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From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. prev. doc.:	11080/24 - COM(2024) 613 final
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Cyprus

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2024) 613 final.

COUNCIL RECOMMENDATION

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

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

[1] OJ L 2024/1263, 30.4.2024 ELI: http://data.europa.eu/eli/reg/2023/435/oj.
[2] OJ L 306, 23.11.2011, p. 25 ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights.

(2) The REPowerEU Regulation[4], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy security and diversify the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Cyprus added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

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[3] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17) ELI: http://data.europa.eu/eli/reg/2021/241/oj.

[4] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1) ELI: http://data.europa.eu/eli/reg/2023/435/oj.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[5], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[6]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[7], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report, in which it identified Cyprus as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on the 2024 draft budgetary plan of Cyprus. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

[5] COM(2023) 168 final.
[6] COM(2024) 77 final.
[7] COM(2023) 901 final.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes amended Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on requirements for the budgetary frameworks of Member States[8]. The objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, and prevent excessive government deficits. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[9] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) 2024/1263, the adjustment period may be extended by 3 years at most.

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8 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

9 Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024. ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

For the purpose of supporting the preparation of those plans, on 21 June 2024, the Commission published guidance on the information to be provided by Member States in their plans and in their annual progress reports. In accordance with Articles 5 and 36 of Regulation (EU) 2024/1263, the Commission transmitted to the Member States reference trajectories and technical information, where applicable. Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. In accordance with their national legal frameworks, Member States may debate their draft medium-term plans with their national parliaments, may ask the independent fiscal institutions to issue an opinion, and may conduct a consultation of social partners and other national stakeholders.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) On 17 May 2021, Cyprus submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 28 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Cyprus[10], which was amended on 8 December 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[11]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Cyprus has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(8) On 30 April 2024, Cyprus submitted its 2024 National Reform Programme and its 2024 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects Cyprus's biannual reporting on the progress made in achieving its recovery and resilience plan.

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10 Council Implementing Decision of 20 July 2021 on the approval of the assessment of the recovery and resilience plan for Cyprus (10686/2021).

11 Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 20 July 2021 on the approval of the assessment of the recovery and resilience plan for Cyprus (15571/2023).

(9) The Commission published the 2024 country report for Cyprus[12] on 19 June 2024. It assessed Cyprus' progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Cyprus' implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Cyprus' progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

[12] SWD(2024) 613 final.

(10) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Cyprus. The main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Cyprus for the purposes of that Regulation were published in March 2024[13]. On 19 June 2024, the Commission concluded that Cyprus is experiencing macroeconomic imbalances. In particular, Cyprus faces vulnerabilities related to private, government and external debt, which have overall receded but remain relevant, while the large current account deficit has widened further. Both household and non-financial corporate debt-to-GDP ratios have continued to decline, while remaining high. However, corporate and external debt is inflated by the debt of special purpose entities, which pose limited risks to the domestic economy. The large stock of non-performing loans held by banks has declined significantly in recent years, including in 2023, and non-performing loans resolution by credit acquiring companies is expected to support further private debt reduction. Nonetheless, the tighter financial conditions are likely to increase pressure on highly indebted households and companies. The government debt-to-GDP ratio is decreasing rapidly, and Cyprus is forecast to sustain budgetary surpluses this year and next, which will drive further reductions in the debt ratio. The large current account deficit widened further in 2023 much due to the continued robust domestic demand and the repatriation of profits. It is expected to remain large this year and next. The highly negative net international investment position did not improve last year and is set to deteriorate unless the current account improves markedly. Extensive policy efforts have been made to address the identified vulnerabilities. The full and timely implementation of RRP and further measures are expected to help expand exports and alleviate the over-reliance on oil imports.

(11) Based on data validated by Eurostat[14], Cyprus's general government surplus increased from 2.7% of GDP in 2022 to 3.1% in 2023, while the general government debt fell from 85.6% of GDP at the end of 2022 to 77.3% at the end of 2023.

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[13] SWD(2024) 81 final.

[14] Eurostat-Euro Indicators, 22.4.2024.

(12) On 12 July 2022, the Council recommended[15] that Cyprus take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[16], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Cyprus was recommended to adjust current spending to the evolving situation. Cyprus was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. In 2023, according to the Commission estimates, the fiscal stance[17]was expansionary, by 1% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a broadly neutral contribution to the fiscal stance of 0.2% of GDP. This includes the reduced cost of the targeted emergency support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. This also includes higher costs to offer temporary protection to displaced persons from Ukraine (by 0.2% of GDP). The growth of nationally financed primary current expenditure in 2023 was in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.3% of GDP in 2023. Nationally financed investment amounted to 3.2 % of GDP in 2023, representing an increase of 1.3 percentage points as compared to 2022. Cyprus financed additional investment through the Recovery and Resilience Facility and other EU funds.

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15 Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Cyprus and delivering a Council opinion on the 2022 Stability Programme of Cyprus, *OJ C 334, 1.9.2022, p. 104.*

16 Based on the Commission Spring 2024 Forecast, the medium-term potential output growth of Cyprus in 2023, which is used to measure the fiscal stance, is estimated at 8.5% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

17 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

It financed public investment for the green and digital transitions, and for energy security, such as installation of thermal insulation and photovoltaic systems in public buildings, energy upgrades in a number of urban and rural fire stations, upgrade of the capabilities of relevant authorities in Cyprus to cope with fire hazards and to strengthen the protection against the risks faced by citizens, infrastructure and forests, digitalisation of key workflows in a number of ministries and central government services, and the expansion of the e-application environment for planning and building permitting purposes, which are partly funded by the Recovery and Resilience Facility and other EU funds.

(13) The key projections in the 2024 Stability Programme can be summarised as follows. The macroeconomic scenario underpinning the budgetary projections foresees real GDP to grow by 2.9% in 2024 and 3.1% in 2025, while it projects HICP inflation at 2.5% in 2024 and 2.0% in 2025. The general government surplus is expected to decrease to 2.9% of GDP in 2024 and 2.8% of GDP in 2025, while the general government debt-to-GDP ratio is set to decrease to 70.6% by the end of 2024 and 65.5% by the end of 2025. After 2025, the general government surplus is projected to decrease to 2.6% of GDP in 2026 and to 2.1% in 2027. Therefore, the general government balance is planned to remain below the 3% of GDP deficit reference value over the programme horizon. In turn, after 2025, the general government debt-to-GDP ratio is projected to decrease to 59.2% of GDP in 2026 and 54.2% of GDP in 2027.

(14) The Commission Spring 2024 Forecast projects real GDP to grow by 2.8% in 2024 and 2.9% in 2025, and HICP inflation to stand at 2.4% in 2024 and 2.1% in 2025.

(15) The Commission Spring 2024 Forecast projects a government surplus of 2.9% of GDP in 2024, while the general government debt-to-GDP ratio is set to decrease to 70.6% by the end of 2024. Based on the Commission's estimates, the fiscal stance is projected to be neutral at 0.0% of GDP in 2024.

(16) Expenditure amounting to 0.7% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.3% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Cyprus. Expenditure amounting to 0.2% of GDP is expected to be backed by loans from the Recovery and Resilience Facility in 2024, compared to 0.0% of GDP in 2023, according to the Commission 2024 spring forecast.

(17) On 14 July 2023, the Council recommended[18] that Cyprus maintain a sound fiscal position in 2024. When executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of the deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, Cyprus' structural balance is projected at 2.1% of GDP in 2024, from 1.8% in 2023, thereby above the country's medium-term budgetary objective (MTO) of a structural balance of 0% of GDP. This is in line with what was recommended by the Council.

[18] Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Cyprus and delivering a Council opinion on the 2023 Stability Programme of Cyprus, OJ C 312, 1.9.2023, p. 116.

(18) Moreover, the Council recommended that Cyprus take action to wind down the emergency energy support measures in force as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Cyprus should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[19] of emergency energy support measures is estimated at 0.4% of GDP in 2023 and projected at 0.3% in 2024 and 0.0% in 2025. In particular, the lower excise duties on oil products expired in March 2024 and the subsidies on electricity bills are assumed to remain in force in 2024 and are expected to be phased out in the course of this year. The emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. This risks being not in line with what was recommended by the Council. The budgetary cost of emergency energy support measures targeted at protecting vulnerable households and firms is estimated at 0.0% of GDP in 2024 (0.0% in 2023), according to the Commission spring 2024 forecast.

(19) In addition, the Council also recommended that Cyprus preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular, to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to remain broadly stable at 3.1% of GDP in 2024 from 3.2% of GDP in 2023. This is in line with what was recommended by the Council. Furthermore, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 1.3% of GDP in 2024. This is driven by a higher spending financed by Recovery and Resilience Facility grants following a drop on other EU grants after the end of the 2014–2020 programming period of EU structural funds, for which funds were available until 2023.

[19] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

(20) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government surplus of 2.9% of GDP in 2025. The general government debt-to-GDP ratio is set to decrease to 65.4% by the end of 2025. Prudent fiscal policy should contribute to strengthening the external position too.

(21) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan, including the REPowerEU chapter, is essential to boost Cyprus' long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Cyprus to continue the implementation of reforms and to accelerate investments by addressing relevant challenges while ensuring strong administrative capacity.

(22) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation 2021/1060, Cyprus is required to review its programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in the programme. While Cyprus has made progress in implementing cohesion policy and the European Pillar of Social Rights, challenges remain and socio-economic disparities persist between urban and non-urban areas. Accelerating the implementation of the cohesion policy programme, is crucial. Furthermore, it is important to ensure the administrative capacity of local government authorities in anticipation of Cyprus's legislative reform in local government, scheduled for the 1st of July 2024 . The priorities agreed in the 'Thalia' programme remain relevant. Increasing the use of renewable energy, storage solutions, enhancing energy efficiency and urban transport are all key to achieving green transition. Improving water management, especially wastewater treatment, is needed to comply with the Urban Wastewater Treatment Directive. Progress towards a circular economy in waste management remains critical and requires improvements in recycling and waste reduction. Investments in labour market activation and the social integration of vulnerable groups should continue to be implemented. The implementation of individual learning accounts and implementing the European Child Guarantee remain important. Furthermore, investment in good quality and affordable long-term care services and social housing remains a priority. In addition, efforts to address energy poverty and develop the social economy should be continued. As part of the mid-term review of the cohesion policy programme, Thalia, the increasingly compelling needs in the field of prevention and preparedness against climate change-related risks merit further attention. Cyprus could also make use of the Strategic Technologies for Europe Platform initiative to support its energy transition through clean and resource-efficient technologies, including net-zero technologies.

(23) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Cyprus faces several additional challenges related to the governance of state-owned enterprises, educational outcomes and skills mismatches, the roll-out of renewable energy sources, the expansion and upgrade of the electricity grid, and climate change adaptation.

(24) A well-functioning and competitive business environment is crucial to economic efficiency and growth. In this respect, the governance of state-owned enterprises is not fully up to international standards. In recent years, some policy measures have been introduced to improve the financial oversight of public entities, but the absence of a complete inventory and regular reporting obligation limits the effective performance monitoring and planning of state-owned enterprises. Moreover, important aspects of corporate governance practices, such as the merit-based nomination of boards, ownership policy, performance-based management, transparency and accountability of financial performance, remain insufficient. Against this background, there are concerns about the quality and prices of services in sectors dominated by state-owned enterprises, such as the electricity sector.

(25) Cyprus' very weak performance in the 2022 Programme for International Student Assessment (PISA) shows that underachievement in basic skills (i.e., literacy, numeracy and science) poses a major challenge. Despite the adequate formal qualifications of teaching staff, the continuous training of teachers (including competency-based teaching and learning methods) is insufficient. In 2021, most teacher candidates failed the exam needed to be appointed. The education system has not sufficiently assessed and adapted educational resources to the needs of students, which is required to develop key competences. In the labour market, skills mismatches are becoming increasingly prevalent, while participation in vocational education and training (VET) programmes remains significantly lower than the EU average. The low participation rate in VET programmes is linked to both capacity and attractiveness constraints as most VET schools are situated in urban areas (making it difficult for students living in rural areas to enroll), while most students have a strong preference for entering tertiary education instead. Adult learning has a limited potential to correct this situation as the share of adults (aged 25-64) participating in learning in the previous 12 months was 28.3% in 2022 (vs EU 39.5%). This is a substantial decrease from 44.8% in 2016 which undermine Cyprus' potential to improve its economic competitiveness.

(26) Despite considerable steps taken towards accelerating the roll-out of renewables, significant challenges remain. Renewable energy accounted for just 17% of Cyprus' electricity mix in 2022. This is still significantly below the goal of 31.5% renewable electricity generation by 2030, as indicated by Cyprus in its draft national energy and climate plan. Due to Cyprus' reliance on petroleum products, which are imported in their entirety and serve to meet over 80% of its energy needs, Cyprus remains vulnerable to fluctuations in global energy prices. Considerable challenges persist in upgrading and expanding the existing electricity grid to accommodate the deployment of renewable energy sources. Cyprus is grappling with significant obstacles in its short-term power grid capacity to accommodate an increase in renewables, which results in recurring shortages. This phenomenon is evident when looking at the official data from Cyprus' Energy Regulatory Authority. By the end of November 2023, the Cypriot system had a total of 782.57 MW of operational renewable energy plants (including 157.50 MW of wind, 625.93 MW of photovoltaics, and 9.15 MW of biomass). At the same time, the authority has approved construction permits for a total of 2 383 MW in renewable energy projects. An overarching strategy for energy storage could increase flexibility and supply stability, and decrease the costs of ramping up and down conventional power plants.

(27) Cyprus faces several challenges in its efforts to address climate change resilience, such as a weak institutional framework for climate change adaptation, and the lack of sustainable water management practices to support resilient agriculture. The country's vulnerability to climate change is pronounced, and its national adaptation policies and measures are not sufficiently developed. Cyprus suffers from low rainfall levels and high temperatures, contributing to the highest level of water stress in the EU. Although the Cypriot agriculture sector benefits from increasingly water-efficient irrigation systems, it still has the highest water consumption rate due to a significant loss of water resources in insufficient distribution and storage networks. Furthermore, the Cypriot agriculture sector is already grappling with the effects of climate change, including soil degradation and desertification, leading to reduced crop yields. Effective water management and storage, as well as adopting water-efficient crops, become paramount. Anthropogenic pressure on habitats and ecosystems, particularly in coastal zones, is exacerbating the situation. The country's current approach to climate change adaptation remains largely non-binding. This calls for improved institutional arrangements to bolster climate resilience and long-term competitiveness.

(28) In view of the close interlinkages between the economies of euro area Member States and of their collective contribution to the functioning of the Economic and Monetary Union, in 2024 the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Cyprus, recommendations (1), (2), (3) and (4) contribute to the implementation of the first, second, third and fourth euro area recommendations.

(29) In light of the Commission's in-depth review and its conclusion on the existence of imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (1) below. Policies referred to in recommendation (1) help to address vulnerabilities linked to public and external debt. Policies referred to in recommendation (4) contribute to addressing recommendation (1) by reducing demand for energy imports and by extension helping to strengthen the external balance. Recommendation (1) contributes to both addressing imbalances and implementing the recommendation for the euro area, in line with recital 28.

HEREBY RECOMMENDS that Cyprus take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[20] in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and respecting the 3% of GDP deficit Treaty reference value.

2. Strengthen administrative capacity to manage the recovery and resilience plan, accelerate investments and maintain momentum in the implementation of reforms. Address relevant challenges to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of the cohesion policy programme. In the context of its mid-term review, continue focusing on the agreed priorities, taking action to better address the needs in the area of prevention and preparedness against climate change-related risks, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Strengthen the competitiveness of the economy by accelerating efforts to improve the governance of state-owned enterprises in line with international standards and further improving skill levels and educational outcomes. Strengthen continuous teacher training and address the imbalances between labour supply and demand by further increasing the capacity and attractiveness of Vocational Education and Training programmes as well as fostering adult learning.

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[20] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

4. Upgrade and expand the grid and storage to accommodate an increasing share of renewables. Improve the implementation of climate adaptation measures, by focusing on fostering the institutional framework governing climate adaptation and implementing sustainable water management practices in agriculture.

Done at Brussels,

For the Council

The President