time, the impact of long-term exposure to ozone has also been taken into account. In previous analysis by the European Environment Agency, only the impact of short-term exposure was estimated.

Table A7.1: Key clean industry and climate mitigation indicators: Cyprus

Strategic autonomy and technology for the green transition				Cyprus				EU-27			
Net zero industry											
Operational manufacturing capacity 2023											
- Solar PV (c: cell, w: wafer, m: module), MW				-				- Electrolyzer, MW			
- Wind (b: blade, t: turbine, r: nacelle), MW				-				- battery, MWh			
Automotive industry transformation		2017	2018	2019	2020	2021	2022	2023		2018	2021
Motorisation rate (passenger cars per 1000 inhabitants), %		609	629	645	645	655	653	665	↗	539	561
New zero-emission vehicles, electricity motor, %		0.14	0.04	0.46	0.41	0.74	3.46	5.38	↗	1.03	8.96
Critical raw materials		2017	2018	2019	2020	2021	2022	2023		2018	2021
Material import dependency, %			34.0	31.4	32.4	31.9	31.1	32.7	↗	24.2	22.6
Climate mitigation				Cyprus				Trend		EU-27	
Industry decarbonisation		2017	2018	2019	2020	2021	2022	2023		2017	2022
GHG emissions intensity of manufacturing production, kg/€		1.62	1.28	1.15	1.27	1.26	1.41		↘	0.34	0.27
Share of energy-related emissions in industrial GHG emissions		66.4	66.9	68.3	67.3	68.7	69.0	69.3	↗	44.8	42.5
Energy-related GHG emissions intensity of manufacturing and construction, kg/€		312.1	239.3	220.2	231.7	232.6	259.3	-	↘	158.4	132.9
Share of electricity and renewables in final energy consumption in manufacturing, %		30.1	36.0	35.0	37.4	39.9	39.8	40.4	↗	43.3	44.2
Energy intensity of manufacturing, GWh/€		2.48	2.08	1.90	2.10	2.12	2.38	2.32	↘	1.29	1.09
Share of energy-intensive industries in manufacturing production							16.6				7.3
GHG emissions intensity of production in sector [...], kg/€											
- paper and paper products (NACE G17)		0.18	0.20	0.18	0.24	0.13	0.15	-	-	0.73	0.68
- chemicals and chemical products (NACE C20)		0.26	0.17	0.17	0.20	0.27	0.31	-	-	1.25	1.26
- other non-metallic mineral products (NACE C23)		12.96	10.43	8.89	9.09	9.73	11.26	-	-	2.53	2.24
- basic metals (NACE C24)		0.38	0.18	0.17	0.14	0.08	0.11	-	-	2.79	3.49
Reduction of effort sharing emissions			2018	2019	2020	2021	2022	2023		2018	2023
GHG emission reductions relative to base year, %						3.4	4.3	4.6			
- domestic road transport			0.6	1.8	-8.8	-2.4	-3.7	-3.4	↘	1.4	5.2
- buildings			-22.0	-9.6	-14.7	-19.5	-14.7	-14.4	↗	21.4	32.9
		2005				2021	2022	2023	Target	WEM	WAM
Effort sharing: GHG emissions, Mt; target, gap, %		4.3				4.4	4.4	4.5	-32.0	-28.2	-6.1
Sustainable industry				Cyprus				Trend		EU-27	
Circular economy transition			2018	2019	2020	2021	2022	2023		2018	2021
Material footprint, tonnes per person			19.4	20.5	19.6	20.7	20.6	20.7	↗	14.7	15.0
Circular material use rate, %			2.8	3.2	3.8	5.9	8.5	5.4	↗	11.6	11.1
Resource productivity, €/kg			1.4	1.4	1.4	1.4	1.6	1.6	↗	2.1	2.3
Zero pollution industry											
Years of life lost due to PM2.5, per 100,000 inhabitants			655	692	674	729	827	-	↗	702	571
Air pollution damage cost intensity, per thousand € of GVA						123.8					27.5
Water pollution intensity, kg weighted by human factors per bn € GVA							0.0				0.9

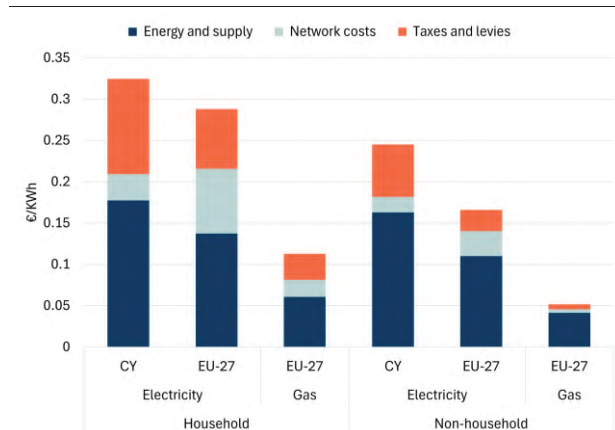
Source: Net zero industry: European Commission: [The net-zero manufacturing industry landscape across Member States: final report](#), 2025. Automotive industry transformation: Eurostat. Critical raw materials: Eurostat. Climate mitigation: See footnotes in the "climate mitigation" section; reduction of effort sharing emissions: [EEA greenhouse gases data viewer](#); European Commission, [Climate Action Progress Report](#), 2024. Sustainable industry: Years of life lost due to PM2.5: Eurostat and EEA, [Harm to human health from air pollution in Europe: burden of disease status](#), 2024. Air pollution damage: EEA, [EU large industry air pollution damage costs intensity](#), 2024. Emissions covered: As, benzene, Cd, Cr, Hg, NH3, Ni, NMVOC, NOX, Pb, dioxins, PM10, PAH, SOX. Water pollution intensity: EEA, [EU large industry water pollution intensity](#), 2024. Releases into water covered from cadmium, lead, mercury, nickel. Other indicators: Eurostat.

This annex outlines the progress made and the ongoing challenges faced in enhancing energy competitiveness and affordability, while advancing the transition to net zero. It examines the measures and targets proposed in the final updates to the national energy and climate plans (NECPs) for 2030.

Cyprus has shown progress in introducing renewable energy and implementing energy efficiency measures, but the energy sector still faces considerable challenges. Ending its energy isolation through the Great Sea Interconnector, diversifying energy supplies, expanding grids and empowering consumers will be crucial for Cyprus in order to achieve its goals.

Energy prices and costs

Graph A8.1: Retail energy price components for household and non-household consumers, 2024



(i) For household consumers, consumption band is DC for electricity and D2 for gas. Taxes and levies are shown including VAT.

(ii) For non-household consumers, consumption band is ID for electricity and I4 for gas. Taxes and levies are shown excluding VAT and recoverable charges, as these are typically recovered by businesses.

Source: Eurostat

Cyprus's retail energy prices dropped in 2024 but remained above EU average for both non-household and household prices. Notably for non-household consumers, electricity prices in Cyprus were the highest in the EU while for households, Cyprus ranked sixth. The share of taxes and levies remained above EU average

(25.9% and 35.5% of the final price of electricity for non-household and household consumers respectively, compared to an EU average of 15.4% and 25%, respectively), while the share of network costs were considerably lower than the EU average (6.6% and 9.8% of the final price of electricity, compared to an EU average of 15.5% and 27.2%, respectively).

Throughout 2024, Cyprus kept in place the support measures to help consumers – including vulnerable groups – mitigate high energy costs. These measures aimed to reduce energy bills and tackle energy poverty by compensating for a proportion of electricity prices above a set limit, covering up to 85% of cost increases for consumption below 400 kWh and decreasing for higher consumption levels. For vulnerable consumers, the compensation reached 100% of the excess cost above the set limit. Reductions in excise duty on petroleum products were also applied during the first quarter of 2024.

Flexibility and electricity grids

Cyprus is currently isolated from the internal energy market. Despite delays, work is currently underway to implement the project of common interest (PCI) known as the Great Sea Interconnector, which, in the first phase, will connect, Cyprus to Greece through Crete. As a PCI, the project has received substantial EU funding from the Connecting Europe Facility, in particular the largest ever grant to a single PCI of EUR 658 million, for constructing the part of the Great Sea Interconnector between Cyprus and Crete.

There have been significant delays in connecting new plants that use renewable energy sources (RES) to the grid. This is due to the need for further expanding and upgrading the Cypriot electricity system and grid. Based on the Cypriot Transmission System Operator curtailment

projections the curtailments projected for 2025 are estimated around 4-5%⁽¹³³⁾ for small commercial and residential systems, due to the large increase in the number of photovoltaic systems and the isolated electricity system in Cyprus.

Cyprus has currently no operational fossil-free electricity storage capacity. With respect to flexibility in the power system, in August 2024, the Cyprus Energy Regulatory Authority (CERA) adopted a decision granting the Electricity Authority of Cyprus (EAC) a licence to install an energy storage system for commercial use in the Dhekelia power station⁽¹³⁴⁾. The storage project will have a maximum output power of 80 MW and storage power of 160 MWh, and its construction is reported to be commencing in 2025. Even though the regulatory system for storage has been set already from 2019⁽¹³⁵⁾ and there have been some permits issues in 2023, both for stand-alone and collated storage facilities, no project has been realised yet⁽¹³⁶⁾.

The installation of smart electricity meters began in early 2025, after procurement challenges and delays. Deployment of smart meters will empower consumers and support integration of new loads and photovoltaics in the electricity system, through smart energy services. Cyprus has included provisions for both renewable energy communities (RECs) and citizen energy communities (CECs) in its national framework. The Cyprus Energy Regulatory Authority (CERA) adopted a regulatory decision entitled 'Regulatory framework to promote and facilitate

the development of energy communities and renewable energy communities', with the aim of facilitating the activation of energy communities.

In 2023, electricity accounted for 26.0% of Cyprus's final energy consumption (above the EU average of 22.9%), and this proportion has seen a slight increase in the last decade⁽¹³⁷⁾. When it comes to households, electricity accounts for 43.3% of final energy consumption, while in industry it represents 21.4% (see also Annex 7). For the transport sector, this proportion remains negligible at 0.1%. Further progress in electrification across sectors is required for cost effectively decarbonising the economy and bringing the benefits of affordable renewable generation to consumers.

Renewables and long-term contracts

Cyprus has shown progress in deploying RES, with 24% of its electricity mix being supplied by renewables in 2024, compared to 20% in 2023. This share leaves Cyprus far behind the EU's overall RES share of 47%⁽¹³⁸⁾. In 2024, renewables capacity grew by 19%, reaching 895 MW. Regarding solar deployment, the total installed capacity in 2024 was 724 MW (+ 143 MW, an increase of 24.6% compared to 2023), while installed wind capacity remained at 158 MW, all onshore⁽¹³⁹⁾. In 2023, 20.2% of gross final energy consumption came from renewable sources, from 19.4% in 2022. In its final updated NECP, Cyprus sets a RES target of 33.17% for 2030, just above the contribution calculated by the Governance Regulation. The RES curtailment issues seriously hamper the increase of RES consumption in Cyprus.

⁽¹³³⁾

<https://www.eac.com.cy/EL/EAC/NewsAndAnnouncements/Pages/perikopesparagvgisfvsystimata.aspx>

⁽¹³⁴⁾CERA – Decision 274/2024.

⁽¹³⁵⁾Decree 224/2019 (Κ.Δ.Π.)

https://www.cera.org.cy/Templates/00001/data/nomothesia/ethniki/hlektrismos/rythmistikes_apofaseis/2019_03.pdf

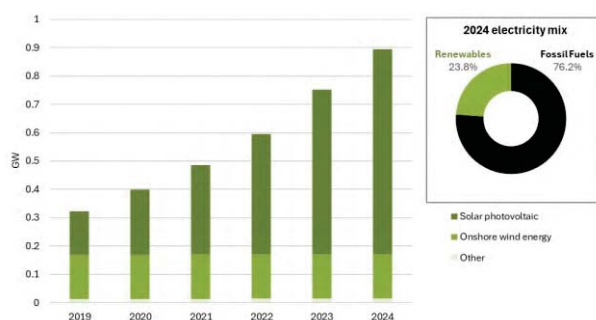
⁽¹³⁶⁾

⁽¹³⁷⁾ CAGR (compound annual growth rate) of 0.6% between 2013 and 2023 and minimum/maximum share of 24.6% and 26.0%, respectively.

⁽¹³⁸⁾Yearly electricity data, Ember.

⁽¹³⁹⁾Renewable capacity statistics 2025, IRENA

Graph A8.2: Cyprus' installed renewable capacity (left) and electricity generation mix (right)



"Other" includes renewable municipal waste, solid biofuels, liquid biofuels, and biogas.

Source: IRENA, Ember

Cyprus has taken steps to simplify its procedures on permits and align them with the EU framework, but work is still ongoing. Cyprus was one of the first countries to set up a digital one-stop-shop/single point of contact. Nevertheless, the ministries and authorities that participate in the licensing process do not always coordinate their work in such a way as to allow RES projects to receive the licences they need within the stipulated time frame. Regarding visibility for future development, as part of the wind pledges under the European wind power action plan, Cyprus committed to installing 12 MW of onshore wind capacity by 2024 but did not make any further commitments in this regard. No schedule on the expected allocation of support for renewables has been published on the platform Union Renewables Development Plans. However, the Cypriot government announced a new support scheme for the installation of a photovoltaic system and/or roof thermal insulation in existing homes⁽¹⁴⁰⁾.

Cyprus has yet to register any corporate renewable power purchase agreement, which can be explained in part by ongoing market liberalisation. In its final updated NECP, Cyprus mentions that, in order for power purchase

agreements to become possible, its national electricity market rules need to be changed. Similarly, there is no visibility regarding contracts for difference.

Energy efficiency

Energy efficiency gains have slowed in Cyprus, although there is still untapped potential in energy efficiency. In 2023, primary energy consumption (PEC) increased by 1.4% to 2.52 Mtoe. Final energy consumption (FEC) increased by 2.8% to 1.87 Mtoe compared to 2022; FEC increased in all the main sectors apart from the residential sector, where a reduction of 6.68% was registered. More specifically FEC increased in transport by 4.40%, in industry by 0.85% and in services by 2.2%. Under Annex I of the recast Energy Efficiency Directive (Directive (EU) 2023/1791), the target for Cyprus stemming from the formula is a PEC of 2.02 Mtoe and an FEC of 1.81 Mtoe by 2030.

Cyprus deploys a supportive national financing framework that mobilises energy efficiency investment and is composed mainly of grants and tax rebates. In 2024, Cyprus continued to implement several relevant financing measures and launched new schemes for the residential and services sectors. It would also be beneficial if Cyprus were to provide more support to the transition and sustainability of the transport sector. In addition, Cyprus could consider creating more sustainable energy efficiency financing by mobilising more private financing as well as its financial institutions in the frame of the European Energy Efficiency Financing Coalition.

By the submission of the final NECP of 2024, Cyprus also notified the Commission the updated comprehensive heating and cooling assessment (Annex 10 of the final NECP update). The

⁽¹⁴⁰⁾ https://resecfund.org.cy/en/SX_2024.

technology identified with the greatest economic potential to meet the heating and cooling requirement in the residential, tertiary and agricultural sectors comes from heat pumps combined with photovoltaic panels, while the technology with the greatest economic potential to meet the requirement of hot water is solar thermal systems.

Cyprus's energy reduction trend in the residential sector (corresponding to a 7.7% decrease from 2018-2022 of final energy consumption, climate corrected for space heating) seems to have reversed in 2023, while greenhouse gas emissions in the household and service sectors saw a 0.3% increase between 2022 and 2023. In 2022, heating and cooling represented 71% of the country's residential final energy consumption. Heat pumps accounted for 23% of residential final energy consumption, whereas boilers made up 41.5%.

Electricity in Cyprus was 3.5 times more expensive than oil in 2023, which affects the financial savings linked to the energy saved by using heat pumps for heating. Financial support for heat pumps covering up to 60% of the installation cost is available, depending on certain eligibility criteria.

Security of supply and diversification

In 2023, the energy mix in Cyprus continued to be dominated by fossil fuels, with oil and petroleum products accounting for 85% of gross inland consumption, and renewables (and biofuels) reaching 12%.

Cyprus aims to include natural gas in its energy mix and is developing an LNG terminal at the port of Vasilikos. This was a project of common interest until the 5th Union list. The project is experiencing significant delays and is expected to be in operation in 2026. No progress has been

registered with the internal Cypriot distribution grid.

Cyprus benefits from a temporary exemption as regards natural gas interconnections as part of the Union list of projects of common interest and projects of mutual interest. This applies to the Eastmed project, which seeks to bring gas from the Levantine fields to Cyprus and further to Greece and link Cyprus to the continental European gas grid through Greece. The project is in the pre-application phase, as the application file has not been completed yet by the project promoter.

Fossil fuel subsidies

In 2023, environmentally harmful ⁽¹⁴¹⁾ fossil fuel subsidies without a planned phase-out before 2030 represented 0.16%⁽¹⁴²⁾ of Cyprus' GDP⁽¹⁴³⁾, below with the EU weighted average of 0.49%. Tax measures accounted for 79% of this volume, while the remaining share were direct grants. However, Cyprus' 2023 Effective Carbon Rate⁽¹⁴⁴⁾ averaged EUR 76.47 per tonne of CO₂, below the EU weighted mean of EUR 84.80⁽¹⁴⁵⁾.

¹⁴¹ Direct fossil fuel subsidies that incentivise maintaining or increasing in the availability of fossil fuels and/or use of fossil fuels.

¹⁴² Numerator is based on volumes cross-checked with the Cypriot authorities. For all Member States, it includes public R&D expenditures for fossil fuels as reported by the IEA (Energy Technology RD&D Budgets) and excludes, for methodological consistency, excise tax exemption on kerosene consumed in intra-EU27 air traffic.

¹⁴³ 2023 Gross Domestic Product at market prices, Eurostat.

¹⁴⁴ The Effective Carbon Rates is the sum of carbon taxes, ETS permit prices and fuel excise taxes, representing the aggregate effective carbon rate paid on emissions.

⁽¹⁴⁵⁾ OECD (2024), Pricing Greenhouse Gas Emissions 2024

Table A8.1: Key Energy Indicators

	Cyprus				EU			
	2021	2022	2023	2024	2021	2022	2023	2024
Household consumer - Electricity retail price (EUR/KWh)	0.2143	0.2919	0.3589	0.3246	0.2314	0.2649	0.2877	0.2879
Energy & supply [%]	51.0%	62.7%	52.7%	54.7%	36.6%	54.3%	55.6%	47.8%
Network costs	12.7%	8.9%	8.7%	9.8%	26.7%	25.3%	24.8%	27.2%
Taxes and levies including VAT	36.3%	28.4%	38.7%	35.5%	36.7%	20.3%	19.6%	25.0%
VAT	15.6%	12.4%	15.7%	15.7%	14.5%	13.4%	13.8%	14.6%
Household consumer - Gas retail price	n/a	n/a	n/a	n/a	0.0684	0.0948	0.1121	0.1128
Energy & supply	n/a	n/a	n/a	n/a	43.7%	61.0%	64.5%	53.9%
Network costs	n/a	n/a	n/a	n/a	22.5%	17.3%	17.1%	18.3%
Taxes and levies including VAT	n/a	n/a	n/a	n/a	33.8%	21.7%	18.4%	27.8%
VAT	n/a	n/a	n/a	n/a	15.5%	11.6%	10.2%	13.6%
Non-household consumer - Electricity retail price	0.1735	0.2783	0.2702	0.2452	0.1242	0.1895	0.1971	0.1661
Energy & supply	53.2%	58.1%	54.6%	57.4%	43.0%	66.5%	63.0%	55.8%
Network costs	7.8%	5.1%	5.8%	6.6%	15.8%	10.7%	11.9%	15.5%
Taxes and levies excluding VAT	28.8%	26.1%	29.5%	25.9%	30.4%	9.9%	11.2%	15.4%
Non-household consumer - Gas retail price	n/a	n/a	n/a	n/a	0.0328	0.0722	0.0672	0.0517
Energy & supply	n/a	n/a	n/a	n/a	66.2%	77.3%	77.3%	68.7%
Network costs	n/a	n/a	n/a	n/a	7.7%	3.8%	5.3%	7.1%
Taxes and levies excluding VAT	n/a	n/a	n/a	n/a	12.5%	6.1%	7.3%	11.6%
Wholesale electricity price (EUR/MWh)	n/a	n/a	n/a	n/a	111.0	233.2	99.1	84.7
Dutch TTF (EUR/MWh)	n/a	n/a	n/a	n/a	46.9	123.1	40.5	34.4
	2017	2018	2019	2020	2021	2022	2023	2024
Gross Electricity Production (GWh)	5,004	5,061	5,141	4,849	5,119	5,268	5,329	-
Combustible Fuels	4,621	4,640	4,685	4,313	4,405	4,442	4,290	-
Nuclear	-	-	-	-	-	-	-	-
Hydro	-	-	-	-	-	-	-	-
Wind	211	221	239	240	246	224	208	-
Solar	172	199	218	296	468	602	831	-
Geothermal	-	-	-	-	-	-	-	-
Other Sources	-	-	-	-	-	-	-	-
Gross Electricity Production [%]								
Combustible Fuels	92.3%	91.7%	91.1%	88.9%	86.0%	84.3%	80.5%	-
Nuclear	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-
Hydro	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-
Wind	4.2%	4.4%	4.6%	5.0%	4.8%	4.3%	3.9%	-
Solar	3.4%	3.9%	4.2%	6.1%	9.1%	11.4%	15.6%	-
Geothermal	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-
Other Sources	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-
Net Imports of Electricity (GWh)	-	-	-	-	-	-	-	-
As a % of electricity available for final consumption	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-
Electricity Interconnection [%]	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Share of renewable energy consumption - by sector [%]								
Electricity	8.9%	9.4%	9.8%	12.0%	14.8%	17.0%	20.9%	-
Heating and cooling	26.4%	37.2%	35.1%	37.1%	42.6%	41.6%	42.8%	-
Transport	2.6%	2.7%	3.3%	7.4%	7.2%	7.2%	7.3%	-
Overall	10.5%	13.9%	13.8%	16.9%	19.1%	19.4%	20.2%	-
	2020	2021	2022	2023	2020	2021	2022	2023
Import Dependency [%]	93.2%	89.5%	92.0%	92.2%	57.5%	55.5%	62.5%	58.3%
of Solid fossil fuels	105.4%	97.6%	147.3%	41.9%	35.8%	37.2%	45.9%	40.8%
of Oil and petroleum products	101.7%	98.4%	100.2%	102.5%	96.8%	91.7%	97.8%	94.5%
of Natural Gas	0.0%	0.0%	0.0%	0.0%	83.6%	83.6%	97.6%	90.0%
Dependency from Russian Fossil Fuels [%]								
of Natural Gas	0.0%	0.0%	0.0%	0.0%	41.0%	40.9%	20.7%	9.3%
of Crude Oil	0.0%	0.0%	0.0%	0.0%	25.7%	25.2%	18.4%	3.0%
of Hard Coal	100.0%	100.0%	74.2%	0.0%	49.1%	47.4%	21.5%	1.0%

Source: Eurostat, ENTSO-E, S&P Platts

Cyprus is subject to climate risks and extreme weather events, with wildfires posing the highest risk, and it still lacks substantial resources for climate adaptation. Sustainable water management is also a major environmental issue, in particular in terms of water scarcity. The state of nature and ecosystems remains a cause for concern, presenting significant risks to the economy and to competitiveness. Carbon removals are in line with the level of ambition needed to meet the 2030 target for land use, land-use change and forestry. However, Cyprus performs below the EU average in terms of use of organic farming and it produces the highest volume of food waste per capita in the EU.

Climate adaptation and preparedness

In Cyprus, wildfires pose the highest risk. Each year over the period 2006-2023, Cyprus lost an average of over 1 728 hectares from wildfires. The country is also vulnerable to extreme weather events such as irregular but intense rainfall, droughts and storms. Floods can occur suddenly in urban and rural areas. Cyprus is prone to high summer temperatures and heatwaves are becoming increasingly frequent and severe. This contributes to serious impacts to public health and to the environment.

Cyprus is subject to a range of climate risks. In particular, decreasing rainfall is expected to exacerbate water stress. Less rainfall affects agriculture and results in lower crop yields due to soil degradation and desertification. Water management requires particular attention due to the risk of electricity disruption as floods, heat and drought affect energy production. Cultural heritage and tourism, major sources of income for the economy, are affected by higher temperatures, erosion and extreme weather events, which affect the stability of historical monuments and tourist flows.

Although Cyprus has put in place some strategies and measures, it lacks substantial resources for adaptation action. There are measures planned with EUR 7 million for water resources,

EUR 1 million for agriculture and EUR 0.2 million for health⁽¹⁴⁶⁾. The national adaptation strategy for climate change includes both mitigation and adaptation actions, with the long-term goal to boost the country's resilience to the impacts of climate change. Cyprus is stepping up coastal protection through infrastructure development and measures that mitigate the risks of sea-level rise and coastal erosion. Water management is another key area of focus, given the water scarcity issues. Action is needed to improve water efficiency, build desalination capacity and improve wastewater treatment and reuse. Cyprus revised its urban planning and building codes to integrate climate adaptation into urban development, including the use of climate-resilient building materials, green infrastructure and energy-efficient technologies.

Cyprus's approach to adaptation is mostly non-binding. Improving the institutional arrangements is key to boosting climate resilience and competitiveness. The first national strategy for adaptation to climate change in Cyprus was adopted in 2017, coordinated and led by the Department of Environment of the Ministry of Agriculture, Rural Development and the Environment. A review process started at the end of 2023 and included a risk and vulnerability assessment process. Stakeholder consultations are still ongoing. Coordination across ministries and local authorities remains a challenge but Cyprus plans to create an intra-governmental working group on adaptation to climate change. Cyprus has a small insurance protection gap, meaning the difference between the cost of natural disasters and how much is covered by insurance is minor (0.75), yet this gap is larger for wildfires (2.5), indicating less insurance coverage for these events⁽¹⁴⁷⁾. The impacts of climate change may affect vulnerable groups disproportionately, such as low-income families, farmers and older people, making social inclusion an important aspect of action on climate adaptation.

⁽¹⁴⁶⁾ National adaptation plan (2021).

⁽¹⁴⁷⁾ EIOPA, 2024, [Dashboard on insurance protection gap for natural catastrophes](#)



Water resilience

Parts of Cyprus are subject to water stress, in particular due to demand from agriculture, which is heavily dependent on water supply, with irrigation crucial in many rural areas. In 2022, Cyprus's water productivity was EUR 111 per m³ of abstracted water, on an upward trend over a five-year period ⁽¹⁴⁸⁾. The Water Exploitation Index Plus (WEI+) reached 71 in 2022. The highest WEI+ value (92) was reached in the third quarter of 2021 and in 2022 ⁽¹⁴⁹⁾. The highest demand for water consumption is from agriculture. Between 2018 and 2022, water abstraction in the agricultural sector increased slightly by 2.4%, and accounted for most water consumption at 122 million m³, i.e. 88% of all consumption in 2022, putting a significant strain on the country's water resources. The challenges remain significant, particularly in regions with high levels of water stress.

The quality of Cyprus' water cannot be properly assessed due to late reporting. Cyprus did not submit the third river basin management plan (RBMP) or the second flood risk management plan (FRMP) by March 2022, as required under the Water Framework Directive and the Floods Directive. Cyprus finally reported its third RBMP in June 2024. At the same time, the second FRMP is being compiled and due to be reported shortly. As a result of the late reporting as at early 2025, the Commission has not been in a position to assess the plans and include an assessment in its report to the European Parliament and to the Council. The second RBMP reports and data published in 2020, reveal that 58.3% of all surface water bodies in Cyprus have good ecological status (with 1.8% unknown) and only 84.8% have good chemical status (with 11.8% unknown). 33.3% of groundwaters failed to achieve good

chemical status and 76.2% are in poor quantitative status.

Wastewater treatment remains a cause for concern. Despite improving the level of compliance over the years, in particular thanks to EU funding, Cyprus has experienced serious difficulties in implementing the Urban Wastewater Treatment Directive. Overall, the compliance rate was 84% in 2020. 28 agglomerations generating 159 700 p.e. of urban wastewater fail to meet the requirements of the Directive. Therefore, the country has scope to take additional measures and implement the projects needed to fully meet the requirements of the Directive, drawing on the available EU funding, i.e. the European Regional Development Fund and the Recovery and Resilience Facility. As shown in Graph A7.2, the investment needs for water protection and water management are substantial. To meet the various environmental targets under the Water Framework Directive and the Floods Directive, Cyprus has a water investment gap of EUR 29 million per year (0.11% of gross domestic product (GDP)), with around half the need for drinking water (EUR 15 million per year). Investment in wastewater measures needs to rise by EUR 10 million per year, with an additional EUR 5 million a year to meet the requirements of the Water Framework Directive, on top of existing levels of financing.

Biodiversity and ecosystems

The state of nature and ecosystems remains a cause for concern in Cyprus. Cyprus is host to 42 habitat types and 55 species covered by the Habitats Directive ⁽¹⁵⁰⁾. In 2018, the proportion of habitats assessed as having a good conservation status was 45.2%. 63.9% of protected species were reported as having a good conservation status in 2018. Both figures are above the EU average. The main forms of pressure and threats for habitats and species in Cyprus are related to

⁽¹⁴⁸⁾ Measured as GDP in 2010 chain linked volumes over total fresh surface water abstracted in cubic metres.

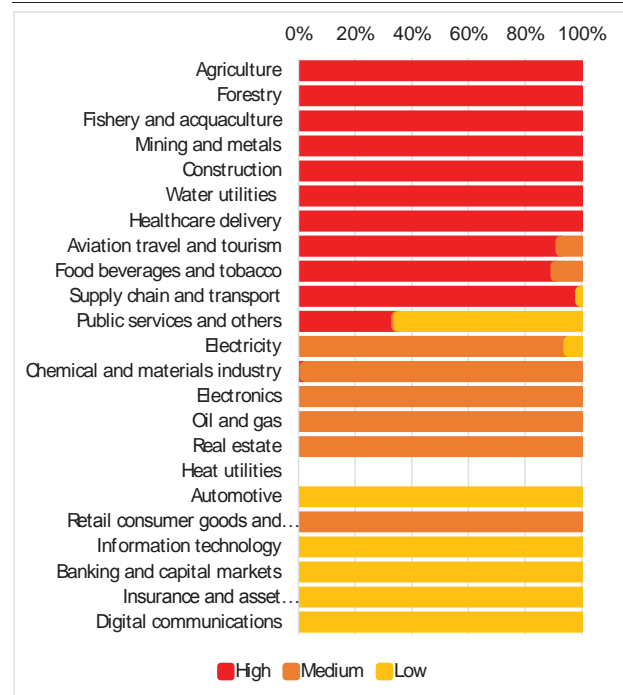
⁽¹⁴⁹⁾ Values equal or greater than 40% indicate situations of severe water scarcity, meaning the use of freshwater resources is unsustainable.

⁽¹⁵⁰⁾ [EEA, 2019, Number of habitats and species per Member State.](#)

agriculture, infrastructure development, the development and operation of transport systems and natural processes. There seems to be a general lack of progress in maintaining or restoring the favourable conservation status of species and habitats protected under the Nature Directives.

Nature degradation presents significant risks to the economy and to competitiveness. Cyprus's economy has a particularly high level of direct dependency on ecosystem services, with 50% of gross value added highly reliant (against the EU average of 44%). Several sectors such as agriculture, forestry, fisheries, construction and water utilities, mining and metals, healthcare delivery and transport (see Graph A9.1) are particularly dependent on ecosystem services. 100% of the gross value added of these sectors is directly dependent on ecosystem services. In particular, the transport sector has a higher degree of dependency than in other Member States. In addition, the degree of supply chain dependency on ecosystem services in Cyprus is well above the EU average at 32% of gross value added, against the EU-27 average of 22%. This means that failure to maintain the capacity of ecosystems to deliver services could entail significant costs or even stop production in these sectors. Protecting and restoring key ecosystems would help maintain the long-term competitiveness of these sectors.

Graph A9.1: Direct dependency(1) on ecosystem services(2) of the gross value added generated by economic sector in 2022



(1) Dependency based on the sector's own operations, excluding value chain operations within countries and across international value chains. A high dependency indicates a high potential exposure to nature-related shocks or deteriorating trends, which means that the disruption of an ecosystem

service could cause production failure and severe financial loss.

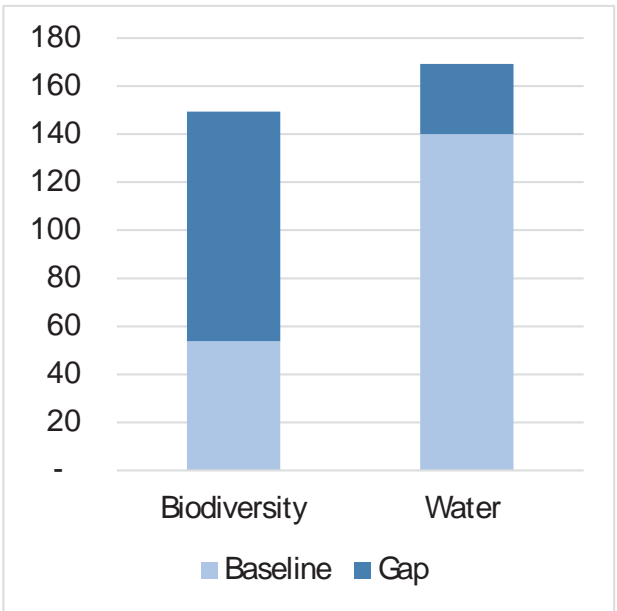
(2) Ecosystem services are the contributions of ecosystems to the benefits that are used in economic and other human activity, including provisioning services (e.g. biomass provisioning or water supply), regulating and maintenance services (e.g. soil quality regulation or pollination), and cultural services (e.g. recreational activities).

Source: [Hirschbuehl et al., 2025, The EU economy's dependency on nature](#)

Targeted action is needed on nature protection and restoration. In 2022, 29.5% of the terrestrial area under the effective control of the government of the Republic of Cyprus was covered by the Natura 2000 network. Including other nationally designated protected areas, Cyprus protects 37.8% of its terrestrial area and 8.6% of its marine areas. The country's investment needs for biodiversity and ecosystems are estimated to be EUR 149 million per year over the 2021-2027 period. The current level of biodiversity financing is estimated to be EUR 54 million per year over the same period. To meet the environmental objectives on the protection and

restoration of biodiversity and ecosystems and other related horizontal measures, Cyprus has an estimated investment gap of EUR 96 million per year, corresponding to 0.4% of its GDP.

Graph A9.2: Investment needs and gaps in EUR million, in 2022 constant prices



Source: European Commission, DG Environment, Environmental investment needs & gaps assessment programme, 2025 update.

Sustainable agriculture and land use

Cyprus’s carbon removals fall short of the level of ambition needed to meet its 2030 target for land use, land-use change and forestry (LULUCF). Cyprus’ LULUCF sector has seen a modest decline in net removals since 2017. To meet its 2030 LULUCF target, additional carbon removals of -0.1 million tonnes of CO₂ equivalent (CO₂eq) are needed ⁽¹⁵¹⁾. The latest available projections show a gap to target of 0.02 million tonnes of CO₂eq for 2030 ⁽¹⁵²⁾. Therefore, additional measures are needed to reach the 2030 target.

Agriculture is still a notable source of greenhouse gas emissions and continues to have a significant

⁽¹⁵¹⁾National LULUCF targets of the Member States in line with Regulation (EU) 2023/839.

⁽¹⁵²⁾Climate Action Progress Report 2024, COM/2024/4398.

impact on air, water and soils. In 2022, agriculture generated 534 000 tonnes of CO₂eq, representing 6% of total emissions, excluding LULUCF. This includes 481 000 tonnes of CO₂eq from livestock. The utilised agricultural area in Cyprus decreased between 2018 and 2023 to reach 122 000 hectares. The livestock density index was 1.73 in 2020, significantly above the EU average of 0.75. Ammonia emissions have been increasing, rising by 3.9% between 2018 and 2022. Between 2017-2022, pesticides were detected at levels exceeding thresholds in 5% of Cyprus’s surface water bodies.

Cyprus performs below the EU average in terms of organic farming practices. The share of agricultural land that had non-productive landscape features in Cyprus was 21% in 2022, well above the EU average of 5.6. Organic farming, which reduces the use of synthetic fertilisers and pesticides, made up 6.3% of Cyprus’s agricultural land. This is below the EU average of 10.50%. Cyprus is currently making a below-average contribution to the target to have 25% of the EU’s agricultural land under organic farming by 2030. The bioeconomy, encompassing the production and processing of biological products, contributed EUR 1.033 billion of added value to the country’s GDP in 2021. Agriculture generated EUR 348 million, while the food industry contributed EUR 404 million ⁽¹⁵³⁾. At 294 kg in 2022, Cyprus produces the highest volume of food waste per capita in the EU, with the main source being primary production, processing and manufacturing.

⁽¹⁵³⁾[European Commission, 2023, EU Bioeconomy Monitoring System dashboards](#)

Table A9.1: Key indicators tracking progress on climate adaptation, resilience and environment

Climate adaptation and preparedness:								EU-27	
	Cyprus							2018	2021
Drought impact on ecosystems <i>[area impacted by drought as % of total]</i>	2018	2019	2020	2021	2022	2023		6.77	2.76
	6.46	0	0.02	6.25	2.74	0.68			
Forest-fire burnt area ⁽¹⁾ <i>[ha, annual average 2006-2023]</i>	1 728	1 728	1 728	1 728	1 728	1 728			
Economic losses from extreme events <i>[EUR million at constant 2022 prices]</i>	-	-	-	6	-	1		24 142	62 981
Insurance protection gap ⁽²⁾ <i>[composite score between 0 and 4]</i>	-	-	-	-	0.75	0.75			
Heat-related mortality ⁽³⁾ <i>[number of deaths per 100 000 inhabitants in 2013-2022]</i>	142	142	142	142	142				
Sub-national climate adaptation action <i>[% of population covered by the EU Covenant of Mayors for Climate & Energy]</i>	57	59	58	59	59	60		41	44

Water resilience:								EU-27	
	Cyprus							2018	2021
Water Exploitation Index Plus, WEI+ ⁽⁴⁾ <i>[total water consumption as % of renewable freshwater resources]</i>	2018	2019	2020	2021	2022	2023		4.5	4.6
	69.2	66.7	71.1	71.2	71.0	-			
Water consumption <i>[million m³]</i>	130	123	138	141	139	-			
Ecological/quantitative status of water bodies ⁽⁵⁾ <i>[% of water bodies failing to achieve good status]</i>									
Surface water bodies	-	-	-	-	-	-		-	59%
Groundwater bodies	-	-	-	-	-	-		-	93%

Biodiversity and ecosystems:								EU-27	
	Cyprus							2018	2021
Conservation status of habitats ⁽⁶⁾ <i>[% of habitats having a good conservation status]</i>	2018	2019	2020	2021	2022	2023		14.7	-
	45.2	-	-	-	-	-			
Common farmland bird index <i>2000=100</i>	115.0	120.0	115.0	110.0	81.0	-		72.2	74.4
Protected areas <i>[% of protected land areas]</i>	-	-	-	38	38	-		-	26

Sustainable agriculture and land use:								EU-27	
	Cyprus							2018	2021
Bioeconomy's added value ⁽⁷⁾ <i>[EUR million]</i>	2018	2019	2020	2021	2022	2023		634 378	716 124
	942	1 025	1 015	1 033					
Landscape features <i>[% of agricultural land covered with landscape features]</i>	-	-	-	-	21	-			
Food waste <i>[kg per capita]</i>	-	-	273	285	294	-			
Area under organic farming <i>[% of total UAA]</i>	4.6	5.0	4.6	6.4	6.3			7.99	-
Nitrogen balance <i>[kg of nitrogen per ha of UAA]</i>	-	-	-	-	-	-			
Nitrates in groundwater ⁽⁸⁾ <i>[mgNO₃/l]</i>	55.3	48.8	7.8	7.8	-	-			
Net greenhouse gas removals from LULUCF ⁽⁹⁾ <i>[kt CO₂-eq]</i>	- 302	- 297	- 299	- 235	- 299	-		- 256 077	- 240 984

(1) The data show the average for the timespan 2006-2023 based on EFFIS - European Forest Fire Information System.

(2) Scale: 0 (no protection gap) – 4 (very high gap). EIOPA, 2024, Dashboard on insurance protection gap for natural catastrophes.

(3) van Daalen, K. R. et al., 2024, The 2024 Europe report of the Lancet Countdown on health and climate change: unprecedented warming demands unprecedented action, The Lancet Public Health.

(4) This indicator measures total water consumption as a percentage of the renewable freshwater resources available for a given territory and period. Values above 20% are generally considered to be a sign of water scarcity, while values equal or greater than 40% indicate situations of severe water scarcity.

(5) European Commission, 2024, 7th Implementation Report from the Commission to the Council and the European Parliament on the implementation of the Water Framework Directive (2000/60/EC) and the Floods Directive (2007/60/EC) (Third River Basin Management Plans and Second Flood Risk Management Plans).

(6) For this indicator, the EU average includes figures for the UK under the previous configuration, EU-28.

(7) European Commission, 2023, EU Bioeconomy Monitoring System dashboards.

(8) Nitrates can persist in groundwater for a long time and accumulate at a high level through inputs from anthropogenic sources (mainly agriculture). The EU drinking water standard sets a limit of 50 mg NO₃/L to avoid threats to human health.

(9) Net removals are expressed in negative figures, net emissions in positive figures. Reported data are from the 2024 greenhouse gas inventory submission. 2030 value of net greenhouse gas removals as in Regulation (EU) 2023/839 – Annex IIa.

Source: Eurostat, EEA.

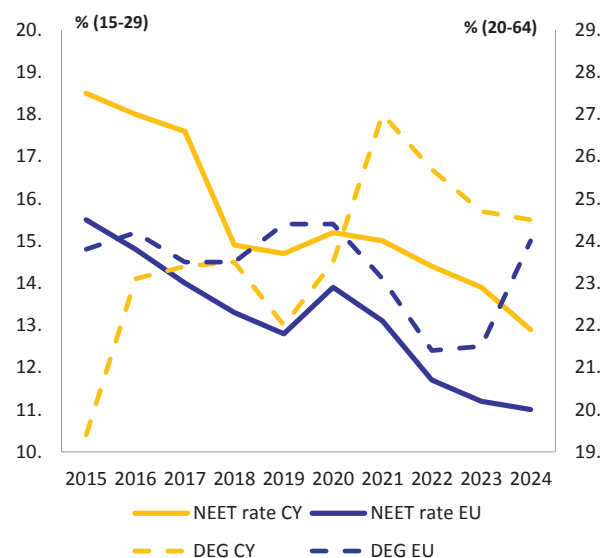
The Cypriot labour market is performing well overall, but some challenges persist. On the back of robust economic growth, the employment rate continued to increase in 2024 while the unemployment rate is lower than ever. However, the country still faces specific challenges. Decreasing real wages and a large share of involuntary temporary and part-time work highlight poor job quality for many. Moreover, the capacity of the active labour market policy system is relatively low while young people not in employment, education or training (NEETs), persons with disabilities, and women are much less integrated into the labour market. At the same time, labour shortages are significant in construction and accommodation, and for occupations requiring specific skills or knowledge for the green transition. The projected decline of the working-age population risks further exacerbating these labour shortages.

The Cypriot labour market has continued to improve. In line with the continued robust growth of the economy, the employment rate increased further from 79.5% in 2023 to 80% in Q4-2024, 4.1 percentage points (pps) above the EU average (75.9%). Also, in Q4-2024 the unemployment rate (4.6%) remained below the EU average (5.8%), while the annual unemployment rate and its long-term component fell to 4.9% and 1.3% in 2024, respectively. These positive developments suggest that Cyprus could reach its employment target of 80% much earlier than 2030.

Employment challenges persist for NEETs and persons with disabilities. While the share of young people neither in employment nor in education and training (NEET) decreased by 1 pp from the previous year to 12.9% in 2024, it is still higher than the EU average (11%) and among the largest in the EU (see Graph A10.1). Notably, the NEET rate is higher for young women than men (14.1% versus 11.7%) and for young persons with disabilities (at 43%, also above the respective EU average of 27.3%). This situation is concerning even though youth unemployment rate decreased further to 10% in 2024, and it is now

below the EU average of 11.4%. It reflects structural challenges such as limited job opportunities, inadequate support for transitions from education to work, and young people's potential being underused in general. Persons with disabilities face persistent challenges as indicated by the relatively wide disability employment gap (24.5 pps versus 24.0 pps in the EU in 2024), even after a narrowing of 2.5 pps from 2021. Cyprus has not yet set an employment target for persons with disabilities. Employer support programmes for persons with disabilities could be extended with a greater emphasis on sectors that can offer prospects for further career development. The disability quota system would also need to be extended to the private sector to increase the employment rates for persons with disabilities. This would further ensure their fair and non-discriminatory recruitment in the labour market, not just in the public sector.

Graph A10.1: Share of young people neither in employment nor in education and training (15-29; NEET rate) and disability employment gap (20-64)



Source: Eurostat [sdg_08_20] EU LFS and [tepsr_sp200] EU-SILC

Informal care responsibilities create persistent disadvantages for women. The gender employment gap in Cyprus increased by 1 pp since 2023 and is now at the EU average (10 pps vs 10 pps). The gender pension gap narrowed



greatly, to 29.0% in 2024 from 34.3% in 2022, vs the EU average of 24.7%. Yet, it is still one of the widest in the EU, due largely to low employment rates for older women. The share of the population who do not form part of the labour force due to caregiving stood at 20.7% in 2021, well above the EU average of 11.9%. Inadequate supply of formal long-term care puts the caregiving burden mainly on informal carers (most often women – for more, see Annex 11). They often withdraw from or limit their participation in the labour market with negative consequences for the economy and their own current and future income and health, which manifests in gender employment and pensions gaps.

Wage growth in Cyprus remains subdued, resulting in real wages growing moderately in 2024. Nominal wage growth reached 4.5% in 2024 but is expected to decrease to 3% in 2025, after growing by 5.0% in 2023, which is at or below the euro area and EU averages for all years ⁽¹⁵⁴⁾. In turn, real wages were stable in 2022 and grew by 0.9% in 2023, to increase by 2.1% in 2024 and are set to decelerate, to grow by 0.5% in 2025. The relatively low wage growth over the past 10 years has allowed for some cost competitiveness gains, particularly within the euro area, as illustrated by raising export market shares and decreasing imbalances. Wage growth was also below what could be expected based on developments in the usual macroeconomic drivers ⁽¹⁵⁵⁾. Over recent years, unit labour costs (ULCs) increased by less than in most euro area countries. ULC growth is set to decrease from 3.8% in 2023 to 3.1% in 2024, before declining

further in 2025 (1.5%). Relatively high productivity growth in Cyprus and wage moderation leaves some room for further wage increases without compromising competitiveness. Cyprus introduced a national statutory minimum wage (replacing its previous mixed system) in January 2023 and has updated its level in January 2024 from EUR 940 to EUR 1 000. Another revision is expected at the beginning of 2026 after the Minimum Wage Adjustment Committee tripartite consultation, also examining the update revision mechanism.

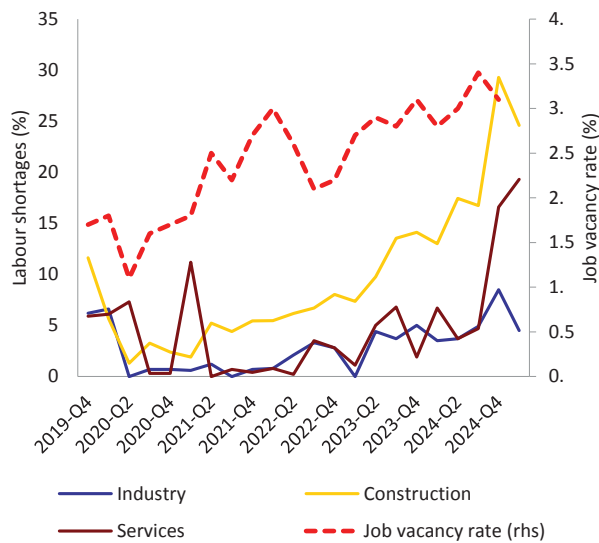
The labour market in Cyprus is flexible but this is largely involuntarily. In 2024, the temporary employment rate of 14.1% was above the EU average of 12.9%, and the transition rate to permanent contracts was relatively high (49.5%), pointing to a flexible and relatively dynamic labour market. Nevertheless, when it comes to involuntary temporary employment ⁽¹⁵⁶⁾, Cyprus has one of the largest shares amongst Member States, with 12.7% for 2024 (vs the EU average of 3.4%). While part-time employment is not widespread in Cyprus (only 7.6% of employees were affected in 2024 vs 21.5% in the EU), almost half of part-time workers (43.2%) were involuntarily on such contracts, which was one of the largest shares in the EU (vs EU 18.2%).

⁽¹⁵⁴⁾For nominal wage growth, pay per employee is considered. It includes: i) wages and salaries payable in cash or in kind; and ii) social contributions payable by employers. For real gross wages, the deflator used is the Harmonised Index of Consumer Prices (HICP). Real wages using this deflator can then differ from real wages shown in AMECO (which uses private consumption as the deflator). Data for 2024 and 2025 are based on the European Commission Autumn 2024 economic forecast.

⁽¹⁵⁵⁾Wage benchmarks are predicted by developments in inflation, productivity, the trade balance and the unemployment rate.

⁽¹⁵⁶⁾I.e. because 'no permanent job was found'.

Graph A10.2: Labour shortages (%) and the job vacancy rate (%)



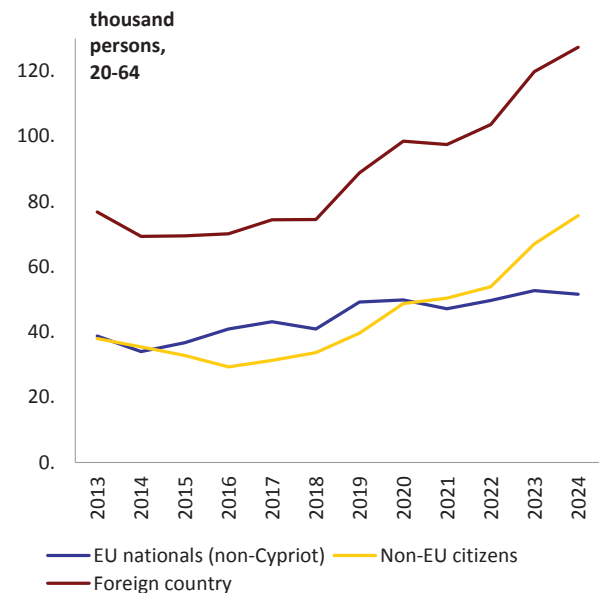
Source: [ECFIN business and consumer survey](#) data and Eurostat [[jvs q_nace2](#)].

Persisting labour shortages in some sectors further exacerbate competitiveness challenges. Labour shortages, as measured by the job vacancy rate, were at 3.1% in Q4-2024, above its pre-pandemic level (1.7% in Q4-2019), reaching the highest level since the last quarter of 2019 – see Graph A10.2. In particular, severe shortages (with vacancy rates above 5%) are reported in the energy sector, in accommodation and in the food service activities, arts, entertainment and recreation sectors. In January 2025, the share of employers expecting labour shortages to limit their production was quite high in the construction sector (24.6%) and in the service sector (19.3%) but below the EU level in both sectors (27.9% and 24.1% respectively), while in the industry sector it stood at 4.5% compared to 18.6% at EU level. The lack of quality jobs coupled with poor working conditions and wage disparities across different occupations can be also attributed to labour shortages in some professions. According to CEDEFOP-EURES data ⁽¹⁵⁷⁾, the occupations most requested in the country were handicraft and printing workers,

⁽¹⁵⁷⁾ Source: ECFIN European Business and Consumer Surveys.

healthcare assistants, domestic cleaners and assistants, and office associate professionals ⁽¹⁵⁸⁾.

Graph A10.3: Foreign workers in Cyprus (thousands, 20-64)



Source: Eurostat [[lfsa_egan](#)], EU LFS

The ageing population and declining birth rates pose long-term challenges. In Cyprus, the share of the population aged 65 and over is expected to increase from 16.5% in 2022 to 19% in 2030 and then to 23.9% in 2050. Despite anticipated increases in the labour market participation rate, the working-age population is projected to decline, leading to a decrease in the share of the labour force (20-64) in the total population by 9.4% (7% for the EU) ⁽¹⁵⁹⁾. At the same time, the inflow of foreign workers to Cyprus has been steady since 2018 with a small slowdown only in 2021. A shift towards non-EU citizens is apparent (see Figure A10.3), whose unemployment rate is so far substantially higher than that for all foreign workers and, in particular, Cypriot nationals (at 8.9% in 2023 vs 7.5% and 5.3%, respectively) ⁽¹⁶⁰⁾. This is likely to be connected to the large share of

⁽¹⁵⁸⁾ EURES: countries and occupations Jan to Sept 2024.

⁽¹⁵⁹⁾ European Commission, [2024 ageing report – Economic & budgetary projections for the EU Member States \(2022-2070\)](#), Publications Office of the European Union, 2024, [Statistical Annex](#), Table II.1.10.

⁽¹⁶⁰⁾ Eurostat [[lfsa_organ](#)], EU Labour Force Survey.

asylum seekers among them and the barriers they face on the labour market ⁽¹⁶¹⁾. These demographic shifts will exacerbate labour market tightness, underscoring the urgency of activating and better integrating non-EU citizens into the labour force, improving working conditions, and reaching out those outside the labour force. In addition to targeted active labour market policies along with upskilling and reskilling, fostering legal migration and attracting talent, particularly from third countries, would be increasingly needed to maintain human capital a sufficient number of skilled workers in key sectors and bolster Cyprus' competitiveness. Activation schemes are currently being implemented under the European Social Fund Plus and the recovery and resilience plan and an updated strategy for the employment of non-EU citizens is being revised, where the expected result remains to be seen. Furthermore, the ageing population will put further pressure on the health system, which also faces shortages (see Annex 14).

The public employment service (PES) could assist with more specific measures in tackling activation challenges. The active labour market policy strategy implementation report of 2024 indicates some positive activation results on the various schemes implemented but there is scope for improvements in the design and volume of schemes. Support through incentive schemes, especially for persons with disabilities, could be better targeted, by offering different amounts and services based on the needs, specificities, skills and tasks required for each job. Furthermore, the PES needs to still strengthen its core business model and transform employer engagement.

⁽¹⁶¹⁾ [Eurostat explains](#) that in September 2024, the EU total rate for first-time asylum applicants was 16.9 per 100 000 people. Compared with the population of each EU country (on 1 January 2024), the second highest rates of first-time applicants were recorded in Cyprus (31.9). Asylum seekers are restricted to only nine employment categories. Beneficiaries of international protection face practical limitations in recognising their qualifications and experience. Language knowledge, information about working conditions, labour rights, complaint rights and access to Ministry of Labour Services are all limited. See the [report of the Cyprus Refugee Council on the access to the labour market](#).

Cyprus has made progress in the social domain and by 2023 had nearly reached its national 2030 poverty targets, but some challenges persist. Public expenditure on long-term care is low while out of pocket expenditures are high, raising issues of affordability and accessibility of care services. In addition, some population groups, such as persons with disabilities and older people, still face relatively high social exclusion and risk of poverty. Energy poverty is also high in Cyprus while the social economy sector needs to be further developed. Addressing these challenges will contribute to inclusive growth and competitiveness.

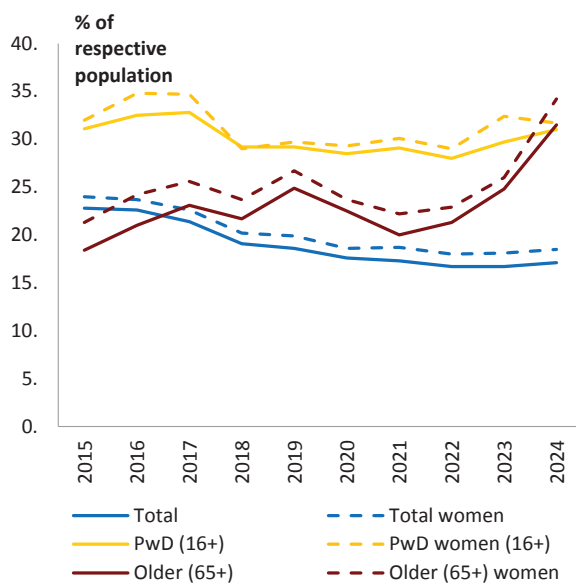
Cyprus has demonstrated robust social outcomes in the face of improving economic conditions. The at-risk-of-poverty or social exclusion rate was 17.1% overall and 14.8% for children in 2024 (vs 21.4% overall and 24.2% for children in the EU). In 2024 the number of people at-risk-of-poverty or social exclusion (AROPE) increased significantly by 11 000, exceeding its target reference point of 2019 and thus shifting away from reaching its national 2030 target of reducing its AROPE rate by at least 10 000 people. However, Cyprus has exceeded its 2030 complementary target on child poverty in 2024 (to reduce by 3 000, with a decrease by 9 000). It also contrasts the relatively low impact of social transfers (other than pensions) on reducing poverty for the general population, standing at 30.48% in 2024 below the EU average (34.41%).

Persons with disabilities and older people are particularly affected by poverty and social exclusion. Between 2022 and 2024, the at-risk-poverty or social exclusion rates of persons with disabilities increased further (31% in 2024 from 29.7% in 2023, see Graph A11.1), and so did the AROPE gap compared to persons without disabilities, now among the widest in the EU (17.7 pps vs EU 10.9 pps). Women over sixteen with disabilities have seen a slight improvement of their situation, with their AROPE rates slightly reducing from 32.4% in 2023 to 31.7% in 2024. While men over sixteen with disabilities have seen a worsening of their situation, with their AROPE rates rising from 26.8% in 2023 and 30.2% in

2024. Active inclusion is key also for persons with disabilities and minimum income benefits criteria could exempt them from strict rules regarding employment to incentivise further their activation. The stagnation in public transport use poses challenges in promoting sustainable and inclusive transportation systems, especially for persons with disabilities. The at-risk-poverty and social exclusion rates of people aged sixty-five and over increased too, standing also above the EU average (31.5% in 2024 against 19.4% in the EU, up from 24.8% in 2023). The income of older women is determined to a great extent by a persistently wide gender pension gap, (29% in 2024 from 27.6% in 2023, vs EU average of 24.7%). However, pensioners' income replacement situation is weak, as both the aggregate replacement ratio for pensions and the median relative income of older people (sixty-five or over) are also worse than the EU average and on a slightly downward trend. To further strengthen support to vulnerable groups, Cyprus developed a national strategy for gender equality and a national strategy for active ageing, updated its disability strategy, and is implementing the European Child Guarantee according to its national action plan. Furthermore, a reform of the pension system is being devised to improve the adequacy of pensions for vulnerable groups and ensure its sustainability.



Graph A11.1: At-risk-of-poverty or social exclusion rate, selected population groups



Note: Break in series in 2024

Source: Eurostat, EU-SILC [ilc_peps01n], [hlth_dpe010]

Access to long-term care services remains limited.

The share of the population sixty-five or over in need of long-term care (having severe difficulty in performing personal care and/or household activities) was well above the EU average (26.6%) in 2019 at 34.3% in Cyprus. Long-term care needs are also expected to rise further with population ageing. The share of the population aged sixty-five or over is expected to increase from 16.5% in 2022 to reach 19% in 2030 and 23.9% in 2050. The offer of formal long-term care services is very low. The share of public funding going to residential care is the lowest in the EU, at 4.2% in 2024, with public funding for LTC going mainly to cash benefits (60.6%). At the same time, funding levels of long-term care in Cyprus are extremely low, standing at 0.2% of the GDP in 2022, significantly lower than the EU average of 1.7% of GDP and the second lowest value among the EU-27. Public spending for LTC is primarily directed to cash benefits (60.6% in Cyprus, 25% in EU in 2024), while long-term care services are underdeveloped, and long-term care is not adequately regulated (e.g. there are no objective criteria on degrees of dependency and waiting times). As a result, many are left without formal care. Only 19.3% of people aged sixty-five and over with severe difficulties have used home care

services in the past twelve months, which is below the EU average of 28.6%, severely affecting their quality of life. Cyprus experiences worker shortages in the long-term care sector. The number of long-term care workers is well below the EU average (6 LTC workers per 1000 people aged 65+ in Cyprus vs EU 32 in 2023) and their wages are low. There are only 5.3 nurses per 1000 inhabitants, well below the EU average of 7.6, and the number of graduates in this field is falling. Due to this, informal carers shoulder much of the care responsibilities, a factor that severely limits their labour market participation, (see Annex 10). As an interim solution, a number of migrant domestic workers provide care with an often precarious employment status. However, Cyprus has not yet ratified the International Labour Organization Convention on domestic workers. De-institutionalisation services and the related social housing that offered in Cyprus is limited.

The Cypriot residential property market remains resilient.

House prices have increased by 12% since 2015 in nominal terms. Following a decline in 2021, house prices have risen in recent years, driven by foreign and domestic demand. House prices show no significant deviation from market fundamentals and their evolution was moderate in 2023 (+2.9%, following +2.7% in 2022 and a 3.4% decrease in 2021). House prices have continued to increase moderately in 2024 (+2.7% year-on-year in Q3-2024).

Housing affordability has improved over the last decade for buyers but worsened for renters, and housing and energy poverty pose challenges, in particular for the vulnerable populations.

Since 2015, the standardised house price-to-income ratio has decreased by more than 30%. House price-to-income ratios are in line with those of many other EU countries. While the rental market is rather small, the ratio of new rents to incomes increased significantly over the last decade. The share of people having experienced housing difficulties in their lifetime was among the highest in Cyprus at 11.2%, standing well above the EU average (4.9%). The reason for this high figure is attributed to the housing difficulties people were facing due to the Turkish invasion in Cyprus

(90.5%). The rate of those with such experience is higher for those at risk of poverty or social exclusion at 14.7%, but also rather high at 10.5% and well above the EU average (3.9%) for those not at risk. Energy poverty, in particular, remains a pressing issue in Cyprus, and together with environmental inequalities, poses challenges to a fair green transition. The share of those unable to keep their home adequately warm was 14.6% in 2024, which stood much higher than the EU average (at 9.2%), despite having dropped by 4.6 pps compared to 2022. For the population at risk of poverty, the share is 42.5%, second highest in the EU. Moreover, 7.8% of the population had arrears on utility bills in 2024, stood above the EU average of 6.9%, yet showed an improvement of 1.3 pps compared to 2021. Structural issues in housing, such as leaks, damp, or rot, affected 31.6% of the population in 2023, showing an improvement of 7.5 pps since 2020 but still much higher than the EU average of 15.5%. The cost of cooling houses is also a significant burden, having accounted for 10.6% of final energy consumption of households in 2021, one of the highest values in the EU (compared to an EU average of 0.5%).

Cyprus implements a range of measures to address housing challenges. The country will implement the newly approved Technical Support Instrument project on 'Comprehensive Housing Policy Review and Strategic Reform for Sustainable and Affordable Housing'. While also offering reduced electricity tariffs for vulnerable consumers (20% lower than the normal tariff), national programmes for improving energy efficiency in housing, financial aid for installing residential solar energy systems, and a 2022 programme targeting households in energy poverty where persons with disabilities live. In addition, there are protective rules against grid disconnections for vulnerable consumers during critical periods. In its final national energy and climate plan, Cyprus has set a set a mandatory cumulative end-use energy savings target of 349,04 ktoe in 2021-2030 and an obligation of 52,7 ktoe (15.1 % of the target) to be achieved by implementing energy efficiency measures among people affected by energy poverty, vulnerable

customers in low-income households and, where applicable, people living in social housing.

Access to social protection is uneven. Self-employed people are not entitled to unemployment benefits or benefits for accidents at work or occupational diseases. As a result, the impact of social transfers on poverty reduction for the self-employed is significantly lower in Cyprus than in the EU (at 8.6% in 2024 vs 26.6% in EU), and worsening. The revised law on social insurance that is included in the RRP will only partly solve these issues since in Cyprus the share of dependent self-employed (i.e. those working with only one client) is 4.3% as a share of all self-employed without employees (EU: 4.0%).

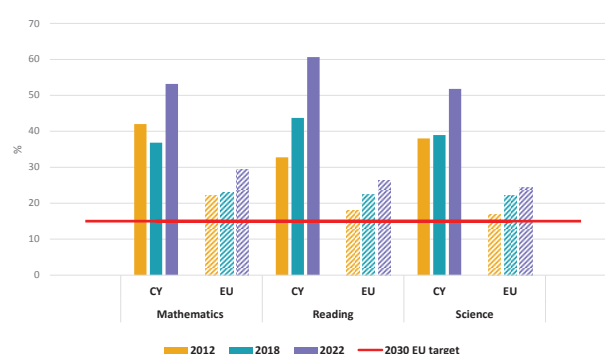
The social economy sector remains underdeveloped. Development of these sectors in Cyprus can be very rewarding and generate positive outcomes, notably in terms of employment and social cohesion. A draft law amending the Social Enterprises Law of 2020 and a regulation creating a registry for social enterprises were approved in December 2023. However, progress is slow with the registration of social enterprises. including the employment and entrepreneurial opportunities for persons with disabilities.

Labour and skills shortages and low levels of basic skills and adult learning are key challenges limiting Cyprus's competitiveness. Weaknesses in skills development start at an early age with low participation of children in quality early childhood education and care (ECEC) and continue with more than half of 15-year-olds failing to meet minimum standards in basic skills. Higher education and vocational education and training (VET) do not adequately respond to labour market needs, leading to skills mismatches. The low share of science, technology, engineering and mathematics (STEM) graduates and the low level of digital skills further exacerbate skills shortages. Moreover, significant progress is lacking in key areas of the Cypriot adult learning system, such as the national qualifications framework, and the share of adults engaged in learning activities remains low. These weaknesses in skills development and participation in adult learning hinder Cyprus's potential for productivity growth and competitiveness.

A lack of basic skills among young people constitutes a major barrier to skills development. Although between 2022 and 2023, there is an increase of 2.3 percentage points (pps) in participation in ECEC of children above the age of three⁽¹⁶²⁾, the participation rate, 86.7%, keeps below the EU target of 96% and the EU average of 93.3%. Access to quality ECEC is essential for foundational learning and is beneficial, in particular, for children from disadvantaged backgrounds. However, there is a participation gap between children below the age of three in poverty (26.5%) and the others (42% for all children under three), suggesting that barriers to access remain and that there is need for targeted actions. Furthermore, in the 2022 OECD Programme for International Student Assessment (PISA), 60.6% of 15-year-olds underperformed in reading, 53.2% in mathematics and 51.8% in science, which are among the highest levels in the

EU. Cyprus has also recorded the highest increase in underachievement since 2018. More worryingly, Cyprus recorded the highest severe underachievement rate, with over 40.3% of students underachieving simultaneously in all three subjects tested. Early school leaving is also on the rise. In 2024, the share of 18-24-year-olds leaving education and training early rose further by 0.9 pps to 11.3% compared to the previous year (EU: 9.3%). Young people with disabilities (aged 18-24) also tend to leave school earlier than their peers without disabilities (19.2% compared to 8.6% in 2022).

Graph A12.1: Underachievement rates by field, PISA 2012, 2018 and 2022 (%)



Source: OECD (2023).

These negative trends point to significant challenges for the education system's performance. Education outcomes could be improved by strengthening school autonomy, supporting teachers in implementing competence-based teaching methods, and developing a culture of evaluation to assess the impact of recent reforms. Cyprus is benefiting from EU support under the Technical Support Instrument (TSI)⁽¹⁶³⁾ to further identify drivers behind the declining trend.

The low share of top performers in basic skills and creative thinking hamper the country's innovation capacity. In PISA 2022, very few students demonstrated advanced skills in all three subjects tested. Only 1.4% of young Cypriots

⁽¹⁶²⁾ More children are in ECEC from the age of four (87.7%) as four years and eight months is currently the age that children start compulsory education.

⁽¹⁶³⁾ TSI approved in 2024: 'Support to specify factors and effectively implement policy measures to address decline in basic skills of secondary education students in Cyprus'.

demonstrated advanced skills in reading (EU: 6.5%), 3.9% in mathematics (EU: 7.9%) and 2% in science (EU: 6.9%). In addition, Cypriot 15-year-olds proved to be among the weakest in creative thinking ⁽¹⁶⁴⁾, with a top performance rate of only 10.4% (vs EU-23: 25.1%). Moreover, the demonstrated lack of excellence constitutes a major barrier to participation in STEM studies, hindering the economy's innovation capacity.

The decline in performance in basic skills was the most pronounced among students from all socio-economic backgrounds. The decline in students' low performance in PISA was particularly sharp among students in the top socio-economic quartile (10.6 pps vs 2.2 pps at EU level). The share of low-performing students in this group (32.7%) is three times higher than the EU average (10.9%). In addition, two thirds of students in the lowest socio-economic quartile did not reach a minimum proficiency level in mathematics (69.8% vs 48.0% in the EU). Their underachievement rate also increased sharply by 17.6 pps between 2018 and 2022. The Ministry of Education, Sport & Youth put in place an action plan specifically to improve the low PISA results, including new curricula, new teaching methods and updated teacher evaluations.

Participation in secondary VET is low, and work-based learning opportunities are rare, limiting employability and productivity. Participation in and the attractiveness of VET remain low, despite coordinated measures. Cyprus has a relatively small VET sector: in 2023, only 17.9% of pupils in upper secondary education attended programmes with a vocational focus (EU: 49%). Only 4 out of 10 recent graduates aged 20-34 (39.2% in 2023) experienced work-based learning during their VET studies (EU: 64.5%). The employment rate of recent VET graduates in Cyprus is below the EU average (71.4% in 2023 vs 81%). Furthermore, measures to improve the national qualifications framework for awarding qualifications, in particular micro-credentials,

based on skills, knowledge and competencies are lagging behind.

Improving and upgrading VET by aligning training programmes with labour market needs is a focal point of the annual action plan for 2023-2024 of the Ministry of Education, Sport & Youth. The European Social Fund Plus (ESF+) co-funded a project titled 'Further development of technical and vocational education and training', which aims to advance and refine VET. Specific measures include updating curricula, equipping schools with essential resources and keeping teachers abreast of recent technological developments. In addition, the Human Resource Development Authority of Cyprus (HRDA) has completed a study which provides forecasts of job market demand and supply in the Cypriot economy for a 10-year period and an additional study to map out the green economy of Cyprus and identify green skill needs in the Cyprus economy up to 2030. To strengthen the quality of training in higher VET public schools, all post-secondary VET institutes underwent an external evaluation in 2023 focusing on the quality of the infrastructure and programmes. Recommendations include increasing the involvement of employers' representatives in the design of VET curricula to reduce skill mismatches and to better link post-secondary VET institutes (MIEEK) with the job market. Furthermore, the country's recovery and resilience plan (RRP) includes measures to update 200 curricula, upgrade equipment in 20 labs, train a minimum of 285 educators (out of 700 in total) and develop new study programmes. The construction of one VET school also started in 2022, with a budget of EUR 28.8 million, funded by the Recovery and Resilience Facility (RRF).

For many years, despite policy efforts, Cyprus had the lowest share of students enrolled in STEM subjects over total tertiary enrolments in the EU. Although the country has one of the highest shares of tertiary educational attainment in the EU ⁽¹⁶⁵⁾ (60.1% in 2024 vs 44.2% in the EU), skills

⁽¹⁶⁴⁾ Young people's ability to engage productively in ideas that can result in effective solutions in their lives is negatively impacted by weak critical thinking.

⁽¹⁶⁵⁾ Along with Ireland and Luxembourg.

and labour shortages persist, especially in sectors key for the green and digital transitions. Students enrolled in STEM subjects as a share of total tertiary enrolment (ISCED 5-8) is the lowest in the EU at only 13.7% in 2022 (EU: 27.1%). The share of students enrolled in ICT subjects was only 3.6% of all tertiary enrolments (EU: 5.2%), one of the lowest shares in the EU. The picture is even worse when looking at women: only 1.4% of all women enrolled in tertiary education were enrolled in ICT against 6.8% of men. Similarly, the share of R&D researchers in the total active population is below 0.5% in Cyprus and three other countries⁽¹⁶⁶⁾. By contrast, the leading EU countries have a share of between 1.6% and 1.9%⁽¹⁶⁷⁾.

Developing digital skills is also very important for persons with disabilities. This is well-documented and reported in previous European Disability Expertise (EDE) reports (see reports on digitalisation⁽¹⁶⁸⁾ and employment⁽¹⁶⁹⁾). Neither the official national curriculum nor VET schemes and incentives have shown any essential change and shift towards digital capacity development and empowerment of persons with disabilities. The increasingly deteriorating educational prospects of students with disabilities are documented in the latest statistical information published in 2023. The data suggest that Cyprus has one of the lowest scores in terms of the share of persons aged 16 or over with a disability by educational attainment level.

Despite a strong policy focus on sustainability education, Cypriot students lack knowledge of environmental and sustainable development. Cyprus is one of the few countries in the EU⁽¹⁷⁰⁾ where the curriculum for sustainable development

contains specific learning outcomes that students should be able to identify and assess. These are related to environmental and sustainable values and go beyond individual responsibility for sustainable development⁽¹⁷¹⁾. However, Cypriot students' scores in the 2022 International Civic and Citizenship Education Study (ICCS) on knowledge of sustainable development are the second lowest among the 17 participating EU countries, 452.7 vs EU-17 506.7⁽¹⁷²⁾. There is also a wide gender gap of 29.3 pps in favour of girls. Those results point to complex challenges in implementing sustainability learning. One of the main challenges is in setting up monitoring and evaluation mechanisms for any policy choice related to education and programmes implemented in schools⁽¹⁷³⁾. This reflects a typical weakness of Cyprus's education system. In addition, whole-school approaches and school engagement for sustainability need time to be rolled out in full to yield results. There is also the need for more teacher support and training in the use of digital education in the learning process for sustainability and the green transition. A reform to tackle these issues is under way as part of the RRP. Cyprus has identified the lack of professional guidance for students on the circular economy and the green transition as a barrier to further expanding sustainability learning.

Skills mismatches and labour shortages remain a pressing challenge in an otherwise well-performing labour market with low unemployment rates. Macroeconomic skills mismatch⁽¹⁷⁴⁾ stood at 17.1% in 2024, down

⁽¹⁶⁶⁾ Romania, Malta and Latvia.

⁽¹⁶⁷⁾ Eurostat, November 2024, R&D personnel https://ec.europa.eu/eurostat/statistics-explained/index.php?title=R%26D_personnel.

⁽¹⁶⁸⁾ EDE Report. [Digitalisation and digital transformation: Implications for persons with disabilities – Cyprus \(2022\)](#)

⁽¹⁶⁹⁾ EDE Report. [Striving for an inclusive labour market in Cyprus \(2023\)](#)

⁽¹⁷⁰⁾ Along with Czechia, Hungary, Montenegro and Serbia.

⁽¹⁷¹⁾ European Commission, European Education and Culture Executive Agency, Learning for sustainability in Europe – *Building competences and supporting teachers and schools* – Eurydice report, Publications Office of the European Union, 2024, <https://data.europa.eu/doi/10.2797/81397>.

⁽¹⁷²⁾ European Commission (Joint Research Centre) calculations, based on a special extraction of data from the [2022 International Civic and Citizenship Education Study](#) conducted by the IEA.

⁽¹⁷³⁾ Zachariou, A. (2019), [Reporting on implementation of the UNECE Strategy for Education for Sustainable Development](#).

⁽¹⁷⁴⁾ The macroeconomic skills mismatch indicator measures the dispersion of employment rates across skill groups

0.7 pps from 2022, remaining below the EU average (19.2%). Overqualification remains a structural issue. In 2024, 28.2% of workers with higher education qualifications were employed in occupations that did not require that level of qualification ⁽¹⁷⁵⁾. This figure is considerably higher compared with the 2023 EU average (21.9%). Sectors with particularly high overqualification rates compared to the EU are accommodation and food service activities (74.5%), administrative and support services (66.8%), agriculture (78.5%) as well as wholesale, retail and repair of motor vehicles (60.2%). Cyprus has developed a European Year of Skills action plan titled 'Modern Professional Development for the green and digital transitions', which is financed under the RRF and ESF+. It sets out several initiatives that are expected to reduce skills mismatches and contribute to upskilling and training 100 000 people. This includes vulnerable groups, such as those not in education, employment or training (NEETs), persons with disabilities and people aged 55 and over. Additionally, an RRP-funded project aims to collect national data on graduates' pathways after they have left higher education and data on the labour market's current and future knowledge and skills needs. Labour shortages in 2024 were reported for a number of occupations in Cyprus requiring specific skills related to the green transition, including garbage and recycling collectors, refuse sorters and air conditioning and refrigeration mechanics.

The low levels of digital skills aggravate skills shortages. Digital literacy is low: only 49.5% of adults had at least a basic level of digital skills in 2023 (against 55.6% in the EU and a slight decline from 50.2% in 2021), which poses challenges to the green and digital transitions. The share is higher among young people aged 16-19 at 76.89% (vs the EU average of 66.49%) (2023), but this has been decreasing in recent years (81.62% in 2021). Digital skills, which are rising in demand across occupations, are an enabler of effective

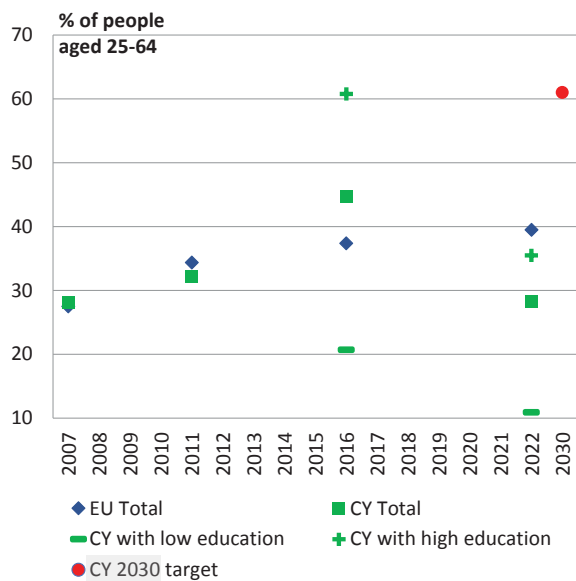
participation in modern societies. In December 2021, the country adopted the 2021-2025 national e-skills action plan to enable the development of digital skills and the continuous upskilling of all population groups. The RRF finances training programmes in digital and green skills for employees to be rolled out. The RRP also includes upskilling training programmes in digital skills and skills for the blue and green economies.

Low participation in adult learning undermines Cyprus's potential to improve its economic competitiveness. In 2022, 28.3% of Cypriot adults participated in education and training (during the last 12 months), lower than the EU average of 39.5% (see Graph A10.2). Unlike the EU overall trend, participation has fallen considerably since 2016 (by 16 pps, the sharpest fall in the EU), moving Cyprus away from its national 2030 target of 61%. People with higher levels of education have a much higher rate of participation in learning than people with lower levels of education (35.5% vs 10.9%). This gap has shrunk since 2016, but this is due to a greater decline in participation among people with higher levels of education than those with lower levels. In Cyprus, fewer women participate in education and training than men (20.4% vs 36.7%) unlike in most other Member States. Young adults (aged 25-34) are substantially more likely to participate in training than older adults (aged 55-64) (43.3% vs 10.3%). People who are not in the labour market also participate much less in learning than the working population (30.2% v 16.8%). The rate is relatively similar across cities, towns and rural areas (28%, 27.9% and 29%, respectively). To remedy these issues, Cyprus's National e-Skills action plan continues to help meet the ambitious national target. In addition, the Human Resource Development Authority of Cyprus (HRDA) launched a pilot project in 2024 on individual learning accounts (ILAs), co-funded by the ESF+.

(proxied by qualification levels, with ISCED 0-2 low; 3-4 medium and 5-7 high).

⁽¹⁷⁵⁾Source: Eurostat [[lfsa_eoqgan2](#)], EU-LFS.

Graph A12.2: Participation in education and training (during the past 12 months), by educational attainment level for 2016 and 2022



(1) Excluding guided-on-the-job training.

Source: Eurostat, AES, special extraction available [on CIRCABC](#).

Cyprus is also taking measures partly supported by EU funds to emphasise upskilling in active inclusion. For example, to integrate young NEETs into the labour market, training programmes are financed under the ESF+. The training centre for employment and entrepreneurship for vulnerable groups offers tailored training and support services, helping people integrate into the workforce and develop entrepreneurial skills. Participants in the ILA project – people with secondary education and long-term unemployed people – will receive a fixed amount to participate in HRDA’s approved training programmes of their choice over a three-year period.



Table A13.1: Social Scoreboard for Cyprus

Social Scoreboard for Cyprus						
Equal opportunities and access to the labour market	Adult participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64, 2022)					28,3
	Early leavers from education and training (% of the population aged 18-24, 2024)					11,3
	Share of individuals who have basic or above basic overall digital skills (% of the population aged 16-74, 2023)					49,5
	Young people not in employment, education or training (% of the population aged 15-29, 2024)					12,9
	Gender employment gap (percentage points, population aged 20-64, 2024)					10,0
	Income quintile ratio (\$80/\$20, 2024)					4,40
Dynamic labour markets and fair working conditions	Employment rate (% of the population aged 20-64, 2024)					79,8
	Unemployment rate (% of the active population aged 15-74, 2024)					4,9
	Long term unemployment (% of the active population aged 15-74, 2024)					1,3
	Gross disposable household income (GDHI) per capita growth (index, 2008=100, 2023)					114,6
Social protection and inclusion	At risk of poverty or social exclusion (AROPE) rate (% of the total population, 2024)					17,1
	At risk of poverty or social exclusion (AROPE) rate for children (% of the population aged 0-17, 2024)					14,8
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP, 2024)					30,5
	Disability employment gap (percentage points, population aged 20-64, 2024)					24,5
	Housing cost overburden (% of the total population, 2024)					2,4
	Children aged less than 3 years in formal childcare (% of the under 3-years-old population, 2024)					40,1
	Self-reported unmet need for medical care (% of the population aged 16+, 2024)					0,1
Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

(1) Update of 5 May 2025. Member States are categorised based on the Social Scoreboard according to a methodology agreed with the EMCO and SPC Committees. Please consult the Annex of the Joint Employment Report 2025 for details on the methodology (<https://employment-social-affairs.ec.europa.eu/joint-employment-report-2025-0>).

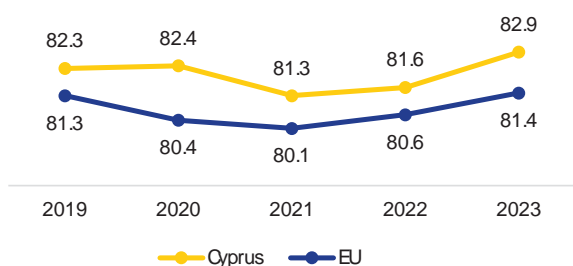
Source: Eurostat

ANNEX 14: HEALTH AND HEALTH SYSTEMS

The performance of the health system in Cyprus leaves room for improvement. Health workforce and bed shortages are a key capacity constraint. These issues are being addressed by the country's recent reform which has already made healthcare more affordable and reduced self-reported levels of unmet needs for medical care, although there are still shortcomings in rural areas.

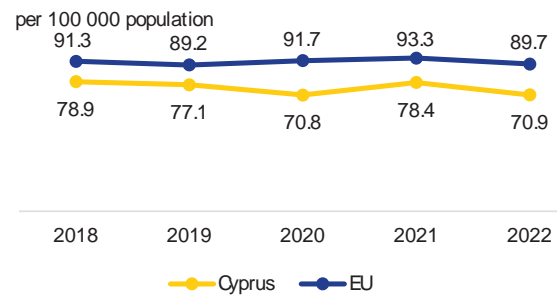
Life expectancy at birth in Cyprus remains well above the EU average and rebounded above its pre-COVID-19 levels. In 2023, life expectancy at birth stood at 82.9 years, one and a half years above the EU average, linked to low levels of treatable mortality. However, there is still a clear gender gap in life expectancy, with women expected to live 4 years longer than men. That said, they can only expect to live around 7 months more than men in good health. In 2022, the leading causes of death were cardiovascular diseases, with mortality rates decreasing over the last decade, followed by cancer, for which mortality rates have remained relatively unchanged. The third leading cause of death was COVID-19. Compared to other EU countries, Cyprus fares relatively well on treatable mortality, which is also reflected in its relatively low cancer mortality rate (189 per 100 000 population in 2022, below the EU average of 235). Lung cancer remains the most frequent cause of death by cancer, followed by breast and then by colorectal cancer. This has prompted a number of initiatives to prevent cancer (such as tobacco smoking reduction policies) and to promote better access to cancer screening and treatment.

Graph A14.1: Life expectancy at birth, years



Source: Eurostat (demo_mlexpec)

Graph A14.2: Treatable mortality



Age-standardised death rate (mortality that could be avoided through optimal quality healthcare)

Source: Eurostat (hlth_cd_apr)

Health spending in Cyprus is low, including for capital formation, but out-of-pocket spending on health was greatly reduced since 2019. In 2022, health spending per inhabitant in Cyprus was far below the EU average, with the largest share going to inpatient and outpatient care (around 44.5% and 32.8% of total health expenditure, respectively). Public spending as a proportion of total healthcare expenditure increased from around 55% in 2019 to 80.9% in 2022, close to the EU average of 81.3%. However, Cyprus' health infrastructure is lagging behind. For example, Cyprus has a low number of hospital beds (295 per 100 000 population in 2022, well below the EU average of 444). Out-of-pocket payments, which went down considerably following the 2019 reform, currently account for 14.6% of health spending in Cyprus (vs an EU average of 14.3%). Around 40% of all out-of-pocket payments are for outpatient services, followed by dental services⁽¹⁷⁶⁾. Comparatively high unmet needs for medical examination are reported in rural areas⁽¹⁷⁷⁾. Spending on primary care health services as a share of current health expenditure is close to the EU average for dental and general outpatient care, but it is far below the EU average for prevention in outpatient settings (e.g. cancer screening, etc.)⁽¹⁷⁸⁾. Capital formation in health, measured by capital expenditure on health as a percentage of GDP, is among the lowest in the

⁽¹⁷⁶⁾ OECD/European Commission (2024), [Health at a Glance: Europe 2024 - State of Health in the EU Cycle](#), pp. 186-187.

⁽¹⁷⁷⁾ For further details, see Annex 11.

⁽¹⁷⁸⁾ [Health at a Glance: Europe 2024](#), pp. 151.

Table A14.1: Key health indicators

	2019	2020	2021	2022	2023	EU average* (latest year)
Cancer mortality per 100 000 population	195.4	205.5	213.2	188.8	n.a.	234.7 (2022)
Mortality due to circulatory diseases per 100 000 population	271.2	287.7	280.8	257.8	n.a.	336.4 (2022)
Current expenditure on health, purchasing power standards, per capita	1 978	2 312	2 798	2 854	n.a.	3 684.6 (2022)
Public share of health expenditure, % of current health expenditure	54.2	71.6	81.6	80.9	n.a.	81.3 (2022)
Spending on prevention, % of current health expenditure	1.2	1.6	3.1	2.5	n.a.	5.5 (2022)
Available hospital beds per 100 000 population**	296	300	293	294	n.a.	444 (2022)
Doctors per 1 000 population*	4.3	4.7	4.9	5.2	n.a.	4.2 (2022)*
Nurses per 1 000 population*	5.3	5.2	5.2	5.3	n.a.	7.6 (2022)*
Mortality at working age (20-64 years), % of total mortality	14.4	15.3	15.2	13.5	13.9	14.3 (2023)
Number of patents (pharma / biotech / medical technology)	9	9	6	6	4	29 (2023)***
Total consumption of antibacterials for systemic use, daily defined dose per 1 000 inhabitants****	30.1	28.9	25.0	33.5	n.a.	20.0 (2023)

*The EU average is weighted for all indicators except for doctors and nurses per 1 000 population, for which the EU simple average is used based on 2022 (or latest 2021) data except for Luxembourg (2017). Doctors' density data refer to practising doctors in all countries except Greece, Portugal (licensed to practise) and Slovakia (professionally active). Density of nurses: data refer to practising nurses (EU recognised qualification) in most countries except France and Slovakia (professionally active) and Greece (hospital only). **Available hospital beds' covers somatic care, not psychiatric care. ***The EU median is used for patents.

Source: Eurostat database; European Patent Office; ****European Centre for Disease Prevention and Control (ECDC) for 2023.

EU, and far below the EU average. Under its recovery and resilience plan (RRP), Cyprus plans to spend EUR 69.6 million on modernising state hospitals, purchasing equipment and rolling out digital and interoperable e-health services.

The situation with disease prevention leaves room for improvement. In 2022, the share of spending on prevention in Cyprus dropped to 2.5% of total public spending on health, far below the EU average of 5.5%. In response to COVID-19, between 2019 and 2021, Cyprus reported a remarkable proportional increase in spending on early disease detection programmes. A particular public health concern is the country's high smoking and adult vaping rates ⁽¹⁷⁹⁾. Another public health challenge is the high consumption of antibacterials in Cyprus, which could accelerate antimicrobial resistance. Cyprus' RRP includes a measure to set up an electronic platform for monitoring nosocomial antibiotic consumption. The existing Antimicrobial Resistance plan, first approved in 2018, will be revised in 2025. Recent measures and the AMR action plan have contributed to a steady decline in both antimicrobial sales and usage in recent years. The process of creating and establishing an electronic prescription system for the Veterinary Medicinal Products is under progress and envisaged to be established and used.

Cyprus has more doctors but fewer nurses than the EU average. In 2022, there were 5.3 practising nurses per 1 000 inhabitants, well below the EU average of 7.6. Doctor density in Cyprus (around 5.2 per 1 000 inhabitants in 2022) is above the EU average of 4.2. However, doctors are concentrated in the capital region and in other major cities, with shortfalls in remote and sparsely populated regions. Studying medicine in Cyprus has only been possible since 2013. Previously, the system relied on medical graduates who studied abroad and then returned to practise in Cyprus. The number of entries to study nursing and nursing graduates has decreased substantially in recent years. Upskilling opportunities for health workers are also envisaged in the RRP. Given the human resource challenges faced by the healthcare and long-term care systems, longer-term strategic planning is necessary.

The potential of Cyprus' health system to drive innovation and foster industrial development in the EU medical sector is not being fully exploited ⁽¹⁸⁰⁾. Cyprus is among the EU countries that report low public spending on health research and development. This is reflected in the low number of European patents granted: four in 2023 in the combined areas of pharmaceuticals and medical

⁽¹⁷⁹⁾ [Health at a Glance: Europe 2024](#), Chapter 4.

⁽¹⁸⁰⁾ For further details, see Annex 3.

technologies ⁽¹⁸¹⁾, far below the EU-level median of 29. Clinical trial activity is also low ⁽¹⁸²⁾.

Cyprus aims to scale up the digitalisation of its health system, with support from EU programmes. The share of people who access their personal health records online in Cyprus is above the EU average, but there is still room for improvement on the overall technical deployment of electronic health records ⁽¹⁸³⁾. The use of online health services (excluding phone) instead of in-person consultations is among the lowest in the EU. However, Cyprus' RRP includes measures to strengthen digital solutions in the healthcare sector. Additionally, the country is planning to invest in e-health services and applications to step up the digital transition of healthcare, under the 2021-2027 cohesion policy funds.

⁽¹⁸¹⁾European Patent Office, [Data to download | epo.org](#).

⁽¹⁸²⁾ EMA (2024), [Monitoring the European clinical trials environment](#), p. 9.

⁽¹⁸³⁾For further details, see Annex 6.



HORIZONTAL

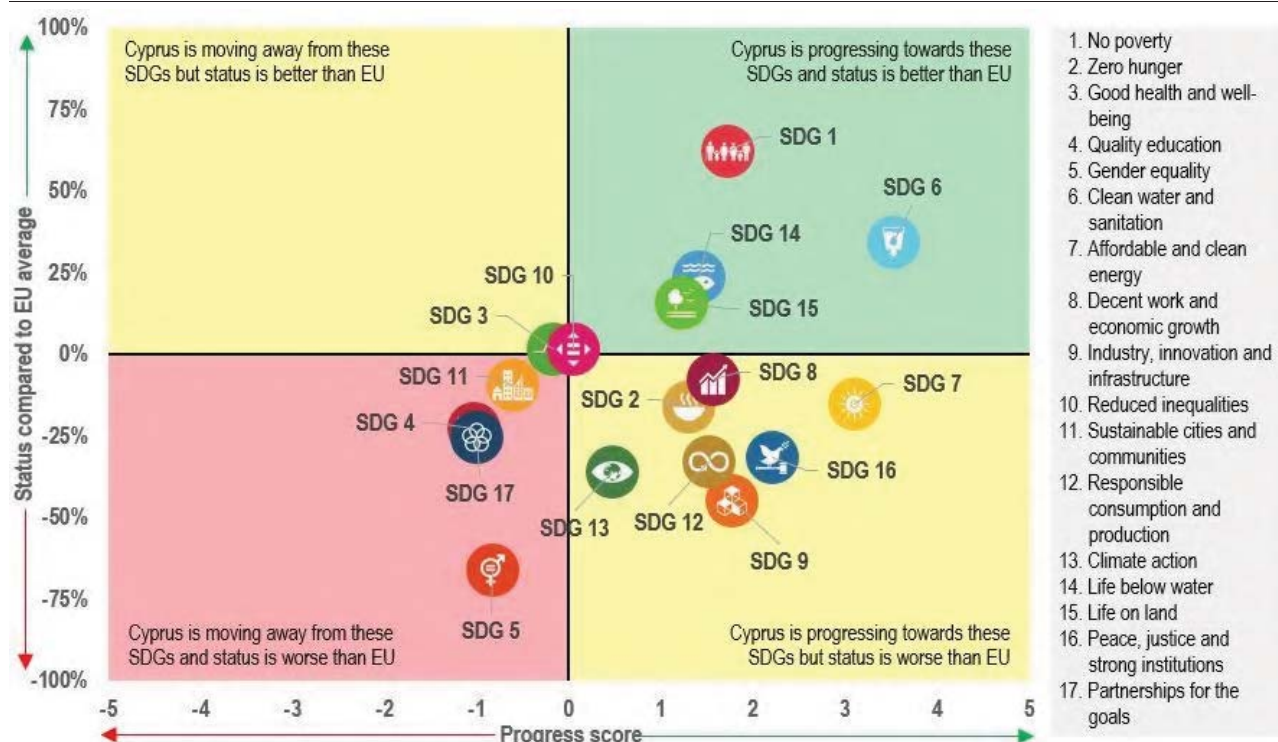
ANNEX 15: SUSTAINABLE DEVELOPMENT GOALS

This Annex assesses Cyprus' progress on the Sustainable Development Goals (SDGs) along the dimensions of competitiveness, sustainability, social fairness and macroeconomic stability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change and the environmental crisis, while ensuring that no one is left behind. The EU and its Member States are committed to this historic global framework agreement and to playing an active role in maximising progress on the SDGs. The graph below is based on the EU SDG indicator set developed to monitor progress on the SDGs in the EU.

Cyprus is improving on some elements in *competitiveness* (SDGs 8 and 9) and moving away from SDG 4, but it still needs to catch up with all

of them compared to the EU, particularly for SDG 9. Regarding education (SDG 4), compared to the EU average, Cyprus has higher attainment in tertiary education, but a much larger percentage of low-achievers in mathematics, a lower percentage of participation in early education, a higher percentage of early-school leavers and lower share of basic digital skills for adults below the EU average. The country is making progress on SDG 8 (Decent work and economic growth), on the back of strong economic growth and improved labour market performance. However, fatal accidents at work increased to levels above the EU average, investments, as share of GDP, are still below the EU average, and material footprint is above the EU average. On SDG 9 (Industry, innovation and infrastructure), the country needs to catch up on R&D expenditure, which remains low at 0.68% of GDP in 2023 – one of the lowest in the EU (where the average is 2.24%). Regarding

Graph A15.1: Progress towards the SDGs in Cyprus



For detailed datasets on the various SDGs, see the annual Eurostat report '[Sustainable development in the European Union](#)'; for details on extensive country-specific data on the short-term progress of Member States: [Key findings – Sustainable development indicators - Eurostat \(europa.eu\)](#). A high status does not mean that a country is close to reaching a specific SDG, but signals that it is doing better than the EU on average. The progress score is an absolute measure based on the indicator trends over the past five years. The calculation does not take into account any target values, as most EU policy targets are only valid for the aggregate EU level. Depending on data availability for each goal, not all 17 SDGs are shown for each country.

Source: Eurostat, latest update of 28 April 2025. Data refer mainly to the period 2018-2023 or 2019-2024. Data on SDGs may vary across the report and its annexes due to different cut-off dates.

sustainable infrastructure, Cyprus is slightly lagging behind the EU average, both on the share of households with a high-speed internet connection and the share of buses in passenger transport. The recovery and resilience plan (RRP) is targeting bottlenecks, especially in the diversification of the economy, and investing in R&D, as well as in sustainable infrastructure, to facilitate further progress on these SDGs.

Cyprus is improving on most SDG indicators related to *sustainability and it is well above the EU average for SDGs 6, 14 and 15 (Clean water and sanitation, Life under water and Life on Land)*. However, it needs to catch up with the EU average on SDG 2 (Zero hunger), SDG 7 (Affordable and clean energy), SDG 9 (Industry, Innovation and Infrastructure), SDG 11 (Sustainable cities and communities), SDG 12 (Responsible consumption and production) and SDG 13 (Climate action). Per capita energy consumption in Cyprus is at par with the EU average, and the country has made progress on energy consumption indicators. There was improvement in the share of renewable energy in gross final energy consumption, up from 13.9% in 2018 to 20.2% in 2023. However, Cyprus remains below the EU average of 24.6%. On affordable energy, the percentage of the Cypriot population unable to keep their homes adequately warm was higher than the EU average in 2023, at 16.9% (EU 10.6%). While the concentration of nitrates in groundwater significantly dropped (7.8 mg/litre vs EU 20.7 mg/litre in 2022), ammonia emissions from agriculture are high (61.3 Kg/ha vs EU 18.3 Kg/ha). This, combined with a low recycling rate of municipal waste (16.0% vs EU 48.2% in 2023) and a high material footprint (in 2023, 20.7 tonnes per inhabitant, vs 14.2 tonnes for the EU) are challenges to the environment. The average CO₂ emissions per km from new passenger cars were 126.3 g CO₂ per km, above the EU average of 107.6. Measures in the recovery and resilience plan (RRP (Policy Axis 2) such as energy efficiency renovations of public and private buildings and investments in sustainable water management and transport will help achieve further progress on these SDGs. Coastal water bathing sites with excellent water quality

amount to 97.6% (vs 88.8% in the EU) and the share of terrestrial protected area is at 37.8% (vs 26.1 in the EU).

While Cyprus is improving on almost all SDGs (except for SDG 3, 4 and 5) related to *social fairness*, it still needs to catch up on SDGs 4, 5, 7, 8 ⁽¹⁸⁴⁾. Cyprus outperforms the EU average on most indicators related to poverty, health and equalities (SDGs 1, 3 and 10). However, it is moving away from the EU average on indicators related to basic education. The EU/non-EU citizenship gap for early leavers from education and training was 31.5 percentage points (pps), vs the EU average of 15.4 pps in 2024. By contrast, the EU/non-EU citizenship gap for young people not in employment, education or training was at par with the EU average (SDG 10). Furthermore, the high share of low achievement of 15-year-old students in mathematics (see Annex on Educational Skills) poses challenges in the field of opportunities for young people. This is also shown in the higher numbers of young people aged 15-29 not in education, employment or training (12.9% vs EU 11.0% in 2024). On gender equality, while the gender employment gap is at par with the EU average (10.0 pps in 2024), the share of senior management positions held by women was much lower than in the EU (11.4% vs EU 32.6% in 2024), despite its increasing path. Reforms and investments under Policy Axis 5 of the RRP aim to improve the quality of education and training, reach out to young people not in education, employment or training, and improve access to early childhood education and care and to flexible working arrangements. This will provide equal opportunities for all children and make it easier for women to participate in the labour market.

Cyprus is moving away compared to the EU on SDGs related to *macroeconomic stability* (SDGs 8, 16, 17). Even if Cyprus is improving on SDG 8 (Decent work and economic growth), its real GDP per capita remains below the EU average in 2024. Cyprus is also improving on SDG 16 (Peace, justice

⁽¹⁸⁴⁾ For more information, see Annex 12 'Employment, skills and social policy challenges in light of the European Pillar of Social Rights'.

and strong institutions), with a lower share of people reporting crime, violence or vandalism in 2023, compared to the EU average. Moreover, numbers of victims of human trafficking are lower than the EU average. Also, government expenditure on the law courts is well below the EU average. The perceived independence of the justice system (very good and fairly good) is close to the EU average, while the Corruption Perceptions Index scores worse in Cyprus than in the EU (56 in CY vs 62 in the EU). The RRP includes reforms and investments under Component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption) to address long-standing challenges in the areas of justice and the fight against corruption.

As the SDGs form an overarching framework, any links to relevant SDGs are either explained or depicted with icons in the other Annexes.



ANNEX 16: CSR PROGRESS AND EU FUNDS IMPLEMENTATION

Cyprus faces structural challenges in a wide range of policy areas, as identified in the country-specific recommendations (CSRs) addressed to the country as part of the European Semester. They refer, among other things, to the budgetary framework and fiscal governance, state-owned enterprises, the business environment (including policies on small and medium-sized enterprises (SMEs)), renewable energy, energy infrastructures and networks, energy efficiency, transport, education, skills, vocational education, training and adult learning.

The Commission has assessed the 2019-2024 CSRs considering the policy action taken by Cyprus to date and the commitments in its recovery and resilience plan (RRP). At this stage, Cyprus has made at least 'some progress' on XX% of the CSRs ⁽¹⁸⁵⁾, and 'limited progress' on XX% (Table A16.2).

EU funding instruments provide considerable resources to Cyprus by supporting investments and structural reforms to increase competitiveness, environmental sustainability and social fairness, while helping to address challenges identified in the CSRs. In addition to the EUR 1.2 billion funding from the Recovery and Resilience Facility (RRF) in 2021-2026, EU cohesion policy funds ⁽¹⁸⁶⁾ are providing nearly EUR 1 billion to Cyprus (amounting to EUR 1.5 billion with national co-financing) for 2021-2027 ⁽¹⁸⁷⁾ to boost competitiveness and growth. Support from these instruments combined represents around 7% of 2024 GDP ⁽¹⁸⁸⁾. The contribution of these

instruments to different policy objectives is outlined in Graphs A16.1 and A16.2. This substantial support comes on top of financing provided to Cyprus under the 2014-2020 multiannual financial framework, which financed projects until 2023 and has had significant benefits for the economy and Cypriot society. Project selection under the 2021-2027 cohesion policy programme has accelerated.

The Cypriot RRP contains 75 investments and 61 reforms to stimulate sustainable growth and enhance the digital transition, as well as to increase productivity. A year before the end of the RRF timespan, 31% of the funds disbursed ⁽¹⁸⁹⁾. Efforts are needed to ensure completion of all RRP measures by 31 August 2026. [placeholder for state of play + challenges for implementation–underpinning messages in Chapter 1 – to be added later].

Cyprus also receives funding from several other EU instruments, including those listed in table A16.1. *[For each MS please mention 1 or 2 of the most relevant other funds e.g. CAP and/or AMIF, depending on their relative importance:]* Most notably, the common agricultural policy (CAP) provides Cyprus with an EU contribution of nearly EUR 0.4 billion under the CAP strategic plan for 2023-2027 ⁽¹⁹⁰⁾. A further EUR XX million are available under the Asylum, Migration and Integration Fund (AMIF), together with the border management and visa instrument (BMVI) and internal security funds. Furthermore, operations amounting to EUR 89 million ⁽¹⁹¹⁾ have been signed under the InvestEU instrument backed by the EU guarantee, improving access to financing for riskier operations in Cyprus.

⁽¹⁸⁵⁾ 9% of the 2019-2024 CSRs have been fully implemented, 15% substantially implemented, and some progress has been made on 43%.

⁽¹⁸⁶⁾ In 2021-2027, cohesion policy funds include the European Regional Development Fund, the Cohesion Fund, the European Social Fund Plus and the Just Transition Fund. The information on cohesion policy included in this annex is based on adopted programmes with the cut-off date of 5 May 2025.

⁽¹⁸⁷⁾ European territorial cooperation (ETC) programmes are excluded from the figure.

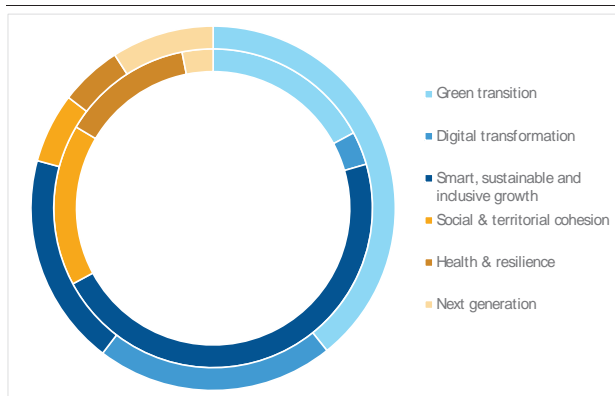
⁽¹⁸⁸⁾ RRF funding includes both grants and loans, where applicable. The EU average is calculated for cohesion policy funds excluding ETC programmes. GDP figures are based on Eurostat data for 2024.

⁽¹⁸⁹⁾ As of mid-May 2025, Cyprus has submitted 4 out of 9 payment requests, the fourth one being under assessment.

⁽¹⁹⁰⁾ An overview of Cyprus's formally approved strategy to implement the EU's common agricultural policy nationally can be found at: https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans/cyprus_en

⁽¹⁹¹⁾ Data reflect the situation on 31.12.2024.

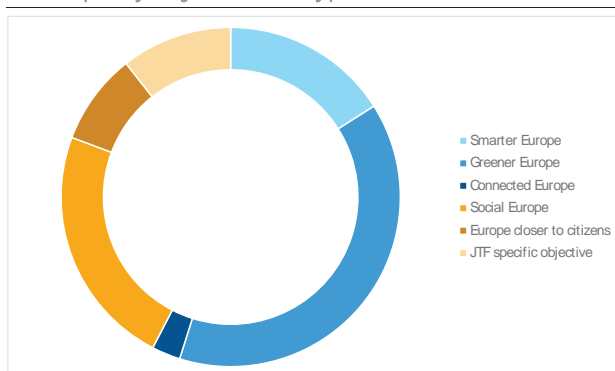
Graph A16.1: Distribution of RRF funding in Cyprus by policy field



(1) Each RRP measure helps achieve the aims of two of the six policy pillars of the RRF. The primary contribution is shown in the outer circle, while the secondary contribution is shown in the inner circle. Each circle represents 100% of the RRF funds. Therefore, the total contribution to all pillars displayed on this chart amounts to 200% of the RRF funds allocated.

Source: European Commission

Graph A16.2: Distribution of cohesion policy funding across policy objectives in Cyprus



Source: European Commission

Cohesion policy funds aim to increase the productivity and competitiveness of Cyprus's firms and improve the business environment. More specifically, they contribute to expanding research and innovation capabilities, delivering new digital services for citizens and businesses, and reinforcing business and industrial ecosystems. Through the European Regional Development Fund (ERDF), an investment of EUR 147 million will support these efforts. Implementation of the Thalia Programme is expected to create 885 research jobs in supported entities, provide 133 000 users with access to new and upgraded public digital services, products and processes, and generate 1 775 additional jobs. With the European Social Fund Plus (ESF+), Cyprus has

taken several measures and initiatives aimed at fostering skills and improving participation rates in vocational education and training and adult learning, while enhancing competitiveness and productivity. It has developed a European Year of Skills action plan, 'Modern Professional Development for the Green and Digital Transitions', with several initiatives, also financed under the ESF+. This is expected to reduce skills mismatches and contribute to upskilling and training for 100 000 people. Cyprus has also included a pilot project for individual learning accounts in the ESF+, to be launched in 2025. Under ESF+, there are also training programmes to help at least 2 500 young NEETs (not in employment, education or training), to integrate in the labour market.

Other funds are contributing to competitiveness in Cyprus, for instance through open calls. [Insert references to investments covered by CEF, Horizon and TSI support.] During the 2021-2027 period, CEF-T (Connecting Europe Facility for Transport) funding in Cyprus has primarily focused on road infrastructure, maritime infrastructure. And modernisation of air transport infrastructure. The CEF-E (CEF for Energy) supports energy market integration, decarbonisation of the energy system and security of energy supply. Horizon Europe has supported research and innovation, from scientific breakthroughs to scaling up innovations with Digital, Industry and Space as well as Climate, Energy and Mobility as top priorities. In 2024, TSI supported Cyprus in designing and implementing growth-enhancing reforms, including enhancing the coordination and monitoring of policies, strengthening the civil protection system, and establishing an asset management office

Cyprus's RRP also contains ambitious measures to improve the business environment and competitiveness. As part of the measures covered by the third and fourth payment requests submitted over the past year, Cyprus has implemented several reforms to enhance the productivity and effectiveness of the public administration, including a strategy for addressing inadequacies in the property transaction system

(title deeds), reforms to make the banking sector more resilient, several research and development investments, modernisation of the customs and electronic payment system and innovation funding programmes for start-ups, innovative companies and SMEs.

EU funds are playing a significant role in promoting environmental sustainability and green transition in Cyprus during the current seven-year EU budget (multiannual financial framework). Cohesion policy funds contribute significantly to increasing the share of renewable energy sources in energy production, support sustainable water and wastewater management to ensure an adequate water supply for all uses, and improve the separate collection of waste to facilitate the transition to a circular economy. As a result, the share of renewable energy sources in Cyprus's energy mix is expected to rise from 11.7% to 30%, representing an 18.3% increase. Additionally, 8 500 people will be connected to at least secondary public wastewater treatment, while additional 300 000 tonnes of waste will be collected separately each year. As for the CAP strategic plan, Cyprus allocates EUR 66 million for environmental and climate objectives, such as organic farming, alternative methods of plant protection with a view to reducing pesticides, protecting biodiversity, reinforcing nature-protected areas, contributing to water savings and improving irrigation infrastructure. In order to double the total agricultural land under organic farming, Cyprus allocates EUR 21 million to converting to and maintaining organic farming methods.

Cyprus's RRP, including the REPowerEU chapter, has a comprehensive set of reforms and investments for the green transition. As part of the measures covered by the third and fourth payment requests submitted over the past year, Cyprus has improved the monitoring of greenhouse gas emissions from the agricultural sector and, a part of the REPowerEU chapter, Cyprus has promoted renewables and individual energy efficiency measures in dwellings and tackled energy poverty in households with vulnerable electricity consumers.

Promoting fairness, social cohesion and improving access to basic services are among the key priorities of EU funding in Cyprus. Cyprus dedicates 47% of the ESF+ allocation (EUR 104.2 million) to social inclusion and 18% (EUR 40.5 million) to combating child poverty and providing support to the most deprived. The ESF+ fosters social cohesion in Cyprus via various actions and initiatives such as subsidy schemes for the employment of vulnerable groups (at least 500 people will be supported into employment), the restructuring of the social welfare services (10 new institutional services to be set up), the provision of affordable early childhood education and care services for children aged up to four years old, home care services for at least 70 people with a disability, a new family intervention and support centre for autism and more.

Cyprus's RRP contains several reforms and investments related to fairness and social policies. As part of the measures covered by the third and fourth payment requests submitted over the past year, Cyprus has deployed generic cross-border e-health services and purchased or replaced medical equipment in hospitals. Cyprus has also implemented flexible work arrangements in the form of telework, a new teacher and school evaluation system and a gradual extension of free compulsory pre-primary education from the age of four.

Table A16.1: Selected EU funds with adopted allocations - summary data (million EUR)

Instrument/policy	Allocation 2021-2026		Disbursed since 2021 (1)
RRF grants (including the RepowerEU allocation)	1 020.2		
RRF loans	200.3		
Instrument/policy	Allocation 2014-2020 (2)	Allocation 2021-2027	Disbursed since 2021 (3) (covering total payments to the Member State on commitments originating from both 2014-2020 and 2021-2027 programming periods)
Cohesion policy (total)	877.7	968.6	595.4
European Regional Development Fund (ERDF)	367.2	466.9	261.3
Cohesion Fund (CF)	258.9	178.3	126.1
European Social Fund (ESF, ESF+) and the Youth Employment Initiative (YEI)	251.6	222.2	176.7
Just Transition Fund (JTF)		101.1	31.3
Fisheries			
European Maritime, Fisheries and Aquaculture Fund (EMFAF) and the European Maritime and Fisheries Fund (EMFF)	39.7	38.3	26.3
Migration and home affairs			
Migration, border management and internal security - AMIF, BMM and ISF (4)	106.9	188.3	72.4
The common agricultural policy under the CAP strategic plan (5)	Allocation 2023-2027		Disbursements under the CAP Strategic Plan (6)
Total under the CAP strategic plan	374.3		121.0
European Agricultural Guarantee Fund (EAGF)	255.5		95.5
European Fund for Agricultural Development (EAFRD)	118.9		25.5

(1) The cut-off date for data on disbursements under the RRF is 5 May 2025.

(2) Cohesion policy 2014-2020 allocations include REACT-EU appropriations committed in 2021-2022.

(3) These amounts relate only to disbursements made from 2021 onwards and do not include payments made to the Member State before 2021. Hence the figures do not comprise the totality of payments corresponding to the 2014-2020 allocation. The cut-off date for data on disbursements under EMFAF and EMFF is 29 April 2025. The cut off date for data on disbursements under cohesion policy funds, AMIF, BMVI and ISF is 5 May 2025.

(4) AMIF - Asylum, Migration and Integration Fund; BMVI- Border Management and Visa Instrument; ISF - Internal Security Fund.

(5) Expenditure outside the CAP strategic plan is not included.

(6) The cut-off date for data on EAGF disbursements is 5 May 2025. The information on EAGF disbursements is based on the Member State declarations until March 2025. Disbursements for the Direct Payments (EAGF) started in 2024.

Source: European Commission

Table A16.2: Summary table on 2019-2024 CSRs

Cyprus	Assessment in May 2025*	Relevant SDGs
2019 CSR 1	Some progress	
<i>Adopt key legislative reforms to improve efficiency in the public sector, in particular as regards the functioning of the public administration</i>	Some progress	SDG 16
<i>and the governance of State-owned entities</i>	Limited progress	SDG 9
<i>and local governments.</i>	Substantial progress	SDG 16
<i>Address features of the tax system that may facilitate aggressive tax planning by individuals and multinationals, in particular by means of outbound payments by multinationals.</i>	Substantial progress	SDG 8, 16
2019 CSR 2	Substantial progress	
<i>Facilitate the reduction of non-performing loans including by setting up an effective governance structure for the State-owned asset management company,</i>	Substantial progress	SDG 8
<i>taking steps to improve payment discipline</i>	Substantial progress	SDG 8
<i>and strengthening the supervision of credit-acquiring companies.</i>	Full implementation	SDG 8
<i>Strengthen supervision capacities in the non-bank financial sector, including by fully integrating the insurance and pension-fund supervisors.</i>	Limited progress	SDG 8
2019 CSR 3	Some progress	
<i>Complete reforms aimed at increasing the effectiveness of the public employment services and reinforce outreach and activation support for young people</i>	Some progress	SDG 8
<i>Deliver on the reform of the education and training system, including teacher evaluation, and increase employers' engagement and learners' participation in vocational education and training,</i>	Limited progress	SDG 4
<i>and affordable childhood education and care.</i>	Some progress	SDG 4, 5
<i>Take measures to ensure that the National Health System becomes operational in 2020, as planned, while preserving its long-term sustainability.</i>	Substantial progress	SDG 3
2019 CSR 4	Some progress	
<i>Focus investment-related economic policy on sustainable transport,</i>	Limited progress	SDG 10, 11
<i>environment, in particular waste and water management,</i>	Limited progress	SDG 6, 10, 11, 12, 15
<i>energy efficiency and renewable energy,</i>	Some progress	SDG 7, 9, 10, 11, 13
<i>digitalisation, including digital skills,</i>	Some progress	SDG 4, 9, 10, 11
<i>and research and innovation, taking into account territorial disparities within Cyprus.</i>	Limited progress	SDG 9, 10, 11
<i>Adopt legislation to simplify the procedures for strategic investors to obtain necessary permits and licences.</i>	Substantial progress	SDG 8, 9
<i>Improve access to finance for SMEs,</i>	Some progress	SDG 8, 9
<i>and resume the implementation of privatisation projects.</i>	Limited progress	SDG 9
2019 CSR 5	Some progress	
<i>Step up efforts to improve the efficiency of the judicial system, including the functioning of administrative justice and revising civil procedures, increasing the specialisation of courts and setting up an operational e-justice system. Take measures to strengthen the legal enforcement of claims</i>	Some progress	SDG 9, 16
<i>and ensure reliable and swift systems for the issuance and transfer of title deeds and immovable property rights.</i>	Limited progress	SDG 8, 9
<i>Accelerate anti-corruption reforms, safeguard the independence of the prosecution and strengthen the capacity of law enforcement.</i>	Some progress	SDG 16

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Table (continued)

2020 CSR 1	Substantial progress	
<i>In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.</i>	Not relevant anymore	SDG 8, 16
<i>Strengthen the resilience and capacity of the health system to ensure quality and affordable services, including by improving health workers' working conditions.</i>	Substantial progress	SDG 3
2020 CSR 2	Some progress	
<i>Provide adequate income replacement and access to social protection for all.</i>	Some progress	SDG 1, 2, 8, 10
<i>Strengthen public employment services,</i>	Some progress	SDG 8
<i>promote flexible working arrangements and</i>	Some progress	SDG 8
<i>improve labour market relevance of education and training.</i>	Some progress	SDG 4
2020 CSR 3	Some progress	
<i>Secure adequate access to finance and liquidity, especially for small and medium-sized enterprises.</i>	Some progress	SDG 8, 9
<i>Front-load mature public investment projects</i>	Some progress	SDG 8, 16
<i>and promote private investment to foster the economic recovery.</i>	Some progress	SDG 8, 9
<i>Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy,</i>	Some progress	SDG 7, 9, 13
<i>waste and water management,</i>	Limited progress	SDG 6, 12, 15
<i>sustainable transport,</i>	Limited progress	SDG 11
<i>digitalisation,</i>	Some progress	SDG 9
<i>research and innovation.</i>	Limited progress	SDG 9
2020 CSR 4	Limited progress	
<i>Step up action to address features of the tax system that facilitate aggressive tax planning by individuals and multinationals.</i>	Limited progress	SDG 8, 16
<i>Improve the efficiency and digitalisation of the judicial system</i>	Some progress	SDG 9, 16
<i>and the public sector.</i>	Some progress	SDG 9, 16
2021 CSR 1	Not relevant anymore	
<i>In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.</i>	Not relevant anymore	SDG 8, 16
<i>When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term.</i>	Not relevant anymore	SDG 8, 16
<i>At the same time, enhance investment to boost growth potential. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the national budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition.</i>	Not relevant anymore	SDG 8, 16
<i>Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.</i>	Not relevant anymore	SDG 8, 16
2022 CSR 1	Full implementation	
<i>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.</i>	Full implementation	SDG 8, 16
<i>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.</i>	Full implementation	SDG 8, 16
<i>For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.</i>	Full implementation	SDG 8, 16

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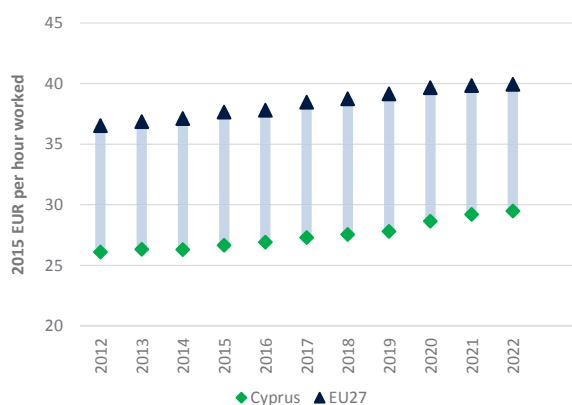
2022 CSR 2		
<i>Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 28 July 2021.</i>	RRP implementation is monitored by assessing RRP payment requests and analysing reports published twice a year on the achievement of the milestones and targets. These are to be reflected in the country reports.	
<i>Swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents with a view to starting their implementation.</i>	Progress on the cohesion policy programming documents is monitored under the EU cohesion policy.	
2022 CSR 3	Limited progress	
<i>Take measures to improve the governance of State-owned entities in line with international standards.</i>	Limited progress	SDG 8, 9
2022 CSR 4	Some progress	
<i>Reduce overall reliance on fossil fuels and further diversify energy supply.</i>	Limited progress	SDG 7, 9, 13
<i>Accelerate the deployment of renewables, in particular by further streamlining permitting procedures</i>	Some progress	SDG 7, 8, 9, 13
<i>and expanding photovoltaics.</i>	Some progress	SDG 7, 9, 13
<i>Develop energy interconnections with neighbouring countries,</i>	Limited progress	SDG 7, 9, 13
<i>while extending and accelerating energy efficiency measures,</i>	Some progress	SDG 7
<i>including in the transport sector.</i>	Limited progress	SDG 11
2023 CSR 1	Full implementation	
<i>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.</i>	Full implementation	SDG 8, 16
<i>While maintaining a sound fiscal position in 2024,</i>	Full implementation	SDG 8, 16
<i>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.</i>	Substantial progress	SDG 8, 16
<i>Facilitate the reduction of private debt, including by implementing an effective foreclosure framework.</i>	Substantial progress	SDG 8, 16
<i>For the period beyond 2024, continue to pursue investment and reforms conducive to higher sustainable growth and preserve a prudent medium-term fiscal position.</i>	Full implementation	SDG 8, 16
2023 CSR 2		
<i>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.</i>	RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets, to be reflected in the country reports. Progress with the cohesion policy is monitored in the context of the Cohesion Policy of the European Union.	
2023 CSR 3	Limited progress	
<i>Take measures to improve the governance of the state-owned entities in line with international standards.</i>	Limited progress	SDG 8, 9
2023 CSR 4	Some progress	
<i>Reduce reliance on fossil fuels and diversify the energy supply.</i>	Limited progress	SDG 7, 9, 13
<i>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.</i>	Some progress	SDG 7, 8, 9, 13
<i>Speed up the development of electricity interconnections.</i>	Limited progress	SDG 7, 9, 13
<i>Extend and accelerate energy efficiency measures,</i>	Some progress	SDG 7, 9, 13
<i>also to address energy poverty,</i>	Some progress	SDG 7
<i>as well as the shift towards sustainable transport.</i>	Limited progress	SDG 11
<i>Step up policy efforts aimed at the provision and acquisition of the skills needed for the green transition.</i>	Some progress	SDG 7

2024 CSR 1
<i>Submit the medium-term fiscal-structural plan in a timely manner.</i>
<i>In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausible downward trajectory over the medium term and respecting the 3% GDP deficit Treaty reference value.</i>
2024 CSR 2
<i>Strengthen administrative capacity to manage the recovery and resilience plan, accelerate investments and maintain momentum in the implementation of reforms. Address emerging delays to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of the cohesion policy programme. In the context of its mid-term review, continue focusing on the agreed priorities taking action to better address the needs in the area of prevention and preparedness against climate change-related risks, while considering the opportunities provided by the Strategic Technology for Europe Platform initiative to improve competitiveness.</i>
2024 CSR 3
<i>Strengthen the competitiveness of the economy by accelerating efforts to improve the governance of state-owned enterprises in line with international standards</i>
<i>and further improving skill levels and educational outcomes. Strengthen continuous teacher training and address the imbalance between labour supply and demand by further increasing the capacity and attractiveness of Vocational Education and Training programmes as well as fostering adult learning.</i>
2024 CSR 4
<i>Upgrade and expand the grid and storage to accommodate the increasing share of renewables.</i>
<i>Improve the implementation of climate adaptation measures, focusing on fostering the institutional framework governing climate adaptation and implementing sustainable water management practices in agriculture.</i>

Cyprus continues its path towards EU convergence but the benefits of sustained economic growth are not equally spread across its territory. Opportunities to boost competitiveness in the main urban centres and rural areas can be leveraged with the help of increased transport mobility and access to basic services throughout the country.

Between 2014 and 2023, Cyprus's GDP grew on average 4.3% per year with unemployment rates that did not differ by much between rural and urban areas (5.5% and 4.6%, respectively). During this period, GDP per head increased by slightly less than the total GDP (3.2% per year) given the substantial growth in the population. Cyprus's relative position compared to the EU average has therefore improved, with GDP per capita in purchasing power standard (PPS) climbing from 84% in 2013 to 97% in 2023. Labour productivity per hour growth has followed a similar path: between 2013 and 2022, it increased on average by 1.2% per year – compared to 0.9% for the EU while remaining below the EU average, (at 77% of the EU average and 93% of transition regions' average).

Graph A17.1: The evolution of labour productivity per hour in Cyprus



Unit: Real GDP per hour worked (EUR, 2015 prices)

Source: Eurostat

Economic growth is largely driven by the services sector which is concentrated in the main urban areas of the island. In 2023, individual levels of digital skills, which are key within the sector, measured by the percentage of people with basic or above basic skills, were below the EU average

(49.5% compared to 55.6%), and are lowest in Cypriot cities with a drop of 5 percentage points (pps) from 2021 (to 47.5%). However, the level of connectivity appears to be in line with EU averages. Access to the internet is at 91%, and 89% in rural areas.

Competitiveness

Cyprus is a strong innovator with its performance in 2024 at 106.3% of the EU average according to the European Innovation Scoreboard 2024, which continues to increase more than the EU (+10%). However, financing R&D remains a significant challenge in Cyprus as the country was below the EU average in 2024 for R&D expenditure in the public sector (39.3% of the EU average), private sector R&D expenditure (18.7% of the EU average), venture capital (59.8% of the EU average), and direct government funding and tax support for business R&D (15.8% of the EU average). Cyprus has a higher rate of enterprise births and total entrepreneurial activity than the EU, and this has concentrated economic activity in the two main urban centres: Nicosia and Limassol.

The start-ups ecosystem is particularly active in the ICT sector and digital technologies, and is concentrated in the two main urban centres: Nicosia and Limassol. The fintech sector in Cyprus has shown steady development in recent years, supported by a growing ecosystem and favourable regulatory initiatives. Nicosia and Limassol are the primary hubs for fintech companies, with Nicosia leading as the key location and Limassol closely following. The pharmaceutical sector in Cyprus has also grown in recent years, supported by increased export activity and the expansion of local manufacturing capabilities. Key operations are concentrated in Nicosia and Limassol, which host major manufacturing facilities and research centres. Larnaca is also emerging as a hub for pharmaceutical logistics and exports, benefiting from its proximity to the country's main airport. These cities play a central role in the sector's



contribution to the national economy and its integration into global markets.

Social fairness

The labour market is generally performing well with some differences between the urban and rural parts of the country. The employment rate (for people aged 20-64) in 2024 was above the EU average (79.8% compared to 75.8%), and it was slightly higher in cities (80.3%) and towns and suburbs (80.0%) than in rural areas (77.9%). Employment rates are higher for EU migrants (85.5% in cities, 86.7% in towns and suburbs), while it is lower for non-EU migrants (74.3%, 73.1%) but still above the respective EU averages. The gender employment gap is 10 pps on average, and higher in rural areas (where the employment rate is 72% for women compared to 84.2% for men) especially for people whose educational attainment is below tertiary level. Employment rates (for people aged 25-64) are high but slightly below the EU average for people with a tertiary (87.8%, with little variation between urban and rural areas), suggesting that there is an opportunity to further integrate highly educated people into the labour market. The working-age population (aged 20-64) increased in the last 10 years (+0.5% per year), compared to a slight decline both in the EU and in transition regions on average. Net migration was also positive, with an average annual change of 8 per 1 000 residents between 2014 and 2023, compared to 3.2 in the EU.

Cyprus faces structural challenges in boosting its competitiveness, particularly as regards workforce skills, energy costs, regulatory burdens, and access to finance. According to the European Investment Bank Investment Survey 2024, the availability of skilled staff remains the most significant obstacle to investment (91%), followed by high energy costs (86%), burdensome business regulations (69%), and limited access to finance (64%). Skills mismatches, exacerbated by an education system misaligned with market needs, constrain private sector growth and are a critical

competitiveness concern. Energy costs for non-household customers in Cyprus remain among the highest in the EU. This is largely due to the small size of the electricity market and reliance on fossil fuel imports for power generation.

Administrative burdens also act as a break on investment, with the share of firms citing redtape as a major obstacle above the EU average and increasing over time. Challenges persist in enforcing the rule of law, addressing pending court cases, and improving the efficiency of the public procurement system, particularly in encouraging competition and strategic procurement.

The structure of the Cypriot economy is dominated by small to medium-sized enterprises, which account for 99.9% of firms, including 92.8% micro businesses that employ 39.8% of the workforce but contribute only 24.5% of value added. The low share of employment in larger companies (16%) is significant compared to both the EU average and similar economies like Malta and Estonia. This lack of larger firms limits Cyprus's capacity to shape economic specialisation, boost its export potential, and strengthen value chain integration.

Access to finance remains a challenge for Cypriot businesses, with 9.5% of firms reporting financial constraints, well above the EU average of 6%. The economy remains heavily reliant on bank loans, which restricts flexibility and diversification in financing options. Investment in intangible assets (such as R&D, software, training, and business processes) accounted for 33% of total investment in Cyprus, slightly below the EU average of 37%. While Cyprus leads the EU in investment in employee training, this comes at the expense of other productivity-boosting activities like R&D, machinery and equipment. As a result, overall investment levels remain low, with limited focus on activities that could drive long-term productivity and innovation.

The availability of highly educated workers is higher than the EU average, with variations across the territory. In 2024, the percentage of people

aged 25-64 with a tertiary degree was 51.4% on average (36.1% in the EU), and higher in cities (57.0%) than in towns and suburbs (46.2%) and rural areas (37.6%), with a positive trend in the last years. The percentage of people aged 30-34 with a tertiary degree was 64.4% on average (44.8% in the EU).

Table A17.1: Socio-economic indicators by degree of urbanisation, 2024

	Cities	Towns and suburbs	Rural areas
Population with high educational attainment % of population aged 25-64	57.0	46.2	37.6
Population with low educational attainment % of population aged 25-64	11.1	16.3	21.1
Early leavers from education and training % of population aged 18-24	8.6	18.8	12.0
At-risk-of-poverty or social exclusion % of total population	15.8	16.9	21.1

Source: Eurostat

The condition of young people in the education system and labour market shows however some worrying signs. Youth unemployment in 2024 went below the EU average in all types of territories, and was similar all areas in cities (13.0% compared to 15.8%) and rural areas (13.0% compared to 14.3%). On the other hand, the rate of early leavers from education and training was higher than the EU average especially in towns and suburbs (18.8% compared to 10.2%) and also in rural areas (12.0% compared to 10.2%). The rate of young people (15-34) neither in employment nor in education and training was also higher than the EU average, and especially in towns and suburbs (14.1% compared to 12.7%). Access to primary schools – measured as the share of children within a 15-minute walking distance from the nearest school – is very low in rural areas (18%) and in cities (56%). At the same time, challenges remain as regards the quality of education and educational outcomes (see Annex 12). Students in rural areas perform considerably worse in basic skills than their peers in cities with a gap of 39 PISA score points. In the 2022 OECD Programme for International Student Assessment (PISA), Cyprus recorded the highest severe underachievement rate, with over 40.3% of students underachieving simultaneously in all three tested subjects all over the country (see

Annex 12 on education and skills). There is therefore a potential to improve the educational outcomes and the labour market prospects of young people, especially in rural areas.

Access to health is worse than the EU average, also when considering only transition regions such as Cyprus. The share of population within 10 minutes by car from the nearest hospital was 79.7% in urban areas and only 9.4% in rural areas, compared to EU averages for transition regions of 97.5% and 34.6%, respectively. Despite issues in access to hospitals, self-perceived indicators about health and unmet needs for medical examination are better than EU averages, also in rural areas.

Sustainability

Cyprus faces notable sustainability challenges due to its high vulnerability to climate change, with the high water stress levels driven by low rainfall and high temperatures. This puts significant pressure on water resources, particularly in agriculture and tourism-dependent areas. Anthropic pressures in coastal zones, including urban development and tourism, risk impacting habitats and ecosystems. Addressing these pressures through targeted conservation and sustainable land use policies is increasingly important. While adaptation policies exist, further efforts could strengthen implementation and address gaps, particularly in water management and coastal protection. There is potential for Cyprus to explore innovative solutions to boost resilience and support sustainable growth. In addition, making progress towards a circular economy in waste management is critical and would require investment in recycling capacity and waste. Improving water management, especially wastewater treatment, is essential to comply with the Urban Wastewater Treatment Directive.

Access to alternative fuel infrastructure ⁽¹⁹²⁾ is very low and hampers mobility between urban centres and rural areas. The number of electric vehicles charging points with 10 km is only 7.2, well below the average for transition regions (89). Addressing these environmental challenges, Cyprus faces significant hurdles in achieving sustainable transport. The country requires substantial investment in public transportation, electric vehicle infrastructure, and facilities for pedestrians and cyclists to reduce its reliance on traditional fuel sources. Additionally, accelerating the energy transition will demand further investments in renewable energy production, energy storage systems, and enhanced energy efficiency to align with EU sustainability targets.

⁽¹⁹²⁾ Indicators of access to alternative fuel infrastructure are based on calculations by DG REGIO and the JRC, using data from the European Alternative Fuels Observatory (EAFO), Eurostat, TomTom and Eco-Movement.