



EUROPEAN
COMMISSION

Brussels, 2.6.2014
SWD(2014) 414 final

COMMISSION STAFF WORKING DOCUMENT

**Assessment of the 2014 national reform programme for
CYPRUS**

CONTENTS

Executive summary	1
1. Introduction	3
2. Economic Situation and Outlook	3
3. Challenges and Assessment of policy agenda.....	4
3.1. Fiscal policy and taxation.....	4
3.2. Financial sector	5
3.3. Labour market, education and social policies	7
3.4. Structural measures promoting sustainable growth and competitiveness	8
3.5. Modernisation of public administration	10
4. Conclusion.....	11
Overview table on Europe 2020 targets	12
Annex	17

EXECUTIVE SUMMARY

The macroeconomic outlook remains challenging. While significant, the recession has been less pronounced than expected in 2013 (5.4%), on the back of resilient performance of the tourism and professional service sectors and a smaller-than-anticipated decline of private consumption. Employment has fallen and the unemployment rate has increased significantly; yet, the labour market has proved flexible and the gradual adjustment in wages has helped in curbing the fall in employment. The need for an adjustment of private and public sector debt from the current high level will continue to act as a drag on growth. GDP is forecast to further decline by -4.2% in 2014, and the economy is projected to return to modest growth of 0.4% next year, and only gradually improving thereafter, as domestic demand is weighed down by the need to reduce very high levels of indebtedness. Nonetheless, risks to the outlook remain on the downside. Risks mainly stem from a slower than envisaged resolution of non-performing loans, a possible prolonged period of tight credit supply conditions, a possible slower than envisaged household deleveraging process, a further worsening of labour market conditions and further increase in the geopolitical tensions in Russia and Ukraine.

Fiscal performance has remained strong. Fiscal targets for 2013 have been met with considerable margin, due to both continued prudent budget execution and a less severe recession than anticipated. The 2013 government deficit has turned out around 2 percentage points lower than targeted, while the 2014 government deficit is projected to be about ½ percentage point lower than earlier anticipated, at 5.3% of GDP.

The key objectives of the economic adjustment programme are to help Cyprus's return to a sustainable growth path with better employment prospects and to restore financial stability. The programme builds on the 2012 country-specific recommendations for Cyprus, which have been partially implemented to date, making the steadfast implementation of the programme essential for sustainable growth in the long-run. Full implementation of the programme will also be key to ensure progress towards the Europe 2020 targets.

Cyprus's programme remains on track, a year after its agreement on 24 April 2013. Progress has been achieved in all key objectives of the programme, namely in the banking sector, fiscal consolidation, and structural reforms, although challenges remain. Key challenges in the period ahead relate to:

- **Banking sector:** signs of stabilisation are emerging in the banking sector, although significant challenges remain. These notably relate to the need to clean up banks' balance sheets from the high level of non-performing loans and to reduce the private sector indebtedness in order to restore credit and sustainable growth. The establishment of an appropriate debt restructuring framework is key to that effect. Work also needs to continue on the implementation of the restructuring plans of the domestic banking institutions. It is also important to ensure that further relaxation of capital controls does not endanger financial stability. Work also needs to continue on the anti-money laundering framework.
- **Public finances:** building on the strong fiscal performance to date, the authorities would need to continue to maintain their prudent budget execution. As agreed at the onset of the programme, an additional adjustment will be necessary in the outer years to attain the long run objective of a sustained 4 percent of GDP primary surplus, which is needed to place public debt on a sustainable downward path.
- **Structural reforms:** the implementation of structural reforms has advanced, although some reforms need to be accelerated. Progress was notably observed in the areas of revenue administration, which aims to improve efficiency of collection, in public

financial management, immovable property tax reform with the objective of improving the fairness of the tax burden, and in improving labour market activation policies. Key priority is the adoption of the social welfare reform to provide adequate social protection for vulnerable households during the current downturn. Also, the privatisation plan should be promptly put into implementation. The introduction of a national health system constitutes another important priority, the first phase of which is expected to be in place mid-2015.

1. INTRODUCTION

Following a request by Cyprus on 25 June 2012, the European Commission, European Central Bank, and the International Monetary Fund negotiated an Economic Adjustment Programme with the Cypriot authorities, which was approved by the European Stability Mechanism (ESM) on 24 April 2013 and the International Monetary Fund board on 15 May 2013. The programme covers the period of 2013 – 2016. Its financial package covers up to EUR 9 billion provided by the European Stability Mechanism and EUR 1 billion by the International Monetary Fund IMF. So far, the total amount of EUR 5.1 billion has been disbursed (EUR 4.75 billion from European Stability Mechanism and EUR 340 million from International Monetary Fund).

The main objectives of the policy Programme builds on three main pillars: i) policies to restore the soundness of the financial sector and rebuild depositors' and market confidence by thoroughly restructuring and downsizing financial institutions and strengthening supervision; ii) continue the fiscal consolidation in order to correct the excessive general government deficit by 2016 and put the gross public debt-to-GDP ratio on a firm downward path in the medium-term; and iii) structural reforms to support competitiveness and enable the economy to return to sustainable growth, allowing for the unwinding of macroeconomic imbalances.

As for all Member States benefiting from a financial assistance programme, progress with the implementation of the accompanying policy programme in Cyprus is monitored in a regular and specific manner, in line with the provisions of the Memorandum of Understanding. This staff working document under the 2014 European Semester provides a synthesis of the recent progress with implementation of the programme and in achieving the Europe 2020 targets. More details can be found in the reports on the state of implementation, which the European Commission publishes following each programme review mission.¹ Given the extensive reporting requirements under financial assistance programmes, as well as their strict monitoring and enforcement, programme countries are exempt from the obligation to submit national reform programmes and stability or convergence programmes (Regulation (EU) No 472/2013, Article 10(1)). Nevertheless, Cyprus submitted an updated national reform programme on 30 April 2014, and the fiscal tables of the stability programme.

2. ECONOMIC SITUATION AND OUTLOOK

The contraction of the economic activity in 2013 has been less pronounced than initially expected, reflecting, on the one hand, resilient performance of the tourism and professional service sectors, and, on the other hand, a smaller-than-anticipated decline of private consumption. Reflecting the large economic slack, inflation continued to ease in 2013 and early 2014. Nevertheless, several factors continued to weigh on the economy, including tight credit conditions, fiscal consolidation measures, salary adjustments in both public and private sector and worsening labour market conditions.

The labour market has been severely impacted but proved overall flexible and compensation per employee has adjusted further downwards in 2013. This has curbed the fall in employment rate, which declined to 67.1% for the age group 20-64 and, together with migration outflows, helped to limit the increases in the unemployment rate, which nevertheless reached unprecedented levels in 2013 (15.9%), with youth unemployment close

¹ These reports, along with other information related to the financial assistance programme, can be found on: http://ec.europa.eu/economy_finance/assistance_eu_ms/cyprus/index_en.htm

to 40%. Unemployment is projected to increase further in 2014 to 18.6% and to slightly fall in 2015.

The macroeconomic outlook remains challenging. GDP is forecast to decline by -4.2% in 2014 despite continued improvements in business sentiment and consumer confidence. The economy is projected to return to modest growth next year by 0.4% and only gradually improve thereafter as the need for an adjustment of private and public sector debt from the current high levels will continue to act as a drag on growth. Risks remain mainly on the downside. A more protracted period of tight credit supply conditions and a slower reduction of households' debt, prolonging the needed deleveraging process, and a further worsening of the labour market conditions could lead to a more subdued recovery. Further escalation of the geopolitical tensions between Ukraine and Russia could also significantly affect Cyprus, given the extensive financial and trade linkages between Russia and Cyprus. Upside risks for the Cypriot economy relate to possible improvements in the external outlook and a more competitive tourism sector.

3. CHALLENGES AND ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Cyprus remains on track towards correcting its excessive deficit by 2016, as recommended by the Council on 16 May 2013. In its recommendations, the Council established a three-month deadline for the Cypriot authorities to take effective action, in accordance with Article 3(4) of Council Regulation (EC) No 1467/97. Following an assessment with the elapse of the three-month deadline, the Council found that Cyprus remains on track towards correcting the excessive deficit by 2016. In line with the Council Recommendation, Cyprus rigorously implemented the 2013 Budget Law, met expenditure targets, and implemented the agreed discretionary consolidation measures.

The 2013 fiscal targets were met by a large margin. Against the background of the milder than projected recession and thanks to the significant consolidation efforts, the 2013 general government headline deficit was around 2 percentage points better than projected earlier, reaching 5.4% of GDP. Despite weakening trends in the collection of certain taxes (ex. personal income taxes) and an important one-off payment to compensate provident and retirement funds that suffered losses in Cyprus Popular Bank, the primary balance outcome for 2013 also over-performed by around 1.6 percentage points of GDP.

Reflecting the better performance in 2013, the 2014 fiscal deficit target has been revised down. The 2014 primary deficit is forecast to reach 1.7% of GDP. While lower than initially anticipated, compared to 2013, the general government headline deficit is projected to widen slightly in 2014 to -5.3% of GDP, mainly due to falling corporate tax revenue as well as declining wages and employment in the private and public sectors.

The debt-to-GDP ratio reached 111.7% of GDP in 2013. It is projected to peak at 124% in 2015, and to gradually decline towards 103% in 2020, in line with the debt sustainability analysis underpinning the programme.

Progress is visible with fiscal-structural reforms aimed at ensuring long-term sustainability of public finances. The pension system reform, encompassing measures aimed at increasing retirement ages, introducing disincentives for early retirement and reducing the generosity of pension benefits, has been implemented in both the general social insurance (GSIS), the government employees' pension state system (GEPS) and certain entities in the broader public sector.

A comprehensive and transparent legal framework for public finance management is being developed. In January 2014 was adopted a Fiscal Responsibility and Budget System Law (FRBSL) aimed at ensuring compliance with the EU requirements driven from the Two-Pack Regulation 473/2013/EU and the Council Directive 2011/85/EC. The immovable property tax reform currently pursued aims to improve the fairness of the tax burden and to increase the efficiency of the tax administration. The authorities initiated a general valuation project to update the tax base for the immovable property. Updated property values² are expected to be published in the summer of 2014.

In line with programme conditionality, the government approved a reform plan for the establishment of the new integrated tax department. In early-May 2014, the authorities submitted to the House of Representatives the enabling legislation providing for the transfer of powers and operations from the existing separate tax agencies to the new integrated tax department. Formally, the new integrated tax agency is to be in place by July 2014. Operations will be integrated unit by unit, starting in the second half of 2014.

A comprehensive compliance strategy covering both the VAT service and Inland Revenue Department is being developed to improve tax collection, in line with MoU conditionality. In parallel, the authorities are working on a set of measures to enhance compliance and increase their collection powers in the short-term.

The authorities have committed to address the shortcoming regarding the application in practice of its legal framework and standards of transparency and exchange of information for tax purposes identified by the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. Out of ten areas, it was rated as non-compliant in two areas, and as partially compliant in another two. The issues are recognised within the programme conditionality, notably through the anti-money laundering action plan, the reform of the Registrar of Companies (falling within the public administration reform) and a dedicated action plan covering actions required by tax authorities which needs to be implemented by mid-2014.

3.2. Financial sector

The stabilisation of the financial sector has progressed further, even though the quality of bank assets continued to deteriorate. The moderation of deposit outflows together with the continued reduction in banks' assets, notably related to the repayment of loans, helped banks to improve their liquidity buffers, despite the decline in deposits. As a result, the sector's overall reliance on borrowing from the Euro-system somewhat declined. Nevertheless, financial stability warrants continued monitoring, in light of the elevated non-performing loans, with arrears' management posing the strongest challenge for banks to maintain an adequate capital level.

The capital controls remain in place but are gradually being relaxed. The critical situation in Cyprus was such that the imposition and continuation of the capital controls was justified as it constitutes a matter of overriding public interest and public policy/public security. In line with the milestones outlined in the published roadmap of August 2013 that link directly the relaxation of capital controls to further progress with the restructuring of the banking system taking into account the impact on financial stability, the capital controls are being gradually relaxed. In late-March 2014, the authorities proceeded to the second stage of this roadmap, which entailed the unlocking of the restrictions on fixed-term deposits and the

² The updated values of immovable properties will be determined on the basis of tangible building and plot related characteristics.

abolishment of limits on domestic transfers of funds. In early-May 2014, capital controls officially moved to stage three while the authorities also removed restrictions related to cash withdrawals already in March 2014 and the cashing of checks in early May, both steps being incorporated in the third stage of the roadmap. To fully implement the third stage of the roadmap, the ban on opening of new (current) accounts will need to be abolished. Moving to the fourth stage will depend on the implementation of the macroeconomic adjustment programme and the restoration of confidence in the Cypriot banking system.

The authorities have strengthened the implementation of the regulatory and supervisory framework in line with the programme's policy advice. The Central Bank of Cyprus adopted the loan origination directive on 4 December 2013, thereby addressing some major causes for the build-up of non-performing loans in the sector. Supplementary information on the new Code of Conduct for dealing with troubled borrowers was published in November in order to enhance the public awareness of the new framework. A new definition³ and classification of non-performing loans is effective as of 1 July 2013, while the Central Bank of Cyprus published the time series of non-performing loans based on this new definition in January 2014. The Directive on Arrears Management of the Central Bank of Cyprus was established and the role of the Financial Ombudsman clarified. Work on the monitoring of the banks' management of arrears, namely through key performance indicators, also progress satisfactorily. In particular, the Central Bank of Cyprus enhanced its operational capacity to follow the implementation of the restructuring plan of the Bank of Cyprus and the cooperative banks, while banks have submitted their implementation plans. First steps have been initiated towards the comprehensive reform of the Cypriot insolvency regime (for both personal and corporate insolvency), aimed at providing incentives to and mechanism for creditors to reach solutions with viable borrowers within a well-defined framework.

The restructuring and recapitalisation of the banking sector has progressed further and priority is given to dealing with non-performing loans. The new merged Bank of Cyprus Group was taken out of resolution on 31 July 2013 upon the finalisation of its asset valuation. Its restructuring plan was approved by the Central Bank of Cyprus in early November 2013 and its implementation is progressing further, notably with the ongoing rationalisation of branches and international banking units. The Hellenic Bank attracted significant private capital, including from foreign investors, and raised the required capital, without relying on state aid. Following the approval by the European Commission of their restructuring plan, cooperative credit institutions have been recapitalised in March 2014 with the government injecting public funds amounting to EUR 1.5bn, which results in the 99% state ownership of the Cooperative Central Bank. The consolidation process through legal and operational mergers from 93 to 18 new entities has been completed by end-March as agreed in the MoU. A law on the new governance framework for the relationship between the government and the coops was voted on 5 September 2013, while the integration of the supervision of the coops within the Central Bank of Cyprus is finalised. While banks' restructuring has satisfactorily progressed until now, a key challenge for the Cypriot banking sector remains in managing the high-level of non-performing loans and preventing early arrears from becoming non-performing loans.

The Cypriot authorities continued with the implementation of the anti-money laundering action plan, which addresses the identified shortcomings in the anti-money laundering framework and its implementation in practice. The relevant Directive of the Central Bank of Cyprus was updated to ensure a coherent framework. The Trust and

³ According to the new definition adopted by the Central Bank of Cyprus, restructured loans that at the time of restructuring presented arrears of over 60 days remain classified as non-performing loans for at least 6 months after being restructured, even if restructured loans respect the new terms and conditions.

Company Service Provider and anti-money laundering Laws were amended to increase entity transparency. The customer due diligence framework was further enhanced by providing guidance to financial institutions regarding customer risk profile, the use of business reporting of suspicious transactions, including on tax crimes as predicate offenses. Moreover, a review of the Companies Register was finalised and steps are under implementation to improve its functioning. The capacity of the supervisory bodies has been enhanced among others through additional human resources and the development of risk-based supervisory tools for offsite and onsite surveillance. The Financial Intelligence Unit has taken steps to ensure a wider exchange of information with foreign counterparts.

3.3. Labour market⁴, education and social policies

Concerning programme implementation, progress has been registered with respect to measures intended to tackle youth unemployment and to addressing shortcomings of the current system of active labour market policies. Cyprus has submitted its draft Youth Guarantee Implementation Plan in December 2013 covering at this stage the period 2014-2016, forming part of a broader National Action Plan for Youth Employment, targeting also the youth population not covered under the youth guarantee (such as the age group 25-29). Measures foreseen in the Youth Guarantee Implementation Plan include early intervention and career guidance for early school leavers, targeted employment subsidies, vocational education and training, skill enhancement schemes, promotion of entrepreneurship, public and social work programmes and structural reforms including the enhancement of the capacity of public employment services to provide individualised services and to conduct outreach activities. A number of other schemes co-financed by the European Social Fund aim to support employment and target inactive women, young unemployed university graduates, self-employed, and other vulnerable groups. Cyprus is undertaking a comprehensive reform of its active labour market policies improving the design, administration, and monitoring of the different measures. With respect to the administration of these schemes, a uniform monitoring and evaluation framework has been developed to be applied to all active labour market policies, and a common database is being established so as to improve coordination and automatic exchange of information between the different implementing bodies. That said, given the expected further increase in unemployment, the gap to the national employment target of 75-77% is likely to further widen.

As per programme conditionality, following the reform of the wage indexation mechanism applicable in the broader public sector, a tripartite agreement for the application of the reformed wage indexation mechanism in the private sector is being pursued. Currently, tripartite negotiations with social partners are ongoing. The application of the reformed wage indexation mechanism in the public sector was suspended for the full programme period since autumn 2012.

Work on the welfare reform plan has also progressed. The welfare reform aims at enhancing the efficiency and effectiveness of the social protection system while protecting vulnerable groups, which is key at the current juncture given the changes and increase of the population at risk of poverty. The reform plan was adopted by Ministerial Council on 26 July 2013 and is expected to be enforced as of 1 July 2014. At the core of the new social welfare system is the existing unemployment benefit combined with a reformed public assistance programme, under the Guarantee Minimum Income. The new Guarantee Minimum Income will cover the basic needs defined on the basis of a new minimum consumption basket and

⁴ For further details, see the 2014 Joint Employment Report, COM(2013)801, which includes a scoreboard of key employment and social indicators.

additional allowances for housing cost and municipal taxes. Its coverage will be expanded to those currently not covered by the public assistance scheme (i.e., the working poor, the self-employed entering unemployment, and young unemployed graduates), and it will be financed by improving the targeting of the other benefits through consistent and encompassing means testing mechanisms. Active labour market programmes will be scaled up in order to reinforce work incentives and enhance the labour market prospects of various unemployed groups.

Cyprus has taken steps to strengthen the sustainability of the funding structure and the efficiency of public healthcare system, yet efforts need to intensify. Under programme conditionality, full implementation of the National Health System has been postponed from end-2015 to mid-2016 to allow for sufficient time for setting up the IT system as well as the restructuring of public hospitals. Yet, the first part of the National Health System, e.g. primary care, will be phased in already mid-2015, and will be followed by the introduction of outpatient specialists and outpatient pharmaceuticals by January 2016. Work on improving patient turnover in public hospitals, optimising the use of hospital resources, and improving the efficiency of healthcare delivery is ongoing. The World Bank concluded a functional review and proposed significant organisational changes for the Ministry of Health and hospital restructuring. The framework for pricing and reimbursement of goods and services according to Directive 2011/24/EU on the application of patients' rights in cross-border healthcare was transposed and was assessed by the Commission.

3.4. Structural measures promoting sustainable growth and competitiveness

Programme conditionality also includes the implementation of structural reforms to support competitiveness and sustainable growth. The Cypriot authorities committed to develop a comprehensive and coherent growth strategy building on the on-going public administration reform, public financial management reform, other commitments in Cyprus's adjustment programme and relevant EU initiatives, taking into account the Partnership Agreement for the implementation of European structural and investment funds.

New laws have been put in place to improve competitiveness and economic efficiency. Following the preparation of a detailed privatisation plan, with asset-specific timelines and intermediate steps for all state-owned enterprises identified for privatisation, a privatisation law was enacted on 4 March 2014, creating an institutional framework for the privatisation process. The new law on state-owned enterprises' corporate governance (to be adopted by mid-June 2014) introduces better coordination, control and supervision of state-owned enterprises, and a more rigorous approval procedure for the creation of new state-owned enterprises. In addition, a more structured management framework for public investment projects was anchored in the Fiscal Responsibility and Budget System Law, adopted on 13 February 2014.

Progress has been made with goods and services market reforms. Necessary amendments to the legislation of specific services sectors (construction, travel, car rental services, and travel agencies) were adopted in December 2013, as required by the Services Directive (2006/123/EU). The review of the requirements on the access and exercise of specific regulated professions has been finalised, while the full elimination of those requirements that are not justified or proportional is expected to be finalised by autumn 2014. Amendments to the legislation on the mergers and antitrust laws, including the power to conduct sector enquiries, have been agreed. Whilst the new antitrust law was adopted as per MoU conditionality, the new mergers law will only be so by mid-June 2014. The Cypriot authorities have committed to secure the Auditor General's Office sufficient financial means and personnel to carry out its functions, considering the recent increase in its tasks. Regarding

the housing market, the issuance of the title deeds is progressing slowly, whilst additional efforts are still required for the expeditious elimination of the current backlog. In the tourism sector, a first progress report on the revised National Tourism Strategy still requires some further fine-tuning (to be completed by mid-June 2014), while an air connectivity strategy was adopted in May 2014.

Finally, as part of developing a comprehensive strategy for the energy sector, the authorities presented a revised roll-out plan for gas exploitation infrastructure presenting different infrastructure and export options. Discussions were initiated on an intermediate draft outline of the market organisation and regulatory regime for the energy sector. A final version of this outline is expected by the end of 2014. A resource fund was established with the adoption of the budgetary framework law mid-February 2014. A specific law will provide for the resource fund's governance structure as well as inflow and outflow rules, which will be further detailed by legislation implementing the Fiscal Responsibility and Budget System Law.

Box 1: Potential impact of structural reforms on growth – a benchmarking exercise

Structural reforms are crucial for boosting growth. It is therefore important to know the potential benefits of these reforms. Benefits of structural reforms can be assessed with the help of economic models. The Commission uses its QUEST model to determine how structural reforms in a given Member State would affect growth if the Member State narrowed its gap vis-à-vis the average of the three best EU performers on a number of key indicators such as the degree of competition or labour market participation. Improvements on these indicators could raise Cyprus's GDP by about 7% in a 10-year period. Some reforms could have an effect even within a relatively short time horizon. The model simulations support the emphasis of the Memorandum of Understanding conditionality on measures to promote competition, in particular in the service market. In this context, it should be noted that entry costs have been negatively affected by fiscal consolidation as some regulatory fees were increased. In addition, the simulation supports the priority placed by the authorities and the programme partners on reforming active labour market policies, as these reforms are shown to have the potential to also substantially increase GDP in the long term. Finally, model simulations indicate that schemes financed by the European Social Fund targeting inactive women, young unemployed university graduates, self-employed, and vulnerable groups could have a positive effect on growth – even within a relatively short time horizon.

Table 1: Structural indicators, targets, and potential GDP effects⁵

⁵ Final goods sector mark-ups is the difference between the selling price of a good/service and its cost. Entry cost refers to the cost of starting a business in the intermediate sector. The implicit consumption tax rate is a proxy for shifting taxation away from labour to indirect taxes. The benefit replacement rate is the % of a worker's pre-unemployment income that is paid out by the unemployment scheme. For a detailed explanation of indicators see Annex.

Reform areas		CY	Average 3 best EU performers	GDP % relative to baseline	
				5 years	10 years
Market competition	Final goods sector markups (price-cost margin)	0.24	0.13	2.3	3.2
Market regulation	Entry costs	13.10	0.13	0.3	0.8
Tax reform	Implicit consumption tax rate	17.7	28.6	0.5	0.6
Skill enhancing reforms*	Share of high-skilled	9.0	10.7	0.0	0.0
	Share of low-skilled	22.5	7.5	0.0	0.0
Labour market reforms	Female non-participation rate (25-54ys):			0.6	1.2
	- low-skilled	28.4	26.4		
	- medium-skilled	20.4	10.5		
	- high-skilled	12.0	4.3		
	Low-skilled male non-participation rate (25-54ys)	13.9	7.7	0.1	0.1
	Elderly non-participation rate (55-64ys):			0.2	0.4
	- low-skilled	20.5	13.4		
	- medium-skilled	7.1	4.8		
	- high-skilled	4.0	3.3		
	ALMP (% of GDP over unemployment share)	7.6	37.4	0.3	0.4
	Benefit replacement rate**	n.a.	52.6	0.0	0.0
Total				4.2	6.8

Source: Commission services. Note: Simulations assume that all Member States undertake reforms which close their structural gaps by half. The table shows the contribution of each reform to total GDP after five and ten years. If the country is above the benchmark for a given indicator, we do not simulate the impact of reform measures in that area; however, the Member State in question can still benefit from measures taken by other Member States.⁶ * The long-run effect of increasing the share of high-skilled population would be 0.8% of GDP and of decreasing the share of low-skilled would be 2.7%. ** EU average is set as the benchmark.

3.5. Modernisation of public administration

The Cypriot authorities have committed to undergo a comprehensive public administration reform. The Public Service Law was amended in the first half of 2013, allowing for increased staff mobility within and between ministries, as well as for enhanced working time flexibility. The public administration review was launched in early September 2013 and is being supported by technical assistance by the World Bank and UK experts. A first batch of reports covering the Ministries of Agriculture, Education and Health, as well as local governments, has been finalised, whilst a reform plan is expected to be adopted by June 2014. The horizontal element of public administration reforms, including cross-cutting elements of Human Resource Management, is currently being reviewed. A second batch of public institutions will follow, covering all other Ministries and all state-owned enterprises excluded from the privatisation plan.

4. CONCLUSION

Cyprus's programme remains on track, a year after its agreement. Fiscal targets for 2013 have been met with considerable margin, due to both continued prudent budget execution and a less severe recession than anticipated. Signs of stabilisation are emerging in the banking sector, although significant challenges remain. The implementation of structural reforms advanced, although an accelerated pace of implementation is needed with some reforms. Notably, the privatisation plan should be put promptly into implementation, while the first phase of the implementation of the National Health System should take place by mid-2015.

⁶ For a detailed explanation of the transmission mechanisms of the reform scenarios see: European Commission (2013), "The growth impact of structural reforms", Chapter 2 in QREA No. 4. December 2013. Brussels; http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf

The authorities' relatively strong track record in programme implementation so far is welcome and needs to continue to address the challenges that the Cypriot economy is facing. Maintaining the proper implementation of EU Structural and other EU Funds will also contribute in this regard. Other key challenges in the period ahead relate to managing the high-level of non-performing loans, continuing to reduce private sector indebtedness, and further liberalizing capital controls while maintaining financial stability. Confronting the consequences of the rapidly deteriorating labour market conditions, including for youth, and the greater strain on the social protection system is also a significant key challenge. Progress towards the achievement of the Europe 2020 targets has been mixed, in context of the substantial and necessary economic adjustment.

OVERVIEW TABLE ON EUROPE 2020 TARGETS

Making progress towards achieving certain Europe 2020 targets and progressing further in others areas will be a challenge. The economic contraction and the prolonged period of uncertainty affected Cyprus' progress in meeting its national targets. Some indicators have deteriorated (targets of employment rate, research and development, population at risk of poverty), while indicators on tertiary education, early school leaving, renewable energy and climate seem to be ahead of interim milestones.

Committed to the policy advice outlined in the programme, Cyprus has undertaken significant steps towards the implementation of the country-specific recommendations issued in 2012. Sizeable fiscal consolidation is pursued with measures already legislated and adopted; financial sectors reforms are on-going, while steps to implement structural reforms have been undertaken. To date, the country-specific recommendations are considered to be partially implemented, making the steadfast implementation of the policy measures under the MoU essential for full compliance.

Progress made on Cyprus's national Europe 2020 targets, is summarised in the table below.

Europe 2020 (national targets and progress)	
2011 Commitments	Summary assessment
<p><i>Employment rate:</i> 75% - 77% of the population aged 20–64 should be employed by 2020.</p>	<p>The decline in employment rate, visible since 2009, intensified since 2009 and has continued so in 2013. For 2013, the employment rate of those aged 20-64 years old stood at 67.1%, decreasing by 8.2 pp. compared to the employment rate in 2009.</p> <p>Unemployment rate has reached a record high level of nearly 16% in 2013 (from 7.9% in 2011 and 11.9% in 2012). It is expected to increase further reflecting the contraction of the economic activity.</p> <p>Youth unemployment has also quickly risen to unprecedented levels (reaching 38.9% in 2013, an increase of 11pp between 2012 and 2013) and an increasing trend is observed in the NEET rate</p> <p>Long term unemployment has increased from 1.3% in 2011 to 3.6% in 2012 and 6.1% in 2013.</p> <p>While all these indicators are already well above the EU average, deterioration of the position of young people on the labour market may lead to loss of human capital in the longer term. Given the expected further increase in unemployment, the gap to the national employment target of 75-77% is likely to further widen.</p> <p>Cyprus has a Not-in Education- Employment –and Training NEET rate of 18.3% in 2013 (for people aged 15-24 years old), while for people up to 29 years old, the NEET rate reached 20.4%.</p> <p>Women continue to face lower employment rates although the overall unemployment rate was slightly higher for men than women in 2013. Given the weak economic activity, curbing the growing unemployment – including the long-term unemployment – remains a major challenge. The gap to the national employment target of 75-77% is likely to further widen over the medium-term.</p> <p>Concerning the social challenges, there has been a significant decline in the gross household disposable income in real terms (2011-2012) driven by a drop in market income and weakened stabilisation impact of social</p>

	<p>transfers. The number of people at risk of poverty or social exclusion has increased in the last years, while the people at risk of poverty have been stable between 2011 and 2012. Given the two-year time lag of the AROP indicator, until now the poverty indicators have not fully shown the degree of the current challenges, but the increase in unemployment and limitations linked to social protection expenditure imply a need for a close monitoring of developments in the social sphere. Income inequalities are also growing rapidly. Between 2011 and 2012, the inequalities rate rose significantly by 0,4 point (the second highest increase in the EU although in total the rate for Cyprus still remains below the EU average).</p>
<p><u>R&D target:</u> Increase R&D expenditure to 0.5% of GDP by 2020.</p>	<p>Gross domestic expenditure on R&D was 0.47% of GDP in 2012, slightly lower compared to the previous two years (0.50%), indicating that budgetary cuts affected also the R&D.</p> <p>There is a disparity between the public and private sector spending in R&D. In 2011, 43.9% of the total R&D expenditure was financed from the state budget while the amount received from the business sector decreased from 12.7% in 2010 to 11% in 2011. The Cypriot authorities have decided to maintain their modest national EU 2020 R&D target at 0.50% of GDP, set in the context of the 2013 National Reform Plan. Given the latest economic developments in Cyprus and the probable restructuring of the national research and innovation system that is expected to take place in 2014, Cyprus will probably review and reassess its national R&D target in 2015.</p>
<p><u>Renewable energy target:</u> 13% of gross final energy consumption from renewable sources.</p>	<p>Cyprus has made good progress developing energy from renewable sources. According to the most recent Eurostat data, Cyprus has achieved a share of renewable energy of 6% and 6.8% in 2011 and 2012 respectively and has thus met the first interim target of 4.8%. For the time being, Cyprus can be considered to be on track relative to the trajectory towards the EU 2020 renewable energy target of 13%. However, since the trajectory is not linear, the current annual average growth of the renewable energy share will have to increase.</p> <p>As an island country, Cyprus depends heavily on transport to guarantee accessibility of citizens to the EU and trade within the internal market and to overseas. Along with the priorities of developing the ports and airports as well as their connections to the production and distribution areas of freights and to cities for passengers, logistic information systems and traffic management services need to be further developed in order to increase the efficiency of transport operations. Finally, the use of cleaner fuels in transport could be further investigated.</p> <p>Transport represents more than half of total greenhouse gas emissions from the activities of the sectors outside the EU Emission Trading System in Cyprus. Reversing the trend in greenhouse gas emissions from transport is key for enabling Cyprus to meet its 2020 targets. The required reduction of transport emissions should be sustained by implementing measures in transport, also with a view to improving energy efficiency. The main challenge relates to the reliance on car for inland transport. Public transport, which could contribute to reducing emissions and congestion in urban areas, is still not sufficiently developed. Also, the share of renewable energy sources in consumption of transport fuels has not increased in the last years and was at 2% in 2010.</p>
<p><u>Greenhouse gas emission target:</u></p>	<p>According to national projections submitted in 2011 (not updated in 2013) and taking existing measures into</p>

<p>Reduce greenhouse gas emissions to 5.5 Mt CO₂ equivalent in 2020.</p>	<p>account, the greenhouse gas emissions in the sectors out of the EU Emission Trading System (non-ETS) are projected to be 3 Mt CO₂ equivalent in 2020, therefore, the target is expected to be reached (with a margin of 44 percentage points). Yet, challenges remain in respect to GHG linked to waste management, where Cyprus second only to Denmark when it comes to the list in municipal waste generation (79% of waste generated is landfilled⁷),), reliance on oil imports, energy intensity of the transport sector, and non-differentiated energy mix and low energy efficiency.</p>
<p><u>Early school leaving target:</u> Reduce the rate of early school leavers to 10% by 2020.</p>	<p>In 2013, Cyprus performed better than the EU average in the area of school leaving (9.4% compared to 11.9% respectively). It has surpassed its national target of 10%. Young men are three times more likely to leave school prematurely (14.8%) than young women (4.2%). Children with migrant backgrounds have traditionally been at a higher risk of dropping out, especially boys. However, the number of non-native students in public schools has decreased following the economic crisis. Comprehensive support for migrant pupils, who are at higher risk of lower achievement and early school leaving, is limited to schools in the zones of educational priority. The planned scheme to subsidise child care services for low-income families is also an indirect prevention of early school leaving.</p> <p>Measures to address early school leaving are complemented by the development of a vocational education and training system and the New Modern Apprenticeships system. Actions to raise attractiveness of initial vocational education and training resulted in the demand exceeding the supply of vocational education and training places. The percentage of pupils attending technical schools has increased from 13% to 19%⁸. In addition to swift implementation of the current measures, other ways to develop vocational education and training institutions including better career guidance , reforming curricula allowing for more work-based learning opportunities and strengthening the link between enterprises and educational institutions lead to decreasing the disparity between educational outcomes and skills required by the labour market.</p> <p>Measures to address early school leaving are also planned in the framework of the Youth Guarantee, which envisages a system to address difficulties that some young people face at school and to improve career guidance and counselling during school.</p> <p>As regards basic skills in mathematics, reading, and science, the country showed poor performance in the 2012 OECD Programme for International Student Assessment (PISA) in all three areas. This may be a sign of poor quality of compulsory education and may lead to further skills mismatch in the labour market.</p>
<p><u>Tertiary education target:</u> Increase participation in higher education to 46%.</p>	<p>Cyprus has one of the highest tertiary attainment rates in the EU, with 47.8% compared to the European average of 36.8% in 2013. Despite a decrease of around 2 p.p. since 2012, Cyprus has already outperformed its national quantitative target of 46%.</p> <p>However, recent tertiary graduates have lower literacy and numeracy skills than recent upper secondary graduates in the best performing EU countries and the performance of young people (16-29) with tertiary education is not</p>

⁷ Latest EUROSTAT data 2012.

⁸ Cyprus National Reform Programme 2014

	<p>significantly better than that of people with upper secondary education⁹. In addition, recent tertiary education graduates in Cyprus have one of the lowest employment rates in the EU¹⁰.</p> <p>Ways to increase quality and relevance of higher education include introducing quality assurance mechanisms, improving partnerships between business partners and higher education institutions, reforming curricula, integrating recognised traineeship into tertiary education programmes, career guidance and counselling to young people on career opportunities in future-oriented jobs and increasing access to study mobility¹¹.</p>
<p><u>Target for reducing the population at risk of poverty or social exclusion in number of persons:</u> Reduce the number of people at risk of poverty or social inclusion by 27 000 persons or decrease to 19.3% of the population.</p>	<p>A further increase of the population who was at risk of poverty or social exclusion has been observed in 2012. More precisely, in 2012, 27.1% of the population was at risk of poverty or social exclusion, compared with 24.6% in 2011 (EU27 average from 24.3% in 2011 to 24.8% in 2012), resulting in an increase in the number of people at risk of poverty or social exclusion from 207 000 people in 2011 to 234 000 people in 2012. People living in households with very low work intensity has further increased in 2012 (65% compared to 4.9% in 2011, but still below the EU average of 10.3%), while severely materially deprived people have also further increased to 15% in 2012 compared with 11.7% in 2011. The percentage of people at risk of poverty after social transfers has remained at the same level (14.7% in 2012 compared to 14.8% in 2011, EU average of 17%).</p> <p>The at-risk-of-poverty and exclusion (AROPE) for people under 16 years old increased from 23.4% in 2011 to 27.5% in 2012 (20.2% in 2009). In terms of poverty among the elderly, there has been a further amelioration of the AROPE and APOR (at-risk-of poverty) rates for those over 65 (from 39.8% in 2011 to 33.4% in 2012, and from 35.5% to 29.3% respectively), following the trend that has been set after 2009. Nevertheless, AROP for those over 65 still remains double of the EU average (14.5 % for the EU28), especially for women (33.6% in Cyprus vs. 16.4% for EU28). The AROP rate of unemployed persons aged 18 or over in Cyprus has further decreased in 2012 (31.5% compared with 36.9% in 2011 – EU28 average 46.9%). Nevertheless, in work APOR rate has further increased in 2012 (7.9% compared with 7.3% in 2011).</p>

⁹ OECD International Report on the Survey of Adult Skills (PIAAC), 2012.

¹⁰ Only 69.4% of higher education graduates having graduated in the previous three years were employed in 2012, compared to an EU27 average of 79.6% (Source: Eurostat Labour Force Survey).

¹¹ The first edition of the 2014 mobility scoreboard shows poor results regarding the level of support offered to disadvantaged students from low socio-economic backgrounds for studying or training abroad.

ANNEX

Standard Tables

Table I. Taxation indicators

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	30.9	35.8	38.6	35.6	35.3	35.3
Breakdown by economic function (% of GDP) ¹						
Consumption	11.9	14.7	15.2	13.4	12.8	13.0
of which:						
- VAT	6.6	9.7	10.6	9.2	8.5	8.9
- excise duties on tobacco and alcohol	0.9	1.4	1.3	1.3	1.3	1.4
- energy	1.0	1.8	1.6	1.8	2.0	1.9
- other (residual)	3.4	1.7	1.8	1.1	1.0	0.8
Labour employed	9.9	11.0	11.0	12.5	12.5	13.0
Labour non-employed	0.1	0.1	0.1	0.1	0.1	0.1
Capital and business income	7.4	7.7	9.7	7.6	8.2	7.4
Stocks of capital/wealth	1.6	2.3	2.6	1.9	1.7	1.8
<i>p.m.</i> Environmental taxes ²	3.0	3.3	3.2	2.9	2.9	2.7
VAT efficiency ³						
Actual VAT revenues as % of theoretical revenues at standard rate	66.9	87.8	91.4	79.2	71.3	66.2
Note:						
1. Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2014), Taxation trends in the European Union, for a more detailed explanation.						
2. This category comprises taxes on energy, transport and pollution, and resources included in taxes on consumption and capital.						
3. The VAT efficiency is measured via the VAT revenue ratio. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). It should be noted that the relative size of cross-border shopping compared to domestic consumption also influences the value of the ratio, notably for smaller economies. See European Commission (2012), Tax Reforms in EU Member States and OECD (2012), Consumption tax trends for a more detailed discussion.						
<i>Source: Commission</i>						

Table II. Financial market indicators

	2009	2010	2011	2012	2013
Total assets of the banking sector (% of GDP)	827.0	775.4	736.3	723.1	546.5
Share of assets of the five largest banks (% of total assets)	64.9	64.2	60.8	62.5	-
Foreign ownership of banking system (% of total assets)	37.0	30.6	35.5	34.6	-
Financial soundness indicators:					
- non-performing loans (% of total loans) ¹⁾	4.5	5.6	9.6	18.6	16.6
- capital adequacy ratio (%) ¹⁾	12.1	12.5	12.4	6.6	14.1
- return on equity (%) ¹⁾	14.1	11.0	-68.7	-75.8	-12.1
Bank loans to the private sector (year-on-year % change)	10.6	5.9	6.9	4.2	-9.4
Lending for house purchase (year-on-year % change)	11.5	13.4	4.8	0.3	-6.8
Loan to deposit ratio	113.8	103.9	112.6	119.3	151.3
CB liquidity as % of liabilities	6.0	4.6	4.9	8.9	15.4
Banks' exposure to countries receiving official financial assistance (% of GDP)	-	-	-	-	-
Private debt (% of GDP)	257.8	274.0	286.6	299.2	-
Gross external debt (% of GDP)					
- Public	-	-	-	-	-
- Private	-	-	-	-	-
Long term interest rates spread versus Bund (basis points)*	137.8	185.7	317.9	550.5	493.0
Credit default swap spreads for sovereign securities (5-year)*	110.6	149.7	638.0	1 196	943.9
Notes:					
¹⁾ Latest data 2013Q2					
* Measured in basis points.					
Source:					
Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).					

Table III. Labour market and social indicators

Labour market indicators	2008	2009	2010	2011	2012	2013
Employment rate (% of population aged 20-64)	76.5	75.3	75.0	73.4	70.2	67.1
Employment growth (% change from previous year)	2.0	-0.4	-0.2	0.4	-4.2	-5.2
Employment rate of women (% of female population aged 20-64)	68.2	68.3	68.8	67.7	64.8	62.2
Employment rate of men (% of male population aged 20-64)	85.2	82.8	81.7	79.6	76.1	72.6
Employment rate of older workers (% of population aged 55-64)	54.8	55.7	56.3	54.8	50.7	49.6
Part-time employment (% of total employment, 15 years and more)	7.8	8.6	9.5	10.2	10.7	12.7
Part-time employment of women (% of women employment, 15 years and more)	11.4	12.4	12.7	12.9	13.7	16.1
Part-time employment of men (% of men employment, 15 years and more)	4.8	5.3	6.8	7.7	8.0	9.5
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	13.9	13.7	14.0	14.1	15.0	17.4
Transitions from temporary to permanent employment	29.2	26.7	22.1	22.7	:	:
Unemployment rate ¹ (% of labour force, age group 15-74)	3.7	5.4	6.3	7.9	11.9	15.9
Long-term unemployment rate ² (% of labour force)	0.5	0.6	1.3	1.6	3.6	6.1
Youth unemployment rate (% of youth labour force aged 15-24)	9.0	13.8	16.6	22.4	27.8	38.9
Youth NEET rate (% of population aged 15-24)	9.7	9.9	11.7	14.6	16.0	18.7
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	13.7	11.7	12.7	11.3	11.4	9.1
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	47.1	45.0	45.3	46.2	49.9	47.8
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	8.0	8.0	11.0	7.0	7.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	18.0	14.0	13.0	16.0	19.0	:
Labour productivity per person employed (annual % change)	1.5	-1.4	1.5	0.0	1.8	-0.2
Hours worked per person employed (annual % change)	-0.3	-0.5	0.4	0.1	0.7	0.0
Labour productivity per hour worked (annual % change; constant prices)	1.9	-0.9	1.1	-0.1	1.1	-0.2
Compensation per employee (annual % change; constant prices)	-1.2	2.5	0.6	0.2	-2.5	-4.5
Nominal unit labour cost growth (annual % change)	1.8	4.1	1.0	2.5	-2.7	:
Real unit labour cost growth (annual % change)	-2.7	4.0	-0.9	0.2	-4.2	:
Notes:						
¹ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.						
² Long-term unemployed are unemployed persons for at least 12 months.						
Sources: Commission (EU Labour Force Survey and European National Accounts)						

Expenditure on social protection benefits (% of GDP)	2007	2008	2009	2010	2011
Sickness/Health care	4.5	4.5	5.1	5.0	5.0
Invalidity	0.7	0.7	0.8	0.7	0.7
Old age and survivors	8.3	8.4	9.3	10.2	10.7
Family/Children	1.9	2.1	2.2	2.1	2.0
Unemployment	0.9	1.0	1.0	1.1	1.2
Housing and Social exclusion n.e.c.	0.6	0.8	1.1	1.1	1.0
Total	17.8	18.6	20.8	21.8	22.2
of which: means tested benefits	1.8	2.2	2.8	3.0	2.9
Social inclusion indicators	2008	2009	2010	2011	2012
At-risk-of-poverty or social exclusion ¹ (% of total population)	23.3	23.5	24.6	24.6	27.1
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	21.5	20.2	21.8	23.4	27.5
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	49.3	48.6	42.6	39.8	33.4
At-Risk-of-Poverty rate ² (% of total population)	15.9	15.8	15.6	14.8	14.7
Severe Material Deprivation ³ (% of total population)	9.1	9.5	11.2	11.7	15.0
Share of people living in low work intensity households ⁴ (% of people aged 0-59)	4.5	4.0	4.9	4.9	6.5
In-work at-risk-of poverty rate (% of persons employed)	6.3	6.8	7.3	7.3	7.9
Impact of social transfers (excluding pensions) on reducing poverty	30.6	33.1	33.6	37.0	37.4
Poverty thresholds, expressed in national currency at constant prices ⁵	9 411	9 257	9 088	9 305	8 958
Gross disposable income (households)	12 555	12 555	13 316	13 871	12 960
Relative median poverty risk gap (60% of median equivalised income, age: total)	15.3	17.2	18.0	19.0	19.0
Notes:					
¹ People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).					
² At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.					
³ Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.					
⁴ People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.					
⁵ For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)					
Sources:					
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.					

Table IV. Product market performance and policy indicators

Performance indicators	2004-2008	2009	2010	2011	2012	2013
Labour productivity ¹ total economy (annual growth in %)	1.4	-1.4	1.5	0.0	1.8	n.a.
Labour productivity ¹ in manufacturing (annual growth in %)	-0.8	-3.7	1.4	-1.7	-0.9	n.a.
Labour productivity ¹ in electricity, gas, water (annual growth in %)	1.7	-2.7	-4.1	0.3	-3.6	n.a.
Labour productivity ¹ in the construction sector (annual growth in %)	1.6	-14.7	-2.6	-5.2	-5.6	n.a.
Patent intensity in manufacturing ² (patents of the EPO divided by gross value added of the sector)	26.8	36.4	41.6	n.a.	n.a.	n.a.
Policy indicators	2004-2008	2009	2010	2011	2012	2013
Enforcing contracts ³ (days)	735.0	735	735	735	735	735
Time to start a business ³ (days)	8.0	8	8	8	8	8
R&D expenditure (% of GDP)	0.4	0.5	0.5	0.5	0.5	n.a.
Tertiary educational attainment (% of 30-34 years old population)	44.2	45.0	45.3	46.2	49.9	47.8
Total public expenditure on education (% of GDP)	7.0	8.0	7.9	7.9	n.a.	n.a.
	2008	2009	2010	2011	2012	2013
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation ⁴ , Network Industries ⁵ (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Notes:						
¹ Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.						
² Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.						
³ The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology .						
⁴ The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html .						
⁵ Aggregate ETCR.						
Source:						
Commission, World Bank - <i>Doing Business</i> (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).						

Table V. Green Growth

		2003-2007	2008	2009	2010	2011	2012
Green Growth performance							
<i>Macroeconomic</i>							
Energy intensity	kgoe / €	0.22	0.22	0.22	0.21	0.20	0.19
Carbon intensity	kg / €	0.81	0.76	0.76	0.72	0.69	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	1.59	2.04	1.69	1.56	1.41	n.a.
Waste intensity	kg / €	n.a.	0.14	n.a.	0.18	n.a.	n.a.
Energy balance of trade	% GDP	-4.3%	-7.1%	-5.1%	-6.6%	-7.4%	-8%
Energy weight in HICP	%	10	12	12	11	9	9
Difference between change energy price and inflation	%	7.5	12.5	-16.5	18.9	14.0	17.9
Environmental taxes over labour taxes	ratio	33.0%	28.4%	23.6%	23.0%	22.9%	n.a.
Environmental taxes over total taxes	ratio	10.3%	8.2%	8.2%	8.2%	8.2%	n.a.
<i>Sectoral</i>							
Industry energy intensity	kgoe / €	0.26	0.21	0.19	0.17	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	5.8	5.3	5.2	n.a.	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€/ kWh	n.a.	0.16	0.13	0.16	0.18	0.22
Gas prices for medium-sized industrial users***	€/ kWh	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public R&D for energy	% GDP	n.a.	0.00%	0.00%	0.00%	0.00%	0.00%
Public R&D for the environment	% GDP	n.a.	0.01%	0.01%	0.00%	0.00%	0.00%
Recycling rate of municipal waste	ratio	3.9%	7.3%	8.3%	15.1%	20.7%	21.2%
Share of GHG emissions covered by ETS*	%	n.a.	52.8%	52.1%	50.6%	47.5%	47.3%
Transport energy intensity	kgoe / €	1.02	0.93	0.91	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	2.11	2.02	2.03	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	98.0%	97.5%	96.2%	100.9%	92.5%	97.0%
Diversification of oil import sources	HHI	n.a.	0.13	0.06	0.05	0.07	n.a.
Diversification of energy mix	HHI	0.93	0.91	0.91	0.91	0.91	0.90
Share renewable energy in energy mix	%	2.2%	3.3%	3.6%	3.8%	4.5%	5.1%
<p><u>Country-specific notes:</u> The year 2012 is not included in the table due to lack of data.</p> <p><u>General explanation of the table items:</u> Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices) Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR) Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR) Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR) Waste intensity: waste (in kg) divided by GDP (in EUR) Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change) Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union" Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR) Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT. Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF) Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR) Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents * Commission and EEA. ** For 2007 average of S1 & S2 for DE, HR, LU, NL, FI, SE & UK. Other countries only have S2. *** For 2007 average of S1 & S2 for HR, IT, NL, FI, SE & UK. Other countries only have S2.</p>							

Indicators used in box 1 on potential impact on growth of structural reforms.

Final goods sector mark-ups: price cost margin, i.e. the difference between the selling price of a good or service and its cost. Final goods mark-ups are proxied by the mark-ups in selected services sectors (transport and storage, post and telecommunications, electricity, gas and water supply, hotels and restaurants and financial intermediation but excluding real estate and renting of machinery and equipment and other business activities¹²). Source: Commission services estimation using the methodology of Roeger (1995) based on EUKLEMS 1996-2007 data.

Entry costs: cost of starting a business in the intermediate sector. The intermediate sector is proxied by the manufacturing sector in the model.

Source: starting business costs in % of income per capita, 2012 data. Doing Business Database. www.doingbusiness.org

Implicit consumption tax rate: defined as total taxes on consumption over the value of private consumption. In the simulations it is used as a proxy for shifting taxation away from labour to indirect taxes; the implicit consumption tax-rates are increased (halving the gap vis-à-vis the best performers) while labour tax-rates are reduced, so that the combined impact is ex-ante budgetary neutral.

Source: European Commission, Taxation trends in the European Union, 2013 edition, Luxembourg, 2013, 2011 data.

Shares of high-skilled and low-skilled: share of high skilled workers are increased, share of low-skilled workers are reduced (halving the gap vis-à-vis the best performers). Skill definitions: Low-skilled correspond to ISCED 0-2 categories, high-skilled correspond to scientists (in mathematics and computing, engineering, manufacturing and construction). The remainder is medium-skilled.

Source: 2012 data or latest available, EUROSTAT.

Female non-participation rate: percentage of female that do not work/search for a job (non-active female population/female of a working age)

Source: 2012 data or latest available, EUROSTAT.

Low-skilled male non-participation rates: percentage of low-skilled male that do not work/search for a job (non-active low-skilled male population/ male of a working age)

Source: 2012 data or latest available, EUROSTAT.

Elderly non-participation rates (55-64y): it is the percentage of the elderly population (55-64ys) that do not work/search for a job (non-active elderly population/55-64y population)

Source: 2012 data or latest available, EUROSTAT.

ALMP: Active Labour Market Policy expenditures in % GDP over the share of unemployed in the population.

Source: 2011 or latest available data. EUROSTAT

¹² The real estate sector is excluded because of statistical difficulties of estimating a mark-up in this sector. The sector renting of machinery and equipment and other business activities is conceptually part of intermediate goods sector.

Benefit replacement rate: % of a worker's pre-unemployment income that is paid out by the unemployment scheme.

Source: average of net replacement rates over 60 months of unemployment, 2012 data, OECD, Benefits and Wages Statistics. www.oecd.org/els/benefitsandwagesstatistics.htm.