



## **Cyprus National Reform Programme 2015**

# **Europe 2020 Strategy for: Smart, Sustainable and Inclusive Growth**

**PRESIDENCY**

**UNIT FOR ADMINISTRATIVE REFORM**

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## 1. INTRODUCTION

The Government of Cyprus submits its National Reform Programme 2015 (NRP) for smart, sustainable and inclusive growth, as well as the fiscal tables (Annex), in the context of the fifth European semester.

This update sets out the progress since last year's NRP as regards achieving the Europe 2020 targets, as well as the implementation of major fiscal, structural and institutional reform measures in the context of the Memorandum of Understanding (MoU) on Specific Economic Policy Conditionality and the recently adopted Action Plan for Growth.

While the impact of the crisis was particularly severe, the results of Cyprus's efforts to achieve fiscal consolidation and to restore financial stability have produced positive results. Emphasis is now also placed on structural reforms that promote competitiveness, growth and jobs in the context of the Action Plan for Growth and in line with the broad orientations for structural reforms provided by the Annual Growth Survey for 2015.

The NRP for 2015 has been prepared by the newly established Unit for Administrative Reform which operates under the political supervision of the Presidency of the Republic, which has been assigned by the Council of Ministers the responsibility for both growth issues and the public administration reform.

## 2. MACROECONOMIC CONTEXT AND SCENARIO

This year's NRP has been prepared in the context of a still challenging economic environment. In 2014, the Cyprus economy continued to contract (-2,3%), however at a lower extent compared to 2013 (-5,4%) as well as compared with initial forecasts included in the agreed MoU (-4,8%). Economic activity has been negatively affected by the restructuring of the banking sector and the resulting deleveraging, which negatively impacted on the supply of credit. The business operating environment has also been constrained by the tight lending conditions and the relatively high interest rates.

However, the resilience of the business sector, as well as the better than anticipated performance in the tourism sector, contributed to the containment of the severity of the contraction of the economy. The performance of the domestic demand and more specifically private consumption was also a positive key factor in this regard. Following the agreement reached on the MoU in April 2013, the introduction of fiscal consolidation, coupled with the restructuring of the banking system and the gradual introduction of structural reforms in the context of the Macroeconomic Adjustment Programme, contributed to the gradual stabilisation of the Cyprus economy and the steady recovery of confidence.

The confidence in the banking sector, which has taken the biggest hit given the abrupt and sudden shrinking and the loss of creditors' assets, is gradually resuming. The capital restrictions imposed since March 2013, have been gradually removed. The positive results in the stress tests have further enhanced confidence in the banking sector. However, the high level of non-performing loans and the inability of banks to channel credit to the economy needs to be addressed, in order to safeguard stability and sustainable growth.

Coming to the economic outlook of the Cyprus economy, according to the latest macroeconomic scenario prepared by the Ministry of Finance, the contraction of the GDP is expected to bottom out in

2015, recording a marginal contraction of about 0,4%. The unfavourable factors that have been taken into account for this projection include the negative impact of developments in the Russian Federation on external demand and the protracted deleveraging period, together with the high level of non-performing loans in the banking system, which do not allow the channeling of new credit to the market. On the other hand, the lower energy prices are expected to somewhat increase private domestic demand. Downside risks include political and economic instability in Greece and further deterioration of the Russian economy.

In the labour market, even though the unemployment has increased to unprecedented levels, reflecting the effect of a protracted slowdown in economic activity, it has stabilised at 16% in 2014. The most affected segment of the population is youth with youth unemployment reaching 35,9% in 2014, although this has been on a downward trend since January 2014. Particularly challenging is also the increase of the long-term unemployed. According to the latest macroeconomic scenario adopted during the last technical review, unemployment will reach around 16,1% in 2015. The European Commission 2015 winter forecast<sup>1</sup> estimates that the unemployment rate will slightly decrease to reach 15,8% in 2015 and 14,8% in 2016.

Inflation in 2015, as measured by the Consumer Price Index, is expected to continue to be negative, reaching around -0,3%.

### 3. DEVELOPMENTS IN RELATION TO NATIONAL TARGETS

In summary the developments as regards the national targets have been as follows:

In the context of a still challenging economic environment for Cyprus and with the economic crisis having taken its toll on the labour market and the society, the level of the employment rate has only slightly increased in 2014 compared to 2013 while the poverty rate deteriorated further in 2013 compared to 2012. Both indicators deviate considerably from the respective national targets. The two education indicators have improved in 2014 and have both satisfied the national targets. Nevertheless, Cyprus is faced with the lowest employability rate of recent graduates in the EU, an issue that needs to be addressed. The R&D ratio to GDP is expected to record a small increase in 2013 according to provisional data, and to remain only slightly below the national target. Two of the three climate indicators remain on course with the energy efficiency indicator for 2013 exceeding the interim annual target and the indicator for renewable energy sources already over achieving its first, second and third indicative trajectories. However, as regards the greenhouse gas emissions, in the sectors out of the EU Emission Trading System (non-ETS), an increase was observed in 2012 compared to 2005.

The above developments are presented in the table below:

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<sup>1</sup> COM (2015) 85 final - Country Report Cyprus.

EU HEADLINE & NATIONAL TARGETS	EU TARGET	CYPRUS TARGET	CYPRUS 2013	CYPRUS 2014	EU 28 2013 (Eurostat data)
Employment rate (20-64 years old)	75%	75-77%	67,2%	67,6%	68,4%
Reduce poverty and social exclusion	20 mln	19,3% or 27.000	27,8% (c.t. to 27,1% in 2012)	n.a.	24,5%
Decrease early school leavers to	10%	10%	9,1%	7,9%	12%
Increase tertiary educational attainment	40%	46%	47,8%	51,1%	36,9%
R&D (% of GDP )	3%	0,50%	0,48 <sup>p</sup> % (c.t. to 0,43% in 2012)	n.a.	2,02 <sup>e</sup> %
CO <sub>2</sub> emission (non-ETS )	-20% (c.t. 1990)	-5% (c.t. to 2005)	+1,2% (2012 data c.t. to 2005)	n.a.	-19% (c.t. to 1990)
Renewable energy	20%	13%	8,71% (c.t. to 7,7% in 2012)	n.a.	15%
Energy efficiency	20%	14,5%	7% (c.t. to 12,3% in 2012)	n.a.	11,9%
e = estimated, c.t.= compared to, p = provisional data, n.a. = not available					

A more detailed account of developments as regards the national targets follows:

### 3.1 EMPLOYMENT NATIONAL TARGET

75-77% of the population aged 20-64 should be employed by 2020  
- Increased to 67,6% in 2014 compared to 67,2% in 2013.

The Employment target set for Cyprus within the framework of the Europe 2020 Strategy was 75-77%. The upper limit of the target was characterised, when it was set, as being ambitious enough and optimistic. In 2008, the employment rate stood at 76,5%. Over the next years, the employment rate gradually slipped to 70,2% in 2012 and 67,2% in 2013, increasing slightly to 67,6% in 2014. As regards the sectoral distribution of employment, services accounted for the biggest percentage of employed persons in 2014 with 79,1%, whereas industry accounted for 16,5% and agriculture for 4,4%.

Unemployment increased significantly in the past few years because of the financial crisis. The unemployment rate rose sharply from 3,7% in 2008 to 15,9% in 2013, whilst it marginally increased further to 16,1% in 2014. The unemployment rate for male workers in 2014 stood at 17% compared to 16,5% in 2013 and for female workers at 15,1% compared to 15,2% in 2013. The employment rate for male workers was reduced to 71,6% in 2014 compared to 72,6% in 2013, whilst for female workers it increased to 63,9% in 2014 compared to 62,2% in 2013 (age group of 20-64 years).

Youth unemployment has been higher than general unemployment, even before the financial crisis. The unemployment rate for young people (15-24 years) was 9% in 2008, more than double the rate for the general population (3,7%). In 2013, the unemployment rate for young people rose dramatically to 38,9%, while it fell somewhat to 35,9% in 2014. The respective employment rate for this age group dropped from 41,7% in 2008 to 23,5% in 2013 whilst it recorded a small increase in 2014, reaching 25,8%. The share of young people neither in employment nor in education and training (NEETs) in 2013, represented 18,7% of the total youth population (i.e. more than 19.800 young men and women), twice the share recorded in 2007 (9%).

Under the current situation and taking into consideration the commitments of the country stemming from the MoU, the major emphasis of the measures implemented in 2014 was on facilitating the creation of new jobs, either directly or indirectly. The measures aimed to serve a number of additional objectives, such as, improving the attractiveness of technical professions, addressing the skills mismatch and long term unemployment, promoting innovation and addressing youth unemployment in particular.

Such measures included subsidised employment schemes, placements for work experience, measures to enhance the skills and competencies of the unemployed, measures for the promotion of women and youth entrepreneurship, measures to combat undeclared work, and the extension of the working hours of retail shops. More detailed reference to some of the measures is made below:

### **Entrepreneurship**

The promotion of entrepreneurship forms a key priority of government policy. Women and the youth are two important target groups which the government supports through two Grant Schemes (Scheme for the enhancement of Youth Entrepreneurship and Scheme for the enhancement of Female Entrepreneurship) specially designed to encourage these segments of the population to develop their own businesses. A total amount of €3,1 mln was allocated for this purpose in 2014, for the benefit of 170 enterprises, resulting in about 400 new job positions.

### **Wage subsidies**

Three schemes were put in place to help the employers hire unemployed persons. For the “Scheme providing incentives for employment of the unemployed” a total amount of €6,1 mln was allocated in 2014 for the benefit of 962 enterprises and about 1414 new job positions were created. The government also introduced two schemes, for encouraging businesses to hire unemployed people in the retail sector. The first one was the “Scheme for practical training combined with incentives for employment in enterprises of the retail sector employing 1-49 employees” and the second was the “Scheme for employment in enterprises of the retail sector employing 1-4 employees”. However, although the last two schemes originally targeted 2.000 potential applicants, actual take up was limited in 2014 with only 200 new posts/maintenance of posts being achieved. There will be no other call for applications in view of the low interest exhibited.

### **Subsidy Scheme to promote the creation of new jobs with flexible arrangements**

The Scheme was launched in May 2013 with the objective to alleviate unemployment through the recruitment of individuals willing to work under flexible arrangements and to assist companies/organisations to cope with the difficulties caused by the economic crisis. The actual

expenditure (subsidies) by the end of 2014 was €1,1 mln, and there were 908 contracts of employment signed by the end of 2014.

### **National Action Plan for Youth Employment and Youth Guarantee Implementation Plan**

A National Action Plan for Youth Employment (NAP) was approved by the Council of Ministers at the end of 2014, aiming at addressing the high level of unemployment in Cyprus. The NAP calls for the deployment of a strategy that combines measures targeting young individuals aged 15-29 that face multiple barriers to labour market integration and are exposed to longer unemployment spells.

The NAP has a total budget of €47,2 mln financed mostly from the European Social Fund (€29,2), the Youth Employment Initiative (YEI) (€11,6 mln) but also from the ERDF (€3,1) and national funds (€3,3). It encompasses a Youth Guarantee Implementation Plan (YGIP) to which funds of €37,6 mln have been allocated. The YGIP includes measures for an early intervention in the form of a Youth Guarantee (YG) to prevent school leavers and newly unemployed individuals in the younger cohort (ages 15-24) from falling into long-term unemployment and inactivity traps. The YGIP was concluded in December 2013 and was submitted thereafter to the European Commission.

The measures covered under the NAP for Youth Employment during the years 2015-2017 fall under seven policy objectives as follows:

- a) Timely intervention for early school leavers and easing the transition of young people from school to work (e.g. through adjusting the secondary and post secondary vocational education curricula to align with labour market requirements and to include work experience in enterprises).
- b) Reform of the design and implementation of labour market policies targeting youth (e.g. by improving the design and implementation of labour market policies to effectively address the multiple disadvantages faced by young people).
- c) Implementation of a national youth guarantee offering youth, less than 25 years old, education, training and employment opportunities within four months of leaving school or becoming unemployed (e.g. through the introduction of an integrated service delivery model for the implementation of the Youth Guarantee, by providing group counseling and job search services to school leavers and newly unemployed youth, through training programmes and the provision of skills required by the labour market and by occupations in demand).
- d) Promotion of entrepreneurship as a career path among young people (e.g. through the Youth Entrepreneurship Scheme and the Social Enterprises Programme available to young people of the age 20-35 to set up their own enterprise).
- e) Reduction of youth labour market detachment through outreach strategies and partnerships (with the implementation of a national information campaign to raise awareness on decent work for young people and the support provided by labour market institutions including through the National Youth Guarantee).
- f) Expansion of the capacity of the Public Employment Services (PES) for the provision of effective youth employment services (e.g. by enhancing the service capacity of the PES and providing information and guidance to the youth and by upgrading the PES information system).
- g) Establishment of a monitoring and evaluation system to verify the achievement of policy outcomes.

The majority of the measures included in the NAP are co-financed within the framework of the Operational Programme “Employment, Human Capital and Social Cohesion” which was approved by the Commission in February 2015. However, two main schemes under the NAP were implemented since February 2014. The first scheme concerned the placement of up to 2.500 secondary school graduates (aged up to 25) in enterprises/organisations for acquiring work experience in the field of their studies with a total budget of €8,5 mln with a total of 1.023 placements. The second scheme concerned the placements of up to 2.500 university graduates in enterprises/organisations for acquiring work experience in the field of their studies with a total budget of €8,5 mln with a total of 1.916 placements.

#### **Other on-going or new measures**

The following schemes are being implemented or will be implemented during 2015 for improving the skills of the workforce and thus employability: a scheme for the employment and training of tertiary education graduates, a scheme for the employment and training of the long-term unemployed, a scheme for the job placement of unemployed young tertiary education graduates for the acquisition of work experience in enterprises/organisations, a scheme for the job placement of young unemployed graduates of lower secondary, upper secondary and post secondary education of up to two years for acquisition of work experience in enterprises/organisations, training programmes for the unemployed and multi-company training programmes for the unemployed.

Other measures that have been in place and their implementation will continue in 2015 are employment forecasting and the evaluation of the impact of the Human Resource Development Authority’s (HRDA) activities. In addition, the development of a System of Vocational Qualifications is included in the projects submitted for co-financing by the ESF for the period 2014-2020 with a budget of €9 mln. It is foreseen that 80 new Standards will be developed and around 10.000 persons will be assessed in order to have their vocational qualifications recognised.

Cyprus is currently implementing a comprehensive reform of its Active Labour Market Policies (ALMPs) improving the design, administration and monitoring of the different measures. A system for the continuous monitoring and evaluation of ALMPs is expected to be operational in 2015. A common database is being set up so as to improve coordination and the automatic exchange of information between the different implementing bodies.

The capacity of PES to address its new tasks remains insufficient, both in terms of the number of staff and procedures. A budget of €5,7 mln has been allocated to boost the administrative capacity of PES through the 2014-2020 Operational Programme of the ESF, out of which about €2 mln are expected to be immediately committed for enhancing the administrative capacity of PES.

### 3.2 POVERTY NATIONAL TARGET

Reduce the number of people-at-risk-of-poverty and social exclusion by 27.000 people or decrease the percentage from 23,3% in 2008 to 19,3% by 2020.  
- *Increased to 27,8% in 2013 compared to 27,1% in 2012.*

The evolution of the at risk of poverty and social exclusion (AROPE) indicator, which had risen significantly from 23,3% in 2008 to 27,1% in 2012, recorded a further increase 27,8% in 2013. As regards the evolution of the AROPE sub-indicators, the at-risk of poverty rate showed a small increase from 14,7% in 2012 to 15,3% in 2013, while it showed a small decrease in relation to 2008 data (15,9%). A more significant deterioration in the 2013 figures was recorded as regards the severe material deprivation rate which increased to 16,1% compared to 15% in 2012 and 9,1% in 2008. The quasi-jobless households (people living in very low work intensity households) rate also exhibited a significant increase in the same period (to 7,9% in 2013 from 6,5% in 2012 and 4,5% in 2008).

The profiles of AROPE and its sub-indicators indicate that there is an overall trend in reduced rates in people over 65 years and an increasing trend in the unemployed, but also among the working groups. This reflects the high unemployment rate in Cyprus but also the reduced earnings related especially to new acquired jobs by young people.

In combating conditions of poverty and social exclusion, Cyprus has undertaken a major reform of its welfare system. As welfare benefits were considered to be fragmented and in order to improve efficiency, a comprehensive social governance was decided through the creation of a single welfare benefit administration service with appropriate national registry and other control and check mechanisms. The Guaranteed Minimum Income (GMI) Scheme, which will ultimately replace the public assistance benefit, was implemented in July 2014 with the aim to provide assistance to individuals and families that cannot, despite their efforts, gain enough income to support themselves. Cyprus is in a transitional stage where public assistance continues to be provided to beneficiaries, until the processing of their GMI applications is completed, while the GMI is also provided to families which were not receiving any income support benefits in the past.

By December 2014, out of some 71.000 applications received (16.000 from Cypriot Citizens, 3.000 from EU Citizens, 800 from Third Country Nationals, 30.000 from Low Income Pensioners, 21.000 Public Assistance Recipients), 26.000 applications were examined and a final decision was taken for about 12.000 of them. Priority was given to applicants not receiving any other benefits from the state.

With the full implementation of the GMI and based on an impact assessment conducted, it is expected that the AROPE rate will decrease by 3,2%. Its impact will mainly be seen in the depth of poverty as the GMI, upon full implementation (estimated at the second half of 2015), is expected to decrease the poverty gap by 16,8%.

The GMI provides for basic needs based on a minimum consumption basket and covers also other needs, such as housing (rent or mortgage interest), municipality taxes and extraordinary needs, as well as care needs and long-term care. The GMI incorporates a new group, the working poor as an eligible group and consolidates low-income pensioners.

Furthermore, the GMI provides the framework for two mechanisms, namely social care and social intervention to GMI recipients. Social care provides for the subsidisation of the cost of home, institutional, respite and day care including child care of GMI recipients. Social Intervention refers to the activation and social inclusion of GMI recipients. This action includes a wide spectrum of services provided to a person or family unit receiving the GMI that will empower and support them in their social integration. The ultimate purpose of this action is the employment rehabilitation through co-operation with the PES. Cyprus is in the process of developing these tools.

Also the Council of Ministers adopted in November 2014, the National Strategy on Social Policy for the period 2014-2020. The Strategy sets the main policy guidance for the period 2014-2020 providing a comprehensive approach to the challenges faced. The Strategy addresses the promotion of children's welfare, the reform of the welfare system, active inclusion, long-term care and effective governance. More specific information on the measures included in the Strategy is provided in the National Social Report submitted to the EU's Social Protection Committee.

### 3.3 EDUCATION NATIONAL TARGET

Reduce the dropout rate to 10% by 2020 from 11,9% in 2009.

- *Decreased to 7,9% in 2014 compared to 9,1% in 2013.*

Increase the share of the population aged 30-34 having completed tertiary education to at least 46% by 2020 from 44,7% in 2009.

- *Increased to 51,1% in 2014 compared to 47,8% in 2013.*

#### 3.3.1 Reducing the rate of early school leavers to 10%

The rate of early leavers from education and training has decreased significantly from 9,1% in 2013, reaching 7,9% in 2014. A number of structured measures were implemented for the reduction of early school leaving over the last years. These include:

- (a) The implementation of the "Zones of Educational Priority" (ZEP), a project which tackled issues of low performance, delinquency and early school leaving, in primary and secondary education, through assertive actions.

The project "Actions for social and school inclusion" will be the continuation of the ZEP project and will be financed through ESF funding. The project will expand the scope of ZEP by incorporating individual schools which apply to participate in the programme.

- (b) The improvement of Vocational Education and Training (VET), the restructuring of Upper Secondary and Secondary Technical and Vocational Education (STVE) and the introduction of the Post Secondary Institutes of Vocational Education and Training (PSITVE). These measures will continue to be implemented through ESF funding.

With respect to the ongoing reform and upgrading of the STVE, the aim is the revision of its objectives and the modernisation of its structure and content in order to increase the attractiveness of technical

professions and match the knowledge, skills and competences offered with the current needs of the labour market. The process of reducing the number of specialisations is currently underway, in order to offer pupils of STVE the opportunity to gain wider knowledge of their chosen field of study, by placing emphasis on the acquisition of basic skills, key competences and the way knowledge is acquired, rather than on narrow specialisation. In order to support and accelerate the process of reform and upgrading of STVE, a Committee for the Upgrading of STVE was appointed by the Minister of Education and Culture in February 2015. The Strategic Planning for STVE has been almost completed and will be submitted to the Council of Ministers for approval.

Regarding the PSITVE, during the current academic year 2014-2015 two additional programmes were introduced (*Maintenance and Energy Efficiency Upgrading of Buildings*, and *Marine Purchasing and Supply Management*), thus increasing the number of programmes offered from eight to ten. The 150 first intake of students graduated in the summer of 2014 and about 70% of whom are currently employed.

Amongst the top priorities regarding the operation of the PSITVE is their recognition as Public Tertiary Education and Training Schools and the classification of their programmes at Level 5 of the European Qualifications Framework (EQF) and Level 5 (Short-Cycle Tertiary Education) of the ISCED 2011 levels. The Council of Ministers authorised the Minister of Education and Culture in February 2015 to appoint a special committee for preparing a study and recommendations with respect to the recognition of PSIVET as Public Tertiary Education and Training Schools.

- (c) The New Modern Apprenticeship programme which provides a learning pathway for young persons, including those who withdrew from the formal education system. This measure will continue to be implemented through ESF funding.
- (d) The coordinated efforts to make the school environment more inclusive by modernising the curricula and implementing specific programmes. To this end the following two measures have been and will continue to be implemented:
  - The operation of the Task Force on School Violence (Observatory for Violence in Schools) which aims to address issues related with antisocial behaviour and youth delinquency. The programme has been running since September 2012 in secondary schools, and since 2013 in elementary schools. More than 30% of schools have opted for participating in the programme in the past two years.
  - The implementation of the Health Education Curriculum the methodological framework of which encourages teachers, parents and pupils to collaborate and promote social measures that facilitate healthy choices such as intercultural dialogue and active citizenship. Likewise, the central goal of these thematic areas of the curriculum is to enable students and schools to act as agents, addressing the social gradient of discrimination through critical thinking and social learning action competence skills.

In addition to the abovementioned structured measures, the reduction of early school leaving may also be the result of the fact that a significant number of economic immigrants, who were likely to have been early school leavers, have chosen to relocate due to the economic crisis and the lack of job opportunities

in Cyprus. Also, young people choose to return to education or training due to unemployment on one hand and the introduction of compensation schemes on the other.

### 3.3.2 Increasing participation in higher education to 46%

The share of population of 30-34 years old having completed tertiary education increased in 2014 to 51,1%, compared to 47,8% in 2013 and remains above both the national target of 46% and the EU target of 40%, despite the decreased household incomes. The adverse economic situation, which limited the job opportunities available, has possibly led more young people to pursue studies in tertiary education institutions.

At the same time, Cyprus has one of the largest rates of unemployment within tertiary education graduates in the EU. Also, a large percentage of persons with tertiary education are employed in middle level occupations and some are even employed in low level occupations. Specifically, those who have completed tertiary education are employed as managers (7%), professionals (40%), technicians and associate professionals (18%), clerical support workers (11%), service and sales workers (14%), craft and related trades workers (2%), plant and machine operators and assemblers (1%), workers in elementary occupations (5%) and workers in armed forces occupations (2%).

Thus, the challenge is not to attract more people in tertiary education, but to encourage more people to choose educational paths which are more likely to lead to employment, such as vocational tertiary education. At the same time, there is a need for the creation of high value added jobs to absorb the University graduates. In order to achieve this, Institutions of Tertiary Education have been encouraged to offer vocational programmes, especially in areas where there is demand.

Another measure promoted to this end is the enhancement of the cooperation between Universities and enterprises. In order to link academia and business, seven Industry Liaison Offices in three public and four private Universities have been set up. Thus far, 36 Agreements have been signed between Universities and businesses aiming to promote a better and stronger communication and cooperation between the two parties. So far, the liaison offices have succeeded in placing 1.980 students in business (a year ago the number was 937) and have carried out dissemination activities and promotion through a website designated for this purpose. Moreover, 6 workshops have been organised, 756 academic profiles from all Universities and 844 enterprise profiles and 209 research lab profiles have been collected. This information is being utilised for matching academic and research personnel to particular businesses needs and characteristics.

The measures relating to the linking of academia with enterprises shall continue. In addition, the Counseling Services in Secondary Education shall be enhanced so as to offer more targeted guidance to students. A project supported by ESF will contribute significantly towards this endeavor.

The **Erasmus+ programme** will be an important tool in promoting transnational mobility in the current period of limited resources by the young, since it aims to boost skills and employability, Training, and Youth work. The programme provides to Cyprus a budget of about €8 mln and it will offer the opportunity to Cypriots to study, train, gain work experience and volunteer abroad.

### 3.3.3. Other reform measures in the education sector

Other important reforms in the Education sector currently under consideration include:

- (a) Upgrading of the content and effectiveness of education: Evaluation of the new curricula and modernisation of timetables.
- (b) Tabling a proposal for a new system of recruitment of teachers, implementation of a systematic in-service training of teachers and improvement of the evaluation of the teachers and the educational work.
- (e) Establishment of a Quality Assurance Agency and Certification for Higher Education which is expected to be approved by the Parliament soon.
- (c) A project for establishing mechanisms for validating non-formal and informal learning to be financed through EU funds.
- (d) A project introducing an online digital School Management System to be financed through EU funds.

### 3.4 R&D NATIONAL TARGET

<p>Increase R&amp;D expenditure to 0,50% of GDP by 2020 - Increased to 0,48% in 2013 (provisional data) compared to 0,43% in 2012.</p>
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The national target for R&D expenditures as a percentage of GDP has been set to reach 0,50% by the year 2020, from 0,42% in 2008, taking into consideration the particularities of Cyprus in terms of both the size of the research community, as well as the structure of the productive web and the very small size of the Cypriot enterprises. The financial crisis and the severe fiscal restrictions resulted in an inevitable freezing of the public funds available for R&D. Furthermore, the enterprises have also been in a difficult financial situation due to the adverse economic environment following the bail-in, thus being able to devote only very limited resources to R&D.

In 2012 R&D expenditures accounted for 0,43% of GDP compared to 0,46% in 2011. However, according to provisional data, R&D expenditures are expected to reach 0,48% of GDP in 2013.

Cyprus is performing better in the field of Innovation. According to the Innovation Union Scoreboard 2014, Cyprus is among the “innovation followers” with innovation performance above the EU average.

Recognising the high potential of RTDI to growth, a National Committee for Research, Innovation and Technological Development (NCRITD) was set up in September 2013 and was entrusted with the task of evaluating the current research and innovation system and procedures in Cyprus and giving recommendations for its adjustment and upgrading, so as to become more effective and efficient. The work of the Committee was completed in March 2014 and its recommendations have been examined. A proposal that takes its findings into consideration, is expected to be submitted to the Council of Ministers for a decision for an enhanced governance system in this area in the next weeks.

In addition, a Smart Specialisation Strategy for Research and Innovation (S3CY) has been prepared. This Strategy includes an extensive analysis of the national R&I priorities with the aim of maximising the knowledge based development potential of the Cyprus economy through targeted support to the

sectors where Cyprus has a competitive advantage. The sectors identified are: Energy Tourism, Built Environment/Construction Industry, Transport/Marine Agriculture/Food Industry and Health. Further, the Strategy includes an Action Plan with measures amounting to approximately €140 mln (European Structural and Investment Funds and National Funding) that are expected to greatly contribute in addressing the main issues of the R&I system in Cyprus. The findings of S3CY, as well as the measures identified in the Action Plan were taken duly into consideration during the preparation/formulation of Cyprus's Operational Programmes for the European Structural and Investment Funds (ESIF).

At European level, Cyprus follows closely all efforts towards the implementation of the European Research Area (ERA). At national level, actions are taken on the basis of the commonly agreed ERA priorities. In particular, the following national actions and developments towards the realisation of the goals that were set for the implementation of the ERA are highlighted:

1. More effective national systems: The NCRITD prepared relevant recommendations. Furthermore, the Action Plan of S3CY, the content of which agrees to a large extent with the recommendations of NCRITD, includes various measures for rendering the National System more effective (the paragraphs above are relevant).
2. Transnational cooperation: Cyprus is involved in transnational cooperation taking advantage of the opportunities offered mainly by Horizon 2020. It also participates in 5 Joint Programming Initiatives (JPI) and several ERA-NETs and has many bilateral agreements with EU and non-EU countries. Moreover, Cyprus is a member in two Article 185 Public to Public initiatives. It also had an active role in the preparation of a Joint Programme for the establishment of PRIMA, an Article 185 Initiative, for strengthening R&I cooperation in the fields of Water and Food for the Mediterranean region.
3. Research Infrastructures: Cyprus participates in several projects under the ESFRI roadmap. Additionally, within the Action Plan of S3CY measures are foreseen for the creation of new and the upgrading of existing Research Infrastructure (RI) units and the facilitation of access of Cypriot researchers to European and global Research and Innovation.
4. Open labour market for researchers: Cyprus pays special attention to open and transparent recruitment of researchers (vacancies published via EURAXESS portal and Cyprus Government Gazette).
5. Gender: In terms of participation to national research programmes, there is equal treatment for both genders without any discrimination.
6. Knowledge circulation: Cyprus currently has three Open Access Institutional Repositories and developed a network of Enterprise Liaison Offices in Universities to enhance the links between the academia and the private sector.

In addition to the above, the Smart Specialisation Strategy Action Plan includes a significant number of measures that sub-serve the ERA priorities and goals.

### **Innovative products/Services Scheme**

The grant scheme, implemented in 2012, that promoted the development of innovative products/services, is progressing smoothly and producing encouraging results with approximately 35 innovative products expected to enter the market in 2015. Cypriot companies invest in innovation and target the international market in view of the small size of Cyprus and other obstacles. Based on the knowledge accumulated, a new grant scheme with certain improvements has been announced in 2015.

The grant scheme encourages young people and new enterprises to turn to innovation. Moreover it encourages cooperation of enterprises with research centers and among themselves, so as to widen the range of possible innovative products/services, integrated in the value chain and cultivate smart specialisation.

### **Cyprus Science Technology Park (STP)**

The STP is expected to accommodate knowledge intensive enterprises/organisations and applied research centers both local and foreign, that will promote applied research and innovation for the development of competitive innovative products and services. The Government has decided to appoint a strategic investor and the tender documents are expected to be published in June, 2015.

### **Linking Academia to Business**

In the context of the Scheme for Supporting Business Innovation, whose call for proposals ended in March 2015, 15 applications were received regarding cooperation between universities and businesses. Furthermore, in evaluating these applications, the competent authorities will cooperate closely with the academia.

## **3.5 CLIMATE AND ENERGY NATIONAL TARGETS**

### **3.5.1 Reduction of GHG emissions**

Reduce greenhouse gas emissions by 5% by 2020 compared to 2005.  
*- Increased by 1,2% in 2012 compared to 2005.*

Cyprus did not have an EU greenhouse gas emissions reduction target for the first commitment period of the Kyoto Protocol, since the Republic of Cyprus ratified the United Nations Framework Convention on Climate Change as a non-Annex I party. The latest inventory submitted by Cyprus in February 2014 was for the period 1990-2012. The GHG emissions in 2012 were 9240 CO<sub>2</sub> eq. including land use, land use change and forestry (LULUCF) and 9259 Gg CO<sub>2</sub> eq. excluding LULUCF. Between 1990 and 2012, the total national emissions excluding LULUCF increased by 52%. Based on 2014 projections, Cyprus faces a potential challenge of achieving the annual goal of approximately 5500 Gg CO<sub>2</sub> eq. over the 2013-20 period.

### **Mitigation**

Consistent with the Government's progressive approach to the development of national climate policy, the primary focus for securing compliance with EU law in the period to 2020 will be domestic mitigation. A draft Low-Carbon Development Strategy has been prepared by the ad-hoc committee that has been established for this purpose. There is an ongoing public consultation for the Strategy that is expected to be concluded in April 2015. The final Strategy will be approved by the Council of Ministers. The Strategy provides measures that, among others, aim at:

- Reducing fossil fuels in favour of Renewable Energy Sources, energy efficiency and climate friendly technologies.
- Increasing carbon sequestration through afforestation, re-vegetation and changes in land use.
- Fostering research and innovation in fields related to climate change affairs.

## **Adaptation**

The impacts of climate change are expected to be particularly severe for Cyprus where climate change is already evident given the rising average temperatures and decreasing average annual rainfall, observed over the past 100 years. The impacts of climate change are expected to intensify over the coming decades and the Cypriot economy could be seriously affected, in particular in areas such as forestry, agriculture, water and biodiversity. As a result, Cyprus faces the challenge of developing its economy in a way as to minimise the emissions of greenhouse gases, whilst implementing those appropriate measures to enable adaptation to climate change. To this end, a National Adaptation Strategy has been approved by the Department of Environment and will be submitted to the Council of Ministers within 2015 for adoption and subsequent implementation.

## **Waste management**

Waste management is a pressing priority for Cyprus given the need for the effective management of the environmental impacts resulting from waste and for ensuring a high level of protection for the environment and human health. Despite implementation of the EU policy, the largest share of waste is still landfilled. To address this problem, two Bills have been prepared encompassing a Municipal Solid Waste Management Plan and a National Waste Prevention Programme, in accordance with the requirements of the Waste Framework Directive (2008/98/EC), the approval of which is currently being promoted. These documents form a comprehensive, integrated 6-year waste management strategy. The basic objectives is to achieve by 2020 a 50% recycling at least for paper, plastic, metal and glass, a 15% in the separate collection of the organic content of municipal waste and a 20% reduction in landfills by the end of the 6-year period. Following public consultation in November 2014 and a public hearing, where the two regulations were presented, the final drafts were presented and discussed with the Advisory Committee for the Management of Waste at the end of February 2015 and will soon be submitted to the Legal Service for legal vetting.

According to a recent decision (N.77.911) of the Council of Ministers in November 2014, the responsibilities of the Minister of Interior, as described in the Waste Law 185(I)/2011, are expected to be transferred within 2015 to the Minister of Agriculture, Rural Development and Environment for better coordination of waste management actions.

Furthermore, in 2015, the competent authority will take all the necessary legislative measures, as described in the 6-year Waste Management Strategy in order to further promote prevention, the separate collection of waste and the recycling of recyclable waste. Cyprus has succeeded a 22% recycling of recyclable waste in 2012, compared to the 50% recycling that must be reached by 2020.

In addition, in 2014 a project was developed for the reduction of municipal solid waste in coastwise hotels through recycling. The project is expected to be in place in 2015 and start operation in 2016.

## **Water management**

Effective water demand management is one of Cyprus' priorities as a fundamental condition for the exercise and application of a sustainable water policy. Various measures aiming at further improving the good practices for water consumption and reuse are being implemented by the Ministry of Agriculture, Rural Development and Environment.

The implementation of the Water Framework Directive (WFD), which aims at protecting and improving the status of waters, is also a priority. At the same time, it is important to strengthen the resilience of the aquatic ecosystem, in order to adapt to climate change. In this context, the implementation of the 1st River Basin Management Plan and Drought Management Plan adopted in June 2011 continues, while the process for their review and update is well underway. Moreover, following the completion of the Flood Hazard and Flood Risk Maps, a Flood Risk Management Plan is being developed. In the field of waste water, the priority is the full implementation of the Urban Waste Water Treatment Directive. Particular importance is also given to the implementation of other relevant Directives, as well as to the relevant national legislation for the protection, monitoring and management of water resources.

In order to address water scarcity, which is one of the most serious problems faced by Cyprus, the optimum use of non-conventional water resources, such as desalination and recycling are being promoted. In particular, with the completion of all desalination units, except the Paphos desalination plant which is planned for the coming years, the dependency of the large urban, suburban and tourist centers on rainfall has been eliminated. Recycled water for irrigation and recharge purposes is a growing resource. More and more quantities of tertiary treated recycled water are used for the irrigation of agricultural crops and recharge of aquifers.

#### **Public transport enhancement programme**

As transport consists a significant component of the CO<sub>2</sub> emissions, major efforts are made to promote and improve the public transport enhancement programme that was introduced in 2007 by the Government which aims, among others, to reduce gas emissions. To this end, a Contract Management Unit was created in 2014. The effort will be further strengthened by the establishment and functioning of an Advisory Transportation Authority. The aforementioned authority will be submitting proposals and recommendations regarding the promotion of sustainable mobility in public transport and will be determining the transportation strategy and providing incentives to increase passenger ridership.

The implementation of the current public transportation system, despite the increase in passenger numbers, is considered unsatisfactory and the initial targets set by the Ministry of Communications and Works (MCW) cannot be met.

The MCW, in an effort to upgrade and make public passenger transportation more attractive, has set short-term goals such as to optimise routes, by reducing unprofitable lines and increasing the frequency of those lines that have denser ridership. Medium-term targets relate to fleet renewal, to improve infrastructure (bus stops, stations, use of telematic technology), to improve the image of the service to the general public, to increase passenger ridership and to reduce subsidies. Finally, the long-term target is the complete restructuring of the passenger transportation system and the establishment of a well performing system responsive to the needs of society.

#### **Deployment of alternative fuels infrastructure and promotion of the use of electric vehicles**

In Cyprus only a few, very small electric vehicles are registered, which are mainly charged at home. In 2014, the Electricity Authority of Cyprus deployed 15 recharging stations accessible to the public that will increase to 18 by 2015. The MCW will prepare in 2015 a proposal for a national policy framework and action plan to support both the development of the necessary infrastructure and the

encouragement of the purchasing of electric vehicles, setting targets and objectives, and policy measures for the development of the market of electricity as an alternative fuel.

### 3.5.2 Energy efficiency

Achieve an increase of 14,5% (375 ktoe) in energy savings in the projected primary energy consumption of the year 2020.  
 - *Annual trajectory: Energy savings increased to 7% in 2013 (Cyprus has updated its national indicative target for energy efficiency as well as the national energy efficiency trajectory).*

In the framework of the Directive 2012/27/EE and the 3<sup>rd</sup> national efficiency national action plan that has been communicated to EC on April 2014, Cyprus has updated its national indicative target for energy efficiency as well as the national energy efficiency trajectory. The target is to save 14,5 % in primary energy consumption in 2020, compared to the national reference scenario (target for saving 375.000 toe at the year 2020<sup>2</sup>). Based on an assessment performed, the indicative interim targets for years 2010, 2011, 2012 and 2013 have been exceeded, as shown in the following table:

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Energy efficiency trajectory (interim-annual targets) up to 2020 - (primary energy savings to be achieved compared to the national reference scenario)</b>	0,2%	0,9%	1,6%	1,6%	1,7%	2,9%	9,4%	11,5%	12,3%	13,7%	14,5%
<b>Progress (primary energy savings achieved compared to the national reference scenario)</b>	1,8%	4,3%	12,3%	7%							

In addition, by considering the saving of the measures already taken and continue to have an impact to 2020, it is estimated that 6,2% of the national 2020 target for energy efficiency has been already achieved. The following table provides an overview of the measures expected to be adopted in the period 2014-2020 for achieving the 2020 target.

<sup>2</sup> The national indicative target is to save 14,5 % in primary energy consumption in 2020, compared to the national reference scenario (target for saving 375,000 toe at the year 2020) and not to achieve a certain number for primary energy consumption in 2020. However, based on the national energy efficiency scenario presented in the 3<sup>rd</sup> National Efficiency National Action Plan, the national projection for the primary energy consumption in 2020 is 2,2Mtoe

<b>Measures scheduled to be adopted for achieving the 2020 target</b>	<b>Contribution rate towards target achievement (%) 375,000 TOE</b>
Energy savings from the use of natural gas in power generation from 2016 onwards and the implementation of energy-saving measures in the distribution system	51,20%
Energy savings from the implementation of measures adopted in compliance with the Energy Efficiency Directive (especially Articles 5, 6, 7, 8, 9).	16,00%
Implementation of the new provisions of the Energy Performance of Buildings Directive.	8,00%
Energy savings from additional measures for energy savings in the transport sector.	10,90%
Energy savings from measures in air transport.	2,40%
Energy savings through the implementation of the Green Public Procurement Action Plan.	0,27%
Energy savings from the implementation of the Action Plans of Municipalities and Communities.	3,20%
Implementation of new EU legislation on the energy labeling of devices.	3,47%
Contribution of the measures implemented in the period 2010-2013 and will continue to be in force in 2020	<b>6,20%</b>
<b>TOTAL</b>	<b>101,70%</b>

It must be noted that, even though the reductions in primary energy consumption for the years 2011, 2012 and 2013 were higher than those projected, the achievement of the national 2020 target is highly dependent on the introduction of natural gas for the production of electricity.

Moreover, in order to fulfill the obligations set by the Energy Efficiency Directive, funds have been secured under the European and Structural Funds for the period 2014-2020, in order to operate support schemes and materialise projects for improving the energy efficiency of existing buildings in households, enterprises and the public sector as well as for the application of pilot projects in the field of combined heat and power. Funds have also been secured in the period 2014-2020 for materialising measures towards sustainable transportation.

### **Hydrocarbon Exploration**

With the recent natural gas discovery and the continuing hydrocarbon exploration activities offshore Cyprus, the country's energy sector profile is set to change radically. Recent developments include:

#### **Ongoing exploration activities**

Since October 2008, when the first exploration licence was granted for Block No 12, hydrocarbons exploration activities are ongoing. In February 2012, the Republic of Cyprus announced the second licensing round offshore Cyprus concerning the authorisation for hydrocarbon exploration in exploration Blocks No. 1-11 and 13 of the Republics' Exclusive Economic Zone. In January 2013, exploration licenses were granted to the Consortium ENI Cyprus Ltd/KOGAS Cyprus Ltd for exploration Blocks No. 2, 3 and 9 and in February 2013 exploration licenses were granted to TOTAL E&P Cyprus B.V for the exploration Blocks No. 10 and 11.

In October 2013, Noble Energy successfully drilled an appraisal well in the Aphrodite gas field (discovered in December 2011), with the aim to further evaluate the discovery. The subsequent appraisal process and the latest independent resource assessment update, confirmed a mean gross natural gas resource of 4.5 Tcf.

In 2014, the consortium ENI Cyprus Ltd/KOGAS Cyprus Ltd performed the processing and interpretation of the 2D and 3D seismic data acquired in 2013 in their licensed exploration Blocks No. 2, 3 and 9. In addition, the consortium concluded the necessary preparatory work for conducting the drilling campaign in the abovementioned Blocks, i.e., drilling rig, supplies, services, materials, etc., preparation of environmental studies and management plans for the safety and health at work and environmental protection. The first exploration well ("Onasagoras 1") was drilled in exploration Block No. 9 without encountering any commercial accumulation of hydrocarbons.

TOTAL E&P Cyprus BV performed in 2014 the acquisition, processing and interpretation of a 2D seismic survey in Block No. 10. Moreover, the company concluded the processing and interpretation of a 3D seismic survey, acquired in 2013, within Block No. 11.

#### **Examination of potential resource monetization options of the "Aphrodite" discovery**

The Government of Cyprus began discussions with the Block No. 12 Contractors, in order to explore the resource monetization options for the development and exploitation potential of the Aphrodite gas field. The outcome of the discussion will result in the submission of the Development and Production Plan for the Aphrodite Field. The optimum monetization option includes the export of natural gas via a direct marine pipeline to Egypt and a pipeline to Cyprus.

Based on the existing gas quantities and the current economic environment, exporting natural gas from the Aphrodite field via a submarine pipeline to Egypt has replaced for the time being Cyprus's onshore LNG terminal as the country's top priority for the monetization of its current resources.

#### **Natural Gas Supply**

Processes are ongoing regarding an interim solution for gas supply as well as a long-term solution for gas supply from indigenous sources.

The Cyprus Natural Gas Company (DEFA) is currently planning the development of the internal pipeline network for the transmission of natural gas to the Power Stations. The project consists of two phases: (a) primarily, delivery of gas to EAC's Power Plants and (b) long term plan, gas delivery to the Industrial sector (Power and thermal generation), Commercial sector (Thermal generation), Tourism industry (Thermal generation), Residential sector (far future) and Transportation.

The gas supply from Block No. 12 via pipelines is anticipated around 2020 under an optimistic scenario.

### **3.5.3 Renewable Energy Sources (RES)**

<p>Increase of the contribution of RES to 13% of the total energy consumption by the year 2020. - <i>Increased to 8,7% in 2013 from 7,7% in 2012.</i></p>
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In accordance with the requirements of the European Directive 2009/28/EC for the promotion of the use of energy from renewable sources, Cyprus has the legally binding target to increase the contribution of renewable energy sources to 13% of the gross final energy consumption by 2020. Cyprus has already over-achieved its first, second and third indicative trajectory, which according to the provisions of the

RES Directive was 4,92% for the years 2011-2012, 5,93% for the years 2013-2014 and 7,45% for the years 2015-2016, since the share of RES in the gross final energy consumption was 8,7%, in 2013.

According to the national action plan (NAP) in order to achieve the target of 13% of RES to the gross final energy consumption by 2020, the contribution of RES must increase to 16% for electricity, 23,5% for heating/cooling and 4,9% for transport. More specifically, it is estimated that 300MW of wind parks, 192MW of photovoltaic systems, 17MW of biomass/biogas utilization plants and 75MW of Concentrated Solar Thermal Plants must be installed so as to achieve the 16% of RES contribution to the electricity production by the year 2020. Currently, the NAP is under revision in view of the results of the study concluded by International Renewable Energy Agency (IRENA) in January of 2015. The revision will take also into consideration the results of the ongoing study of Joint Research Centre (JRC), aiming to examine the optimum way for the further penetration of renewables in the electricity network in Cyprus.

The present status of RES (end of February 2015) in the electricity sector is encouraging since 146,7MW of wind parks 61,8MW of photovoltaic systems (autonomous and grid connected), and 10,4MW of biomass utilisation units have already been connected to the grid.

In 2014 the following measures were announced:

**Net metering:** In 2014, the Ministry of Energy, Commerce, Industry and Tourism (MECIT) in cooperation with the Regulatory Authority, announced a programme for 15 MW installations of small photovoltaic systems up to 3kW each, by households. 1.2 MW of this capacity was allocated to vulnerable consumers with the provision of financial support of €900 per installed kW. By the end of February 2015, a total of 6550 applications were materialised with a total capacity of 20 MW.

**Self-Generation from Photovoltaics:** In 2014, the MECIT in cooperation with the Cyprus Energy Regulatory Authority announced a new programme for 5MW of installations of self-generation Photovoltaics for industrial and commercial consumers. By the end of 2013, 41 applications were submitted of a total capacity of 1,3MW. The programme is expected to be announced again in 2015 for additional installations.

The Electricity Authority of Cyprus (EAC) has tendered out for implementation of an Advanced **Metering Infrastructure (AMI) in Cyprus**. The system will be covering at least 3.000 electricity meters and a more limited number of water meters. It is expected that a contract will be awarded before the end of 2015. The specifications that cover this first phase of implementation are in line with the most updated proposals of the EC and cover completely the functionalities that are included in the EC recommendations.

In addition to the above support schemes, the funds that were allocated from the structural funds for the period 2014-2020, are aiming to promote RES technologies and energy efficiency measures in households and business premises.

## 4. FISCAL AND STRUCTURAL REFORMS

In addition to the measures described above which contribute to the achievement of the targets of the Europe 2020 Strategy, the Government of Cyprus implements a series of fiscal, structural and institutional reforms in the context of both the MoU and the Action Plan for Growth, which aim at promoting competitiveness and growth. The Action Plan for Growth in particular, focuses on horizontal, cross sectoral measures which aim at improving the overall business environment and unlocking the investment potential, supporting entrepreneurship and enhancing SME competitiveness, cutting red tape, promoting e-government as well as on measures to improve the competitiveness of specific sectors of the economy, in order to restore growth and generate new jobs to address the high levels of unemployment.

### 4.1 FISCAL POLICY

#### **Excessive Deficit**

In the context of the implementation of the MoU, Cyprus has adopted significant fiscal consolidation measures, originally estimated at 6% of GDP in 2012-13 and 2½ % of GDP in 2014. The budget balance, amounted to -0,2% in 2014, compared to -4,9% the year before. The primary balance in 2014 was at a surplus, at 2,6% of GDP, compared to a deficit of 1,8% in 2013. The debt to GDP ratio increased to 107,7% of GDP in 2014 compared to 102% the year before (these figures exclude the recording of the cost of the recapitalisation of the banking sector). Concerning the structural budget balance, a surplus of 3,7% of GDP was recorded in 2014, compared to a structural deficit of 1,6% of GDP in 2013. At the same time, the cyclically adjusted balance amounted to 2,9% of GDP compared to -2,7% of GDP in 2013. In general, the 2013-14 fiscal consolidation was broadly balanced between revenue and expenditure measures and it was enhanced by a number of structural fiscal reforms, including a pension reform, a public financial management reform and a tax administration reform.

#### **Pension reform**

The social insurance fund pension scheme (GSIS) and the pension scheme for government employees (GEPS) were reformed in 2013 and 2014 to ensure their long-term sustainability. The reforms included the increase in the contribution rates and the statutory retirement ages and the introduction of early retirement penalties, as well as the automatic adjustment of the statutory retirement age by life expectancy. In addition, the GEPS was closed to new entrants in 2011.

#### **Public Financial Management Reform - Medium-term budgetary objective**

The government, in the process of reforming the public financial management in Cyprus, adopted the Fiscal Responsibility and Budget System Law (FRBSL) in February 2014. The FRBSL, inter alia, directly links the budget process with the medium-term fiscal targets, which translates into binding expenditure ceilings, based on a prudent macroeconomic policy framework, evaluated by independent institutions, including the Fiscal Council.

#### **Tax administration reform - Tax compliance and tax evasion**

A reform of the revenue administration was legislated in July 2014, where the adopted law provided for the integration of the VAT services and the Inland Revenue Department into a single tax administration. In the context of the reform and as a priority, a large taxpayers office (LTO) was created before full

integration actually took place. The reform also included the introduction of best practices in improving voluntary compliance: (i) attribute personal responsibility for payment of company taxes to those who, in the case of non-listed companies, truly and effectively control a company and to the responsible manager for fraudulent filing of company taxes, (ii) harmonise the legislation among tax types so that not paying taxes is a criminal offense regardless of the type of tax, (iii) ensure that tax fraud is prosecuted as a criminal offense. In addition, in order to enhance the tax collection abilities of the integrated tax administration, amending legislation has been adopted that allows the Commissioner to freeze and seize assets in cases of undisputed tax debts.

## 4.2 FINANCIAL SECTOR

The political agreement reached at the Euro-group on 25 March 2013, included the restructuring and substantial downsizing of the banking sector. Also in 2013, legislation was enacted, establishing a comprehensive framework for the recovery and resolution of credit institutions. Under the terms of that legislation, the Central Bank of Cyprus (CBC) became the single resolution authority for banks and Cooperative Credit Institutions (CCIs). Applying this framework, the Government has proceeded with (i) the carve-out of the Greek operations of the largest Cypriot banks, (ii) the resolution of Cyprus Popular Bank and the absorption of selected assets and liabilities by the Bank of Cyprus and (iii) the recapitalisation of the Bank of Cyprus through the participation of the Bank's creditors without the use of public sources. As a result of these actions, the Cypriot banking sector was downsized significantly.

Furthermore, Cyprus has undertaken the following measures:

### **Regulation and supervision of the financial sector**

The Central Bank of Cyprus has become the single supervisory authority for banks, as well as for cooperative credit institutions, since September 2013. An amendment of the banking law in order to enable the creation of the credit register and issuance of a directive governing the operational aspects of the credit register was approved in December 2013. To address the high level of non-performing loans a number of policy measures are being implemented. The CBC published an Arrears-Management Framework and Code of Conduct as guidance for loan restructurings and developed a supervisory framework for the monitoring of banks' capacity and progress against operational and restructuring indicators.

Furthermore, during the first week of April 2015 the capital controls relating to international deposits have been lifted, almost a year after domestic capital controls ended in May 2014.

In addition, the Foreclosure Legislation was enacted in September 2014, but was subsequently suspended with a view to be enacted concurrently with a modern insolvency law. The relevant legislation was approved by the House of Representatives in April 2015.

### **Restructuring and recapitalisation of banks and cooperative credit institutions**

Successful recapitalisation of the Bank of Cyprus (BoC) and the Hellenic Bank (HB) from private sources was achieved. The Restructuring Plan of the Bank of Cyprus was approved by the CBC in January 2014, while the restructuring plan of the Cooperative Central Bank (CCB) was approved by the European Commission in February 2014. In October 2014 the major domestic banks successfully passed their Asset

Quality Review and stress tests, fully satisfying the necessary assessment and criteria. One bank which was identified as having a small capital deficit vis-à-vis the threshold has, in the meantime, been fully recapitalised by private sources. As from November 2014 the four major domestic banks are under the supervision of the European Central Bank.

A comprehensive strategy to restructure and recapitalize the CCI sector and ensure its long-term viability has been developed. The Ministry of Finance provided the capital in the form of ESM bonds into the CCB in return for ordinary shares and became the single majority shareholder of the CCB, with a share of 99%. The CCB injected capital in return for ordinary shares into the newly merged CCIs, in order to meet a 4% minimum capital requirement based on PIMCO adverse scenario resulting in a 99% shareholding in each of the CCIs. The surplus capital is held at the CCB. A Ministerial Decree was issued for the recapitalization of the CCI sector. The legal framework for a new governance structure to manage the stake of the State in the cooperative credit sector was established in September 2013. A relationship framework between the State and the Central Cooperative Bank was established in December 2013.

## 4.3 MODERNISING PUBLIC ADMINISTRATION

### 4.3.1 Public Administration Reform

The Public Administration Reform (PAR) aims to modernise public services, provide better services to the citizen, and adopt a policy framework that will utilise the available resources effectively and efficiently, using modern methods of administration. As per the relevant MoU measures, external reviews have been or are being conducted in the following areas:

**Human Resource Management of the Public Service:** adoption of modern and effective appraisal, promotions, mobility and reward systems for the employees of the public service as well as with improving impartiality, meritocracy and transparency within the civil service. Currently, the Government of Cyprus, based on the recommendations provided by the independent reviewers, is drafting its own proposals, which will be discussed with the relevant stakeholders in the next coming months.

**Restructuring of Ministries/Services:** a number of functional review studies have already been conducted, while others are ongoing, covering the Ministries and their affiliated organisations. It is expected that by the end of 2015, the functional reviews will cover the whole of the public service.

The scope of the functional reviews is to set out policy options which will contribute to the rational and efficient operation of the Ministries, guided by their strategic goals and the overall government policy.

The first batch of the sectoral studies examined the Ministry of Health, the Ministry of Education and Culture, the Ministry of Agriculture, Rural Development and Environment, including their relevant state owned enterprises, and were conducted by the World Bank. Additionally, the Local Government and the Department of Registrar of Companies and Official Receiver were reviewed by the National School of Government International of the UK Government (NSGI). The reforms of this first phase have started to be implemented as from the first quarter of 2015.

The second batch of the sectoral reviews covers the remaining seven Ministries, separated in two categories:

- (i) The reviews of the Ministry of Defense, Justice and Public Order, and Foreign Affairs have been undertaken by the NSGI. The results of these functional reviews are expected to be presented to the Government of Cyprus by June 2015.
- (ii) The review of the Ministries of Interior, Labour, Welfare and Social Insurance, and Communications and Works (undertaken by the Irish Institute of Public Administration), as well as the review of the Ministry of Energy, Commerce, Industry and Tourism (undertaken by the NSGI) have started recently and the final reports will be presented to the Government of Cyprus by December 2015. These reviews will also cover the respective Ministries' affiliated organisations.

The third and final batch of functional reviews will cover all Independent Services and Authorities with a timeline of completion by December 2015.

### **4.3.2 Specific measures aiming at improving the efficiency of the public service**

In the framework of improving the efficiency and effectiveness of the public administration, and upgrading the quality of services offered to citizens, measures have been implemented as follows:

#### **Establishment of Citizen Service Centres (one-stop-shops)**

Citizen Service Centres (one-stop-shops) have been established all over Cyprus, with the aim to provide multiple services from one point of contact/location, thereby offering citizens the convenience of having all their requirements met in one stop. The ultimate goal is to have a citizen-centric public administration which is in a position to effectively meet citizens' needs in a timely manner. Acting as an alternative channel for dealing with public agencies/organisations, CSCs offer more than 90 different services from a number of governmental organisations. The network currently comprises of 7 CSCs in total (5 operating in urban areas and 2 in rural areas). Since the effectiveness of this institution is widely acknowledged, a decision has been taken to establish 2 more CSCs by the end of 2015. During 2014 preparatory work has been undertaken for the establishment of the new CSCs, as well as the relocation of the current Nicosia CSC to another state-owned building.

#### **Establishment of a Call Center at the Citizen Service Centers (CSCs)**

One of the main issues that citizens face is that their daily communication with the civil service has become difficult and inefficient. As a result, many citizen inquiries remain unanswered. In order to address these problems, a modern and effective Call Centre has been established, to provide information on more than 500 procedures of the civil service, enable the submission of applications and additionally inform the citizens on the status of their applications.

This Call Centre will be established in two phases. As a first step, a Call Centre at the CSCs has started its operation in March 2015, providing information regarding the services offered by the CSCs and allowing the submission of applications for 18 services relating to the issuing of specific documents/licenses/certificates etc. The second phase of this project will be outsourced and its implementation will begin within 2016.

### **Project for the Re-organisation and Improvement of the Administrative Capacity of the Public Service**

This project, which is co-funded by the ESF with a timeframe of implementation between 2008 and 2015, aims inter alia at introducing benchmarking methodologies, using specific performance indicators. More specifically, the Project aims at:

- re-engineering and simplifying the processes of specific Departments<sup>3</sup>;
- introducing benchmarking methodologies, whereby the Departments' performance is compared to other similar Organisations in the EU that follow good practices in their field;
- implementing ISO in certain Departments<sup>4</sup>, and
- developing a series of methodological tools that will be horizontally implemented in the public service, for conducting organisational re-structuring studies with a special focus on the re-engineering/simplification of processes.

### **Introduction of a Guide of Conduct and Ethics for Public Servants**

The Guide of Conduct and Ethics for Public Servants was approved by the Council of Ministers on 8 May 2013. The ultimate objective of the Guide is to contribute to the further development of a citizen-oriented culture as well as to bridge the gap in the relationship between citizens and public services and to improve the overall image of the Public Service. The process of its further dissemination is in development, through training sessions starting in 2014 and onwards.

## **4.4 PRIVATISATION**

In accordance to article 8 (1) (a) of the Privatisations Law 28(I)/2014 and the relevant MoU Requirements, the Council of Ministers, has issued a decision in June 2014, establishing the Privatisation Unit, with the appointment of the Commissioner, 2 civil servants and 2 experts.

During 2014, the Unit has issued 4 tender procedures for the appointment of independent advisors for the privatisation of the Cyprus Telecommunications Authority (CYTA). The procedures for the appointment of financial, accounting, legal and technical/commercial advisors have been completed in early 2015.

As regards the privatisation of the Cyprus Ports Authority (CPA), the technical and financial advisors have also been appointed during 2014.

Furthermore, the tender procedures for the appointment of independent advisors regarding the privatisation of Cyprus Electricity Authority and the State owned land assets have been initiated during 2014 and are currently ongoing.

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<sup>3</sup> Public Administration and Personnel Department, Department of Town Planning and Housing, Department of Lands and Surveys, District Administrations (only the process for issuing a building permit).

<sup>4</sup> Department of Town Planning and Housing, Department of Lands and Surveys, District Administrations (only the process for issuing a building permit), One-Stop-Shops (Citizen Service Centres).

## 4.5 IMPROVING THE BUSINESS ENVIRONMENT

### 4.5.1 Attracting foreign investment

The facilitation of strategic investments is a priority of the Cyprus government, as an important tool to help the economy to move to a sustainable growth path. The main objective is the promotion of concrete actions for the facilitation of strategic investments, such as the simplification of procedures and the development of a stable and transparent regulatory framework. For the development of the proposed legislative framework and the establishment of a fast track mechanism for strategic investment, the Unit for Administrative Reform of the Presidency has requested technical support from external experts via the European Commission Support Group for Cyprus. At a first stage, the external experts will prepare a study which will review the existing legal and procedural framework for undertaking strategic investment in Cyprus, identify weaknesses and insufficiencies and make recommendations for improvements. The study will propose the main elements that should be included in the new legal framework. At a second stage the experts will draft the legal framework (Law and secondary legislation if considered necessary).

The Cyprus Investment Promotion Agency (CIPA) has, since the signing of the MoU, been very active in implementing a strategy for attracting foreign direct investment from non-EU countries, mainly in the banking and financial services, energy, tourism and real estate sectors. Emphasis has been placed on restoring and rebranding the country's image through targeted initiatives, through the utilisation of market intelligence and the support of Cyprus' embassies and trade offices around the globe. Furthermore, CIPA places great attention to understanding perceptions and expectations of existing investors through qualitative and quantitative research and by enhancing the flow of direct communication.

### 4.5.2 Supporting entrepreneurship

Improving the business environment and the entrepreneurial ecosystem has been identified as a basic prerequisite for strengthening competitiveness and stimulating economic growth. The creation of more viable and competitive businesses as well as the development of entrepreneurship based on knowledge, new technologies and innovation, can significantly contribute to job creation. Producing innovative products and services, especially in high added value sectors, can lead to strengthening the country's competitiveness and resilience of the economy against external developments. The creation of a suitable framework to promote and support business activity and especially entrepreneurship is therefore one of the main pillars of the Action Plan for growth. This is reflected in the current initiatives promoted by the Cypriot Government:

#### **Development of an entrepreneurial ecosystem**

The Government is proceeding with the formulation of a national policy statement and a comprehensive action plan, for the development of an entrepreneurial ecosystem in the country. The policy statement aims to create an entrepreneurial ecosystem that will contribute to the country's economic growth, by providing the proper conditions for the successful development of business initiatives, ensuring the creation of added value for the whole economy. The intention of the Government is to effectively

contribute to the whole effort by facilitating, supporting, complementing and linking the initiatives already undertaken in this direction by the private sector and the enterprises themselves.

### 4.5.3 Business support structures

The Government has decided to pursue a number of measures in order to further enhance the business and investment environment. In this framework the Government is proceeding to upgrade the current One Stop Shop into a Business Support Centre. The purpose of the Centre is to provide each and every new or potential entrepreneur all the necessary information for setting up and operating a company. More specifically, the Centre will provide amongst others:

- Customised information about all the necessary licenses for the setting up and operating of a company (services for the set-up of a company will be provided at the Center).
- Customised information about all the available financing tools.
- Guidance on the basic steps for setting-up and operating a company.
- Information about events and other actions undertaken either by the public or by the private sector, aim to promoting entrepreneurship.

The Centre is expected to operate by the end of the year. Further to the establishment of the Centre, the government also focuses on the further use and enhancement of e-services for the businesses. For example, the development of a central Web Portal for SMEs will also serve as the electronic dimension of the Business Support Center. The digitalisation of schemes directed towards the support of SMEs, is another project underway towards the same direction.

### 4.5.4 Improving the regulatory environment

Special emphasis is given to the improvement of the regulatory framework for businesses, through the development and implementation of Smart Regulation actions. The aim is to identify and simplify or streamline, if possible, the most burdensome or even unnecessary procedures that entrepreneurs have to engage to in order to set up and run their business. Actions of reform and simplification of procedures are already underway by several departments who provide a number of services to businesses. More advanced are the projects of simplification and modernisation in the Department of the Registrar of Companies and Official Receiver and the Tax Department (been formed through the merging of the VAT Services Department with the Inland Revenue Department). Furthermore, regarding construction permits and tourism, simplification projects are also underway. More specifically, the Ministry of Interior is expected to get technical assistance for delivering a new legislation framework to replace the existing building legislation framework implemented in Cyprus related with the building and planning permit procedures. Regarding the simplifications in the Tourism sector a Project has been initiated to map and simplify the regulatory framework and processes.

Similar projects have also very recently been initiated, with the set-up of a competent Project Team and the mapping of selected services and related procedures in the Department of Civil Registry and Migration and the Social Insurance Services, in close cooperation with the Unit for Administrative Reform.

Through the revision of the existing National Action Plan on Smart Regulation, expected within 2015, the Unit for Administrative Reform aims to identify and promote simplifications in as many of the Public Services whose procedures relate to and affect the business activity in the country. Reviewing the existing tax legal framework for businesses and improving the public procurement processes, especially for SMEs, are already identified as areas of interest.

In addition, the new Action Plan on Smart Regulation will provide for the development and implementation of the SME Test, as part of the overall Impact Assessment mechanism, with the view to promote better regulation for businesses by taking into consideration all possible impacts, especially on SMEs, when drafting a new legislation. The use of mitigation measures for small and micro enterprises will be examined, taking into consideration the structure of the business environment in Cyprus. Best practices from other Member States are currently being examined on this topic.

#### 4.5.5 Improving access to finance

Although the banking sector has been gradually stabilised and the outcome of the Comprehensive Assessment by the ECB was positive, access to finance remains one of the main challenges of businesses and particularly SMEs of the Cypriot economy. The Government of Cyprus, acknowledging the market obstacles in the provision of finance to SMEs, has secured loans from EIB and EBRD that will be directed to SMEs through:

**The Cyprus Entrepreneurship Fund (CYPEF):** This will facilitate access to finance for SMEs through financial instruments in the form of loans with favourable financing terms. The initial capital of €100 mln, dedicated by the Government for the CYPEF, was acquired through a loan from EIB and will be matched by equal contributions from selected financial intermediaries (commercial banks). The European Investment Fund (EIF) has been appointed as the manager of the CYPEF. The maximum loan for each firm has been set to the amount of € 1,5 mln. It is expected that loans will be available by the first Bank to participate in the scheme to SMEs in April 2015. As far as the participation of the other interested commercial banks is concerned, the negotiations are in progress.

**The JEREMIE Initiative:** The implementation of the JEREMIE Initiative in Cyprus started in January 2011. By mid-2013 an amount of €22,7 mln on new loans was disbursed to around 315 eligible SMEs, with the support of around €10 mln from the ERDF. Since January 2014, an additional €16 mln has been made available to SMEs where from each SME can benefit from a loan of up to €100.000. Up to end February 2015, 105 more companies have been supported with approximately €6 mln of new loans out of the total €16 mln. With the view to accelerate the implementation of the product, and upon request by the Financial Intermediaries, a proposal is currently under consideration, to increase the maximum loan amount to up to €300.000 and also allow for medium enterprises to benefit by the programme.

**Other Financial Engineering Instruments:** A number of schemes are programmed to be available to SMEs in the framework of the ESIF for the period 2014-2020, both in the form of grants and in the form of Financial Engineering Instruments such as loans or guarantees and equity products.

A number of schemes in the form of grants have been made available since December 2014. The said schemes include the enhancement of Youth and Women Entrepreneurship already mentioned under

section 3.1, the schemes for Saving Energy for Enterprises and Households, the scheme for the enhancement of SMEs' competitiveness in the manufacturing sector and other specific economic activities and the scheme for strengthening Business Innovation Development for Products, Services and Processes.

With regard to the development and implementation of new Financial Instruments, preparation for an ex ante assessment is underway that is necessary to take place in accordance to ESIF Regulations with the view to confirm the need and possibility for the use of these instruments.

**The Trade Finance Facility:** This was approved by the EIB in October 2013 and will provide guarantees to the commercial banks for trade financing, up-to €150 mln, which are expected to support a volume of transactions in the order of €300-450 mln per year. The Council of Ministers in September 2014 decided to approve the Plan for the provision of Governmental Guarantees, amounting up to €150 mln, to the Cypriot banks for the conclusion of Agreements with the EIB and for the granting of a government guarantee from the Trade Finance Facility mechanism. From the €150 mln, an amount of up to €50 mln a guarantee was approved to the Bank of Cyprus.

**The European Bank for Reconstruction and Development (EBRD):** EBRD has opened a Resident Office in Cyprus which has been put into full operation, with considerable progress in terms of its commercial activities. In September 2014 it completed its first project with the Bank's participation in the capital of the Bank of Cyprus with the amount of €107,5 mln. EBRD will be represented in the Board of Bank of Cyprus with a representative. A second project has also been approved for the purchase of covered bonds. The reviews for some private-sector projects are in the final stage and there is optimism that within 2015 EBRD's financing in Cyprus will reach the amount of €200 mln, mainly in the financial sector and the energy sector.

The EBRD's strategic directions in Cyprus are the following: (a) strengthening the financial sector to build up resilience and improve governance, (b) supporting the Authorities' privatisation programme, and (c) assisting with corporate restructuring and enhancing access to financing for healthy corporate.

**The Government Guarantee Scheme:** Guarantees of up to €300 mln will be provided to Cypriot Banks for the conclusion of Loan Agreements with the EIB for the financing of SMEs and Mid-Caps in Cyprus. Up to date more than 50% of the approved amount (approximately €185 mln) has been engaged in Agreements with 8 Financial Intermediaries.

## 4.6 TOURISM SECTOR

Tourism has been one of the most important sectors of the Cypriot economy since the 1980s with a high direct and indirect contribution to GDP and employment. As such, the sector has been one of the major pillars supporting the effort of the economy towards recovery following the 2013 crisis. Despite this, the sector faces structural weaknesses and loss of competitiveness. Its further development constitutes a critical and central challenge for the country. To this end, the Government of Cyprus has initiated the procedures for acquiring external consultancy services for the development of a comprehensive tourism strategy, aiming at improving the performance and revenue yield of the tourism sector and establishing a sustainable tourism model, by improving the competitiveness of the industry, developing a diversified

tourism product and a strong tourism brand and alleviating the seasonality problem. Furthermore, as mentioned in par. 4.4.4 a project of simplification of legislation and procedures in the tourism sector is already underway.

With regards to Cyprus's Air Connectivity, an area closely connected to the viability of the tourism sector, a relevant study commissioned by the MCW is expected to be finalised soon. The aim of the study is to evaluate the feasibility of establishing Cyprus as an interconnected destination to support its economy.

## **4.7 HEALTH SECTOR**

The Government of Cyprus is committed to the implementation of a National Health System (NHS), according to the provisions of the MoU. The NHS will ensure financial sustainability while providing universal coverage. In December 2014 the draft bills for NHS and autonomisation of public hospitals were published and announced for public consultation. In addition, the Health Insurance Organisation (HIO) aims at concluding the process of the Competitive Dialogue and issuing the final tender documents for the NHS Information Technology Infrastructure by the beginning of the second quarter of 2015.

The Ministry of Health, proceeds with measures that will assure the easy and equal access of citizens to healthcare services, in the framework of its current reforms. In the meantime, all efforts are focused on the continuation of the provision of quality health services under the increased demand for public health services.

Having as a vision the provision of quality healthcare services provided to all citizens throughout their life cycle, the Ministry of Health proceeds with the implementation of the reforms of the healthcare system based on the following pillars:

- Implementation of a National Health System.
- Autonomisation and Restructuring of Public Hospitals and Public Health Facilities.
- Strengthening and Upgrading of eHealth.
- Restructuring of the Ministry of Health.
- Restructuring of Associated Organisations.
- Reforms on Pharmaceuticals.
- Legislative Review.

For implementing these reforms the Ministry has also entered into collaboration with external experts who have the necessary experience in implementing such projects with success.

## **4.8 DIGITAL STRATEGY**

ICT has been recognised by the Smart Specialisation Study as an important tool of horizontal application that can contribute significantly to innovation and smart growth. In order to achieve the broader goal of revival and restructuring of the economy and create new jobs, especially strengthening the digital economy, the objectives, measures and actions of the Digital Strategy of Cyprus have been prioritized. The Action Plan 2015-2017, which was approved by the Council of Ministers in September 2014,

includes the most important actions of the Digital Strategy to be promoted in the next three years. Most of these projects will be co-financed from the ESIF for the programming period 2014-2020. The most significant objectives are described below:

**Connect Cyprus:** The focus is to achieve the broadband targets of 2020. Within 2014 a third mobile license was granted for the development of a mobile broadband electronic communications network (3G and/or 4G) that will provide a variety of new services. Also, the authorisations of the two existing mobile operators were amended in order to allow the use of new technologies. The new mobile broadband networks have become operational in March 2015. It is also expected within 2015 to start a new procedure for the authorisation of additional frequency bands for the establishment of wireless broadband networks.

Furthermore, a significant amount from the ESIF has been secured for the modernisation of fixed broadband infrastructure. The relevant project will involve implementing an optical fiber network to the premises (FTTH) and/or extension of the optical fiber network as close as possible to the end user's premises, with the objecting of providing connection to ultra-high speed broadband networks. This project has been initiated in early 2015 with the conduct of the relevant analysis, costing and feasibility study.

**Modernise public administration to provide public electronic services:** Acknowledging that the provision of more e-services will stimulate demand and proliferate internet uptake; efforts were exerted for expediting the general reorganisation and modernisation of the public sector and of local authorities, with the widespread use of ICT which is another prime goal of the digital strategy. In this context, various projects are under way: i) the full exploitation and extension of Government Online Gate, ii) the creation of infrastructure to provide advanced electronic signature certificates; iii) the extension of the Office Automation System throughout the government; and iv) the creation of a unified communications network for the Public Services. Furthermore, for the provision of public electronic services, the following projects are under way: i) the supply of equipment for the establishment of the Integrated Information System of the Department of Town Planning and Housing, which is currently in the implementation process and ii) the e-justice project, regarding Court management services, for which the process of preparing tender documents is currently underway. In addition to these, the Action Plan includes projects regarding e-health, (creation of an Integrated Health Information System, for which tender documents are under preparation) and e-education (establishment of a Support Services System).

**Digital Entrepreneurship:** The Action Plan for 2015-2017 includes specific funding schemes for empowering SME's with the use of ICT in their internal functioning as well as in their customer service chain. Consultation with the industry has begun and a draft guide plan and guide management plan are under evaluation. The objectives of the funding schemes are to increase the development of local applications in the Internet, based on cloud computing services; to acquire Cypriot businesses experience from the use of cloud computing applications; and to increase the use of e-commerce.

**Digital Skills:** There is an important need to address ICT-related skills (e-skills) issues in order to respond to the growing demand for highly-skilled ICT practitioners and users, meet the fast-changing requirements of industry, and ensure that every citizen is digitally literate in a lifelong learning context.

Within this context, the Action Plan 2015-2017 includes various actions targeting the increase of the percentage of population with digital skills. Two new projects will be promoted in 2016: a project for training the digitally illiterate population of Cyprus in order to exploit the offered online electronic services in both the public and private sectors and the training of teachers in subjects related with ICT in the learning process.

### **National Plan for the Coalition for Digital Jobs**

In support of the European Commission's recent action call for a Grand Coalition seeking to address the shortage in the new ICT skills and the future mismatching of unfilled ICT-related vacancies across Europe, Cyprus' Digital Champion proceeded, in September 2014, with the creation of a National Action Plan for Coalition for Digital Jobs in close cooperation with the Department of Electronic Communications.

More than forty stakeholders, including companies from the ICT and ICT-related sector, relevant public departments, and other education providers have notified their commitment to support and promote this effort. After the completion of two consultations between all relevant stakeholders and the Digital Champion, interested parties transmitted their proposed actions, which have been divided into three categories namely, Training, Certification and Awareness. Each category is examined by a separate Working Group with the view to deliver and engage in actions, in their area of proficiency.

Next steps involve the creation of a roadmap for the implementation of the Action Plan of the National Coalition as divided in the three key categories. The roadmap will specify an implementation plan of the three working groups, and it will be updated periodically according to the actions already performed. The aim will be to complete and promote the National Action Plan, with a view to supporting and finally joining the Grand Coalition as an interested Member State.

## 5. ANNEX: FISCAL TABLES OF THE STABILITY PROGRAMME

**Table 2: General government budgetary prospects**

	ESA Code	Year	Year	Year	Year	Year	Year
		2014	2014	2015	2016	2017	2018
		Level	% of				
		GDP	GDP	GDP	GDP	GDP	GDP
<b>Net lending (EDP B.9) by sub-sector</b>							
<b>1. General government</b>	S.13	-43,5	-0,2	-1,5	-0,4	0,2	1,3
<b>2. Central government</b>	S.1311	-8,5	0,0	-1,5	-0,5	0,2	1,3
<b>3. State government</b>	S.1312	M	M	M	M	M	M
<b>4. Local government</b>	S.1313	5,6	0,0	0,0	0,0	0,0	0,0
<b>5. Social security funds</b>	S.1314	-40,6	-0,2	0,1	0,1	0,1	0,1
<b>General government (S13)</b>							
<b>6. Total revenue</b>	TR	7.053,1	40,3	39,3	39,5	39,3	39,7
<b>7. Total expenditure</b>	TE1	7.096,6	40,5	40,7	39,9	39,1	38,4
<b>8. Net lending/borrowing</b>	EDP B.9	-43,5	-0,2	-1,5	-0,4	0,2	1,3
<b>9. Interest expenditure</b>	EDP D.41	498,2	2,8	2,7	2,5	2,4	2,2
<b>10. Primary balance<sup>2</sup></b>		454,7	2,6	1,2	2,1	2,5	3,6
<b>11. One-off and other temporary measures<sup>3</sup></b>		-133,7	-0,8	0,0	0,0	0,0	0,0
<b>Selected components of revenue</b>							
<b>12. Total taxes (12=12a+12b+12c)</b>		4.422,0	25,3	25,0	24,9	25,1	25,7
<b>12a. Taxes on production and imports</b>	D.2	2.584,4	14,8	14,5	14,5	14,6	15,1
<b>12b. Current taxes on income, wealth, etc</b>	D.5	1.837,4	10,5	10,5	10,4	10,5	10,6
<b>12c. Capital taxes</b>	D.91	0,2	0,0	0,0	0,0	0,0	0,0
<b>13. Social contributions</b>	D.61	1.557,3	8,9	9,0	9,1	9,1	9,1
<b>14. Property income</b>	D.4	276,0	1,6	1,1	1,1	1,0	1,0
<b>15. Other<sup>4</sup></b>		797,8	4,6	4,1	4,4	4,1	4,0
<b>16=6. Total revenue</b>	TR	7.053,1	40,3	39,3	39,5	39,3	39,7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) <sup>5</sup>		5.979,1	34,2	34,0	34,0	34,2	34,7
<b>Selected components of expenditure</b>							
<b>17. Compensation of employees + intermediate consumption</b>	D.1+P.2	2.954,4	16,9	16,6	16,4	16,0	15,7
17a. Compensation of employees	D.1	2.299,1	13,1	12,9	12,7	12,4	12,2
17b. Intermediate consumption	P.2	655,3	3,7	3,7	3,7	3,6	3,5
<b>18. Social payments (18=18a+18b)</b>		2.575,8	14,7	14,9	14,9	14,9	14,7
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	4,2	0,0	0,1	0,1	0,1	0,1
18b. Social transfers other than in kind	D.62	2.571,6	14,7	14,8	14,9	14,8	14,6

<b>19=9. Interest expenditure</b>	EDP D.41	498,2	2,8	2,7	2,5	2,4	2,2
<b>20. Subsidies</b>	D.3	79,6	0,5	0,5	0,5	0,5	0,4
<b>21. Gross fixed capital formation</b>	P.51	308,3	1,8	1,8	1,9	1,9	1,9
<b>22. Other<sup>6</sup></b>		680,3	3,9	4,2	3,7	3,6	3,4
<b>23=7. Total expenditure</b>	TE1	7.096,6	40,5	40,7	39,9	39,1	38,4
p.m.: Government consumption (nominal)	P.3	3.071,1	17,5	17,3	17,0	16,6	16,3
<sup>1</sup> Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.							
<sup>2</sup> The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).							
<sup>3</sup> A plus sign means deficit-reducing one-off measures.							
<sup>4</sup> P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).							
<sup>5</sup> Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.							
<sup>6</sup> D.29+D4 (other than D.41) + D.5+D.7+D.9+P.52+P.53+K.2+D.8.							

**Table 3: General government expenditure by function**

% of GDP	COFOG Code	Year	Year
		2012	2017
1. General public services	1	11,5	9,5
2. Defence	2	1,8	1,5
3. Public order and safety	3	2,0	2,0
4. Economic affairs	4	3,0	2,8
5. Environmental protection	5	0,3	0,4
6. Housing and community amenities	6	2,1	1,8
7. Health	7	3,0	3,0
8. Recreation, culture and religion	8	1,0	0,8
9. Education	9	6,1	6,2
10. Social protection	10	11,3	11,4
11. Total expenditure (=item 7=23 in Table 2)	<b>TE</b>	<b>42,1</b>	<b>39,3</b>

**Table 4: General government debt developments**

% of GDP	ESA Code	Year	Year	Year	Year	Year
		2014	2015	2016	2017	2018
<b>1. Gross debt<sup>1</sup></b>		107,1	104,3	99,6	96,7	91,1
<b>2. Change in gross debt ratio</b>		5,1	-2,8	-4,7	-2,9	-5,6
<b>Contributions to changes in gross debt</b>						

3. Primary balance <sup>2</sup>		2,6	1,2	2,1	2,5	3,6
4. Interest expenditure <sup>3</sup>	EDP D.41	2,8	2,7	2,5	2,4	2,2
<b>5. Stock-flow adjustment</b>		7,6	-1,7	-2,6	-0,3	-2,0
<i>of which:</i>						
- Differences between cash and accruals <sup>4</sup>		0	0,0	0,0	0,0	0,0
- Net accumulation of financial assets <sup>5</sup>		0,0	2,9	2,8	0,0	2,1
<i>of which:</i>						
- <i>privatisation proceeds</i>		0	0	0	0	0
- Valuation effects and other <sup>6</sup>		0	0	0	0	0
p.m.: Implicit interest rate on debt <sup>7</sup>		2,7	2,5	2,5	2,5	2,4
<b>Other relevant variables</b>						
6. Liquid financial assets <sup>8</sup>		2,3	-3,5	-1,2	0,1	1,6
7. Net financial debt (7=1-6)		104,8	107,8	100,8	96,6	89,5
<sup>1</sup> As defined in Regulation 3605/93 (not an ESA concept).						
<sup>2</sup> Cf. item 10 in Table 2.						
<sup>3</sup> Cf. item 9 in Table 2.						
<sup>4</sup> The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.						
<sup>5</sup> Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.						
<sup>6</sup> Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant.						
<sup>7</sup> Proxied by interest expenditure divided by the debt level of the previous year.						
<sup>8</sup> AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares).						

**Table 5: Cyclical developments**

% of GDP	ESA Code	Year	Year	Year	Year	Year
		2014	2015	2016	2017	2018
<b>1. Real GDP growth (%)</b>		-2,3	-0,4	1,3	1,9	2,4
<b>2. Net lending/borrowing of general government</b>	EDP B.9	-0,2	-1,5	-0,4	0,2	1,3
<b>3. Interest expenditure</b>	EDP D.41	2,8	2,7	2,5	2,4	2,2
<b>4. One-off and other temporary measures<sup>1</sup></b>		-0,8	0,0	0,0	0,0	0,0
5. Potential GDP growth (%)		-1,7	-1,4	-1,0	-0,4	0,6
contributions:						
- labour						
- capital						
- total factor productivity						
6. Output gap		-6,1	-4,3	-1,8	-0,7	0,0
7. Cyclical budgetary component		-2,4	-1,7	-0,7	-0,3	0,0

8. Cyclically-adjusted balance (2 - 7)		2,1	0,2	0,3	0,4	1,3
9. Cyclically-adjusted primary balance (8 + 3)		5,0	2,9	2,8	2,8	3,6
10. Structural balance (8 - 4)		2,9	0,2	0,3	0,4	1,3
<sup>1</sup> A plus sign means deficit-reducing one-off measures.						

**Table 6: Divergence from previous update**

	ESA Code	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
<b>Real GDP growth (%)</b>						
Previous update		-4,8	0,9	1,9	2,3	n/a
Current update		-2,3	1,3	1,9	2,4	0,0
Difference		2,5	0,4	0,0	0,1	n/a
<b>General government net lending (% of GDP)</b>						
Previous update		-5,3	-5,7	-2,7	-1,0	n/a
Current update		-0,2	-1,5	-0,4	0,2	1,3
Difference		5,1	4,3	2,3	1,2	n/a
<b>General government gross debt (% of GDP)</b>						
Previous update		108,7	109,6	105,2	100,8	n/a
Current update		107,1	104,3	99,6	96,7	91,1
Difference		-1,6	-5,4	-5,6	-4,1	n/a