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Analysis of the Draft Budgetary Plan of Cyprus

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of Cyprus

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EXECUTIVE SUMMARY

- After growth of 3.1% of GDP in 2019, economic activity is set to contract sharply in 2020, by 5.5% according to the Draft Budgetary Plan and by 6.2% according to the Commission autumn forecast. For 2021, GDP is projected to grow by 4.5% according to the Draft Budgetary Plan and by 3.7% according to the Commission autumn forecast.
- The Draft Budgetary Plan projects the headline balance to deteriorate to a deficit of 4.5% of GDP, which is set to decline to 0.7% of GDP in 2021. According to the Commission forecast, Cyprus' headline deficit is projected to reach 6.1% of GDP in 2020 before narrowing to 2.3% of GDP in 2021. For the time being, since the submission of the Recovery and Resilience Facility (RRF) and subsequent approval are only expected to take place in 2021, the Commission forecast includes 0.5% of GDP pre-financing of RRF grants in the budgetary projections for 2021 and treats them as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact.
- In sum, deficit-increasing measures adopted in 2020 to fight the pandemic and to mitigate the adverse socio-economic effects of the economic downturn amount to 3.9% of GDP in 2020 and to 0.3% of GDP in 2021 according to the Commission forecast. While the budgetary cost of some measures adopted shortly after the outbreak of the pandemic was revised downwards, additional measures (e.g., grants to support small enterprises and the self-employed) were adopted and several early support measures (e.g., specific short-time work schemes) were prolonged. Overall, the measures taken by Cyprus in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.
- Public debt stood at 94.0% of GDP at end of 2019. According to the Draft Budgetary Plan, the debt-to-GDP-ratio is planned to rise to 114.8 in 2020 before declining to 111.0% in 2021. In its autumn forecast, the Commission projects the public debt-to-GDP ratio to reach 112.6% in 2020, before declining to 108.2% in 2021.
- On 20 May 2020, the Commission has prepared a report under Article 126(3) TFEU analysing whether Cyprus was compliant with the deficit and debt criterion of the Treaty. Overall, the analysis suggested that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 was not fulfilled while the debt criterion was complied with. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.
- Overall, most of the measures in the Draft Budgetary Plan of Cyprus are supporting economic activity against the background of considerable uncertainty. At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2021 Draft Budgetary Plan of Cyprus (hereafter called the Plan), which was submitted on 23 October 2020.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact and on 23 March 2020 the Ministers of Finance of the EU Member States agreed with the Commission assessment. The clause facilitates the coordination of budgetary policies in times of severe economic downturn. As indicated in the Annual Sustainable Growth Strategy 2021[1] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[2], the activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, which should continue to provide targeted and temporary fiscal support in 2021, provided that this does not endanger fiscal sustainability in the medium term. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Public finances in 2021 are also expected to be influenced by the proposed establishment of the Recovery and Resilience Facility (RRF), alongside the proposal for the reinforced long-term budget of the EU for 2021-2027. The RRF is envisaged to provide a total envelope of €672.5 billion in loans and non-repayable financial support (grants) to support the implementation of investments and reforms in the EU Member States. The 2021 Draft Budgetary Plan of Cyprus does not take into account the implementation of the reforms and investments, and their associated costs, envisaged under the RRF.

As the debt ratio was 94% of GDP at the end of 2019, exceeding the 60% of GDP reference value of the Treaty, Cyprus also needs to comply with the debt reduction benchmark.

On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Cyprus' general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value and Cyprus did not comply with the debt reduction benchmark in 2019. The report concluded that, after the assessment of all relevant factors, the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 was not fulfilled while the debt criterion was complied with. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that

[1] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[2] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en.

a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

2. Macroeconomic developments underlying the draft budgetary plan

The Cypriot economic activity has been considerably affected by the COVID-19 pandemic and the lockdown measures that followed. On 11 March 2020, the authorities introduced restrictive measures in order to protect citizens from the pandemic. The gradual lifting of the measures in the island started in May, giving way to domestic demand to start a slow recovery. Some relaxation of travel restrictions started in June, however some restrictions remained throughout the summer for travelers from Cyprus' main markets i.e. the UK and Russia. The effects of the pandemic crisis on the Cypriot tourism sector were particularly negative. The 2021 Draft Budgetary Plan forecasts a GDP contraction of 5.5% in 2020. This forecast embeds a 1 percentage point upward revision to GDP growth compared to the Cypriot 2020 Stability Programme.[3]

The sizeable drop in economic activity over the first half of 2020, -5.5% year-on-year, is set to be followed by a gradual recovery, especially in the third quarter of 2020. According to the Plan, private consumption and investment should rebound strongly in the second half of the year, while exports of goods and services are set to continue their declining path. According to the Plan, the fiscal stimulus package adopted by the government are expected to have sustained employment, household incomes and businesses, including a positive impact on investment, and hence play a key role to support the rebound. The unemployment rate is projected to fluctuate around 8.0% in 2020, compared to 7.1% in 2019 and inflation is expected to turn negative to -0.6%.

For 2021, the Plan projects GDP to expand by 4.5%. Nonetheless, GDP in 2021 is set to remain below its pre-pandemic level. The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic, the accompanying lockdown measures and their economic consequences.

The macroeconomic scenario underlying the Draft Budgetary Plan does not fundamentally differ from the Commission's projections. According to the Commission autumn 2020 forecast, GDP is projected to decline by 6.2% in 2020 (a 1.5 percentage points upward revision from the summer interim forecast), before rebounding by 3.7% in 2021. Domestic demand, notably private and public consumption and to a lesser extent investment, are expected to be the the main driver of growth in 2021. By contrast, net exports are set to have a negative, albeit small contribution.

[3] The national accounts data used in the Commission 2020 autumn forecast are based on the latest notified data published in October 2020, after the 2020 Draft Budgetary Plan cut-off date chosen by the authorities of 29 September 2020. Therefore, the nominal GDP for 2019 in the Commission forecast amounts to EUR 22.3 billion compared to EUR 21.9 billion in the Draft Budgetary Plan, causing ratios reported in the Plan that use nominal GDP in the denominator for 2019 to be higher. Additionally, this has an impact on the fiscal indicators in percent of nominal GDP in 2020 and 2021.

The macroeconomic forecast underpinning the Draft Budgetary Plan was endorsed by the independent Fiscal Council on 12 October 2020. The Council concluded that the projections for macroeconomic variables were “within acceptable limits”.

Table 1. Comparison of macroeconomic developments and forecasts

	2019	2020			2021		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	3.1	-7.0	-5.5	-6.2	6.0	4.5	3.7
Private consumption (% change)	1.8	-7.2	-3.2	-4.1	n.a.	3.5	2.8
Gross fixed capital formation (% change)	2.0	-5.3	-9.9	-11.1	n.a.	5.0	2.6
Exports of goods and services (% change)	-0.4	-26.1	-17.6	-17.7	n.a.	11.1	7.2
Imports of goods and services (% change)	2.0	-21.3	-11.1	-11.5	n.a.	11.8	7.0
Contributions to real GDP growth:							
- Final domestic demand	3.6	-3.5	-0.8	-1.9	n.a.	5.5	3.9
- Change in inventories	1.2	0.0	0.0	0.0	n.a.	0.0	0.0
- Net exports	-1.7	-3.5	-4.7	-4.3	n.a.	-1.0	-0.2
Output gap[1]	5.4	n.a.	-2.0	-2.6	n.a.	0.5	-0.7
Employment (% change)	3.1	n.a.	-2.5	-2.6	n.a.	2.0	1.1
Unemployment rate (%)	7.1	n.a.	8.0	8.2	n.a.	7.0	7.8
Labour productivity (% change)	-0.1	n.a.	0.2	-3.7	n.a.	0.2	2.6
HICP inflation (%)	0.5	-0.3	-0.6	-0.9	1.0	1.0	0.9
GDP deflator (% change)	0.9	-0.3	-1.0	0.8	1.0	1.0	1.3
Comp. of employees (per head, % change)	1.8	n.a.	-3.0	-2.5	n.a.	2.5	1.7
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-6.2	n.a.	-7.8	-10.3	n.a.	-8.5	-10.0

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

On 20 July 2020 the Council addressed recommendations to Cyprus in the context of the European Semester. In the area of public finances and in line with the general escape clause, the Council recommended Cyprus to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, Cyprus should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

3.1. Deficit developments

According to the Draft Budgetary Plan, the headline deficit is projected at 4.5% of GDP in 2020. This implies a marginal downward revision with respect to the Stability Programme of May 2020, where the deficit was planned at 4.3% of GDP. The revision reflects a number of factors. On the one hand, it reflects an upward revision to the growth outlook in 2020 as well as the fact that the cost of the measures presented in the Stability Programme turned out overestimated by about 0.8% of GDP. On the other hand, it reflects additional measures amounting to 1.4% of GDP that were adopted after the Stability Programme in order to contain the economic effects stemming from the lockdown and restriction measures to contain the pandemic.

In turn, the Commission 2020 autumn forecast projects the headline deficit to reach 6.1% of GDP in 2020. Compared to the Draft Budgetary Plan, the Commission forecast projects lower revenues (1.2 percentage points of GDP)) and slightly higher expenditure (0.3 percentage points of GDP) than the Plan.[4] Summarising, the budgetary projections presented in the Plan differ from those of the Commission 2020 autumn forecast because the latter: i) is based on a slightly more conservative macroeconomic scenario, ii) uses higher tax revenue elasticities leading to a higher expected decrease in revenues, and iii) projects higher public investments. The Commission forecast assumes the same budgetary impact of the measures taken to mitigate the socio-economic consequences of the COVID-19 pandemic and recession as the Draft Budgetary Plan.

For 2021, the Plan projects the headline deficit to drop to 0.7% of GDP compared to a deficit of 0.4% of GDP as envisaged by the Stability Programme. The downward revision can be mainly attributed to new measures in the order of 0.3% of GDP adopted after the publication of the Stability Programme. According to the Plan, total public expenditures are expected to increase only slightly by 0.4% in 2021, while total revenues rebound markedly, by 9.2% in 2021. The expenditure increase is mainly driven by the higher intermediate consumption related to the roll out of the second stage of the introduction of National Health Insurance System. On the revenue side, social contributions and tax collection is are expected to grow firmly, on account of the projected recovery.

In turn, the Commission 2020 autumn forecast projects the general government headline deficit at 2.3% of GDP in 2021. The difference with respect to the Plan is mainly due to the base effect stemming from a higher deficit projection by the Commission for 2020. Compared to the Draft Budgetary Plan, the Commission 2020 autumn forecast projects a marginally lower increase in the revenue ratio (0.1 percentage points of GDP) and an identical decrease in the expenditure ratio.

For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes, in the budgetary projection for 2021, the 10% pre-financing of Recovery and Resilience Facility grants[5] as a financial transaction with no impact on the budget balance in 2021, but with a public debt-reducing impact. In the case of Cyprus, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 104 million in 2021. On the expenditure side, in line with its no-

[4] The Commission 2020 autumn forecast uses a higher nominal GDP realised in 2019, in line with the notified data as published in October 2020, unlike the Plan. For further details, see footnote 1.

[5] The amount of pre-financing is based on the Council Presidency compromise proposal for the RRF Regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

policy change assumption, the Commission forecast includes no expenditure related to the Recovery and Resilience Facility, as the corresponding measures were not sufficiently specified at the cut-off date of the forecast.[6]

For 2021, the Plan expects the recalculated structural balance to improve to -0.9% of potential GDP. This improvement with respect to 2020 is mainly driven by the output gap. The Commission 2020 autumn forecast projects the structural balance at -1.9% of potential GDP. The difference with respect to the recalculated structural balance is driven by both the different projections of the headline balance and estimates for the output gap. However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the picture, as the corresponding changes in the level of public spending from one year to the next affect the indicators used to assess the fiscal stance. Excluding the temporary emergency measures from the calculation of the fiscal stance indicators provides a more representative assessment of the underlying fiscal support to economic activity.

A risk underlying the projections in the Draft Budgetary Plan relate to contingent liabilities. These include the exposure of the state to Asset Protection Schemes to Hellenic Bank and government guarantees granted in previous years to companies, as well as potential additional financing needs from the National Health Insurance System.

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[6] The treatment of the Recovery and Resilience Facility (RRF) in the Commission's 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). In line with the customary no policy-change assumption, the forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2019		2020			2021			Change: 2019-2021
	COM	DBP	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**41.5**	**41.5**	**44.3**	***42.5***	**41.3**	**n.a.**	***44.0***	**42.7**	**2.5**
of which:									
- Taxes on production and	14.9	14.9	15.0	*15.3*	14.6	n.a.	*15.3*	14.6	0.4
- Current taxes on income,	9.7	9.7	9.5	*9.6*	8.9	n.a.	*9.6*	9.4	-0.1
- Capital taxes	0.0	0.0	0.0	*0.0*	0.0	n.a.	*0.0*	0.0	0.0
- Social contributions	10.7	10.7	11.8	*11.4*	11.4	n.a.	*12.2*	12.1	1.5
- Other (residual)	6.2	6.2	8.0	*6.2*	6.5	n.a.	*6.9*	6.6	0.7
Expenditure	**40.1**	**40.1**	**48.5**	**47.1**	**47.4**	**n.a.**	**44.7**	**45.0**	**4.6**
of which:									
- Primary expenditure	37.8	37.8	46.1	44.8	45.0	n.a.	42.6	42.9	4.7
of which:									
Compensation of employees	12.3	12.3	14.3	14.0	13.9	n.a.	13.8	13.9	1.5
Intermediate consumption	5.3	5.3	7.3	9.0	8.7	n.a.	10.1	9.8	4.8
Social payments	12.7	12.7	16.6	14.2	14.2	n.a.	13.6	13.6	0.9
Subsidies	0.3	0.3	0.3	2.9	2.8	n.a.	0.7	0.7	0.4
Gross fixed capital formation	2.4	2.4	0.9	1.2	1.9	n.a.	1.2	1.9	-1.2
Other (residual)	4.7	4.7	6.6	3.5	3.5	n.a.	3.2	3.0	-1.5
- Interest expenditure	2.3	2.3	2.4	2.3	2.4	n.a.	2.2	2.1	-0.1
General government balance (GGB)	**1.5**	**1.5**	**-4.3**	**-4.5**	**-6.1**	**-0.4**	**-0.7**	**-2.3**	**-2.2**
Primary balance	**3.8**	**3.8**	**-1.8**	**-2.2**	**-3.7**	**n.a.**	**1.4**	**-0.2**	**-2.4**
One-off and other temporary measures	-1.3	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	1.3
GGB excl. one-offs	**2.7**	**2.7**	**-4.3**	**-4.5**	**-6.1**	**-0.4**	**-0.7**	**-2.3**	**-3.4**
Output gap[1]	5.4	5.6	n.a.	-2.0	-2.6	n.a.	0.5	-0.7	-5.1
Cyclically-adjusted balance[1]	-1.3	-1.3	n.a.	-3.5	-4.8	n.a.	-0.9	-1.9	0.5
Structural balance (SB)[2]	**0.0**	**-0.1**	**n.a.**	**-3.5**	**-4.8**	**n.a.**	**-0.9**	**-1.9**	**-0.8**
Structural primary balance[2]	2.3	2.2	n.a.	-1.2	-2.4	n.a.	1.3	0.2	-0.9

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3.2. Debt developments

In the Draft Budgetary Plan[7], the authorities project an increase in the debt-to-GDP ratio in 2020 to 114.8% of GDP. The stock flow adjustment will entail a sizeable debt-increasing impact with respect to 2020, driven by significant borrowings – which in turn strengthened the state's liquidity buffer. On the back of the nominal GDP contraction, the snowball effect will add almost 9 additional percentage points to the debt ratio. The primary deficit will also contribute to the increase in the debt-to-GDP

[7] As explained in footnote 4, it should be noted that the Draft Budgetary Plan does not use the more recent and upwardly revised data for nominal GDP, which contributes to higher projections of the debt-to-GDP ratio. For example, the public debt ratio for 2019 shows 95.5% of GDP in the Plan, whereas revised series show 94% of GDP.

ratio, partly due to the measures adopted to counter the impact of the COVID-19 pandemic. For 2021, the Draft Budgetary Plan projects the debt ratio to decline by almost 4 percentage points, to 111.0% of GDP. The decline is expected to come on the back of economic rebound through the snowball effect and primary surpluses (1.4% of GDP).

Comparing the debt projections in the Draft Budgetary Plan with the 2020 Stability Programme projections, the public debt is lower in the Plan in 2020, whereas for 2021 the debt ratio is higher. The main differences between the two sets of projections stem from revisions of the expected stock flow adjustments and revisions to the macroeconomic scenario.

The Commission 2020 autumn forecast projects a similar debt trajectory as in the Draft Budgetary Plan, namely a significant increase in the debt ratio for 2020 followed by a decline in 2021. For 2021, the Commission 2020 autumn forecast projects a somewhat stronger debt reduction than in the Plan (4.4 percentage points versus 3.8 percentage points), helped by a favourable snowball effect and by the use of cash reserves – reflected in the negative stock flow adjustment. There are differences in the debt-to-GDP ratios for both years, but these are mainly driven by the fact that the authorities' forecast is not based on the latest revised data for nominal GDP, and as a result the Draft Budgetary Plan projections are higher.

Table 3. Debt developments

(% of GDP)	2019	2020			2021		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**94.0**	**116.8**	**114.8**	**112.6**	**103.2**	**111.0**	**108.2**
Change in the ratio	-5.1	22.7	20.8	18.5	-13.6	-3.8	-4.4
Contributions[2]:							
1. Primary balance	**-3.8**	**1.8**	**2.2**	**3.7**	**0.0**	**-1.4**	**0.2**
2. "Snow-ball" effect	**-1.5**	**9.8**	**8.8**	**7.8**	**-7.6**	**-3.8**	**-3.3**
Of which:							
Interest expenditure	2.3	2.4	2.3	2.4	0.0	2.2	2.1
Real growth effect	-2.9	7.1	5.5	6.1	-6.5	-4.9	-4.0
Inflation effect	-0.8	0.3	1.0	-0.7	-1.1	-1.1	-1.4
3. Stock-flow adjustment	**0.1**	**11.1**	**9.8**	**7.0**	**-5.9**	**1.5**	**-1.2**
Of which:							
Cash/accruals difference		0.0	0.0		0.0	0.0	
Net accumulation of financial		0.0	0.0		0.0	0.0	
of which privatisation		0.0	0.0		0.0	0.0	
Valuation effect & residual		0.0	0.0		0.0	0.0	

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

4. MEASURES UNDERPINNING THE DRAFT BUDGETARY PLAN

The Draft Budgetary Plan focuses on the policy response undertaken in the context of the COVID-19 outbreak in 2020 and the measures planned to sustain the recovery in 2021. Supportive fiscal measures should be tailored to the specific situation of each Member State, but as a rule, they should be well targeted and temporary. Their use and effectiveness should be regularly reviewed by the Cypriot national authorities. Depending on the development of the pandemic, emergency fiscal measures should be adjusted and combined with other measures that improve economic fundamentals, support the green and digital transition and have a positive impact on demand.

4.1. Measures in 2020

In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Cyprus adopted in 2020 timely budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the Plan, those budgetary measures amount to 4% of GDP. The estimated cost in 2020 is slightly lower than the one assumed in the 2020 Stability Programme and the Commission's 2020 spring forecast (4.4% of GDP). The reason is that since the submission of the Stability Programme, the fiscal cost of some of the early measures was revised downward, which was only partly offset by additional deficit-increasing measures and the extension of some early support measures, in particular specific short-term work schemes.

The main measures presented in the Draft Budgetary Plan are on the expenditure side and include the extension of the wage subsidy scheme until the end of October 2020. The extended scheme targets specifically hotels and tourist accommodation providers and businesses pursuing special predefined activities, for an estimated to cost 0.6% of GDP. In addition, other support measures provide subsidies for small enterprises and the self-employed, for an amount of 0.5% of GDP, and provide subsidies to specific sectors affected by the crisis in the order of 0.1% of GDP. On the revenue side, the measures presented in the Plan include the reduction of the VAT special rates from 1 July until the end of 2020 amounting to 0.1% of GDP, and revenue losses of 0.1% of GDP caused by the extension of specific wage subsidy schemes. All support measures with a fiscal cost in 2020 are planned to be fully reversed by the end of 2020 i.e., they are not expected to have a budgetary impact in 2021. These measures are presented in sufficient detail in the Draft Budgetary Plan and thus included in the Commission forecast, with no difference concerning the size of their expected budgetary impact.

Overall, the measures taken by Cyprus in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

4.2. Measures in 2021

For 2021, the Plan presents two new expenditure measures aimed at supporting the recovery. The measures consist of interest subsidy schemes, respectively for new business loans (expected budgetary impact of 0.28% of GDP in 2021) and for housing loans (expected budgetary impact of 0.05% of GDP in 2021) during a five year-period (2021-2025), which is why they are considered to be of a non-temporary nature.

These measures are presented in sufficient detail in the Draft Budgetary Plan and thus included in the Commission forecast, with no difference in their assessment. There is no intention to adopt new measures at the current juncture, nor to extend short-term working schemes in 2021.

Overall, based on the information presented in the Draft Budgetary Plan and taking into account the Commission 2020 autumn forecast, most of the measures planned by Cyprus in 2021 are supporting economic activity against the background of considerable uncertainty. The measures set out in the Draft Budgetary Plan are mostly temporary.

At the same time, it would be useful to review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances. It is anticipated that Cyprus will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Table 4.1.a. Main discretionary measures adopted with budgetary impact reported in the Draft Budgetary Plan

List of measures	**Description**	**ESA Code (Expenditure / Revenue component)**	**Adoption Status**	**Budgetary impact** (% of GDP - change from previous year – positive sign for deficit-increasing measures)		
					2020	**2021**
Reduction of the VAT special rates	Reduction of the VAT special rates as from 1-July until the end of 2020	D.2	Adopted		0.1	-0.1
Extension of the wage subsidization scheme until the end of October 2020	Revenue loss from the wage subsidies, which are not subject to any contribution	D.6 (rev)	Adopted		0.1	-0.1
Extension of the wage subsidization scheme until the end of October 2020	Additional cost from the extension of the wage subsidisation scheme, as of 13th June 2020 until the end of October 2020, targeted specifically for (i) Hotel Units and Tourist Accommodation, (ii) the Hotel Industry and other businesses providing tourist accommodation, and (iii) businesses exercising special predefined activities.	D.39	Adopted		0.6	-0.6
Subsidization scheme for small enterprises and self-employed	Subsidization scheme for small enterprises and self-employed	D.39	Adopted		0.5	-0.5
Special Support	Special Support Allowance for the	D.62	Adopted		0.03	-0.03

Allowance for the Unemployed	Unemployed					
Interest Subsidy Scheme for new business loans	Interest Subsidy Scheme for new business loans	D.39	Adopted			0.28
Interest Subsidy Scheme for housing loans	Interest Subsidy Scheme for housing loans	D.39	Adopted			0.05
Other subsidies	Granting to the media affected by the crisis/ support to arts and cultural professionals/ special plans for farmers, fisheries and animal welfare organizations, etc.	D.75	Adopted		0.1	-0.1
				Total	**1.4**	**0.33**

5. ANNEX: MANDATORY VARIABLES NOT INCLUDED IN THE DRAFT BUDGETARY PLAN

The following mandatory data were not explicitly provided:

- Table 1a. Macroeconomic Prospects: data on attributable to the estimated impact of aggregated budgetary measures on economic growth, 2020 and 2021 rate of change of changes in inventories and net acquisition of valuables (% of GDP) in components of real GDP and in contribution to real GDP growth.
- Table 1d. Sectoral balances: data on statistical discrepancy.
- Table 4b. Amounts to be excluded from the expenditure benchmark: data on revenues increased mandated by law.
- Table 7. Divergence from latest SP: 2019 (% of GDP) for Draft budgetary plan in target general government net lending/borrowing and in general government net Lending projection at unchanged policies.

Not included mandatory variables do not impede the Commission's ability to assess the Draft Budgetary Plan based on the plan's assumptions.