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Delegations will find attached document COM(2022) 507 final.

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EUROPEAN
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2022/0308 (NLE)

Proposal for a

COUNCIL IMPLEMENTING DECISION

amending Implementing Decision (EU) 2020/1344 granting temporary support under Regulation (EU) 2020/672 to the Republic of Cyprus to mitigate unemployment risks in the emergency following the COVID-19 outbreak

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

Council Regulation (EU) 2020/672 (“SURE Regulation”) lays down the legal framework for providing Union financial assistance to Member States, which are experiencing, or are seriously threatened with, a severe economic disturbance caused by the COVID-19 outbreak. Support under SURE serves for the financing, primarily, of short-time work schemes or similar measures aimed at protecting employees and the self-employed and thus reducing the incidence of unemployment and loss of income, as well as for the financing, as an ancillary, of some health-related measures, in particular in the workplace.

On 6 August 2020, Cyprus requested financial assistance from the Union and on 25 September 2020, with its Implementing Decision (EU) 2020/1344, the Council granted financial assistance to Cyprus with a view to complementing its national efforts to address the impact of the COVID-19 outbreak and respond to the socioeconomic consequences of the outbreak for workers and the self-employed.

On 10 March 2021, Cyprus requested again Union financial assistance under the SURE Regulation. Further to this request, the Council Implementing Decision (EU) 2020/1344 was amended by Council implementing decision (EU) 2021/680 of 23 April 2021.

On 5 September 2022, Cyprus requested Union financial assistance under the SURE Regulation for the third time.

In accordance with Article 6(2) of the SURE Regulation, the Commission has consulted the Cypriot authorities to verify the sudden and severe increase in actual and planned expenditure directly related to Cyprus’ labour market measures caused by the COVID-19 pandemic. In particular, this pertains to existing measures referred to in Council Implementing Decision (EU) 2020/1344:

- (a) the scheme supporting companies for partial suspension of operations, which provides wage compensation to the employees of businesses experiencing a decline in turnover due to the pandemic, conditional on employment retention. The compensation covers 60% of the employee's salary or 60% of the employee's social insurance units earned in 2018, whichever is the greater. The compensation ranges between a maximum of EUR 1 214 and a minimum of EUR 360 per month. The measure, initially in force for the period March 2020 to June 2020, was extended from January 2021 to August 2021;
- (b) the ‘special scheme for hotel units and tourist accommodation’, which provides wage compensation to support employees in the hotel industry and other businesses providing tourist accommodation whose employer has fully suspended its operations or experienced a decline in turnover of more than 40%. Participation in the scheme is conditional on employment retention. The measure, initially in force for the period June 2020 to October 2020, was extended from November 2020 to October 2021;
- (c) the ‘special scheme to support businesses related to the tourism industry or affected by tourism or associated with businesses that are subject to mandatory total suspension’, which provides wage compensation to the employees in those businesses that have fully suspended their operations or experienced a decline in turnover of more than 40%, as opposed to 55% in the original scheme, conditional on

employment retention. The measure, initially in force for the period June 2020 to August 2020, was extended and amended from September 2020 to October 2021;

- (d) The ‘special scheme for supporting businesses exercising special predefined activities’ provides wage compensation to the employees or the business facing a decline of at least 55% of their turnover, conditional on employment retention. The measure, initially in force for the period June 2020 to August 2020, was extended from September 2020 to December 2020 and was extended again from December 2020 to October 2021;
- (e) the subsidisation scheme for very small and small enterprises and self-employed who employ up to 50 employees, which provides a lump sum grant to support operating expenses of small businesses and the self-employed. Only the part of expenditure related to the support of the self-employed and one-person companies has been requested. The amounts of the lump-sum grants have been reviewed for various categories of businesses based on the number of employees. In addition, grants have been agreed for businesses, which suspended their operations since March 2020 with an amount of EUR 10 000 for up to 9 employees and EUR 15 000 for more than 9 employees. The measure, initially in force for the period April 2020 to May 2020, was extended and amended for November 2020. The scheme was extended again in March 2021 and April 2021, and covered businesses of any number of employees that had to totally suspend their operations according to Decrees of the Minister of Health.
- (f) the ‘sickness benefit scheme’, which provides wage compensation to employees of the private sector and self-employed, on the condition that they are either classified as vulnerable individuals according to a list published by the Ministry of Health, placed in quarantine by the Authorities, or infected by Covid-19. The measure, initially in force for the period March 2020 to June 2020, was extended from November 2020 to June 2021;

Cyprus provided the Commission with the relevant information.

Taking into account the available evidence, the Commission proposes to the Council to adopt an Implementing Decision to grant financial assistance to Cyprus under the SURE Regulation in support of the measures above.

- **Consistency with existing policy provisions in the policy area**

The present proposal is fully consistent with Council Regulation (EU) 2020/672, under which the proposal is made.

The present proposal comes in addition to another Union law instrument to provide support to Member States in case of emergencies, namely Council Regulation (EC) No 2012/2002 of 11 November 2002 establishing the European Union Solidarity Fund (EUSF) (“Regulation (EC) No 2012/2002”). Regulation (EU) 2020/461 of the European Parliament and of the Council, which amends that instrument to extend its scope to cover major public health emergencies and to define specific operations eligible for financing, was adopted on 30 March 2020.

- **Consistency with other Union policies**

The proposal is part of a range of measures developed in response to the current COVID-19 pandemic such as the “Coronavirus Response Investment Initiative”, and it complements other instruments that support employment such as the European Social Fund and the European Fund for Strategic Investments (EFSI)/InvestEU. By making use of borrowing and

lending in this particular case of the COVID-19 outbreak for supporting Member States, this proposal acts as a second line of defence to finance short-time work schemes and similar measures, helping protect jobs and thus employees and self-employed against the risk of unemployment.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

The legal basis for this instrument is Council Regulation (EU) 2020/672.

- **Subsidiarity (for non-exclusive competence)**

The proposal follows a Member State request and shows European solidarity by providing Union financial assistance in the form of temporary loans to a Member State affected by the COVID-19 outbreak. As a second line of defence, such financial assistance supports the government's increased public expenditure on a temporary basis in respect of short-time work schemes and similar measures to help them protect jobs and thus employees and self-employed against the risk of unemployment and loss of income.

Such support will help the population affected and helps to mitigate the direct societal and economic impact caused by the present COVID-19 crisis.

- **Proportionality**

The proposal respects the proportionality principle. It does not go beyond what is necessary to achieve the objectives sought by the instrument.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Stakeholder consultations**

Due to the urgency to prepare the proposal so that it can be adopted in a timely manner by the Council, a stakeholder consultation could not be carried out.

- **Impact assessment**

Due to the urgent nature of the proposal, no impact assessment was carried out.

4. BUDGETARY IMPLICATIONS

The Commission should be able to contract borrowings on the financial markets with the purpose of on-lending them to the Member State requesting financial assistance under the SURE instrument.

In addition to the provision of Member State guarantees, other safeguards are built into the framework in order to ensure the financial solidity of the scheme:

- A rigorous and conservative approach to financial management;
- A construction of the portfolio of loans that limits concentration risk, annual exposure and excessive exposure to individual Member States whilst ensuring sufficient resources could be granted to Member States most in need; and
- Possibilities to roll over debt.

Proposal for a

COUNCIL IMPLEMENTING DECISION

amending Implementing Decision (EU) 2020/1344 granting temporary support under Regulation (EU) 2020/672 to the Republic of Cyprus to mitigate unemployment risks in the emergency following the COVID-19 outbreak

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak¹, and in particular Article 6(1) thereof,

Having regard to the proposal from the European Commission,

Whereas:

- (1) Further to a request from Cyprus on 6 August 2020, the Council, by means of Implementing Decision (EU) 2020/1344², granted financial assistance to Cyprus in the form of a loan amounting to a maximum of EUR 479 070 000 with a maximum average maturity of 15 years, and with an availability period of 18 months, with a view to complementing Cyprus' national efforts to address the impact of the COVID-19 outbreak and respond to the socioeconomic consequences of that outbreak for workers and the self-employed.
- (2) The loan was to be used by the Cyprus to finance the short-time work schemes and similar measures as referred to in Article 3 of Implementing Decision (EU) 2020/1344.
- (3) Further to a second request from Cyprus on 10 March 2021, the Council, by means of Implementing Decision (EU) 2021/680³ amending Implementing Decision (EU) 2020/1344, granted additional financial assistance of EUR 124 700 000 to Cyprus by increasing the maximum loan amount to EUR 603 770 000 with a maximum average maturity of 15 years, and with an availability period of 18 months, with a view to complementing Cyprus' national efforts to address the impact of the COVID-19 outbreak and respond to the socioeconomic consequences of that outbreak for workers and the self-employed.

¹ OJ L 159, 20.5.2020, p. 1.

² Council Implementing Decision (EU) 2020/1344 of 25 September 2020 on granting temporary support under Regulation (EU) 2020/672 to the Republic of Cyprus to mitigate unemployment risks in the emergency following the COVID-19 outbreak, OJ L 314, 29.9.2020, p. 13.

³ Council Implementing Decision (EU) 2021/680 of 23 April 2021 amending Implementing Decision (EU) 2020/1344 granting temporary support under Regulation (EU) 2020/672 to the Republic of Cyprus to mitigate unemployment risks in the emergency following the COVID-19 outbreak, OJ L 144, 27.4.2021, p. 19.

- (4) The additional loan was to be used by Cyprus to finance the short-time work schemes and similar measures as referred to in Article 3 of Implementing Decision (EU) 2021/680 amending Implementing Decision (EU) 2020/1344.
- (5) The COVID-19 outbreak continues to immobilise a substantial part of the labour force in Cyprus. This has led to a still sudden and severe increase in public expenditure in Cyprus in respect of the measures referred to in Article 3(c), (e), (f), (g), (h) and (i) of Implementing Decision (EU) 2020/1344.
- (6) The COVID-19 outbreak and the extraordinary measures implemented by Cyprus in 2020, 2021 and 2022 to contain that outbreak and its socioeconomic and health-related impact had and still have a dramatic impact on public finances. In 2020, Cyprus had a general government deficit and debt of 5.8% and 115.0% of gross domestic product (GDP) respectively, which narrowed to 1.7% and 103.6% respectively at the end of 2021. According to the Commission's 2022 spring forecast, Cyprus is forecasted to have a general government deficit and debt of 0.3% and 93.9% of GDP respectively by the end of 2022. According to the Commission's 2022 summer interim forecast, Cyprus' GDP is projected to increase by 3.2% in 2022.
- (7) On 5 September 2022 Cyprus requested further financial assistance from the Union in the amount of EUR 29 200 000 with a view to continuing to complement its national efforts undertaken in 2020, 2021 and 2022 to address the impact of the COVID-19 outbreak and respond to the socioeconomic consequences of the outbreak for workers and the self-employed. In particular, Cyprus further extended or amended short-time work schemes and similar measures set out in recitals 8 to 13.
- (8) 'Law 27(I)/2020'⁴, 'Law 49(I)/2020'⁵, 'Law 140(I)/2020'⁶, 'Law 36(I)/2021'⁷ and 'Law 120(I)/2021'⁸ have been the basis for the introduction of a number of monthly regulatory administrative acts⁹, outlining measures to address the impact of the COVID-19 outbreak. On the basis of those laws, the authorities have introduced the 'scheme supporting companies for partial suspension of operations', as referred to in Article 3(c) of Implementing Decision (EU) 2020/1344. It provides wage compensation to the employees of businesses experiencing a decline in turnover due to the pandemic, conditional on employment retention. The compensation covers 60% of the employee's salary or 60 % of the employee's social insurance units earned in 2018, whichever is the greater. The compensation ranges between a maximum of EUR 1 214 and a minimum of EUR 360 per month. The measure was initially in force for the period March 2020 to June 2020 and was subsequently extended to cover the period from January 2021 to August 2021.
- (9) Furthermore, 'Law 27(I)/2020', 'Law 49(I)/2020', 'Law 140(I)/2020', 'Law 36(I)/2021' and 'Law 120(I)/2021' and a number of monthly regulatory administrative acts¹⁰ have been the basis for the 'special scheme for hotel units and tourist

⁴ E.E., Παρ.Ι(Ι), Αρ.4748, 27/3/2020

⁵ E.E., Παρ.Ι(Ι), Αρ.4756, 26/5/2020

⁶ E.E., Παρ.Ι(Ι), Αρ.4780, 12/10/2020

⁷ E.E., Παρ.Ι(Ι), Αρ.4823, 29/3/2021

⁸ E.E., Παρ.Ι(Ι), Αρ.4846, 16/7/2021

⁹ Regulatory Administrative Acts, 131/188/239/2020 and Regulatory Administrative Acts 84/124/169/219/276/331/370/2021, as extended.

¹⁰ Regulatory Administrative Acts 269/317/393/418/498/533/631/2020 and 13/81/121/166/216/271/329/368/402/431/2021, as extended.

accommodation', as referred to in Article 3(e) of Implementing Decision (EU) 2020/1344. It provides wage compensation to support employees in the hotel industry and other businesses providing tourist accommodation whose employer has fully suspended operations or experienced a decline in turnover of more than 40 %. Participation in the scheme is conditional on employment retention. The measure was initially in force for the period June 2020 to October 2020 and was subsequently extended to cover the period from November 2020 to October 2021.

- (10) Furthermore, 'Law 27(I)/2020', 'Law 49(I)/2020', 'Law 140(I)/2020', 'Law 36(I)/2021' and 'Law 120(I)/2021' and a number of monthly regulatory administrative acts¹¹, have been the basis for the 'special scheme to support businesses related to the tourism industry or affected by tourism or associated with businesses that are subject to mandatory total suspension', as referred to in Article 3(f) of Implementing Decision (EU) 2020/1344. The scheme provides wage compensation to the employees in the hotel industry and other businesses providing tourist accommodation that have fully suspended operations or experienced a decline in turnover of more than 40% as opposed to 55% in the original scheme, conditional on employment retention. The measure was initially in force for the period June 2020 to August 2020 and was extended and amended to cover the period from September 2020 to October 2021.
- (11) Furthermore, 'Law 27(I)/2020', 'Law 49(I)/2020', 'Law 140(I)/2020', 'Law 36(I)/2021' and 'Law 120(I)/2021' and a number of monthly regulatory administrative acts¹², have been the basis for a 'Special Scheme for supporting businesses exercising special predefined activities, as referred to in Article 3 (g) of Implementing Decision (EU) 2020/1344. That scheme provides income compensation for 50% of the staff of the businesses joining the scheme. The support covers 60% of the employee's salary or 60% of the employee's social insurance units earned in the appropriate reference year, whichever is the greater. The compensation ranges between a maximum of EUR 1 214 and a minimum of EUR 360 per month. Participation in the scheme is conditional on employment retention. The measure, initially in force from June 2020 to August 2020, was extended from September 2020 to October 2021.
- (12) Moreover, the 'subsidisation scheme' set by 'Supplementary budget, Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak', as referred to in Article 3(h) of Implementing Decision (EU) 2020/1344 introduced subsidies for very small and small enterprises and the self-employed who employ up to 50 employees. Only the part of expenditure related to the support of the self-employed and one-person companies has been requested. Those subsidies provide a lump sum grant to support operating expenses of small businesses and the self-employed. The amounts of the lump-sum grants have been reviewed for various categories of businesses based on the number of employees. In addition, grants have been agreed for businesses, which suspended their operations since March 2020 with an amount of EUR 10 000 for up to 9 employees and EUR 15 000 for more than 9 employees. The subsidisation scheme can be considered to be a similar measure to short-time work schemes, as referred to in Regulation (EU) 2020/672, as it aims to protect the self-employed or similar categories of workers from reduction or loss of income. The measure, initially in force for the period April 2020 to May 2020, was

¹¹ Regulatory Administrative Acts, 270/318/394/419/499/534/632/2020 and Regulatory Administrative Acts 14/82/122/167/217/274/330/ 369/403/432/2021, as extended.

¹² Regulatory Administrative Acts, 272/320/396/420/500/535/633/2020 and Regulatory Administrative Acts, 404/433/2021, as extended.

extended and amended for November 2020. The scheme was extended again in March 2021 and April 2021, and covered businesses of any number of employees that had to totally suspend their operations according to Decrees of the Minister of Health.

- (13) Furthermore, 'Law 27(I)/2020', 'Law 49(I)/2020', 'Law 140(I)/2020', 'Law 36(I)/2021' and 'Law 120(I)/2021 and a number of monthly regulatory administrative acts¹³, have been the basis for a 'sickness benefit scheme', as referred to in Article 3(i), of Implementing Decision (EU) 2020/1344. That scheme provides wage compensation to employees of the private sector and to the self-employed, on the condition that they are either classified as vulnerable individuals according to a list published by the Ministry of Health, placed in quarantine by the authorities, or infected by COVID-19. The measure was initially in force for the period from March 2020 to June 2020 and was extended to cover the period from November 2020 to June 2021.
- (14) Cyprus fulfils the conditions for requesting financial assistance set out in Article 3 of Regulation (EU) 2020/672. Cyprus has provided the Commission with appropriate evidence that the actual and planned public expenditure has increased by EUR 777 840 000 as of 1 February 2020 due to the national measures taken to address the socioeconomic effects of the COVID-19 outbreak. This constitutes a sudden and severe increase because it is also related to an extension or amendment of existing national measures directly related to short-time work scheme and similar measures that cover a significant proportion of undertakings and of the labour force in Cyprus. Cyprus intends to finance EUR 144 870 000 of the increased amount of expenditure through Union funds from the EU budget.
- (15) The Commission has consulted Cyprus and verified the sudden and severe increase in the actual and planned public expenditure directly related to short-time work schemes and similar measures, as referred to in the request of 5 September 2022, in accordance with Article 6 of Regulation (EU) 2020/672.
- (16) Financial assistance should therefore be provided with a view to helping Cyprus to address the socioeconomic effects of the severe economic disturbance caused by the COVID-19 outbreak. The Commission should take the decisions concerning maturities, size and release of instalments and tranches in close cooperation with national authorities.
- (17) Given that the availability period indicated in Implementing Decision (EU) 2020/1344 has expired, a new availability period for the additional financial assistance is needed. The availability period for financial assistance of 18 months granted by Implementing Decision (EU) 2020/1344 should be extended by 21 months and as a consequence the total availability period should be 39 months starting from the first day after Implementing Decision (EU) 2020/1344 has taken effect.
- (18) Cyprus and the Commission should take this Decision into account in the loan agreement referred to in Article 8(2) of Regulation (EU) 2020/672.
- (19) This Decision should be without prejudice to the outcome of any procedures relating to distortions of the operation of the internal market that may be undertaken, in particular pursuant to Articles 107 and 108 of the Treaty. It does not override the

¹³ Regulatory Administrative Acts, 128/185/236/637/2020 and Regulatory Administrative Acts, 19/87/127/172/222/273/2021, as extended.

requirement for Member States to notify instances of potential State aid to the Commission under Article 108 of the Treaty.

- (20) Cyprus should inform the Commission on a regular basis of the implementation of the planned public expenditure, in order to enable the Commission to assess the extent to which Cyprus has implemented that expenditure.
- (21) The decision to provide financial assistance has been reached taking into account existing and expected needs of Cyprus, as well as requests for financial assistance pursuant to Regulation (EU) 2020/672 already submitted or planned to be submitted by other Member States, while applying the principles of equal treatment, solidarity, proportionality and transparency,

HAS ADOPTED THIS DECISION:

Article 1

Implementing Decision (EU) 2020/1344 is amended as follows:

- (1) Article 2 is amended as follows:

- (a) paragraph 1 is replaced by the following:

- ‘1. The Union shall make available to Cyprus a loan amounting to a maximum of EUR 632 970 000. The loan shall have a maximum average maturity of 15 years.’;

- (b) paragraph 2 is replaced by the following:

- ‘2. The availability period for financial assistance granted by this Decision shall be 39 months starting from the first day after this Decision has taken effect.’

- (c) paragraph 4 is replaced by the following:

- ‘4. The first instalment shall be released subject to the entry into force of the loan agreement provided for in Article 8(2) of Regulation (EU) 2020/672. Any further instalments shall be released in accordance with the terms of that loan agreement or, where relevant, be subject to the entry into force of an addendum thereto, or of an amended loan agreement concluded between Cyprus and the Commission replacing the original loan agreement.’;

- (2) Article 3 is replaced by the following:

‘Article 3

Cyprus may finance the following measures:

- (a) the special leave scheme for parents, as provided for by ‘Law 27(I)/2020’, and by ‘Regulatory Administrative Acts, 127/148/151/184/192/212/213/235/2020’, as extended;
- (b) the schemes supporting companies for the total suspension of operations, as provided for by ‘Law 27(I)/2020’ and by ‘Regulatory Administrative Acts, 130/148/151/187/212/213/238/243/271/273/2020’, as extended;

- (c) the schemes supporting companies for the partial suspension of operations, as provided for by 'Law 27(I)/2020' and by 'Regulatory Administrative Acts, 131/188/239/2020', as last amended by 'Law 120(I)/2021' and 'Regulatory Administrative Act 370/2021';
- (d) the special scheme for the self-employed, as provided for by 'Law 27(I)/2020' and by 'Regulatory Administrative Acts, 129/148/151/186/237/322/2020', as extended;
- (e) the special scheme for hotel units and tourist accommodation, as provided for by 'Law 27(I)/2020' and by 'Regulatory Administrative Acts, 269/317/393/418/498/533/631/2020', as last amended by 'Law 120(I)/2021' and by 'Regulatory Administrative Act 431/2021';
- (f) the special scheme to support businesses related to the tourism industry or affected by tourism or associated with businesses that are subject to mandatory total suspension, as provided for by 'Law 27(I)/2020' and by 'Regulatory Administrative Acts, 270/318/394/419/499/534/632/2020', as last amended by 'Law 120(I)/2021' and by 'Regulatory Administrative Act 432/2021';
- (g) the special scheme for supporting businesses exercising special predefined activities, as provided for by 'Law 27(I)/2020' and by 'Regulatory Administrative Acts, 272/320/396/420/500/535/633/2020', as last amended by 'Law 120(I)/2021' and by 'Regulatory Administrative Act 433/2021';
- (h) the subsidisation scheme of very small and small enterprises and the self-employed, as provided for in 'Supplementary budget, Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak', for the part of expenditure related to the support of the self-employed and one-person companies, as extended and amended;
- (i) the sickness benefit scheme, as provided for by 'Law 27(I)/2020' and by 'Regulatory Administrative Acts, 128/185/236/637/2020' as last amended by 'Law 120(I)/2021' and by 'Regulatory Administrative Act 273/2021'.

Article 2

This Decision is addressed to the Republic of Cyprus.

Done at Brussels,

*For the Council
The President*