Council of the European Union

Brussels, 14 January 2025
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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	COUNCIL RECOMMENDATION endorsing the national medium-term fiscal-structural plan of Cyprus

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Cyprus

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the Commission, Whereas:

GENERAL CONSIDERATIONS

(1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance[1], together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure[2], and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States[3] are the core elements of the reformed EU economic governance framework. The framework aims at promoting sound and sustainable public finances, and sustainable and inclusive growth and resilience through reforms and investments. and preventing excessive government deficits. It also promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement of the rules.

1 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

2 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj).

3 Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

(2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission, are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring that, inter alia by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3% of GDP over the medium term, and ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the EU. To that end, each plan is to present a medium-term commitment to a net expenditure[4] path, which effectively establishes a budgetary constraint for the duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan is to explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263.

(3) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.

(4) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorse the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

[4] Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes 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-offs and other temporary measures.

CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF CYPRUS

(5) On 15 October 2024, Cyprus submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36 of Regulation (EU) 2024/1263, as agreed with the Commission in view of the reasons provided by Cyprus. On 15 November 2024, Cyprus submitted an addendum to revise the net expenditure growth path to reflect more recent data. This revision was necessary in view of a change on the statistical recording of a significant transaction that became available after the submission of the plan and had a major impact on the expenditure level of 2023 and subsequently on the intended expenditure growth rates and levels of 2024 and the adjustment period 2025–2028.

Process prior to the submission of the plan

(6) To frame the dialogue leading to the submission of national medium-term fiscal-structural plans, on 21 June 2024, the Commission sent, according to Article 9 of Regulation (EU) 2024/1263, the reference trajectory[5] to Cyprus. The Commission published the reference trajectory on 15 October 2024[6]. The reference trajectory is risk-based and ensures that, by the end of the fiscal adjustment period and in the absence of further budgetary measures beyond the adjustment period, general government debt is on a plausibly downward trajectory or stays at prudent levels over the medium term, and the general government deficit is brought below 3% of GDP over the adjustment period and maintained below that reference value over the medium term. The medium term is defined as the ten-year period after the end of the adjustment period. In accordance with Articles 7 and 8 of Regulation (EU) 2024/1263, the reference trajectory is also consistent with the debt sustainability safeguard and the deficit resilience safeguard. The reference trajectory of Cyprus sets out that, based on the Commission's assumptions underpinning the prior guidance transmitted in June 2024 and assuming a 4-year adjustment period, net expenditure should not grow by more than the values provided in Table 1. This corresponds to average net expenditure growth of 4.9% over the adjustment period (2025–2028).

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[5] Prior guidance transmitted to the Member States and Economic and Financial Committee includes trajectories with and without an extension of the adjustment period (covering 4 and 7 years, respectively). It also includes the main initial conditions and underlying assumptions used in the European Commission's medium-term government debt projection framework. The reference trajectory was calculated on the basis of the methodology described in the European Commission's Debt Sustainability Monitor 2023 (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). It is based on the European Commission 2024 spring forecast and its medium-term extension up to 2033, and long-term GDP growth and ageing costs are in line with the joint European Commission-Council 2024 Ageing Report (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

[6] https://economy-finance.ec.europa.eu/document/download/20a00b2c-4847-446b-a103-192958a1e11a_en?filename=Commission_prior_guidance-cyprus_en.pdf.

Table 1: Reference trajectory provided by the Commission to Cyprus on 21 June 2024

	2025	2026	2027	2028	Average 2025–2028
Maximum net expenditure growth (annual, %)	5.9	5.0	4.5	4.3	4.9

Source: Commission's calculations.

(7) In line with Article 12 of Regulation (EU) 2024/1263, Cyprus and the Commission engaged in a technical dialogue from July to September 2024. The dialogue centred on the net expenditure path envisaged by Cyprus and its underlying macroeconomic assumptions, particularly concerning potential output and output gap. Additionally, technical dialogues examined the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union in fair green and digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

(8) According to the information provided by Cyprus in its plan, a consultation process with relevant national stakeholders (including social partners) prior to submission as foreseen in Article 11(3) of Regulation (EU) 2024/1263 did not take place, in line with the transitional provisions foreseen in Article 36(1), point (c), of Regulation (EU) 2024/1263. According to the plan, key reforms and investments had already undergone consultation with the social partners and civil society in the context of the preparation of Cyprus' RRP.

(9) The Cypriot Fiscal Council delivered an opinion on the macroeconomic forecast and the macroeconomic assumptions underpinning the draft budget for 2025 and the 2025–2027 medium-term budgetary framework in the context of the 2025 budgetary process. The Council considers the assumptions plausible and the net primary expenditure growth respecting the obligations of Cyprus under the new EU economic governance framework.

Other related processes

(10) On 15 October 2024, Cyprus submitted its Draft Budgetary Plan for the year 2025. The Commission adopted an opinion on this Draft Budgetary Plan on 26 November 2024[7].

(11) On 19 June 2024, the Commission concluded that Cyprus is experiencing macroeconomic imbalances. In particular, Cyprus faces vulnerabilities related to private, government and external debt, which have overall receded but remain relevant, while the large current account deficit has widened further.

(12) On 21 October 2024, the Council addressed to Cyprus a series of country-specific recommendations (CSRs) in the context of the European Semester[8].

SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT OF THEREOF

(13) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

[7] Commission Opinion on the Draft Budgetary Plan of Cyprus, 26.11.2024, C(2024) 9050 final.

[8] Council Recommendation of 21 October 2024 on economic, budgetary, employment and structural policies of Cyprus.

Context: macroeconomic and fiscal situation and outlook

(14) Economic activity in Cyprus grew by 2.6% in 2023, driven by domestic demand, notably private consumption supported by recovering real wages. According to the European Commission Autumn 2024 Forecast, the economy is expected to grow by 3.6% in 2024, thanks to investment and robust exports, particularly due to tourism, and in the ICT and shipping services sectors. Household spending is also expected to contribute to growth, albeit at a slower pace. For 2025 and 2026, real GDP growth is set to remain dynamic at 2.8% and 2.5% respectively, supported by similar factors. Potential GDP growth is also expected to remain solid over the same years, driven by capital deepening and favourable labour market dynamics. The unemployment rate stood at 5.9% in 2023, and is projected by the Commission to decrease to 4.9% in 2024, 4.7% in 2025 and 4.5% in 2026. Inflation (GDP deflator growth) is projected to decrease slightly from 3.8% in 2023 to 3.5% in 2024, and to reach 2.3% in 2025 and 2.2% in 2026.

(15) Regarding fiscal developments, in 2023 Cyprus's general government surplus amounted to 2.0% of GDP. According to the European Commission Autumn 2024 Forecast, it is set to reach 3.5% of GDP in 2024 and to decline to 2.7% of GDP in 2025 and, on a no-policy change basis, to remain at 2.7% in 2026. The Commission Autumn 2024 Forecast includes Cyprus's draft budget for 2025 that the government adopted in October 2024 and the national parliament is expected to vote in December 2024. General government debt was 73.6% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, the debt ratio is expected to decline to 66.4% of GDP at end-2024. It is projected to decline to 61.4% of GDP at end-2025 and 56.7% at end-2026. The fiscal forecast by the Commission does not consider the policy commitments in the medium-term plans as such until they are underpinned by credibly announced and sufficiently specified concrete policy measures.

Net expenditure path and main macroeconomic assumptions in the plan

(16) Cyprus's national medium-term fiscal-structural plan covers the period 2025–2028 and presents a fiscal adjustment over four years.

(17) The plan contains all information required by Article 13 of Regulation (EU) 2024/1263.

(18) The plan commits to the net expenditure path indicated in Table 2, corresponding to average net expenditure growth of 5.2% over the years 2025–2028. The average net expenditure growth reported in the plan over the adjustment period (2025–2028) is above the reference trajectory transmitted by the Commission on 21 June 2024. The plan assumes potential GDP growth to decrease gradually, from 3.9% in 2024 to 3.1% by 2028. In addition, the plan expects the growth rate of the GDP deflator to remain elevated in 2024, mostly due to the projected high general government deflator, which reflects the expected full implementation of the automatic indexation mechanism. For the subsequent years, the GDP deflator is expected to gradually converge towards 2%.

Table 2: Net expenditure path and main assumptions in Cyprus's plan

	2024	2025	2026	2027	2028	Average over the period of validity of the plan 2025–2028
Net expenditure growth (annual, %)	2.7	6.0	5.0	5.4	4.3	5.2
Net expenditure growth (cumulative, from base year 2023, %)	2.7	8.9	14.3	20.5	25.7	n.a.
Potential GDP growth (%)	3.9	3.6	3.3	3.3	3.1	3.3
Inflation (GDP deflator growth) (%)	3.8	2.4	2.0	2.0	2.0	2.1

Source: Medium-term fiscal-structural plan of Cyprus and Commission calculations.

Implications of the plan's net expenditure commitments for general government debt

(19) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, gradually decrease from 66% in 2024 to 47.4% of GDP at the end of the adjustment period (2028), as per the following table. The debt ratio is projected to decrease by almost 19 percentage points of GDP during the adjustment period, up to 2028. After the adjustment, over the medium term (i.e. until 2038), the general government debt ratio is projected to continue to decrease according to the plan, reaching 27.9% of GDP by 2038[9].

Table 3: General government debt and balance developments in Cyprus' plan

	2023	2024	2025	2026	2027	2028	2038
Government debt (% of GDP)	77.4	68.9	64.2	58.8	53.3	47.4	27.9
Government balance (% of GDP)	3.3	3.9	2.7	2.6	2.1	2.1	0.8

Source: Medium-term fiscal-structural plan of Cyprus.

Thus, according to the plan and its addendum, general government debt would be brought below the Treaty reference value of 60% of GDP by end-2026. This is plausible based on the plan's assumptions, and debt is projected to stand below 60% of GDP by 2038 under all deterministic stress tests of the European Commission's Debt Sustainability Analysis. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for debt as set out in Articles 6, point (a), and 16(2) of Regulation (EU) 2024/1263.

[9] The plan was submitted on 15 October 2024, but takes into account – through its addendum – the change in the statistical treatment of the payment of EUR 360 million by the State to the new civil servants' pension scheme, which was released on 22 October 2024 as it had a major impact on the net expenditure growth path.

Implications of the plan's net expenditure commitments for the general government balance

(20) Based on the plan's net expenditure path and assumptions, the general government surplus would be 2.7% of GDP in 2025, 2.6% in 2026 and 2.1% in 2027 and 2028. Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period (2028). In addition, in the ten years following the adjustment period (i.e. until 2038), the government deficit would not exceed 3% of GDP. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out in Article 6, point (b), and 16(2) of Regulation (EU) 2024/1263.

Consistency of the plan with the deficit resilience safeguard

(21) If the plan's assumptions and commitments materialise, the structural deficit would remain below 1.5% of GDP throughout the adjustment period. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the common resilience margin referred to in Article 8(1) of Regulation (EU) 2024/1263 will continue to be respected, and therefore the additional improvement in the structural primary balance referred to in Article 8(2) of Regulation (EU) 2024/1263 is not required.

Consistency of the plan with the debt sustainability safeguard

(22) In accordance with Article 7 of Regulation (EU) 2024/1263, as general government debt will be between 60% and 90% of GDP in 2024 and 2025 according to the plan, the debt ratio is required to decline by at least 0.5 percentage points on average per year until it falls below 60%. This average decline is calculated over the period 2024–2026 and amounts to 5.1 percentage points (see Table 3). Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the debt sustainability safeguard.

Macroeconomic assumptions of the plan

(23) The plan is based on a set of assumptions which differs from the Commission's assumptions transmitted to Cyprus on 21 June 2024. In particular, the plan uses different assumptions for six variables, such as the starting point of the structural primary balance in 2024, the revenue elasticity to GDP, and the growth assumptions (in terms of real and potential growth, as well as the closure of the output gap). An assessment of these differences in assumptions is provided below. The differences in assumptions with the most significant impact on average net expenditure growth are listed below, together with an assessment of each assumption considered in isolation.

- The starting point is more favourable as the structural primary balance in 2024 in the plan is significantly higher than in the Commission's assumptions. The plan uses more up-to-date data and projects the structural primary surplus at 4.2% of GDP in 2024, compared to a projected 3.5% of GDP surplus in the prior guidance. This is due to significantly higher-than-expected tax revenues based on outturn data. Consequently, this assumption is deemed to be duly justified.

- The plan implies a different elasticity of revenue to GDP from the Commission, which assumes a unit structural revenue elasticity to potential GDP. The lower revenue as a percentage of GDP in the plan follows a more prudent assumption, with revenue growing in line with price and income developments. It also assumes no additional revenue from the settlement of backlog of tax cases and possible improvements in tax administration. Consequently, this assumption is deemed to be duly justified. This contributes to lower average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions.

- The plan assumes real GDP growth to ease from an estimated 3.7% in 2024 to 3.1% in 2025, and to further accelerate thereafter, peaking at 3.3% in 2027. The Commission's prior guidance projects lower growth, starting from 2.8% in 2024 and peaking at 3.0% in 2025, before gradually easing to 1.5% in 2027. Overall, the real GDP growth profile assumed in the plan is more favourable than the Commission's assumption over the adjustment period. It also shows a more volatile profile. Beyond the adjustment period, the plan assumes a similar profile to the Commission's prior guidance. The plan assumes potential GDP growth to remain above 3% throughout the adjustment period, which is higher than average potential growth of around 2% assumed in the Commission's prior guidance. Additionally, the plan does not align with the assumption of a potential growth path that closes the output gap by 2028, which is not consistent with the DSA framework.

The remaining differences in assumptions do not have a significant impact on average net expenditure growth compared to the Commission's assumptions. Overall, all the differences in assumptions taken together could lead to an average net expenditure growth higher than in the reference trajectory, without impact on plan's compliance with the requirement of Regulation (EU) 2024/1263. Cyprus has however opted for an expenditure path in line with the reference trajectory transmitted by the European Commission on 21 June 2024 adjusted only for the impact of the change in the statistical treatment of a significant transaction, State's payment to the new civil servants' pension scheme. This led to an average net expenditure growth which is higher by around 0.3 pp than the Commission reference trajectory due to the new starting point of 2024. The Commission will take into account the above assessment of the plan's assumptions in future assessments of compliance with this recommendation.

Fiscal strategy of the plan

(24) According to the indicative fiscal strategy in the plan, the commitments on net expenditure will be delivered mainly through existing policies. The plan takes into account the impact of adopted revenue and expenditure measures such as public sector wage increases approved in 2024, measures to support housing needs of vulnerable households, the phasing out of tax rates reductions and the non-indexation of the personal income tax brackets. The plan does not assume any additional revenue from the backlog of tax cases, which may continue contributing positively to revenue growth in line with the developments in the recent years. The plan highlights that the set targets will be achieved without requiring additional budgetary measures. The Draft Budgetary Plan for 2025 reaffirms this position and confirms that the net expenditure commitment for 2025 will be achieved without requiring additional budgetary measures[10].

Reform and investment intentions in the plan responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union

(25) The plan describes policy intentions concerning reforms and investments to respond to the main challenges identified in the context of the European Semester (especially the CSRs, including those pertaining to the macroeconomic imbalances procedure) and to address the common priorities of the EU. The plan includes an extensive list of around 50 reforms and investments addressing the common priorities of the EU, of which 26 are financially supported by the RRF and 24 by the Cohesion policy funds.

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[10] See Commission Opinion on the Draft Budgetary Plan of Cyprus, 26.11.2024, C(2024) 9050 final.

(26) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan includes reforms and investments funded by national and EU funds. The majority of the green transition measures outlined in the plan are also incorporated into the Cyprus National Energy and Climate Plan. To address the 2024 CSR related to strengthening climate adaptation, the plan includes a reform that revises and updates the Cyprus National Strategy on Climate Change Adaptation. To address the 2023 CSR related to accelerating the roll-out of renewable energy and improving energy infrastructure and networks, the plan includes the digitalisation of the electricity grid to enhance further penetration of renewables (Cohesion policy funds) and the 'Great Sea Interconnector' (included in the recovery and resilience plan (RRP)). To address the 2023 CSR related to energy efficiency, the plan includes investments to improve the energy efficiency of schools (Cohesion policy funds) and the promotion of renewables and individual energy efficiency measures in dwellings (included in the RRP). To address the 2023 CSR related to shifting towards sustainable transport, the plan includes the support of the purchase of Electric Vehicles (included in the RRP) and infrastructure projects on Sustainable Urban Mobility Plans (included in the RRP and Cohesion policy funds). To address the 2020 CSR related to improving water and waste management, the plan includes a nationwide system for the separate collection of municipal waste (Cohesion policy funds) and the National Circular Economy Action Plan (included in the RRP and Cohesion policy funds). To address the 2019 CSR related to facilitating the enhancement of digital skills, the plan includes an E-Skills action plan (included in the RRP). To address the 2020 CSR related to digitalising the public sector the plan includes the digitalisation of public services (included in the RRP and Cohesion policy funds) and the introduction of the Electronic Identity. To address the 2020 CSR related to improving research and innovation, the plan includes the operation of the Cyprus Equity Fund (included in the RRP), which increases the availability of alternative financing sources, particularly for innovative companies and start-ups.

(27) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes reforms and investments funded by national and EU funds. To address the 2024 CSR related to improving the governance of the state-owned entities in line with international standards, the plan includes an action plan setting out four pillars of action. To address the 2019 and 2020 CSRs related to improving business environment and access to finance, the plan includes the simplification of the procedures for strategic development projects (included in the RRP), the establishment of a National Promotional Agency (included in the RRP) and the operation of the Cyprus Equity Fund (included in the RRP). To address the 2020 CSR related to increasing the effectiveness, efficiency and fairness of the tax system, the plan includes a set of reforms related to aggressive tax planning (included in the RRP). To address the 2020 CSR related to frontloading of mature public investment projects, the plan includes infrastructure projects on sustainable urban mobility, the refurbishment of water treatment plants and the installation and operation of smart metering infrastructure (included in the RRP). To address the 2024 CSR related to strengthening education, vocational education and training and adult learning, the plan includes a new system of Evaluation of the Education Work and the Educators (included in the RRP), the reform of the Curricula in Secondary Technical and General Education (included in the RRP), development actions of Technical Vocational Education and Training (Cohesion policy funds), the digitalization and improvement of the effectiveness of the services of the Public Employment Service (included in the RRP), the implementation of the Cyprus Lifelong Learning Strategy 2021–2027 and the development of Individual Learning Accounts (ILAs) (Cohesion policy funds). To address the 2020 CSR related to promoting flexible working arrangements, the plan also incorporates various schemes (Cohesion policy funds). To address the 2019 and 2020 CSRs related to providing affordable childhood education and care and adequate income replacement and access to social protection for all, the plan includes measures such as a reform in Pre-primary Education, Actions for School and Social Inclusion (DRA.S.E.+) and the Establishment of Home Structures for Children, Adolescents with Conduct Disorders, Persons with Disabilities and People in Need of Long-term Care (included in the RRP and the Cohesion policy funds) and the Minimum Guaranteed Income (Cohesion policy funds). To address the 2020 CSR related to enhancing the resilience and capacity of the healthcare system, the plan includes investments in expanding, upgrading, or constructing hospitals (included in the RRP).

(28) Concerning the common priority of energy security, the plan includes measures to upgrade and expand the grid and storage to accommodate an increasing share of renewables, to reduce reliance on fossil fuels, to extend and accelerate energy efficiency measures. To develop energy interconnections with neighbouring countries, the plan includes the 'Great Sea Interconnector', an energy infrastructure project that aims to connect the electrical grid of Cyprus and Greece and at a later stage Israel.

(29) Concerning the common priority of defence capabilities, the plan does not include any measures.

(30) The plan provides an overview of the public investment needs of Cyprus related to the common priorities of the EU. Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan includes public and private investments needs amounting to EUR 21.6 billion as identified in the Cyprus National Energy and Climate Plan to achieve the new emission reduction targets, energy efficiency upgrades in public hospitals and the introduction of a new e-Procurement System. Concerning the common priority of social and economic resilience, the plan includes investments needs to improve the healthcare system such as the development of a single databank of electronic files by the National e-health Authority. Concerning the common priority of defence capabilities, the plan includes investment needs to expand and upgrade the existing infrastructure units, to co-fund Research and Development Joint European Projects and to fund National Research and Development Projects in the defence domain.

Conclusion of the Commission's assessment

Overall, the Commission is of the view that Cyprus's plan fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION OF THE COUNCIL

(31) The Council welcomes the medium-term fiscal-structural plan of Cyprus and considers that its full implementation would be conducive to ensuring sound public finances and supporting public debt sustainability as well as sustainable and inclusive growth.

(32) The Council takes note the Commission's assessment of the plan. However, the Council invites the Commission to present its assessment of future plans in a separate document from the Commission recommendations for Council recommendations.

(33) The Council takes note of the Commission assessment of the net-expenditure path and the main macroeconomic assumptions in the plan, including in relation to the prior guidance by the Commission, as well as the implications of the plan's net expenditure path for government deficit and debt. The Council takes note of the Commission assessment that the macroeconomic and fiscal assumptions, while differing in some instances from the Commission's assumptions, including to cater for updated macroeconomic and fiscal data, are overall duly justified and underpinned by sound economic arguments. The Council takes note of the broad fiscal strategy of the plan and the risks to the outlook, which could affect the materialisation of the macroeconomic scenario and the underlying assumptions and the delivery of the plan's net expenditure path. The Council also notes that geopolitical risks may put pressure on defence expenditures.

(34) The Council expects Cyprus to stand ready to adjust its fiscal strategy as needed to ensure delivery of its net expenditure path. The Council resolves to monitor closely economic and fiscal developments, including those underlying the scenario of the plan.

(35) The Council considers that further discussions to find a common understanding on the annual surveillance implications of the cumulative net-expenditure growth rates is warranted in time for the next round of fiscal surveillance.

(36) The Council takes note of the Commission description of the reforms and investment needs and intentions responding to the main challenges identified in the context of the European Semester, and stresses the importance of ensuring the delivery of such reforms and investments. The Council will, on the basis of reports submitted by the Commission, assess such reforms and investments and monitor their implementation within the framework of the European Semester.

(37) The Council looks forward to the annual progress reports from Cyprus that shall contain, in particular, information about the progress in the implementation of the net expenditure path as set by the Council, and the implementation of broader reforms and investments in the context of the European Semester.

(38) In accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Cyprus.

HEREBY RECOMMENDS that Cyprus:

1. Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

Done at Brussels,

For the Council
The President

Maximum growth rates of net expenditure

(annual and cumulative growth rates, in nominal terms)

Cyprus

Years		2025	2026	2027	2028
Growth rates (%)	Annual	6.0	5.0	5.4	4.3
	Cumulative*	8.9	14.3	20.5	25.7

* The cumulative growth rates are calculated by reference to the base year of 2023. The cumulative growth rates are used in the annual monitoring of ex-post compliance in the control account.