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COMMISSION STAFF WORKING DOCUMENT

2026 Country Report - Cyprus

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Cyprus

{COM(2026) 213 final}

European Commission

Economic and Financial Affairs

Cyprus

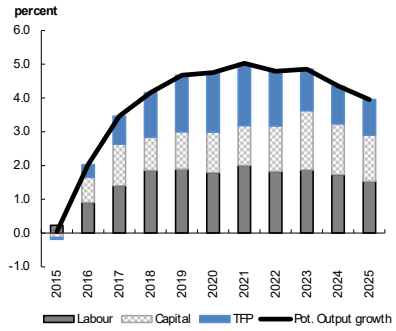
2026 Country Report

ECONOMIC DEVELOPMENTS AND KEY POLICY CHALLENGES

The Cypriot economy is in a strong position as it confronts the latest external shock

Economic activity has been strong in recent years. The COVID-19 pandemic and successive geopolitical crises in the region have not had any lasting effects. In 2025, real GDP was almost a third above its pre-pandemic level. The expansion has been broad-based, driven by private consumption and, until 2023, strong investment, which grew by 55% between 2019 and 2023 (the second highest increase in the euro area). This trend in investment outlook reflects the peak in capital reallocation towards new sectors, driven by diversification efforts (see the section below). Moreover, increasingly diversified service exports have supported a growing net trade surplus. Potential output has been reinforced by strong labour and total factor productivity contributions, that are partly linked to an inflow of foreign workers and businesses in high value added activities (see Graph 1.1).

Graph 1.1:**Cyprus – contributions to potential output growth.**



Source: AMECO.

The conflict in the Middle East has clouded the outlook. Cyprus is not a direct target of Iran's retaliatory attacks, but its proximity to the war zone has called its reputation as a 'haven of stability' into question. Cyprus's tourism sector is exposed to potential travellers' concerns about security. The energy system remains dependent on imported oil, making Cyprus vulnerable to oil price increases and supply disruptions. In this context, the scale of the impact on the Cypriot economy will depend on how long the conflict lasts and how intense it becomes.

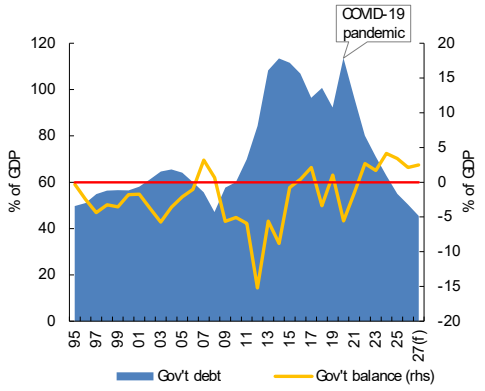
Despite the shock generated by the conflict in the Middle East, it is estimated that growth will remain above the EU average. According to the Commission's Spring 2026 Forecast, real GDP is expected to expand by 2.3% and 2.7% in 2026 and 2027 respectively. This reflects the positive pre-existing conditions before the conflict started and a potential easing of uncertainty in the course of 2026. Private consumption will remain the main contributor to growth but is set to lose considerable momentum as disposable

incomes are undermined by imported inflation and the inflow of foreign workers moderates. The already easing investment outlook will remain feeble, despite the boost from the final year of the RRP's implementation. The net trade balance will remain in surplus thanks to exports of ICT, financial and business services, but tourism receipts will take a hit. Headline inflation is projected to increase to 3.6% in 2026, before easing to 2.2% in 2027, reflecting first the spike and then the gradual normalisation of international energy prices. Labour market conditions will remain robust, with employment expected to grow by 1.3% in 2026 and 1.1% in 2027.

Healthy public finances provide space for government measures

Solid public finances have brought government debt below the 60% of GDP threshold. Cyprus maintains robust public finances that are characterised by continuous budget surpluses and rapidly decreasing debt levels. In 2025, the government's headline balance stood at a surplus of 3.4% of GDP. The Commission's Spring 2026 Forecast projects that it will reach 2.1% and 2.5% of GDP in 2026 and 2027 respectively. The debt-to-GDP ratio fell to 55.0% in 2025, below the 60% reference value under the Stability and Growth Pact, from an all-time high of 113.6% in 2020. The Commission forecasts that the government debt ratio will continue decreasing, to 50.4% of GDP at the end of 2026 and 45.5% of GDP at the end of 2027.

Graph 1.2:**Headline government balance and debt.**



Source: AMECO

Cyprus's surplus together with moderate and falling debt give it the fiscal space for government measures to deal with challenges. Cyprus adopted the first major tax reform in 20 years at the beginning of 2026 (see the next paragraph). This is likely to reduce government revenues as a share of GDP by around 0.75 pps in coming years, given the personal income tax relief and the reduction of the Special Defence Contribution for companies. Cyprus intends to increase its investment in defence in order to address security challenges. It is not a member of NATO but follows the recent trend of increasing military spending and has applied for specialised loans under the EU SAFE (Security Action for Europe) instrument. Following an assessment by the Commission of Cyprus's national defence investment plan, the Council adopted a decision to make financial assistance available of up to EUR 1.2 billion (3.1% of GDP). However, Cyprus's good fiscal position means that it has not requested the activation of the national escape clause under the Stability and Growth Pact. Public investment in Cyprus has benefited from the Recovery and Resilience Facility, but this will come to an end in 2026. Given its fiscal space, public investment in Cyprus is not limited by available funding or financing possibilities.

Cyprus's tax system relies heavily on corporate taxation and this allows a moderate tax wedge. The tax reform adopted at the beginning of 2026 increased Cyprus's corporate tax rate from 12.5% to 15%, while providing personal income tax tax reliefs with increasing tax brackets and tax allowances. This reinforces corporate tax collection, which – at 20% of total tax revenue – is more than double the EU average of 8% and could leave overall government revenue vulnerable in the event of an economic downturn. Moderate personal income taxation results in a comparatively low tax wedge (of 26.4% at average wage, below the EU average of 40.0%). This is a competitive advantage and makes it easier to attract skilled foreign labour. Cyprus currently has budget surpluses, so there is no pressure to increase taxes. However, low recurrent property taxes (0.4% of total tax revenue compared with the 1.7% EU average) and low taxes on transport fuels leave room for reforms (see also Section 3 as well as Annexes 2 and 3).

Cyprus has a fragmented and underdeveloped long-term care (LTC) system. Cyprus has a rapidly ageing society, but the system for providing LTC is still developing. Access to state-provided LTC services has been improving slowly so far. Cyprus's ratio of public expenditure on LTC of 0.2% of GDP is one of the lowest in the EU (the EU average is 1.7%) and this results in a high level of out-of-pocket payments. Cyprus has the fiscal space to address underspending on LTC.

Climate change is increasingly impacting public finances. Commission scenario analyses show that the long-term costs of climate inaction significantly exceed those of climate action ([1]). Cyprus's climate insurance protection gap, estimated at 98%, highlights potential fiscal risks (see EEA data ([2])). Meeting Cyprus's mitigation and adaptation priorities will require additional resources (see Section 3).

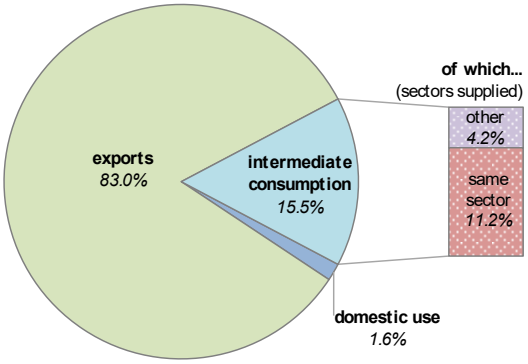
Diversification is becoming evident and deeper integration is the next frontier

The transformation of the business model has redirected production towards new sectors. To diversify output in export-oriented activities and reduce vulnerabilities to external shocks, the authorities have since 2021 introduced tax and administrative incentives to attract foreign companies and their personnel. This has led a significant number of foreign ICT companies to establish operations in Cyprus, boosting economy-wide productivity and expanding the labour stock with highly skilled workers.

([1]) See European Commission, 2026, Debt Sustainability Monitor 2025, Institutional Paper No 332, 12 February 2026.

([2]) European Environment Agency, Economic losses from weather- and climate-related extremes in Europe | Indicators | European Environment Agency (EEA).

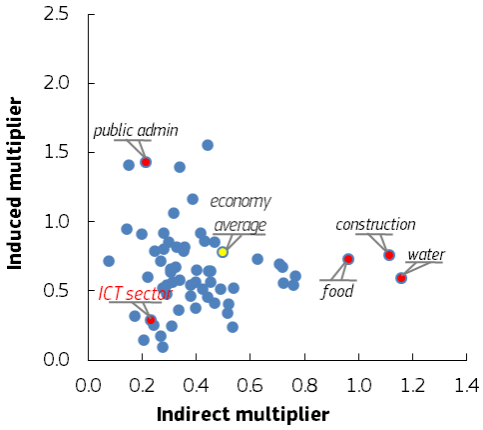
Graph 1.3:**Cyprus – ICT-sector forward linkages.**



Source: Eurostat – input-output tables (2022).

ICT companies are driving up production but remain poorly integrated into the domestic economy. Evidence on forward linkages ([3]) (see Graph 1.3) indicates that only 4.2% of domestic ICT output serves as intermediate consumption for other sectors in the Cypriot economy. Turning to backward linkages ([4]), intermediate inputs account for 78% of the sector's supply ([5]) (about half of this is imported). This indicates a heavy dependence on imported goods and services, which in turn contributes to the low indirect multiplier (EUR 1 of final demand generates about EUR 0.2 through domestic supply chains, versus EUR 0.4 for the entire economy) ([6]). Wages account for only 10% of the sector's supply, suggesting that the induced multiplier – capturing the spillovers from an expansion in ICT through the circulation of its workers' incomes – is relatively limited (Graph 1.4). If the sector were to integrate more deeply with the domestic economy, Cyprus could increasingly benefit from the high innovation content of (often foreign-owned) ICT companies through stronger linkages with other Cypriot businesses and/or researchers (see also Section 2). Improving digital skills and enrolment in STEM fields in Cyprus is instrumental to such an integration (see Section 4).

Graph 1.4: Cyprus – indirect and induced multipliers.



Source: European Commission calculations.
Notes: Each dot represents products classified by economic activity (CPA classification).

([3]) In supply-chain literature, forward linkages (also called the 'push effect') refer to how an industry's output is supplied as an input to other, downstream sectors.
([4]) Backward linkages refer to the dependence of an industry on others for inputs.
([5]) The domestic sector supply comprises intermediate consumption and gross value added. The latter is further decomposed into wages, taxes on production and gross operating surplus.
([6]) The indirect multiplier measures supply-chain effects (e.g. increased demand for suppliers) that have been generated by an initial change in final demand for the product.

Box 1

UN Sustainable Development Goals (SDGs)

Cyprus is improving in **competitiveness** (notably SDGs 8 – decent work and economic growth, and 9 – industry, innovation and infrastructure), while falling back on SDG 4 (quality education), and still needing to catch up with the EU average, particularly for SDG 9.

Regarding **sustainability**, Cyprus is making progress on some indicators but falling back on SDG 11 (sustainable cities and communities) and SDG 13 (climate action). It needs to catch up with the EU average on SDG 2 (zero hunger), SDG 6 (clean water and sanitation), SDG 7 (affordable and clean energy), SDG 9, SDG 11 (sustainable cities and communities), SDG 12 (responsible consumption and production) and SDG 13 (climate action).

Regarding **social fairness**, Cyprus is improving on almost all relevant SDGs, except for SDGs 3 (good health and well-being), 4 and 5 (gender equality). It is falling back compared with the EU on SDGs related to macroeconomic stability (SDGs 8, 16 – peace, justice and strong institutions, and 17 – partnerships for the goals).

Rising exports have been backed by competitiveness and productivity gains in the tradable sector. Price competitiveness in the tradable sector has improved steadily, as unit labour costs have increased only modestly (3.1% per year on average between 2019 and 2024) when compared with those of Cyprus's main trade partners. Productivity gains (3.2% on average over the same period) have exceeded real compensation per employee growth (2.0% increase on average over the same period) which also remained within benchmark levels. Export prices have increased faster than import prices, implying terms-of-trade gains of around 2.9% between 2020-2025 and service export gains of 3.1%. A large share of these gains has been driven by ICT exports.

The non-tradable sector has benefited from demand-side effects from an expanding export-oriented services sector. Research suggests that a permanent productivity shock in the tradable sector (as seen above) is raising demand for non-traded goods, pushing up their relative price and wages ([7]). Consistently with these dynamics, the non-tradable sector's real output expanded on average by 4.8% in 2019-2024 (0.5 pps above the economy-wide average).

The second pillar of the pension system has the potential of becoming a significant source of long-term financing for businesses. However, the contribution of occupational pensions to both retirement income and capital market development remains limited, because the system is highly fragmented (with many small, firm-specific schemes that hinder the exploitation of the potential economies of scale) (see Section 3).

Legacy macroeconomic vulnerabilities have receded, but the external deficit remains large

Nominal growth has so far helped to ease private and public sector debts. As already noted, general government debt fell below 60% of GDP in 2025. This was due not only to sustained surpluses but also a strong denominator effect from GDP growth. Private debt remains above the

([7]) See OECD, 2010, *A simple model of the relationship between productivity, saving and the current account*, Fournier, J-M. and Koske, I., ECO/WKP(2010)72.

MIP Scoreboard thresholds ([8]) but has fallen fast. This was also due in part to nominal GDP growth, but has been further helped by active deleveraging thanks to a foreclosure framework introduced in 2023. Nevertheless, recent legislative initiatives by Parliament concerning the foreclosure framework present downside risks, as their entry into force could materially weaken the effectiveness of the current framework. Households' and non-financial corporations' debt was 54.2% and 107.3% of GDP respectively at the end of 2025.

The current account remains in deficit, despite a sizeable trade surplus. Expanding service exports has generated a sizeable trade surplus (5.7% of GDP in 2025), but the large primary income deficit (11.1% of GDP) has pushed the current account into negative territory (-6.4% of GDP). This deficit reflects the profits of foreign-owned firms, which are recorded on the primary income balance (even when retained in balance sheets as reinvested earnings). This countercyclical behaviour nevertheless implies that the primary income deficit would narrow in the event of a downturn in corporate profits, thus improving the current account deficit. However, higher energy prices – along with Cyprus's dependence on energy imports as well as weaker tourism receipts – are likely to worsen the trade balance.

Rising economic security risks

Cyprus's geographic proximity to the recent and ongoing conflict in the Middle East has raised economic security questions. In previous episodes of regional tension, Cyprus was perceived as a 'safe haven' for corporations, their employees and affected civilians. Tourism also benefited, with Israel becoming the second-largest source market in 2025. The Republic of Cyprus has not been a direct target (a UK sovereign base on Cyprus has been attacked once), but the conflict may jeopardise Cyprus's reputation as a 'haven of stability' and have economic security implications. These include a potential reversal of inflows of corporations and workers, and a potential reduction in tourist inflows from neighbouring countries.

Economic security challenges persist in the area of energy. Cyprus has one of the highest energy import dependencies in the EU (see Annex 9 and Section 3). The electricity mix also lacks diversification, because it depends entirely on imported oil and does not use natural gas. Efforts to strengthen energy security are currently underway, including the construction of an LNG import terminal facility to support electricity production, as well as an interconnection project to connect Cyprus's electricity grid with those of Greece and Israel. Both projects are nevertheless experiencing significant delays (see Section 3).

The financing structure of the current account deficit also has economic security implications. Foreign direct investment (FDI) has been the main source of financing for Cyprus's current account deficits since 2016. Trade deficits have therefore resulted in long-term foreign ownership. Cyprus has increased its engagement with other EU Member States in response to Russia's war of aggression against Ukraine ([9]), but a significant share of this FDI stock remains in the hands of non-EU citizens (although it is well spread across

([8]) The MIP Scoreboard thresholds for consolidated household and non-financial corporates' debt are 55% and 85% of GDP respectively.

([9]) See European Commission, 2024, *In-Depth Review – Cyprus*.

Box 2

Key achievements of the Recovery and Resilience Plan (RRP)

Cyprus's RRP has a total investment envelope of EUR 1.02 billion, corresponding to 3.3% of 2023 GDP. It aims to support the green and digital transitions; strengthen economic resilience; and address long-standing structural challenges identified in the European Semester.

As of 4 May, EUR 563 million (approximately 55% of the total allocation) have been disbursed, following the satisfactory fulfilment of 109 milestones and targets. Implementation has progressed steadily with a growing number of reforms and investments already fulfilled and delivering tangible results on the ground. Continuing strong efforts will be needed in order to complete the remaining measures.

Highlights and impact of the RRP.

- **Renewable energy and energy efficiency measures.** Following this reform, digital one-stop shops now streamline the permitting procedure for renewable energy projects and facilitate energy renovation in buildings. Investments in public buildings (particularly for thermal insulation in schools) have cut primary energy demand by at least 30%. Photovoltaic systems total 4 800 kW in schools and 943 kW at Nicosia General Hospital. 650 kW is planned for the fire service.
- **Expansion of high-capacity and gigabit-ready internet connections.** The deployment of very high-capacity networks has been facilitated by a reform that has brought into force the administrative acts needed to simplify the procedures for their roll-out. An investment is expected to support an upgrade to 'gigabit-ready' internet connections that will provide gigabit connectivity to at least 82 000 households.
- **Healthcare improvement.** Central blood establishment facilities are being expanded with the construction of facilities and purchase of equipment.
- **Tackling aggressive tax planning.** Legal acts have entered into force to tackle aggressive tax planning. This reform has introduced a withholding tax on payments to jurisdictions listed in Annex I of the EU list of non-cooperative tax jurisdictions and to low tax jurisdictions.
- **Gradual extension of free pre-primary education from the age of four.** A new law has entered into force (as part of a reform) and is now gradually extending free, compulsory pre-primary education from the age of four, alongside the adoption of aid schemes.

different non-EU countries). The authorities have responded by introducing a mandatory FDI screening mechanism to monitor activities that may affect security or public order ([10]) in the context of an EU regulation ([11]).

EU funding instruments provide considerable resources to Cyprus. They support investments and structural reforms to increase competitiveness, environmental sustainability, skills, social fairness and security, while helping to address challenges identified in the CSRs. Key instruments include the Recovery and Resilience Facility (see Box 2) and Cohesion

([10]) See Cyprus – Ministry of Finance – Foreign Direct Investment Screening.

([11]) Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union.

policy funds (see Box 3). In addition, the Common Agricultural Policy (CAP) provides Cyprus with an EU contribution of EUR 374 million under the CAP strategic plan for 2023-2027 ([12]). A further EUR 196.3 million are available under the Asylum, Migration and Integration Fund (AMIF), together with the Border Management and Visa Instrument (BMVI) and the Internal Security Fund (ISF). Other EU programmes also support competitiveness in Cyprus, for instance through open calls under Horizon Europe and the Connecting Europe Facility.

([12]) An overview of Cyprus' formally approved strategy to implement the EU's common agricultural policy nationally can be found at https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans/cyprus_en

Box 3

Contribution of cohesion policy funds

EU cohesion policy funding is supporting Cyprus's efforts to boost competitiveness, environmental sustainability, skills and social fairness. In the 2021-2027 programming period, EU cohesion policy funds ([13]) are providing EUR 968.6 million (amounting to EUR 1.48 billion when paired with national co-financing ([14])), or 2.8% of 2024 GDP, to Cyprus. This makes cohesion policy one of the main sources of public investment in the country. The value of selected projects corresponded to 71.8% of the total allocation as of March 2026, with additional calls for projects in the pipeline.

- **Innovation, business environment and productivity.** EUR 147 million have been allocated to research and innovation, SME competitiveness and reaping the benefits of digitisation. Investments have already resulted in more than 1 000 jobs created in supported SMEs; more than 200 research jobs created in supported research centres; and the mobilisation of EUR 47.6 million in private investment. 450 enterprises have been supported by grants. Selected projects will serve 133 000 users annually through improved public digital services.

- **Decarbonisation, energy affordability and sustainability.** EUR 357 million have been allocated to the green transition. Results so far include the improvement of energy performance in 2 369 dwellings and annual primary energy consumption savings close to 60 000 MWh per year; as well as a reduction of more than 1.5 million cubic metres per year in water losses and the installation of 88 km of new or upgraded wastewater collection pipes.

- **Skills, quality jobs and social fairness.** EUR 80 million have been allocated to human resource development and labour market integration. The aim is to support actions to reduce early school leaving, improve learning outcomes and tackle delinquency among disadvantaged students. More than 170 school units and 30 000 students participate annually. Further allocations include EUR 28 million to tackle youth unemployment, EUR 17 million to address material deprivation, EUR 13.5 million to reduce child poverty, EUR 77.2 million to deal with social inclusion and EUR 10 million for innovative social measures, such as family interventions and a support centre for autism.

The mid-term review ([15]) reinforced the cohesion policy's contribution to emerging strategic priorities, reallocating EUR 64 million (the EU contribution) to scale up investment in water resilience infrastructure (including improved water efficiency and wastewater treatment) and compliance with the Urban Wastewater Treatment Directive. In addition to cohesion policy funding and in order to mitigate the social impact of climate change, Cyprus will allocate up to EUR 131 million under the Social Climate Fund over 2026-2032 to help mitigate the social impact of the new emissions trading system (ETS2) by supporting vulnerable households and small businesses.

through the 2021-2027 programming period. It is a formal assessment process required under Article 18 of the Common Provisions Regulation, to assess the implementation of a programme; and, where necessary, to propose adjustments to improve its performance, ensure relevance in the light of new and emerging needs and maintain consistency with other EU policies.

INNOVATION, BUSINESS ENVIRONMENT AND PRODUCTIVITY

In 2025, Cyprus received a country-specific recommendation (CSR) to strengthen the research, development and innovation (RDI) system; increase access to alternative financing instruments; and improve the business environment as well as the governance of State-owned enterprises. Several measures have been implemented to support innovative activities; improve access to non-bank finance; reduce red tape; and align the governance of State-owned enterprises with international standards. However, there is still room for improvement in all these policy areas. Additional measures are in the pipeline to address these challenges; their impact will depend on effective implementation.

Additional challenges are constraining Cyprus's potential for further diversification, competitiveness and a supportive business environment. Increasing the efficiency of the justice system (particularly courts' specialisation, the enforcement of court judgments and the digitalisation of judicial procedures) could improve Cyprus's business environment. Developing the second pillar of the pension system could spur growth in capital markets and increase available funding for businesses.

A more integrated RDI ecosystem could support further economic diversification

Cyprus's research and innovation system is characterised by chronically low RDI investment, weak commercialisation and research-business synergies, as well as the absence of a long-term RDI strategy. Both public and private RDI expenditure remains among the lowest in the EU (see Annex 5). This is partly attributable to Cyprus's structural features (particularly the limited number of large enterprises and the economy's service-based nature). Some progress has been observed since the CSR was issued last year. Initiatives such as the proof of concept programmes and RESTART under the Research and Innovation Foundation (RIF), which provide early-stage funding to validate innovative ideas, are steps in the right direction. "STEP" is facilitating the establishment of facilities and production lines for the manufacturing of new innovative products and services. Moreover, other funding programmes were launched by RIF such as the new blended-finance funding programme "BOOST", which aims to provide stronger support to innovative Cypriot companies. Moreover, cohesion policy funds are supporting the upgrading and development of research infrastructures; programmes for new researchers; the promotion of cooperation between enterprises and research institutions; participation in European partnerships and transnational cooperation;

and support for innovative and start-up enterprises. The forthcoming 2027-2032 RDI strategy, currently under preparation, has the potential to strengthen the governance of the RDI system. By introducing clear input-based and output-based performance indicators and providing multiannual institutional funding, the strategy should enhance monitoring, improve policy coordination and increase predictability for research and innovation actors. In addition, legislation allowing university staff to participate in spin-offs was approved by the Parliament in March 2026 and has entered into force.

The information and communications technology (ICT) sector has expanded rapidly, but its integration into Cyprus's RDI ecosystem remains limited. Foreign ICT companies have contributed to shifting production towards a more innovative, diversified and export-oriented economic structure, but evidence on supply-chain interlinkages points to weak spillovers to the rest of the economy (see Section 1). The sector is not well connected to other industries, so its growth does not generate much additional economic activity. The weak integration of foreign ICT firms into the domestic innovation ecosystem is a significant untapped opportunity, because stronger collaboration between foreign ICT firms and domestic research institutions, start-ups and other companies could unlock new opportunities for innovation-driven growth and economic diversification.

Better access to non-bank financing could enhance innovative and high value added activities

Further diversification towards high value added sectors and stronger productivity growth in the Cypriot economy could be supported by improved access to non-bank financing. Bank lending remains the main source of financing for businesses. Strict underwriting standards can make it harder for newly established firms that lack a proven credit history to access financing. Financing through capital markets remains underdeveloped and Cyprus has one of the lowest market-based funding ratios in the EU (see Annex 6). Several initiatives have been launched to improve access to non-bank financing (as highlighted in the 2025 CSRs), but implementation remains only partial. The Cyprus Equity Fund (a measure under Cyprus's recovery and resilience plan (RRP)) is investing in early-stage, Cyprus-linked technology companies. Cyprus also provides tax incentives for investments in innovative SMEs. Moreover, a national promotional agency is being established under the RRP to address market failures in SME access to capital and to support business development (see Annex 5). Cohesion policy funds are supporting schemes to strengthen the SME ecosystem. However, the funding that has been mobilised so far remains small and predominantly grant-based. Access to non-bank funding remains constrained, leaving many firms reliant on public funding or foreign investors – or unable to finance their new activities.

The second pillar of the pension system could become an important source of long-term funding for businesses. The role of occupational pensions in both retirement provision and capital market development remains limited, because the system is highly fragmented (with numerous small, company-specific schemes that prevent economies of scale). In the absence of a well-established investment culture (coupled with relatively low financial literacy and limited availability of diversified investment alternatives), households tend to place their savings primarily in real

estate or bank deposits rather than more productive financial instruments (see Annexes 2 and 6). Expanding coverage (such as through automatic enrolment into multiemployer or employer-sponsored schemes) and enhancing the portability of pension rights between employers would help in scaling up occupational pension funds, strengthening supplementary retirement income and increasing their capacity to provide long-term financing.

Regulatory bottlenecks and governance weaknesses in State-owned enterprises are constraining the business environment

Some steps have been initiated to address the 2025 CSR on the regulatory and administrative framework, but implementation remains partial. Transport infrastructure projects are often delayed due to lengthy land acquisition and procurement processes; limited administrative capacity that leads to delays and late feedback from utility companies. Customs procedures remain relatively burdensome (Cyprus ranks 25th in the EU-27 on processing time for the clearance of extra-EU imports). The share of import declarations subject to documentary and physical controls is significantly higher than the EU average, while hit rates (the proportion of inspections detecting irregularities) are similar to the EU average. The use of simplified customs procedures remains limited. Easing administrative requirements in the implementation of posting of workers rules could reduce regulatory fragmentation within the single market, facilitate cross-border mobility and foster competitiveness – without undermining workers' protections. The authorities have adopted several measures to reduce red tape and strengthen predictability for investors (see Annex 5). In May 2025, Cyprus established a business support centre, as a single point of contact for investors (domestic and foreign) that contributes to the streamlining of administrative procedures and the reinforcing of the new licensing framework for strategic development projects.

The effectiveness of State-owned enterprises (SOEs) is essential for advancing economic development in strategic sectors and enabling economic transformation. SOEs play a significant role in the economy because they mainly operate in sectors characterised by natural monopolies (e.g. electricity, telecommunications, water, wastewater management and infrastructure). Cyprus has liberalised its electricity and telecommunications markets, but the underlying network infrastructures in both sectors still exhibit natural monopoly characteristics. SOEs in Cyprus continue to have governance weaknesses that prevent them meeting international and OECD standards (as highlighted by the 2025 CSR). Key areas of concern include accountability for financial performance; the appointment of boards on a merit basis; the formulation of a clear ownership policy; and transparency (as highlighted in a 2023 IMF report) ([16]). As a preparatory step to address the CSR, Cyprus adopted an action plan in December 2025 to implement the IMF's recommendations. It will also receive technical assistance through the Commission's Technical Support Instrument to support the effective implementation of these actions. These efforts aim to strengthen the governance of SOEs; facilitate their modernisation; and help Cyprus achieve key policy objectives

([16])IMF, 2023, *Cyprus: Technical Assistance Report, Strengthening the Governance and Oversight of State-Owned Enterprises*.

(including the green transition, digitalisation and the enhancement of value added in products and services).

Better efficiency and quality of the justice system for an attractive business environment

Cyprus's justice system still suffers from slow case resolution, low digitalisation and enforcement delays, which are all burdens on its business environment. The disposition time in civil and commercial cases remains among the highest in the EU and has even increased in administrative cases. A 2023 reform of the judicial system established the Commercial Court and the Admiralty Court, with special jurisdiction over high value commercial and admiralty disputes by specialised judges. The reform aimed to provide for a faster resolution but neither of the two Courts are operational yet. The Admiralty Court is expected to be operational later in 2026. The level of digitalisation of justice remains low and its benefits are therefore unexploited. Cyprus is taking some initial steps to improve the existing case management system under the RRP, but a fully functional and integrated electronic case management system is still not in operation. Digital audio recording technologies are still not being used in court proceedings. Delays and difficulties in enforcing final judgments are also impeding the efficient execution of justice. Efforts to accelerate enforcement procedures and remove existing obstacles could further incentivise investment in Cyprus and reinforce trust in justice (see Annex 7).

DECARBONISATION, ENERGY AFFORDABILITY AND SUSTAINABILITY

In 2025, Cyprus received country-specific recommendations (CSRs) to reduce overall dependency on fossil fuels; diversify energy supply; promote sustainable transport; and upgrade grid and storage facilities. It was also recommended that Cyprus should increase investment in water, wastewater and waste management infrastructure and practices; and improve the implementation of climate adaptation measures by focusing on the underlying institutional framework. Only limited progress has been observed in these areas overall. Several measures have been taken to increase the share of renewable energy in Cyprus's energy mix and to promote sustainable transport, but their scope and impact remain limited.

Cyprus remains vulnerable to significant environmental and climate risks, but some preparatory steps have been taken to expand the grid, increase energy storage options and develop energy interconnections with neighbouring countries. On sustainable transport, the lack of market incentives for electrifying the vehicle fleet has become a new challenge within this policy area. Cyprus still faces significant challenges in the areas of water and wastewater management, with limited progress observed in sustainable water-use and wastewater treatment. Its slow transition to the circular economy highlights the need for further efforts to improve resource efficiency, waste reduction and sustainable practices. Only preparatory steps have been taken in the area of climate adaptation. A new adaptation strategy (including a governance system) is still awaiting approval by Cyprus's Council of Ministers at the time of writing.

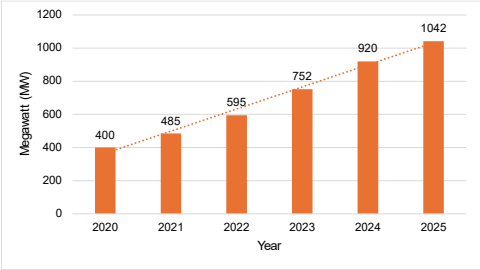
Advancing the renewable energy transition to improve energy security

The production and use of renewable energy sources has been on an upward trend but remains heavily dependent on fossil fuels. In 2024, oil and petroleum products accounted for 85.2% of gross inland energy consumption. This suggests that the 2025 CSR on reducing reliance on fossil fuel has not been meaningfully addressed (see Annex 9). Diversifying the energy supply similarly remains a challenge. Cyprus has one of the largest energy import dependencies in the EU (87.7% of gross available energy in 2024), underscoring energy security vulnerabilities (see Section 1). Cyprus has an objective of including natural gas in its energy mix, but the development of an LNG terminal at Vasilikos port is being significantly delayed. The electricity mix is also undiversified and remains reliant on imported fuels. Renewables accounted for 27.4% of Cyprus's electricity mix in 2025 (24% in 2024). Both installed capacity for solar and wind energy grew in 2025 (by 14.6% and 7.6% respectively).

Some steps have been taken to improve the permitting process. A new law has been adopted to transpose the Revised Energy Directive's permitting requirements into national legislation and further expand

the digital permitting portal. However, work on full harmonisation is still ongoing, with significant delays in the permitting process for storage projects (see Annex 9).

Graph 3.1:**Change in installed capacity for renewables overtime (in MW)**



Source: *IRENA (2026), Renewable capacity statistics 2026, International Renewable Energy Agency*

A 2025 CSR recommended the development of energy interconnections with neighbouring countries, but no progress has been made with this. The Great Sea Interconnector project (one of the eight Energy Highways included in the Grids Package) is still subject to delays, despite a grant of EUR 658 million under the Connecting Europe Facility (see Annex 9). The aim is to end Cyprus's current energy isolation by connecting the Greek and Cypriot power grids via a submarine power cable.

The need to upgrade the electricity grid and energy storage facilities to accommodate the increasing share of renewables remains a key challenge. In 2025, energy curtailment remained very high (increasing by 83% on 2024) and there have been delays in connecting new renewable energy plants to the grid. Developing renewable energy storage systems is also critical to increasing renewable energy capacity in the transmission network and ensuring grid stability. However, Cyprus has no operational fossil-free electricity storage capacity. While three utility-scale battery storage projects are advancing at the procurement phase and other applications are being registered with the Transmission System Operator, implementation remains at an early stage. One positive development was the deployment of smart electricity meters, which can support the integration of new photovoltaics into the electricity system. A further positive step in Cyprus's energy transition was the launch of its competitive electricity market in October 2025. Ongoing investments (supported under the Just Transition Fund) to modernise and digitalise the electricity grid, expected to facilitate the integration of renewable sources into the energy system and improve system efficiency, are advancing. Furthermore, the approved Ten-Year Transmission System Development Plan (2025-2034) includes investment for EUR 286 million across more than thirty projects, although only preparatory steps have been taken so far.

Decarbonisation remains a challenge in buildings, transport and manufacturing

Cyprus is not on track to meet its effort-sharing target of a 32% reduction in greenhouse gas (GHG) emissions in effort-sharing sectors by 2030 (compared with 2005). Implementation of planned measures and infrastructure projects (alongside additional measures) remains essential in order to meet this target.

Greater energy efficiency in buildings is also key to decarbonisation. Faster implementation of energy efficiency investments in Cyprus is needed, even if there has been some progress in implementing energy efficiency renovation schemes promoted by the recovery and resilience plan (RRP) and cohesion policy. The submission of Cyprus's draft national

building renovation plan pursuant to the recast Energy Performance of Buildings Directive (EPBD) will play a crucial role in setting out a clear and predictable pathway to an energy-efficient and decarbonised building stock.

Sustainable transport remains a pressing challenge. There has been only limited progress on the 2025 CSR. Cyprus does not have a railway network, so road transport is the main means of transport and the lead contributor to its effort-sharing emissions, accounting for 48% of emissions in 2024 (see Annex 8). The electrification of Cyprus's vehicle fleet is still at an early stage. Grant schemes for the purchase of low-emission vehicles and deployment of charging infrastructure (both supported by the RRP) have had only a limited impact. The adoption of a carbon tax under Cyprus's RRP has been delayed, despite its potential to provide incentives for greening the vehicle fleet. However, investments to enhance public transport infrastructure remain insufficient, despite a measure promoting sustainable mobility projects in the RRP and investments under cohesion policy. Further efforts are needed to make public transport more affordable and accessible, and to use digital tools to strengthen user-friendliness.

Cyprus's manufacturing sector (especially the cement industry) is still characterised by high emission intensity. In 2024, industry generated 19% of Cyprus's total GHG emissions – the third highest share after energy (29%) and transport (20%). Only 29% of industrial emissions stem from energy use. The remaining 71% are generated by industrial processes and product use. The deployment of carbon capture, utilisation and storage (CCUS) solutions can help in tackling non-energy emissions (especially in the cement sector). In parallel, further electrification could boost decarbonisation, if it goes hand in hand with a ramp-up of renewables in electricity generation (see Annex 8).

Cyprus is particularly exposed to climate and environmental risks

Cyprus has made limited progress in climate adaptation governance and remains vulnerable to significant climate and environmental risks. The 2025 CSR called for stronger implementation of climate adaptation measures by reforming the institutional governance framework. The revised national adaptation strategy (NAS) 2025-2050 was finalised in February 2025, but its ministerial adoption is still pending, and this is delaying its implementation. Significant climate risks (e.g. wildfires, floods, water scarcity and coastal erosion) are harming Cyprus's biodiversity, agriculture, aquaculture and fisheries sector, thus underscoring the urgent need for improved prevention. The Ministry of Finance has initiated the integration of climate risk into fiscal planning in response to the 2025 CSR. The RRP supports governance improvements and responsibility-sharing between ministries and local authorities. In addition, cohesion policy funds are supporting investments to protect and improve coastal regions against erosion; the development of anti-flood infrastructure; and fire and disaster risk management actions. Challenges nevertheless persist, including a need to invest EUR 3.4 billion in climate adaptation measures by 2050 (less than 30% of this has been allocated so far), and a lack of systematic climate-proofing across sectors (see Annex 10).

Cyprus faces severe, chronic water scarcity and its water exploitation index indicates the highest pressure in the EU as a whole. Low progress has been

observed in acting on the CSR that called for investment in water and wastewater infrastructure. The national water exploitation index, which measures the sustainability of freshwater usage, far exceeds the threshold for severe water scarcity. Agriculture accounted for 69.5% of total water abstraction in 2023 and water productivity (i.e. the efficiency of water use in agricultural and economic activities) was well below the EU average. The RRP and cohesion policy are both funding water-related measures (e.g. infrastructure upgrades, digitalisation of water networks and improved wastewater treatment). Water fees were increased as part of the RRP's green taxation reform. However, 14.1% of wastewater is still neither collected nor treated by individual systems, and Cyprus needs to make significant investments to ensure compliance with the Urban Waste Treatment Directive. The number of surface water bodies achieving good ecological status has increased slightly across three river basin management plans, but pressures from water scarcity, climate change impacts, and agricultural pollution persist. The Joint Research Centre's European Drought Risk Atlas indicates that Cyprus is particularly exposed to wheat yield losses due to drought and this threat will intensify without deeper structural reforms in water governance (see Annex 10). The recent local administration reform transferred significant responsibilities to district authorities, enabling district-level coordination and investment planning in other areas (e.g. water and waste management), but administrative capacity has not yet increased sufficiently to fully carry out these responsibilities (see Annex 18).

Cyprus's transition to the circular economy is continuing slowly and waste management performance is lagging behind EU targets. Only preparatory steps have been taken on the 2025 CSR to increase investment in waste management infrastructure. Cyprus has the EU's highest per capita food waste. The 2021-27 circular economy action plan (reinforced by the RRP) targets key sectors like agriculture, food, manufacturing and hospitality. Cohesion policy funds support actions to reduce waste generation, improve waste-sorting and increase recycling. Furthermore, the preparation of local waste management plans for establishing the Pay As You Throw (PAYT) scheme is under development, although progress has been slow. It nevertheless remains uncertain whether these measures will enable Cyprus to meet its municipal and packaging waste targets. Agriculture and food manufacturing are priorities for circular integration. In Cyprus, agricultural pollution from nitrates and pesticides remains at problematic levels. Beyond waste, the sector faces water scarcity and heat stress, threatening crop yields and food security (see Annex 10). Supporting the circular use of materials (including critical raw materials) could also reduce Cyprus's dependency on imports (see Annex 4).

SKILLS, QUALITY JOBS AND SOCIAL FAIRNESS

Cyprus received a country-specific recommendation (CSR) in 2025 to address labour shortages and skill mismatches by strengthening young people's labour market participation, further increasing the capacity and attractiveness of vocational education and training (VET) as well as promoting adult learning. The CSR also called on Cyprus to step up its policy efforts to strengthen green and digital skills; further increase participation in early childhood education and care; improve basic skills; and increase students' participation in science, technology, engineering and mathematics (STEM) fields. It further called on Cyprus to improve the availability of and access to long-term care services by introducing a modern, adequately funded and integrated long-term care model, as well as to address energy poverty. Cyprus has responded to the CSR with measures under the recovery and resilience plan (RRP), but progress has been limited in most areas. Notable steps have been taken on early childhood education and care, but implementation remains partial (see Annex 1).

The labour market is strong overall, but skills challenges are impeding competitiveness and the labour market integration of underrepresented, and the social situation of vulnerable groups could be improved. On the back of robust economic growth, the employment rate increased further to 81.3% in 2025, thus surpassing the national 2030 target of 80%. The unemployment and long-term component rates fell to 4.4% and 0.9% respectively. However, labour market integration of young people and persons with disabilities is weak and women face persistent barriers to securing quality employment. Social outcomes are good overall, but the effectiveness of the social protection system (including pensions) in reducing poverty risks is weak, affecting persons with disabilities and older people in particular. Better developed and used care systems – both for children and for people in need of long-term care – could improve the quality of life for both givers and recipients of care.

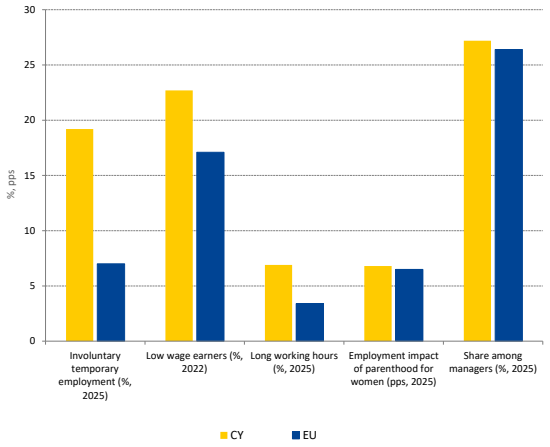
Activation and removing barriers for young people and women remains essential for an even stronger labour market

Young people are integrating better now into the labour market but need sustained support. Cyprus has made some progress in addressing a CSR to strengthen the labour market participation of young people. Targeted activation measures nevertheless remain limited, despite ongoing improvements in the employment of young people. The share of young people neither in employment nor in education and training (NEET) has decreased in recent years and is now slightly below the EU average, but the share of those out of the labour force has increased (see Annex 11). Further strengthening the labour market participation of young people in Cyprus could benefit from targeted outreach programmes to address NEETS' diverse profiles, creating greater synergies between

the Public Employment Service (PES) and employers as well as trade unions.

Cyprus's active labour market policies (ALMPs) and the operation of the Public Employment Service are insufficient to respond to challenges. Cyprus's ALMPs remain inadequate to address structural skills mismatches and only 7.7% of jobseekers participate (one of the lowest rates in the EU). Significant gaps remain in reaching vulnerable groups. Cyprus has developed a new ALMP strategy that includes hiring incentives for unemployed persons aged 50 and over, unemployed and inactive women and persons with disabilities offering some support and promoting flexible work. However, the strategy could be more directly connected to the national disability action plan, focusing more on non-EU nationals, strengthening monitoring and the engagement of social partners. The PES's Performance Management System has been recently introduced under the RRP, but its impact on the quality of PES services remains to be seen.

Graph 4.1:**Key indicators of women's job quality in Cyprus**



Source: Eurostat [lfsa_etgar], [earn_ses_pub1s], [lfsa_qoe_3a2], [lfst_hheredch], [lfsa_egais].

Women face persistent barriers to securing high-quality employment. Cyprus's gender employment gap is close to the EU average, but women are often employed in lower quality jobs and the gap is higher in rural areas (see Annex 18). In particular, the 13.8% (vs EU 6.4%) risk of being involuntarily in temporary employment, among the largest in the EU, and the impact of parenthood on their employment rates ([17]) (-6.8 pps vs EU: -6.5 pps) hinder women progressing in their careers. Cyprus's 6.9% share of women in jobs with long working hours, one of the largest in the EU, are a source of concern and preventing women progressing in their careers. Only 26.9% of women work in high-demand sectors (e.g. ICT and managerial positions) – one of the lowest rates in the EU – and this is limiting access to higher-paying jobs. The share of low-wage earners among Cypriot women is therefore one of the highest in the EU. This is also due to low collective bargaining coverage, which is estimated at only 32.1% of workers and is on a downward trend. All these elements are hindering the closing of gender pay and pension gaps, thereby placing women in a financially vulnerable position. To strengthen labour market participation and improve the quality of women's jobs, the new ALMP strategy has introduced new hiring incentive schemes for women. Schemes that help career planning and progression as well as the introduction of flexible working arrangements (as included in the RRP) are also steps in the right direction and implementing them (as part of a holistic approach that also includes fostering participation in training for high-demand jobs and providing complementary care

([17]) This is defined as the difference in percentage points between employment rates (age group 20-49) for women without any children and for women with a child aged 0-6. It is part of the Joint Assessment Framework developed by the Commission, the Employment Committee (EMCO) and the Social Protection Committee (SPC).

services for children and older people) would improve women's job quality.

Strengthening human capital development and aligning it with labour market needs is key

Labour shortages and skills mismatches persist. Cyprus has received a CSR on addressing labour shortages and skills mismatches, but progress remains limited. The combination of low-quality jobs and skills mismatches reinforces structural challenges. In response, revised curricula have been introduced in schools and universities as well as training providers to better meet labour demand.

Low participation in vocational education and training (VET) is still contributing to skills mismatches and shortages. Cyprus has received a CSR to increase the capacity and attractiveness of VET as well as to step up policy efforts to strengthen green and digital skills, but only preparatory steps have been taken so far. Enrolment in secondary VET has increased, but capacity constraints remain – despite efforts to build new schools and improve infrastructure via the RRP, the European Social Fund Plus (ESF+) and the Just Transition Fund. Both the Cyprus Productivity Centre and the Human Resource Development Authority of Cyprus are carrying out upskilling and reskilling measures, and efforts are being made to attract talent from abroad. Over-qualification and labour shortages nevertheless persist in occupations that need VET skills (especially ICT, construction and technical trades) and these are forecast to increase further. Finalising and implementing the new national VET strategy would be a step towards addressing these challenges.

Enrolment in STEM fields remains low and is dragging down innovation capacity. Cyprus has received a CSR to increase student participation in STEM fields, but progress remains limited. A reform is currently being implemented with support from the Recovery and Resilience Facility (RRF) on the digital transformation of school units, expanding the number of graduates in these fields. However, despite Cyprus's high overall tertiary educational attainment, enrolment in STEM programmes remains low, particularly in sectors linked to the digital and green transitions (see Annex 13).

Early childhood education and care (ECEC) participation remains below the EU target. Cyprus has received a CSR to further increase participation in ECEC. This would also help alleviate the negative impact of parenthood on job quality for women (see above) and enhance their labour market participation. Some steps have been taken, but implementation remains partial. The RRP supports the ECEC reform, which is being implemented and is intended to increase participation and expand capacities. The compulsory entry age will gradually be lowered to four years by the school year 2031/2032 (see Annex 13). The current participation rate is still below the 45% EU target and this is limiting early skills development and the reduction of inequalities in educational outcomes. Further expanding access to high-quality and affordable ECEC could help address these challenges. In parallel, the first National Strategy and Action Plan on ECEC, dated 10 December 2025, aims to address structural challenges and improve access, affordability and quality.

Insufficient basic skills outcomes are limiting lifelong skills acquisition. Cyprus has received a CSR to improve basic skills, but only limited progress is visible so far. A large share of students do not achieve

minimum proficiency levels in basic skills and the share of top-performing students is low (see Annex 13). This could impair employability and productivity in a labour market that is increasingly being shaped by technological change. Strengthening the acquisition of basic skills and teachers' preparedness could support the expansion of a skilled workforce. Different reforms are being implemented (notably under the RRF) on, for example, the evaluation of teachers and school units and regarding the digital transformation of education, but they are too recent for their impact to be visible in the data that is currently available. The share of 18–24-year-olds leaving education and training early decreased between 2024 and 2025 by 1.5 pps to 9.8% (EU: 9.1%).

Inclusive education has become a significant challenge. Students with disabilities and/or special educational needs still face barriers to effective participation in mainstream education. In 2023, young adults with disabilities (aged 18-24) were more likely to leave school early (36.8% vs EU 19.1%) – one of the widest gaps in the EU. Improving inclusive learning environments through tailored learning materials, assessment methods and training of mainstream teachers is crucial in order to ensure that all learners have the opportunity to develop strong foundational skills and reduce inequality.

Gaps in social protection and long-term care are contributing to persistent social vulnerabilities

Poverty has been declining due to strong economic growth and a buoyant labour market, but social transfers have only a limited impact on poverty reduction (particularly for older people and persons with disabilities). Rising poverty risks among older people (331.7% vs EU 18.8%) and persons with disabilities (33.8% vs EU 28.8%) reflect inadequate pension income. Guaranteed minimum income levels have eroded due to lack of inflation adjustment and structural weaknesses in the long-term care system. People living in rural areas are more affected by social exclusion and face higher risk of poverty (see Annex 18). Women are disproportionately affected due to cumulative disadvantages over the course of their lives. Disability-specific benefits are both low in value and underrepresented in overall social protection spending, leaving many recipients financially vulnerable. On a positive note, planned reforms (including a draft law to improve social services and an increase in disability allowances) aim to improve these arrangements. Similarly, while low pension levels do impair the social situation of older persons, the adoption and implementation of the ongoing reform of the pension system could help alleviate old-age poverty.

An integrated long-term care (LTC) model has not been developed. Cyprus has received a CSR to improve the availability of, and access to, LTC by introducing a modern, adequately funded and integrated LTC model. However, implementation remains at an early stage. Despite efforts to promote active ageing, public spending is one the lowest in the EU and the non-integration of most services into the national health system is prompting high out-of-pocket (OOP) expenditure and non-accessible services. The LTC sector is also affected by the situation of nursing staff in the general healthcare system. Staff shortages for nurses and carers, the insufficient availability of home-based and community-based LTC and limited home-based solutions are hampering deinstitutionalisation. Cyprus has not yet

established a comprehensive, coordinated and sustainable LTC strategy with an independent oversight body to monitor implementation.

Energy poverty remains a concern. Cyprus has received a CSR to address energy poverty, but implementation remains partial. Cyprus is adopting protective rules against grid disconnections, special electricity prices for energy-poor consumers and energy efficiency investments targeted mainly at vulnerable households in order to reduce cooling and heating costs. However, the coverage of related programmes is limited and continuous monitoring and evaluation to reduce energy poverty and promote environmental equality is not yet in place.

Cyprus has limited social and affordable housing and lacks dedicated monitoring. Social rental housing is largely non-existent, and far below the EU average of 8% ([18]). Cyprus is also one of the worst performers in the EU in terms of households, with arrears on mortgage, rent and utility bills (12.0% vs EU: 9.2%). The Statistical Service of Cyprus does not publish a breakdown of the total housing stock that is social housing (rental or ownership) or the number of units managed by the Cyprus Land Development Corporation. The government has introduced measures to support housing affordability. These include rental subsidies for vulnerable groups through the older people housing subsidy scheme (funded by the RRF); the housing subsidy scheme for young couples and individuals up to 41 years of age; and rental allowances under the guaranteed minimum income scheme. In parallel, the government also aims to expand housing supply. Over 1 900 new units are planned (including around 700 affordable units) in the major cities (see Annex 16).

([18]) See Pittini, A., 2026, *Cyprus. In Social and public housing in the EU and UK. Dublin: Ministry for Housing, Local Government and Heritage*).

KEY FINDINGS

In areas **covered by existing CSRs**, Cyprus would benefit from:

- **boosting research and innovation** by improving the funding and the commercialisation of research, and by strengthening the integration into the domestic ecosystem of companies engaged in RDI-intensive activities;
- **improving the business environment** by reducing single market and administrative barriers, enhancing the transparency and efficiency of State-owned enterprise governance, and further refining the regulatory framework;
- **enhancing access to finance** for businesses by enabling alternative financing opportunities (including venture capital, private equity and investment funds) and by strengthening household and institutional participation in private investment through financial literacy and the development of the occupational pension system;
- **strengthening economic and energy security** by upgrading the electricity grid and energy storage facilities to accommodate an increasing share of renewables in the energy mix, as well as by developing energy interconnections with neighbouring countries to end Cyprus's energy isolation;
- **decarbonising building and transport** by increasing investment in energy efficiency and the availability of public transport, and by introducing a carbon tax on transport fuels;
- **addressing climate and environmental risks** by investing in water, wastewater and waste management infrastructure, ensuring the implementation of climate adaptation measures through an effective governance system and improving the administrative and planning capacity of district and local authorities;
- **promoting human capital development and addressing labour and skills shortages** by increasing participation in vocational education and training (VET) and science, technology, engineering and mathematics (STEM); improving basic and digital skills (paying particular attention to learners with disabilities and special educational needs); adapting adult learning to employment needs; strengthening the capacities of the Public Employment Service; using active labour market policies (particularly to support women's transition into higher-quality jobs); and better integrating vulnerable groups into the labour market;
- **improving social protection for vulnerable groups and reducing energy poverty** by strengthening access to high-quality long-term care, ensuring adequate minimum pensions, increasing the availability of social housing and providing targeted support to vulnerable households.

In **other areas**, Cyprus would benefit from:

- **making the justice system more efficient** by introducing well-functioning

digital tools and procedures, and by ensuring the prompt resolution of cases.

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ANNEX 1: CSR IMPLEMENTATION

Table A1.1: **CSRs implementation and Commission assessment**

Cyprus faces challenges in a wide range of policy areas, as identified in the country-specific recommendations (CSRs). Cyprus was recommended, among other things, to strengthen research and innovation, simplify regulation, improve the governance of state-owned enterprises, reduce overall reliance on fossil fuels, scaling-up funding for energy efficiency, promote sustainable transport, upgrade the electricity grid, address energy poverty, invest in water, improve the implementation of climate adaptation measures, address labour shortages and skill mismatches, improve education and basic skills and improve the availability of long-term care services.

The Commission has assessed the degree of implementation of the 2025 CSRs considering the policy action taken by Cyprus to date*. To do so, the Commission has taken into account the information provided by Cyprus in its Annual Progress Report as well as other information sources. This annex provides summary information on the policy actions taken or planned by Cyprus for each CSR. More detailed information on these actions is included in the relevant chapters and other annexes of the report.

**CSR 2 is not assessed in CeSaR. RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets, to be reflected in the country reports. Progress with the cohesion policy is monitored in the context of the Cohesion Policy of the European Union.*

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps / credibly announced measures** *By 30 April 2026*	**Assessment of progress**
1.1 Reinforce overall defence and security spending and readiness while ensuring debt sustainability in line with the European Council conclusions of 6 March 2025.	Total general government defence expenditure in 2026 is projected at 1.8% of GDP, similar to the level in 2024.	Total general government defence expenditure in 2027 is projected at 2.4% of GDP, corresponding to an increase of 0.6 pps. compared to 2024.	Substantial progress
1.2 Ensure that net expenditure respects the path recommended by the Council on 21 January 2025.	A budget surplus of 3.4% of GDP and 2.1% of GDP is recorded in 2025 and projected for 2026, respectively. Annual and cumulated deviations in 2025 amounted to 1.3% of GDP and 1.0% of GDP, respectively. Annual and cumulated deviations in 2026 are projected at 0.9% of GDP and 1.8% of GDP, respectively.		Substantial progress
3.1 Strengthen research and innovation and the commercialization of research results by fostering public and private R&D investment, enhancing research-business synergies, and adopting a continuous long-term research and innovation strategy with input-output indicators and multiannual funding.	A Central Knowledge Transfer Office has been established to improve commercialisation and reported on the provision of knowledge transfer support services, alongside various grant schemes for R&I related activities. The adoption of the amendment of the existing legal framework governing the creation of and participation by public universities in spin-off companies.	The new RDI Strategy (2027–2032) is expected by the end-2026, followed by an update of the smart specialisation strategy Law.	Some progress
3.2 Facilitate the diversification of the economy and further productive investment by enabling alternative saving and investment instruments, increasing financial literacy, facilitating the participation in capital markets and improving access to non-	The Cyprus Equity Fund's investment activity commenced in January 2025. So far, the Fund has invested in 6 companies.	A National Promotional Agency will be established to address market failures in SMEs' access to capital and to support businesses by providing financial instruments.	Some progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps / credibly announced measures** *By 30 April 2026*	**Assessment of progress**
bank financing opportunities for businesses.			
3.3 Simplify regulation, improve regulatory tools and reduce administrative burden, especially focusing on improving licensing and permitting procedures for investment and setting up new businesses.	A Business Support Centre has been established to provide a single point of contact to streamline licensing, including dedicated support for strategic investments. A "Cyprus Startup Visa" programme allows non-EU entrepreneurs to establish startups in Cyprus, fostering innovation, e.g. in fintech and digital services.	Company Law reform is still under preparation and will not be completed before mid-2026.	Some progress
3.4 Improve the governance of state-owned enterprises by aligning it with international best practices, including merit-based nomination of boards, ownership policy and performance-based management.	N/A	In the area of State-Owned Enterprises governance, the Council of Ministers adopted an action plan for implementing the IMF recommendations. The implementation of this action plan has also been [pre]selected for a TSI project.	Limited progress
4.1 Reduce overall reliance on fossil fuels and further diversify energy supply, notably by developing energy interconnections with neighbouring countries	N/A.	N/A	Limited progress
4.2 scaling-up funding for energy efficiency	Introduced, or continued to implement, various measures to support energy efficiency investments for different categories of consumers, including vulnerable households, large-scale users, and public sector buildings. Introduced incentive for increased building coefficient for new and renovated buildings achieving high energy efficiency.	N/A	Some progress
4.3 promoting sustainable transport	Continued implementation of subsidy scheme for the scrapping of old polluting vehicles and the purchase of zero-emission vehicles. Around 4,350 payment claims for subsidies have been submitted, while approximately 320 further applications for payment are still pending and expected. Under the grant scheme "Electrokinisis with 1000", 515 charging points have been approved for subsidy, with an expected 315 to	Cyprus plans to support the deployment of charging infrastructure on public land, including 10 charging pools for light-duty vehicles and 3 for heavy-duty vehicles.	Limited progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps / credibly announced measures** *By 30 April 2026*	**Assessment of progress**
	be completed and already operational. In addition, 11 publicly accessible fast chargers have been installed.		
4.4 and upgrading the electricity grid and energy storage facilities, to accommodate an increasing share of renewables.	Continued implementation of RRP measures on RES and smart grids testing infrastructure at Cyprus University and on defining a new regulatory framework for storage. Licensed new RES project for a total of 2,500 MW. Published guidelines for the funding of energy storage systems of RES, but no project is planned yet.	N/A	Limited progress
4.5 Address energy poverty	Continued implementation of RRP measures on supporting energy renovations for energy-poor households. Implementation of similar measures under cohesion policy is also underway. Implemented protective rules against grid disconnections and applied special electricity tariffs for vulnerable consumers during critical periods.	N/A	Some progress
4.6 Step up investments in water, wastewater, and waste management infrastructure, promote sustainable water use practices, and strengthen efforts to prevent waste and improve the separate collection of municipal and packaging waste.	Adopted new water levy as part of RRP measure on green taxation. Continued implementation of wastewater directive requirements through a Ministerial committee led by the Minister of Interior. Continued implementation of waste management reform “pay as you throw”.	Water Resilience Plan is under preparation. Actions to promote water reuse and desalination are included under the revised National Adaptation Strategy, pending Council of Ministers approval.	Limited progress
4.7 Improve the implementation of climate adaptation measures, by focusing on improving the institutional framework governing climate adaptation.	Capacity-building and awareness raising activities on climate adaptation were organised for local authorities. Council of Ministers adopted the National Investment Plan for Water Projects.	The revised National Climate Adaptation Strategy 2025-2050 and Action Plan are pending approval by the Council of Ministers. The National Climate Law is under preparation.	Limited progress
5.1 Address labour shortages and skills mismatches by strengthening labour market participation of young people,	An project funded by Cohesion Policy Programme “THALIA 2021-2027” has been implemented to incentivise the recruitment of young people aged 15 to 29 who are not in employment, education or training.	According to the ALMPs Strategy period 2026-2028, Cyprus is expected to implement the following Subsidy Schemes: Incentive Scheme for the recruitment of young people aged 15-29 who are not in employment, education, or training (NEETs) with flexible employment arrangements. The outreach support for NEETs (mobile units) was not renewed because of the decrease in youth unemployment and NEETs, and	Some progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps / credibly announced measures** *By 30 April 2026*	**Assessment of progress**
		because results were below expectations.	
5.2 further increasing the capacity and attractiveness of vocational education and training as well as promoting adult learning.	Projects supported under the RRP and the European Social Fund Plus (ESF+) have been developed to improve participation in VET "Development of Technical Vocational Education and Training" (TVET). Two new VET schools (RRF and JTF) have been constructed.	N/A	Some progress
5.3 Step up policy efforts to strengthen green and digital skills.	Implementation of an e-Skills action plan, focusing exclusively on digital skills. The Action Plan has been extended until 2026. A new Digital Strategy for 2027–2032 is currently under development, providing the framework for a new National Action Plan on Digital Skills, and related initiatives. Training programmes for the acquisition of digital skills. Training programmes for the acquisition of knowledge and skills related to the green economy.	N/A	Limited progress
5.4 Further increase participation in early childhood education and care, and improve quality	Gradual 8 months extension of the entry age into ECEC under the RRP and State budget.	Development of new and/or the expansion of existing infrastructure to create new positions that can absorb more children in public kindergartens. Abolition of tuition fees in public kindergartens for younger children of non-compulsory age. Adoption (December 2025) of the first National Strategy and Action Plan on ECEC- 2025-2030	Some progress
5.5 improve basic skills,	Investments in the digital transformation of school units to support digital and STEM-related skills. The teachers' evaluation reform, as part of a broader framework including school evaluation, was adopted in December 2025 under the RRP and will enter into force in the school year 2026. 40 educational curricula in secondary schools are amended to	N/A	Limited progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps / credibly announced measures** *By 30 April 2026*	**Assessment of progress**
	support skills' development. .		
5.6 and increase students' participation in science, technology, engineering and mathematics (STEM) fields	The Ministry of Education has been running a STEM programme in primary schools, where 6th-grade students engage in project-based learning combining science, technology, engineering and mathematics to solve real-world problems.	Construction of a Model Technical School in Limassol	Limited progress
5.7 Improve the availability of and access to long-term care services by introducing a modern, adequately funded, integrated long-term care model.	Under the RRP four long-term care homes have been constructed and a new Elderly Housing Subsidy Scheme (2025) increased funding to EUR 1,300 per person, expanded eligibility, and strengthened quality criteria and income support for the elderly.	The National Strategy for Active Ageing (2025–2030) addresses LTC only in a fragmented manner, as it lacks a dedicated action plan for LTC with clear governance, milestones, and targets. A new disability law has been adopted in April 2026. For its implementation, additional financial provisions have been included in the State Budget. In addition, the new law provides for new social services in kind. Revised National Strategy and Action Plan for Disability 2024-2028.	Limited progress

Source: Cyprus' reporting and Commission assessment

ANNEX 2: FISCAL DEVELOPMENTS AND DEBT SUSTAINABILITY

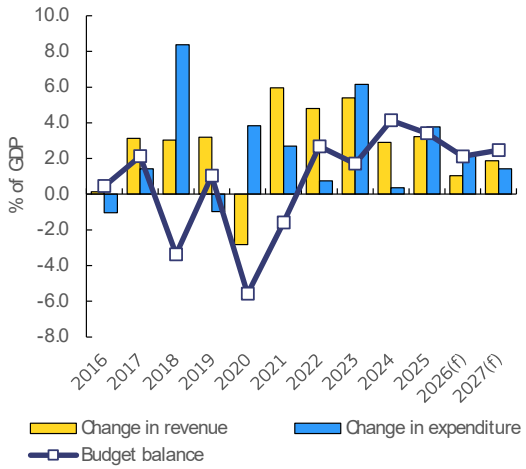
This annex discusses selected topics in public finances and developments in fiscal-structural country-specific recommendations (CSRs) addressed to Cyprus in July 2025. These include a call to reinforce defence spending and readiness, while also implementing a fiscal strategy in line with the Council Recommendation of 21 January 2025.

On 21 January 2025, the Council adopted a Recommendation endorsing Cyprus's medium-term fiscal structural plan ([19]). The plan includes a fiscal adjustment over four years ([20]).

Developments in government balance, debt and public expenditure ([21])

In 2025 Cyprus recorded a government surplus of 3.4% of GDP, and the government debt-to-GDP ratio fell below the 60% threshold for the first time since 2009 to 55.0%. The surplus remains sizeable although lower than its recent peak of 4.1% of GDP in 2024, reflecting the overall good growth situation of the economy and strong tax revenues from corporations. As can be seen in Graph A2.1, the improvement of the government balance since the pandemic in 2020 has been mainly driven by strongly increasing government revenue, which enabled Cyprus to absorb increases in government spending. Based on the Commission Spring 2026 Forecast, Cyprus's is projected to achieve a government headline surplus of 2.1% of GDP in 2026 and 2.5% of GDP in 2027. Government debt is set to continue its downward trajectory falling to 50.4% of GDP in 2026 and 45.5% of GDP in 2027.

Graph A2.1: **Contributions to the change in the general government budget balance.**



Source: AMECO.

While expenditure with a higher impact on GDP had remained broadly stable over three decades, it has slightly increased since 2019. This may be related to the impact of the RRF, facilitating a more quality-based fiscal strategy. Zooming in on the composition of spending, social protection accounts for the largest share of total expenditure (above 30%), followed by health, general public services, and education, each above 10% of total spending. With the introduction of the comprehensive General Healthcare System in 2019, public expenditure on health has increased strongly (See Graph A2.2b). Spending on housing, transport, environment, education and defence has risen more modestly, with the rise in defence spending reflecting recent security developments. In the case of education, the slight increase is particularly important, given the sharp deterioration in basic skills, among the most pronounced in the EU. Students also lag behind their European peers in digital and

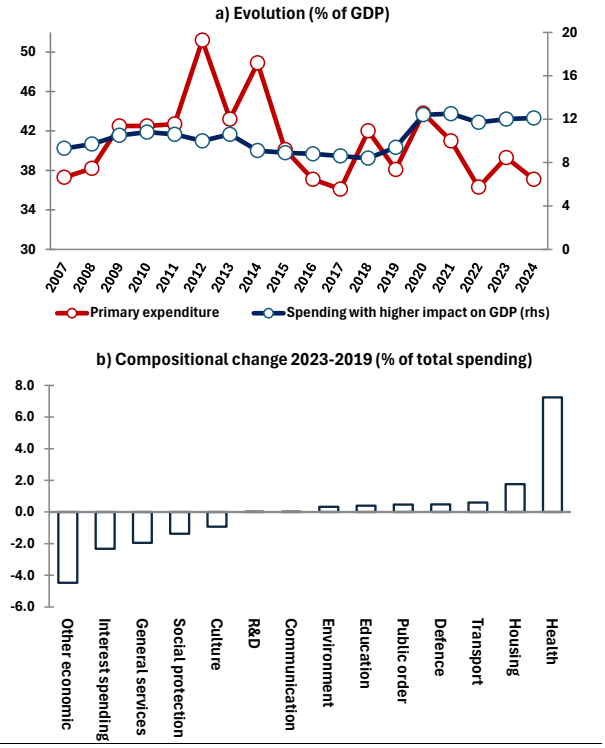
([19]) OJ C, C/2025/639, ELI: https://eur-lex.europa.eu/eli/C/2025/639/oj.

([20]) Cyprus's compliance with the maximum growth rates of net expenditure recommended by the Council is assessed in [COM(2026)200].

([21]) Figures underpinning fiscal surveillance (net expenditure growth) are provided in the Fiscal Statistical Tables [COM(2026)200] providing background data relevant for the assessment of the budgetary policies of the Member States.

civic skills, pointing to broader quality challenges in the education system that may undermine future competitiveness (see Annex 13 for more details). By contrast, spending on communication and R&D has remained broadly stable.

Graph A2.2: **Primary spending evolution and composition**



Source: Source: Based on the Classification of the Functions of Government (COFOG data).
Note: Based on economic literature, the categories considered to have the higher growth impact include education, R&D, health, transport and communication (See Barbiero and Cournede (2013), Gemmel et al. (2016), Lupu et al (2018), Cepparulo and Mourre (2020) and OECD (2025)).

Cyprus relies heavily on corporate income taxation as a share of revenues and of GDP. While this enables it to keep the tax wedge on labour below the EU average, more growth-friendly taxes remain underused. In 2025 Cyprus's total tax burden (including compulsory social security contributions) amounted to 36.7% of GDP, below the EU average of 39.9%. Similarly, the tax wedge comprising personal income tax and social security contributions for an average wage earner stood at 26.4% in 2025, below the EU average of 40.0%, reflecting a moderate burden on the factor labour. In contrast, corporate income taxes represent 20% of taxes collected, more than twice as much as the EU average of 8%. With the increase in the corporate tax rate from 12.5% to 15% at the beginning of 2026 this situation is projected to continue. This heavy reliance on corporate income taxation, related to the country's "headquartering policy" to attract foreign-owned companies, poses risks for the tax base in the medium-term, as corporate taxes generally tend to be volatile and are subject to cross-border competition. However, revenues from taxes less detrimental to growth remain low. For example, property taxation, including recurrent and transaction taxes, account for 1.7% of total tax revenues, well below the EU average (4.6%). Equally, climate-relevant taxation like taxes on fuels or CO_2 consumption provide room for increasing government revenues, while also having positive behavioural effects. For further details on taxation see also Annex 3.

Cost of ageing

Total age-related spending in Cyprus is projected to rise by about 2 pps by 2040, to around 23% of GDP, with a further 1.5 pps increase by 2070 (see Table A2.1). The overall increase is mainly the result of a projected rise in pension and healthcare expenditure. Total spending on age-related items would remain below the EU average.

Public pension spending as a share of GDP is projected to increase by about 1.5 pps over the next decades and by around 3 pps by 2070. At around 12% of GDP in 2070, gross spending on public pension benefits would be similar to the projected EU average.

Supplementary pension schemes can enhance the resilience of the pension system by diversifying retirement income sources. In Cyprus, however, their uptake remains limited. This coincides with rising medium-term

Table A2.1: **Projected change in age-related expenditure in 2025-2040 and 2025-2070**

	ageing-related expenditure	change in 2025-2040 (pps GDP) due to: pensions	healthcare	long-term care	education	total	ageing-related expenditure	
BE	27.1	*1.3*	*0.3*	*0.7*	*-0.6*	***1.6***	28.7	**BE**
EU	24.3	*0.5*	*0.3*	*0.4*	*-0.3*	***0.9***	25.2	EU

	ageing-related expenditure	change in 2025-2070 (pps GDP) due to: pensions	healthcare	long-term care	education	total	ageing-related expenditure	
BE	27.1	*3.1*	*0.6*	*1.7*	*-0.7*	***4.7***	31.9	**BE**
EU	24.3	*0.2*	*0.6*	*0.8*	*-0.3*	***1.3***	25.6	EU

Source: 2024 Ageing Report (EC/EPC)

Table A2.2: **Supplementary pension schemes - Scope for expansion**

	Assets in 2024 (% GDP)	**Gross replacement rate at retirement:** (pps change 2025-2040)	**Participation in 2024** (% working-age population)	
CY	n.a.	*0.5*	n.a.	**CY**
EU	32.4	*-2.8*	55.9	EU

Source: European Commission

public pension spending pressures and a projected increase in the replacement rate by 0.5 pps between 2025 and 2040 (Table A2.2) ([22]).

Public healthcare expenditure is projected at 7.5% of GDP in 2025 (above the EU average of 6.6%) and is expected to increase by 0.3 pps by 2040 and by a further 0.4 pps by 2070 (see Table A2.1) ([23]). Public expenditure on long-term care is projected to be 0.2% of GDP in 2025 (well below the EU average of 1.7%) and is expected to increase by 0.1 pp of GDP by 2040 and by a further 0.1 pp of GDP by 2070. The projected increase is due to population ageing but is relatively low due to underdeveloped long-term care services ([24]).

National fiscal framework

The relatively small Fiscal Council of Cyprus (FCC) has several tasks but struggles with attracting adequate staff. Its tasks relate to monitoring the compliance with fiscal rules as well as assessing/endorsing macroeconomic and budgetary forecasts, but is not involved in long-term fiscal sustainability assessments. The FCC reports having problems attracting staff of a suitable profile, due to insufficiently attractive employment conditions (e.g. pay). Moreover, the secretariat staff number is capped by law at a maximum of 6 persons, which puts a further limit on the potential capacity of the FCC. The nomination and appointment procedures are dominated by the government, which appoints the Board after consulting the relevant Parliamentary Committee. The FCC reports issues of access to information, mostly due to the information being non-standardised and in a format that makes it difficult to process. The FCC reports having a fairly high visibility in the media, despite not having specialised communication staff nor a formal leadership communication role.

([22]) The (gross) replacement rate refers, where the required data is available, to both public and private pensions. It is based on projections from the 2024 Ageing Report.

([23]) Key performance characteristics, recent reforms and investments of the Cypriot healthcare system are discussed in Annex 15 'Health and health systems'.

([24]) The adequacy and quality of the Cypriot long-term care system are covered in Annex 12 'Social policies'.

The institutional setting for spending reviews in Cyprus is recent. Cyprus has benefitted from the Commission's Technical Support Instrument, although the limited administrative size leaves only a small scope for building analytical capacity and methodologies for spending reviews. Spending reviews have so far been ad hoc, and findings do not consistently feed into the budget making process.

Accrual accounting improves transparency over a public body's financial position and performance and can support sustainability and intergenerational equity. Most (14) Member States have implemented accrual accounting across the general government sector and a further five, including Cyprus, are set to do so by 2030 ([25]). However, currently Cyprus still lags behind the EU average (see Table A2.3) as it has not yet implemented accrual accounting at central government level nor with social security funds ([26]).

The Cypriot Ministry of Finance has started assessing climate-related macro-fiscal risks and reporting results in its budgetary plans. These assessments build on modelling analysis conducted as part of a three-year project on Climate Change and its Effects on the Cypriot Economy initiated in 2023 between the Ministry of Finance and the Economics Research Centre of the University of Cyprus. The project aims to assess the economic and fiscal impacts of climate change on key sectors and to examine implications for public debt and Cyprus' development model. The 2025 Draft Budgetary Plan and the 2025–2028 medium-term fiscal-structural plan present initial results focusing on the macro-fiscal impacts of the energy transition, highlighting that the cost of the net-zero transition depends heavily on the chosen policy mix. The 2026 Draft Budgetary Plan includes a broader analysis of the macro-fiscal impacts of both climate change chronic physical effects and transition risks. It highlights that the physical impacts of climate change can entail significant macro-fiscal costs in the near to long term, while timely and ambitious transition can reduce long-term macroeconomic costs and preserve fiscal space. The modelling analysis does not yet cover acute climate shocks or integrate adaptation policies in the modelling framework. However, the 2026 Draft Budgetary Plan reports that the wildfires around the area of Limassol in July 2025 resulted in additional costs for government firefighting and support measures of around EUR 100 million (0.3% of

Table A2.3: **Fiscal governance database indicators and public accounting maturity**

2024	Cyprus	EU Average
Country Fiscal Rule Strength Index (C-FRSI)	12.38	14.81
Medium-Term Budgetary Framework Index (MTBFI)	0.82	0.72
2025 Public accounting maturity of general government	32%	65%

(1) "The Country Fiscal Rule Strength Index (C-FRSI) shows the strength of national fiscal rules aggregated at the country level based on i) the legal base, ii) how binding the rule is, iii) monitoring bodies, iv) correction mechanisms, and v) resilience to shocks. The Medium-Term Budgetary Framework Index (MTBFI) shows the strength of the national MTBF based on i) coverage of the targets/ceilings included in the national medium-term fiscal plans; ii) connectedness between these targets/ceilings and the annual budgets; iii) involvement of the national parliament in the preparation of the plans; iv) involvement of independent fiscal institutions in their preparation; and v) their level of detail. A higher score is associated with higher rule and MTBF strength.
The score for public accounting reflects the degree of maturity in relation to the International Public Sector Accounting Standards (IPSAS). Countries with an accounting maturity of 70% or more in relation to IPSAS are deemed to apply accrual accounting. For more information, see the report on public accounting in the EU (COM(2025)746 and accompanying Staff Working Document SWD(2025)396)."

Source: Fiscal Governance Database, European Commission

([25]) Report on public accounting in the EU (COM(2025)746 and accompanying Staff Working Document SWD(2025)396). Countries with an accounting maturity of 70% or more in relation to International Public Accounting Standards are deemed to apply accrual accounting.

([26]) Annexes 3.1 and 3.4 of SWD(2025)396.

GDP), highlighting the fiscal relevance of these risks. Cyprus received a country-specific recommendation in 2025 for improving its institutional framework and governance for climate adaptation measures. Progress has been limited so far, as corresponding legislation still needs to be adopted and put into action (for more details see Annex 10).

This annex provides an indicator-based overview of Cyprus' tax system. It includes information on the tax mix, on competitiveness and fairness aspects of the tax system, and on tax collection and compliance, and on aggressive tax planning (ATP). Cyprus did not receive a tax-related country-specific recommendation in 2025.

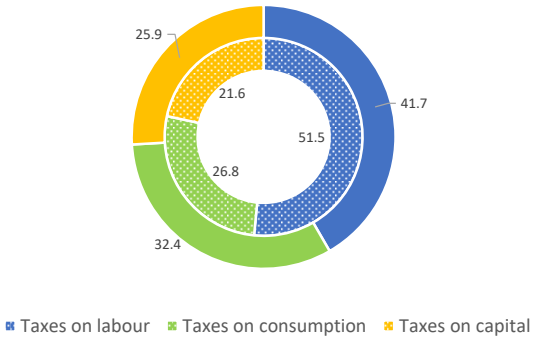
Compared with the EU average, tax revenues are skewed towards consumption and capital. Table A3.1 shows that Cyprus's tax revenues as a share of GDP were still below the EU average in 2024, staying at the same level as in 2023. The difference with the EU average increased from 2.8 percentage points of GDP in 2023 to 3.1 pps in 2024. Labour taxes, expressed as a share of both GDP and total tax revenues, were below the EU average in 2024. Revenues from consumption taxes were above the EU average and environmental taxes were at the EU average.

Cyprus is still lagging behind the rest of the EU in the implementation of pollution and resources taxes following the 'polluter pays' principle. In this respect, Cyprus could consider introducing taxes on fertilisers, pesticides and plastic products.

Revenues from property taxes in Cyprus were relatively low as a percentage of both GDP and total tax revenue in 2024. Recurrent property tax, which is one of the taxes least detrimental to growth, was abolished in Cyprus in 2017 ([27]). Tax revenues could therefore be increased by making greater use of currently underused taxes, such as the recurrent property tax.

Cyprus's recovery and resilience plan (RRP) includes measures to make Cyprus's tax system greener. Cyprus has made progress towards proposing a green taxation reform to address environmental challenges related to climate change, air pollution, waste management, water pollution and water management. It has not been adopted yet, but consists of: the introduction of a carbon tax on transport fuels; a levy on water consumption; and a charge on landfill of municipal waste. It is also expected to introduce compensatory measures to alleviate the impact of the new taxes on affected sectors. As of 2027, the new emissions trading system will be fully implemented in Cyprus, extending the scope of the emissions trading system to heating fuels in the building sector. Cyprus is developing the Social Climate Fund programme to alleviate the effects of the new system for vulnerable users.

Graph A3.1: **Tax revenue by economic function in 2024, CY (outer ring) and EU-27 (inner ring)**



Source: Taxation Trends Data, DG TAXUD

Corporate taxation plays a major role in the Cyprus' tax mix. Cyprus collects one of the highest corporate income tax revenues as a share of GDP in the EU (6.9%) due to the significant presence of foreign companies in the country. At the same time, corporate tax rates are among the lowest in the EU. In 2026, Cyprus increased the corporate income tax rate from 12.5% to 15% (still one of the lowest in the EU) and reduced the rate of its general special defence contribution on dividends from 17% to 5%.

The tax benefit system appears to reduce income inequality less than in most EU countries. Graph A3.2 shows that the labour tax wedge for Cyprus in 2025 is below the EU

([27]) Revenues from recurrent property taxes since 2017 have related to past tax obligations that had not been paid before. Although Cyprus still had positive revenues from recurrent property taxes in 2023, these were among the lowest in the EU as a percentage of GDP.

Table A3.1: **Taxation Indicators**

		Cyprus					EU-27				
		2019	2022	2023	2024	2025	2019	2022	2023	2024	2025
Tax structure	Total taxes (including compulsory actual social contributions) (% of GDP)	34.1	34.3	36.2	36.3		39.9	39.7	39.0	39.4	
By tax base	Taxes on labour (% of GDP)	13.2	13.6	15.5	15.1		20.6	20.1	19.9	20.3	
	of which, social security contributions (SSC, % of GDP)	10.2	10.5	12.1	11.7		13.0	12.7	12.7	13.0	
	Taxes on consumption (% of GDP)	12.5	11.9	11.9	11.8		11.2	10.9	10.5	10.6	
	of which, value added taxes (VAT, % of GDP)	8.8	9.1	9.2	9.1		7.1	7.4	7.1	7.1	
	Taxes on capital (% of GDP)	8.4	8.9	8.9	9.4		8.1	8.7	8.5	8.5	
Some tax types	Personal income taxes (PIT, % of GDP)	3.1	3.3	3.6	3.7		9.6	9.4	9.3	9.6	
	Corporate income taxes (CIT, % of GDP)	5.6	6.2	6.1	6.9		2.6	3.2	3.2	3.1	
	Total property taxes (% of GDP)	0.8	0.7	0.7	0.6		2.2	2.1	1.9	1.8	
	Recurrent taxes on immovable property (% of GDP)	0.3	0.2	0.2	0.1		1.2	1.0	0.9	0.9	
	Environmental taxes (% of GDP)	2.8	2.1	2.1	2.1		2.6	2.1	2.1	2.1	
	Effective carbon rate in EUR per tonne of CO_2 equivalents	na	na	76.5	na		na	na	84.8	na	
Progressivity & fairness	Tax wedge at 50% of average wage (single person) (*)	20.5	22.5	22.5	23.3	23.3	32.4	31.6	31.5	31.5	31.6
	Tax wedge at 100% of average wage (single person) (*)	20.5	23.4	24.9	26.0	26.4	40.1	39.7	39.9	39.9	40.0
	Corporate income tax - effective average tax rates (1) (*)	11.9	11.8	10.4	10.4		20.0	19.2	19.0	19.3	
	Difference in Gini coefficient before and after taxes and cash social transfers (pensions excluded from social transfers) (2) (*)	6.3	5.5	4.5	4.6		7.8	8.0	7.9	7.8	
Tax administration & compliance	Outstanding tax arrears: total year-end tax debt (including debt considered not collectable) / total revenue (in %) (*)	39.7	46.1	62.3	na		31.8	32.6	30.7	na	
	VAT gap (% of VAT total tax liability, VTTL) (**)	11.0	6.3	3.3	1.7		10.5	7.3	8.2	na	

(1) Forward-looking effective tax rate (KPMG).
(2) A higher value indicates a stronger redistributive impact of taxation.
(*) EU-27 simple average.
(**) Forecast value for 2024. EU-27 refers to the median value. For more data on tax revenues as well as the methodology applied, see the Data on Taxation Trends webpage.
Source: European Commission, OECD, ISORA.

average for single and second earners at different earnings levels ([28]). Cyprus has no wealth, inheritance or gift tax, and several preferential tax regimes for PIT. Capital gains are in principle also untaxed. There is no recurrent tax on immovable property. In 2024, taxes and transfers reduced income inequality, measured by the Gini coefficient, by only 4.6 points, compared with an EU average reduction of 7.8 points (Table A3.1) ([29]).

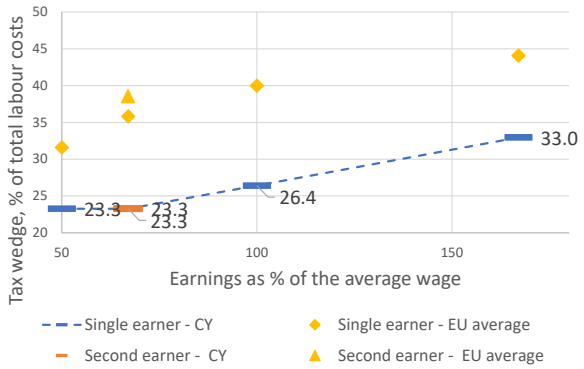
In 2026, Cyprus made several changes to the personal income tax system. These changes include an increase in the tax-free income threshold, a revision of the tax brackets and the introduction of targeted deductions for housing costs, families with dependent children and green investments. The reform is expected to have a fiscal cost of EUR 151 million and to benefit mainly low to middle-income households, while its impact on the redistributive capacity and progressivity of the tax system is expected to be negligible ([30]).

([28]) The tax wedge is an indicator of the tax burden on labour that can be assessed at various levels of earnings. It is defined as the sum of personal income taxes, employee and employer social-security contributions and other mandatory contributions, expressed as a percentage of total labour costs (composed of the net wage, personal income tax, social security contributions, and other mandatory contributions). Tax wedge data in the 2026 country reports are calculated by the Joint Research Centre of the European Commission and based on the EUROMOD model, while in the past country reports they were based on the OECD tax and benefit model. While the underlying methodology is very similar, differences in the assumptions can lead to different results between both models.

([29]) The Gini coefficient measures the extent to which the distribution of income within a country deviates from a perfectly equal distribution. A coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income.

([30]) Andreou, E. et al. (2025), Cyprus Tax Reform, Project commissioned by the Ministry of Finance to the Economics Research Centre of the University of Cyprus, Nicosia.

Graph A3.2: **Tax wedge for single and second earners as a % of total labour costs, 2025**



Note: The second earner tax wedge shows a household's tax wedge resulting from the wage that a second earner taking up a job at 67% of the average wage receives. It does not show the total tax wedge of the household. The household is assumed to have a first earner at 100% of the average wage and no children. For the methodology of the tax wedge for second earners, see OECD (2024), Taxing Wages 2024.
Source: European Commission

Cyprus reports on tax expenditures (TEs) ([31]) in the annex of its budget, but with limited coverage ([32]). According to the Global Tax Expenditures Database, TEs in Cyprus have a fiscal cost of about EUR 930 million. This was equal to 3.2% of GDP in 2022 and about 13.5% of all tax revenues ([33]). Currently available estimates suggest that the use of TEs is limited and below the EU average. Based on the available evidence, tax relief on corporate income tax (CIT) has the biggest fiscal impact followed by VAT relief. Microsimulation-based evidence with the EUROMOD model suggests that TEs related to personal income tax (PIT) have hardly any fiscal impact ([34]).

Available tax expenditure reports suggest that the system is characterised by limited transparency and comparability. It is not possible to assess whether Cyprus is actively evaluating the effectiveness of its tax relief provisions. Cyprus could improve fiscal transparency and accountability by providing more information on its tax expenditures.

Cyprus does not have official national tax gap estimates ([35]). Cyprus does not undertake any CIT and PIT compliance gap estimation activities. European Commission estimates suggest a moderate CIT tax compliance gap in Cyprus (around 7% of collected CIT revenues in 2017), below the (unweighted) EU average ([36]). In terms of VAT compliance, overall Cyprus performs strongly (see below). By contrast, Cyprus has high levels of outstanding tax arrears. They increased significantly from 46.1% of total net revenue in 2022 to 62.3% in 2023. This was roughly twice as big as the EU average of 30.7%.

([31]) Tax expenditures (TEs) are tax benefits that lower the tax liability of eligible beneficiaries. Governments use TEs to pursue policy goals such as attracting investment, boosting innovation or fighting poverty.

([32]) The TE report is Annex 9 of the 2024 budget.

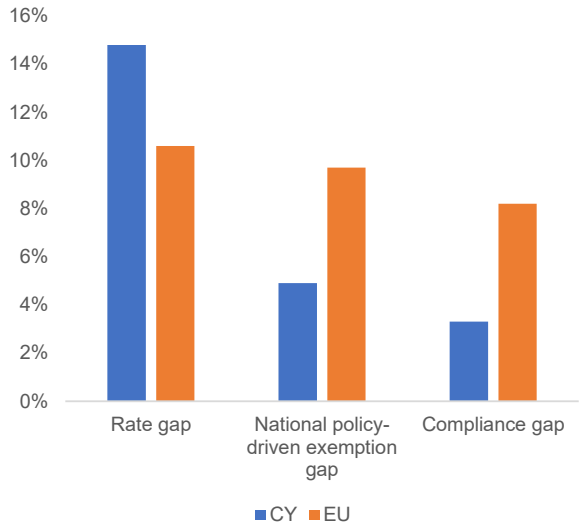
([33]) GTED country profile Cyprus.

([34]) Turrini, A., Guigue, J., Kiss, Á., Leodolter, A., Van Herck, K., Neher, F., Leventi, C., Papini, A., Picos, F., Ricci, M., Lanterna F.; (2024). Tax Expenditures in the EU: Recent Trends & New Policy Challenges. Discussion Paper 212.

([35]) European Commission, Directorate-General for Taxation and Customs Union, Mind the gap - 2025 report.

([36]) 3 European Commission: Directorate-General for Taxation and Customs Union (2025), The Corporate Income Tax Gap, A European approach to measuring losses in corporate tax revenues, Publications Office of the European Union.

Graph A3.3: **VAT gap indicators**



The rate gap and the national policy-driven exemption gap are measured as percentage of notional ideal revenues. Compliance gap is measured as a percentage of VAT total tax liability. EU refers to median values.
Source: European Commission, Directorate-General for Taxation and Customs Union, *VAT gap in the EU - 2025 report*. https://data.europa.eu/doi/10.2778/7868422

VAT compliance continues to improve. The estimated VAT gap (the gap between revenues actually collected and the theoretical tax liability) decreased from 6.3% in 2022 to 3.3% in 2023 (see Graph A3.3). This is among the highest improvements in VAT compliance observed in the EU. With an EU VAT compliance gap of approximately 9.5%, Cyprus is ranked third among the EU countries. The actionable VAT policy gap (which is an estimate of the foregone VAT revenues that can be attributed to reduced rates and exemptions that could potentially be discontinued or eliminated) was 23.6% in 2023. It consisted of a VAT rate gap of 14.8%, a national policy-driven VAT exemption gap of 4.9%, and an EU policy-mandated VAT exemption gap of 3.9%. In 2023, Cyprus extended zero-rating to selected goods while ending it for basic products. A reduced 5% VAT rate was applied to primary residences within set size and value limits. For certain products and services previously taxed at 5%, VAT rates were reduced to 0% and 3%. Additionally, essential commodities were zero-rated from May 2023 until September 2024.

E-filing rates are high. In 2023, Cyprus had a 100% e-filing rate for VAT. It was also close to full uptake for e-filing of personal income taxes (99.9%), while the e-filling of corporate income taxes was in line with the EU average (97%).

Data suggest that Cyprus's tax system may be used for ATP. Outgoing dividends as a share of GDP, as well as foreign-direct-investment stock held through special purpose entities, are significantly higher than the EU average.

Cyprus is taking steps to tackle ATP strategies, although this remains a challenge. Both large flows of foreign direct investment and the high level of dividend, interest and royalty payments as a percentage of GDP suggest that Cyprus could be being used by companies engaged in ATP. In 2023, in line with its RRP, Cyprus started to address ATP risks by: (a) imposing withholding tax on interest, dividend and royalty payments to jurisdictions included in Annex I to the EU list of non-cooperative jurisdictions for tax purposes; and (b) introducing an extra corporate-tax residency test based on incorporation. In 2025, Cyprus also enacted new legislation to make payments of dividends, interest and royalties to low-tax jurisdictions subject to withholding taxes or non-deductibility. Cyprus also assessed the effectiveness of its overall set of measures related to ATP via an independent evaluation and took further policy action as part of its 2026 tax reform.

Despite this recent progress, tackling ATP remains a priority. Data indicating ATP and several features of the Cypriot tax system should be closely monitored. For instance, Cyprus has a residence-by-investment scheme and exempts the income of 'non-domiciled' residents (tax residency in Cyprus for less than 17 of the 20 past years). As mentioned above, Cyprus also has preferential tax rules for foreign-sourced pension income, as well as for workers coming from abroad.

ANNEX 4: INNOVATION TO BUSINESS

Cyprus's research and innovation (R&I) performance remains under sustained pressure. Structural reforms are needed to implement the 2025 country-specific recommendation([37]) to strengthen research and innovation and the commercialisation of research results. This will involve fostering public and private R&D investment, enhancing research-business synergies and adopting a continuous long-term research and innovation strategy with input-output indicators and multiannual funding. According to the 2025 European Innovation Scoreboard([38]), Cyprus is a 'moderate innovator', with an overall performance at 84.1% of the EU average. While the country displays pockets of scientific and entrepreneurial excellence, these are underpinned by chronically low public and private R&D investment, limited research human capital base, weak scale-up financing. R&D investments reached 0.65% of GDP in 2024, a decline of 21.7% compared with its peak in 2020. R&D intensity remains well below the EU average of 2.24% and far from the national target of 2.5-3% of GDP set under 'A long term strategy for sustainable growth. Towards 2035 Vision ([39]). This performance reflects persistent underinvestment in both public and private R&D, resulting in a narrow excellence base, high dependence on external funding and collaboration, and insufficient national investment to sustain research and innovation capacity.

Business innovation remains particularly constrained by low private R&D expenditure, weak technological outputs and limited scale-up capacity. Venture capital investment and patenting activity remain well below EU levels, and despite improved digitalisation and increased start-up visibility, innovation outcomes are fragmented and insufficiently embedded in the national research system. The proportion of small and medium-sized enterprises (SMEs) with at least a basic level of digital intensity in Cyprus is steadily increasing. Overall, enterprises are progressively adopting advanced digital technologies, although AI implementation remains limited relative to the EU average.

Science–business linkages show recent improvements but remain hampered by inadequate investment and limited commercialisation capacity. Although public policy measures partially alleviate these constraints, their scale and leverage of private investment remain insufficient, and talent attraction instruments, including scientific visa schemes, are underused. Translating Cyprus's innovation potential and entrepreneurial momentum into sustained and inclusive growth will require addressing persistent gaps in scale-up financing, business research employment, skills development and research commercialisation.

Excellent science

Despite relatively good scientific output indicators, Cyprus's science system is structurally constrained by persistently low public investment in R&D, one of the lowest researcher densities in the EU, and strong dependence on external funding and international collaboration. The science system is anchored in a well-established network of public research institutions and supported by a single national R&I funding

([37]) 2025 European Semester: Country Specific Recommendations / Commission Recommendations - European Commission.

([38]) 2025 European Innovation Scoreboard (EIS).Country profile: Cyprus. The EIS provides a comparative analysis of innovation performance in EU countries, including the relative strengths and weaknesses of their national innovation systems.

([39]) https://ccci.org.cy/wp-content/uploads/2021/09/A-long-term-strategy-for-sustainable-growth-for-Cyprus1.pdf.

programme([40]) buttressed by a combination of national and EU funds. However, these strengths have not compensated for the limited national research base. As a result, the sustainability and depth of scientific performance are under increasing pressure**.**

Scientific excellence indicators highlight good output but fragile and externally driven performance. The share of scientific publications among the top 10% most-cited worldwide reached 10.16% in 2022([41]), slightly above the EU average (9.44%) but down 11.3% compared with 2020, signalling a weakening trend. Moreover, the very high share of international co-publications([42]) starting from 2022, while reflecting openness, also indicates limited domestic critical mass. This is because high-impact research is relying disproportionately on foreign partners rather than on a strong national ecosystem.

Public investment in research remains structurally insufficient. Public R&D intensity declined from 0.35% of GDP in 2020 to 0.26% in 2024, well below the EU average (0.72%), placing Cyprus among the lowest-performing EU countries. Over the last decade, the figure has overall stagnated. Consequently, funding is inadequate to sustain research infrastructure, expand institutional capacity or support long-term research agendas, despite additional support from cohesion policy investments. This trajectory might need to be aligned with Cyprus's strategic objective to reach the target of 2.5-3% of GDP in R&D by 2035 recommended by the Cyprus Economy and Competitiveness Council in the Long-term Strategy for Sustainable Growth, Cyprus Vision 2035([43]). The research landscape, which comprises 12 universities, 9 research institutions and 7 centres of excellence, many established through Horizon 2020 and Horizon Europe, is increasingly reliant on internationalisation for sustainability. While centres of excellence benefit from EU funding and visibility, their dependence on project-based financing raises concerns about the long-term sustainability of attracting and retaining research talents. Existing high-performing centres (such as KIOS or PHAETHON) represent isolated successes rather than evidence of systemic strength. In line with the 2025 country-specific recommendation (CSR) on *R&D multiannual funding*, in 2026 Cyprus plans to introduce, under the recovery and resilience plan (RRP), a mechanism for multiannual, performance-based institutional funding, thus addressing a long-standing systemic gap.

The low number of researchers further undermines scientific sustainability. The number of researchers employed in the public sector amounted to only 1.7 FTEs([44]) per 1 000 active population in 2024, compared with an EU average of 4.3, ranking Cyprus 26th in the EU. This restricts the formation of competitive research teams, reduces mentoring capacity and weakens the ability to absorb both national and EU research funding effectively. Additionally, the absence of predictable multiannual institutional funding affects career prospects in research. Between 2018 and 2025, the share of foreign doctoral students as a percentage of all doctorate students increased sharply (+137 percentage points), reaching 168% of the EU average in 2025([45]). This reflects dependence on international inflows to compensate for a limited domestic talent pipeline. This reliance extends to post-doctoral researchers, as illustrated by the 2024 post-doctoral researchers programme([46]) (EUR 2.5

([40]) RESTART programme: https://iris.research.org.cy/#!/calls.

([41]) Latest available data.

([42]) Table of indicators.

([43]) A-long-term-strategy-for-sustainable-growth-for-Cyprus1.pdf.

([44]) Full-time equivalents.

([45]) European Innovation Scoreboard 2025.

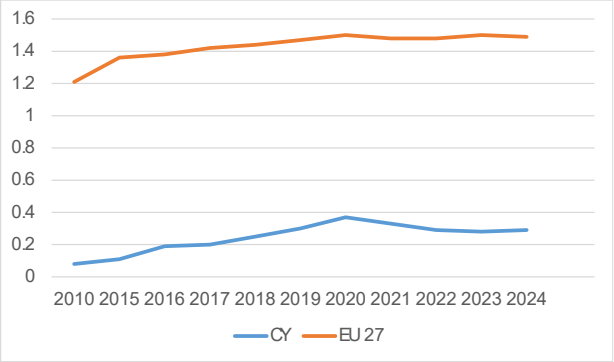
([46]) Programme co-financed by the Republic of Cyprus and the ERDF**,** which aims to integrate and retain young post-doctoral researchers.

million), where the 13% success rate([47]) indicates strong demand but limited capacity.

Business innovation

Business innovation in Cyprus remains constrained by structurally low private R&D investment, weak technological outputs and limited scale-up capacity, despite a broad set of recent policy initiatives. Innovation activity is concentrated in a small number of firms, often in service-oriented sectors, limiting diffusion across the economy. Cyprus's small domestic market and geographical position further contribute to a reliance on high-tech imports, particularly from non-EU partners([48]). This reflects the country's economic structure, where in 2022 market services accounted for 66.0% of gross value added and non-market services for a further 18.5%, while SMEs represented nearly 84% of employment in the business economy and around three quarters of total employment. Foreign-controlled enterprises are concentrated in wholesale and retail trade, information and communications, and scientific and technical services. However, enterprise counts do not translate proportionally into economic activity, as illustrated by information and communication sector generating roughly three times the turnover of professional, scientific and technical services despite a similar number of firms([49]).

Graph A4.1: **Business R&D intensity (BERD) as % of GDP, CY vs EU, 2010-2024**



Source: DG Research and Innovation, based on Eurostat

Cyprus's innovation system still underperforms in terms of output, with a low number of researchers in the private sector. Innovation outputs remain weak: in 2022([50]), Cyprus recorded 0.74 (Patent Cooperation Treaty patent applications per billion GDP, compared with an EU average of 2.81. This indicates that while scientific outputs from the public research base are relatively strong, their translation into business-driven technological innovation is limited. This is exacerbated by the very low integration of research into the business sector, with only 1.2 FTEs per 1 000 active population in 2024, among the lowest in the EU (26th place, vs an EU average of 5.9), constraining commercialisation, spin-off creation and productivity spillovers. Meanwhile, women remain largely under-represented in the business enterprise sector([51]).

Digitalisation of SMEs in Cyprus is advancing, with 74.35% reaching at least a basic digital intensity level, up from 60.69% in 2023 and above the 2025 EU average of 71.39%. Cyprus is experiencing a gradual increase in the adoption of advanced digital technologies by businesses and performs above the EU average in the share of SMEs with at least basic digital intensity, as well as in the

([47]) Research Innovation Foundation (RIF), *Annual report 2024*.

([48]) Cyprus Economy and Competitiveness Council (ECC), *Cyprus Competitiveness Report 2023*.

([49]) Cyprus Economy and Competitiveness Council (ECC), *Cyprus Competitiveness Report 2023*.

([50]) Latest data available.

([51]) She figures 2024, Country fiche – CY. Link: shefigures2024fiche-cy.pdf.

uptake of cloud computing (48.45% in 2025) and data analytics (42.84%), while the adoption of artificial intelligence remains comparatively low (9.27%); further progress([52]) is supported through the "Digital Upgrade of Enterprises" programme, funded partly by the Recovery and Resilience Plan and the 2021–2027 THALIA programme. The programme targets existing SMEs upgrading digitally including ecommerce and new SMEs investing in ecommerce or advanced technologies like AI, blockchain, cloud computing and big data. The European Digital Innovation Hub DiGiNN provides one-stop access to infrastructure, investments, networking and innovation ecosystems for Cypriot businesses. Additionally, the absence of intellectual property rights framework in innovation public procurement([53]) can deter private-sector participants who want to exploit developed solutions commercially. This can also hamper the public sector's ability to reuse the solutions. Ensuring significant progress in research and innovation will require not only the adoption of clear, well-defined access policies for public research facilities but also a substantial increase in resources dedicated to supporting technology transfer and the commercialisation of new technologies.

Entrepreneurial dynamism

Entrepreneurial dynamism in Cyprus has strengthened in recent years, supported by a growing start-up and scale-up ecosystem and increasing international visibility. Around 500 start-ups and scale-ups are active in Cyprus([54]), with more than 100 start-ups and 140 medium-sized and large technology firms certified as Innovators. According to StartupBlink([55]), Cyprus ranks among the top 40 globally, with an ecosystem growth rate of nearly 30% year-on-year([56]). Entrepreneurial activity is concentrated in fintech (15%), followed by life sciences, retail tech, entertainment & media([57]). Sectoral performance is particularly strong in gaming (second globally, first in Europe), alongside notable positions in medtech, blockchain and social & leisure. Despite this positive momentum, entrepreneurial activity translates weakly into industrial value added and employment, reflecting persistent structural constraints. These structural weaknesses are reflected in firm growth outcomes. The employment share of high-growth enterprises remained extremely low, at around 0.23% in 2023, one tenth of the EU average (2.25%). While start-up creation and early-stage entrepreneurial activity have increased, only a small number of firms transition into high-growth employers, limiting productivity spillovers, labour absorption and the broader economic impact of entrepreneurship.

The start-up ecosystem remains heavily reliant on public support due to an underdeveloped private equity and venture capital market. Within this environment, access to finance remains a central bottleneck. Venture capital investment declined sharply by 85.7% between 2020 and 2024, from 0.07% to 0.01% of GDP, only 16.7% of the EU average (0.06%)([58]). Although the market capitalisation of start-ups and scale-ups reached 15% of GDP in 2022, these firms generated only 2.6% of total employment. This reveals a structural imbalance between value creation and labour absorption and confirms the limited depth of

([52]) "AI in Government" programme, a new initiative launched in 2025 aims to modernise public administration and support AI solutions for public sector challenges.Announcement of the Flagship Funding Programme "AI in Government" – IδΕΚ.

([53]) CYPRUS Legal Assessment on Innovation Procurement. ec_rtd_cyprus-country-assessment.pdf.

([54]) McKinsey – Reinventing our economy from within. How Europe's start-up ecosystems can learn from each other to ignite and scale up entrepreneurship (Nov 2023).

([55]) https://www.startupblink.com/reports?filter=all.

([56]) https://www.startupblink.com/reports?filter=all.

([57]) McKinsey – Reinventing our economy from within. How Europe's start-up ecosystems can learn from each other to ignite and scale up entrepreneurship (Nov 2023).

([58]) Table indicators.

the growth-stage financing market. Cyprus has deployed a broad set of policy instruments under the RRP and the national RESTART programme to improve access to finance for innovative SMEs and start-ups. These include PRE-SEED, SEED, INNOVATE and blended finance schemes such as DISRUPT and BOOST, implemented by the Research and Innovation Foundation([59]). However, funding success rates suggest limited competitive depth and a narrow pipeline of mature projects, while continued reliance on public and blended finance underscores the fragility([60]) of the ecosystem and its insufficient anchoring in private, market-driven investment. The overall budgetary envelope remains limited relative to needs, and further efforts are needed to increase the scale and predictability of public support for business innovation. The State funded equity fund([61]) has also been launched to provide early-stage capital to technology firms.

There is still potential to improve the country's regulatory framework and make it conducive to innovation. Cyprus lacks a dedicated legal framework to facilitate procurement of innovative solutions from start-ups and SMEs([62]). Since 2024, the regulatory sandbox([63]) supported under the Resilience and Recovery Facility has provided a controlled environment for fintech and other innovative firms to test new products and business models, partially addressing regulatory barriers to experimentation.

Skills shortages further constrain Cyprus's entrepreneurial dynamism. In 2025 only 55.8% of the population possesses at least basic digital skills, while ICT graduates increased from 1.7 per thousand of the population aged 25-34 in 2013 to 3.0 in 2024. Despite this progress, Cyprus remains below the EU average (3.8 ICT graduates per thousand of the population aged 25-34 in 2024). Overall, Cyprus has one of the lowest shares of students enrolled in STEM subjects in the EU, despite a growing demand for STEM skills in the labour market (see Annex 13). Combined with a limited supply of researchers employed by business and a weak domestic science and engineering graduate pipeline, these factors increase labour and skills shortages, hinder firms' absorptive capacity, and prevent entrepreneurial momentum from translating into sustained, innovation-driven growth (see Annex 13). Policy efforts in this area include the strategy for attracting businesses and talent from 2021 and the establishment of scientific visa schemes.

Entrepreneurship education in Cyprus is acknowledged in national policies but remains driven by youth strategies rather than a system-wide framework. Provision of entrepreneurship education in Cyprus varies across educational levels and remains unevenly implemented. Efforts are largely shaped by initiatives responding to the needs of young people, alongside national actions and practical experiences developed in parallel, particularly JA Europe and EU programmes, which promote entrepreneurship and financial literacy([64]). In compulsory education, provision is highly fragmented due to the lack of an integrated approach, clearly defined objectives, and monitoring and evaluation mechanisms. At primary level, entrepreneurship-related elements are embedded within 'Environmental Education / Education for Sustainable Development', while at upper secondary level,

([59]) RIF Annual Report 2024.

([60]) RIF Annual report 2024- Cyprus has launched in 2024 targeted programmes, including the 'Strengthening the Capacity of Enterprises for the Development of New Products' programme (EUR 0.93 million), which funded 6 of 8 proposals (75% success rate).

([61]) State funded equity fund - European Commission. The fund started providing support from January 2025.

([62]) CYPRUS Legal Assessment on Innovation Procurement, ec_rtd_cyprus-country-assessment.pdf.

([63]) Cyprus Securities and Exchange Commission | Regulatory Sandbox.

([64]) Eurydice report (2025). Entrepreneurship education at school in Europe.

Table A4.1: **Key innovation indicators**

Cyprus	2010	2015	2020	2022	2023	2024	2025	EU average (1)	US
Headline indicator									
R&D intensity (gross domestic expenditure on R&D as % of GDP)	0.44	0.48	0.83	0.7	0.66	0.65	:	2.24	3.44
Science and innovative ecosystems									
Public expenditure on R&D as % of GDP	0.31	0.3	0.35	0.3	0.29	0.26	:	0.72	0.64
Scientific publications of the country within the top 10% most-cited publications worldwide as % of total publications of the country	9.02	9.47	10.49	10.16	:	:	:	9.44	12.31
Researchers (FTEs) employed by public sector (Gov+HEI) per thousand active population	1.5	1.5	1.8	1.8	1.7	:	:	4.3	:
International co-publications as % of total number of publications	65.42	65.45	73.5	75.83	75.46	75.46	:	57.24	:
R&D investment & researchers employed in businesses									
Business enterprise expenditure on R&D (BERD) as % of GDP	0.08	0.11	0.37	0.29	0.28	0.29	:	1.49	2.69
Business enterprise expenditure on R&D (BERD) performed by SMEs as % of GDP	0.05	0.08	0.32	:	0.24	:	:	0.47	0.30
Researchers employed by business per thousand active population	0.5	0.4	1.2	1.1	1.1	1.2	:	5.9	:
Innovation outputs									
Patent applications filed under the Patent Cooperation Treaty per billion GDP (in PPS €)	0.37	0.58	0.96	0.74	:	:	:	2.81	2.20
Employment share of high-growth enterprises measured in employment (%)	:	:	:	0.32	0.23	:	:	0.87	:
Digitalisation of businesses									
SMEs with at least a basic level of digital intensity % SMEs (EU Digital Decade target by 2030: 90%)	:	:	:	:	67.28	:	74.35	71.39	:
Data analytics adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	33.50	:	42.84	39.85	:
Cloud adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	45.47	:	48.45	46.69	:
Artificial intelligence adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	4.67	7.90	9.27	19.95	:
Academia-business collaboration									
Public-private scientific co-publications as % of total number of publications	11.42	7.5	9.68	9.66	10.58	10.37	:	7.62	:
Public expenditure on R&D financed by business enterprises (national) as % of GDP	0.00	0.00	0.01	:	0.01	:	:	0.06	0.02
Public support for business innovation									
Total public-sector support for BERD as % of GDP	0.02	0.02	0.05	:	:	:	:	0.21	:
R&D tax incentives: foregone revenues as % of GDP	0.00	0.00	0.00	0.00	0.00	:	:	0.10	0.16
BERD financed by the public sector (national and abroad) as % of GDP	0.02	0.02	0.05	:	0.04	:	:	0.11	:
Financing innovation									
Venture capital (market statistics) as % of GDP (calculated as a 3-year moving average)	0.01	0.00	0.07	0.04	0.02	0.01	:	0.06	:
Seed stage funding share (% of GDP)	0.00	0.00	0.00	0.00	0.01	0.01	:	0.01	:
Start-up stage funding share (% of GDP)	0.00	0.00	0.06	0.04	0.01	0.01	:	0.03	:
Later stage funding share (as % of GDP)	0.00	0.00	0.00	0.00	0.00	0.00	:	0.03	:
Innovative talent									
New graduates in science & engineering per thousand population aged 25-34	:	7.89	7.6	7.8	7.6	6.9	:	16.8	:
Graduates in the field of computing per thousand population aged 25-34	:	1.66	1.98	2.31	2.5	3.0	:	3.8	:

(1) EU average for the last available year or the year with the highest number of country data.
* Break in series.
Source: Eurostat, OECD, DG JRC, Science-Metrix (Scopus database), Invest Europe, European Innovation Scoreboard

the Design and Technology([65]) introduce students to identifying needs and problems. However, these are not part of a broader, coherent entrepreneurship education framework.

([65]) Eurydice report (2025). Entrepreneurship education at school in Europe.

Cyprus's high energy costs, administrative burden and regulatory barriers drag down competitiveness. In this regard, Cyprus's 2025 country-specific recommendations (CSRs) called for measures to simplify regulation, improve regulatory tools and reduce administrative burden, with particular emphasis on streamlining licensing and permitting procedures for investment projects and the establishment of new businesses. They also urged the facilitation of economic diversification and further productive investment by improving access to non-bank financing opportunities for start-ups and innovative businesses, among others. Lack of skilled labour, high energy costs and uncertainty about the future are weighing heavily on companies' investment decisions. However, Cyprus is taking some steps to improve its business environment and dynamism, for example by enabling a single point of contact for investors to streamline permitting and reduce red tape. Nevertheless, ensuring proper implementation and monitoring are key for these measures to prove effective and boost investment. Moreover, certain regulatory barriers remain for investors regarding business and labour regulation and there are barriers to competition in some regulated professions and the retail sector. Cyprus also has a poor transport infrastructure and significant difficulties exist when it comes to accessing non-banking financing for high-risk profiles, such as start-ups and innovative businesses. Cyprus has made remarkable progress in gigabit connectivity infrastructure. Also, greater interconnectivity is key to increasing the country's investment attractiveness, fostering the development of its industry and economic diversification, reducing dependencies and improving its overall competitiveness and integration into the Single Market.

Business dynamics

Small to medium-sized enterprises (SMEs) in Cyprus have a greater weight in the economy than in the rest of the EU. In 2024, SMEs in Cyprus represented 79% of value added and 82% of employment, against the EU average of 54% and 65%, respectively ([66]). In 2024, SMEs experienced sustained growth, in terms of both employment (2.1%) and real value added (2.7%). The sector with the highest growth was that of electricity, gas, steam and air conditioning supply, rising by 10.7% in employment. and 23.2% in value added. On the other hand, SMEs in energy-intensive industries experienced the greatest decline in both employment and value added (-2.1% and -5.6%, respectively).

Business dynamism is relatively low but improving. Cyprus's business birth rate was 9.67% in 2023, which together with a death rate of 7.17%, gives a total business churn rate of 16.84%. Thus, Cyprus's business dynamism is lower than the EU average, which has an 18.97% churn rate (EU business birth rate: 10.46%; EU business death rate: 8.51%) ([67]). However, it has increased since 2021, when it was slightly above 15%. In May 2025, the Business Support Centre began its operations as a single point of contact for investors (domestic and foreign), streamlining administrative procedures and reinforcing the new licensing framework for strategic development projects. Together with the Law on the Facilitation of Strategic Development Projects of 2023 (recovery and resilience plan (RRP) measure), these new measures are expected to significantly reduce red tape, improve predictability for investors and facilitate the timely implementation of high-value projects, thereby contributing to a more

([66]) European Commission, 2025 SME country fact sheet – Cyprus.

([67]) Eurostat, [bd_size] Business demography by size class and NACE Rev. 2 activity.

competitive and investment-friendly economic environment. (CSR 2025.3).

The entrepreneurial environment in Cyprus remains underdeveloped. According to the GEM 2024/2025 Global Report, Cyprus ranks just 33rd out of 51 countries for total early-stage entrepreneurial activity ([68]), 19th for entrepreneurial intentions and 43rd for good opportunities to start a business. For the past four years, the quality of Cyprus's entrepreneurial environment has been considered to be less than satisfactory, with a NECI (National Entrepreneurial Context Index) score fluctuating between 4.0 and 4.2, ranking Cyprus as 38th among the 56 GEM economies in 2024. Nevertheless, 10 out of 13 underlying framework conditions improved in 2024. The biggest improvements were for entrepreneurial education at school, still regarded as very poor, and social and cultural norms. Poor scores for entrepreneurial finance conditions, for government entrepreneurial programmes, and for research and development transfers, remain concerning (CSR 2025.3). A dedicated cluster policy, focusing on development of clusters in strategic economic sectors, would enable cooperation between research institutions and enterprises, facilitate access to finance for SMEs and support competitiveness and internationalisation of enterprises through capacity building.

ICT sector productivity growth, among other things, is boosting overall labour productivity and total factor productivity. The labour productivity level in Cyprus increased from 74.2% of the EU average in 2020 to 80.6% in 2024. Total factor productivity (TFP) has been growing faster than for the EU aggregate recently ([69]). Over a longer period, the Cypriot economy has been able to move focus from services such as tourism (usually characterised by low productivity levels) to more dynamic ones like information and communication technologies (ICT), the wholesale and retail trade, and financial and insurance activities. Labour productivity in these sectors has increased strongly over the last 20 years and in 2024 these industries together represented more than a third of the economy's gross value added (GVA) (14.2%, 11.1% and 9.3% respectively). Conversely, accommodation and food services activities have shrunk to 6.7%, scaled back from representing the largest contribution to GVA in 2000 (13.8%). Energy and construction also experienced a contraction in both labour productivity and the share of GVA.

Both business and public investment levels are lower than the EU average. Public investment in Cyprus has been stagnating and it stood at 2.8% of GDP in 2024, against the EU average of 3.9% ([70]). Business investment decreased from 9.8% of GDP in 2023 to 8.7% in 2024, well below the EU average (12.6%) and back to its 2020 level. It is important to bear in mind that, in the case of Cyprus, household investment is significantly higher (9.1%) due to the participation of many SMEs ([71]). Moreover, there is a need for improving business-science linkages (CSR 2025.3). Currently, private companies are not allowed to fund or invest in research in public universities, thus investment in R&D is extremely low (less than 1% of GDP), in both the public and private sectors (see Annex 4).

Foreign direct investment (FDI) activity has been declining recently. FDI in Cyprus declined from an average of EUR 5.7 billion per year over the period 2018-2021 to EUR 4.2 billion in 2023 ([72]). The main sector attracting FDI projects remains the financial services sector, followed by the real estate and ICT sectors. The real estate sector saw its FDI inflows triple during 2021-2023. Labour costs, labour skills and the bureaucratic and

([68]) GEM Global Entrepreneurship Monitor, Report 2024/2025.

([69]) European Commission.

([70]) Eurostat.

([71]) Eurostat.

([72]) EY Attractiveness Survey – Cyprus - 2024.

administrative environment are among the main areas where Cyprus is less attractive for foreign investors. By contrast, it is considered highly attractive in terms of its corporate tax system and legal framework. The main investors in Cyprus are from Russia, Luxembourg, the UK, the US, Greece, Germany, the Netherlands, Ireland and Israel.

To support FDI, Cyprus has initiatives to attract skilled individuals and entrepreneurs. A 'Cyprus Start-up Visa' programme allows non-EU entrepreneurs to establish start-ups in Cyprus, fostering innovation in fintech and digital services. This, alongside streamlined work permit processes for foreign employees of international companies, aims to ensure that investors have access to the talent they need in Cyprus.

Availability of skills, energy costs and uncertainty about the future are highlighted by firms as main investment obstacles. According to the EIB Investment Survey, the main long-term obstacles to investment reported by Cypriot firms in 2025 were: (i) availability of skilled staff (CY 89% vs EU 79%); (ii) energy costs (CY 87% vs 75%); (iii) uncertainty about the future (CY 84% vs EU 83%) ([73]). Cyprus's business environment would benefit from ensuring that recently arrived foreign companies and investors stay and integrate into the real economy. The main bottleneck for Cyprus's competitiveness is the small size of most Cypriot businesses, together with the above-mentioned large skills mismatch (CSR.2025.5) and weak diffusion of knowledge (see Annex 4).

Business environment

The regulatory and administrative framework has room for improvement. According to the 2025 EIB Investment Survey ([74]), a large proportion of firms stated that business regulations represented an obstacle to investment (78% vs 69% in the EU). As regards labour market regulation, 40% deemed it a major obstacle, well above the EU average of 27%. A higher percentage of SMEs than of large firms perceive regulations to be an obstacle. In the overall 2023 OECD Product Market Regulation (PMR) indicator ([75]), Cyprus scored 1.63 out of 6, performing worse than the average OECD economy (1.34), but making some progress since 2018.

Finance constraints have eased, but availability of finance is still an obstacle for firms' growth (CSR 2025.3). The share of Cypriot firms that are finance-constrained decreased significantly, from 16.7% in 2024 to 6.8% in 2025 ([76]). This is the lowest proportion since 2019 and is only marginally above the EU average (6.1%). Most financing of Cypriot firms takes the form of bank loans. Cyprus's banking system has a large excess liquidity (currently standing at about 60% of GDP) and Cypriot firms are traditionally 'loyal' to loan financing. Thus, there are favourable supply and demand conditions for loan financing to continue to be very dominant in Cyprus. Nonetheless, availability of finance is a greater barrier to investment for Cypriot businesses than the EU average (70% vs 45%). 32% of firms deem it a major obstacle, against 16% in the EU. Among the main barriers is the cost of financing, with 2.2% of firms considering it too expensive (vs 1% in the EU). The Cypriot government acknowledges that there is a need to further develop non-bank financing for start-ups and companies which are at a risky stage of their life cycle, and for which bank financing may be too expensive or inaccessible due to the lack of collaterals. Business associations acknowledge

([73]) European Investment Bank, 2025, EIB Investment survey – Cyprus.

([74]) European Investment Bank, 2025, EIB Investment survey – Cyprus.

([75]) 2023 OECD Product Market Regulation (PMR) Report.

([76]) European Investment Bank, 2025, EIB Investment survey – Cyprus.

that certain schemes are helpful for financing manufacturing. However, they believe more needs to be done to satisfy an increasing demand to develop industry (especially in the defence, space, health, agrifood and wine sectors, among others) (see Annex 6).

A National Promotional Agency (NPA) is being put in place to address market failures in SMEs' access to capital and to support businesses by providing financial instruments such as loans, guarantees and equity financing in a coordinated way (RRP measure). Five initial gaps have been identified and various financial instruments and advisory services will be offered during the first five years of operations (starting June 2026): (i) First loss capped portfolio guarantee for general needs; (ii) direct lending scheme for digitalisation purposes; (iii) loans for energy efficiency investments (on-bill-scheme); (iv) subsidisation for the cost of advisory services; (v) business clinic programme. Moreover, the Cyprus Equity Fund is being managed by the European Investment Fund. It is a very small fund with EUR 27 m of capitalisation. It has invested in 33East VC fund that has a total fund size of EUR 35.6m. So far, 33East has funded seven startups (sectors: consumer, fintech, renewable energy, HR software, AI, medical); 81% of the invested capital has been invested in companies with an establishment in Cyprus, with the rest invested in companies in the UK (15%) and USA (4%). Thus, Cyprus would benefit from scaling up alternative funding sources.

Cyprus is an average performer when it comes to late payments challenges. In business-to-business (B2B) transactions, 48.8% of Cypriot SMEs experienced late payments from private entities in the previous six months in 2025, making Cyprus perform worse than the EU average (47.13%). In government-to-business (G2B) transactions, 12.48% of Cypriot SMEs experienced late payments from public entities in the previous six months (EU average: 15.94%) ([77]). In 2024, the payment performance of public administrations in Cyprus seemed to slightly improve, with 53.67% of its invoices settled in the first 30 days after being issued, which is one percentage point more than in 2023 ([78]). The average payment period by public administrations in 2024 was 42 days. Late payments in G2B transactions mainly stem from: (i) budget line constraints (mainly due to internal budgetary controls); (ii) administrative and procedural delays (i.e. processing of invoices, especially for specialised products or services); (iii) system and process inefficiencies (i.e. manual handling of invoices and lack of automated workflows).

To address the issue of late payments, Cyprus's government is introducing several measures to ensure timely payments: (i) issuance of a circular establishing guidelines and timelines requiring all invoices to be settled within 30 days from the date of receipt; (ii) departmental accountability (monitoring compliance with this circular); (iii) introduction of electronic invoicing, with the added incentive of giving priority to valid e-invoices over those submitted in physical form. E-invoicing is expected to lead to timely payments within 20 days from the date of receipt or acceptance, while also preventing the risk of document loss and eliminating postage costs.

Cyprus's gigabit connectivity infrastructure roll-out is clearly accelerating and looks likely to achieve the 2030 target. Cyprus's very high-capacity network (VHCN) coverage, of 89.05% in 2024, outstripped the EU average of 82.49%. For households in sparsely populated areas, Cyprus's coverage also grew significantly to 78.10% in 2024, while the EU average stood at 61.89%. However, the

([77]) SAFE Survey 2024; these figures need to be treated with caution because the size of the survey sample was less than 100, which reduced its representativeness.

([78]) EU Payment Observatory: Annual Report 2025, Observatory Analysis - Internal Market, Industry, Entrepreneurship and SMEs.

take-up of fixed broadband subscriptions with speeds of 1 Gbps or more remains low. In 2024 only 3.32% of subscriptions were at this speed compared to the EU's 22.25%. The major investment project supported by the Recovery and Resilience Facility (RRF) to incentivise the uptake of VHCN services (voucher scheme) is progressing well. It is coupled with planned reforms to facilitate and accelerate investments in VHCN, which are contributing to tangible results. In 5G coverage, Cyprus already reached the 2030 target of 100% coverage in 2022.

Poor transport infrastructure poses a major obstacle to investment. The World Bank's 2023 Logistics Performance Index (LPI) ranks Cyprus 25th out of the EU-27 and 51st worldwide. Cyprus is therefore among the three worst performers in the EU. Its poorest scores are in infrastructure (2.8 out of 5), customs (2.9) and international shipments (3.1) ([79]). According to the EIB Investment Survey ([80]), 74% of businesses in Cyprus considered the state of the transport infrastructure to be an obstacle to investment in 2025 (vs 45% in the EU).

Single Market and barriers

Cyprus has a relatively high level of trade integration in services in the Single Market but not in goods. The volume of its exports and imports of goods and services to/from other EU countries represented 42.4% of its GDP in 2025 (EU average 40.7%). This is mainly explained by Cyprus's trade in services: in 2025, service exports and imports stood at 29.2% of GDP, the third highest value and far ahead of the EU average of 7.6%. By contrast, exports and imports of goods only represented 13.2% of GDP, which was below the EU average 18.7% ([81]). This is consistent with the structure and limited size of Cyprus's economy, which is mostly service-based.

Cyprus performs well on Single Market indicators ([82]). The share of Single Market directives not transposed by Cyprus (the 'transposition deficit') was 1% in 2025, in line with the 1% target set by the EU Council and better than the EU average of 1.1% ([83]). In the same year, Cyprus was among the best performers as regards the conformity deficit: it transposed 0.5% of the Single Market directives incorrectly (EU average 1.1%). It also had 16 open infringements, against an EU average of 25. In 2025, Cyprus ranked 13th among Member States in terms of the average time taken to resolve Single Market infringement proceedings, at 41 months, below the EU average of 44.5 months. In 2025, Cyprus resolved 92% of the SOLVIT cases it handled as lead centre, above the EU average of 84.6% and improving from 88.1% in 2024.

Compliance of products circulating in the Single Market ([84]) is key to ensuring a level-playing field for law-abiding companies and the safety of consumers. In Cyprus, the number of market surveillance investigations has increased compared with 2019. In 2025, national authorities reported in the EU system for market surveillance (ICSMS) a total of 310.2 investigations per one million inhabitants, which is higher than the EU median of 136.2. The number of notifications remains limited in absolute terms, which may also be the result of insufficient IT national interoperability to the ICSMS system. The upcoming revision of the Market Surveillance Regulation will upgrade

([79]) World Bank Logistic Performance Index 2023 | Logistics Performance Index (LPI.)

([80]) European Investment Bank, 2025, EIB Investment survey – Cyprus.

([81]) Eurostat, bop_c6_a.

([82]) Part of the barriers highlighted in the 2025 Single Market Strategy ('Terrible Ten'), Single market strategy.

([83]) European Commission, Single Market and Competitiveness Scoreboard.

([84]) *Part of the barriers highlighted in the* Single market strategy *('Terrible Ten') and the* 2026 Annual Single Market and Competitiveness Report.

ICSMS to a fully interoperable EU digital platform.

Cyprus would benefit from supporting its NSB to reduce market fragmentation, improving the competitiveness of Cypriot companies, and fully benefiting from the opportunities of the Single Market. For the Cypriot National Standardisation Body (NSB) Cyprus Organisation for Standardisation, reporting having a staff of 20 people, strengthening capacity is essential to ensure sufficient participation of experts and stakeholders in European standardisation processes. Moreover, additional resources are needed to ensure that Cyprus Organisation for Standardisation undertake the necessary digital transition to allow for faster, more efficient and more inclusive standardisation process.

Some professions and the retail sector in Cyprus have high barriers to entry and competition. This is especially significant in the retail sale of medicines (3.88 in Cyprus vs the EU average of 2.96) ([85]) as well as some professional services such as lawyers (3.86 in Cyprus vs the EU average of 3.55), civil engineers (2.21 vs 1.39), architects (2.21 vs 1.39) and real estate agents (2.21 vs 0.61).

Further reforms can help reduce regulatory barriers for real estate agents. There are 115 specific regulated professions in Cyprus, which is at the low end of the EU distribution ([86]). Cyprus has implemented some reforms to reduce regulatory barriers for certain professions, such as architects and civil engineers ([87]). Further progress can be made in the case of real estate agents. For real estate agents, Cyprus could consider opening access to exclusively reserved activities to other professionals; re-evaluate the duration of mandatory qualification requirements; and reassess the justification for and proportionality of requiring 100% of shares to be held by real estate agents. Other professions, such as accountants and tax advisers, remain unregulated.

The retail sector and trade in services would benefit from a reduction of administrative and regulatory barriers. Cyprus has a higher retail restrictiveness indicator (2.9) than the EU median (1.7) ([88]). The most notable administrative and regulatory barriers are in establishing a retail store ([89]) (for example, the number of entities to contact; permitting and impact assessments; economic data requirements; location-specific rules; the size threshold; and the length of the procedure). So far, progress in addressing barriers in the field of business services has remained limited. In answer to a survey carried out by the Commission between December 2025 and February 2026, Cyprus reported it fully implemented eight out of nine of the 2021 Commission recommendations ([90]). The Commission is currently assessing Cyprus's answer to measure actual progress in implementing the 2021 recommendations.

Public procurement competition in Cyprus has significant room for improvement. The percentage of contracts awarded based on a single bid was 26% in 2025, lower than the EU median of 27%. However, Cyprus is the second worst performer in terms of the share of direct awards (22% vs 6% EU median), which is mainly attributed to direct awards relating to purchases of patented medical products.

Businesses' views on corruption risks in public procurement are above the EU

([85]) 2023 OECD Product Market Regulation (PMR) Report.

([86]) European Commission, Regulated Professions Database.

([87]) European Commission, Communication on updating the reform recommendations for regulation in professional services, COM(2021) 385. 9 July 2021.

([88]) European Commission, Retail restrictiveness indicator, 2022.

([89]) Part of the barriers highlighted in the 2025 Single Market Strategy ('Terrible Ten'), Single market strategy.

([90]) European Commission, 2021, *Communication on updating the reform recommendations for regulation in professional services, COM(2021)385. 9/7/2021*, Eur-lex.europa.eu.

average. In Cyprus, 81% of companies (EU average: 58%) consider tailor-made specifications for particular companies in public procurement procedures, and 79% (EU average: 53%) conflicts of interest in the evaluation of bids to be a 'very' or 'fairly widespread' practice. Among companies that have experience of and have participated in a public procurement procedure, 37% think that corruption has prevented them from winning a public tender or a public procurement contract in practice (EU average: 25%) ([91]). 47% of businesses perceive the level of independence of the public procurement review body (Tender Review Authority) to be 'very' or 'fairly good' when it is reviewing public procurement cases ([92]). The police, the Audit Office, civil society and business stakeholders highlight public procurement as being particularly prone to corruption, which creates an uncertain environment for business and investment ([93]). Cyprus has made efforts to improve accountability, transparency, accessibility and efficiency, while digitalising public services and procurement. Moreover, the more efficient approval process for small developments should help improve the business environment ([94]). As part of the RRP, it introduced a new e-procurement system in February 2026. The system aims to improve the transparency and accountability of public tendering procedures, improve data quality and assist the work of audit authorities to ensure a level playing field for businesses.

Cyprus' e-procurement landscape and data quality issues highlight the need for interoperable systems, common standards and stronger data governance. Cyprus's centralised e-procurement service allows economic operators to use a single system to access all national public procurement procedures. However, issues with cross-border procurement remain (also at EU level ([95])), creating complexity and barriers to participation for firms from other Member States. In terms of data monitoring, Cyprus is creating a public procurement data strategy on the management and utilisation of data related to their procurement processes. Therefore, the Cypriot system would benefit from a dedicated public procurement data collection and analysis service within the government to support data-driven oversight of the procurement lifecycle. The once-only principle is only partially implemented at national level (see Annex 7), and buyers across the EU still lack digital access to relevant evidence ([96]).

Cyprus remains outside the unitary patent (UP) system. Although Cyprus participates in the enhanced cooperation on unitary patent protection and has already signed the Unified Patent Court Agreement (UPCA), it has not ratified it yet. The unitary patent therefore does not cover Cyprus. This has the following consequences. Firstly, Cypriot and non-Cypriot companies remain burdened by the significant administrative costs of national validation and maintenance fees for obtaining patent protection in Cyprus. Secondly, enforcing European patents in Cyprus can only take place before national courts, without benefiting from the advantages offered by the UPC as regards centralised litigation. For all these reasons, by refraining from joining the unitary patent system Cyprus may be less attractive, in terms of innovation support, than the Member States already participating in that system. Finally, the fact that several Member States do not participate in the unitary patent system

([91]) Flash Eurobarometer 557, p. 133.

([92]) Justice Scoreboard (2025), p. 53; Flash Eurobarometer 555, p. 39.

([93]) Rule of Law Report - Country Chapter Cyprus (2025), p. 13.

([94]) Rule of Law Report - Country Chapter Cyprus (2025), p. 13.

([95]) Study on competition in the European Union's public procurement markets (2018-2023) – World Bank (September, 2025)

([96]) European Court of Auditors, Special Report 28/2023: *Public Procurement in the EU. Less competition for contracts awarded for works, goods and services in the 10 years up to 2021*, 2023, Special report 28/2023: Public procurement in the EU.

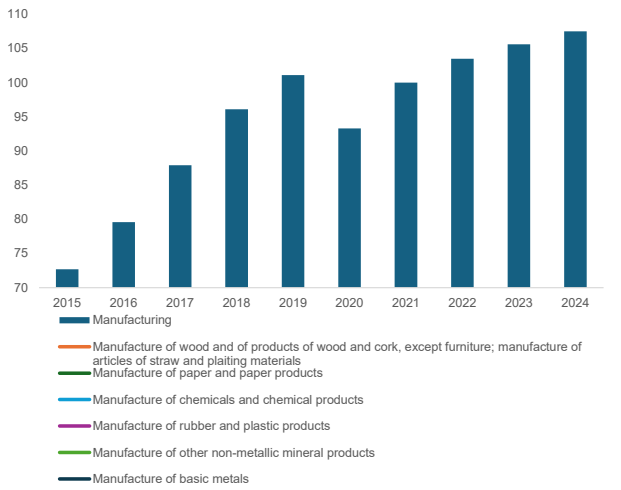
weakens the Single Market, making the EU less attractive for inventors and innovative entities.

Industry and economic security

Industry shows development potential, but environmental conditions are key for its realisation. As of 2024, manufacturing production of energy-intensive industries in Cyprus has increased by 7.5% since 2021 and is significantly above pre-COVID-19 levels. Business associations indicate that there is an increasing demand to develop industry in Cyprus. However, three main challenges remain: (i) high electricity costs; (ii) the need to simplify and streamline permitting procedures; and (iii) a lack of political initiative and no industrial strategy. Electricity prices for businesses in Cyprus stood at EUR/kWh 0.1991 by the end of the first half of 2024, above the EU average of EUR/kWh 0.1542 ([97]). In 2023, the overall rate of electrification stood at 26.03%, which was higher than the EU average of 22.92%. By contrast, when it comes to the industry sector, the figure for Cyprus is lower than the EU average (21.44% vs 32.65%). The share of energy from renewable sources increased from 13.8% in 2019 to 20.8% in 2024 but is still below the EU average of 25.2% (see also Annex 9). To reduce energy costs, business associations suggest: (i) technology neutrality; (ii) dynamic pricing; (iii) on-site generation.

Cyprus could make further progress in implementing the Net-Zero Industry Act (NZIA). The main bottlenecks for net-zero technology deployment in Cyprus include (i) restricted access to tailored financing for clean-tech manufacturing projects; (ii) complex and slow permitting processes for strategic investments; (iii) a small industrial base; and (iv) the limitations of a small economy. To address these challenges in alignment with the NZIA, Cyprus is implementing financial support schemes (grants and EU funds) to de-risk investment, while the Business Facilitation Unit (BFU) and the Business Support Centre streamline licensing and permit procedures and act as a single point of contact for investors. This is crucial for streamlining communication and coordination among stakeholders, thereby facilitating the development of strategic clean-tech projects and improving the overall investment environment. Furthermore, Cyprus has established a national contact point to process applications, facilitating the advancement of net-zero strategic projects. So far, Cyprus has no confirmed net-zero strategic projects. Nevertheless, it is possible to submit applications, which reflects Cyprus's proactive approach to advancing initiatives that align with net-zero goals. Finally, Cyprus has not expressed an interest in the acceleration valleys described in the NZIA regulation, which could help attract strategic projects.

Graph A5.1: **Manufacturing industry production: total and selected sector, index (2021=100), 2015-2024**



Source: Eurostat

Cyprus is highly reliant on imports of raw materials. One third of Cyprus's material needs are met through imports, with its material import dependency being above the EU average in 2024 (32.7% vs 22.4%) ([98]). Cyprus's

([97]) Eurostat, nrg_pc_205 (prices at purchasing power parity).

([98]) Eurostat, env_ac_mid.

main critical raw material (CRM) imports are aluminium (EUR 14.7 m) and nickel (EUR 3.18 m). Aluminium is mainly imported from the United Arab Emirates (UAE), while nickel is mostly imported from Switzerland and Côte d'Ivoire (in smaller quantities) ([99]). As regards the level of strategic dependency on raw materials, in 2025 Cyprus's imports were as geographically diversified as for the rest of the EU (import concentration index of 0.24 vs 0.23) ([100]). According to the Cypriot government, no local industrial companies have been identified as using critical raw materials and, therefore, no national strategy for reducing dependencies on critical raw materials has been developed. While the extraction of critical raw materials from scrap metals is a viable enterprise in Cyprus, due to the lack of manufacturing industry to absorb these raw materials the vast majority is exported. In addition, the geographical isolation of Cyprus from the European mainland hinders the circulation of materials within the European market.

The circular use of material would help reduce Cyprus's dependency on imports. In this regard, Cyprus's circular material use rate is well below the EU average (5.5% vs 12.2%) and could be improved ([101]). No strategic programme for the recycling/recovery of critical raw materials has been implemented. A programme of this kind is expected to be formulated as part of the ongoing update of the Cyprus action plan on management of other waste except municipal waste 2026-2032. Nevertheless, critical raw materials are recovered to some extent by separate collection systems, in particular aluminium and copper from waste from electrical and electronic equipment as well as nickel from household batteries while non-CRMs cadmium and lead are also refined during the process.

([99]) European Commission, Raw Materials Information System (RMIS) – Country Profile – Cyprus.

([100]) Source: COMEXT.

([101])Eurostat, env_ac_cur.

Table A5.1: **Single Market and Industry**

Cyprus								
POLICY AREA	**INDICATOR NAME**		**2021**	**2022**	**2023**	**2024**	**2025**	**EU-27 average**
Business environment and investment								
Productivity and investment	Labour productivity (GDP per hour worked in PPP terms), % of EU27[1]		75.3	78.2	79.7	80.6	79.6	100.0
	Business investment (share of GDP)[1]		7.2	8.4	9.8	8.7	-	12.6
	Public investment (share of GDP)[1]		2.7	2.4	3.1	2.8	-	3.9
Business environment and simplification	Impact of regulation on long-term investment, % of firms reporting business regulation as a major obstacle[2]		33.4	39.7	31.5	34.0	35.0	34.0
SME liquidity	EIF Access to Finance for SMEs index - loans[3]		0.19	0.34	0.22	0.33	-	0.43
	EIF Access to Finance for SMEs index - equity[3]		0.05	0.05	0.17	0.25	-	0.19
Late payments	Payment gap - corporates B2B, difference in days between offered and actual payment[4]		-	-	-	-	-	17.4
	Payment gap - public sector, difference in days between offered and actual payment[4]		-	-	-	-	-	13.6
	Share of SMEs experiencing late payments, %[5]	from private entities in the previous or current quarter	-	-	-	44.2	48.8	47.1
		from public entities in the previous or current quarter	-	-	-	15.7	12.5	15.9
Single Market								
Integration	EU trade integration, average(intra-EU imports + intra EU exports)/GDP, %[1]		37.1	42.0	40.2	41.4	42.4	40.7
	EEA Services Trade Restrictiveness index[6]		-	-	-	-	-	0.050
Public procurement	Single bids, % of total contractors[7*]		23	17	14	4	26	27
	Direct awards, % of negotiated procedures[7*]		28	38	31	19	22	6
Compliance	Transposition deficit, % of all directives not transposed[8]		1.8	0.9	0.9	0.9	1	1
	Conformity deficit, % of all directives transposed incorrectly[8]		1	0.7	0.9	0.4	0.5	1.1
	SOLVIT, resolution rate per country, %[8]		97	98	95	88.1	92	84.6
	Number of pending infringement proceedings[8]		23	20	23	17	16	25
Industry and economic security								
Energy-intensive industries	Electricity prices for non-household consumers[1]		0.1526	0.2282	0.2203	0.1991	-	0.1462
	Electrification (electricity as a share of total energy consumption in industry)[1]		19.4	20.0	21.4	-	-	32.7
	Share of energy from renewable sources (renewable energy generation as a share of overall energy consumption)[1]		19.1	19.4	20.2	20.8	-	25.2
Critical raw materials	Material import dependency, %[1]		31.9	31.1	32.3	32.7	-	22.4
	Circular material use rate[1]		5.8	8.3	5.4	5.5	-	12.2
Operational cleantech manufacturing capacity in 2025[9]	- Solar PV (c: cell, w: wafer, M:module), GW		-		- Electrolyzer, GW		-	
	- Heat pump assembly		-		- Battery, GW		-	

Source: (1) Eurostat, (2) EIB Investment Survey, (3) EIF SME Access to Finance Index, (4) Intrum Payment Report, (5) SAFE survey, (6) OECD, (7) data up to 2024: Single Market and Competitiveness Scoreboard, 2025: Commission calculation based on TED data, accessible at the Public Procurement Data Space (PPDS) (*) the value represented here under EU average is the median, (8) Single Market and Competitiveness Scoreboard, (9) European Commission calculations.

Table A6.1: **Savings and Investments Union summary diagnostic**

Topic	*Main features*	*Relative EU positioning*
Asset-backed pension schemes	Assets at 13.5%(*) of GDP (32.3% in the EU) 10-year real return of n.a. (1.4% in the EU)	N/A
Households' financial assets	EUR 60 733 per capita (EUR 85 090 in the EU) o/w 9.1% in listed shares and bonds (7.6% in the EU) o/w 4.7% in investment funds (11.0% in the EU) o/w 4.2% in life insurance (13.4% in the EU) o/w 9.2% in pension claims (13.6% in the EU)	Low household wealth per capita. A relatively high share of households' financial assets is invested in listed shares and bonds. Significant gap in the proportion of financial assets invested in investment funds, life insurance and pension funds. Cyprus has no dedicated tax-advantaged retail savings and investment account.
Venture capital (VC) **Private equity (PE)**	VC at 0.015% of GDP (0.064% in the EU) PE at 0.019% of GDP (0.487% in the EU)	Very low venture capital and private equity investments.
Capital taxation	For corporates, profits from the disposal of shares and bonds are exempt from corporate income tax, subject to specific exceptions. For individuals, capital gains on the disposal of securities (shares and bonds) are generally exempt from tax in Cyprus, subject to specific exceptions; however, Cyprus tax-resident and domiciled individuals are subject to special defence contribution on dividend and interest income.	Capital-market investing in Cyprus is broadly tax-neutral rather than actively encouraged.
1-3 4-10 11-17 18-24 25-27	Colours indicate the country's relative ranking based on five groups, ranging from the three best to the three worst performers. The relative ranking as regards an SIU diagnostic topic derives from a consistent cross-country comparison, the starting point of which is the average of the underlying main features.	

Source: Eurostat (households' financial wealth), FISMA CMU dashboard (VC and PE), national sources (capital taxation). End-2024.
(*) Pensions are based on ECB pension statistics, as opposed to the EU average that is based on OECD pension statistics.

Some reforms addressing elements of the 2025 CSR ([102]) have been implemented, but further progress is needed. *Cyprus ranks relatively low across the key indicators monitoring progress with the policy goals of the Savings and Investment Union (see Table* A6.1*). Cyprus's economy is dominated by micro and small firms, and it remains heavily reliant on bank financing, while capital markets play a limited role. Despite continued credit growth, Cypriot banks are not well suited to finance innovative firms and start-ups, underscoring the need to develop non-bank and market-based financing channels. The domestic listed equity market remains small, and the corporate debt market is largely untapped by local non-financial corporations (NFCs), with issuance concentrated in the public sector. Households' financial assets are largely held in deposits, with limited investment in pensions, insurance and investment funds. This suggests that there is scope to expand capital-market participation through better incentives and improved financial literacy, in line with the objectives of the Savings and Investments Union. Non-bank financial intermediaries (NBFIs) remain too small and too conservative to drive capital-market development in Cyprus, while the venture capital ecosystem is limited and largely shaped by publicly funded instruments. In this context, ongoing pension reform and gradual development of the venture capital ecosystem are key to deepening capital markets and supporting long-term growth.*

Business landscape and company funding

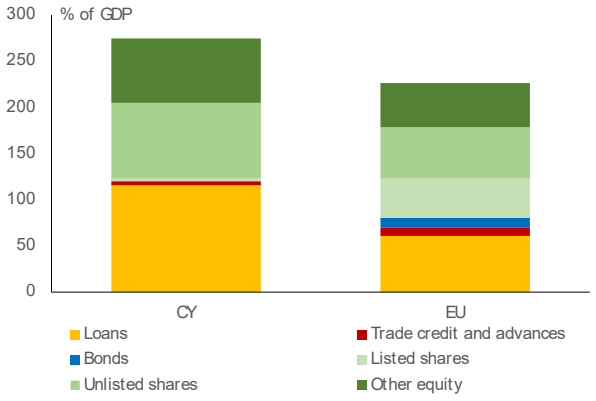
During 2024, Cyprus's corporate financing structure continued to reflect a highly bank-dependent system. Total NFC financing stood at 274.7% of GDP, well above the EU average of 226.2%. Loans accounted for about 42% of total NFC financing, compared with the EU average of 27%, underscoring the central role of loan-based financing as the primary source of external funding for corporates in Cyprus. By contrast, market-based sources remained significantly underdeveloped. Listed shares accounted for just above 1% of total financing (vs 19% in the EU), while corporate bond issuance was negligible (0.1%) and far below

([102]) '…Facilitate the diversification of the economy and further productive investment by enabling alternative saving and investment instruments, increasing financial literacy, facilitating the participation in capital markets and improving access to non-bank financing opportunities for businesses…'.

the EU average of 4.7%. Equity financing in Cyprus is instead dominated by unlisted shares (30% of NFC financing) and other equity instruments (25% of NFC financing), which together account for more than half of total NFC financing and exceed the respective EU averages of 25% and 21% (see Graph A6.1).

The funding profile of Cypriot corporates is closely linked to the dominance of SMEs. In Cyprus, microenterprises (1–9 employees) contribute 25.7% of total value added (vs 20.1% in the EU), while small firms (10–49 employees) account for 29% of total value added (vs 16.6% in the EU) and medium-sized firms (50–249 employees) account for 24.1% of total value added (vs 16.9% in the EU). In contrast, large enterprises (250+ employees) account for only 21.2% of value added, less than half the EU average (46.4%) ([103]). This structure has direct implications for corporate financing, as large firms, which are typically better positioned to access capital markets and support innovative investments, represent a much smaller share of the economy than in the EU on average.

Graph A6.1: **Composition of non-financial corporations funding**



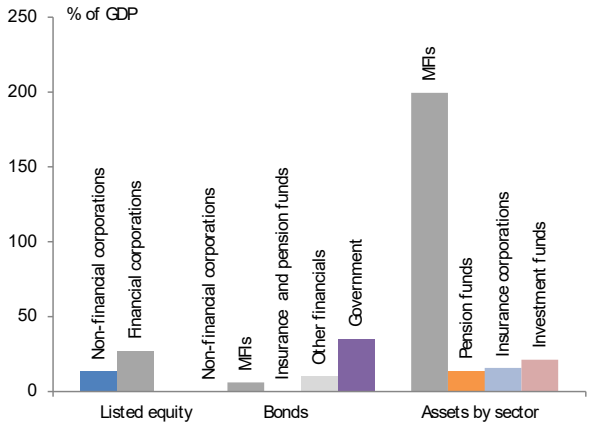
Source: Eurostat. End-2024.

([103])See Annex 5 for more details.

Size and structure of the financial sector

The banking sector continues to dominate Cyprus's financial landscape. In December 2024, banks' total assets were equivalent to 199.4% of 2024 GDP, more than four times the combined size of assets held by NBFIs (see Graph A6.2). By comparison, insurance assets were equivalent to 15.7% of GDP (vs 53.3% in the EU), pension funds to 13.5% (vs 32.3% in the EU), and investment funds to 21.2% (vs 24.5% in the EU ([104])). Although investment funds in Cyprus have expanded gradually, the insurance and pension fund sectors remain small and fragmented, limiting their role in capital-market development. This structural characteristic increases the economy's dependence on bank credit. By contrast, other Member States with more developed NBFI sectors provide more diversified financing channels.

Graph A6.2: **Capital markets and financial intermediaries**



Source: ECB, EIOPA, EMACO. End-2024.

Cyprus's domestic capital market remains small and illiquid, with a limited number of listed companies and actively traded securities. Equities and bonds trade on the Cyprus Stock Exchange (CSE), which has the

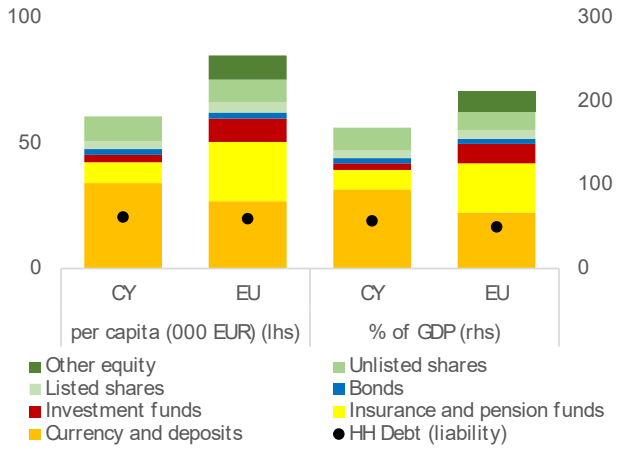
([104]) The median is used instead of the EU average to avoid distortion from outliers (Luxembourg, Ireland and Malta).

necessary infrastructure and is open to both foreign and domestic investors. However, participation on the CSE remains modest. In December 2024, the market funding ratio in Cyprus stood at 11.2% of GDP, one of the three lowest in the EU (see Table A6.2). The shallow local equity market plays only a marginal role in corporate financing, and many firms incorporated in Cyprus prefer to list and raise funds abroad. In 2024, all initial public offerings (IPOs) by Cyprus-incorporated firms were on foreign stock exchanges. Notably, no IPOs of significance have taken place on the main market of the CSE since 2018. As a result, in December 2024, the CSE's equity market capitalisation stood at EUR 5.7 billion ([105]), equivalent to 16.4% of GDP, while the outstanding value of Cypriot companies listed domestically and abroad was equivalent to 41% of GDP (see Table A6.2). Market inefficiency is further reflected in persistently wide bid–ask spreads (3.6% in 2024 vs 1.4% in the EU). In February 2025, the Cypriot Parliament approved a bill enabling the privatisation of the CSE, marking an important capital-market reform that aims to strengthen the CSE's competitiveness. On the bond market, its size increased sharply in 2024, from EUR 240m to EUR 11.9 billion. This rise is attributed mainly to new issuances of government bonds and treasury bills, as the corporate bond market remains virtually untapped by local NFCs.

Households' participation in capital markets

Cypriot households heavily favour holding their financial assets in deposits over other types of investments. On average, they allocate 56.2% of their financial assets to deposits, well above the EU average of 31.6% (see Graph A6.3). Their second largest exposure is 16.6% in unlisted shares, reflecting a strong culture of private or family-owned businesses. Household holdings of listed shares (at 5.3%) and bonds (at 3.8%) are both slightly above the EU average, of 4.8% and 2.8%, respectively. However, Cypriot households invest relatively little in intermediated and diversified instruments. Insurance and pension funds account for 13.4% of their financial assets (vs 27% in the EU) and investment funds for 4.7% (vs 11%), pointing to a significant capital-market intermediation gap. This composition bias towards deposits and family-business equity constrains the channelling of household savings into diversified capital-market instruments that could support productive investment and innovation.

Graph A6.3: **Composition of households' financial assets**



Source: Eurostat. End-2024.

There is still ample scope to increase the level of direct or indirect retail investment in Cypriot capital markets to strengthen households' financial wealth. In 2024, financial assets held per capita amounted to EUR 60 733, compared with an EU average of EUR 85 090. At the same time, household financial assets remain concentrated in deposits, while participation in diversified market-based instruments remains limited. Nevertheless, the tax treatment of financial assets in Cyprus is rather favourable, as there is no tax levied on capital gains from the sale of shares ([106]), and no taxation of dividend or

([105])See CSE Annual report and Fact book 2024.

([106]) Except for gains on property or property-related shares.

interest income ([107]). Nevertheless, targeted savings and investment vehicles, such as those recommended by the European Commission at EU level ([108]), could still: (i) raise awareness among Cypriots of alternative investment pathways; and (ii) support a gradual rebalancing of household savings towards long-term market-based instruments([102]). Some tax deductibility is offered on life-insurance premiums, but these products are not primarily structured as vehicles for long-term capital-market participation.

Weak financial literacy in Cyprus inhibits saving behaviour and constrains capital-market participation. A recent analysis by the Organisation for Economic Co-operation and Development (OECD) ([109]) aimed to support the implementation of the Cypriot national strategy for financial literacy and education adopted in 2022 ([110]). The analysis assessed the financial literacy of people aged 15–79 in Cyprus, and confirmed that financial literacy levels in the country are low. According to the report, the average score of financial literacy among participants was 56%, and only 17% reached the OECD's minimum target of 70%. While the financial knowledge of Cypriots was deemed moderate, financial behaviours that support long-term financial health, attitudes and digital financial literacy were particularly weak. In June 2024, the Cyprus Financial Literacy and Education Committee was formally established to coordinate efforts to improve financial literacy in the country. In September 2024, the Cypriot government introduced a financial education curriculum for third-grade high school students (approximately 15 years old). The ongoing implementation of the strategy will help to address the relevant CSR on financial literacy([102]) and should strengthen everyday financial decision-making, including saving and investing behaviour.

The banking sector: resilience and financing of the economy

The Cypriot financial sector remains robust, with banks maintaining strong profitability and further strengthening already-robust capital positions amid ample liquidity. The overall profitability of Cypriot banks was strong in 2024 and remained strong in the first nine months of 2025, despite reduced net interest income. The sector's (annualised) return-on-equity ratio of 11.3% in September 2025 outperformed the corresponding EU average of 9.6% (see Table A6.2). Solvency reached a record high, supported by strong internal capital generation, and the common equity tier 1 ratio of 26.1% was the highest in the EU. Liquidity conditions remain ample, as evidenced by the sector's liquidity coverage ratio of 326% and the net stable funding ratio of 191%. In addition, all Cypriot banks subject to minimum requirements for own funds and eligible liabilities met their end-2024 targets. Asset quality continued to strengthen, supported by ongoing efforts to reduce legacy non-performing loans (NPLs). In September 2025, the NPL ratio fell to 2.3% from 3.1% in 2024 (vs an EU average of 1.9%), while coverage increased to 62%, well above the EU average of 42%. Banks' direct exposure to Middle Eastern countries is limited, and their well-diversified loan portfolios help mitigate risks from current geopolitical tensions. However, second-round effects could still weigh on asset quality, particularly in sectors such as accommodation and hospitality.

In 2024, lending activity remained resilient, while balance-sheet credit growth was

([107]) Domiciled residents still currently pay a 5% (down from 17% in 2025) special defence contribution on capital gains and dividend and interest income, plus a 2.65% contribution to the General Healthcare System (total 7.65%).

([108]) Refer to Commission recommendation and to Commission's SWD on increasing the availability of Savings and Investment Accounts with simplified and advantageous tax treatment.

([109]) See OECD's publication, March 2025, Financial literacy in Cyprus.

([110]) National strategy for financial literacy and education in Cyprus.

largely offset by repayments and write-offs. Despite the high interest-rate environment and geopolitical uncertainty, new lending has remained robust. Mortgage lending in 2024 exceeded the previous year's level, while consumer lending reached historic highs. Overall, banks extended EUR 3.9 billion in new lending to households and NFCs in 2024, a 18% year-on-year increase ([111]). However, repayments and write-offs largely offset new lending, leaving loan stocks broadly stable. This trend continued in 2025; in September 2025 households' growth rate was 2.2% year-on-year, while NFCs' credit growth rate was 3.5%. The resilience of new lending suggests that banks have sufficient liquidity and capacity to provide credit, particularly to established SMEs.

Role of non-bank financial intermediaries

The Cypriot insurance market is small, and plays a complementary role in the financial system, making only a limited contribution to long-term savings and capital-market financing. The Cypriot insurance market consists of 33 locally registered insurers and reinsurers, which are regulated by the Insurance Companies Control Service (ICCS) ([112]). In September 2025, the sector's total insurance assets were equivalent to 16% of GDP, significantly below the EU average of 53.9%, reflecting the sector's limited scale. The sector is nevertheless well capitalised, with an average Solvency II ratio of 285%, well above the EU average of 244%. Despite its small size, the Cypriot insurance sector has shown robust growth, with gross written premiums reaching a record EUR 1.3 billion in 2024 ([113]). Insurance coverage is relatively strong in the life and health segments, where premiums have continued to increase. By contrast, Cyprus faces notable protection gaps in general insurance, particularly for earthquake and wildfire risks, reflecting underinsurance in a climate-exposed economy. In terms of asset allocation, Cypriot insurers pursue a conservative investment strategy compared with their EU peers. In September 2025, collective investment undertakings (CIUs) dominated balance sheets (constituting 45% of insurers' assets), followed by government bonds (19%), corporate bonds (12%), equities (7%), cash and deposits (8%), and property (7%) ([114]). The comparable EU average figure for equity was 16% and for corporate bonds 18%, while EU insurers hold on average only 4% in cash and deposits and 1.4% in property. The relatively small scale of domestic insurers and limited local market depth incentivise portfolio diversification through CIUs, rather than direct holdings of equities and corporate bonds.

Thanks to EU passporting, Cyprus has fast developed into a regional hub for investment-fund domiciliation and asset management. Funds domiciled in Cyprus benefit from a favourable tax environment (no capital gains tax on most securities and no withholding tax). The industry is regulated by the Cyprus Securities and Exchange Commission. The two main legal structures are alternative investment funds (AIFs) and undertakings for collective investment in transferable securities (UCITS). Total assets under management (AUM) of all funds managed in Cyprus, amounted to EUR 10.6 billion, of which EUR 7.6 billion (21.2% of GDP) are resident funds ([115]). AIFs, which are more typically used for longer-term and less liquid investment strategies, given fewer portfolio and liquidity constraints than UCITS, account for 93.5% of Cypriot investment funds'

([111]) Refer to CBC Monetary and Financial Statistics December 2024.

([112]) Refer to Cyprus's ICCS Register of Insurance/Reinsurance Undertakings.

([113]) Refer to Insurance Association of Cyprus statistical results.

([114]) Refer to EIOPA's insurance statistics for Cyprus.

([115]) Resident funds are domiciled in Cyprus and managed by a Cypriot management company, whereas non-resident funds are domiciled abroad and distributed in Cyprus.

total AUM. Of the total AUM, around EUR 2.7 billion are invested in key sectors of the Cypriot economy ([116]), indicating that the fund sector supports market-based financing and long-term investment alongside bank intermediation.

Cyprus's second pillar pension system is fragmented, while the third pillar remains small, which limits its role in capital-market development. The first pillar pension (i.e. the state pension) relies on a mandatory pay-as-you-go scheme, while the second and third pillars provide supplementary pensions. The second pillar consists mainly of employer-sponsored occupational pension schemes and a small number of life insurers offering group occupational pension products, while the third pillar covers voluntary private pension arrangements. Overall, funded pensions remain relatively underdeveloped in Cyprus compared with other EU countries: in December 2024, pillar 2 total pension fund assets were equivalent to 13.5% of GDP (about EUR 4.6 billion, below the EU average of 32.3% ([117]) ([118]). In many EU Member States with more mature funded pension systems, these schemes play a larger role in retirement provision and capital-market development by channelling employees' savings into long-term investments.

Fragmentation in the second pillar and the small size of the third pillar limit their capacity to deliver adequate supplementary retirement income and to contribute meaningfully to financing the economy. The role of the second pillar in retirement provision and capital-market development remains limited, as the system is highly fragmented and dominated by many small, company-specific schemes, preventing economies of scale ([119]). Participation in pillar 2 schemes remains largely confined to employees of large or unionised companies, which is particularly problematic in light of demographic pressures ([120]). This fragmentation results in modest contribution flows and investment inefficiencies, as funds lack scale. This results in higher costs, weak diversification and ineffective market engagement. Against this backdrop, the Cypriot pension fund sector is undergoing reform. Expanding participation and scaling up occupational pension funds is a key structural requirement in Cyprus. Broader coverage (including through mechanisms such as auto-enrolment into multi-employer or employer-sponsored schemes) and the portability of pension entitlements across employers are both central to increasing scheme size and effectiveness ([121]). A larger and more integrated pension fund sector would improve the adequacy of retirement income by strengthening supplementary pensions and increasing the capacity of pension funds to contribute to the long-term financing of the economy.

Cyprus does not have a single independent supervisory authority covering both the insurance and occupational pension fund sectors. The possibility of establishing a unified independent supervisor has been discussed in the past, and remains under consideration ([122]).

([116]) Refer to Cyprus Securities and Exchange Commission's Quarterly Statistical Report Q2 2025.

([117]) The 'total assets of pension funds' in Cyprus include mainly Pillar 2 funded private pension schemes, but exclude most Pillar 3 funds, because in Cyprus these are usually structured as insurance contracts. The EU average includes both private and public pensions assets.

([118]) Cyprus's pension data are based on ECB pension statistics, as opposed to the EU average that uses OECD data (Cyprus is not a member of the OECD and is therefore not covered by OECD pension statistics); however, the scope of ECB pension funds is more restricted than the scope of OECD pension providers therefore statistics are not directly comparable.

([119]) In September 2024, there were 837 pension funds in Cyprus, a number that is disproportionately large compared with larger EU members with more developed pension systems.

([120]) Cyprus is among the Member States projected in the 2024 Ageing Report to face a significant increase in ageing-related costs.

([121]) See Commission Recommendation (EU) 2025/2384 on pensions.

([122]) Insurance companies are supervised by the ICCS, which is administratively under the Ministry of Finance,

This institutional separation results in a fragmented supervisory set-up, which is not aligned with the broader EU policy objective of increasing supervisory convergence and efficiency ([123]). In several EU Member States, insurance and occupational pension supervision is organised under a consolidated supervisory structure, which is associated with more integrated risk monitoring and data collection, and can reduce operational duplication. Moreover, Cyprus does not operate a formal nationwide pension tracking system that consolidates information on all pension sources in one place – typically a dedicated website – for individuals so they can track their pension entitlements, both private and public.

Venture capital ecosystem

The venture capital (VC) and private equity (PE) ecosystem in Cyprus is underdeveloped, thus falling short of meeting the financing needs of innovative firms and start-ups. Lack of capital remains the key constraint for innovative, start-up and scale-up firms in Cyprus. These firms face persistent barriers to accessing bank credit, because of their higher risk profile and their lack of tangible collateral compared with other NFCs. In more mature markets, these firms rely on VC and PE for access to capital. In Cyprus, both VC and PE investment (equivalent to 0.015% and 0.019% of GDP based on a three-year moving average in 2024, respectively) have been very limited and significantly lag behind the EU averages of 0.064% and 0.487% of GDP, respectively ([124]). For PE in particular, Cyprus is one of the three worst performers in the EU. The Cypriot VC and PE ecosystem is further constrained by fragmentation and the absence of a national venture capital strategy, or dedicated venture capital association to support market coordination and provide guidance to new entrants. Consequently, innovative firms rely predominantly on public funding instruments, including grants and support for research commercialisation.

Recent government initiatives aim to partially address the finance gap, in particular through the launch of dedicated VC-type funds supported by public-private financing structures. National grant schemes and EU-co-financed programmes can play an important role in reducing early-stage investment risk. In January 2025, the 33East VC fund, backed by the Cyprus Equity Fund ([125]), with total committed capital of EUR 35.6m to invest in early-stage, Cyprus-linked technology companies made its first investment ([126]). Cyprus also offers tax incentives – valid until the end of 2026 – for investments in approved innovative SMEs ([127]). These initiatives help to address the relevant subpart CSR on improving access to non-bank financing opportunities for businesses([102]). Nevertheless, the funding raised so far remains very small and unless increased, access to risk capital will remain difficult, particularly for high-growth, high-risk start-ups, many of which continue to depend on public funding or foreign investors. Support for start-ups remains predominantly grant-based, while equity and quasi-equity instruments play a limited role. The absence of a national VC strategy limits Cyprus's ability to align existing grant schemes, public-private

while occupational pension funds (IORPs) are supervised by the Registrar of Occupational Retirement Benefit Funds, which is administratively under the Ministry of Labour, Welfare and Social Insurance.

([123]) Refer to Commission Communication, December 2025, Further development of capital market integration and supervision within the Union.

([124]) See also Annex 4.

([125]) The Cyprus equity fund is one of the reforms of the Cypriot recovery and resilience plan.

([126]) Under the CY RPP, there have to at least 7 investments in the first 18 months in pre-seed and seed-stage startups that have a Cyprus connection, for the fund to meet its targets.

([127]) Refer to Republic of Cyprus practical guide for tax incentives for legal and natural persons investing in innovative SMEs.

Table A6.2: **Financial sector indicators**

		2018	2019	2020	2021	2022	2023	2024	2025-Q3	EU
Banking sector	Total assets of MFIs, % of GDP	320.9	280.0	290.1	280.1	228.7	211.4	199.4	195.6	246.1
	Common equity Tier 1 ratio	14.8	17.4	17.6	17.6	17.8	21.5	24.6	26.1	16.8
	Total capital adequacy ratio	17.1	19.9	20.3	20.6	21.3	25.8	28.1	29.5	20.2
	Overall NPL ratio, % of all loans	20.2	18.1	11.0	5.6	4.5	3.7	3.1	2.3	1.9
	NPL ratio, loans to NFCs	33.7	24.8	14.6	8.2	7.9	6.6	5.5	4.4	3.5
	NPL ratio, loans to HHs	37.7	35.2	23.7	14.8	12.0	10.2	7.9	5.3	2.1
	Return on equity ratio[1]	7.1	3.5	-3.3	0.6	5.1	21.8	18.3	11.3	9.6
	Loans to NFCs, % of GDP	79.7	76.3	56.7	47.1	37.7	27.7	25.4	24.8	29.3
	Loans to HHs, % of GDP	65.6	60.2	59.6	48.2	42.7	34.3	32.3	30.7	43.6
	NFC credit growth rate, %	1.5	0.8	1.5	2.7	1.6	-3.4	-0.1	3.5	2.5
	HH credit growth rate, %	-0.2	-0.2	3.0	2.5	7.3	1.3	1.9	2.2	2.6
Non-banking sector	Stock market capitalisation, % of GDP	38.3	39.5	37.2	28.4	25.3	41.0	41.0	47.1	69.9
	Initial public offerings, % of GDP	0.00	0.00	0.00	0.00	0.00	0.00	3.03	-	0.06
	Market funding ratio	6.1	9.2	9.0	9.5	9.6	9.9	11.2	-	49.7
	Private equity, % of GDP	0.046	0.192	0.242	0.261	0.122	0.058	0.019	-	0.487
	Venture capital, % of GDP	0.031	0.050	0.068	0.062	0.048	0.016	0.015	-	0.064
	Financial literacy, composite index	-	-	-	-	-	45.5	-	-	45.5
	Bonds, % of HHs' financial assets	2.5	2.6	2.5	2.1	2.3	3.4	3.8	-	2.8
	Listed shares, % of HHs' financial assets	2.2	2.1	2.0	2.8	2.7	3.5	5.3	-	4.8
	Investment funds, % of HHs' financial assets	1.1	1.6	1.6	2.0	2.0	3.1	4.7	-	11.0
	Insurance/pension funds, % of HHs' financial assets	13.1	13.7	13.4	13.3	12.1	13.1	13.7	-	27.8
	Total assets of insurers, % of GDP	17.5	17.5	18.6	17.8	14.9	15.0	15.7	16.0	53.9
	Pension assets, bn EUR	-	-	-	-	-	-	-	-	5813.8
	Pension assets, % of GDP	-	-	-	-	-	-	-	-	32.3
	10y real return average of pension assets, %	-	-	-	-	-	-	-	-	1.4
	Pension funds assets, ECB (% of GDP)	-	-	-	-	13.4	12.8	13.6	12.9	23.0
	1-3 / 4-10 / 11-17 / 18-24 / 25-27	Colours indicate performance ranking among the 27 EU Member States.								

(1) Annualised data. EU data for credit growth and pension funds refer to the EA average.

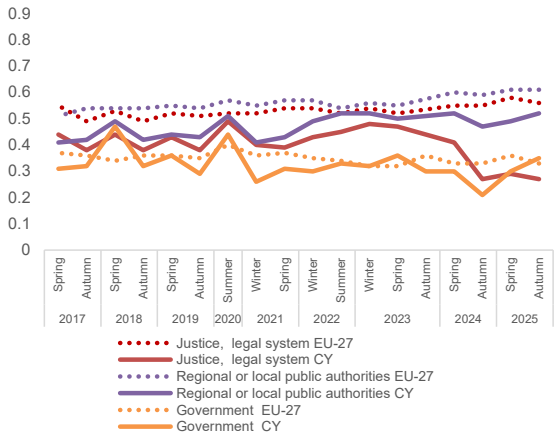
Source: ECB, Eurostat, European Insurance and Occupational Pensions Authority, DG FISMA CMU dashboard, AMECO.

equity instruments, tax incentives and regulatory frameworks around clear long-term objectives, such as increasing the number of VC transactions, supporting scale-ups, or attracting foreign VC investors.

An effective institutional framework is essential for competitiveness. This requires public trust built on integrity, quality legislation, regulatory simplification and efficient services for people and businesses. For Cyprus, the 2025 country-specific recommendations highlighted challenges in simplifying regulation, improving regulatory tools and reducing administrative burden, focusing especially on improving licensing and permit procedures for investment and setting up new businesses.

Public trust

Graph A7.1: **Trust in the justice system, regional / local authorities and in government**



(1) EU-27 since 2019; EU-28 before
Source: European Commission, Standard Eurobarometer surveys

Trust in government has returned to pre-COVID levels, while trust in justice continues to deteriorate and trust in regional and local authorities has remained relatively stable (Graph A7.1). Moreover, 41% of people perceive public administration as insufficiently close to them, and 44% view Cypriot civil servants as under-skilled (the highest percentage in the EU)([128]). While businesses retain confidence in the public administration's ability to handle their data securely and responsibly, people question the public administration's ability to protect their information adequately([129]).

Quality of lawmaking

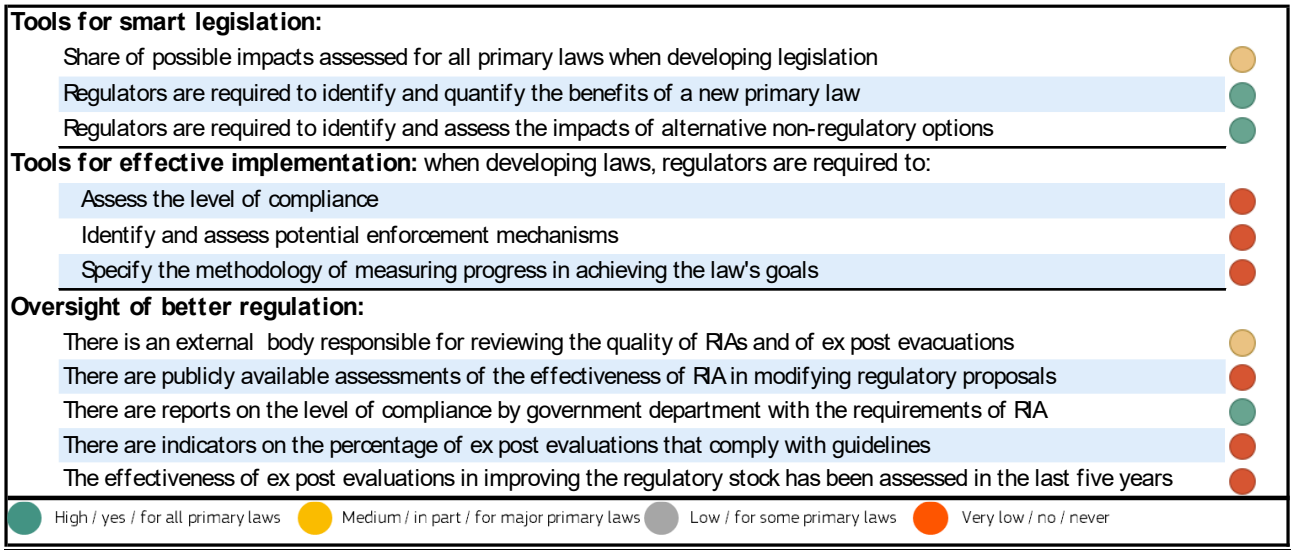
Despite some progress, gaps persist in quality of lawmaking (Table A7.1). Regulatory impact assessments are mandatory for all primary laws, partially addressing the 2025 country-specific recommendations to improve regulatory tools, but only some subordinate regulations are assessed. Although regulators must assess the costs and benefits for government, people and businesses when drafting primary laws, such assessments are not required for subordinate legislation. Similarly, the impact of non-regulatory options is systematically assessed exclusively for primary laws. Ability to monitor the implementation of legislation is weakened by the absence of formal requirements for legislators to develop methods of measuring progress, identify enforcement mechanisms and assess compliance levels. Overall oversight and quality control remain below the EU average. The oversight of better regulation tools is also undermined by the lack of publicly available assessments of the effectiveness of regulatory impact assessments in amending regulatory proposals. Importantly, Cyprus has no system for *ex post* evaluation to verify whether rules achieve their objective in practice([130]). With the Technical Support Instrument, Cyprus is digitalising the lawmaking process, including the drafting and consolidation of legislation, as well as publishing legislation in a machine-readable and interoperable format.

([128]) European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([129]) European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([130]) OECD, 2025, Better Regulation Practices across the European Union 2025, https://doi.org/10.1787/6f007516-en.

Table A7.1: **Cyprus. Selected indicators on better regulation practices for primary legislation**



Source: OECD, 2025, Regulatory Policy Outlook 2025 [https://doi.org/10.1787/56b60e39-en] and Better Regulation across the European Union 2025.

Consultation on legislative proposals has improved but transparency challenges remain. Further to the launch of an interactive online platform (e-consultation.gov.cy), updated guidance in 2024 requires at least four weeks of consultation on all primary laws, and on some subordinate regulations. However, stakeholders are consulted only after regulations have been drafted, rather than during initial option development([131]). Furthermore, regulators are not obliged to publish online responses to consultation comments for primary and subordinate legislation, hampering transparency in lawmaking.

In response to the 2025 country-specific recommendations, Cyprus is simplifying laws and improving its business environment. Government action plans focus on simplifying rules, with the Law Commissioner revising national legislation, albeit on an ad hoc basis. Also, the Business Support Centre has been set up as a single contact point for investors, aiming to streamline permits and cut red tape (see also Annex 5). Effective monitoring is essential to ensure this change results in reduced administrative burdens for businesses.

Public service delivery and digitalisation

Despite some progress with digitalisation, Cyprus is facing significant challenges relating to user-friendliness and overall satisfaction. Only 29% of people and 36% of companies are satisfied with public administrative services, well below the EU average of 45%. The main challenges faced by both people and companies (46%) are the lengthy processing and response times, highlighting administrative inefficiencies (Graph A7.2). However, there has been a notable improvement compared to 2023, as the perception of public administration as being slow has fallen from 67% to 49%. A substantial 77% of people are concerned about the need to repeatedly provide the same information, indicating a low level of data exchange and reuse within the administration. Furthermore, 34% of companies interact with public administration just to obtain necessary information, indicating a lack of clear guidance. Additionally, 37% of businesses find it challenging to collect and prepare documents,

([131]) OECD, 2025, Better Regulation Practices across the European Union 2025, https://doi.org/10.1787/6f007516-en.

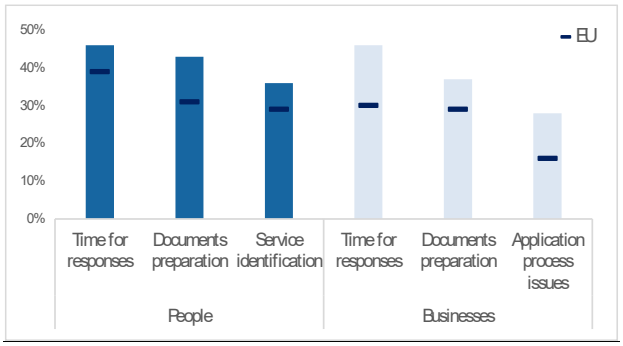
Table A7.2: **Digital Decade key performance indicators: availability of digital public services**

	Cyprus			EU-27
	2023	2024	2025	2025
Digital public services for citizens (0 to 100)	64	74	78	82
Digital public services for businesses (0 to 100)	85	86	86	86
Access to electronic health records (0 to 100)	70	68	75	83

(1) Digital Decade target by 2030: 100. (2) Publishing year, data was collected in the previous year
Source: European Commission, State of the Digital Decade report 2025

suggesting a need for step-by-step instructions. 34% of companies report increased operational costs due to challenges with the public administration. Some 28% of them report wasting time because of difficulties in resolving errors during application processes, exemplified by the cumbersome online business registration process, which lacks user-friendly interfaces and clear instructions([132]).

Graph A7.2: **Most time-consuming aspects of service delivery**



Source: European Commission. Flash Eurobarometer 567 / 568 on satisfaction with administrative services (2026)

Availability of digital public services for people remains below the EU average (Table A7.2). The number of people interacting online with the government dropped from 79% to 75%, falling below the EU average (EU 76%). Nevertheless, Cyprus has undertaken strategic initiatives, evidenced by advancements in establishing a national digital identity (eID). Also, substantial funding has been allocated under the RRP to digitalise public services through a digital one-stop shop known as the 'Digital Services Factory' and to implement a new service standard framework([133]). Despite efforts to promote digital services, Citizen Service Centres remain the preferred mode of access, with digital applications rising slowly from 0.5% to 5% for ID applications. Further efforts are needed to improve user experience, for example by offering more pre-filled features on the gov.cy portal during the ID card application, ensuring exchange with Civil Registry data([134]). The availability of access to electronic health records, while improving, remains below the EU average.

The provision of digital public services for businesses is in line with the EU average but has not improved since 2023 (Table A7.2). At the same time, 75% of companies report using digital public administration services always or often, and 85% believe that digital services save time and effort([135]). For example, the company registration process is now largely digital, featuring automated checks, online tax registration and electronic signatures compliant with the EU's eIDAS Regulation. Further measures are needed to improve the online service by eliminating mandatory physical presence, integrating submission tools into a cohesive system, increasing transparency

([132])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([133])https://dsf.dmrid.gov.cy/service-standard.

([134])European Commission, forthcoming, Simplification of key life events.

([135])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

and improving interoperability with external registries([136]).

Cyprus has made progress in modernising its planning and building permit system, improving digital processes and multi-level governance. Since July 2024, the permit system was significantly reformed by transferring authority for planning and building permits from individual municipalities and district offices to five newly established district local government organisations (DLGOs). This reform streamlined a fragmented system of over 30 authorities to five, operating under a standardised digital process. Alongside the DLGO reform, Cyprus launched a single digital platform for development permits (Ippodamos)([137]), funded under the RRP. It processes planning and building permit applications through an online portal at gov.cy, implementing statutory timelines and a silent consent mechanism for automatic approval if deadlines are not met. Initial transition challenges affected statistics, but according to performance data, over 40 000 permits had been processed by February 2026, with monthly building permit issuance increasing by 190% and planning permits by 54%.

Despite initial progress, challenges persist in fully implementing a streamlined digital platform for renewable energy permitting. The 'Digital One-Stop Shops', funded by the RRP to digitise renewable energy permits in Cyprus through bfu.meci.gov.cy([138]), is facing challenges in achieving full digital approvals, primarily due to interoperability issues, affecting solar park and storage submissions.

Cyprus has enabled the cross-border exchange of data and administrative documents through the EU once-only technical system([139]). As once-only enabled services([140]) become accessible, people and businesses will no longer have to search for their data, manually download and upload documents across e-government portals in different Member States. Cyprus still needs to identify the types of documents and data needed for exchange through the system and explore ways to shift from submitting unstructured to structured data formats. It has authority registries in the population domain connected. Further efforts are needed to connect authorities to the once-only technical system, foster cross-border exchanges, and encourage cooperation between related EU-wide projects.

Civil service

Cyprus is advancing with reforms for a merit-based civil service. The new system for recruitment and promotions through examination centres (adopted in 2024) has been used to fill management positions such as directors of departments and permanent secretaries. Furthermore, a written examination for middle management posts was conducted at these centres, with the Public Service Commission expecting to complete the process in 2026.

As of April 2026, Cyprus's public service will adopt a regulated hybrid working model, as expected under the Cypriot RRP([141]). This follows the introduction of a new manual by the department of public administration and personnel. The manual, tied to a law regulating remote work, published in the official gazette

([136])European Commission, forthcoming, Simplification of key life events.

([137])https://hippodamus.tph.moi.gov.cy/.

([138])https://bfu.meci.gov.cy/el/home/.

([139])European Commission, *Once-Only Technical System Acceleratormeter*, Ec.europa.eu.

([140]) Procedure types under Annex II of the SDGR (2018/1724/EU) and directives 2005/36/EC, 2006/123/EC, 2014/24/EU and 2014/25/EU.

([141])Component 3.2, Reform 2 (C3.4R2): Regulate flexible working arrangements in the public sector, milestones 158 and 159.

in December 2025, outlines the practical aspects of the model. These include eligibility criteria, application processes, equipment standards and essential safeguards for cybersecurity and personal data([142]).

Despite these improvements, ageing and the rate of upskilling pose a risk to civil service capacity. Cyprus still lags behind on civil servants' participation in adult learning (Cyprus: 12%; EU: 19%). In addition, the civil service is ageing faster than the workforce in the rest of the public sector and in the overall economy([143]).

Integrity

Although corruption is widely perceived as a serious issue for doing business in Cyprus, reported experiences of corruption remain below the EU average. With 93% of companies viewing corruption as widespread (EU: 63%) and 90% stating that overly close links between business and politics lead to corruption (EU: 76%), perceptions point to entrenched, systemic risks. The fact that 66% also see corruption as a problem when doing business (EU: 35%)([144]) suggests these concerns translate into real-life obstacles for companies. A sector that is particularly vulnerable to corruption in Cyprus is public procurement([145]) (see also Annex 5). Despite very high overall perceptions of corruption, relatively few companies report being asked for gifts, favours or extra money for permits, services or procurement (Cyprus: 6%; EU: 10%). However, only 10% believe that those caught bribing a senior official are punished appropriately (EU: 33%)([146]), suggesting that high perceptions may be driven less by day-to-day solicitation and more by low confidence in effective enforcement at senior levels.

Cyprus has taken some steps to improve prevention and detection of corruption. The Independent Authority Against Corruption can appoint its own permanent staff. An awareness, education and prevention strategy is being implemented. Two laws establishing standards for regular and detailed asset declarations and audits for both elected and appointed officials (including politically exposed persons or 'PEPs') entered into force and are being enforced. Compliance with lobbying rules is improving, which is helping to increase transparency between the private and public sectors. Training courses on whistleblower reporting were organised and codes of conduct for public officials were approved.

Cyprus has taken some measures to improve the investigation and prosecution of corruption. Police investigations of corruption cases continued steadily while the Anti-Corruption Taskforce (within the Attorney General's Office) continued to supervise the investigation and prosecution of corruption offences, including high-level cases. The amounts of recovered assets also increased. A new District Financial Crime Investigation Office was set up in Paphos, with five specialised investigators. Police acquired direct access to the Land Registry and the Companies Ultimate Beneficial Owners Registry, which improves their investigative capacity and efficiency, and enhances cooperation with other Member States.

([142]) https://cyprus-mail.com/2026/01/13/cyprus-public-service-sets-out-rules-for-hybrid-remote-work.

([143]) European Commission, Eurostat, 2026, European Union Labour Force Survey, Participation rate of employees in education and training (last 4 weeks) by NACE Rev. 2 activity (2008-2026), European Commission, Eurostat, 2026, European Union Labour Force Survey, Employed persons by economic activity (NACE Rev. 2) (2008-2026).

([144]) European Commission, 2025, Flash Eurobarometer survey 557 on Businesses' attitudes towards corruption in the EU.

([145]) European Commission, 2025, Rule of Law Report.

([146]) European Commission, 2025, Flash Eurobarometer survey 557 on Businesses' attitudes towards corruption in the EU.

Justice

The efficiency of the justice system continues to face serious challenges. The time taken to reach a decision in civil and commercial cases at first instance courts rose to 682 days in 2024 (from 605 days in 2023) and remains one of the highest in the EU. The estimated time taken to resolve administrative cases at first instance courts also increased (788 days in 2024, compared to 380 days in 2023). Although the targets for the reduction of backlog cases set by the National Recovery and Resilience Plan have been reached and surpassed, a substantial number of backlog cases persist**.** Delays and difficulties in enforcing final judgments, which are delivered after lengthy proceedings, are an additional challenge. Improving the efficiency of the judicial sector is essential to support investment-driven growth. The establishment of the Commercial and Admiralty Courts could speed up high-value dispute resolutions, but neither is operational yet. Cyprus has long underperformed in digitalising its justice system. The country lags behind in digital solutions to initiate and follow proceedings in civil/commercial and administrative cases, as well as in the general public's online access to published judgments and on arrangements for producing machine-readable judicial decisions. A comprehensive reform is needed to digitalise the justice sector. A fully functional, integrated electronic case management system is still lacking, hampering judicial digital transformation, complicating tasks such as court statistics collection and reducing efficiency. An upgrade of the current case management system is underway, however full implementation is not expected until 2030. Plans to gradually introduce digital audio recording in court proceedings to replace stenography have been abandoned. Save for the upgrade of the existing i-justice system, no major reform is currently planned to maximise the effective use of digital technologies in courts. However, previously identified concerns about the independence and accountability of the prosecution service remains. This is mainly due to delays in advancing an ambitious reform, which should lead to separation of the Attorney General's dual role as legal adviser to the government and head of the prosecution service, and the introduction of an effective review of decisions not to prosecute([147]).

([147]) For a more detailed analysis of the performance of the justice system in Cyprus, see the upcoming 2026 EU Justice Scoreboard and the 2025 Rule of Law Report, link.

ANNEX 8: INDUSTRY DECARBONISATION, CIRCULARITY AND CLIMATE MITIGATION

Cyprus faces multiple challenges, especially on the transition to a decarbonised and circular economy, as well as on water pollution. Abating emissions from the manufacturing sector, especially from non-energy sources, requires additional efforts. The 2025 country-specific recommendations to Cyprus underscored the need for progress on sustainable transport, to invest more in waste management infrastructure, and for further action to prevent waste and improve the separate collection of municipal and packaging waste. To promote sustainable transport, some measures are being implemented but further action is necessary. Despite increasing employment in the circular economy, the implementation of the action plan for the transition to a circular economy remains slow, with very low scores on recycling rates and on performance in waste management.

Industry decarbonisation

Greenhouse gas emissions from industry

Cyprus's industrial emissions remain hard to abate, notably process emissions from the non-metallic mineral sector that includes cement production ([148]). In 2024, manufacturing production provided for 18% of Cyprus' greenhouse gas emissions, similar to the share in the EU overall ([149]). With 1.28 kg CO2eq per euro of gross value added (GVA) in 2023, the GHG emissions intensity of manufacturing in Cyprus was the highest among EU Member States. In manufacturing, 29% of GHG emissions stem from energy use, while the remaining 69% are non-energy related, generated by industrial processes and product use. Between 2017 and 2022, the emissions intensity from non-energy sources decreased by 7%, the lowest improvement in the EU compared with an average reduction of 23%. Over the same period, the emission intensity from energy use improved by 17%, in line with the EU average. Energy-intensive industries generated 17% of Cyprus's manufacturing GVA in 2022, of which 11 percentage points came from the processing of non-metallic minerals ([150]). This sector emits 9.9 kg of CO2eq per euro of GVA – four times the EU average of 2.4kg ([151]).

Policies to promote industry decarbonisation

Cyprus has some measures to boost industrial decarbonisation. Its updated national energy and climate plan (NECP) describes measures to promote the decarbonisation of Cyprus' energy-intensive

([148]) This Annex discusses the transition of Cyprus' manufacturing industry, specifically its energy-intensive industries, to low-carbon and net-zero modes of production, which is key to preserving competitiveness on the path towards climate neutrality as mandated by the European Climate Law. A broader perspective on the current competitiveness challenges facing Cyprus' manufacturing industry is provided in Annex 5. For a more detailed description of greenhouse gas emissions from industry, see European Commission (2025), 2025 Country Report - Cyprus, Commission staff working document, SWD (2025) 205 final, Brussels, 4.6.2025, Annex A7. Clean industry and climate mitigation.

([149]) Data on the manufacturing sector exclude the NACE division C19 – manufacture of coke and refined petroleum products, for better match of the sectoral data from Eurostat (gross value added) with those from the UNFCCC under the Common Reporting Format. Also see further indicators on industry decarbonisation, as well as the annotation for further information, in table A8.1 at the end of this Annex.

([150]) See European Commission (2025), 2025 Country Report – Cyprus, Commission Staff Working Document, SWD (2025) 213 final, Brussels, 4.6.2025. Annex A7: Clean industry and climate mitigation, pp. 55ff.

([151]) See European Commission (2025), Climate Action Progress Report 2025, Commission Staff Working Document – Technical Information, November 2025. Section 4.2: Industry emissions, pp. 43ff.

industries ([152]). For example, the local cement industry is already implementing a scheme to replace coal and coke with solid biomass, mainly derived from waste ([153]). The updated NECP recognises the key role of carbon capture, utilisation and storage (CCUS) in tackling hard-to-abate emissions ([154]). Despite lacking a comprehensive CCUS strategy, Cyprus is considering the deployment of CCUS systems for EU ETS installations in the electricity, cement and ceramics industries ([155]). To further abate its industrial emissions, CY should develop decarbonisation solutions which could then be supported by EU funding programmes such as the Innovation Fund.

Reduction of effort sharing emissions

Compliance with effort sharing limits with domestic measures

Cyprus's effort sharing emissions are projected to be above its target in 2030; earlier years' unused emission allocations are not sufficient to close the gap and achieve compliance with the Effort Sharing Regulation ([156]). In 2024, greenhouse gas emissions from Cyprus' effort sharing sectors are expected to have been 6.4% above 2005 levels. By 2030, current and planned policies and measures are expected to lead to a 25.9% reduction, leaving a gap of 6.1 percentage points to the 2030 target, a 32% reduction. Cyprus could bridge part of this gap with own unused annual emission allocations from earlier years but would also need allocations from other Member States to achieve compliance with the Effort Sharing Regulation. Progressing to climate neutrality would require swift implementation of additional measures and the identification of new measures.

Sustainable transport

Cyprus has been taking some measures to promote clean transport, but much remains to be done. Road transport generates the highest share of effort sharing emissions in Cyprus, at 48% in 2024 ([157]). The 2025 country-specific recommendations for Cyprus highlighted challenges on sustainable transport. To address this, Cyprus is implementing a coordinated set of legislative, infrastructural and policy measures to accelerate the transition to a low-emission transport system. The legal framework established by Law 117(I)/2023 on special measures for the reduction of atmospheric pollutants and greenhouse gases originating from road transport has led to measures to tackle road transport emissions, such as low-emission zones in urban areas ([158]).

([152]) See European Commission (2025), Commission assessment of the final updated national energy and climate plan of Cyprus, pp. 113ff.

([153]) See European Commission (2024), Final updated National Energy and Climate Plan of Cyprus 2021–2030, Brussels, December 2024. Section 2.3: Dimension energy security, pp. 46-47.

([154]) See European Commission (2025), Commission Assessment of the Final Updated National Energy and Climate Plan of Cyprus, May 2025. Section 2: Consideration of Commission Recommendations on draft NECP update, pp. 113ff.

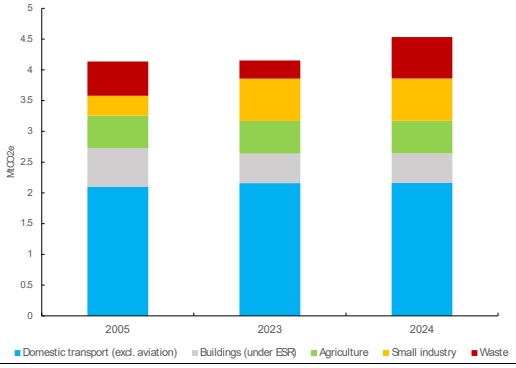
([155]) See European Commission (2025), 2025 Country Report – Cyprus, Commission staff working document, SWD (2025) 213 final, Brussels, 4.6.2025.. 55ff.

([156]) The national GHG emission reduction target is set out in Regulation (EU) 2018/842 (the Effort Sharing Regulation). It applies jointly to buildings (heating and cooling), road transport, agriculture, waste and small industry (known as the effort sharing sectors). The emissions from effort sharing sectors for 2024 are based on approximated inventory data. The final data will be established in 2027 after a comprehensive review. Projections about the impact of current policies ('with existing measures', WEM) and additional policies ('with additional measures', WAM) as per Cyprus' 2025 reporting under Article 17 of Regulation (EU) 2018/1999 (the Governance Regulation). See also European Commission (2025), Climate Action Progress Report 2025 – Technical Information, Commission staff working document, Brussels, Chapter 9 (pp. 111ff.), and in particular Tables 25 and 26.

([157]) See Graph A8.1, and Table A8.1 at the end of this Annex.

([158]) Information from Cyprus' written response to the 2025 European Semester mission questionnaire.

Graph A8.1: **Greenhouse gas emissions in the effort sharing sectors, 2005, 2023, and 2024**



Source: European Environment Agency.

Grant schemes and other investments are being deployed to promote cleaner means of transport. A grant scheme is being implemented under the Recovery and Resilience Facility (RRF), with a total estimated budget of approximately EUR 50 million. Completion is expected by June 2026. The scheme provides incentives for the uptake of zero-emission vehicles, alongside measures supporting the withdrawal of older, high-emitting vehicles. The cohesion policy programme *Thalia 2021–2027* invests EUR 40 million from the ERDF in sustainable urban mobility to improve alternative, sustainable and environmentally friendly modes of transport. Under the Social Climate Fund, proposals for grant schemes are being promoted for the allocation of up to EUR 75 million to encourage vulnerable users to switch to cleaner forms of transport, in anticipation of rising fuel costs under ETS2 ([159]). In 2024, it invested EUR 19.4 million from EU ETS revenues in improving public transport ([160]). Lastly, the GreenH2CY project designed to produce hydrogen from renewable energy to refuel trucks and replace diesel vehicles in Cyprus received EUR 4.5 million from the Innovation Fund. The project is currently under development ([161]).

The share of alternative fuelled light-duty vehicles in Cyprus in 2025 is still very low, in the order of 0.5% of the fleet. The total number of alternative fuelled vehicles reached 5 655. Battery electric vehicles (BEVs) accounted for the highest share of alternative fuelled vehicles (3 404 BEVs in total). There are no hydrogen vehicles on Cyprus, indicating a preference for electric vehicles/BEVs, in line with the overall EU trend. In terms of alternative fuel infrastructure, by end 2025 Cyprus has installed 715 AC and 46 DC charging points. Cyprus has already installed 11 LPG refuelling points ([162]).

Sustainable industry

Circular economy industry

Progress on implementing Cyprus's 2021-2027 action plan for the transition to a circular economy is slow. The plan is built on four pillars: (i) cultural change for a circular economy (including a grant scheme for SMEs to move to circular economy models); (ii) providing incentives for investment in the circular economy; (iii) development of circular economy infrastructures; and (iv) municipal waste management. However, progress in most areas remains limited, despite growth in employment. Cyprus has the second lowest recycling rate of municipal waste in the EU, at 16% (against the EU average of 48% in 2023)([163]), far below the 2025 EU target of 55%, and one of the lowest construction and demolition waste recovery rates at 79%

([159])Information from Cyprus' written response to the 2025 European Semester mission questionnaire.

([160]) See European Commission (2026), Climate Action Progress Report 2025 – Cyprus Country Profile, January 2026. Section 5: Emissions in effort sharing sectors (ESR), pp. 9-12.

([161])See European Commission (2025), GreenH2CY: Green Hydrogen Project for Transport in Cyprus - Project Factsheet.

([162]) EAFO data.

([163])Eurostat, Recycling rate of municipal waste. Link.

(against the EU average of 89%)([164]). Cyprus has filed no patents related to recycling and secondary raw materials since 2015([165]).

On the positive side, there has been a 22% increase since 2014 in the number of people employed in the circular economy sector. Employment rose to 2.8% of total employment in 2023, above the EU average of 2%([166]). However, per capita material consumption has increased by 10.6% over the past five years to reach 22.14 tonnes per capita in 2024([167]). Resource productivity increased by 22% from 2019 to 2024, but it remains significantly below the EU average (EUR 1.69/kg, against almost EUR 3/kg)([168]). Waste generation is still one of the highest in the EU. The use of secondary materials was only 5.5% (albeit a significant increase since 2016, when it was 2.4%), against the EU average of 12.2%, underscoring persistent reliance on primary resources ([169]).

While Cyprus performs above the EU average on fiscal tools for circular practices, there is scope to raise further revenue and reduce waste. Cyprus collected revenue from environmental taxes of EUR 609 million in 2022, representing 2.2% of GDP (EU average: 2.0([170])%). Taxes on pollution and resources, at 0.25%, were higher than the EU average (0.08%). However, the landfill tax, which is part of the green taxation reform in Cyprus's RRP and was due to be rolled out in 2025 has been delayed. The roll-out of 'pay as you throw' schemes (so far only applied at a local scale) has also been delayed.

Cyprus performs significantly below the EU average on waste management. Although there has been an improvement since 2010 (but a plateauing over the past three years), the share of municipal waste landfilled was still one of the highest in the EU, at 66.4%, far above the EU average (22%) in 2024([171]), while the recycling rate was only 16%([172]). At 688 kg per capita, the volume of municipal waste generation is still one of the highest in the EU([173]). More broadly, the cohesion policy programme Thalia 2021–2027 invests EUR 37.7 million from the Cohesion Fund in the circular economy to promote action that will help Cyprus meet its national targets to improve waste collection and management and support the transition to a circular economy.

Cyprus has adopted measures designed to improve the performance of extended producer responsibility (EPR) schemes for products rich in critical raw materials. EPR schemes have been set up for batteries, waste electrical and electronic equipment and for construction and demolition waste. For vehicles, end-of-life procedures are in place to ensure sustainable management. Reaching the circular economy and waste management objectives would require an increase in investment of EUR 53 million per year (up from current annual investments of EUR 71 million), representing 0.2% of Cyprus's GDP([174]).

Bioeconomy industry

Cyprus's bioeconomy supports the country's circular economy transition across several sectors. This is in line with the National Circular Economy Action Plan 2021–2027, which covers the primary, industrial and service sectors and aims to build a circular economy culture

([164]) Techno-economic and environmental assessment of CDW management, JRC, 2024. Link.

([165]) Eurostat, Patents related to recycling and secondary raw materials. Link.

([166]) Eurostat, Person employed in circular economy sectors. Link.

([167]) Eurostat, Material footprints. Link.

([168]) Eurostat, Resource productivity. Link.

([169]) Eurostat, Circular material use rate. Link.

([170]) European Commission, Environmental Implementation Review (2025), Cyprus *country report*, link.

([171]) Eurostat, Municipal waste by waste management operations. Link.

([172]) Eurostat, Recycling rate of municipal waste. Link.

([173]) Eurostat, Municipal waste by waste management operations. Link.

([174]) European Commission, Environmental Implementation Review (2025), Cyprus *country report,* Link.

among industry, businesses and consumers([175]). The food and beverage sector leads by turnover, creating value from agricultural residues into bio-based outputs including essential oils and biocomposites. The wood products and furniture sector is transitioning toward higher-value circular applications, while bio-based chemicals and plastics - the highest-performing sub-sector with 9.4% average growth in value added between 2018 and 2023([176]) - is emerging through microalgae research and bio-based polymer development. Despite these trends, labour productivity in the bioeconomy – measured as value added per person employed - fell from 64.9% to 52.3% of the national average between 2018 and 2023([177]). R&D business expenditure on the bioeconomy has grown slightly less than overall R&D expenditure in the country([178]).

Zero-pollution industry

The air quality in Cyprus is generally good, with some exceptions. Cyprus has significantly reduced its emissions of several air pollutants since 2005, despite continued GDP growth([179]). The highest costs of air pollution are the annual damages caused by PM10 pollution, PM10 pollution, estimated at EUR 95-([180])158 million. The European Environment Agency (EEA) estimates that 724 years of life are lost per 100 000 inhabitants attributable to air pollution from PM2.5 concentrations that exceed the Health Organization's air quality guidelines levels ([181]), as well as the EU average (see Annex 15). This form of pollution has seen a mostly upward trend since 2016 (see Annex 15).

Cyprus has not levied any new taxes on major air pollutants such as NOx, SO_2 or particulate matter in this period([182]). Bringing in a system to tax pollution could reduce pollutants by 7-30%, depending on the tax rate, while generating up to EUR 8 million in revenue by 2030([183]).

Water pollution from industry is a cause for concern. There has been a 546-fold increase in industrial heavy metal emissions (cadmium, mercury, nickel and lead) to water since 2010, as reported under the Industrial Emissions Directive([184]). On the positive side, 82.1% of Cyprus's surface water bodies is reported to achieve good chemical status. Water pollution by industry imposes direct and indirect costs of EUR 2 million annually([185]), not yet sufficiently borne by the polluters.

The total economic cost of industrial pollution in Cyprus is EUR 0.7 billion per year encompassing healthcare expenses, lost productivity([186]) and environmental

([175]) European Environment Agency, Cyprus country profile, available at: cyprus-ce-country-profile-2022_for-publication.pdf.

([176]) Joint Research Centre, Developments of Economic Growth and Employment in Bioeconomy Sectors across the EU, Link.

([177]) Ibid.

([178]) Business expenditure in Research and Development (R&D) in the EU bioeconomy, JRC analysis.

([179]) European Commission, Environmental Implementation Review (2025), Cyprus *country report,* Link.

([180]) European Commission: Directorate-General for Environment, EMRC, Logika Group and RPA Europe; Update of the costs of not implementing EU environmental law (2025), Link. The damage cost is computed as VOLY.

([181]) EEA, 2025, *Harm to human health from air pollution in Europe: burden of disease status*, 2025, Link.

([182]) European Commission: Directorate-General for Environment, Camboni, M., Markandya, A., Tyrer, D., Goonesekera, S. et al., *Greening the European Semester – Resource and pollution taxes. Annex 6, Country factsheets*, Publications Office of the European Union, 2026. Link.

([183]) European Commission: Directorate-General for Environment, Camboni, M., Markandya, A., Tyrer, D., Goonesekera, S. et al., *Greening the European Semester – Resource and pollution taxes. Annex 6, Country factsheets*, Publications Office of the European Union, 2026. Link.

([184]) EEA, Water pollutant releases changes from 2010 to 2022 for the EU Member States, 2024, Link.

([185]) European Commission: Directorate-General for Environment, IEEP, Green taxation and other economic instruments – Internalising environmental costs to make the polluter pay, 2021, Link.

([186]) EEA, The cost of health and the environment from industrial air pollution in Europe - 2024 update, 2024. Link.

degradation. However, investment still falls short of the needs. To meet national and EU targets on pollution prevention and control, Cyprus would need to spend an additional EUR 33 million per year (0.12% of GDP), mostly on ([187]) measures.

The costs reported are computed as value of a statistical life.

([187]) 2025 Environmental Implementation Review (SWD(2025) 304 final), country report – Cyprus, Link.

Table A8.1: **Key clean industry and climate mitigation indicators: Cyprus**

Climate mitigation	Cyprus							Trend	EU	
Industry decarbonisation	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emissions intensity of manufacturing production, g/€ (1)	1270	1141	1255	1237	1379	1277	-	↗	330	-
Share of energy-related emissions in industrial GHG emissions (2)	31.3	32.2	30.7	30.3	29.9	28.7	-	↘	55.5	57.9
Energy-related GHG emissions intensity of manufacturing and construction, g/€ (3)	462.4	435.5	445.7	452.6	510.5	452.8	-	↗	203.9	163.0
Share of electricity and renewables in final energy consumption in manufacturing, % (4)	34.6	33.6	36.1	38.2	37.8	38.4	36.6	↗	42.8	43.9
Energy intensity of manufacturing, GWh/€ (4)	2.08	1.89	2.10	2.11	2.35	2.09	1.97	↘	1.27	1.05
Share of energy-intensive industries in manufacturing production, % in GVA (5)	16.42	16.62	17.92	17.67	16.65	19.05	-	↗	-	-
GHG emissions intensity of production in sector [..], g/€ (6)										
- paper and paper products (NACE C17)	202	184	242	129	122	110	-	↘	722	619
- chemicals and chemical products (NACE C20)	169	172	195	263	457	335	-	↗	-	-
- other non-metallic mineral products (NACE C23)	10 353	8 798	9 006	9 553	11 045	8 859	-	↗	2 495	2 352
- basic metals (NACE C24)	177	166	143	82	109	66	-	↘	2 842	3 099
Reduction of effort sharing emissions	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emission reductions relative to base year, %				-6.9	-5.7	-4.4	6.4			
- domestic road transport	0.2	1.5	-9.1	-7.9	-5.2	2.8	2.9	↗	-1.4	-5.6
- buildings	-22.1	-9.7	-14.8	-19.6	-14.8	-23.7	-23.7	↘	-20.3	-33.5
	2005			**2021**	**2022**	**2023**	**2024**	**Target**	**WEM**	**WAM**
Effort sharing: GHG emissions, Mt; target, gap, %	4.3			4.0	4.0	4.1	4.5	-32.0%	-3.8%	-25.9%
Sustainable road transport	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**		**2018**	**2021**
New zero-emission vehicles, electricity motor, % (7)	0.04	0.46	0.41	0.74	3.46	5.38	7.92		↗	1.03	8.96
Number of publicly accessible AC/DC charging points (8)	-	-	47	60	67	329	512	761	↗	446956	n/a
Share of electrified railways, % of total (9)	-	-	-	-	-	-	-			55.47	56.49

Sustainable industry	Cyprus							Trend	EU-27	
Circular economy transition	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**latest data**
Material footprint, tonnes per person	19.5	20.0	19.1	19.9	19.9	21.2	22.1	↗	14.8	13.7
Circular material use rate, %	2.8	3.2	3.8	5.8	8.3	5.4	5.5	↘	11.6	12.2
Resource productivity, €/kg	1.4	1.4	1.4	1.4	1.7	1.7	1.7	↗	2.1	3.0
Employees in circular economy	2.9	2.9	2.8	2.9	2.8	2.8	-		2.1	2.0
Patents in circular economy	0	-	-	-					12.3	12.0
Recycling rate	16.8	16.9	17.0	14.0	14.8	15.8	15.8		46.40	48.1
Plastic recyling	54%	50%	49%	42%	39%	:	-		41%	42%
Construction and demolition waste (CDW) recovery	64	-	79						88	89
Bioeconomy industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**CAGR 2018-2023**	**2018**	**2023**
Value added, million EUR	947	1 028	1 020	1 020	998	1 083	-	2.3%	642 438	863 436
Employment, total number of people employed	33 083	34 371	34 651	35 215	36 203	36 621	-	1.7%	17 649 040	17 085 642
Productivity										
Valued added per worker, thousand EUR	28.6	29.9	29.4	29.0	27.6	29.6	-	0.5%	36.4	50.5
Valued added per worker, % of national average	64.9	65.8	66.5	58.9	51.1	52.3	-	-3.5%	62.2	70.7
R&D business expenditure										
Total bioeconomy (biomass producing and converting sectors)	5	6	7	7	8	8		8.1%	15 672	23 335
Total R&D business expenditure	54	71	82	84	86	90	-	8.8%	196 587	259 525
Zero pollution industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2021**
Damage cost for industrial pollution	0.8	0.8	0.7	0.7	-	-	-		414.9	352.7

Water industrial pollutants releases	Cd, Hg, N, Pb		nitrogen		TOC		Phosporus	
	2021	change (2010)	2021	change (2010)	2021	change (2010)	2021	change (2010)
	427	22384%	612 079	297%	-	no data	110 562	151%
Water chemical status	Good		174	Good (%)	0.8		Poor	32.0	Poor (%)	15%

Sources and notes: **Industry decarbonisation:** All data are from Eurostat; data following the UNFCCC Common Reporting Format (CRF) are from the European Environment Agency (EEA), republished by Eurostat. (1) Sectors covered: all divisions of section C - Manufacturing - of the NACE Rev. 2 statistical classification of economic activities, except C19 (manufacture of coke and refined petroleum products). (2) GHG emissions as per UNFCCC Common Reporting Framework (CRF) categories 1.A.2 - fuel combustion in manufacturing in industries and construction (that broadly correspond to the broadly correspond to the NACE sections C - Manufacturing and E - Construction, excluding C-19), and CRF2 - industrial processes and product use. The figures shows the emissions in the 1.A.2 category as a share of the sum of CRF1.A.2. and CRF2 emissions. (3) Sectors covered: CRF 1.A.2 as described above. Gross value added (GVA) data in the denominator aligned in sectoral coverage, in 2020 prices. (4) Sectors covered: NACE section C excluding C19. (5) Nominator: NACE divisions C17, 20, 23, 24; denominator: NACE section C excluding C19 (see above). (6) GVA (denominator) in 2020 prices. **Reduction of effort sharing emissions:** Data source: European Environment Agency, greenhouse gas data viewer; European Commission, Climate Action Progress Report, 2025. For details, see the footnote in the "Reduction of effort sharing emissions" section. **Sustainable road transport:** (7) Source: Eurostat; (8) Source: European Alternative Fuels Observatory; (9) Source: Eurostat. For all climate mitigation indicators, the trend arrows compare the latest available data (year t) with the data four years earlier (t-4). **Sustainable industry**: Bioeconomy value added, employment and productivity: JRC, Developments of Economic Growth and Employment in Bioeconomy Sectors across the EU. Bioeconomy R&D business expenditure: JRC, Business expenditure in Research and Development (R&D) in the EU bioeconomy. Damage cost for industrial pollution: EEA, The costs to health and the environment from industrial air pollution in Europe, 2024. Water industrial pollutants releases: EEA, Industrial releases of pollutants to water and economic activity in the EU-27, 2024. Water chemical status: WISE, Surface water bodies: Chemical status, 2024 and WISE Groundwater bodies: chemical status, 2024. Other indicators: Eurostat. For circular economy indicators, the trend arrows compare the latest available data (year t) with the data two years earlier (t-2).

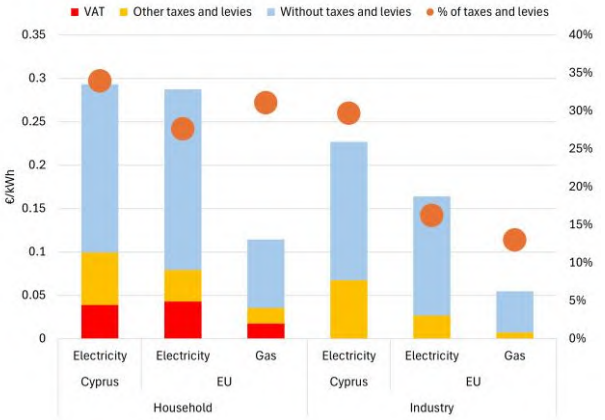
This annex outlines the progress made and the ongoing challenges faced in increasing energy affordability, while advancing the transition to net zero. It reflects the implementation of past energy-related country-specific recommendations (CSRs).

Cyprus's 2025 country-specific recommendations highlighted challenges regarding the island's energy isolation, its heavy reliance on fossil fuels and its underexploited potential for renewables. The recommendations called on Cyprus to develop energy interconnections with neighbouring countries and to upgrade its electricity grid to accommodate more renewables. Furthermore, Cyprus was encouraged to deploy large-scale energy storage to mitigate the curtailment of renewable energy and to scale-up energy efficiency funding. Overall, Cyprus has made progress with the roll-out of smart meters but still needs to address major delays affecting the delivery of storage infrastructure and the Great Sea Interconnector project.

Energy prices and costs

Electricity energy prices in Cyprus remain above the EU-27 average despite falling slightly in early 2025. Cyprus has reduced non-recoverable taxes and levies, which fell by nearly 10% compared to the previous year. Nevertheless, average household electricity prices in the first half of the year were EUR 0.2932/kWh, while industrial prices were EUR 0.2267/kWh (the third highest in the EU). For large businesses, taxes and levies (excluding VAT) for non-household consumers accounted on average for 30% of electricity bills, whereas for household consumers non-recoverable taxes and levies made up 29.2% of bills (the second highest in the EU)([188]). Energy poverty remains a pressing issue in Cyprus (see Annex 12).

Graph A9.1: **Electricity and gas prices for household and non-household consumers, first half of 2025**



(i) For household consumers, the consumption band is DC for electricity and D2 for gas.
(ii) For non-household consumers, the consumption band is ID for electricity and I4 for gas. VAT and recoverable charges are not displayed for non-household consumers as these are typically recovered by businesses. This also applies to the '% of taxes and levies', which is shown excluding VAT and recoverable charges for non-household consumers.
(iii) 'Without taxes and levies' indicates the retail price excluding all taxes and levies. It always includes the energy/supply and network cost components, which are not disaggregated in Eurostat's six-monthly price dataset.
Source: Eurostat

Flexibility and electricity grids

In October 2025, Cyprus launched its competitive electricity market, which marked an important milestone in its energy transition. More work remains to be done so that the various timeframes on which the market is based mature and align with those of other – interconnected – Member States.

Cyprus's 2025 country-specific recommendations called for energy interconnections to be developed with neighbouring countries, notably with Greece, through the Great Sea

([188])Eurostat.

Interconnector (GSI) project, as the country remains the only EU Member State isolated from the internal energy market. The project, which in its first phase will connect Cyprus to Greece through Crete, has been beset by delays. As a Project of Common Interest, it has received substantial EU funding from the Connecting Europe Facility (CEF), notably the largest ever grant to a single Project of Common Interest of EUR 658 million to construct the section between Cyprus and Crete. Moreover, the project is one of eight Energy Highways included in the European Grids Package.

Despite Cyprus's 2025 country-specific recommendation to upgrade the electricity grid to accommodate an increasing share of renewables, the country has again seen major delays in the connection of new renewables plants to the grid. This stresses the importance of Cyprus further expanding and upgrading its electricity system and grid, something which is currently under progress. The level of curtailment of renewable energy remains a very serious issue greatly hampering renewables consumption from increasing in Cyprus. In 2025, the curtailment of renewable energy went up by 83% compared to 2024, reaching 306 GWh (167 GWh in 2024). Under the EU's cohesion policy, the Thalia 2021–2027 programme is investing EUR 97.1 million from the Just Transition Fund in increasing the incorporation of renewable energy sources into the energy mix and supporting energy-intensive businesses, while also helping to upskill the workforce through training and education in green skills and jobs.

Cyprus has no non-fossil electricity storage capacity in operation and has experienced record-high levels of renewable energy curtailment due to its lack of storage capacity and grid flexibility. In an effort to address the 2025 country-specific recommendation to deploy energy storage, there are projects being under development and the Cypriot Ministry of Energy, Commerce and Industry last year published guidelines on a grant scheme for energy storage systems in combination with renewable energy sources, with a total budget of EUR 35 million. Even though the regulatory framework for storage has been in place since 2019 and permits were issued in 2023 for stand-alone and co-located storage facilities, no project has yet been brought into operation. Cyprus would benefit from further encouraging and developing energy storage capacity and grid flexibility in order to avoid future curtailment and prevent blackouts as observed during the summer of 2025.

Financed by the Recovery and Resilience Facility, Cyprus began the roll-out of smart electricity meters in early 2025, following procurement challenges and delays. Cyprus has thus made progress towards achieving the 2025 country-specific recommendation on upgrading the grid. The objective is to install 400 000 smart meters by 2027, followed by a second phase where an additional 200 000 meters will be installed, covering all electricity consumers. The deployment of smart meters will help to empower consumers and support new capacity, including photovoltaic, in the electricity system through smart energy services. Cyprus has introduced provisions on renewable energy communities (RECs) and citizen energy communities (CECs) in its national framework. Furthermore, Cyprus's Energy Regulatory Authority (CERA) has adopted a 'Regulatory framework to promote and facilitate the development of energy communities and renewable energy communities', aimed at simplifying the activation of energy communities. Despite this, progress in establishing energy communities has been slow.

In 2024, electricity accounted for 27.4% of Cyprus's final energy consumption (above the EU average of 23.4%), a share which has increased slightly over the last decade([189])**.**

([189])CAGR (compound annual growth rate) of 1.16% between 2015 and 2024 and minimum/maximum share of 24.6% and 26.0%, respectively (Source: Eurostat).

Electricity accounts for 46.4% and 21.5% of household and industrial final energy consumption respectively (see Annex 8). In the transport sector, the share accounted for by electricity remains negligible at 0.1%. Further progress in electrification across sectors would help to cost-effectively decarbonise the economy and bring the benefits of affordable renewable generation to consumers.

Renewables and long-term contracts

Cyprus has made progress deploying renewables, with 27.4% of its electricity mix supplied by renewables in 2025, as compared to 24% in 2024([190]). Installed capacity for renewables in Cyprus represented 1,042 MW in 2025, an increase of 13.3% compared to 2024 (920 MW). Installed capacity for wind energy grew to 170 MW in 2025 (compared to 158 MW in 2024, +7.6%), whilst installed capacity for solar grew notably (+14.6% compared to 2024), reaching 861 MW([191]). In the final version of its updated national energy and climate plan, Cyprus set a renewables target of 33.17% by 2030, just above the contribution calculated under the EU Regulation on the Governance of the Energy Union and Climate Action. Furthermore, under the EU's cohesion policy, the Thalia 2021–2027 programme is investing EUR 22.1 million from the European Regional Development Fund and the Just Transition Fund in the promotion of renewable energy sources.

In 2025, Cyprus adopted a new law in order to amend pre-existing legislation and transpose a new ambitious permitting framework for renewables in line with the revised Renewable Energy Directive, however work is still needed to fully transpose the Directive. Cyprus has expanded its digital one-stop-shop/single point of contact by including a digital permitting portal. However, issues remain in particular with regard to incorporating and coordinating the ministries and authorities involved in the licensing process. Interest in storage projects (stand-alone and co-located solar and battery storage – mostly lithium batteries) has increased significantly, however the permitting process has been causing major delays. In 2025 Cyprus delivered on its commitment to install 12 MW of onshore wind capacity as one of its Wind Pledges under the European wind power action plan. As a result, the total installed wind capacity reached 170 MW. In addition, no schedule on the expected allocation of support for renewables has been published on the Union Renewables Development Platform. Nevertheless, the Cypriot government is continuing its support scheme under Cyprus's recovery and resilience plan aimed at fitting existing homes with photovoltaic systems and/or roof insulation([192]).

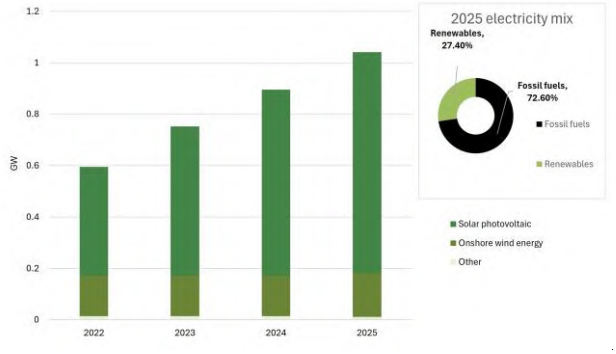
Once again, Cyprus has yet to register any corporate renewable power purchase agreements, in part due to ongoing market liberalisation. Similarly, contracts for difference continue to suffer from a lack of visibility.

([190]) ENTSO-E Transparency Platform.

([191])Renewable capacity statistics 2026, IRENA.

([192]) https://resecfund.org.cy/en/SX_2024.

Graph A9.2: **Cyprus's installed renewable capacity vs electricity generation mix**



Electricity mix is given as net electricity generation (gross electricity production minus consumption of power stations' auxiliary services). Electricity produced in pumped hydro plants is excluded from total net electricity production, as it was previously counted as electricity produced from another source.
"Other" includes renewable municipal waste, solid biofuels, liquid biofuels, and biogas.
Source: IRENA, Eurostat

Energy efficiency

Cyprus has failed to make progress on energy efficiency, thus its 2025 country-specific recommendation to scale-up funding for energy efficiency remains relevant. In 2024, final energy consumption (FEC) increased by 2.6% to 1.92 Mtoe, as compared to 2023, continuing the slight upward trend observed since 2019. Cyprus's FEC in 2024 was not in line with the trajectory for meeting its expected contribution by 2030. While FEC since 2019 has decreased in the residential sector (-3.6%), it has increased in industry (+8.0%), services (10.6%) and transport (+1.1%).

Between 2019 and 2024, final energy consumption in the residential sector decreased by 3.6%, mostly driven by energy savings by households, including changes in heating behaviour. This decrease in residential final energy consumption is largely in line with Cyprus's 2020 long-term renovation strategy, which set an objective of an 8% reduction in energy consumption between 2020 and 2030. Given that buildings are responsible for 32% of energy use in Cyprus, they play an important role in improving energy efficiency. Cyprus has submitted its draft national building renovation plan pursuant to the recast of the Energy Performance of Buildings Directive in order to ensure a clear and predictable pathway towards an energy efficient and decarbonised building stock. Heating and cooling account for 70% of Cyprus's residential final energy consumption, with renewables supplying 43% of total energy used for heating and cooling across all sectors. Furthermore, heat pumps account for 23% of residential final energy consumption, while boilers make up 41.5%. Cyprus's Renewable Energy Sources and Energy Conservation Fund and its Save-Upgrade Homes grant scheme provide support for improving the energy performance of buildings, including for vulnerable households. However, the way the support schemes are designed could be improved to better target multi-apartment buildings. In 2025, Cyprus made progress towards achieving the intermediate target set under its recovery and resilience plan to improve the energy performance of at least 16 200 dwellings, including 1 600 households with vulnerable electricity consumers. This measure, which benefits from financial support, is aimed at achieving, on average, a reduction in primary energy demand of at least 30%. Furthermore, under the EU's cohesion policy, the Thalia 2021–2027 programme is investing EUR 76 million from the European Regional Development Fund in energy efficiency by supporting actions that will increase the energy performance of existing public and private buildings. Cyprus has not reported any ecodesign or energy labelling checks since 2010, which is a major breach of its legal obligations and seriously undermines a level playing field, consumer benefits and the EU's environmental and energy goals.

Security of supply and diversification

In 2024, Cyprus's energy mix([193]) **continued to be dominated by fossil fuels, with oil and petroleum products accounting for 85.2% of gross inland consumption, and renewables (including biofuels) accounting for 12.3%**. This is not in line with Cyprus's 2025 country-specific recommendation to reduce its reliance on fossil fuels and diversify its energy supply.

Cyprus aims to include natural gas in its energy mix and is developing an LNG terminal at the port of Vasilikos. This was a Project of Common Interest up to the fifth Union list, however the project has been hit by major delays. In terms of Cyprus's internal distribution grid, no progress has been to upgrade the grid, going against the 2025 country-specific recommendation to diversify Cyprus's energy supply. Cyprus currently benefits from a temporary exemption as regards EU natural gas interconnection rules due to certain projects which feature on the Union list of Projects of Common Interest and Projects of Mutual Interest. One such project is the EastMed project, a pipeline intended to transport gas from the Levantine Basin to Cyprus and then on to Greece, which will link Cyprus to the continental European gas grid via Greece. The project is in the pre-application stage as the project promoter has not yet filed a completed application.

In response to the regional crisis in the Middle East, Cyprus has reduced duties on petrol and transport fuels to EU Energy Taxation Directive minima and introduced electricity subsidies for vulnerable households and businesses. Additional measures include a VAT reduction on electricity from 21% to 5% (1 May 2026-31 March 2027), 30% wage subsidies for the hotel industry, and fertiliser subsidies for farmers.

Fossil fuel subsidies

In 2024, environmentally harmful ([1]) **fossil fuel subsidies without a planned phase-out before 2030 represented 0.11%**([2]) **of Cyprus's GDP**([3])**.** However, Cyprus's 2023 Effective Carbon Rate([5]) averaged EUR 76.47 per tonne of CO_2, below the EU weighted mean of EUR 84.80([194]).

([193]) Source: Eurostat. Electricity and heat are excluded from gross inland consumption to avoid double-counting. The focus is on primary energy sources.

([1]) Explicit fossil fuel subsidies (e.g. direct transfers) and implicit fossil fuel subsidies (i.e. tax expenditures linked to forgone tax revenues that have an identifiable fiscal impact for the central budget) that support fossil fuel energy production, transmission and/or consumption.

([2]) European Commission calculation based on underlying data from the *Study on energy subsidies and other government interventions in the EU – 2025 edition*, Enerdata.

([3]) 2024 Gross Domestic Product at market prices, Eurostat.

([5]) The Effective Carbon Rates is the sum of carbon taxes, ETS permit prices and fuel excise taxes, representing the aggregate effective carbon rate paid on emissions.

([194]) OECD (2024), Pricing Greenhouse Gas Emissions 2024.

Cyprus would benefit from increasing its efforts and become more resilient and prepared for the increasing negative impact of climate change. A comprehensive new adaptation strategy and action plan were finalised last year (their adoption is still pending) and its governance system can be improved (the specific CSR was issued on this in 2025). Wildfire risk is the main critical issue that would benefit from increased prevention measures. As highlighted in the 2025 CSR, Cyprus's high exposure to climate change impacts calls for significant investments across sectors (for example, in further progressing on systematic climate-proofing of infrastructure – including in coastal areas – and sustainability of the transport system).

Cyprus also faces chronic water scarcity. This poses challenges for water-dependent sectors – particularly for sustainable water use and wastewater treatment - and entails a high risk of hydropower reduction. Ageing infrastructure is causing drinking water leaks. Cyprus is addressing these issues through its recovery and resilience plan, which is funding several water-related actions, as well as ESIF, with funds for water actions increasing in the context of the mid-term review. The 2025 CSR highlighted the need to step up investment in water and wastewater, and to promote sustainable water use practices. Cyprus is also struggling with habitat degradation, and with environmental and public health risks due to agricultural pollution (particularly from nitrates and pesticides). Finally, Cyprus's slow transition to a circular economy highlights the need for further efforts to improve resource efficiency, waste reduction and sustainable practices.

Climate adaptation and preparedness

Cyprus is subject to climate risks and extreme weather events and still lacks substantial resources for climate adaptation. Wildfires and water scarcity pose the highest risk. The 2025 wildfire season in Cyprus was marked by extreme conditions (including a severe heatwave and dry weather) that resulted in the worst wildfire in Cyprus's history, burning an area almost as large as Nicosia. In July, fires destroyed and damaged houses, agricultural land and Natura 2000 sites; and killed two people. In addition, climate changes are increasingly affecting fisheries and aquaculture ([195]). In February 2025, Cyprus presented its revised national adaptation strategy (NAS) for 2025-2050, containing an adaptation plan. The NAS is still awaiting adoption at the ministerial level. A relevant technical support instrument (TSI) project, which was signed in November 2023 and initiated in January 2024, supported the preparation of the revised adaptation strategy and plan. Cyprus intends to reduce its vulnerability to climate change impacts by strengthening its governance and promoting cross-sectoral coordination. The revised NAS has 15 policy areas and 118 measures (each measure will be linked to the strategic goals of these 15 policy areas and to 2 cross-sectoral areas). The NAS is accompanied by a national adaptation plan, which outlines how the NAS is to be implemented. It particularly specifies how adaptation efforts are to be coordinated and allocates responsibilities to individual ministries, local authorities and stakeholder groups. It nevertheless remains unclear how the whole government approach to implementing the new NAS will be organised and how it relates to the governance system implementing the Climate Law.

The CSR on strengthening adaptation governance was issued in 2025. It recommends prioritising modalities and resources and raising awareness at the interinstitutional level of the importance of mainstreaming resilience and climate

([195])Coastal areas in Cyprus depend strongly on maritime activities, where fisheries and aquaculture play an important role for local livelihoods. Strengthening climate adaptation and preparedness in these sectors, together with improved monitoring, data collection and fisheries control, would support ecosystem protection and the resilience of coastal communities.

adaptation for more effective implementation. Other CSRs tackle the challenges of water and waste management; strengthening governance and mainstreaming climate adaptation at the institutional level; climate risk assessment; and sustainable transport.

Sub-national actions currently focus on heat-wave protection, nature-based infrastructure and limited infrastructure rehabilitation. Broader EU-supported projects promote cross-regional learning and sector-wide resilience. Local and regional authorities in Cyprus are the primary beneficiaries of EU-funded adaptation programmes. Only 2% of the population is covered by the EU Covenant of Mayors signatories (EU-27: 34%). There are 13 signatories and 7 action plans.

The Ministry of Finance has responded to climate-related challenges by starting to integrate climate assessment into its fiscal planning with the aim of assessing and mitigating their impact on Cyprus's economy ([196])**.** The Cyprus Fiscal Council has highlighted the urgent need to address climate-related fiscal risks, citing the devastating wildfire in mountainous Limassol in July 2025. It has also criticised the slow progress being made in implementing the Cyprus's Green Agenda (including the National Energy and Climate Plan, EU Emissions Trading Scheme II and climate mitigation spending). The Fiscal Council has also called on the government to begin integrating climate adaptation and resilience spending into its fiscal plans. It warns that the lack of such preparation may jeopardise both the meeting of budgetary targets and broader economic stability.

There is a significant gap between the amount of investment that is needed for climate change adaptation and the amount that is currently planned. The Cyprus Institute ([197]) has estimated that Cyprus needs additional adaptation investment up to 2050 of EUR 3.4 billion (0.4% of GDP per year until 2050). Cyprus's national economy can sustain this, but less than 30% is currently planned. To put the challenge in context, the total EU-wide adaptation investment need until 2050 has been estimated at EUR 70 billion per year. In addition to the economic impacts, the unmitigated climate crisis is undermining social justice – Cyprus is expected to have one of the most severe impacts on vulnerable households in the EU. Cyprus's insurance protection gap for floods, coastal floods and windstorms is small (i.e. the difference between the cost of natural disasters and insurance coverage is considered not relevant). However, this gap is larger for wildfires and earthquake and will need to be monitored going forward.

Climate-proofing has not been systematically applied across sectors and key infrastructure. A recent study ([198]) commissioned by DG CLIMA estimates that Cyprus will need to invest almost EUR 117 million per year up to 2050 (0.3% of annual GDP and below the EU average of 0.5%) – primarily in infrastructure (42% of the total), ecosystems (31%) and food (15%). The Transport Vulnerability index is considered medium (0.4) so as the adaptation investment needs on the TEN-T by mid-century). All Cyprus's TEN-T airports are vulnerable to wildfires ([199]).

The Cohesion Policy programme Thalia

([196])See Cyprus Ministry of Finance (2026), Cyprus Medium-Term Fiscal-Structural Plan for the period 2025-2028.

([197])See The Cyprus Institute (2025), Investment Needs and Benefits from the Adaptation of Cyprus to Climate Change.

([198])See European Commission (2026), *Assessment of adaptation investment needs*, Table 25. The study provides detailed estimates of adaptation investment needs at the level of the EU and individual Member States per type of measure. It relies on a common methodology that makes estimates comparable across the EU. Four accompanying methodological reports provide a detailed description of how the results were estimated to ensure full transparency.

([199])See European Commission (2024), Support study on the climate adaptation and cross-border investment needs to realise the TEN-T network – Publications Office of the EU.

2021-2027 is investing EUR 61 million from the Cohesion Fund in implementing climate change adaptation. It supports actions such as coastal protection against erosion; flood risk mitigation infrastructure; and disaster risk management systems (including measures addressing wildfire risks and integrated emergency coordination centres).

Water resilience

Cyprus is experiencing severe chronic water scarcity, and the situation has been particularly challenging over the past year. Agriculture and water utilities are among the most water-dependent sectors ([200]). The national water exploitation index (WEI+) ([201]), a measure of how much water is being used compared with the total renewable freshwater resources available for a given territory and period, supports this evidence. The Joint Research Centre's European Drought Risk Atlas indicates that Cyprus has one of the highest levels of risk of hydropower reduction and suffers one of the largest average annual relative reductions in wheat yield due to drought ([202]). Water productivity in Cyprus ([203]) stood at EUR 118 per m^3 of abstracted water in 2022 (below the EU average of EUR 153 per m^3). This indicates a high level of water stress. Demand often exceeds available natural resources, despite increasing supply. In 2023, agriculture, public water supply and energy production accounted for 69.5%, 23.9% and 6.4% of total water abstraction respectively ([204]). Abstraction has risen by 4% since 2014 (from 216.8 million cubic metres in 2014 to 224.65 million cubic metres in 2023), with increased reliance on surface water (40% of abstraction in 2023) rather than groundwater.

The number of assessed surface water bodies achieving a good ecological status in Cyprus remains high. Its first, second and third river basin management plans (RBMPs) indicate a steady increase from 50.5% to 59.2% to 63.3% ([205]). Persistent pressures include acute water scarcity, extreme climate change impacts and agricultural pollution.

Good chemical status is higher than the EU average. 84.5% of water bodies have good status ([206]) according to Cyprus's third RBMP. However, intensified and more targeted monitoring for the 3rd RBMP led to a significant decrease compared with the previous RBMP cycle, when the percentage stood at 96.1%.

Cyprus's drinking water quality does not give rise to concern, but Cyprus faces significant challenges with ageing infrastructure, losing significant amounts of drinking water to leaks. Cyprus is addressing these issues by funding several water-related actions through its recovery and resilience plan (RRP) and its cohesion policy funding. Key actions that are still in progress include infrastructure upgrades, digitalisation of water networks, improved wastewater treatment and aligning water pricing with environmental costs. A levy on water has been introduced as part of the RRP green taxation reform. As stated in the green tax reform section of the Cyprus Recovery and Resilience Plan, the

([200])See European Environment Agency (2025), Water abstraction by economic sector, 2000-2023.

([201])See Eurostat (2026), Water Exploitation Index, plus.

([202])Rossi, L., Wens, M., De Moel, H., Cotti, D., Sabino Siemons, A., Toreti, A., Maetens, W., Masante, D., Van Loon, A., Hagenlocher, M., Rudari, R., Naumann, G., Meroni, M., Avanzi, F., Isabellon, M. and Barbosa, P., European Drought Risk Atlas, Publications Office of the European Union, Luxembourg, 2023.

([203])Water productivity is a metric that is calculated by dividing GDP (in chain-linked volume) by total water abstraction. It indicates the average economic value (GDP) a Member State creates for each unit of water it takes from nature.

([204])See European Environment Agency (2025), Water abstraction by economic sector, 2000-2023.

([205])See WISE (2024), Surface water bodies: ecological status or potential.

([206])See WISE (2024), Surface water bodies: chemical status.

carbon tax on transport fuels and the landfill tax for municipal waste have not been introduced as legally required. In the context of the EU cohesion policy mid-term review, the Thalia 2021-2027 programme was amended to include an increase of EUR 64 million in EU funding for water resilience actions (more than doubling the previously available funding).

The Cyprus Energy Agency (CEA) has sought technical assistance to implement nature-based solutions (NbS) for flood risk management projects. The first sustainable energy and climate action plans (SECAPs) have highlighted flooding as a major climate risk for municipalities along the Pedieos River, which is recognised by national authorities as a high-risk flood area.

Cyprus's compliance rate with the Urban Waste Water Treatment Directive([207]) is 100% for the waste water load, but 14.1% is still neither collected nor treated by individual or autonomous systems (IAS). This is particularly significant as regards Cyprus's total generated load. No change has occurred since the last reporting in 2022. A total of EUR 613 million needs to be invested in urban wastewater management in Cyprus in 2024-2030 to ensure compliance with the Directive ([208]).

Nature restoration

Cyprus's economy is structurally exposed to nature loss because it has one of the highest levels of dependency on ecosystem services in the EU ([209])**.** 50% of gross value added depends directly on ecosystems (well above the EU average of 44%). This vulnerability is particularly significant in the tourism sector, which is vital for Cyprus and depends directly on healthy aquatic (coastal, marine) and terrestrial ecosystems.

Cyprus has rich biodiversity, but habitat degradation is increasingly widespread. The main pressures on, and threats for, habitats and species in Cyprus are related to agriculture; infrastructure development; the development and operation of transport systems; natural processes; and the illegal trapping of migratory birds ([210])). 37.5% ([211]) of its territory has been designated as protected area.

Nature degradation is further amplified by invasive alien species. Thirteen were recorded in Cyprus in 2024, inflicting estimated damage of EUR 80 million up to 2020, primarily affecting agriculture and public health ([212]). Eutrophication (a threat to biodiversity and ecosystem integrity) continues to give cause for concern, with the areas at risk remaining at 100% since 2005 ([213]). Nitrogen deposition from agriculture and industrial combustion remains a critical driver of this degradation.

These persistent challenges contrast with a persistent biodiversity finance gap. Cyprus faces an estimated EUR 96 million shortfall in funding for measures to address conservation priorities. The Cohesion Policy's investment contribution of EUR 10 million underscores the need to increase investment in habitat restoration.

([207])Directive 91/271/EEC.

([208])Internal documents, implementation of Directive 91/271/EEC (UWWTD), 2022.

([209])See Hirschbuehl et al. (JRC), 2025, The EU economy's dependency on nature, Vasilakopoulos, P. editor(s), European Commission.

([210])See European Commission (2025), Environmental Implementation Review, Cyprus country report.

([211])See Eurostat (2025), Protected Areas Indicator.

([212])Neobiota (2021), *Economic Cost of invasive alien species across Europe*.. European Commission, 2025, *Environmental Implementation Review, Cyprus Country Report*, Link.

([213])See European Environment Agency (2024), Eutrophication caused by atmospheric nitrogen deposition in Europe.

Sustainable agriculture and land use

Cyprus's is on track to meet its 2030 target for land use, land-use change and forestry (LULUCF). To meet its 2030 LULUCF target, additional carbon removals of 0.06 $MtCO_2eq$ are needed ([214]). The latest available projections indicate Cyprus will achieve a slight surplus of 0.03 $MtCO_2eq$ in for 2030 ([215]).

Achieving the national targets for increasing carbon removals is an important element of Cyprus's climate neutrality strategy. A number of policies and measures aim at improving CO_2 absorption by the LULUCF sector. These include planting trees outside forest areas; increasing the number of urban green areas; afforestation; and applying compost in arable soils. Further investments in healthy forests and soils are key to building resilient bio-based product value chains and enabling a growing, competitive EU bioeconomy. In particular, continued improvements in the system for monitoring net removal data will play a crucial role in supporting timely and effective action in this sector.

Reporting of emissions from agriculture is being improved through better data collection and promotion of emission reduction opportunities with the support of the common agricultural policy. The main focus is on sharing best practices for innovative methane reduction technologies, animal nutrition and breeding management. Targeted research on technology, nature-based solutions and nutritional changes is also being promoted. The use of organic human and agricultural waste as well as residue streams for the production of biogas, biomaterials and biochemicals is also under consideration.

The agricultural sector is challenged by water scarcity and heat stress, which are impacting crop yields and food security. Climate risks across sectors are expected to increase substantially. The agricultural sector is at risk of land loss and increased costs.

Cyprus aims to increase the sustainability and resilience of its agricultural sector by expanding the production of high-quality agricultural products while improving the economic viability of small and medium-sized holdings. Agriculture and food manufacturing are also priority sectors for circular economy integration.

Cyprus faces environmental and public health risks due to agricultural pollution (particularly from nitrates) and this is exacerbating the effects of a hot and dry climate. In Cyprus, the yearly net land taken between 2018 and 2021 increased to 1 257 ppm of total urban area, nearly double the 646 ppm/year recorded during the 2012-2018 period ([216]). Between 2012 and 2018, land use in Cyprus became more inefficient. This indicates pressures on ecosystems within and surrounding the functional urban area (FUA) ([217]).

Water quality pressures are a cause of concern. Under the EU Nitrates Directive, 28.6% of Cyprus's groundwater monitoring stations recorded average nitrate concentrations above 25 mg/l (and 17% above 50 mg/l, the EU threshold for safe drinking water) in 2016-2019 ([218]). This trend reflects systemic agricultural pressures as well as

([214])See European Commission (2023), National LULUCF targets of the Member States in line with Regulation (EU) 2023/839.

([215])See European Commission (2025), Climate Action Progress Report 2025.

([216]) See European Environment Agency (2025), Net land take in cities and commuting zones in Europe.

([217])See European Environment Agency (2022), Land take and land degradation in functional urban areas.

([218])See European Environment Agency (2025), Nitrate in groundwater in Europe.

Cyprus's high livestock density of 1.73 ([219]) (EU average: 0.75). A 2% increase ([220]) reflects deterioration in emission control. Cyprus needs to reduce emissions by ([221]) in order to meet its 2030 reduction commitments. Persistent nitrate pollution indicates gaps in nutrient management strategies.

Cyprus has one of the lowest levels of pesticide contamination in the EU. Only 2% and 5% of river and lake water bodies exceed regulatory thresholds for pesticide residues ([222]) (EU: 27% and 18%). Pesticides not only threaten aquatic ecosystems but also pose long-term risks to human health through contaminated drinking water and food chains. 44% of the soil samples analysed in Cyprus had a pesticide concentration above 0.5 mg/Kg ([223]), well below the average of 27% for the EU.

([219])See Eurostat, Livestock density index.

([220])See European Environment Agency (2026), Air pollutant emissions data viewer (Gothenburg Protocol, Air Convention) 1990-2023.

([221])See European Environment Agency (2025), Magnitude of emission reductions (percentage) required by EU Member States to meet their emission reduction commitments for 2030 onwards, based on 2023 data.

([222])See European Environment Agency (2024), Pesticides in rivers, lakes, and groundwater in Europe.

([223])See Vieira et al. (JRC), 2023, Pesticides residues in European agricultural soils – Results from LUCAS 2018 soil module, Publications Office of the European Union.

Table A10.1: **Key Adaptation Indicators**

Climate adaptation and preparedness:							EU-27
	2019	2020	2021	2022	2023	2024	latest data
Drought impact on ecosystems *[area impacted by drought as % of total]*	0	0.02	6.25	2.74	0.68	-	2.76
Forest fires burned area (1) *[burned area in ha. per year]*	596	3 421	6 199	2 540	1 919	3 374	354 510
Economic losses from extreme events *[EUR million at constant 2022 prices]*	-	-	6	-	1	2	40 452
Insurance protection gap (2) *[composite score between 0 and 4]*	-	-	-	1	1	1	-
Sub-national climate adaptation action *[% of population covered by the EU Covenant of Mayors for Climate & Energy]*	3	3	3	3	21	22	34

Water resilience:							EU-27
	2019	2020	2021	2022	2023	2024	latest data
Water Exploitation Index Plus, WEI+ (3) *[total water consumption as % of renewable freshwater resources]*	66.74	71.08	71.18	71.04	75.29	-	4.53
Water productivity *[EUR per m^3]*	112	95	104	118	120	-	151
Water abstraction							
Water abstraction by source (% from surface water)	33.30%	41.66%	42.46%	39.43%	39.91%		-
Water abstraction by sector	Agriculture	Electricity cooling	Manufactu-ring	Public water supply	Mining and Quarrying	Construc-tion	
	69.66%	6.43%	0.00%	23.91%	0.00%	0.00%	
Status of water bodies (4) *[% of water bodies in a good status]*							
Surface water bodies (ecological)	-	-	-	-	-	61%	38%
Groundwater bodies (quantitative)	-	-	-	-	-	36%	93%

Nature restoration:							EU-27
	2019	2020	2021	2022	2023	2024	latest data
Ecosystem dependency *[% of direct dependency]*	-	-	-	50%	-	-	44%
Protected area *[% of terrestrial protected areas]*	37.6	37.6	37.6	37.8	37.5		26.4
Invasive alien species (IAS) *[number of IAS of Union concern]*	-	-	-	-	-	13	29.2
Damage cost of IAS *[EUR billion]*	-	-	-	-	0.08		1.69
Eutrophication *[AAE of area at risk of euthrophication]*				335	335		295

Sustainable agriculture and land use:							EU-27
			2012-2018		2018-2021		latest data
Yearly net land taken by Member State *[ppm of total urban surface per Member State]*			646		1 257		670
Land conversion in functional urban area *[% of total land taken from 2018-2021]*							
Arable land					58%		
Complex and mixed cultivation					0%		
Forests					0%		
Herbaceous vegetation associations					30%		
Open spaces with little or no vegetation					0%		
Pastures					3%		
Permanent crops					9%		
Water					0%		
Wetlands					0%		
	2019	2020	2021	2022	2023	2024	latest data
Nitrates in groundwater (5) *[mgNO_3/l]*	-	19.3	19.3	19.3	19.3		
Livestock density *(number of livestock units per hectare of utilised agricultural area)*		1.73			1.84		0.75
Ammonia emissions *[% of total utilised agricultural area]*	98%	99%	98%	98%	98%	-	94%
Pesticide contamination on rivers and lakes water bodies				rivers	2%		27%
[% of monitoring sites with pesticides exceeding thresholds, 2018-2023]				lakes	5%		18%
Pesticide contamination in soil *[% of samples with a concentration over 0.5 mg/Kg -1]*					44%		57%
Net greenhouse gas removals from LULUCF (6) *[ktCO_2-eq]*	-297.0	-298.5	-235.3	-299.4	-310.6	-	-198 421

(1) EFFIS (European Forest Fire Information System). Link.

(2) The climate protection gap refers to the share of non-insured economic losses caused by climate-related disasters, based on modelling of the risk from floods, wildfires and windstorms, and on the insurance penetration rate. Scale: 0 (no protection gap) – 4 (very high gap). EIOPA, 2025, Dashboard on insurance protection gap for natural catastrophes.

(3) This measures total water consumption as a percentage of the renewable freshwater resources available for a given territory and period. Values above 20% are generally considered to be a sign of water scarcity, while values equal to or greater than 40% indicate severe water scarcity.

(4) European Commission, 2024, *Seventh Implementation Report from the Commission to the Council and the European Parliament on the implementation of the Water Framework Directive (2000/60/EC) and the Floods Directive (2007/60/EC) (Third River Basin Management Plans and Second Flood Risk Management Plans)*.

(5) Indicator refers to concentrations of nitrate (NO_3) in groundwater, measured as milligrams per litre (mgNO_3/L). Nitrate can persist in groundwater for a long time and accumulate at a high level through inputs from anthropogenic sources (mainly agriculture). The EU drinking water standard is limited to 50 mgNO_3/L to avoid threats to human health.

(6) Net removals are expressed in negative figures and net emissions are expressed in positive figures. Reported data are from the 2025 greenhouse gas inventory submission. The 2030 value of net greenhouse gas removals is taken from Regulation (EU) 2023/839 – Annex IIa.

Sources: Eurostat, EEA and the JRC.

Cyprus's labour market is set to remain strong, but persistent challenges related to the labour market integration of young people, women and under-represented groups remain. In line with the growth outlook, unemployment is expected to continue falling, job creation to remain solid and employment to maintain its upward trajectory. However, job quality challenges remain, including falling real wages. Furthermore, the effectiveness of active labour market policies and public employment services in supporting under-represented groups has been limited. Challenges for young people persist, while the employment rate among women lags behind that of men. Migrant workers continue to support employment growth and help alleviate labour shortages, but sector-specific challenges remain. In 2025, the country-specific recommendations for Cyprus highlighted the need to address labour shortages and skills mismatches by strengthening young people's labour market participation.

Labour market conditions have continued to improve. Supported by the economy's continued robust growth, the employment rate rose further to 82.1% in Q4-2025, well above the EU average (76.3%), while the unemployment rate fell to 4.1%, also below the EU average (6%). The annual unemployment and long-term unemployment rate fell to 4.4% and 0.9%, respectively, in 2025. Unemployment is forecast to continue decreasing and employment to continue increasing over 2026 and 2027, albeit both at a more gradual pace ([224]). Taken together, these developments suggest that Cyprus is very likely to remain above its 2030 employment target of 80%.

Employment challenges ease for young people. The share of young people neither in employment nor in education and training (NEETs) decreased from 12.9% in 2024 to 10.6% in 2025, slightly below the EU average (11%). Youth unemployment for the same age group (15-29) decreased from 10.0% to 9.3% in 2025, but the share of those outside the labour force among them saw an increase from 38.3% to 39.2% (vs EU: from 44.2% to 44.4%). These outcomes reflect the traction of a strong labour market despite structural challenges, such as limited quality job experience opportunities, skills mismatches and insufficient outreach measures. In response, several EU-funded projects have been launched to support the young people's labour market integration ([225]). The Department of Labour and Public Employment Service has received funding under the Recovery and Resilience Facility to boost support for young people and hire at least 450 young NEETs (15-29) for a minimum of six months. Additionally, training programmes, an entrepreneurship plan, incentive schemes for hiring young people, and outreach to NEETs have been approved and supported by the European Social Fund Plus (ESF+).

Women remain under-represented in the labour market. The gender employment gap widened slightly to 10.1 pps in 2025, now wider than the EU average that has narrowed to 9.6%. This due to the employment rate for women increasing slightly less that that of men (by 1.3 pps vs 1.4 pps). A barrier for Cypriot women is the impact of having children on their employment rate, at -6.8 pps (vs EU 6.5 pps), related to the limited access to early childhood education and care (see Annex 13), compounded by gender gaps in care ([226]). Career advancement prospects are also limited:

([224]) European Commission: *European Economic Forecast 2025*, Publication Office of the European Union.

([225]) 2025 country-specific recommendations for Cyprus (5.1): Address labour shortages and skills mismatches by strengthening labour market participation of young people.

([226]) See: European Institute for Gender Equality: *Gender gaps in care 2022*.

the share of women in managerial positions was the lowest among Member States, at 26.9% in 2024 (vs EU: 35.6%). Reflecting these patterns, women in Cyprus are more likely than men to remain in low-paid jobs.

Persons with disabilities continue to face labour market barriers. The disability employment gap, after a decrease of 0.6 pps, is now slightly below the EU average at 23.95 pps in 2024 (EU: 24.2 pps) Cyprus has not yet set a specific employment target for persons with disabilities. It could be beneficial to strengthen employer support schemes to sectors offering sustainable career progression paths and to extend the existing disability quota system to the private sector. Social entrepreneurship new incentives approved by the Council of Ministers in July 2025 are expected to increase employment opportunities for persons with disabilities.

Active labour market policies and the public employment service remain constrained by limited coverage, weak effectiveness and insufficient outreach. Active labour market policy (ALMP) outcomes are modest, remaining insufficient to tackle structural mismatches and reduce the gaps in outreach targeting women and vulnerable groups, especially non-EU nationals and persons with disabilities. This reflects both the low share of GDP devoted to such measures and low uptake. Increasing the effectiveness of such measures would require better skills alignment, increased programme uptake and tailored support strategies. The public employment service would benefit from improved monitoring, evaluation and proactive outreach and integration capabilities, including upgraded software and hardware. Employer engagement could also be improved by developing and implementing an integrated employer strategy encompassing outreach, segmentation, counselling and matching approaches. Cyprus updated its ALMP strategy in December 2025 with actions to be implemented and further strengthened to tackle the challenges described above. Outreach and activation measures for vulnerable groups remain underdeveloped and insufficiently tailored to their needs. Monitoring is not outcome-driven, and stakeholder cooperation lacks concrete implementation mechanisms.

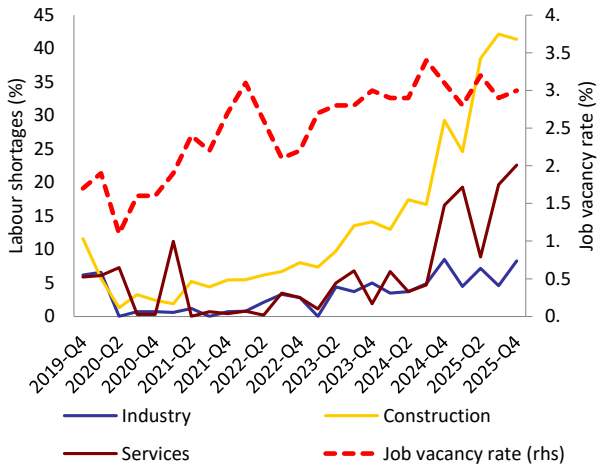
The labour market remains tight, and labour shortages continue to be a challenge, especially in certain sectors. The job vacancy rate is among the highest in the EU, well above the EU average (3.0 % vs 2.1% in Q4-2025) and pre-pandemic levels (1.7% in Q4-2019), but lower than a year earlier (3.1% in Q4-2024). Acute shortages are reported in accommodation and food services (4.6%), wholesale and retail trade, transport (3.9%), administrative and support services (4%) and wholesale and retail trade, repair of motor vehicles (3.8%). This is partly reflected in employers' perceptions ([227]): in October 2025, the share of them expecting labour shortages to limit their production was particularly high in the construction sector (41.4% vs EU: 27.5%) and in services (22.6%) but below the EU level across all sectors (23.1%). By contrast, reported shortages in industry were relatively limited (8.3% vs EU: 17.5%). Persistent gaps linked to the twin transitions and climate adaptation were reported in 2025 for system analysts, air conditioning and refrigeration mechanics and other construction professions, including plumbers and pipe fitters. According to Cedefop-EURES data ([228]), the occupations most in demand in the country were handicraft and printing workers, personal service workers, office associate professionals and health associate professionals. Rising vacancies and decreasing unemployment highlight growing difficulties for employers in sourcing suitable labour, particularly in sectors with high job creation potential, such as wind and solar energy, relevant for the green and digital transition. The share of jobs in environmental

([227])Source: DG ECFIN European Business and Consumer Surveys.

([228]) EURES - Demand for occupations, latest available data from 1 June 2024 to 30 July 2025.

goods and services increased to 2.8% among all jobs but remain below the EU average (3.3%). The uptake of digital technologies is rising in all sectors, but the number of ICT specialists in employment is stagnating at 5% in 2022, pointing to labour shortages in ICT professions.

Graph A11.1:**Labour shortages (%) and the job vacancy rate (%)**



Seasonally adjusted data, not calendar adjusted data for the job vacancy rate.
Source: Directorate-General for Economic and Financial Affairs (DG ECFIN) business and consumer survey data and Eurostat [jvs_q_nace2].

Migrant workers contribute to alleviating labour shortages and skills mismatches. Employment growth has been supported by significant inflows of foreign workers. However, these inflows are expected to gradually moderate as the initial wave of corporate relocations under the country's 'headquartering policies', designed to attract international companies to Cyprus, is coming to an end. In 2025, despite a reduction, first-time asylum applicants per thousand persons was 2.93, the second highest in the EU. A project co-funded by the ESF+ (EUR 1.8 million), the Information and Training Centre for Employment and Entrepreneurship (KEEAED), provides information, training and support services to vulnerable groups, helping their labour market integration and to meet the demand for labour in selected sectors.

Labour shortages are driven in part by several job quality challenges, many of which disproportionately affect women. The Cypriot labour market is flexible and dynamic. In 2025, the temporary employment rate was 14.6% (vs EU 12.7%, 20.1% for women vs EU: 13.5%), with an average transition rate to permanent contracts (30.4% vs EU: 34.0%, 22.9% for women vs EU 33.6%). But such flexibility is not always voluntary or conducive to workers' well-being. At 13.3% in 2024 (EU: 6.4%), Cyprus has one of the largest involuntary temporary employment rates in the EU, much higher for women than for men (at 10.2% and 8.7% vs EU 7.0% and 5.7%, respectively). Part-time employment is relatively uncommon (7.3% vs EU: 17% in 2025, 10.1% for women vs EU: 27.5%), yet more than a third of it (35.2%) is involuntary, which is one of the highest rates in the EU (EU: 178.8%). The proportion of low-wage earners at 20% is well above the EU average (14.7%). Working conditions are also a concern: Cyprus has one of the largest shares of workers reporting long working hours in their main job, at 9.0% (EU: 6.2%, 6.9% for women vs EU: 3.4%). Moreover, 14 Cypriot workers lost their lives in 2023 in work-related incidents, resulting in one of the highest incidence rates in the EU (3.24 vs EU 1.63 per 100 000 employed people, all of them men). Many of these job quality issues disproportionately affect women, pointing to the importance of supporting their career planning and progression. They are also compounded by workers' vulnerabilities to adverse weather events, particularly in construction and other outdoor professions. This underscores the need to prioritise decent working conditions in climate adaptation planning.

Wage growth significantly slowed after a strong rebound in 2023. Having reached 9.4% in 2023, wage growth slowed to 3.3% in 2024 and is projected rise to 4.2% in 2025 before falling to 4.0% in 2026. Real wages grew by a moderate 1.0% in 2024 after increasing by 6.8% in 2023. They are set to rise by 3.4% in 2025. In 2023, over 10% of workers remained in low-

paid jobs for at least four consecutive years ([229]), with third-country nationals and women disproportionately affected. In recent years, unit labour costs (ULC) have increased more slowly than in most other Member States. ULC growth is set to decrease from 8.6% in 2023 to 1.6% in 2024 and to 2.1 in 2025. However, productivity growth exceeding the EU average and wage moderation leaves some room for further wage increases. Cyprus introduced a national statutory minimum wage of EUR 940 in January 2023 (replacing its previous mixed system). It has since been updated twice (to EUR 1 000 in 2024 and EUR 1 088 in 2026). A tax reform, adopted in December 2025, improved tax deductions and raised non-taxable income from EUR 19 500 to EUR 22 000 starting in 2026.

Actively involving social partners is crucial for a fairer labour market and more effective social dialogue. Cyprus signed the Permanent Agreement on the Cost-of-Living Allowance (COLA) in 2025. This agreement builds on the good level of tripartite social dialogue in the country, providing for a stable labour market environment and a gradual increase in indexation coverage to 100% by 1 July 2027. Furthermore, the minimum wage is linked to the COLA. The Ministry of Labour is currently developing a roadmap in consultation with social partners to adopt and implement an action plan to improve collective bargaining coverage. Coverage, reported at 32.1%, is significantly lower than the 80% threshold set out in the Directive on Adequate Minimum Wages ([230]). Collective bargaining takes place at sectoral and company levels with many sectors, particularly retail and services, still largely uncovered. In 2022, trade union density was 32.1%, while employer organisation density stood at 64.9% in 2018 ([231]).

([229]) Labour market and wage developments in Europe - Publications Office of the EU, 2025.

([230]) Based on cross-country comparable OECD data. According to the data transmitted by Cyprus under Article 10(2) of the Directive on Adequate Minimum Wages, coverge is 24.94%.

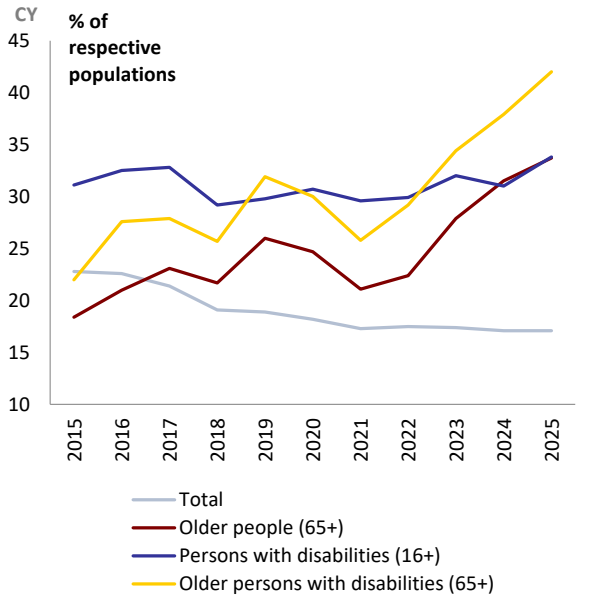
([231]) OECD/AIAS database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts v2.0.

The social situation in Cyprus is generally positive, but challenges remain regarding social protection and inclusion, particularly for certain groups. Older people and persons with disabilities remain disproportionately affected by poverty, and their situation has been worsening in recent years. At the same time, the expected increase in demand for long-term care (LTC) is placing sustained pressure on the LTC system. Deinstitutionalisation services and the related social housing that is offered in Cyprus is limited, and there is no comprehensive national strategy to support independent living. Access to social protection remains uneven, with gaps affecting certain categories of workers. Energy poverty continues to be a concern, particularly for people at risk of poverty. The social economy in Cyprus develops slowly, despite its potential to address social challenges. By addressing these challenges, Cyprus could improve quality of life and boost its competitiveness and sustainable growth. The 2025 country-specific recommendations called on Cyprus to address energy poverty and improve LTC availability and access by introducing a modern, adequately funded, integrated LTC model.

Cyprus has achieved robust social outcomes, helped by improved economic conditions. The at-risk-of-poverty or social exclusion (AROPE) rate was 17.1% overall and 14% for children in 2025 (vs 20.9% overall and 24.3% for children in the EU). In 2025 the AROPE rate increased, with the same people people affected compared with 2019. Cyprus thus remains far from its national 2030 target of reducing its AROPE population by at least 10 000 people. However, with a decrease of 12 000 by 2025, the country had exceeded its 2030 complementary target of reducing child poverty by 6 000. A comprehensive approach, as set out in the EU anti-poverty strategy, could help address the multiple dimensions of poverty and achieve the national anti-poverty target.

Poverty risks are still high for some groups in vulnerable situations. In 2025, the AROPE rate of persons with disabilities increased to 33.8% (by 2.8 pps), persistently high for a decade. The AROPE gap compared to persons without disabilities grew over time and is now among the widest in the EU (21.0 percentage points (pps) vs EU 11.1 pps). Older people (65 and over) also experienced high risks of poverty or social exclusion, well above the EU average (33.7% vs EU 18.8%). This rate has been growing steadily since 2021, by as much as 10 pps. Older persons with disabilities are experiencing an even higher rate of poverty and social exclusions risks, having reached 42% in 2025, up by 4.1 pps in a single year. The percentage of women aged 65 and over who are at risk of poverty or social exclusion is higher than that of men (37.1% vs 29.8%). Rising poverty risks among older people and persons with disabilities reflect insufficient adequacy, mainly in terms of state-provided and supplementary pensions. The level of old-age pensions relative to income from work before retirement is among the lowest in the EU, and falling steadily. This is reflected in an aggregate replacement ratio of 41% in Cyprus as compared to 60% in the EU on average in 2024. The gender pension gap is still wide, at 29.0% in 2025 (vs EU: 23.9%), despite recent improvements. In 2025, the AROPE rate for non-EU citizens was at 34.4% (vs EU 45.3%) compared with 16.0% for Cypriots. The in-work poverty risk for the non-EU-born is one of the highest in the EU, as is the gap with native-born people (19.3 pps vs EU 12.4 pps).

Graph A12.1:**At-risk-of-poverty or social exclusion rate, by old age and disability status (%)**



Source: Eurostat, EU-SILC [ilc_peps01n] and [hlth_dpe10].

The impact of social transfers on poverty reduction is relatively low. In 2025, this impact (excluding pensions) was 31.3%, below the EU average of 33.2%. This has an especially severe impact on disability-specific benefits, which are not aligned with the cost of living. Disability benefits only accounted for 3.3% of the total expenditure on social protection benefits for 2024, among the lowest in the EU. The new law on Social Participation, Inclusion and Independent Living of Persons with Disabilities will upgrade and increase social services and benefits for persons with disabilities, disconnecting disabilities allowances from GMI.

Coverage, adequacy and effective access to social protection is still a concern. At 60% compared with the EU average of 83%, the guaranteed minimum income of Cyprus recorded the lowest benefit recipient rate (measured as the share of the population aged 18-64 that is at risk of poverty and living in (quasi-)jobless households). The amount of the guaranteed minimum income, established 10 years ago, has not been adjusted to inflation. It is therefore no longer aligned with current living costs, leading to a progressive erosion of its adequacy – from 83.4% in 2020 to 69.9% in 2024 (measured for a single person as a share of the at-risk-of-poverty threshold). This poses significant risks for effective poverty alleviation. Currently, Cyprus is considering reforming the disability benefit system by decoupling disability benefits from the guaranteed minimum income. In terms of access to social protection for workers, there are gaps for some categories, both in terms of formal and effective coverage and in terms of adequacy. Coverage for accidents at work and parental leave for the self-employed (such as farmers) has been extended but does not include unemployment benefits. The impact of social benefits on poverty reduction for the self-employed is significantly lower in Cyprus than in the EU (at 12.0% in 2025 vs EU 225.4%). Access to social benefits is limited for temporary contract workers, who make up a significant share of the workforce (14,5% of employees in 2025, 3.8 pps lower than it was 10 years ago). Only around 8.4% of temporary workers at risk of poverty before social transfers receive any social benefits. The at-risk-of-poverty rate among temporary contract workers (25.3%) was almost twice the level in the EU (12.9%) in 2025, much more than among permanent contract workers. In addition, less than one quarter of unemployed people received benefits.

Long-term care remains a key challenge for Cyprus. The percentage of people aged 65+ has increased gradually in the past ten years (from 14.5% in 2015 to 18.3% in 2025). The life expectancy of the Cypriot population is forecast to increase too (from 81 years in 2025 to 84.4 years in 2050). At the same time, with very high LTC needs (34.3% vs EU 26.6%), Cyprus still has one of the EU's lowest levels of public expenditure on LTC (0.2% of GDP vs EU 1.7%). Out-of-pocket expenditure on LTC is among the highest in the EU, and the resulting poverty risks remain well above the EU average. Access to home care services is below the EU average (19.3% vs EU 28.6%; EHIS 2019). Staff shortages further restrict adequate LTC access (with only 0.8 LTC workers for every 100 people

aged 65+, vs EU 3.3). Very low coverage of collective bargaining (31.8% vs EU 82.4%) and lower pay in LTC compared to other sectors (74.4% vs EU 89.2%) limit its attractiveness. LTC is thus still a key challenge for Cyprus (see the 2025 country report for details).

Efforts to improve long-term care have remained mainly at the planning stage and are yet to be implemented in practice ([232]). Cyprus plans to update its 1990 legislation to set clear standards and accountability mechanisms for consistent, high-quality LTC services. However, progress has been slow, with delays in passing critical legislative updates. The national strategy for active ageing (2025-2030) aims to address systemic LTC challenges. It aims to boost LTC public investment, expand regional access and availability of services, and support formal and informal caregivers through training and sustainable workforce planning. However, there is still no detailed, dedicated action plan on LTC, with all LTC-related measures, including LTC design and governance with milestones and targets.

There is limited supply of social housing and community-based services with plans to expand supported-living homes to promote independent living. However, an independent scrutiny body to supervise the implementation of supported/independent-living projects, in close cooperation with advocacy bodies, particularly for those living in or moving to supported-living settings, and data collection mechanisms are yet to be established ([233]). Overall, a comprehensive, coordinated and sustainable national strategy for deinstitutionalisation, with clear targets and timelines, is missing ([234]).

Projects and reforms have promoted community-based and family-based services. The Thalia 2021–2027 project supports a network of independent living services for persons with disabilities. In 2024, supported-living services expanded to 12 residences and eight programmes with two new residences and seven tenders, alongside funding four LTC homes under the recovery and resilience plan. While independent- and supported-living services are expanding, concerns remain about institutionalisation and insufficient oversight ([235]). A new housing subsidy scheme for older people and persons with disabilities (2025) increased funding to EUR 1 300, expanded eligibility, and strengthened quality criteria. Income support for older people was strengthened through pension increases (implemented in January 2025). Other projects include a scheme to incentivise the employment of persons with disabilities, the establishment of a new network of social integration services and the construction of two model special education schools. However, supporting mainstream teacher training and inclusive education would be beneficial (see Annex 13). Overall, greater involvement of local authorities could strengthen Cyprus's social welfare system.

The development of the social economy sector is progressing slowly. Financial incentives have been introduced to make social enterprises more attractive, such as those that employ persons with disabilities. Yet, the number of new registrations remains low and Cyprus faces long administrative delays and a lack of administrative support. Cyprus could use the potential of social economy entities (work integration social enterprises – WISE), in particular social enterprises, to integrate vulnerable people into the labour market. By improving support and cooperation between public authorities and social economy entities,

([232]) CSR 2025.5.7: Improve the availability of and access to long-term care services by introducing a modern, adequately funded, integrated long-term care model.

([233]) European Semester 2025-2026 country fiche on disability equality: Cyprus.

([234]) European Parliament's Committee on Employment and Social Affairs, Independent living of persons with disabilities in the European Union.

([235]) See Mavrou, K. et al. *European Semester 2025-2026 country fiche on disability equality – Cyprus*, Publications Office of the European Union, 2025.

Cyprus could tap into the potential of the social economy in the provision of care and thus enable the provision of services, including home care and personal assistance.

Energy poverty remains a pressing issue in Cyprus and, together with environmental inequalities, poses challenges to a fair green transition. The percentage of the population unable to keep their home adequately warm was 11.3% in 2025. Despite having dropped by 7.7 pps compared with 2022, it remains significantly higher than the EU average (8.8%). Among those at risk of poverty, the share was 34.6%, the second highest in the EU. The cost of cooling houses accounted for 10.6% of households' final energy consumption in 2021, one of the highest values in the EU (vs EU 0.5%). Moreover, 8.2% of the population had arrears on utility bills in 2025, above the EU average of 7%, despite an improvement of 0.5% compared with 2021. Housing issues present further challenges (see Annex 16). Cyprus implemented protective rules against grid disconnections and applied special electricity tariffs for vulnerable consumers during critical periods, with a need to further upscale energy-efficiency investments for energy-poor households. To tackle this issue, the RRP supports a grant scheme for the encouragement of the use of renewable energy sources ([236]). The 'Saving – Upgrading Houses' programme, financed under the RRP and the European Regional Development Fund, focuses on the extensive energy upgrading of existing residential buildings across the country.

Transport poverty is high in Cyprus. The use of public transport in Cyprus is the lowest in the EU. Difficult physical access was reported by 10.5% of the population as a reason for not using public transport regularly (vs EU 3.3%), while 59.5% referred to schedule reasons (vs EU 13.3%) ([237]). This is especially true for persons with disabilities. Approximately 55% of the population cannot reach a healthcare facility within 45 minutes by public transport ([238]). The stagnation in public transport use highlights the need to expand sustainable, inclusive, and accessible systems, including for people with disabilities The new emissions trading system (ETS2) is projected to raise transport fuel and heating costs but the upcoming social climate plan would provide supportive investments in the above areas.

([236]) CSR 2025.4.5: Address energy poverty.

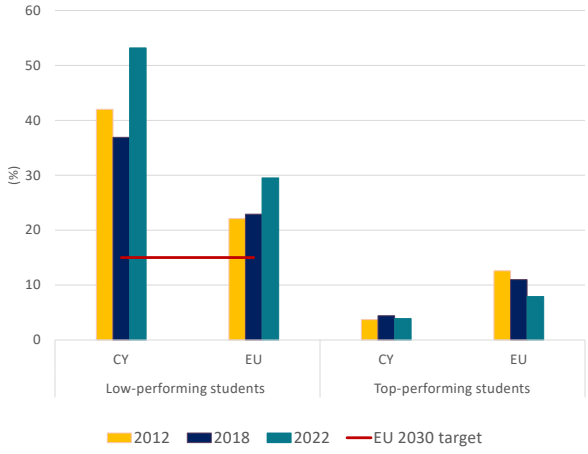
([237]) Eurostat [ilc_atst01] and [ilc_atst02].

([238]) Data from the Commission's Transport Poverty Hub.

Cyprus faces significant challenges in education and skills development. These challenges emerge early in life, as participation in early childhood education and care (ECEC) remains below EU benchmarks, undermining the foundation for skills development. Persistently low levels of basic skills, weak educational outcomes and rising early leaving from education and training reduce the effectiveness of further learning and constrain labour productivity. Low participation in adult learning and vocational training, particularly among those with low educational attainment and older adults, are exacerbating skills mismatches and labour shortages. The small size of the vocational education and training (VET) sector, coupled with low digital literacy rates and early school leaving, contribute to persistent skills shortages, particularly in science, technology, engineering and mathematics (STEM) and information and communications technology (ICT). This hinders the green and digital transitions as well as the country's innovation. Persons with disabilities face barriers to participation in education and training. Investing in human capital and skills can further boost productivity growth, strengthen competitiveness and the resilience of the country's economy. The 2025 country-specific recommendations (CSRs) call on Cyprus to address skills mismatches by further increasing the capacity and attractiveness of VET as well as promoting adult learning. They also covered green and digital skills, participation in ECEC, basic skills, and students' participation in STEM fields.

Weaknesses in skills development start at an early age. According to the most recent data, participation in ECEC for children over the age of three stood at 89.2% in 2024, below the EU target for 2030 of 96% and the EU average of 95%. The lowering of compulsory entry age to four years, which is part of the ECEC reform supported by the Recovery and Resilience Facility (RRF), aims to increase participation. However, this change is set to be implemented gradually, extending up to the 2031/2032 school year. In 2025, the share of children under the age of three in formal childcare exceeded the national target for 2030 (42.4% vs 38.8%), but it is still below the EU Barcelona target of 45% by 2030. Better accessibility and affordability of high-quality ECEC services would contribute to early childhood development with long-lasting benefits for skills development throughout life, in particular for disadvantaged children. Efforts are under way to increase participation and enhance inclusiveness in ECEC ([239]) such as the implementation of Cyprus's first National Strategy and Action Plan on ECEC, adopted in December 2025. Also, to meet the demand, the ECEC reform supported by the RRF involves expanding the capacity of public kindergartens and implementing a tuition-fee subsidy scheme for children up to the compulsory age who attend private or community settings.

Graph A13.1:**Low achievement and top performance in mathematics of 15-year-olds in Cyprus, 2012, 2018 and 2022 (%)**



Source: PISA 2022, OECD

Persistently low basic skills levels and a high level of early leaving from education and training are constraining lifelong skills acquisition. Results from the recent PISA survey show that the basic skills of Cypriot students are among the lowest in the EU and show an overall decline that concerns all socio-economic groups (see Country Report 2025).

([239]) CSR 2025.5.4: 'Further increase participation in early childhood education and care'.

Moreover, the share of students who demonstrated top performance in basic skill levels is below the EU average: 1.4% in reading (EU average: 6.5%), 3.9% in mathematics (EU average: 7.9%) and 2% in science (EU average: 6.9%). Related to this, early school leaving stands above the EU target for 2030, 9%. In 2025, the share of 18–24-year-olds leaving education and training early although slightly decreased by 1.5 percentage points (pps) to 9.8% compared to the previous year, it stands still above the EU average: 9.1%. In 2023, young adults with disabilities (aged 18–24 years) were more likely to leave school early (36.8%, compared to 3.3% for young adults without disabilities; EU average: 19.1% and 9.3%, respectively). This points to one of the widest gaps in the EU ([240]). To improve educational outcomes, Cyprus is transitioning from a knowledge-based system towards a competence-based school model ([241]). Curricula are being modernised to focus on critical thinking and practical skills. The EU Technical Support Instrument supports Cyprus to: (i) design system-level policies to strengthen basic skills among secondary school students; and (ii) pilot all-day schooling in lower secondary education as part of efforts to improve the quality and inclusiveness of education.

Strengthening teacher evaluation is central to Cyprus' efforts to address declining student learning outcomes and improve teaching quality. TALIS 2024 data ([242]) show that the teaching profession remains attractive, supported by favourable working conditions and high salary satisfaction (73% in 2024; EU average: 37.3%), as well as comparatively low administrative stress (29.8%; EU average: 54.8%). However, teaching conditions are becoming more complex. Stress related to maintaining classroom discipline affects 43.9% of teachers, while classroom diversity has increased markedly, with 47.3% of teachers working in schools with more than 10% of students with special educational needs (SEN) (up significantly from 15.6% in 2018) and 42.4% teaching in schools with a high share of non-native speakers (EU average: 24.4%). Teachers report less autonomy in selecting teaching methods than the EU average (81.4% vs 93.7%). While the use of artificial intelligence in teaching is in line with the EU average (31.5%), reported learning needs in this area are comparatively high (37.8% vs 25.2%). Against this background, the recently adopted teacher evaluation framework, together with a reformed recruitment system, is expected to support merit-based progression, strengthen pedagogical skills and help improve learning outcomes.

Inclusive education remains a significant challenge in Cyprus and the education system relies on outdated special education legislation. The TALIS report provides important information on SEN students (see previous paragraph). Supporting the academic and social development of pupils and students with disabilities or SEN would help them integrate into mainstream classes. Increasing the resources for special needs education will help reduce the overall basic skills gap. The proposed amendment to the existing Law on Education and Training of Children with Special Needs is under consultation. Despite the persistently low basic skills levels and the high shares of early school leaving, policy responses remain focused on special education solutions for individual disabilities, while less attention is given to reforming schools, teaching and learning as the foundation for eliminating disabling barriers and ensuring inclusion. Cyprus could develop differentiated learning objectives, adapted teaching methods, modified educational materials and alternative assessment methods for pupils and students with disabilities or SEN. In addition, supporting the training of mainstream teachers (not only

([240]) Mavrou, K., Liasidou, A. and Tsakiri, M., European Semester 2025-2026 country fiche on disability equality – Cyprus, Publications Office of the European Union, 2025.

([241]) CSR 2025.5.5: 'improve basic skills'.

([242]) OECD (2025), Results from TALIS 2024: The State of Teaching.

school assistants) in promoting inclusive education would be beneficial. In Cyprus, no formalised disability-related support is provided in secondary education for students with disabilities or SEN studying in the general classroom or in special units ([243]). In Cyprus, inclusive education is key to advancing deinstitutionalisation and independent living, especially as 29.6% of persons with disabilities remained at risk of poverty or social exclusion in 20245, a persistently high rate for over a decade. Strengthening inclusive education can enhance skills, improve employment prospects, reduce poverty risks, and promote greater autonomy and social and economic participation.

Participation in secondary VET is low, contributing to skills mismatches and impeding employability. Cyprus is among the best performing EU countries in terms of employability of VET graduates, indicating the high demand for such professions, but also low supply. Yet in 2024, only 18.2% of pupils in upper secondary education attended programmes with a vocational focus, much lower than the EU average (52.9% of pupils in upper secondary or post-secondary non-tertiary education). In 2023, of all people aged 20-34 who had recently completed VET, only a relatively small proportion had experienced work-based learning during their VET studies, which could be a major contributing factor (25%; EU average: 66%). The limited learning opportunities may have an adverse impact on the quality and labour-market relevance of VET. Projects supported under the recovery and resilience plan (RRP) and the European Social Fund Plus (ESF+) have been developed to improve participation in VET ('Development of Technical Vocational Education and Training' (TVET)) ([244]). A VET strategy is being developed, and its implementation will be key for increasing the attractiveness and capacity of the sector. For instance, developing new infrastructure, taking into account the digital dimension, would help meet the rising demand for such skills, especially for persons with disabilities. The use of assistive technology (AT) is not yet developed, nor is an accessibility service delivery system, including support for AT and digital competence development for persons with disabilities. Enrolment in the Post-secondary Institutes of Vocational Education and Training (MIEEK) has increased by 37% within just two academic years. The recent increase in VET participation is positive, but still some students are not admitted due to capacity constraints. Overall, increasing the capacity and attractiveness of VET remains important for addressing skills shortages and improving productivity.

Promoting STEM in the VET sector is key to meeting forecast skills demand in Cyprus, but STEM output is still small. The upper secondary VET sector in Cyprus is strongly focused on STEM fields, with 60.3% of pupils in medium-level VET enrolled in STEM fields in 2024. Yet, its overall size is relatively small compared to the country's total medium-level education. The share of women enrolled in VET in STEM is among the lowest in the EU (9.5% vs EU 15.1%). Meanwhile, the Human Resource Development Authority of Cyprus (HRDA) skills forecast for 2022-2032 predicts a shortage of STEM specialists, with 40% of total employment demand expected to be in this field, while only 25% of the active population (aged 25-34) have pursued related education. The forecast also highlights the largest skill needs in sectors such as retail trade, education, healthcare, construction, and IT. To address skills shortages, there is significant potential to expand the VET sector by promoting STEM subjects and encouraging early enrolment of female students. In 2025/2026, Cyprus launched a pilot initiative to introduce technical and vocational orientation at lower secondary

([243]) Mavrou, K., Liasidou, A. and Tsakiri, M., European Semester 2025-2026 country fiche on disability equality – Cyprus, Publications Office of the European Union, 2025.

([244]) CSR 2025.5.2: 'further increasing the capacity and attractiveness of vocational education and training as well as promoting adult learning'.

level by establishing technical gymnasiums ([245]). The pilot is currently running in two schools, aiming to make technical professions more attractive, address skill mismatches, and offer learners an alternative educational pathway from an earlier age. Learners can choose between two specialisations – Engineering Science and Design & Construction – and follow an enriched curriculum combining general education with practical, technology-enhanced learning.

Skills mismatches and low enrolment in STEM continue to pose challenges for the Cypriot labour market. As part of the European Qualifications Framework Recommendation's implementation, Cyprus has yet to connect the national qualifications database to Europass. Against the backdrop of the challenges for Cypriot education mentioned in the previous paragraphs, skills mismatches are significant. Over-qualification remains a structural issue in Cyprus. In 2025, 27.5% of employed people were over-qualified for their job, 6.1 pps above the EU average. In 2024, the share of tertiary students enrolled in STEM programmes stood at 14.7% (vs EU 26.9%). This is below the proposed EU-level target for 2030 of 32% and shows a very different pattern compared to VET. On the positive side, in 2024, 41.5% of PhD students enrolled in ICT were women, which exceeds the EU-level target for 2030 of 33%. To expand the pool of potential STEM students, a EUR 13.8 million project has been launched under the RRP focusing on the digital transformation of school units. The project aims to enhance digital skills and skills related to STEM education. The Ministry of Education has been running a STEM programme in primary schools, which has been extended to more schools since 2019. As part of the programme, sixth graders engage in project-based learning combining science, technology, engineering and mathematics to solve real-world problems. Teachers selected for this receive training from the Cyprus Pedagogical Institute.

Despite recent improvements, further progress on digital and green skills remains essential to effectively tackle skills shortages. In 2025, after an increase in line with the EU average, 55.8% of Cypriot adults had at least a basic level of digital skills (up from 49.5% in 2023, compared with an EU average of 60.4% in 2025 and 55.6% in 2023). Nevertheless, despite recent improvements, people with no or low skills, including young people and persons with disabilities, still fall significantly behind the average, also in terms of digital skills. Skills shortages persist, especially in sectors key for the green and digital transitions. In 2025, shortages were reported in several occupations relevant to the digital and green transitions, such as system analysts, air conditioning and refrigeration mechanicals and other construction professions, including plumbers and pipe fitters. The demand for digital and green skills can be expected to grow in the future: Cyprus is among the EU countries with the highest job creation potential in the renewable energy sectors of wind and solar ([246]). RRP investments are being put in place to support Cyprus' National Action Plan for Digital Skills 2021-2025 ('e-skills Action Plan') to improve the digital skills of all, including vulnerable groups ([247]). Yet, further efforts to improve digital and green skills are needed to meet current and future labour market demand.

Cyprus still faces difficulties to increase adults' participation in learning. In 2022, 28.3% of Cypriot adults had participated in education and training (during the previous 12

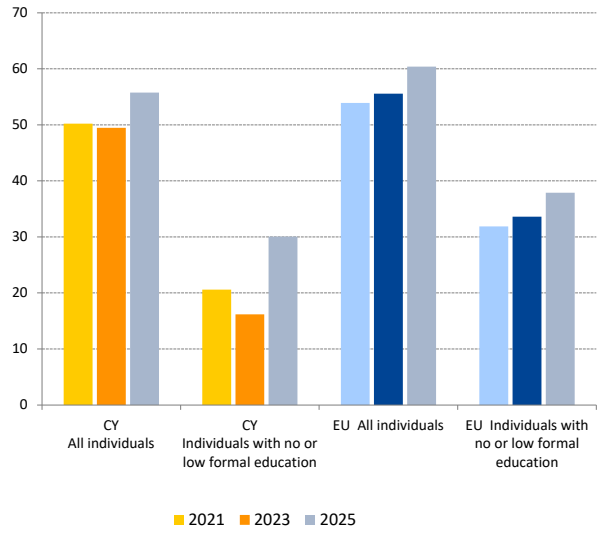
([245]) CSR 2025.5.6: 'increase students' participation in science, technology, engineering and mathematics (STEM) fields'.

([246]) Fulvimari A. et al.: *Estimating labour market transitions and skills investment needs of the green transition – A new approach*, Publications Office of the European Union, 2025.

([247]) CSR 2025.5.3: 'Step up policy efforts to strengthen green and digital skills.'

months (excluding guided on-the-job training). Participation rates were even lower for women (20.4%), people aged 55-64 (10.3%) and people with low education attainment (10.9%). Despite a small overall increase of 3.5 pps from 2022 to 2024 (as indicated by EU labour force survey data), the situation has not changed substantially. To boost adults' participation in learning, an individual learning accounts (ILAs) pilot project was launched in March 2025. During 2025, 802 applications for acquiring an ILA had been submitted and 579 ILAs had been issued, against the three-year target of issuing 1 800 ILAs ([248]). Developing ILAs more largely, across the full working age population, beyond their pilot phase ending in 2027, could substantially contribute to this aim.

Graph A13.2:**Individuals with basic or above basic overall digital skills by education (%)**



Source: Eurostat [isoc_sk_dskl_i21]

([248]) CSR 2025.5.2: 'further increasing the capacity and attractiveness of vocational education and training as well as promoting adult learning'.

Table A14.1: **Social Scoreboard for Cyprus**

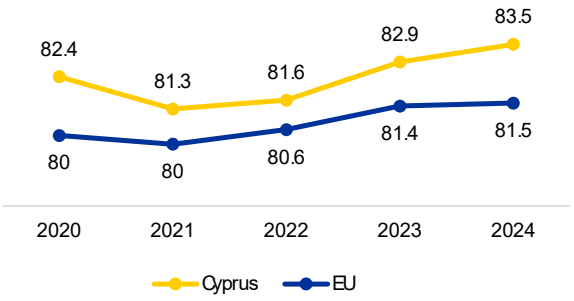
Equal opportunities and access to the labour market	Adult participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64, 2022)	28.3
	Early leavers from education and training (% of the population aged 18-24, 2025)	9.8
	Share of individuals who have basic or above basic overall digital skills (% of the population aged 16-74, 2025)	55.8
	Young people not in employment, education or training (% of the population aged 15-29, 2025)	10.6
	Gender employment gap (percentage points, population aged 20-64, 2025)	10.1
	Income quintile ratio (S80/S20, 2025)	4.60
Dynamic labour markets and fair working conditions	Employment rate (% of the population aged 20-64, 2025)	81.3
	Unemployment rate (% of the active population aged 15-74, 2025)	4.4
	Long term unemployment (% of the active population aged 15-74, 2025)	0.9
	Gross disposable household income (GDHI) per capita growth (index, 2008=100, 2024)	107.8
Social protection and inclusion	At risk of poverty or social exclusion (AROPE) rate (% of the total population, 2025)	17.1
	At risk of poverty or social exclusion (AROPE) rate for children (% of the population aged 0-17, 2025)	14.0
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP, 2025)	31.3
	Disability employment gap (percentage points, population aged 20-64, 2025)	23.9
	Housing cost overburden (% of the total population, 2025)	2.4
	Children aged less than 3 years in formal childcare (% of the under 3-years-old population, 2025)	42.4
	Self-reported unmet need for medical care (% of the population aged 16+, 2025)	0.1

Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

Update of 4 May 2026. Members States are categorised based on the Social Scoreboard according to a methodology agreed with the EMCO and SPC Committees. Please consult the Annex of the Joint Employment Report 2026 for details on the methodology (https://employment-social-affairs.ec.europa.eu/joint-employment-report-2026_en).
Source: Eurostat

Cyprus' health system performs comparatively well, with a high life expectancy at birth and low rate of avoidable mortality. However, Cyprus faces shortages of nurses, high consumption of antibacterials, and uneven distribution of healthcare resources and e-health uptake by individuals. Several measures are underway to address these issues and could place the country in a better position to ensure the health of its population, social fairness and productivity.

Graph A15.1:**Life expectancy at birth, in years**



Source: Eurostat (indicator: demo_mlexpec)

Life expectancy at birth in Cyprus was higher than the EU average in 2024, linked to low levels of avoidable mortality. Life expectancy at birth continues to increase since the 2023 rebound above its pre-COVID-19 level. Women in 2023 could expect to live about 4 years longer than men, but they could only expect to live 1.3 year longer than men in good health. In 2023, treatable mortality was also well below the EU average, as was preventable mortality. Cardiovascular diseases (CVDs) and cancers remain the leading causes of death, accounting for above 46% of all deaths, and respiratory diseases were the diagnosed cause for about 10% of all deaths. Lung, breast, colorectal and then pancreas cancers were the leading causes of cancer death in Cyprus in 2023. Recent evidence suggests that Cyprus is one of the few EU countries where lung cancer incidence rates continue to increase ([249]). This suggests that there is room for improvement in primary prevention and public health interventions to reduce smoking and its impacts on adults and adolescents.

Cyprus is developing cancer prevention programmes but investment in disease prevention remains below the EU average. In 2023, the share of health spending on prevention in Cyprus was one of the lowest in the EU (1.5% vs 3.7% for the EU average), despite a significant increase over the previous decade. It was only slightly over the pre-COVID-19 budget share, with more than half of it spent on immunisation, implying a substantial decrease in the health promotion share. As part of the Cypriot measures to tackle the cancer mortality increase, a new national screening programme for colorectal cancer has been launched in May 2025 for people aged 50-74 who are registered with the General Healthcare System (GeSY) ([250]). The launch of a prostate cancer screening programme for men aged 50-69 is scheduled for 2026, as well as a cervical cancer screening programme for women. However, a screening programme for lung cancer is still at the exploratory stage. Under EU4Health, Cyprus participates in several joint actions targeted at cancer treatment and prevention, such as EUnetCCC, EUCanScreen and JANE-2 ([251]). In April 2026, the Parliament approved a law governing the establishment of the National Cancer Institute. The Institute will serve as a central reference point for diagnosis, treatment, research and training in the field of cancer, in line with the National Cancer Strategy. The Ministry of Health has also developed a national strategy on cardio-vascular diseases, aimed at prevention,

([249]) OECD/European Commission (2025), *EU Country Cancer Profile: Cyprus 2025*, EU Country Cancer Profiles.

([250]) OECD/European Observatory on Health Systems and Policies (2025), *Country Health Profile 2025: Cyprus. State of Health in the EU*.

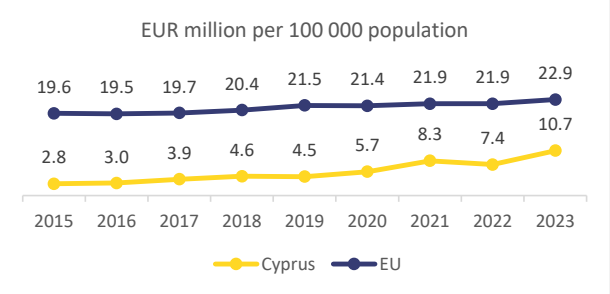
([251]) EUnetCCC: European Network of Comprehensive Cancer Centres; EUCanScreen: Implementation of cancer screening programmes; JANE-2: Shaping the EU Networks of Expertise on cancer!.

diagnosis, treatment and rehabilitation, while improving coordination and efficient use of resources. A National Committee has also been established to design and implement a population-wide prevention program.

Mortality in Cyprus is significantly linked to behavioural risk factors and to environmental factors (such as air pollution, see Annex 8). As demonstrated by the incidence rates of lung cancer, smoking remains a major public health concern in Cyprus, especially men's smoking. About 22.5% of adults reported daily smoking in 2019, but more recent data are missing. As a result, potential impacts of existing tobacco control policies remain to be seen. Tobacco consumption patterns among adolescents are changing, and are also of concern. In 2022, the proportion of 15-year-olds reporting smoking cigarettes (11%) was lower in Cyprus than in most EU countries in 2022, but the use of e-cigarettes is on the rise. More than one in four 15-year-olds reported smoking e-cigarettes in the previous 30 days, which is among the highest rates in Europe ([252]). In Cyprus, 24% of adolescents face overweight or obesity, rates that are higher than the EU average. It can be related to their lack of physical activity and relatively unhealthy diet, with too few consuming fruit and vegetables daily ([253]). The National Strategy on Healthy Nutrition and Physical Activity 2025–2030 aims to prevent obesity and chronic non-communicable diseases, for instance by strengthening health literacy and reducing children's exposure to unhealthy food marketing.

Another public health challenge is the high consumption of antibacterials in Cyprus. It raises concerns about antimicrobial resistance (AMR) caused by over- and misuse of antibiotics and related multi-resistant infections. In 2024, Cypriot consumption remained higher than the EU average. Since it has fluctuated over recent years, it is unclear whether Cyprus will meet and sustain its recommended national target by 2030 ([254]). Cyprus' recovery and resilience plan (RRP) includes a measure to set up an electronic platform for monitoring nosocomial antibiotic consumption and healthcare-related infections, with mandatory data reporting for all hospitals. The 2018 antimicrobial resistance plan has been updated in a 2025-2030 strategy. Since November 2025, all hospitals must operate 'Local Infection Control Committees' and 'Antibiotic Stewardship Teams'. Cyprus also participates in the EU4Health-funded joint action EU-JAMRAI 2 ([255]), which has allowed the country, in 2025, to provide specialised AMR training to teams from eight major public and private hospitals.

Graph A15.2:**Healthcare infrastructure investment by year**



Source: Country Health Profiles - Dashboard

Even though the public share has risen since 2019, health spending in Cyprus is still relatively low, and investment in health infrastructure remains modest. In 2023, health spending per inhabitant in Cyprus (adjusted for differences in purchasing power) was well below the EU average, with the largest share going to inpatient and outpatient care (around two fifths and about a third of total health expenditure, respectively). With the 2019 reform, public spending as a proportion of

([252]) Health Behaviour in School-aged Children study (2023), Data browser: https://data-browser.hbsc.org.

([253]) *Country Health Profile 2025: Cyprus* – see earlier footnote.

([254]) National target set by the Council Recommendation on stepping up EU actions to combat antimicrobial resistance in a One Health approach, 2023/C 220/01.

([255]) EU-JAMRAI 2 - Joint Action Antimicrobial Resistance and Healthcare-Associated Infections 2.

total healthcare expenditure increased from around 54% in 2019 to 76.8% in 2023, closer to the EU average of 80.6%. However, Cyprus displays a 10-year trend of comparatively low investment in health infrastructure, although it has increased steadily, especially since 2023 (see Graph A15.2). This raises concerns about the continuity and quality of service delivery. For example, the number of hospital beds (281 per 100 000 population in 2023) was well below the EU average of 440), though with a low occupancy rate (58%, having sharply fallen over the previous decade). Access to hospital is markedly low in rural areas (see Annex 18). Under its RRP, Cyprus has allocated over EUR 100 million to healthcare investments, notably on modernising state hospitals, purchasing equipment and rolling out digital and interoperable e-health services. In addition, Cyprus' strategic planning for the coming years would include additional investments in enhancing hospital infrastructure and medical equipment and technology.

Cyprus' pharmaceutical sector also plays a relatively modest role. In 2024, employment in pharmaceutical manufacturing was below the EU average, and recent data on industry R&D investment is missing. The absolute number of (new) clinical trials varies between 0 and 4 over the last 10 years (4 being the 2024 peak) ([256]). But the number of patents granted per million population is slightly over the EU average ([257]), while the industry shows a modest share of extra-EU exports in 2024 (3.5% in 2025 vs 13.9% for the EU average), having experienced a downward turn since reaching a peak of 10.7% in 2020.

Out-of-pocket payments and voluntary health insurance decreased significantly following the 2019 reform, yet access to dental care seems more affected by income inequalities. In 2023, out-of-pocket payments, which decreased significantly following the 2019 reform, accounted for about 18% of health spending in Cyprus (vs an EU average of 15%). About 26% of these payments went on (retail) pharmaceuticals, 23% on outpatient services, and 20% on dental care ([258]). Public coverage for dental care is lower than the EU average (less than 15% vs about 35% for the EU). In 2025, this has led to a relatively high proportion of people below the poverty threshold reporting that they have forgone dental care needs (5.7% vs 1.3% of those above the poverty threshold). This underscores the role of healthcare coverage as a tool against poverty and inequality, beyond its direct impact on health status ([259]). As for long-term care, it is not yet fully integrated with the health system (see Annex 12).

([256]) US National Library of Medicine, https://clinicaltrials.gov.

([257]) European Patent Office: Statistics & Trends Centre | epo.org.

([258]) OECD Data Explorer (DF_SHA).

([259]) European Commission: Directorate-General for Health and Food Safety, Cruces et al. (2025), The role of healthcare in reducing inequalities and poverty in the EU.

Table A15.1: **Key health indicators**

	2020	2021	2022	2023	2024	10-year change**	EU average* (latest year)
Cancer mortality per 100 000 population	205.5	213.2	188.8	181.2	n.a.	0.90	233.1 (2023)
Mortality due to circulatory diseases per 100 000 population	287.7	280.8	257.8	215.2	n.a.	0.61	313.0 (2023)
Current expenditure on health, purchasing power standards, per capita	2 270	2 594	2 711	2 795	n.a.	1.90	3834.9 (2023)
Public share of health expenditure, % of current health expenditure	71.6	79.0	77.0	76.8	n.a.	1.79	80.6 (2023)
Spending on prevention, % of current health expenditure	1.6	3.4	2.8	1.5	n.a.	2.36	3.7 (2023)
Available hospital beds per 100 000 population***	298	293	290	281	n.a.	n.a.	440 (2023)
Doctors per 1 000 population*	4.6	4.9	5.1	5.3	n.a.	1.65	4.3 (2023)*
Nurses per 1 000 population*	5.2	5.2	5.1	5.2	n.a.	1.12	7.6 (2023)*
Mortality at working age (20-64 years), % of total mortality	15.3	15.2	13.5	13.9	12.9	0.86	14.3 (2023)
Consumption of antibiotics in the community and hospital sectors, defined daily doses per 1 000 inhabitants	28.9	25.0	33.5	n.a.	23.5	0.88	20.3 (2024)

*The EU average is weighted for all indicators except for doctors and nurses per 1 000 population, for which the EU simple average is used based on 2023 data (or latest available). Doctors' density data refer to practising doctors in all countries except Greece, Portugal (licensed to practise) and Slovakia (professionally active). Density of nurses: data refer to practising nurses (EU recognised qualification) in most countries except Portugal (licensed to practice) and Slovakia (professionally active). Latest data update on nurses for Belgium and Sweden: 2022; for France: 2021; for Luxembourg: 2017.

** latest available 10-year trend: ratio 2023/2014 or 2024/2013; a factor of 2.00 means that it has doubled in 10 years.

***'Available hospital beds' covers somatic care, not psychiatric care.

Source: Eurostat

In Cyprus, health workforce challenges primarily concern nurse shortages, and the distribution of medical professionals. The healthcare sector faces critical labour shortages (see 2025 Country Report). Cyprus has among the lowest numbers of nurses per 1 000 population in the EU. Moreover, while nurses are comparatively young (58% under 35-years-old in 2023), the number of nursing graduates has fallen sharply in recent years, despite a slight rise between 2022 and 2023. In 2024, Cyprus launched a communication campaign to promote nursing as a career choice, which was repeated in 2025. As a result, Cyprus reports a siginificant increase in the number of nursing students (first-year enrolment) for the academic years 2024 and 2025. Under the EU4Health programme, Cyprus has also participated since January 2025 in the 'Nursing Action' coordinated by WHO, which aims to develop recruitment and retention policies for nurses and support and empower nursing professionals across the EU. That said, the number of medical graduates has improved annually since 2019 (no data available before) to reach 24.1 medical graduates per 100 000 population in 2023, well above the EU average (15.2 per 100 000) ([260]). In addition, over the same period there has been a significant increase in the density of general practitioners (GPs), and in their share among physicians.

A structured strategic planning of health resources would help address the unbalanced distribution and working conditions of healthcare professionals. The unbalanced development has led to a nearly 1:1 ratio between nurses and doctors. However, doctors are concentrated in the capital region and in other major cities, with shortfalls in remote and sparsely populated regions. Additionally, doctors are primarily employed in the private sector and nurses in the public sector. Moreover, in Cyprus, the prevalence of probable major depressive disorders is comparatively low in the general population (3%), but more than 10 times higher in the medical workforce (33%) ([261]). This huge gap points to the need to improve working conditions for medical staff. There has also

([260]) *Country Health Profile 2025: Cyprus* – see earlier footnote.

([261]) WHO Regional Office for Europe (2025), *Mental Health of Nurses and Doctors survey in the European Union, Iceland and Norway*.

been a rise in complaints by patients. The objects of the complaints include waiting times and referral quotas (by GP for specialist care) that are deemed insufficient ([262]). Cyprus is developing a 'Capacity Master Plan' to set up a systematic and coherent strategic planning. The plan will include an assessment of the health system's capacities (GeSY and private sector) and an annual assessment of health needs. This approach would enable a systematic mapping of human resources, infrastructure, and equipment alongside assessing them against future demand for health needs. The RRP also includes upskilling opportunities for health workers, and the establishment of a National Centre for Clinical Evidence and Quality Improvement, which will also help to improve data availability on quality of healthcare services, which is still limited.

Cyprus' e-health maturity score ([263]) has improved, although still lagging behind, and uptake among individuals is uneven. Uptake gaps between education levels are more pronounced in Cyprus than the EU averages ([264]). People with higher education levels were more than twice as likely to seek health information online than people with lower levels of education in 2024. They were also more likely to make appointments online and to access personal health records digitally. Since GeSY implementation, all GeSY medical services have been delivered through a centralised information technology system. Clinical and administrative information is captured in a structured and codified format, generated by nearly 90% of healthcare providers. To access the information, the system includes a dedicated Providers' Portal for all authorised providers, and a Beneficiaries' Portal for citizens, both with predefined access rules. Parents have access to the medical records of their dependent children. The system provides the electronic patient history, and the patient profile, i.e. history together with key health information such as allergies and vaccinations. In addition, in 2023, the e-Prescriptions system has been expanded to include all pharmacies in Cyprus. This system aims to ensure access across the country. However, the development of a mobile application for patients to access their electronic health records has only just started. The RRP includes measures to strengthen digital solutions in the healthcare sector, although these are more targeted at public health overall. Among these measures, Cyprus has launched in May 2025 electronic cross-border health services under the eHealth Digital Service Infrastructure (eHDSI). It allows for the digital exchange of patient summaries and prescriptions with other EU countries. Additionally, all funds allocated to health under the 2021-2027 cohesion policy funds are earmarked for e-health services and applications.

([262]) *Country Health Profile 2025: Cyprus* – see earlier footnote.

([263]) Digital Decade 2025: eHealth Indicator Study | Shaping Europe's digital future.

([264]) *Country Health Profile 2025: Cyprus* – see earlier footnote.

In the past, Cyprus gave limited attention to developing a robust social rental housing sector. A dedicated social rental housing policy is just starting to emerge to address the rising demand for affordable housing.

Housing affordability has improved over the last decade for buyers but worsened for renters. Over the last decade, buyers' capacity has strengthened, but affordability for renters has worsened (see below). At the same time, housing and energy poverty disproportionally affect vulnerable populations. The rental market remains relatively unregulated (dwelling conditions, insecure contracts, lack of tenant protection against evictions), posing difficulties for those unable to purchase homes.

Housing quality is very precarious, **affecting the poorest 40% of the population ([265]).** Housing deprivation was fuelled by a lack of renovations. Thus, most of the existing buildings have a low energy efficiency rating, which is also reflected in the final energy consumption. No energy-saving measures have been taken in 49% of homes, and only 12% of the housing stock has undergone some form of thermal insulation on the building envelope ([266]).

In the construction sector, labour and skills shortages remain high, especially linked to the twin transition or climate adaptation. In October 2025, the share of Cypriot employers expecting labour shortages to limit their production was particularly high in the construction sector (41.4%) compared to EU level (27.5%).

Homelessness is a persistent phenomenon and there is a lack of housing-led approaches to tackle it. Homeless people are offered emergency shelters, but the long-term structural solutions need to be built up.

([265]) Source: EU SILC 2023.

([266]) Long-term Strategy for Building Renovation, 2020.

Housing market developments

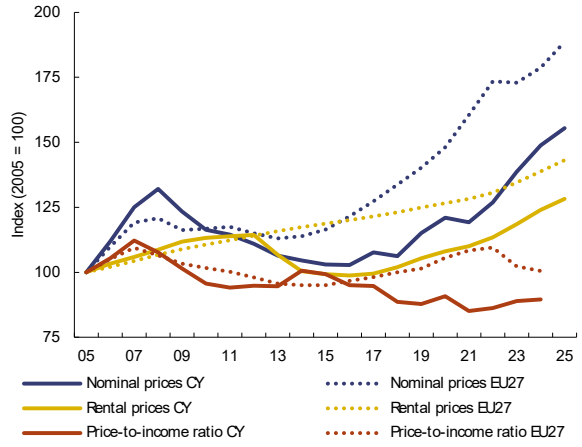
House prices in Cyprus are on the rise. The COVID-19 pandemic interrupted a period of rising house prices, but nominal house prices increased again between 2020 and 2025, by around 28%. This is broadly on par with the EU average of 27% (Graph A16.1). Although the phase-out of an investor citizenship scheme in 2020 ([267]) may have dampened interest from foreigners, this was swiftly offset by the introduction of the so called 'headquartering policies' ([268]), which sustained housing demand. Regional geopolitical tensions may have also generated positive spillovers ([269]). At the same time, although the pace of new residential construction has picked up (Graph A16.2), the pass-through of higher construction costs has contributed to further price increases. On affordability, robust income growth has helped to improve the price-to-income ratio since 2015.

([267]) The Citizenship-by-Investment Program was a scheme that awarded Cypriot citizenship to investors and their families, upon undertaking investments of €2.2 million and above.

([268]) Studies find a positive relationship between refugee inflows and house prices, suggesting stronger demand at times of regional tensions. See A.A. Alola & U.V. Alola (2019), 'The dynamics of tourism – refugeeism on house prices in Cyprus and Malta'.

([269]) Studies find a positive relationship between refugee inflows and house prices, suggesting stronger demand in periods of regional tensions. See A.A. Alola & U.V. Alola (2019), 'The dynamics of tourism – refugeeism on house prices in Cyprus and Malta'.

Graph A16.1:**House prices, rents and price-to-income evolution in CY and EU27**



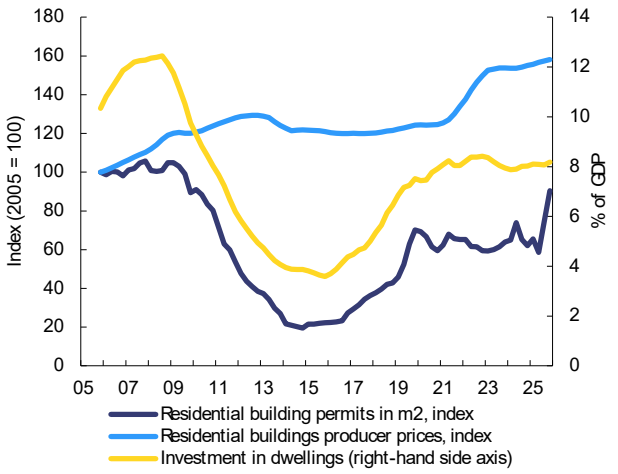
Source: Eurostat

House prices vary significantly across regions. Coastal areas with tourism and foreign enterprises, such as Limassol, Paphos and Larnaca face high demand for properties, including short-term rental use. As a result, house prices there are 39% higher than the national average ([270]).

Rents have been growing faster than house prices (see Graph A16.1). This trend reflects strong pressures stemming from the inflow of foreign residents, as well as the limited rental supply. Nevertheless, income growth has outpaced rental increases overall. As a result, at the aggregate level, the rental market does not show affordability pressure issues, with rents accounting for 22% of household income in 2025, in line with the EU average, while some areas, like Limassol, far exceed this amount.

Cyprus has the highest proportion of under-occupied dwellings in the EU. Around 70% of the population - more than double the EU average of 33% - lives in a dwelling considered too large for the household's needs. This largely reflects the increasing use of housing as an investment or as vacation property. Demographic factors also contribute, as evidenced by the declining average household size in the last census (2.57 people in the 2021 census, against 2.76 in 2011). This pattern is not uniform across regions, with a notable example being the city of Famagusta. It has the second-largest proportion of empty homes (46% of the total housing stock), at the same time as the highest average household size.

Graph A16.2:**House supply indicators in CY**



(1) 4-quarters moving sums (averages for prices)
Source: Eurostat

The construction of new dwellings has been expanding steadily. The percentage of investment in dwellings is the highest in the EU, amounting to around 8% of GDP in 2024. This partly reflects the distinct saving behaviour of domestic households and their preference for dwellings as a store of value ([271]). Another factor is that residential housing investment in Cyprus is comparatively inexpensive relative to the EU average (investment in dwellings in purchasing power parities was 63.1% of the EU average in 2024). Nevertheless, the productivity in the sector is rather weak, as real gross value added per employee amounts to around 67% of the EU level. This reflects limited investment activity in research and innovation and significant underutilisation of the labour input ([272]). In 2023, the housing stock increased

([270]) Data compiled at the level of local administrative units. Source: ESPON 2030 cooperation programme.

([271]) Domestic households invest large fractions of their gross savings in real estate, suggesting that that the purchase of dwellings is considered an alternative to deposits. See '2025 In-depth review – Cyprus'.

([272]) See '2021 EU construction sector observatory – Cyprus'.

to 8.3 dwellings per 1000 inhabitants, still below the 13 dwellings recorded on average between 2000 and 2018. The rise in the number of residential building permits issued (Graph A16.2) suggests that housing supply growth is likely to continue in the coming years, albeit at levels below the record highs before the Cypriot 2012-3013 financial crisis. Despite this progress, the housing supply gap still amounts to 39 000 dwellings ([273]).

There has been rapid growth in short-term rentals in Cyprus, especially in coastal and tourist areas ([274]). Registered short-term listings almost doubled between 2023 and 2026. There are over 9 000 registered properties offering nearly 40 000 beds, but authorities estimate that the actual total supply is even higher. These rental properties reduce the supply of long-term housing for residents and often operate without registration or oversight. More than half of the 14 446 short-term rental properties (over 7 000) were unregistered as of mid-2024 ([275]).

There is an ongoing shortage of workers in some housing-related sectors and labour shortages remain a challenge. In October 2025, the proportion of employers expecting labour shortages to limit their production was particularly high in the construction sector (41.4%) compared with the EU level (27.5%). Persistent labour and skills shortages linked to the twin transition or climate adaptation were reported in 2025 for system analysts, air conditioning and refrigeration mechanics and other construction professions, including plumbers and pipe fitters. Job creation potential is high in some sectors, particularly those relevant to the green transition (see also Annexes 11 and 13).

Rising housing demand, driven in part by non-resident buyers, is likely to push house prices up moderately amid stable supply growth. Housing transactions have more than doubled since 2020, reflecting an increase in purchases by non-residents thanks to government initiatives to attract foreign workers. Stable housing supply growth coupled with strengthening demand - driven by projected growth in real incomes ([276]), improving household capacity and stable financing conditions – indicate potential, but contained upward house price pressures in the future.

Structural policies

Housing policy in Cyprus has been historically oriented towards homeownership. Since 1974, the government has implemented several housing schemes to help various social groups, focusing on low- to middle-income families buying a home (long-term housing loans with lower interest rates). In the wake of the 2008 financial crisis, Cyprus implemented strategic measures to stabilise the housing market, support homeownership and address issues such as mortgage arrears and non-performing loans.

Cyprus lacks social rental housing policy. Today, data on the proportion of social and affordable housing are incomplete. Social housing for home ownership exists, however there are no data about the proportion of the stock concerned. Social rental housing represents ([277]) close to 0% of the total housing stock ([278]), while EU average is 8%. The Statistical Service of Cyprus's public data do

([273]) Balouktsi et al. (2026) Housing investment needs in the EU. JRC Technical Report 144419 (link: https://publications.jrc.ec.europa.eu/repository/handle/JRC144419).

([274]) Ministry of Tourism, 2026.

([275]) Association of Cyprus Tourist Enterprises, 2024.

([276]) See 'European Commission 2026 spring forecast – Cyprus'.

([277]) Pittini, A. (2026). Cyprus. In Social and public housing in the EU and UK. Dublin: Ministry for Housing, Local Government and Heritage.

([278]) OECD Affordable Housing Database 2026.

not currently provide an official breakdown showing the percentage of total housing stock that is social housing (rental or ownership), nor the number of social housing units managed by state entities like CLDC. Dedicated social rental housing policy is just starting, but efforts should be upscaled to address the rising demand.

Since 2024, several steps have been taken to provide affordable housing for low-income populations. These measures include: (i) the 'Renovate–Rent' scheme ([279]) that aims to increase the supply of affordable housing by integrating housing units into the rental market; (ii) the 'Housing grant scheme for young couples and/or young people up to 41 years of age' ([280]) that aims to help young people buy a home; and (iii) the CLDC's revised housing incentives taxes ([281]) that aim to produce affordable housing for sale and/or rent. Launched in 2025, the new housing strategy called ([282]), tackles the housing supply issue by improving affordability, with the focus being particularly on young people and families. The government aims to increase the housing stock with over 1 900 new housing units expected (with almost 200 designated as affordable housing) ([283]) and to add approximately EUR 9 million to a special affordable housing fund through planning incentives. In December 2025, the construction of 500 affordable housing units in Nicosia, Limassol, Larnaca and Paphos was announced, at a total cost of EUR 70 million. A new housing scheme for building collective accommodation units to support the industry, tourism and trade sectors was also announced. The plan enables housing solutions to be created for personnel employed in these sectors. At the same time, a grant scheme for student dormitories in Nicosia was set up, with a total budget of EUR 8.3 million. In terms of tackling short-term rental challenges, several measures, such as on-site inspections and digital monitoring, were adopted, however further legal adjustments are needed to ensure registered operation and a fairer housing market for residents.

Since 2014, extensive EU funding has helped Cyprus to tackle some housing-related challenges. A significant number of households have benefited from energy-efficient renovations: at least 1 770 via the structural funds and at least 17 000 via the Recovery and Resilience Facility. These renovations enabled Cyprus to address the 2019 country-specific recommendation (CSR) 4 and the 2020 CSR 3 to increase the proportion of renewable energy, thereby improving the energy efficiency of homes and reducing energy poverty. In 2024, Cyprus also signed its first loan with the European Investment Bank (EIB) ([284]) to build affordable student housing and upgrade campus facilities in the cities of Paphos and Limassol. The EUR 125 million loan covers 70% of the project's total cost to tackle the lack of sustainable and affordable housing for young people. Since 2025, a Technical Support Instrument multi-country project, has been helping the Cypriot authorities with recommendations and tools to: (i) increase levels of investment in affordable and social housing; (ii) improve the institutional and administrative capacity for housing policy implementation at national and/or subnational

([279]) See Renovate-Rent scheme guide (in Greek).

([280]) Housing grant scheme for young couples and/or young people up to 41 years of age (in Greek).

([281]) Details can be found on the Cyprus Land Development Corporation announcements (in Greek).

([282]) This is the first affordable rental scheme implemented by the CLDC in Cyprus. The EUR 12 million project aims to ease rental pressures and expand access to reasonably priced accommodation in Strovolos (in total 54 dwellings). The EUR 16 million project in Limassol is supporting the construction of 138 affordable apartments in the municipality.

([283]) This is the first affordable rental scheme implemented by CLDC in Cyprus. The €12 million project aims to ease rental pressures and expand access to reasonably priced accommodation in Strovolos (in total 54 dwellings). The €16 million project in Limassol is supporting the construction of 138 affordable apartments in the municipality.

([284]) See 'Cyprus University of Technology gets EUR 125 million in EIB support for campus upgrades'.

level; and (iii) develop targeted policies to make housing more affordable.

Vulnerable groups

Despite recent improvements, there are still issues with housing quality. Structural issues in housing, such as leaks, damp or rot, affected 32.1% of the population in 2023. While this has improved by 7.9 percentage points since 2020, it is still much higher than the EU average of 15.5% ([285]). Energy poverty remains a pressing issue in Cyprus, also posing challenges to the fair green transition (see Annex 12).

Affordability challenges persist for vulnerable households. While only 2.4% of the population lived in households overburdened with housing costs, this percentage was more than two times higher in 2025, at 6.5%, among those in the poorest tenth of the population and more than three times higher at 7.6% among those at risk of poverty ([286]). Rents accounted for 28.3% of these latter households' income in 2025 (above the national aggregate level of 22.0%) ([287]) although this is well below the EU average of 33.5%. The combination of record under-occupation and rising inequality in access to housing reveal hidden challenges for vulnerable groups. The share of people having experienced housing difficulties in their lifetime was 12% ([288]), well above the EU average of 4.9%. The reason for this high figure is that 'other' was reported as a reason for housing difficulties, attributable to the 1974 Turkish invasion of Cyprus and to the financial crisis in 2012-2013. The rate is higher for those at risk of poverty or social exclusion at 16.3% but also rather high at 11.1% and well above the EU average (3.9%) for those not at risk mainly due to the Turkish invasion in Cyprus ([289]) At the same time, in 2024 Cyprus exhibits one of the largest gaps in perceived housing discrimination across individuals at risk of poverty or social exclusion, at 20.3% (vs EU average of 10.5%) ([290]). Cyprus is among the worst performers regarding the percentage of people living in households with arrears on mortgage, rent or utility bills, at 12.0% vs EU of 9.2%) ([291]).

There has been relatively low homelessness in Cyprus although the phenomenon is persistent. According to unpublished data collected by the Deputy Ministry of Social Welfare, the number of homeless people who sought assistance from social services was 225 in 2024, 383 in 2023 and 206 in 2022. Available evidence indicates that EU and non-EU nationals are consistently overrepresented in the registered cases of homelessness that do not include asylum seekers. However, in the absence of a coordinated and integrated responses, NGOs offer them mostly temporary and ad hoc solutions in cooperation with public authorities.

People with disabilities suffer from the lack of accessible housing. Apart from increasing the allowances for this target group, Cyprus has not scaled up investments in accessible housing for them. Slow and limited

([285]) [ilc_mdho01] Total population living in a dwelling with a leaking roof, damp walls, floors or foundation, or rot in window frames or floor.

([286]) [ilc_lvho07a] and [ilc_lvho07b], housing cost overburden rate by risk of poverty and income deciles. This indicator should be read together with the tenure structure (homeowners, tenants), that may differ across country and regions.

([287]) Refers to households with incomes below 60% of national median.

([288]) Persons having experienced housing difficulties in their lifetime by sex and current risk of poverty or social exclusion situation.

([289]) [ilc_lvhd05] Persons having experienced housing difficulties in their lifetime by sex and reason.

([290]) [ilc_atsd01] Persons feeling discriminated against by life situation, sex, age, disability (activity limitation), and risk of poverty or social exclusion [ilc_atsd01] Persons feeling discriminated against by life situation, sex, age, disability (activity limitation), and risk of poverty or social exclusion.

([291]) Eurostat 2025.

Graph A16.3:**Housing affordability selected indicators**

		EU27				CY							
	unit	2000-25 avg.	2023	2024	2025	2000-25 avg.	2023	2024	2025	unit	2023	2024	2025
House price to income ratio	*2000-25 avg = 100*	100.0	102.0	100.2		100.0	92.9	93.4		YoY%	3.2	0.6	
Rent to income ratio	*2000-25 avg = 100*	100.0	85.1	83.5	84.5	100.0	83.5	81.9	81.8	YoY%	-1.3	-1.9	-0.1
Overburden rate, total	%	9.9	8.8	8.2		2.7	2.6	2.4	2.4	PPS/y	0.0	-0.2	0.0
Overburden rate, tenant with market rent	%	23.8	20.3	19.2		15.6	16.1	14.4	13.4	PPS/y	-0.7	-1.7	-1.0
Overvaluation gap	%					0.4	0.5	2.7	3.5				
Deflated construction production price	*2010 = 100*	102.2	112.2	111.8	110.5	94.4	103.2	101.7	102.9	YoY%	-1.2	-1.5	1.2
Building permits	*m^3 per ths persons*	483.5	376.9	362.9	379.9	2251.3	2088.3	1949.4	2828.1	YoY%	9.0	-6.7	45.1
Residential construction investment	*% GDP*	5.5	5.8	5.1	5.0	7.5	7.9	8.0	8.2	YoY%	-6.0	1.3	2.5
Share of ownership	%	70.0	69.1	68.4		71.8	70.1	69.4	69.2	PPS/y	-0.6	-1.0	-0.3
Share of people living in overcrowded homes	%	17.7	16.8	16.9		2.6	2.9	2.4	2.2	PPS/y	-0.6	-0.5	-0.2

Source: Eurostat and European Commission calculations.

mechanisms for monitoring and enforcing the implementation of accessibility requirements contribute to the issue ([292]). The forthcoming Law on Social Participation, Inclusion and Independent Living of Persons with Disabilities lacks a housing element and therefore could miss the opportunity to strengthen independent living frameworks.

The LGBTIQ+ community suffers from a lack of explicit and comprehensive legal protections against discrimination in access to housing. This legal gap leaves LGBTIQ+ people particularly vulnerable to unequal treatment by landlords, real estate agents and service providers, making it more difficult for them to secure affordable, safe and stable accommodation ([293]).

([292]) Persons with Disabilities Law (No. 127(I)/2000) and Regulation 61H (Annex III) of the Roads and Buildings Law sets technical specifications for accessible design but applies mandatorily only to housing complexes of five or more units.

([293]) European Union Agency for Fundamental Rights. (2024, May 14). LGBTIQ equality at a crossroads: progress and challenges. FRA. https://fra.europa.eu/sites/default/files/fra_uploads/fra-2024-lgbtiq-equality_en.pdf.

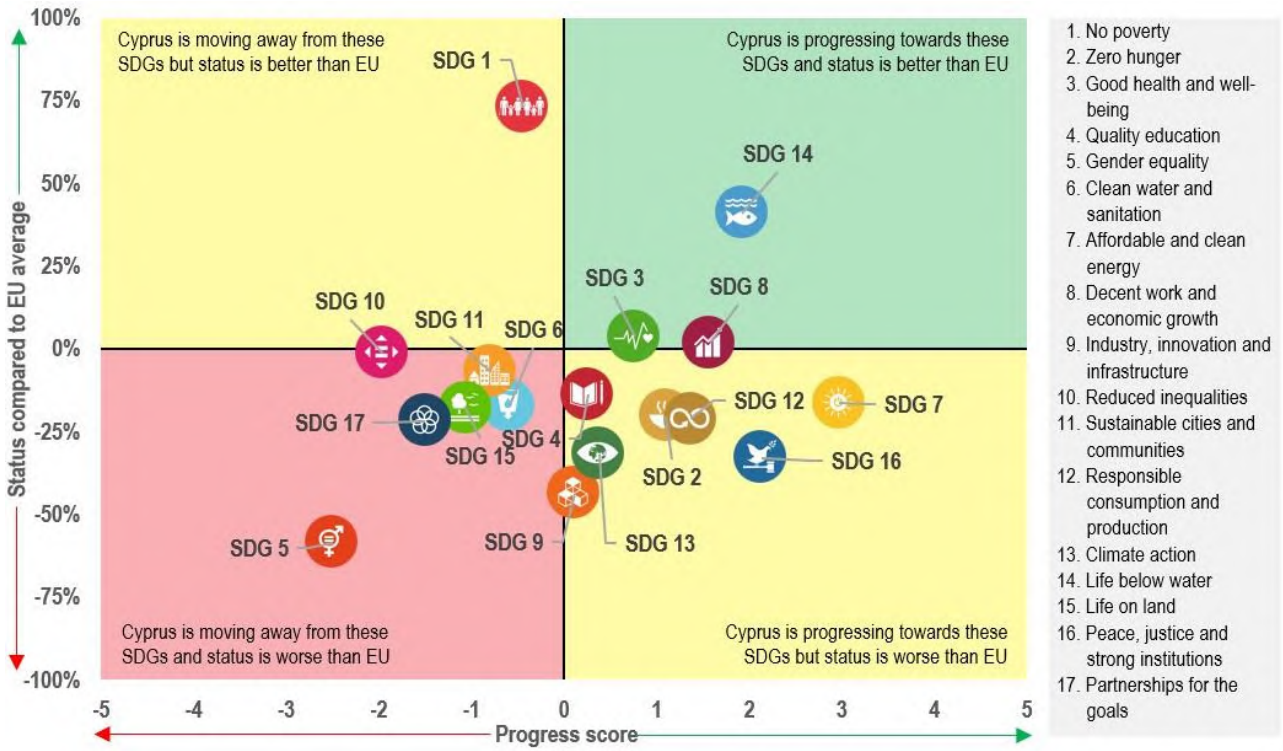
ANNEX 17: SUSTAINABLE DEVELOPMENT GOALS

This annex assesses Cyprus' progress on the sustainable development goals (SDGs) along the dimensions of competitiveness, sustainability, social fairness and macroeconomic stability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change and the environmental crisis, while ensuring that no one is left behind. The EU and its Member States are committed to this historic global framework agreement and to playing an active role in maximising progress on the SDGs. The graph below is based on the EU SDG indicator set developed to monitor progress on the SDGs in the EU.

Cyprus is improving on some elements in *competitiveness* (SDGs 8 and 9) and moving away from SDG 4, but it still needs to catch up with the EU average for all of them. On education (SDG 4), Cyprus has higher attainment in tertiary education than the EU average, but a much larger percentage of low-achievers in mathematics, a lower percentage of participation in early education, a higher percentage of early-school leavers, and a lower percentage of basic digital skills in adults than the EU average. The country is not making progress on SDG 8 (Decent work and economic growth) compared with 2024. Fatal accidents at work are above the EU average. Investments, as a share of GDP, are still below the EU average, and the country's material footprint is above the EU average.

It is particularly lagging behind on SDG 9

Graph A17.1:**Progress towards the SDGs in Cyprus**



For a detailed progress assessment towards the various SDGs, see the annual Eurostat report 'Sustainable development in the European Union'; for extensive data on the short-term SDG progress of EU countries, see Key findings – Sustainable development indicators; for an interactive visualization of SDG progress of EU countries, see SDG country overview. A high status does not mean that a country is close to reaching a specific SDG, but signals that it is doing better than the EU on average. The progress score is an absolute measure based on the indicator trends over the past five or six years. The calculation does not take into account any target values, as most EU policy targets are only valid for the aggregate EU level. Depending on data availability for each goal, not all 17 SDGs are shown for each country.

Source: Eurostat, latest update of 29 April 2026. Data refer mainly to the period 2019-2024 or 2019-2025. Data on SDGs may vary across the report and its annexes due to different cut-off dates.

(Industry, innovation and infrastructure). The country needs to catch up on R&D expenditure, which remains low at 0.65% of GDP in 2024 – one of the lowest in the EU (where the average is 2.24%). On sustainable infrastructure, Cyprus is lagging behind the EU average on the share of buses in passenger transport. Its recovery and resilience plan (RRP) is targeting bottlenecks, especially in the diversification of the economy and investing in R&D, as well as in sustainable infrastructure, to facilitate further progress on these SDGs.

Cyprus is improving on some SDG indicators related to *sustainability* and is well above the EU average for SDG 14 (Life under water). However, it is moving away from SDG 11 (Sustainable cities and communities), SDG 13 (Climate action). Per capita energy consumption in Cyprus is much lower than the EU average, and the country has made progress on energy consumption indicators. The percentage of renewable energy in gross final energy consumption increased from 13.8% in 2018 to 21.9% in 2024. On affordable energy, the percentage of the Cypriot population unable to keep their homes adequately warm was down to 14.6% in 2024 (but still higher than the EU average of 9.2%).

It needs to catch up with the EU average on SDG 2 (Zero hunger), SDG 6 (Clean water and sanitation) SDG 7 (Affordable and clean energy), SDG 9 (Industry, Innovation and Infrastructure), and SDG 12 (Responsible consumption and production). The concentration of nitrates in groundwater was slightly above the EU average (19.3 mg/litre vs EU 18.1 mg/litre in 2023) and ammonia emissions from agriculture were much higher (55 kg/ha vs EU 19.1 kg/ha). This, combined with a low recycling rate for municipal waste (16.0% vs EU 47.7% in 2023) and a high material footprint (in 2024, 22.1 tonnes per inhabitant, vs 13.7 tonnes for the EU) are challenges for meeting the environment goals. The average CO_2 emissions per km from new passenger cars were 95.9 g CO_2 per km in 2024, below the EU average of 107.9 per km. Measures in the recovery and resilience plan (RRP), such as energy efficiency renovations and investments in sustainable water management, will help achieve further progress on these SDGs. The percentage of coastal water bathing sites with excellent water quality is 99.26% (vs 88.8% EU average) and the percentage of terrestrial protected area is at 37.5% (vs 26.4 EU average).

Cyprus is improving on almost all SDGs (except SDGs 3 and 5) related to *social fairness.* Cyprus outperforms the EU average on most indicators related to poverty, health and equalities (SDGs 1, 3 and 10). However, it is moving away from the EU average on indicators related to basic education. The EU/non-EU citizenship gap for early leavers from education and training was 31.5 percentage points (pps), vs the EU average of 15.7 pps in 2024. By contrast, the EU/non-EU citizenship gap for young people not in employment, education or training was at par with the EU average (SDG 10).

However, it still needs to catch up on SDGs 4, 5, 7, 8 ([294]). The high share of low achievement of 15-year-old students in mathematics (see Annex 13) limits opportunities for young people. This is also shown in the higher numbers of young people aged 15-29 not in education, employment or training (12.9% vs EU 11.1% in 2024). On gender equality, while the gender employment gap is at par with the EU average (10.0 pps in 2024), the percentage of senior management positions held by women was much lower than in the EU (11.4% vs EU 32.6% in 2024. Reforms and investments under policy axis 5 of the RRP aim to improve the quality of education and training, reach out to young people not in education, employment or training, and improve access to early childhood education and care and to flexible working arrangements. This will provide equal opportunities for all

([294]) For more information, see Annex 12.

children and make it easier for women to participate in the labour market.

Cyprus is moving away on SDGs related to *macroeconomic stability* (SDGs 8, 16, 17*).* The real GDP per capita was below the EU average in 2024 (EUR 29 870 in Cyprus vs EUR 33 650). Cyprus is moving away on SDG 16 (Peace, justice and strong institutions), with a higher death rate due to homicide and more victims of human trafficking than the EU average. Also, government expenditure on the law courts is well below the EU average. The perceived independence of the justice system needs to catch up with the EU average (42% in Cyprus vs 54% EU average), while the Corruption Perceptions Index scores are worse in Cyprus than the EU average (56 vs 62). Component 3.4 (Modernising public and local authorities, making justice more efficient and fighting corruption) of the RRP contains measures to address long-standing challenges in the areas of justice and the fight against corruption.

As the SDGs form an overarching framework, any links to relevant SDGs are either explained or depicted with icons in the other annexes.

Regional development trends

Cyprus has maintained a relatively steady convergence trajectory towards the EU average in GDP per head, although there have been setbacks caused by crisis periods. Before the 2008 financial crisis, Cyprus made substantial progress in catching up to the EU in terms of GDP per head (PPS), increasing from 100% of the EU average in 2004 to 106.7% in 2008. The financial crisis was followed by a decline in Cyprus's relative position which dropped to 79.8% in 2014. Despite the disruptions caused by the COVID-19 pandemic in 2020, which led to a drop in relative position and negative growth, Cyprus resumed its upward trajectory and reached 99% of the EU average in 2024 reflecting a period of relatively dynamic economic performance. Based on the current data, Cyprus is classified as a single transition region (see Map A18.1). Between 2014 and 2024, GDP per head registered an average annual growth rate of 3.8%, compared with 1.4% in the EU, indicating a sustained pace of real convergence. Population growth contributed to this trend. The population increased by 13.3 per 1000 inhabitants between 2015 and 2024, a level well above the EU average (1.8 per 1 000 inhabitants), with growth recorded in both urban and rural areas ([295]).

Rural areas face higher gender employment gap while employment rates exceed the EU figure across all territories. Employment in Cyprus expanded more rapidly than in the EU (see Annex 11) and consistently exceeded the EU figures across all types of territories. However, in 2025 this was lower in rural areas (79.1%) compared with urban areas (81.6%). Unemployment rates also dropped across territories in relation to the EU figure. In 2025, the unemployment rate in cities was below the EU average (4.4% vs 6.8%), as were the rates in towns and suburbs (4.2% vs 5.6%). Likewise, rural territories saw lower unemployment rates than the EU rate (4.5%. vs 5.3%). However, gender employment gap remains higher in rural areas compared with urban areas (9 pp. vs 13.7 pp.). Despite relatively strong growth in GDP per head of 3.8% between 2014 and 2024, and a declining unemployment rate across territories, labour productivity per hour worked in Cyprus remains below the EU average (80% of the EU average in 2024). However, the trend remains positive with 1.6% annual growth of labour productivity over last decade.

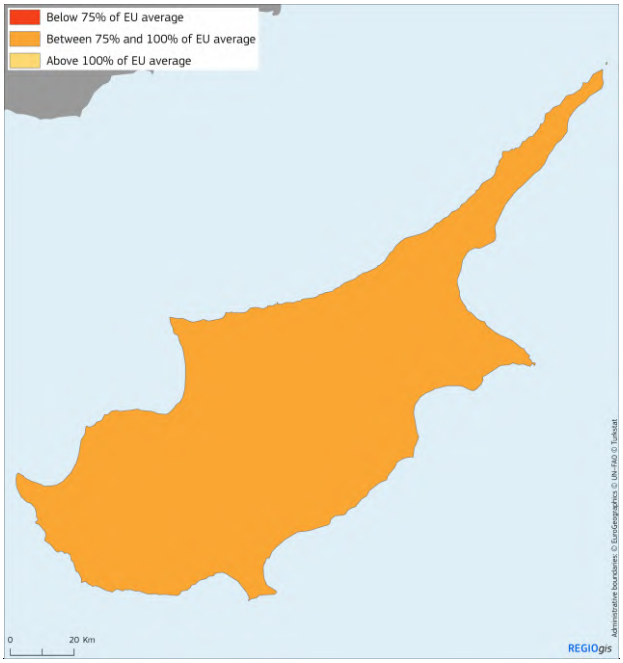
Economic growth is largely driven by the services sector which is concentrated in the main urban areas of the island. Nicosia and Limassol are the main urban centres where the pharmaceutical industry and the fintech sector are steadily growing, with almost 30% of Gross Value Added (GVA) contribution ([296]) and 21% of employment in these sectors ([297]) in 2024.

([295]) Source: ARDECO.

([296]) Eurostat, GVA in financial and other service activities as % of total GVA in 2024.

([297]) Eurostat, Share of employment in ICT, Financial and professional activities in 2024.

Map A18.1: **GDP per head compared with the EU average**



2021-2023 average GDP per head in purchasing power standard compared with the EU average.
Source: Commission calculations based on Eurostat 16 July 2025 data.

Key challenges for regional competitiveness

R&D expenditure are well below the EU average while structural challenges constrain overall competitiveness. R&D spending amounted to only 0.65% of GDP in 2024 (see Annex 4). The Regional Competitiveness Index confirms overall structural constraints. Cyprus scored 86 in 2022 (EU=100) with comparatively weak performance in basic skills (score of 27) (see Annex 13) and infrastructure (score of 62). Research and innovation activities are primarily concentrated in the main urban centres while firms located in suburbs and rural areas tend to have more limited interaction with research institutions and innovation support structures. The smart specialisation strategy adopted in 2023, has been a good starting point in providing a strategic framework to improve the innovation performance of the economy. However, its impact has not yet led to improved innovation capacity partly reflecting the need to further develop the monitoring mechanism (see Annex 4).

Rural areas appear less well equipped to tackle productivity gaps. Differences in human resources endowment may present specific challenges in this regard. The share of highly educated people was at 57% in cities, 47% in towns and suburbs, and 39% in rural areas in 2025 ([298]). Despite the shares exceeding EU averages across all types of territories, the significantly higher share of highly educated people in cities compared with rural areas, indicates uneven access to skilled labour across the island These differences may affect the capacity of rural areas to benefit from higher-value economic activities and innovation. The lack of dedicated support mechanism for entrepreneurial activities in rural regions further limits local development ([299]).

([298]) Eurostat, Share of population from 25 to 64 years with tertiary education in 2025 (edat_lfs_9913).

([299]) OECD (2025), *Reinforcing Rural Resilience*, OECD Rural Studies, OECD Publishing, Paris, https://doi.org/10.1787/7cd485e3-en.

Table A18.1: **Main development trends, challenges and the concentration of resources**

Main development trends	
Transition region (population 966 365)	Following the economic disruptions caused by the COVID-19 pandemic, Cyprus resumed its upward trajectory and reached 99% of EU GDP per capita (PPS) in 2024. Cyprus showed a strong convergence trend with the EU-27, registering annual average growth of GDP per capita of 3.8%.
Specific territories	Urban and rural areas, as well as coastal and inland regions have different challenges. The level of human capital in Cyprus exceeds the EU average but territorial disparities persist, with higher shares of tertiary-educated population in urban areas. The labour market also faces territorial disparities, with higher unemployment rates and a greater gender employment gap in rural areas compared with urban areas. Access to primary education and healthcare is limited in rural areas. Furthermore, water scarcity remains a pressing issue amid growing tourism pressures especially in coastal/urban areas.
National cohesion aspects in line with Article 177 TFEU (second indent)	Significant challenges remain in water treatment and waste management. Ageing water infrastructure combined with limited investments contribute to high leakage rates. Low recycling rates of municipal waste remain a weak point in environmental governance.

Source: European Commission based on Eurostat data; categories of regions based on Map A18.1.

Broader indicators of territorial well-being point to weaker outcomes in rural areas. In 2025, the share of people at risk of poverty or social exclusion (AROPE) was below the EU rate in cities and towns and suburbs, while it exceeded the EU figure in rural areas (see Annex 12). Rural areas have also significantly higher shares: 15.2% in cities, 17.3% in towns and suburbs, and 22.3% in rural areas. The EU Social Progress Index reflects gaps in access to services and opportunities, with rural areas performing significantly worse than cities, particularly in water and sanitation (41 vs 58), housing (48 vs 61), health (70 vs 83), inclusive society (29 vs 45) ([300]). These disparities can affect the long-term attractiveness and competitiveness of the island.

The future development prospects of rural areas depend on the quality of education. Students in rural areas perform considerably worse in basic skills than their peers in cities with a gap of 39 score points according to 2022 OECD Programme for International Student Assessment (PISA). Furthermore, Cyprus recorded the highest severe underachievement rate, with over 40.3% of students underachieving simultaneously in all three tested subjects all over the country (see Annex 13). The EU Social Progress Index 2025 also shows lower scores in basic education in rural areas (47) compared with cities (49). However, towns and suburbs scored the lowest (45) ([301]). However, there is potential to improve educational outcomes and labour market prospects of young people, especially in rural areas.

Territorial gaps emerge in access to services while gigabit infrastructure has rapidly improved in sparsely populated areas. On average, it takes people more time to reach primary schools and hospitals in the country's rural areas than in the EUs rural areas (see

([300]) Inforegio - Social progress in cities and rural areas of the EU. Values on a 0-100 scale.

([301]) Indicators included in the basic education score that are measured by the degree of urbanisation level are: lower-secondary completion only, and early school leavers. Source: Inforegio - Social progress in cities and rural areas of the EU.

Table A18.2. These gaps affect business development prospects, quality of life and may influence settlement patterns and labour supply outside urban centres. Better match of public transport with local population needs such as work, healthcare and education could enhance the attractiveness of these areas. Although, in terms of fixed very high-capacity network (VHCN), sparsely populated areas have yet to reach the level of coverage enjoyed in the rest of the country, they show significant progress. The implementation of Cyprus's recovery and resilience plan (RRP) investment measure to expand the VHCN in underserved areas has contributed to this positive trend. In 2024, 78% of households in these areas had access to VHCN, compared with the national coverage of 89% (EU average coverage in sparsely populated areas is 62%) (see Annex 5). This offers the potential to roll out digital technologies and productivity improvements outside cities.

Cyprus's blue economy has experienced growth, but the activity remains concentrated in coastal areas. In 2022, the blue economy constituted 6.8% of the national GVA (up from 4.4% in 2021) and generated 12% of national employment (up from 8.8% in 2021). As an island nation, Cyprus's economy is heavily reliant on tourism (80% of the blue economy-related GVA, 87% of blue economy-related jobs), with marine living resources (6% of jobs) and shipbuilding/repair (3% of jobs) also contributing.

The growing popularity of Cyprus as a tourist destination puts more pressure on coastal urban infrastructure. Cyprus observed a record number of tourist arrivals in 2024 (more than 4 million international visitors), with 9 out of 10 tourists opting for coastal urban areas, and almost 1 in 3 tourists choosing Paphos ([302]). Coastal tourism is highly seasonal, leading to environmental degradation, water stress, and infrastructure overload during peak months, which goes against the objectives for sustainable coastal development and community well-being underlined in the Ocean Pact. Seasonal peaks in tourism overwhelms coastal areas while less crowded rural and mountainous areas offer an opportunity to diversify tourism flows and boost the local economy. Coastal areas with high tourism and foreign businesses also note higher house prices that are exacerbated by higher demand (see Annex 16). Tourism density in Cyprus is one of the highest in the EU, exceeding 1 700 nights per km^2. High density creates significant pressure on the both the island and the environment, especially in coastal areas where most of the tourism infrastructure is concentrated. Encouraging destinations to diversify their tourism offers and better distribute tourism flows could help manage seasonal peaks and promote wider territorial distribution.

([302]) Tourism Statistics 2024 - Cyprus Employers and Industrialists Federation.

Table A18.2: **Key regional indicators (at NUTS2 level) for Cyprus**

	GDP per head (PPS, index)	Population growth	Real GDP per head growth	Productivity: GDP (PPS) per hour worked (index)	Unemployment rate	At-risk-of-poverty or social exclusion rate (AROPE)	Energy poverty	Access to healthcare - Rural areas	Access to primary schools - Rural areas
	EU27=100	Average annual change per 1000 residents	Average annual % change	EU27=100	% of labour force	% of population	% of total population	Population within 10 minutes by car from nearest hospital (%)	Children under 15 within 15-minute walk to primary school (%)
	2024	2015-2024	2014-2024	2024	2025	2025	2025	2023	2023
EU	100.0	1.8	1.4	100.0	6.0	21.0	9.2	29.9	33.7
Cyprus	99.0	13.3	3.8	80.1	4.4	17.1	11.3	5.6	19.9

Dark green - the indicator is 120% or more of the EU average.
Light Green - the indicator is 100% or more, but less than 120% of the EU average.
Yellow - the indicator is 90% or more, but less than 100% of the EU average.
Light red – the indicator is 75% or more, but less than 90% of the EU average.
Dark red – the indicator is below 75% of the EU average.
This colour scale applies to 'positive' indicators, where higher values are favourable.
For 'negative' indicators (where higher values are unfavourable), the colours are reversed.
Source: Eurostat and JRC

The recent administrative reform, implemented in 2024, has transferred significant responsibilities to district authorities, enabling district-level coordination and investment planning in, among others, water and waste management ([303]). However, the administrative reform still needs to be accompanied by an increase in administrative capacity sufficient to fully absorb and operationalise these new responsibilities. Given the recent entry into force of the reform, newly formed municipalities, district-level local government organisations and inter-municipal structures are in the process of adjusting their organisational arrangements and human resources to cover their broader competences. Newly formed municipalities encounter operational challenges such as staff shortages and limited managerial experience. These challenges are particularly relevant in a multi-layered governance setting, where effective coordination between municipalities, inter-municipal groupings and district-level bodies is essential, notably in technically demanding areas such as water and waste management. Strengthening local capacity is essential to fully benefit from this reform and ensure local governance thrives. Further targeted support for administrative modernisation, skills development and coordination across levels of local and regional government would facilitate effective implementation and help ensure consistent service delivery across territories, contributing to territorial cohesion.

Coordination efforts can play a crucial role in leveraging the insularity of Cyprus. The island has significant potential for offshore wind and wave energy, although progress is currently hindered by regulatory barriers, grid limitations, and limited local supply chains. In 2023, Cyprus established its first Maritime Spatial Plan, aiming to facilitate the sustainable exploitation of marine waters, focusing on sectors like fisheries, aquaculture, renewable

([303])Government of Cyprus 2024, National Reform Programme: https://www.mof.gov.cy/mof/dggrowth/dggrowth.nsf/all/B770610290F2DC54C22588F4003255F9/$file/NRP%202024.docx (Accessed on 19/01/2026).

energy, and shipping. The plan provides a stable zoning framework to promote investments and legal certainty for blue economy sectors. As an island with limited marine space, Cyprus faces a high concentration of maritime activities, increasing the importance of effective spatial coordination between tourism, aquaculture, fisheries, shipping and environmental protection.

This Transport Annex presents the state of play, and the challenges Cyprus faces with the implementation of the trans-European transport network (TEN-T) and road safety.

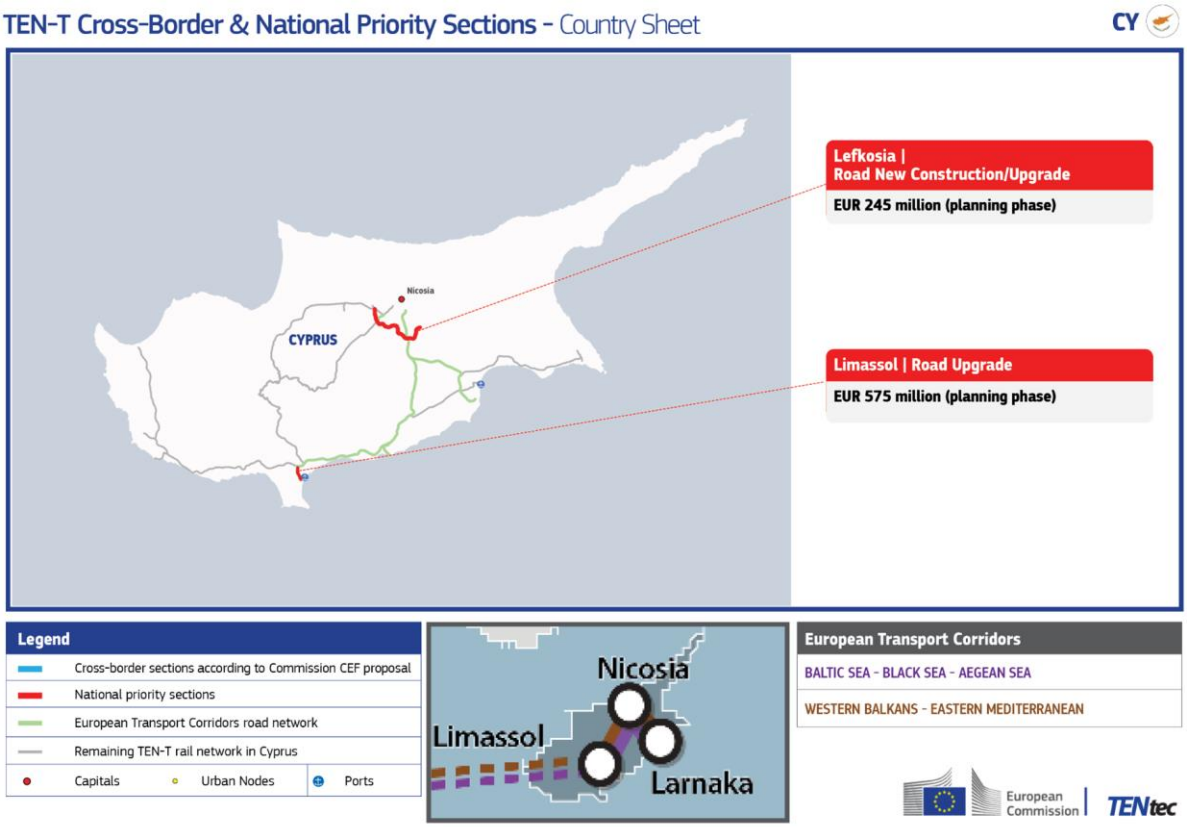
Cyprus is connected to the trans-European transport network through two European transport corridors, the Baltic Sea – Black Sea – Aegean Sea (BBA) corridor and the Western Balkans – Eastern Mediterranean (WBEM) corridor. Both play a crucial role in facilitating the exchange of goods and passengers between the EU and its external borders.

The TEN-T in Cyprus comprises 492 km of road (156 of which are on the core network). Cyprus has no inland waterways or rail network. It has two airports, one of which is a core airport, as well as two ports (including one core port) and three urban nodes on the TEN-T ([304]).

Being an island, the country's connection to the TEN-T network is by sea and by air, rendering the upgrading of ports and the development of alternative fuel infrastructure essential for the greening and development of intra-EU transport. In this context, projects enhancing the competitiveness and sustainability of the maritime sector, such as upgrading the basic infrastructure of the ports and the deployment of alternative fuel technologies, are key. In addition and in the absence of a rail network, the priority projects include the development of a ring road south of Nicosia which will contribute to alleviating congestion issues and improving road safety, alternative fuel deployment, and resilience in response to military mobility, as well as the upgrade of a key port facility in the Port of Limassol, which will enhance the efficiency and reliability of maritime transport.

([304]) TENtec Information System, according to Reg. 2024/1679.

Map A19.1: **TEN-T Cross-Border & National Priority Sections in Cyprus.**



These interventions will have a positive impact on the performance and resilience of port-to-hinterland connections and overall network connectivity. At the same time, they will contribute to achieving EU objectives, including reducing greenhouse gas emissions and improving road safety, which will have a positive impact on Cyprus's competitiveness.

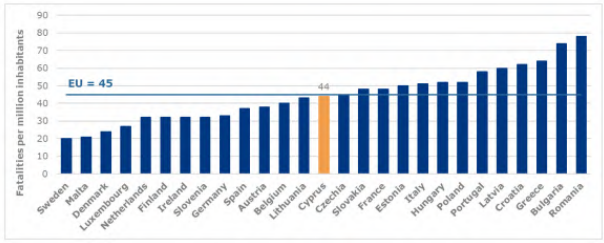
Infrastructure projects face delays mainly linked to lengthy land acquisition and procurement procedures. The administrative capacity of the authorities in charge of project preparation and implementation is limited, resulting in overly optimistic planning and insufficient project maturity. Delayed feedback from the utilities service companies for existing and planned networks also affects the timely delivery of infrastructure projects.

Road crashes impose an enormous social, economic and health burden on the EU economy. The external socio-economic costs of fatal, serious and minor injuries have remained persistently high despite the progress made in reducing crash frequency and severity. These resources could otherwise fuel innovation, education, healthcare and other crucial public investments([305]).

In 2024, Cyprus performed slightly better than the EU average (45) with 44 road fatalities per million inhabitants. Compared with the EU average, the distribution of fatalities in Cyprus showed a relatively high proportion of powered two-wheelers and 18- to 24-year-olds. The vast majority of road fatalities and serious injuries occur within urban areas. Based on the latest available data, Cyprus appears to be almost on track to meet the 2030 target of halving road fatalities, with a 21% decrease between 2019 and 2024.

Nevertheless, significant delays have been met in the implementation of the national road safety action plan due to organisational, budget and staff-related issues. This means there is a need to remove the obstacles preventing or delaying implementation of the road safety strategy and to speed up the setting of the planned road safety measures, with emphasis on measures covering urban infrastructure, vulnerable road users, and safe speeds([306]).

Graph A19.1:**Cyprus' road fatalities per million, 2024**



Source: Report at the Mid-Point - Cyprus, SWD(2026) 37 final.

Map A19.2:**Cyprus' road safety map**

Source: TENtec Information System and TEN-T map library – European Commission

([305])Report on the implementation of the EU Road Safety Policy framework at the Mid-Point, COM(2026) 77 final.

([306]) More details in Report on the implementation of the EU Road Safety Policy framework at the Mid-Point – Cyprus, SWD(2026) 37 final.