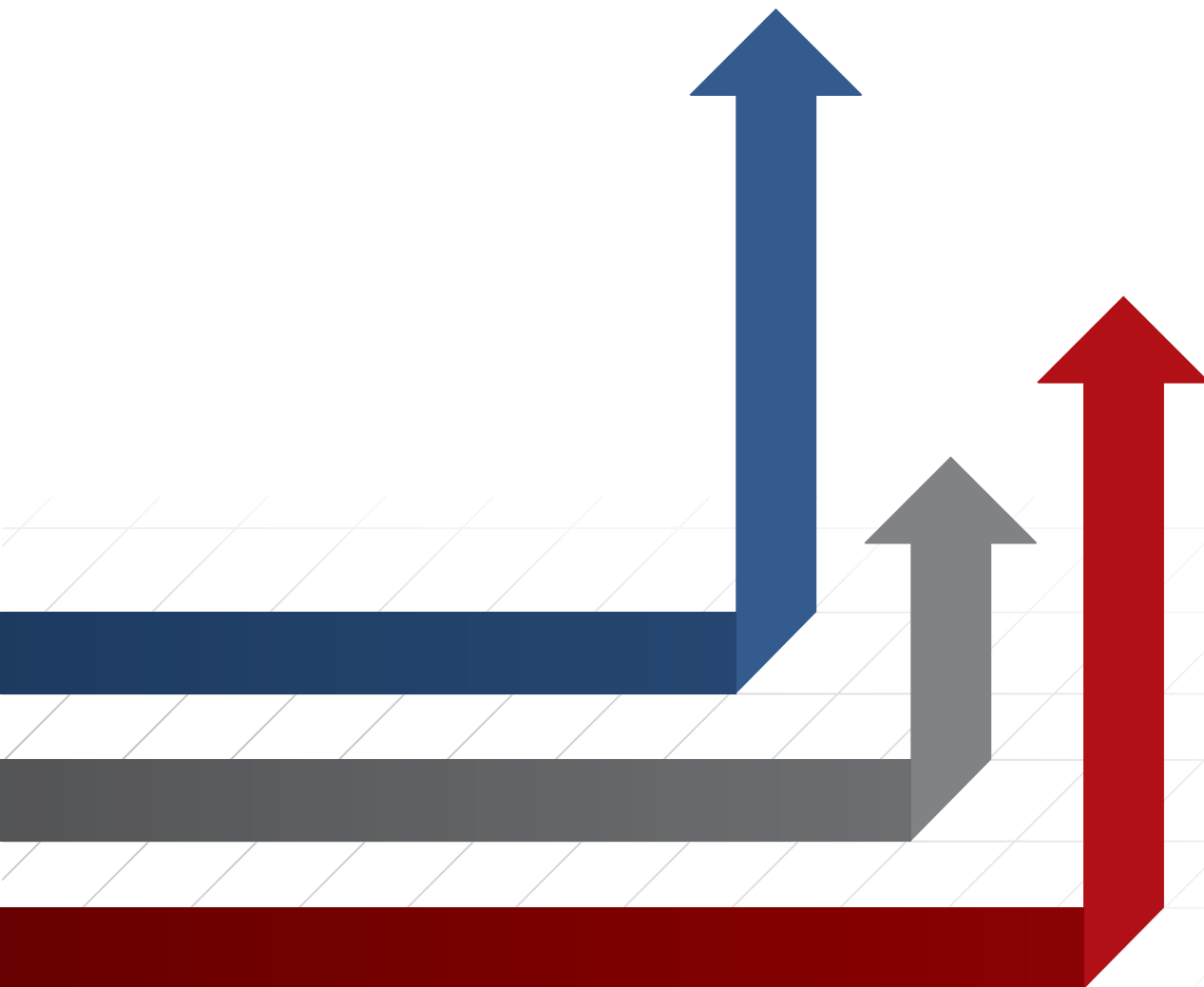




MINISTRY OF FINANCE

CYPRUS DRAFT BUDGETARY PLAN 2026



OCTOBER 2025

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1. Introduction

The Draft Budgetary Plan (DBP) 2026, prepared according to Regulation EU 473/2013, is submitted by the Republic of Cyprus, in the framework of full participation in the regular economic governance framework and procedures. It is noted that Cyprus is in the preventive arm of the Stability and Growth Pact.

The DBP 2026 was approved by the Council of Ministers on 8th October 2025. The macroeconomic projections underlying the budgetary outcomes have been endorsed by the Fiscal Council on 25th September 2025.

The format and content of the document are in line with the requirements of the Code of Conduct, and therefore, macroeconomic and budgetary forecasts¹ are presented for the current and forthcoming year, whereas broad categories are also presented for the medium-term. The analysis and forecasts contained in this document are based on the latest available results of 2025, as well as the Budget Bill for 2026 and Medium-Term Budgetary Framework 2026-2028 that was submitted to the House of Representatives on 2nd October 2025.

¹ The cut-off date for the macroeconomic and fiscal forecasts was 26th September 2025.

2. Economic developments and Outlook

2.1 Developments in 2025

During the first half of 2025, the economy recorded a positive growth rate of 3.2% in real terms (seasonally adjusted), compared to the respective period of 2024. In terms of domestic demand, consumption in the first half of 2025 increased by 3.4% compared to the corresponding half of 2024 (seasonally adjusted data), and more specifically public consumption increased by 7.0% and private consumption increased by 2.2%. Gross fixed capital formation decreased by 18.4% over the same period.

In terms of external demand, exports increased by 7.2% (-20.4% in exports of goods and +11.7% in exports of services) while imports increased by 7.1% (+4.6% in imports of goods and +8.4% in imports of services) in the first half of 2025 compared to the corresponding half of 2024 (seasonally adjusted data).

From a sectoral point of view, the growth of the economy is attributed to the following sectors: "Agriculture, forestry and fishing" (0.5%), "Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities" (3.6%), "Manufacturing" (2.4%), "Construction" (2.6%), "Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities" (5.1%), "Information and communication" (6.1%), "Financial and insurance activities" (0.5%), "Real estate activities" (2.2%), "Professional, scientific and technical activities; administrative and support service activities" (2.8%), "Public administration and defense; compulsory social security; education; human health and social work activities" (1.4%) and "Arts, entertainment and recreation, repair of household goods and other services" (4.2%).

The tourism sector and the sectors related, consist an important source of growth in the first eight months of 2025. The sector, suffered a significant hit from the invasion of Russia to Ukraine (and the sanctions imposed on Russia) and also from the war in Israel. The gap was filled by the EU markets which recorded an increase. Arrivals from Israel recovered and remain strong, despite the conflict in the Middle East. There are also various high spending markets that have contributed to the sectors' good performance, with a continued gradual rise in per person per day expenditure recorded over time. In 2024, tourists' arrivals reached the record of 4.040.200 and for the period of January-August 2025, arrivals of tourists totaled 3.034.155, recording an increase of 10% compared to the same period in 2024. Arrivals from the United Kingdom were the main source of tourism for January-August 2025, with a share of 33.2% of total arrivals, followed by Israel with 12.9% and Poland with 8%.

Overall, for 2025 as a whole, real activity will decelerate compared with 2024, with the growth rate expected to hover around 3.2% in real terms, 0.1 p.p. higher than in the previous forecast as included in the Annual Progress Report 2025 (APR2025).

The unemployment rate (15+), based on the data of the Labour Force Survey, during the 1st half of 2025 was 4.7% (5.0% in 2025T1 and 4.3% in 2025T2), against an unemployment rate of 5.2% in the 1st half of 2024. The long-term unemployed as a percentage of the labour force in the 1st half of 2025 fell to 1.1%, compared to 1.6% in the corresponding half in 2024, while youth unemployment decreased to 13.1% in the 1st half of 2025 compared to 15.1% in the corresponding half of 2024. For the whole of 2025, the estimate is that unemployment will hover around 4.6%, down from 4.9% in 2024.

Following significant increases in the Harmonised Index of Consumer Prices (HICP) from April 2022-March 2023, and averaging in 2022 at 8.1%, the HICP has started decreasing significantly following oil price developments. The HICP has recorded an increase of 1.2% in January-August 2025 compared to the same period in 2024. For the period January-August 2025, in comparison with the corresponding period of the previous year, the largest increases were registered in the categories Recreation and Cul-

ture (6.6%) and Restaurants and Hotels (5.4%), whereas the largest decrease was recorded in Clothing and Footwear (-5.9%). Core HICP recorded an increase of 1.7% in January-August 2025. For the whole year 2025, inflation is estimated at an average of 0.7%.

2.2 Prospects for 2026-28

According to the baseline macroeconomic scenario, the real activity in Cyprus in 2026 is expected continue to be robust and record a strong growth, with the GDP rate of growth to be estimated to hover around 3.1%.

Growth in the period 2026-2028 will be supported mainly by the domestic market and more specifically by private consumption and fixed capital investments. Net exports will also support growth, but to a lesser extent.

Domestic demand is expected to be supported by increases in private consumption due to the increase in households' real disposable income, as a result of the normalization of inflationary pressures and also the continued resilience of the labor market. Private consumption, despite its normalization, is expected to remain a key driving factor of growth. Investments, are also expected to remain strong in 2026-28. A significant contribution to domestic demand is also expected from the significant projects in the pipeline (large non-residential private investments). These projects include infrastructure projects to support digital and green growth and other reform projects implemented in the context of the RRP. Residential investments will also contribute positively, but to a lesser extent.

On the external demand, exports and in particular of services (both tourism and non-tourism), despite the adverse external environment are expected to continue to exhibit ongoing growth over 2026-28, supported by the demonstrated resilience of adaptability of Cypriot services exports.

From a sectoral perspective, growth is expected to be broad based and support economic growth, services in particular. The sectors that are expected to contribute the most to growth over the period 2026-2028 include mainly those related to trade, transportation, hotels and restaurants and by information and communication activities and to a lesser extent from financial and professional services and real estate management activities. From the secondary sector, growth is expected to be supported by the sectors of construction and manufacturing (export-led pharmaceutical sector).

Nevertheless, uncertainty around the macroeconomic outlook remains high due the fragile and challenging external environment. The main downside risks to the baseline macroeconomic scenario arise from a possible worse-than-expected external outlook. On the upside risks, a better-than-expected realisation of private investment projects and performance of the tourism sector. Additionally, upside risks from a positive impact of the upcoming tax reform on private consumption and also higher than expected wages and corporate profitability.

Overall, in 2026 the economy is projected to grow by 3.1% in real terms. The unemployment rate is projected to remain at 4.6% of the labour force and inflation is expected to increase by around 2.1%.

The growth rate of the economy in the years 2027-2028 is expected to average at around 3% in real terms. Regarding the labour market, the unemployment rate in 2027 is expected to average at 4.6% of the labour force, and then, with the further improvement of the economy, to be reduced to 4.5% in 2028. Inflation for 2027-2028 is expected to average at 2.5% and 2.0% respectively.

	2023	2024	2025	2026	2027	2028
Real GDP growth (%)	2.8	3.4	3.2	3.1	3.0	2.9
Inflation HICP (%)	3.9	2.3	0.7	2.1	2.5	2.0
Unemployment rate (%)	5.8	4.9	4.6	4.6	4.6	4.5

2.3 Risks to growth

In terms of the internal environment, downside risks stem from the following sources:

- Higher energy cost, which can have a negative impact on consumption and investments.
- A lower-than-expected impact from absorption of funds from EU NGEU support package.

Potential external risks stem from the ongoing conflict between Ukraine and Russia, the war in Israel, the global climate change (higher than expected impact associated with the adoption of green taxes, and also extreme weather-related events), as well as general political instability in the Eastern Mediterranean. A possible indirect impact on export of services due to a more unfavorable than expected external environment due to uncertainty around global trade policy.

Macroeconomic prospects

	2024	2025	2026
	rate of change	rate of change	rate of change
1. Real GDP	3.4	3.2	3.1
2. Potential GDP	3.9	3.6	3.2
contributions:			
- labour	1.5	1.2	0.9
- capital	1.4	1.4	1.4
- total factor productivity	1.0	0.9	0.9
3. Nominal GDP	7.1	4.8	5.0
Components of real GDP			
4. Private final consumption expenditure	3.8	2.3	2.1
5. Government final consumption expenditure	1.5	6.2	3.3
6. Gross fixed capital formation	0.1	2.6	5.5
7. Changes in inventories and net acquisition of valuables (% of GDP)	-1.9	-0.4	0.0
8. Exports of goods and services	5.3	1.3	1.6
9. Imports of goods and services	2.4	0.9	1.6
Contributions to real GDP growth			
10. Final domestic demand	2.6	3.0	2.9
11. Changes in inventories and net acquisition of valuables	-1.9	-0.4	0.0
12. External balance of goods and services	3.0	0.5	0.1

Price developments

	2024	2025	2026
	(rate of change)	(rate of change)	(rate of change)
GDP deflator	3.5	1.6	1.9
Private consumption deflator	1.8	1.0	1.8
HICP	2.3	0.7	2.1
Public consumption deflator	5.3	2.3	1.7
GFCF deflator	2.4	1.6	1.7
Export price deflator (goods and services)	1.3	1.2	1.4
Import price deflator (goods and services)	1.4	1.0	1.2

Labour market developments

	2024	2025	2026
	(rate of change)	(rate of change)	(rate of change)
Employment, persons ¹	2.0	1.7	1.7
Employment, hours worked ²	2.3	1.9	1.9
Unemployment rate (%) ³	4.9	4.6	4.6
Labour productivity, persons ⁴	1.4	1.4	1.3
Labour productivity, hours worked ⁵	1.1	1.2	1.1
Compensation of employees	7.1	5.6	4.5
Compensation per employee	4.5	3.8	2.8

1/ Occupied population, domestic concept national accounts definition.

2/ National accounts definition.

3/ Harmonised definition, Eurostat; levels.

4/ Real GDP per person employed.

5/ Real GDP per hour worked.

Sectoral balances

	2024	2025	2026
	(% GDP)	(% GDP)	(% GDP)
1. Net lending/net borrowing vis-à-vis the rest of the world	-8.8	-8.0	-7.8
<i>of which:</i>			
- Balance on goods and services	3.6	4.1	4.2
- Balance of primary incomes and transfers	-12.0	-12.0	-11.9
- Capital account	-0.4	-0.1	-0.1
2. Net lending/net borrowing of the private sector	-13.1	-11.4	-10.8
3. Net lending/net borrowing of general government	4.3	3.4	3.0
4. Statistical discrepancy	0.0	0.0	0.0

BOX: A MODEL-BASED ASSESSMENT OF THE MACROECONOMIC IMPACT OF PHYSICAL AND TRANSITION RISKS OF CLIMATE CHANGE FOR THE CYPRIOT ECONOMY²

UNIVERSITY OF CYPRUS – ECONOMICS RESEARCH CENTRE

1. Background and policy context

Climate change is widely recognized as a human-driven phenomenon, and continuing current levels of greenhouse gas (GHG) emissions could severely affect human wellbeing and national economies. As a climate change hotspot, Cyprus is particularly vulnerable. In this context, we assess the macroeconomic impacts of climate change on the Cypriot economy using a model-based approach. The analysis considers mainly **physical risks**—from environmental degradation—and to a lesser extent **transition risks**—from the economic shifts required to move toward a low-carbon, climate-resilient future.³

To assess the above, we ground our analysis on the latest projections regarding global warming of the Intergovernmental panel on Climate Change (IPCC, 2024) which reaffirms the near-linear relationship between cumulative anthropogenic CO₂ emissions and the global warming they cause. These findings are summarized in five illustrative scenarios, referred to as Shared Socio-economic Pathways ('SSPs'), describing the terms of the socioeconomic challenges they imply for mitigating and adapting to climate change.

Our analysis examines the impacts of climate change at both aggregate and sectoral levels. Although Cyprus's economy is service-based—particularly in tourism, finance, and shipping—and not heavily reliant on high-emission industries, climate change acts as a negative externality that spreads across the production chain. Many of these services, along with agriculture, belong to the tradable goods sector, meaning climate change also strains the external balance in addition to public finances. Moreover, mitigation and adaptation policies produce economy-wide effects via inter-sectoral forward and backward linkages.

2. Model description

We use the in-house Small Open Economy DSGE model developed by the Economics Research Center of the University of Cyprus augmented with an energy production sector and a climate change module, where intermediate-goods firms in the tradable and non-tradable sectors and households demand an energy composite for production and consumption purposes.⁴ We follow closely the methodology in Coenen, Losej and Priftis (2024), where the energy composite is produced using "**dirty**" and "**clean**" inputs.⁵ These inputs are in turn produced from imported **fossil resources, the use of which causes carbon emissions**, and from domestic renewable resources respectively. In modelling climate change, we follow Economides and Xepapadeas (2025) where **emissions raise atmospheric GHG concentrations, leading to higher temperatures and adverse economic impacts**. This creates a **trade-off**: fossil fuels boost productivity but also harm it through climate change. Our framework resembles an integrated assessment model (IAM), combining economic and climate dynamics.

² The findings in this summary report are derived from a project funded by the Ministry of Finance and the Economics Research Centre on "Climate Change and its Impacts on the Cypriot Economy," as well as from the research grant "Economic Policy Modelling Hub," financed by the European Commission's Recovery and Resilience Plan (RRP) for Cyprus.

³ For a more analysis of the propagation mechanism of carbon taxes and other mitigation policies see Cyprus Medium-Term Structural Plan for the period 2025-2028 (Annex 4).

⁴ See Mavrigiannakis and Sakkas, 2024, EU Sanctions against Russia and implication for a Small Open Economy: the case of Cyprus, Open Economies Review, for the baseline model.

⁵ See Coenen, Losej and Priftis, 2024. Macroeconomic Effects of Carbon Transition Policies: An assessment based on ECB's New Area Wide Model with a disaggregated energy sector, European Economic Review.

3. Simulation design

The simulation setup is structured in a two-step manner:

- **Physical risks:** In the first step we examine physical risks. We establish a benchmark using a “business-as-usual” scenario (henceforth BAU), reflecting continued fossil fuel dominance, aligned with SSP5-8.5 from the IPCC’s 6th Assessment Report. Under this scenario, projected temperature increases are 1.6°C in the near term (2021–2040), 2.4°C in the medium term (2041–2060), and 4.4°C in the long term (2081–2100). For comparison, we also simulate two more optimistic scenarios: SSP2-4.5 (“middle of the road”, henceforth MOR) and SSP1-1.9 (“Sustainability”, henceforth SUS). SSP2-4.5 assumes gradual improvements without major shifts from historical trends, resulting in temperature increases of 1.5°C (near-term), 2.0°C (medium-term), and 2.7°C (long-term). SSP1-1.9 assumes a broad transition toward sustainability, with reduced resource and energy intensity, leading to estimated increases of 1.5°C, 1.6°C, and 1.4°C, over the same periods.
- **Transition risks:** We focus on transition risks by assessing the impact of some stylized mitigation policies – predominantly of fiscal nature. Climate change and policies can impact public finances both directly – through immediate effects on public expenditures and revenues – and indirectly, through economic feedback effects. We examine to what extent these policies contribute to closing the gap between MOR and SUS scenarios.⁶ We examine the introduction of both revenue based and spending-based mitigation schemes such as a carbon tax scheme (henceforth CT), public investment in clean energy (henceforth PCE), and clean energy price subsidies (henceforth CEPS). All policies are assumed to be fiscally neutral.
- **CT:** We assume an increase in the effective carbon tax rate of about 42%, linearly for 6 years (from 2025 to 2030) so that tax revenues from energy taxes are increased by 1% as share of GDP (by 2030).⁷ Carbon taxes are imposed both on the households’ side (e.g. tax on motor fuels) and on the firms’ side.
- **PCE:** We assume a gradual permanent increase (linearly for 6 years - from 2025 to 2030) in public spending related to investment in the clean energy sector by 1% as a share of GDP, which in turn enhances the capital stock of the economy in green infrastructure. Such investments cover a broad range of categories that could be labelled as green/clean such as productivity enhancements of green industries, support green occupations or skills, investment in renewable (public) infrastructure etc.
- **CEPS:** We assume an increase in public subsidies for green energy investments by 1% as a share of GDP (linearly for 6 years - from 2025 to 2030).

4. Main findings

Figure 1 shows impulse responses of key macroeconomic aggregates under three climate transition scenarios, SUS, MOR and BAU, with the reference year being 2024. In terms of macroeconomic activity GDP, private consumption, and investment all decline over time, but losses are significantly smaller in the SUS path as expected. Under BAU, the economy contracts by nearly 8% and 25% in the near term (by 2040) and long term (by 2100) respectively, while the SUS scenario limits losses to below 1% and 3% for the same time period. These numbers suggest that by 2050, the cumulative discounted GDP losses (in 2024 euros, assuming a discount rate of 3%) amount to around €29 billion under BAU, €18 billion under MOR, and just €4 billion under SUS. These mid-century costs are already comparable to Cyprus’s entire 2024 GDP. By 2100, the gap widens dramatically: €162 billion under BAU (more than five

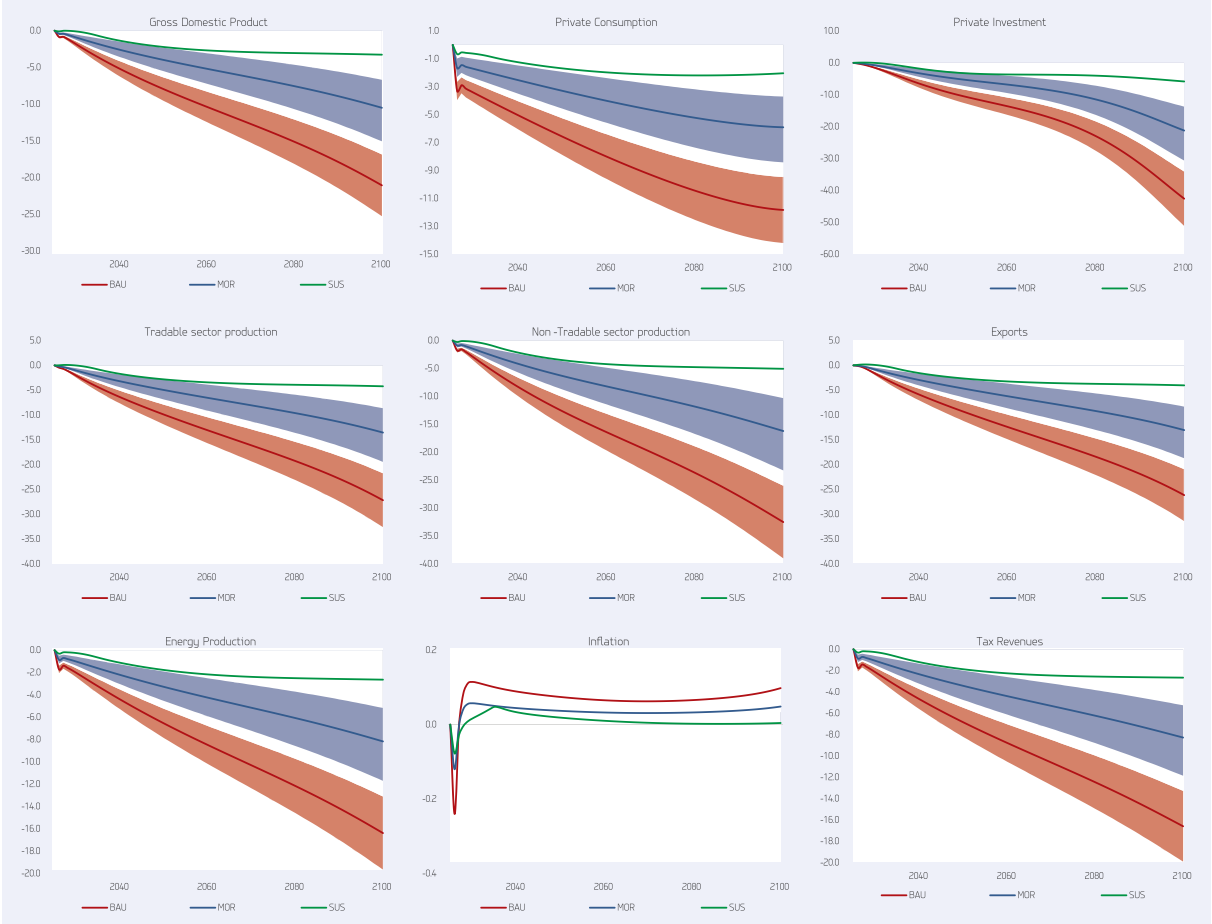
⁶ We do so simply because there is a widespread consensus that BAU is no longer a credible scenario, because some forms of mitigation, clean energy deployment, and structural change are already underway.

⁷ Note that the final increase in the level of the effective carbon tax rate of 42% is substantially lower than the increase suggested by international organizations and energy authorities for achieving the net-zero target. See International Energy Agency, World Economic Outlook 2023.

times today's GDP), €90 billion under MOR, and about €23 billion under SUS.

In terms of sectoral output, tradable and non-tradable sectors suffer long-run declines in BAU and MOR, while the sustainable path stabilizes output. For instance, to put this into context, if agricultural, tourism and financial and services output represents 1.7%, 13%, and 8% respectively of Cyprus's aggregate production, this implies that by 2050, cumulative discounted GDP losses under the BAU path can reach about €0.5 bn in agriculture, €3.8 bn in tourism, and €2.3 bn in financial services. Under the MOR scenario, the corresponding sectoral losses are around €0.3 bn, €2.4 bn, and €1.5 bn, while under the sustainable path they remain limited to just €0.06 bn, €0.5 bn, and €0.3 bn, respectively. The energy sector contracts in all scenarios, but far less under SUS. Inflationary pressures emerge temporarily during transition due to increased marginal costs of production, before stabilizing. Tax revenues fall persistently in BAU and MOR given the downturn in economic activity, while remaining close to the baseline level in the SUS scenario. Based on our simulations, simple calculations reveal that cumulative discounted losses in the tourism sector translate into sizeable foregone fiscal revenues. For example, by 2050, under the BAU path, lost tourism activity amounts to about €3.8 billion in today's money, implying roughly €0.7 billion in forgone VAT receipts at the standard 19% rate. Under the MOR scenario, losses in tourism equal around €2.4 billion, corresponding to nearly €0.45 billion in VAT revenues, while under the sustainable path the impact remains modest at about €0.5 billion in activity and just €0.1 billion in VAT.⁸

Figure 1: Impact on macroeconomic outcomes associated with physical risks.

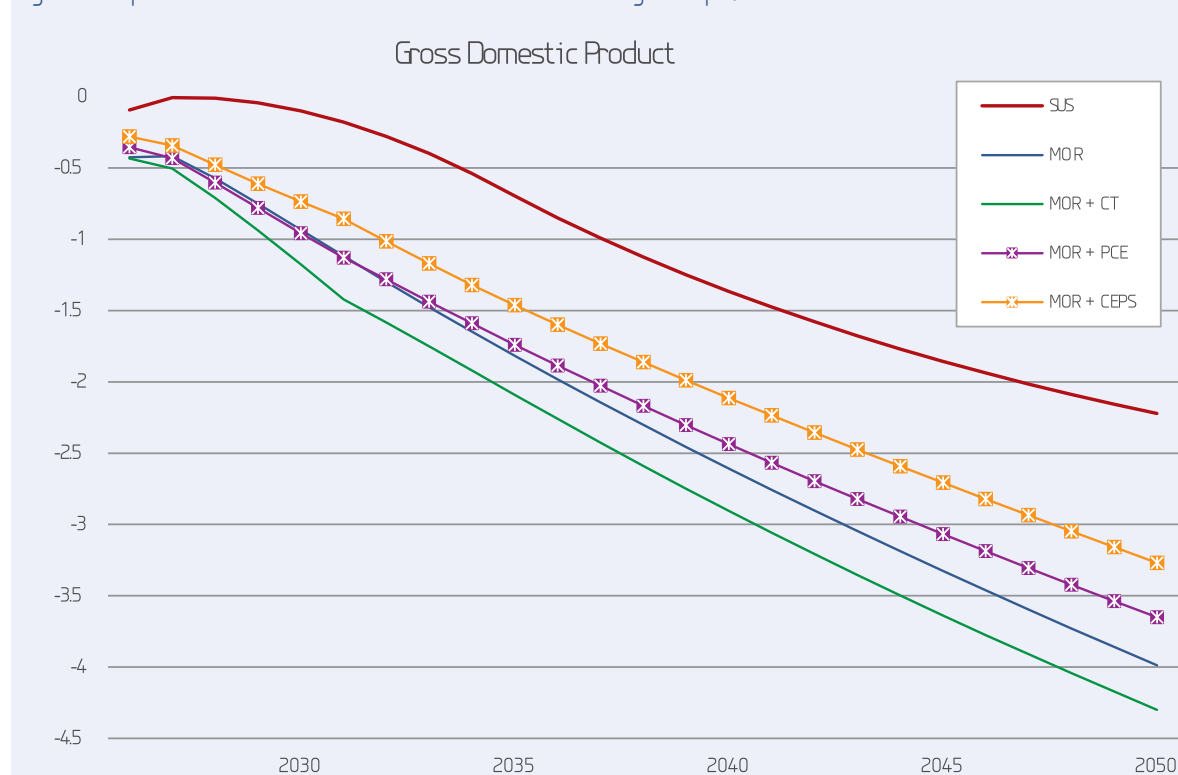


Note: Impacts are expressed in the vertical axis as percentage deviations from the baseline year, except for inflation which is expressed in percentage points changes. Light shaded areas represent upper and lower bounds of SSPs according to the IPCC, 6th report.

⁸ See Zachariadis et al (2025) for similar findings.

Figure 2 reports the response of GDP (in % deviations from the baseline year) under different mitigation scenarios. Results are expressed again as percentage deviations from the baseline over the period 2024–2050. The simulation reveals the following important observations. Assuming the economy is in a MOR path, the introduction of carbon tax scheme (MOR+CT) exhibits a procyclical behaviour in the sense that it intensifies the economic downturn. Instead, public investment in clean energy (MOR+PCE) and price subsidies in clean energy production (MOR+CEPS) bring non negligible, although modest, mitigation outcomes in the sense that they close the gap between the MOR and the SUS paths. By 2050 the output falls under the MOR+PCE and the MOR+CEPS scenario by 3.6% and 3%, respectively, instead of 4% in the MOR. In fact, clean energy price subsidies close more than one-third of the gap between MOR and the SUS paths. The main difference between MOR+PCE and MOR+CEPS is that the latter lower effective energy prices, cutting production costs for firms and consumption costs for households. This acts like a negative energy tax shock, boosting disposable income, competitiveness, and output quickly as substitution into clean energy is immediate. By contrast, public investment often crowds out private resources in the short run, with positive effects on output only materializing later once the additional capital stock becomes productive.

Figure 2: Impact on GDP associated with transition and mitigation policies.



5. Policy implications and caveats

Our main finding is that the physical risks associated with climate change can be quite substantial in the near to long term. Timely and ambitious transition reduces long-run macroeconomic costs and preserves fiscal space. By contrast, delaying action leads to persistent contraction across sectors and sharp revenue losses. However, transition requires targeted policy initiatives focusing on the productivity enhancement of clean energy production.

The following caveats and limitations hold. First, this analysis did not take into consideration possible socio-economic aspects of climate change, like for instance the impact of climate change on public

health, demographic change and education. Second, regarding policy interventions, of course, the policies studied are not exhaustive but show the potential of these schemes versus policy inertia. Third, we have not considered the acute climate shocks which are taking place more often (e.g. wildfires, hurricanes, floods) and in the short term could increase the economic and fiscal burden dramatically. Fourth, the analysis does not incorporate policy reaction at the sectoral level and behavioral responses from households. For instance, the impact on tourism production and revenues due to climate change might be easily mitigated through expanding the touristic season from summer to autumn season.⁹ Finally, any analysis beyond the midcentury (e.g. 2050) is subject to great uncertainty given the time horizon policy makers usually take into account when designing policy.

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⁹ See for example, the recent analysis for Greece by the Foundation of Economic and Industrial Research (2025), on the Economic impacts of climate change on Greek tourism and adaptation scenarios. In their analysis, a decline in summer tourism is totally offset by increases in overnight stays and spending during the other seasons, indicating a shift from summer toward spring, autumn, and winter. More details: <https://www.iobe-climatechange21.gr/index.html#home-section>

3. Budgetary developments and targets

3.1 Budgetary targets

In 2024, the general government budget balance improved significantly, reaching 4.3% of GDP from a surplus of 1.8% of GDP in 2023. The improvement in the fiscal position by 2.5 pp. of GDP during the year under review was partly attributed to the statistical treatment of the retroactive payments to the New Civil Servant's Pension Scheme, which affected the fiscal balance of 2023 with -1.1 pp. of GDP, as well as to the significant growth recorded in most revenue categories during 2024, reflecting the continuous improvements in the economic environment. In nominal terms, the budget balance of the general government reached €1,439.2 million in 2024 compared to €554.4 million the year before, whereas primary balance reached €1,862.3 million (5.5% of GDP) in 2024 from €950.8 million in 2023 (3.0% of GDP).

General government budgetary targets broken down by subsector

	ESA Code	2025 % GDP	2026 % GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	3.4	3.0
1a. Central government	S.1311	-0.3	-0.4
1b. State government	S.1312		
1c. Local government	S.1313	0.0	0.0
1d. Social security funds	S.1314	3.7	3.5
2. Interest expenditure	D.41	1.4	1.4
3. Primary balance		4.7	4.4
4. One-off and other temporary measures		0.0	0.0
5. Real GDP growth (%) (=1. In Table 1a)		3.2	3.1
6. Potential GDP growth (%) (=2. in Table 1a)		3.6	3.2
contributions:			
- labour		1.2	0.9
- capital		1.4	1.4
- total factor productivity		0.9	0.9
7. Output gap (% of potential GDP)		2.3	2.2
8. Cyclical budgetary component (% of GDP)		1.1	1.1
9. Cyclically-adjusted balance (% of GDP)		2.2	1.9
10. Cyclically-adjusted primary balance (% of GDP)		3.6	3.3
11. Structural balance (% of GDP)		2.2	1.9

Taking into account the recent improvements in the labour market, the fiscal performance during the first seven months of the year, as well as the expected general economic developments in the context of the macroeconomic scenario presented in this Report, the budget balance is projected to remain in surplus during 2025 reaching €1,188.3 million, driven mainly by increased public revenue through social contributions and from taxes on income and wealth, reflecting the positive conditions in the labour market condi-

tions. As a percent of GDP, general government budget balance is forecast to reach 3.4% of GDP, recording a deterioration of about 0.9 percentage points compared to 2024, in view of the cost related to the National Solidarity Fund Replenishment Scheme, the fiscal impact from the measures undertaken by the government in the context of the major wildfire in Limassol district end-July 2025, targeted to relieve and support those affected, as well as from the grant return that relates to the Vasilikos LNG terminal. Primary balance is forecast to reach €1,664.6 million, corresponding to a surplus of 4.7% as a percent of GDP compared to a primary balance of 5.5% of GDP in the year before. In 2026 the fiscal position is expected to remain positive with the budget balance and the primary balance of the general government reaching about €1,121.4 million (3.0% of GDP) and €1,627.2 million (4.4% of GDP), respectively.

According to the Commission's forecast with regards to the output gap¹⁰, using the commonly agreed methodology for the estimation of potential growth, structural balance is expected to be in surplus in 2025 reaching 2.2% of GDP and to remain at 1.9% of GDP during 2026, recording a strong position.

At the end of 2024, the debt-to-GDP ratio fell at 65.1% of GDP, recording a cumulative steady decline of almost than 49 percentage points since 2020. This significant reduction was both attributed to the utilization of a significant amount of cash reserves to cover a part of gross financing needs and to the increase of the nominal GDP. In nominal terms, public debt declined to €21,837.6 million by end-2024 from €23,080.8 million end-2023. Public debt is expected to decrease further by end-2025 and to fall at €20,167.7 million, corresponding as a percent of GDP to 57.3%, below the threshold set in the context of the Maastricht Criteria. In 2026 debt-to-GDP ratio is forecast to exhibit a further drop by -4.6 percentage points, falling to 52.7% and to €19,467.7 million in nominal terms.

Revenue and Expenditure Projections

In accordance with the baseline macroeconomic scenario, public revenue is anticipated to record a positive rate of growth during 2025 of the order of 7.6%, reaching €15,864.3 million from €14,750.3 million in 2024, driven mainly by the expected increase from receipts from social contributions (+2.9 pp.) and from receipts under "other revenue" (+2.0 pp.). As a percent of GDP, public revenue is forecast to increase by 1.2 percentage points, from 43.9% the year before to about 45.1% of GDP. In 2026, public revenues are expected to record a rate of growth of 4.1% and to decline as a percent of GDP at 44.7%, reaching €16,513.3 million in nominal terms.

More specifically, tax revenue in 2025 is forecast to exhibit a growth rate of 4.6% and to reach €8,875.3 million compared to €8,487.6 million in 2024, mainly due to the expected increase in revenue from current taxes from income and wealth, taking into account the overperformance of this revenue category during the first seven months of 2025. As a percentage of GDP revenue from taxes is forecast to fall marginally at 25.2% from 25.3% in the year before, whereas during the year 2026 a further decline is expected, with tax revenue falling at 24.9% of GDP, as the significant amounts received from the Tax Department from the clearance of the past-due tax arrears, during the past few years, will subside. In nominal terms tax revenue is forecast to exhibit a rate of growth of 3.8% during 2026, reaching €9,208 million from €8,875.3 million in the year before, attributed mainly to the expected increase in the receipts from taxes on production and imports.

Revenue from taxes on production and imports is forecast to fall as a percent of GDP during 2025, from 14% in 2024 to 13.7%, where, in nominal terms, a slower y-o-y increase on this category is anticipated during 2025, from an average of 10.7% during the period 2021-2024 to 2.8% for the year under review, reaching €4,813.6 million from €4,682.8 million in 2024. This is attributed to (i) the lower inflation rates during the months of the current year, (ii) the continuation of the zero VAT rate on basic goods until the

¹⁰ Output gap explanation as in APR25.

end-2025 and (iii) the reduction of the VAT rate on the electricity bills, from 19% to 9%, as from 1st April 2025. In 2026, revenue from taxes on production and imports is forecast to increase as a percent of GDP by 0.1 pp. and to reach 13.8% reaching €5,109.0 in nominal terms, through an anticipated increase of 6.1%, as the impact from the abovementioned VAT measures will be reversed due to their termination.

General government expenditure and revenue targets, broken down by main components

	ESA Code	2025	2026
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	45.1	44.7
<i>of which</i>			
1.1. Taxes on production and imports	D.2	13.7	13.8
1.2. Current taxes on income, wealth, etc.	D.5	11.5	11.1
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	14.1	14.0
1.5. Property income	D.4	0.4	0.4
1.6. Other		5.4	5.4
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		39.3	38.9
2. Total expenditure target	TE	41.7	41.6
<i>of which</i>			
2.1. Compensation of employees	D.1	11.8	11.7
2.2. Intermediate consumption	P.2	4.5	4.4
2.3. Social payments	D.62+D.632	16.2	16.2
<i>of which</i> Unemployment benefits		0.2	0.2
2.4. Interest expenditure (=item 2 in Table 2.a)	D.41	1.4	1.4
2.5. Subsidies	D.3	0.4	0.3
2.6. Gross fixed capital formation	P.51g	3.5	3.5
2.7. Capital transfers	D.9	1.4	1.0
2.8. Other		2.6	3.1

As a percent of GDP, revenue from current taxes on income and wealth is estimated to overpass its level of year before and to reach 11.5% during 2025 from 11.3% in 2024. In nominal term this revenue category is expected to reach €4,061.6 million from €3,804.7 million in 2024, recording a rate of growth of 6.8%, taking into account its performance during the first seven months of the current year, reflecting the profitability of businesses, the increased nominal earnings through the improved labor market conditions, as well as from the receipts of the Tax Department related to the clearance of the past-due tax arrears. In 2026 current taxes on income and wealth are forecast to record only a marginal increase of 0.9% and to reach €4,099.3 million, recording a decline as a percent of GDP by 0.4 pp. falling to 11%, as no receipts of the past-due tax arrears are expected from 2026 onwards.

Revenue from social security contributions is forecast to exhibit an increase of about 9.4% during 2025, driven from the expected increase in nominal earnings, through the continued improvements in the labor market conditions and to reach €4,947.0 million from €4,520.0 million in 2024. In 2026 it is expected that social contributions will increase further by 4.5% and to reach €5,169.6 million, in line with the revised

macroeconomic scenario presented in this Report. As a percent of GDP, this revenue category is forecast to reach 14.1% in 2025 from 13.5% in the year before and to marginally decline at 14% the year after.

Category “other revenue” is forecast to increase with an annual growth rate of around 18.2% and 5% during 2025 and 2026, respectively, and to reach, in nominal terms, to €1,915.2 million in 2025 from €1,619.8 million in 2024, and to €2,004.6 million in 2026, stemming mainly from the expected expenditure that will take place in the context of the Cyprus Recovery and Resilience Plan (RRP) and under the methodology for their neutralization impact. As a percent of GDP, category “other revenue” is expected to increase to 5.4% in 2025 from 4.8% in the year before, and to remain at 5.4% of GDP in 2026.

Public expenditure is expected to exhibit a significant increase of 10.3% during 2025 and to reach 41.7% as a percent of GDP from 39.7% in 2024. In nominal terms public expenditure is forecast to reach €14,675.9 million from €13,311.1 million during 2024, mainly due to the expected increases in expenditure for social payments and for capital transfers (+2.9 pp. and +2.1 pp., respectively). In 2026, public expenditure is expected to reach €15,391.9 million, corresponding to 41.6% of GDP, exhibiting increase of 4.9% in nominal terms and a drop of 0.1 pp. in term of percent of GDP.

More specifically, social payments are forecast to increase significantly as a percent of GDP and to reach 16.2% from 15.8% in the past two years, and to increase in nominal terms by 7.2% reaching €5,688.1 million from €5,303.7 million 2024. This increase is mainly attributed to expected higher compensation of HIO to public health providers, as well as to increased payments for old-age pensions. In 2026 social payments are forecast to reach €5,990.8 million, thus recording a y-o-y increase of 5.3%, remaining as a percent of GDP at 16.2%.

At the same time, expenditure under category capital transfers is forecast to reach €496.5 million during 2025 from €213.5 million in 2024, recording a substantial increase of 132.5%, whereas in terms of percent of GDP, it is expected to reach 1.4% from 0.6% the year before. The primary cause of this significant increase is attributed to the cost related to the National Solidarity Fund Replenishment Scheme, with an estimated contribution on the increase of this expenditure category of about 46.8 pp. Furthermore, the repayment of €67 million funding related to the Vasilikos LNG terminal in European Union, after the EU’s rejection of the government’s appeal against the clawback order funding, will contribute to the y-o-y increase of capital expenditure in 2025 with 31.5 pp. Additionally, the estimated high uptake of the measure “photovoltaics for all”, which encourages the use of renewable energy sources and energy savings in dwellings by subsidising the installation of a photovoltaic system and bonus reward in the event of installation of roof insulation, is also estimated to highly contribute to this y-o-y increase by about 22.2 pp. Additionally, in the context of the various measures related to the wildfire occurred during July 2025 in Limassol, the investment plan, which aims the restoration of fixed assets, is expected to contribute by 13.1 pp. to the high increase of this expenditure category. In the year after, category capital transfers is forecast to fall at €381.4 million and as a percent of GDP to 1.0%, since the incremental impact from the measures explained above, will subside.

Compensation of employees is expected to record an increase of around 6.9% during 2025 and to reach €4,144.3 million from €3,877.9 million in 2024, mainly attributed to the provision of Cost-of-Living Adjustment (+1.87 pp.), to the increase in wages and salaries of employees under-a-contract of the State Health Services Organisation (SHSO) (+1.1 pp.), to the provision of increments (+1 pp.), to the expected increased expenditure for gratuities (+0.8 pp.), as well as to the provision of a general increase of 1.5% as of October 2024 (+0.4 pp.). In 2026, expenditure for compensation of employees is forecast to grow at a slower pace and to reach €4,310.6 million, thus exhibiting a y-o-y increase of 4.0%, taking into account that the COLA provision will remain unchanged compared to the year before, given the estimated inflation rate during 2025 of an average to zero, and also taking into account that the base effect from the general increase from 1st October 2024, will no longer have an impact to the growth of this expenditure category. As a percent of GDP, compensation of employees is forecast to reach 11.8% in 2025 from 11.6% in 2024 and to marginally decline to 11.7% in 2026.

Intermediate consumption is expected to record an increase of 7.3% during 2025 and to rise marginally as a percent of GDP at 4.5% compared to 4.4% the year before. During 2026 it is expected to remain at 4.4% as a percent of GDP, reaching €1,636.6 million in nominal terms.

Expenditure category subsidies is expected to record a marginal fall of 0.1 pp. as a percent of GDP during 2025, from 0.5% in 2024 to 0.4% and to record an annual growth rate of -20.1%, falling to €137.0 million from €171.4 million the year before, driven mainly by the expiration of the government's subsidisation of consumers' electricity bills. Instead, this expenditure category is expected to remain at a higher level during the current year compared to its historical ones, as expenditure in the context of the wildfires occurred in Limassol in July 2025, and more specifically through the implementation of an emergency reactivation plan aimed at restoring productive activity in the primary sector. In 2026, this expenditure category is forecast to decrease by -25.3% and to fall at €102.3 million, and as a percent of GDP reach its historical levels of an average of 0.3% of GDP.

Interest expenditure is forecast to reach 1.4% of GDP during 2025 compared to 1.3% in 2024, and to remain at 1.4% in the year after. In nominal terms, this expenditure category is forecast to increase by 12.6% reaching €476.3 million in 2025 from €423.1 million in 2024, and to reach €505.8 million during 2026 recording a y-o-y growth rate of 6.2%.

Gross fixed capital formation as a percent of GDP is forecast to exhibit an increase of 0.6 pp., reaching 3.5% in 2025 from 2.9% in 2024. In nominal terms it is estimated that the y-o-y rate of growth of this category will reach 27.1%, from €964.7 million in 2024 to €1,226.5 million in 2025. This significant increase is mainly the outcome of the expected increased expenditure in the context of the RRP, as well as from the impact related to Kedipes' mortgage-to-rent scheme. During 2026 gross fixed capital formation is forecast to increase further by a growth rate of 6.8% and to reach €1,309.9 million, attributed to an additional incremental impact of the abovementioned two measures, where as a percent of GDP to remain at 3.5%, as in the year before.

Finally, expenditure under category "other expenditure" in nominal terms is expected to reach €924.2 million in 2025, thus exhibiting an increase of 4.9% compared to €881.1 million in 2024, remaining as a percent of GDP at 2.6% as in the year before. In 2026 it is forecast to grow substantially by 24.9% and to reach €1,154.5 million, mainly attributed to expenditures under the RRP, as well as to the stage grant provide to DEFA/ETYFA of €70 million for completing the works at the land-based LNG terminal at Vasiliko. As a percent of GDP category "other expenditure" is forecast to increase by 0.5 pp. and to reach 3.1%.

3.2 Public expenditure and revenue under the no-policy-change scenario and discretionary budgetary measures

The table below presents general government expenditure and revenue projections at unchanged policies broken down by main components. More specifically, various additional discretionary measures were adopted during the budgetary process for the forthcoming year (2026) with a total estimated fiscal impact on the accounts of the general government of about -0.34 and -0.15 percent of GDP during 2025 and in 2026, respectively. These measures relate (i) to the decision of the competent bodies of the European Union for the return of €67.2 million of the grant paid from EU funds for the construction of the Liquefied Natural Gas (LNG) import infrastructure at Vasiliko, (ii) to the major wildfire in Limassol district occurred end-July 2025, targeted to relieve and support those affected and to restore and protect the environment, as well as (iii) to the recent decision of the government for the extension of the reduced VAT rate on electricity consumption and the extension of the zero VAT rate on basic goods.

General government expenditure and revenue projections at unchanged policies broken down by main components

	ESA Code	2025	2026
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	45.1	44.8
<i>of which</i>			
1.1. Taxes on production and imports	D.2	13.7	13.9
1.2. Current taxes on income, wealth, etc	D.5	11.5	11.1
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	14.1	14.0
1.5. Property income	D.4	0.4	0.4
1.6. Other		5.4	5.4
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		39.3	39.0
2. Total expenditure at unchanged policies	TE	41.4	41.6
<i>of which</i>			
2.1. Compensation of employees	D.1	11.8	11.7
2.2. Intermediate consumption	P.2	4.5	4.4
2.3. Social payments	D.62+D.632	16.2	16.2
of which Unemployment benefits		0.2	0.2
2.4. Interest expenditure	D.41	1.4	1.4
2.5. Subsidies	D.3	0.3	0.3
2.6. Gross fixed capital formation	P.51g	3.5	3.5
2.7. Capital transfers	D.9	1.1	1.0
2.8. Other		2.6	3.1

In more detail, the Vasiliko LNG terminal, a project intended to import liquefied natural gas (LNG), aiming to reduce energy dependence and improve energy supply security, was funded by EU grants, EU loans, and contributions from state entities (Natural Gas Infrastructure, Electricity Authority etc.). An amount of €73 million was granted from the EU, following the approval of an amount of €101 million from the Connecting Europe Facility in January 2019. The project, awarded in December 2019 to the CPP-Metron consortium, was meant to be completed by 2022. Since it was already behind schedule by 2021-2022, the European Commission (via CINEA) began a formal investigation into the grant during 2023, where several irregularities and possible violations in how the project was handled were found, which are the basis for the recent demand for a refund of €67.2 million of the grant funds, negatively impacting the accounts of the general government in 2025 by 0.2 percent of GDP.

At the same time, in the context of the wildfires occurred end-July 2025 in Limassol district, the government immediately announced various measures to relieve those affected and to safeguard the environment. In summary, the measures undertaken by the various Ministries of the Republic of Cyprus with an impact on the budget balance, in percent of GDP, of -0.15% and -0.07% in 2025 and in 2026, respectively, are as below:

- Ministry of Agriculture, Rural Development and Environment: Restoration of water supply and flood protection works, flood protection, grant scheme for the procurement of generators, financial support, emergency Reactivation Plan of water supply and flood protection works.

- Ministry of Interior: Coverage of basic needs, restoration of damages, temporary housing and rent subsidy, fee exemptions, rent/ lease exemptions, reissuance of citizens' documents, environmental restoration, financial support to Community Councils, enhancement of the Fund for Turkish Cypriot Properties.
- Ministry of Labour: Financial support for affected employees and self-employed workers. The benefit is for eligible recipients by the Department of Labour, and the amount of support will fully cover the salary that each worker received during the previous period, according to the available data recorded in the Social Insurance Fund.
- Ministry of Energy, Commerce and Industry: Plan for reactivation, restoration of infrastructure and mechanical equipment of small businesses. The Plan consists the compensation for raw materials, merchandise, and supplies that have been destroyed by the fire or due to power outages, as well as provision of financial support within the framework of restoring infrastructure and mechanical equipment that has been affected.
- Deputy Ministry of Tourism: Economic support plan for tourist accommodations.
- Deputy Ministry of Culture: Cleaning, maintenance and stabilization of ruins where necessary.
- Ministry of Transport, Communications and Works: Restoration of vehicles and machinery of those affected.

Finally, the recent decisions for an extension of the zero VAT on basic goods by end-2026, from end-2025 as initially planned, as well as for the extension of the reduced VAT rate on electricity consumption also by end-2026, from end-March 2026 as initially planned, are expected to negatively impact the budget balance of the general government by 0.08 percentage points of GDP.

3.3 Net expenditure growth path

The path of net nationally financed primary expenditure during 2025-2028 was set under an average growth of 5.2% during the period 2025-2028, in the context of the National Medium-Term Fiscal-Structural Plan of the Republic of Cyprus (the Plan), which was submitted to the European Commission on 15th October 2024. More specifically, the y-o-y percentage changes were set to 6% in 2025 and to 5.0%, 5.4% and 4.3% in 2026, 2027 and 2028, respectively. The cumulative growth rate set reaches a maximum of 25.7%, corresponding to a cumulative increase in net nationally financed primary expenditure of about €2.7 billion, in nominal values.

Growth rate of net nationally financed primary expenditure	2024	2025	2026	2027	2028
ANNUAL BASIS					
DBP2026 projections	1.7	7.9	5.3	2.6	4.3
EC Trajectory	2.7	6.0	5.0	5.4	4.3
Deviation from the target set	-1.0	1.9	0.3	-2.8	0.0
CUMULATIVE BASIS					
DBP2026 projections	1.7	9.7	15.5	18.6	23.7
EC Trajectory	2.7	8.8	14.3	20.5	25.7
Deviation from the target set	-1.0	0.9	1.2	-1.9	-2.0

According to new available data from the Statistical Service of the Republic of Cyprus, net nationally financed primary expenditure experienced a growth of 1.7% during 2024, lower by 0.5 percentage points compared to the target of 2.7% set in the context of the Plan.

In 2025, net primary expenditure growth is expected to reach 7.9%, thus estimated to deviate significantly by 1.9 percentage points compared to the limit set of a 6% annual rate of growth, as per the Council's recommendation and commitment of the government through the Plan, mainly attributed to the following measures, which were not initially included in the Plan:

- i) National Solidarity Fund Replenishment Scheme (+0.8 percentage points).
- ii) Grant return related to the LNG (+0.5 percentage points).
- iii) Measures in the context of the wildfires in Limassol district (+0.4 percentage points).
- iv) Reduced VAT rate on electricity consumption (+0.2 percentage points).

The growth of net nationally financed primary expenditure during 2026 is expected to reach 5.3%, estimated to deviate by 0.3 percentage points compared to the limit set at 5%, mainly due to the following measures, not included in the context of the Plan:

- i) Agreement between Kedipes and the Hellenic Bank (+0.9 percentage points).
- ii) Grant to DEFA/ ETYFA (+0.5 percentage points).
- iii) Reduced VAT rate on electricity consumption (+0.3 percentage points).
- iv) Measures in the context of the wildfires in Limassol district (+0.2 percentage points).

Nonetheless, the higher level of the expected co-financed projects in 2026 compared to 2025, partly compensates the impact of the cost of the abovementioned measures during the year, making the deviation between the expected outcome for the growth of net primary expenditure presented in this Report, and the targeted one, of about 0.5 percentage points.

It is also very important to note that, during 2027 the growth of net expenditure is forecast to be lower compared to the target set, by -2.8 pp. due to the base effect in the level during the year before, while, at the same time, the cumulative growth of the net expenditure during 2025-2028 is estimated at 23.7%, deviating by -2.0 percentage points from the cumulative target set.

4. Union's Strategy for Growth and Jobs targets and Country Specific Recommendations

The table below summarises the progress in relation with each one of the 2025 CSRs:

CSR1
<p>Reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Ensure that net expenditure respects the path recommended by the Council on 21 January 2025</p> <p>The government of the Republic of Cyprus aims at enhancing the overall defence spending, and gradually boosting its level further by the end of the programming period, beyond the estimate of 1.9% of GDP during 2023, compared to 1.7% in 2021 and 1.5% in 2022, respectively. In this context, the Government has officially expressed its interest to utilize EU's SAFE (Security Action for Europe) financial instrument to finance its investments in defence. According to the tentative allocation of the financial assistance, announced by the European Commission on 09 September 2025, a total of €1.18 billion was allocated to Cyprus.</p> <p>The path of net expenditure growth was set at 6% in 2025 and at 5% in 2026, as per the European Council conclusions of 6 March 2025. However, in the context of the authorities' projections presented in the Annual Progress Report 2025 (APR 2025), a higher rate of growth was forecast for the 2025 of about 6.8%, as the government's decision for initiating the partial replenishment through the National Solidarity Fund, and the decision to provide a grant of to the Natural Gas Public Company and Natural Gas Infrastructure Company, increased the target envisaged in the Plan by about 0.29 percentage points of GDP for 2025. Taking into account additional measures undertaken during the budgetary procedures, namely the EU grant return related to the LNG and measures in the context of the wildfires in Limassol district, the growth of net expenditure is expected to deviate by 1.9 percentage points from the target set and to reach 7.9% in 2025. In 2026, the growth of net expenditure is also expected to deviate from the target set and to reach 5.3% from 5%, as per the commitment in the context of the Plan of the Republic of Cyprus. This deviation is attributed to the agreement between Kedipes and the Hellenic Bank, the grant to DEFA/ ETYFA, which was initially included under year 2025 in the context of the APR 2025, the extension of the reduced VAT rate on electricity consumption by the end-2026, as well as to the measures in the context of the wildfires in the Limassol district.</p> <p>Nevertheless, according to the latest projections of the Ministry of Finance, presented in the context of the Draft Budgetary Plan 2026, the cumulative rate of growth of net expenditure for the period 2024-2028 is forecast to reach 23.7%, thus lower by 2.0 percentage points compared to a cumulative growth rate of 25.7%, which was set in the context of the Council recommendation, reflecting the government's commitment to limit the cumulative level increase of net expenditure, to the target set in the Plan of the Republic of Cyprus during the medium-term horizon.</p>
CSR2
<p>In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the implementation of the cohesion policy programme (ERDF, JTF, ESF+, CF), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the opportunities provided by the InvestEU and the Strategic Technologies for Europe Platform, to improve competitiveness.</p> <p>In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter.</p> <p>To address recent challenges in implementing both reforms and investments included in the CY RRP, the Cypriot authorities have opted for a new CY RRP amendment in cooperation with the Commission Services, the second one in 2025. The amendment is now in process. Efforts have also been made to increase the administrative capacity.</p> <p>Accelerate the implementation of the cohesion policy programme (ERDF, JTF, ESF+, CF), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the opportunities provided by the InvestEU and the Strategic Technologies for Europe Platform, to improve competitiveness.</p> <p>Cyprus' single investment Programme named "THALIA 2021-2027" that covers all four Cohesion Policy Funds (ERDF, JTF, ESF+ and CF) was approved in July 2022. Cyprus was the first Member State that signed the Partnership Agreement and relevant Cohesion Policy Programme. The Programme has a budget of €1.5 bn (EU contribution: €969 mn and national contribution €519 mn). Apart from this allocation, the Government of the Republic of Cyprus committed to invest additional €300 mn to the Programme (20% overbudgeting), showing its dedication towards green and digital transition, which make up the main pillars of investment in the Programme.</p> <p>The Programme has achieved so far satisfactory rates in terms of activation and implementation. Specifically, the budget of the projects that are under implementation covers more than 100% the Programme's budget (€1.5 bn), and €1.262 million (more than 85% of the Programme's budget) already announced and published in calls of proposals while the actual expenditure on the ground exceeds 40% of the said budget.</p> <p>After the Commission's Proposal on the 1st of April for amending the Regulations of ERDF, ESF+ and JTF, aiming to better align the Union's emerging priorities, Cyprus is in the process of re-reviewing the THALIA Programme and, identifying opportunities to align funding towards the new priorities. A programme amendment will be proposed to the European Commission that will result in Cyprus allocating 7% of the Programme's budget to water resilience which is one of the five Strategic Priorities of the Union, thus benefitting from the flexibilities provided. The proposal of the Programme amendment will be submitted to European Commission before the end of the year.</p> <p>Regarding Strategic Technologies for Europe Platform (STEP), in June 2025, the Cyprus Research and Innovation Foundation launched a pilot STEP Call with a total budget of €10 mn. The objective of this call is to support enterprises in Cyprus to develop critical technologies and establishing production facilities and manufacturing lines for innovative products and services, in alignment with STEP Regulation (EU) 2024/795. Initially, the call will be financed through the national budget. Based on the evaluation of its progress, and if deemed necessary, the Managing Authority intends to amend the Programme—in accordance with the STEP Regulation, but not under the Mid-Term Review (MTR) framework—to include a dedicated STEP priority.</p>

Strengthen research and innovation and the commercialisation 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. 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. Simplify regulation, improve regulatory tools and reduce administrative burden, especially focusing on improving licensing and permitting procedures for investment and setting up new businesses. 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.

Strengthen research and innovation and the commercialisation 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.

With respect to the above, Cyprus has taken the following actions:

- ▶ Introduction of a new programme “AI in government” (€5mn): The program seeks to modernise government functions by integrating AI into public administration, making services more efficient and responsive, whilst also (financially) supporting the private sector in developing new AI innovative solutions.
- ▶ Blended financing instruments that leverage public resources with private capital have been introduced to fund projects in areas of strategic importance, complemented by fiscal incentives to stimulate investment in R&D. At the same time, efforts are being intensified to bridge research and business, with actions such as the expansion of knowledge-transfer structures within research organisations, fostering the creation of spin-offs to enhance the commercialisation of research result and setting up a framework and digital tool for granting access to publicly funded research infrastructures. These initiatives are further supported by the promotion of ecosystem-wide cooperation with the Centres of Excellence and public research institutions.
- ▶ A long-term R&I strategy is being prepared, to be finalised in 2026, setting clear objectives, indicators and multiannual funding to guide the ecosystem’s development in line with European priorities

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 access to finance is a pan-European issue highlighted in the Letta Report, Noyer Report, and Draghi Report. The European Commission is working on proposals for a “Savings and Investment Union” to enhance EU competitiveness, with measures aimed at improving market integration and supporting investment in innovative companies. At the same time Cyprus and other member states are called upon to enhance these efforts through country specific actions.
- ▶ Cyprus is taking concrete steps to diversify its economy and foster productive investment by broadening access to alternative saving and investment instruments. Recent reforms include the establishment of the first Equity Fund, managed by the EIB, to enhance competitiveness and support venture capital and equity financing, alongside the enactment of the Crowdfunding Services Law of 2024 to promote transparent and secure cross-border financing opportunities. Furthermore, the new Fund Administrators Law of 2025 strengthens governance, transparency, and investor protection in fund administration as a national best practice measure. Cyprus is also in the process of privatising the Cyprus Stock Exchange, which operates as a Public Law Entity. A specific privatisation bill is currently being discussed at Parliament to that effect with a view to enhance the Republic’s capital market. Cyprus is also advancing its National Strategy for Financial Literacy through initiatives such as a nationwide Training of Trainers programme, a new financial literacy website, and resources to strengthen citizens’ understanding of savings, investments, and digital financial products. Early steps have also been taken to integrate financial education into schools, equipping younger generations with essential money management and risk-protection skills. Together, these measures, aim for the sustainable participation in the capital markets, the improvement of access to the non-bank financing opportunities and for the reinforcement of Cyprus’ position as a growing investment hub.

Simplify regulation, improve regulatory tools and reduce administrative burden, especially focusing on improving licensing and permitting procedures for investment and setting up new businesses.

- ▶ Cyprus is actively working to simplify regulation, improve regulatory tools, and reduce administrative burden by enhancing public engagement in the policy-making process. A key initiative is the successful implementation of the e-consultation platform. This platform centralizes all public consultations — not just for legislative bills, but also for the design of policies, regulations, strategies, and programs thereby ensuring a more effective public dialogue and the comprehensive participation of all relevant stakeholders, organizations, and individuals. Furthermore, the commitment is reinforced through annual training focused on public consultations and impact assessments, which are essential tools for achieving the goals of regulatory simplification and administrative efficiency.
- ▶ The promotion of entrepreneurship, the improvement of the business environment, and the reduction of bureaucracy have been identified as key priorities of the Government. One of the institutions dedicated to these objectives is the Business Support Centre (BSC), which began operations in July 2025. The Centre evolved from the Business Facilitation Unit (BFU)—established in January 2022 as part of the Strategy for Attracting Investments and Talent. Operating under the auspices of the Ministry of Energy, Commerce and Industry and the Ministry of Interior, the BSC serves as the primary contact point for all businesses already operating in Cyprus or seeking to expand their activities on the island.

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.

The government of Cyprus aims to further enhance the governance framework of the State-Owned Entities. On the basis of the technical assistance project carried out by the International Monetary Fund and the final technical report, entitled "Strengthening the Governance of the State-Owned Enterprises", which was concluded in August 2023, the Ministry of Finance proceeded with the preparation of an Action Plan which was submitted to the Council of Ministers for approval in March 2024. A revised Action Plan, following consultations with relevant stakeholders, will be submitted to the Council of Ministers by the end of November 2025. Furthermore, to address IMF recommendations, significant progress has been achieved in enhancing transparency in board nominations. In line with the GRECO Report published in October 2023, an impartial Advisory Council has been established on 26.6.23, that allows citizens to express their interest to apply in a transparent manner. The role of the Advisory Council was further enhanced and streamlined in 19.7.23, through relevant Council of Ministers decisions.

In addition, a proposal has been prepared for the submission of a request for technical support from the Technical Support Instrument Programme of the European Commission. The main focus of the project will be the development of an Ownership Policy and Code of Practice for the Governance of SOEs. Through the implementation of the said reforms the aim will be to ensure that state ownership is exercised professionally, consistently with transparency in alignment with Cyprus's fiscal policy, EU obligations and long term development goals. The policy will help depoliticize further SOE management, strengthen performance accountability and reduced fiscal risks associated with unclear mandates and poor oversight, and support economic competitiveness and sustainable development.

CSR4

Reduce overall reliance on fossil fuels and further diversify energy supply, notably by developing energy interconnections with neighbouring countries, scaling-up funding for energy efficiency, promoting sustainable transport and upgrading the electricity grid and energy storage facilities, to accommodate an increasing share of renewables. Address energy poverty. Step up investments in water, waste water, 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. Improve the implementation of climate adaptation measures, by focusing on improving the institutional framework governing climate adaptation.

Reduce overall reliance on fossil fuels and further diversify energy supply, notably by developing energy interconnections with neighbouring countries, scaling-up funding for energy efficiency, promoting sustainable transport and upgrading the electricity grid and energy storage facilities, to accommodate an increasing share of renewables.

To reduce overall reliance on fossil fuels and further diversify energy supply the following measures have been taken:

- ▶ Commercial operation of the electricity market, to further enable RES integration in the electricity sector. The first day of commercial operation is the 1st of October 2025.
- ▶ Promotion of RES, especially through distributed production and self-consumption. Support Schemes for the promotion of the installation of photovoltaics for self-consumption, have led to an important increase of RES in Cyprus, during the last couple of years. The measures and policies taken by Cyprus led to an increase of the overall install capacity of photovoltaic systems for self-consumption of 54% between February 2024 and January 2025. Currently, the installed RES capacity for self – consumption is more than 47% of the total installed RED capacity in the country.
- ▶ For the promotion of electricity storage systems, the following are promoted:
 - Support Schemes for upgrading of households and enterprises offer grants for the installation of storage system, along with the installation of a photovoltaic system, as part of the energy upgrading of the building.
 - A support scheme for the installation of hybrid storage systems, combined with commercial RES projects has been already announced. The applications submitted are currently under evaluation. The scheme is co-financed by the Just Transition Fund through the Cohesion Policy Programme "THALIA 2021-2027".
 - Development of central storage systems (grid integrated components) by the Cypriot Transmission System Operator (TSO). Cyprus has a derogation from the European directive that allows the Cypriot TSO to own and operate such systems. A tender procedure is on-going. The development of central storage system is co-financed by the Just Transition Fund through the Cohesion Policy Programme "THALIA 2021-2027".
 - Electricity Authority of Cyprus is in the process to develop stand- alone storage systems in its two electricity power stations in Dhekelia and Moni.
- ▶ Simplification of licensing procedures for RES and storage systems. More expedite and simplified licensing procedures, especially for small RES and hybrid storage systems combined with existing RES projects are now in place. Moreover, Cyprus has established a "Digital One-Stop-Shop" to streamline RES and storage project permitting, by providing guidance and facilitation throughout the entire permitting process, as a single point of contact for all applicants for permitting.
- ▶ Modernization and digitalization of electricity grids. Significant projects for the upgrading and digitalizing of the electricity grid, such as the establishment of a Supervisory Control and Data Acquisition (SCADA) and an Automatic Distribution Management System (ADMS), as well as the mass rollout of smart meters have been completed or are on-going. A number of these projects are financed under the RRF or co-financed by the Just Transition Fund through the Cohesion Policy Programme "THALIA 2021-2027". Currently, more than 100.000 smart meters have been installed.
- ▶ Furthermore, the Department of Road Transport is implementing the Electromobility Promotion Plan. The Plan is fully funded by the RRF, aiming at (a) the withdrawal of old polluting vehicles through incentives for alternative low-emission modes of transport, as well as (b) the promotion of the widespread use of zero-emission vehicles.

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- ▶ Measures are also taken by the Department of Electromechanical Services aiming to promote sustainable transport:
 - Funding Scheme for Public EV Chargers “Electrokinisis with 1000”, that it is funded by the RRF, to subsidize up to 1,000 publicly accessible EV charging points. Based on applications and progress to date, approximately 300–350 chargers are expected to be installed by mid-2026.
 - Charging Infrastructure for Public Sector Fleets, in line with national legislation, each newly procured electric vehicle for the public sector is accompanied by a dedicated charging point. The 2025 target for clean vehicle adoption is expected to be exceeded.
 - Installation of 10 rapid (90kW) charging stations at public locations such as hospitals and public parking areas. All stations are accessible to people with disabilities.
 - Development of a digital platform (in cooperation with the University of Cyprus/KIOS Center) to collect and provide access to static and dynamic data from charging stations. Expected to be operational by end of 2025–early 2026.
 - Planning of New Infrastructure in Line with EU Regulation 2023/1804 and identifying 13 recharging hubs along the TEN-T network, focusing on urban nodes (Nicosia, Limassol, Larnaca). Development will proceed via public procurement models under evaluation.
 - Drafting of two new laws to support the implementation of EU Regulation 2023/1804. These will set technical standards, responsibilities of authorities, data reporting rules, and replace the previous national legislation (Directive 2014/94/EU).

Address energy poverty.

To address energy poverty the following measures are implemented:

- ▶ Provide higher grants, through the Support Schemes for upgrading households and install PV system, to vulnerable and energy poor consumers to ensure energy.
- ▶ Promote the concept of ‘citizens energy communities’ and ‘renewable energy communities’. This will give the opportunity to energy poor that have restricted access to financing or do not have enough space at their rooftops to install PV systems, to participate in a collaborative scheme between municipalities, SMEs and citizens to jointly install PV systems, along with storage systems and minimize their electricity costs.
- ▶ Impose reduced VAT from 19% to 9% in electricity bills of all households, including energy poor consumers, from the 1st of April 2025 for 1 year, which is in line with the Commission’s guidelines in the Action Plan for Affordable Energy.
- ▶ Impose a domestic use special tariff for specific categories of vulnerable and energy poor customers.

Step up investments in water, waste water, 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. Improve the implementation of climate adaptation measures, by focusing on improving the institutional framework governing climate adaptation.

- ▶ Regarding investments in the water and wastewater sector, the Water Development Department is implementing the National Investment Plan for Water Projects 2024-2030 consisting of investments in the fields of (potable) water supply, irrigation, and wastewater management. Due to the ongoing drought and the rising water scarcity situation on the island the Department has set as a top priority the implementation of water supply projects, including desalination ones, as well as projects aiming at the reduction of potable water loss (through the refurbishment/replacement of old pipeline systems).
 - ▶ Today, over 90% of irrigated agriculture in Cyprus uses highly water-efficient irrigation systems. Nevertheless, the Ministry of Agriculture, in the context of further modernization of agricultural holdings, promotes through the Strategic Plan for the Common Agricultural Policy 2023-2027 the financing of actions related, among others, to:
 - replacement of existing irrigation systems with even more improved ones,
 - installation of water management automation components for the implementation of efficient irrigation schedules at every plot,
 - installation of water tanks for the collection and storage of water either from water wells or rainwater collection.
 - ▶ In the framework of the upcoming EU Circular Economy Action Plan, and more broadly in the context of the green transition and the achievement of the targets set under various European legislative frameworks for waste management, reduction and recycling, Cyprus is implementing a series of policies, projects and actions aimed at increasing recycling rates, and reducing municipal and food waste. Significant improvements and progress towards achieving these targets is expected through the implementation of the “Pay-As-You-Throw” scheme by Local Authorities across the entire territory of the Republic of Cyprus under effective control, as well as through projects on separate collection. Furthermore, incentives are provided to businesses for implementing zero-waste programmes, while guidance documents have been published for the implementation of zero-waste programmes in buildings and at events / festivals.
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- The permits of the Extended Producer Responsibility (EPR) systems are being amended and updated in order to increase the volumes collected for recycling. Investments are being promoted to strengthen infrastructure for waste management, waste prevention, encouragement of reuse and repair - such as repair centres, expansion of the existing green points network and the development of new standards / specifications for secondary materials and products. A national standard for secondary plastic materials and final products has already been completed, whilst the Action Plan on Green Public Procurement is currently under revision and the Municipal Waste Action Plan on project network is under implementation. In addition, the Waste Prevention Programme has been revised and is expected to be submitted to the Council of Ministers for approval late 2025.
- Currently the Revision of the National Adaptation Strategy (NAS) and National Action Plan (NAP) is implemented by the Department of Environment with EU funding from the Technical Support Instrument (TSI). This reform concerns the update of the NAS and NAP for the period 2025–2050, includes a more recent Climate Risk and Vulnerability Assessment (CRVA) and expands adaptation measures across 15 policy areas. The reform strengthens governance through the nomination of focal points, the establishment of an inter-governmental working group and the introduction of a structured monitoring and evaluation framework. The adoption of the revised NAS/NAP shall ensure enhanced climate resilience and alignment with the EU Adaptation Strategy.

CSR5

Address labour shortages and skills mismatches by strengthening labour market participation of young people, further increasing the capacity and attractiveness of vocational education and training as well as promoting adult learning. Step up 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. Improve the availability of and access to long-term care services by introducing a modern, adequately funded, integrated long-term care model.

Address labour shortages and skills mismatches by strengthening labour market participation of young people,

- The Human Resource Development Authority offers training programs for young people not in Employment, Education or Training (NEETs) through Vocational Training Centers, in order to facilitate their integration into the labour market. The main objective is the acquisition of basic knowledge and skills, such as literacy, language skills and mathematical skills, transversal skills such as communication, problem solving and critical thinking, teamwork and collaboration, time management, creativity, interpersonal relationships, CV preparation and job interview techniques, by the participants. The Project is co-funded by the EU within the framework of the Cohesion Policy Programme "THALIA 2021-2027".
- Early prevention measures are also being promoted to enhance labour market participation of young people, focusing on vulnerable groups such as NEETs (Not in Employment, Education, or Training). From January 2024 to August 2025, Public Employment Services implemented the project "Outreach, Counselling and Employment Guidance for NEETs aged 15-29." The initiative aimed to identify, attract, guide, and support NEETs, reducing their risk of social exclusion and enhancing their integration into the labour market. The Project was co-funded by the EU within the framework of the Cohesion Policy Programme "THALIA 2021-2027".
- Under the Recovery and Resilience Fund (RRF), PES developed the digital Early Warning System (EWS), launched in March 2025. The EWS automatically notifies employment counsellors about young NEETs one month after registration, triggering personalized outreach. Employment counsellors then provide tailored guidance and support, creating and implementing Individual Action Plans to facilitate the integration or reintegration of young people into the labour market through targeted training and upskilling programmes.
- Additionally, an €8 mn subsidy scheme for employing NEETs aged 15 to 29, following two months of training, was introduced under the RRF. Similarly, a subsidy scheme for the employment of NEETs was implemented in the framework of the Cohesion Policy Programme "THALIA 2021-2027". The scheme involved three calls with a total budget of €15 mn. In September 2025, the Department of Labour announced the implementation of a new aid Scheme providing incentives to employers for the recruitment of young people (aged 15-29) who are not in employment nor education or training (NEETs), with flexible working arrangements. The Scheme, with a total budget of € 3 mn, consists a measure of Active Labour Market Policies and concerns the subsidization of the employment cost. The Scheme is co-funded by the EU within the framework of the Cohesion Policy Programme "THALIA 2021-2027".

further increasing the capacity and attractiveness of vocational education and training as well as promoting adult learning.

The improvement of the attractiveness, quality and efficiency of the Technical and vocational education and training is pursued through the introduction of new programmes of study, provision of modern technical equipment and infrastructures, evaluation and improvement of curricula, preparation of teaching materials and promotional actions to encourage increased student participation in STVET. Technical Gymnasiums will pilot in Nicosia and Limassol (one in each city) from this year, aiming to link education with labor market needs, provide skills, combat misconceptions about VET and enhance its attractiveness. These actions are co-funded by the EU within the framework of the Cohesion Policy Programme "THALIA 2021-2027".

Furthermore, a new System of Evaluation of the Educational Work and the Educators aims to improve the general quality of education and consequently students' educational outcomes. Teachers' Professional Learning provides opportunities for continuous professional learning to all teachers of all levels, in a systematic way, on a needs assessment basis, both of school and individual teachers.

The Cyprus Lifelong Learning Strategy provides a long-term strategic framework for the development of a knowledge-based society, in which every citizen will have learning opportunities for his knowledge, skills and attitudes.

Also, Individual Learning Accounts (ILAs) (pilot project) provides credits to eligible groups of employed and unemployed persons to attend training programmes within the HRDA Scheme "Standard Multi-Company Training Programmes", in order to acquire new and/or upgrade existing knowledge and skills.

Step up policy efforts to strengthen green and digital skills.

- ▶ A new communication strategy for digital skills in Cyprus is under development (to be finalized by early October 2025) that will focus on promoting digital skills, raising awareness for the importance of digital literacy to all (from young people to the elderly) and fostering a culture of long-life learning.
- ▶ In collaboration with key stakeholders, new training topics have been introduced, some of which offer the opportunity for free certification.
- ▶ A new digital policy for Cyprus is under development and will be formulated through a tender to be announced in October 2025. As part of this tender the new digital skills action plan for 2026-2030 will be developed.
- ▶ New initiatives have been launched: e.g. enhancing digital skills of women in suburban areas following a needs' survey taking place in spring 2025, introduction of AI tools in the government aimed at boosting productivity - accompanied by relevant training.
- ▶ The "AI in Government" flagship programme includes the use of Artificial Intelligence Tools to Predict Labour Market Needs and Trends, with the aim of better aligning the Education System with the Labour Market. This specific tool is managed by the Ministry of Education, Sport and Youth. Deadline for submitting proposals 31/10/2025.

Further increase participation in early childhood education and care, improve basic skills, and increase students' participation in science, technology, engineering and mathematics (STEM) fields.

- ▶ Cyprus remains committed to increasing participation in early childhood education and care (ECEC), which continues to be a major policy objective despite recent positive developments. Notably, the participation rate of children under the age of 3 has risen to 40.2%, exceeding the Barcelona target for Cyprus for 2030 (38.8%) by 1.4 percentage points. For children aged 3 to the compulsory school age, participation has reached 88.9%, with ongoing efforts to achieve the national goal of 96%. These improvements reflect sustained efforts to reform the ECEC system, which are already yielding tangible results.
- ▶ As part of these efforts, a Tuition Subsidy Scheme for children up to 4 years of age has been implemented since September 2022, aiming to support families through the subsidization of tuition fees for nurseries and kindergartens. The Scheme covers up to 80% of the monthly cost, with a maximum subsidy of €350 per child, depending on family income, the child's age, household composition, and school attendance hours. Eligible beneficiaries include all families receiving the child benefit. The Scheme is co-funded by the European Union under the Cohesion Policy Programme "THALIA 2021-2027".
- ▶ Further measures include the planned reduction of the compulsory school entry age to 4 years, as part of the broader ECEC reform supported by the Recovery and Resilience Facility (RRF). In addition, the adoption and implementation of a National Strategy and Action Plan on ECEC—currently under public consultation—along with other active policies, are set to enhance both the accessibility and quality of ECEC services in Cyprus, thereby supporting further increases in enrolment.
- ▶ To enhance attractiveness of STEM subjects, after-school STEM programmes were designed and rolled out in some selected primary and secondary schools.

Improve the availability of and access to long-term care services by introducing a modern, adequately funded, integrated long-term care model.

Regarding the long-term care, the Ministry of Health and the Deputy Ministry of Social Welfare are promoting the followings:

- ▶ A National Strategy for the Health of Older Adults, that it is part of the broader Active Ageing Strategy 2025-2030 and focuses on the areas of prevention, promotion of healthy ageing, creation of age-friendly environments and support for research and education.
 - ▶ A Law on the Provision of Community Nursing and Midwifery Services, that was adopted in 2025 and regulates community nursing and midwifery services and improved access to LTC in community settings.
 - ▶ A Draft Bill on Palliative Care Services, that was approved by the Council of Ministers and submitted to the Parliament by the Ministry of Health that aims to ensure high-quality standards in palliative care, individualized care plans and end-of-life and post-death support for families.
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5. Comparison between DBP and the annual Progress Report 2025

The projection regarding the general government budget balance at unchanged policies for year 2025 presented in the current DBP, deviates by -0.1 percentage point of GDP compared to the forecast presented in the context of the Annual Progress Report 2025 (APR2025). This negative deviation is the outcome of the impact from the measures, which were decided during the budgetary process, of -0.34 percent of GDP in total, as presented under Chapter 3 of this report. On the other hand, the cost from these measures is partly offset by the state grant requested by DEFA/ETYFA for completing the works at the land-based LNG terminal at Vasiliko, initially scheduled to be paid in 2025, where incorporated in the APR2025 projections; the requested fund will be granted within 2026 with a negative impact on the accounts of the general government about 0.2% of GDP.

Divergence from latest SP

	ESA Code	Year 2024 % GDP	Year 2025 % GDP	Year 2026 % GDP
Target general government net lending/ net borrowing	B.9			
Stability Programme		4.3	3.6	3.7
Draft Budgetary Plan		4.3	3.4	3.0
Difference		-	-0.2	-0.7
General government net lending projection at unchanged policies	B.9			
Stability Programme		4.3	3.6	3.7
Draft Budgetary Plan		4.3	3.7	3.2
Difference		-	0.2	-0.6

Regarding the year after, the deviation of -0.7 percent of GDP between the current forecast for the general government budget balance and the corresponding one presented in the APR2025 of the Republic of Cyprus, is attributed mainly to the agreement between KEDIPES and the Hellenic Bank, the state grant requested by DEFA/ETYFA and to the expected impact of the discretionary measures undertaken in the context of the Budgetary process for year 2025.

Appendix: Tables

Table 1a. Fiscal Commitments

	2025	2026
Council recommendation		
1a. Net nationally financed primary expenditure (annual growth rate)	6.0	5.0
Outturn / projection		
1b. Net nationally financed primary expenditure (annual growth rate)	7.9	5.3

Table 1b. Main Variables

	2024	2025	2026
	% GDP	% GDP	% GDP
1. Net lending/borrowing	4.3	3.4	3
2. Structural balance	2.9	2.2	1.9
3. Structural primary balance	4.2	3.6	3.3
4. Gross debt	65.1	57.3	52.7
5. Change in gross debt	-8.6	-7.7	-4.6

Table 2. Macroeconomic scenario

	ESA Code	2024 (Levels) mn EUR	2024 growth rate	2025 growth rate	2026 growth rate
GDP					
1. Real GDP	B1*g	28,749.6	3.4	3.2	3.1
2. GDP deflator			3.5	1.6	1.9
3. Nominal GDP	B1*g	33,567.7	7.1	4.8	5.0
Components of real GDP			growth rate	growth rate	growth rate
4. Private consumption expenditure	P.3		3.8	2.3	2.1
5. Government consumption expenditure	P.3		1.5	6.2	3.3
6. Gross fixed capital formation	P.51		0.1	2.6	5.5
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52+P.53		-1.9	-0.4	-
8. Exports of goods and services	P.6		5.3	1.3	1.6
9. Imports of goods and services	P.7		2.4	0.9	1.6
Contribution to real GDP growth			growth rate	growth rate	growth rate
10. Final domestic demand			2.6	3.0	2.9
11. Changes in inventories and net acquisition of value	P.52+P.53		-1.9	-0.4	-
12. External balance of goods and services	B.11		3.0	0.5	0.1
Deflators and HICP			growth rate	growth rate	growth rate
13. Private consumption deflator			1.8	1.0	1.8
14. p.m. HICP			2.3	0.7	2.1
15. Government consumption deflator			5.3	2.3	1.7
16. Investment deflator			2.4	1.6	1.7
17. Export price deflator (goods and services)			1.3	1.2	1.4
18. Import price deflator (goods and services)			1.4	1.0	1.2
Labour market			growth rate	growth rate	growth rate
19. Domestic employment (1000 persons, national accounts)		499.4	2.0	1.7	1.7
20. Average annual hours worked per person employed		1,843.8	0.2	0.2	0.2
21. Real GDP per person employed			1.4	1.4	1.3
22. Real GDP per hour worked			1.1	1.2	1.1
23. Compensation of employees (mn NAC)	D.1	14,611.2	7.1	5.6	4.5
24. Compensation per employee (= 23 / 19)		32,691.6	4.5	3.8	2.8
			%	%	%
25. Unemployment rate (%)			4.9	4.6	4.6
Potential GDP and components			growth rate	growth rate	growth rate
26. Potential GDP			3.9	3.6	3.2
Contribution to potential growth					
27. Labour			1.5	1.2	0.9
28. Capital			1.4	1.4	1.4

	ESA Code	2024 (Levels)	2024	2025	2026
29. Total factor productivity			1.0	0.9	0.9
			% pot. GDP	% pot. GDP	% pot. GDP
30. Output gap			2.7	2.3	2.2

Table 3. External Assumptions

	2024	2025	2026
1. Short-term interest rate	3.6	2.2	1.9
2. Long-term interest rate	2.9	3.1	3.4
3. USD/EUR exchange rate	1.08	1.13	1.16
4. World real GDP (excluding EU)	3.6	3.1	3.2
5. EU real GDP	1.0	1.4	1.1
6. World import volumes, excluding EU	3.2	2.0	2.2
7. Oil prices	81.2	69.7	65.1

Table 4. Budgetary Projections

	2024 (Levels)	2024	2025	2026
Revenue	mn EUR	% GDP	% GDP	% GDP
1. Taxes on production and imports	4,682.8	14.0	13.7	13.8
2. Current taxes on income, wealth, etc	3,804.7	11.3	11.5	11.1
3. Social contributions	4,520.0	13.5	14.1	14.0
4. Other current revenue	1,405.9	4.2	4.8	4.9
5. Capital taxes	0.1	-	-	-
6. Other capital revenue	336.8	1.0	1.0	0.9
7. Total revenue (= 1+2+3+4+5+6)	14,750.3	43.9	45.1	44.7
8. Of which: Transfers from the EU (accrued revenue, not cash)	287.7	0.9	1.5	1.7
9. Total revenue other than transfers from the EU (= 7-8)	14,462.6	43.1	43.6	43.0
10. p.m. Revenue measures (increments, excluding EU funded measures)	-121.0	-0.4	0.1	-0.4
10b. p.m. Revenue reductions funded by transfers from the EU (levels)	-	-	-	-
11. p.m. One-off revenue included in the projections (levels, excluding EU funded measures)	-	-	-	-
- capital	1.7	1.7		
- total factor productivity	0.8	0.7		
7. Output gap (% of potential GDP)	2.4	1.9	0.6	0.3
8. Cyclical budgetary component (% of potential GDP)	1.2	1.0	0.3	0.2
9. Cyclically-adjusted balance (1 - 12) (% of potential GDP)	2.7	1.8		
10. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)	4.2	3.3		
11. Structural balance (13 - 8) (% of potential GDP)	2.7	1.8	1.6	1.1
Expenditure	mn EUR	% GDP	% GDP	% GDP
12. Compensation of employees	3,877.9	11.6	11.8	11.7
13. Intermediate consumption	1,475.7	4.4	4.5	4.4

	2024 (Levels)	2024	2025	2026
14. Interest expenditure	423.1	1.3	1.4	1.4
15. Social benefits other than social transfers in kind	4,182.8	12.5	12.5	12.4
16. Social transfers in kind via market producers	1,120.9	3.3	3.6	3.8
17. Subsidies	171.4	0.5	0.4	0.3
18. Other current expenditure	854.1	2.5	2.6	3.1
19. Gross fixed capital formation	964.7	2.9	3.5	3.5
20. Of which: Nationally financed public investment	74.3	0.2	0.4	0.5
21. Capital transfers	213.5	0.6	1.4	1.0
22. Other capital expenditure	27.0	0.1	0.1	0.1
23. Total expenditure (= 12+13+14+15+16+17+18+19+21+22)	13,311.1	39.7	41.7	41.6
24. Of which: Expenditure funded by transfers from the EU (= 8-10b)	287.7	0.9	1.5	1.7
25. Nationally financed expenditure (23-24)	13,023.4	38.8	40.2	40.0
26. p.m. National co-financing of programmes funded by the Union	65.2	0.2	0.3	0.4
27. p.m. Cyclical component of unemployment benefits	-47.7	-0.1	-0.1	-0.1
28. p.m. One-off expenditure included in the projections (levels, excluding EU funded measures)	-	-	-	-
29. Net nationally financed primary expenditure (before revenue measures) (= 25-26-27-28-14)	12,582.8	37.5	38.7	38.4
Net nationally financed primary expenditure			growth rate	growth rate
30. Net nationally financed primary expenditure growth			7.9	5.3
Balances	mn EUR	% GDP	% GDP	% GDP
31. Net lending/borrowing (= 7-23)	1,439.2	4.3	3.4	3.0
Net lending/borrowing by subsector				
31a. Central government	27.8	0.1	-0.3	-0.4
31b. State government				
31c. Local government	-9.3	-	-	-
31d. Social security fund	1,420.7	4.2	3.7	3.5
32. Primary balance (= 31+14)	1,862.3	5.5	4.7	4.4
Cyclical adjustment		% GDP	% GDP	% GDP
33. Structural balance		2.9	2.2	1.9
34. Structural primary balance		4.2	3.6	3.3
Debt		mn EUR	% GDP	% GDP
35. Gross debt	21,837.6	65.1	57.3	52.7
36. Change in gross debt	-1,243.2	-8.6	-7.7	-4.6
37. Contributions to changes in gross debt				
38. Primary balance (= minus 32)		-5.5	-4.7	-4.4
39. Snowball effect		-3.5	-1.6	-1.4
40. Interest expenditure (= 14)		1.3	1.4	1.4
41. Growth		-2.4	-2.0	-1.7
42. Inflation		-2.4	-1.0	-1.0
43. Stock-flow adjustment (= 36-38-39)		0.5	-1.4	1.1
		%	%	%
44. p.m. Implicit interest rate on debt (= 14 / DEBT(t-1))		1.8	2.1	2.4

	2024 (Levels) mn EUR	2024 % GDP	2025 % GDP	2026 % GDP
Defence expenditure				
45. Total defence expenditure	394.6	1.2	1.2	1.0
46. Of which: Defence investment	211.0	0.6	0.7	0.5

Table 5. Budgetary Projections under unchanged Policies

	ESA Code	2024 (Levels) mn EUR	2024 % GDP	2025 % GDP	2026
Revenue					
1. Taxes on production and imports	D.2	4,682.8	14	13.7	13.9
2. Current taxes on income, wealth, etc	D.5	3,804.7	11.3	11.5	11.1
3. Social contributions	D.61	4,520.0	13.5	14.1	14
4. Other current revenue	(P.11 + P.12 + P.131) + D.39 + D.4 + D.7	1,405.9	4.2	4.8	4.9
5. Capital taxes	D.91	0.1	0	0	0
6. Other capital revenue	D.92+D.99	336.8	1	1	0.9
7. Total revenue (= 1+2+3+4+5+6)	TR	14,750.3	43.9	45.1	44.8
Expenditure		mn EUR		% GDP	
8. Compensation of employees	D.1	3,877.9	11.6	11.8	11.7
9. Intermediate consumption	P.2	1,475.7	4.4	4.5	4.4
10. Interest expenditure	D.41	423.1	1.3	1.4	1.4
11. Social benefits other than social transfers in kind	D.62	4,182.8	12.5	12.5	12.4
12. Social transfers in kind via market producers	D.632	1,120.9	3.3	3.6	3.8
13. Subsidies	D.3	171.4	0.5	0.3	0.3
14. Other current expenditure	D.29+ (D.4-D.41) + D.5 + D.7 + D.8	854.1	2.5	2.5	3
15. Gross fixed capital formation	P.51	964.7	2.9	3.5	3.5
16. Of which: Nationally financed public investment		74.3	0.2	0.4	0.5
17. Capital transfers	D.9	213.5	0.6	1.1	1
18. Other capital expenditure	P.52 + P.53 + NP	27.0	0.1	0.1	0.1
19. Total expenditure (= 8+9+10+11+12+13+14+15+17+18)	TE	13,311.1	39.7	41.4	41.6
Balances		mn EUR		% GDP	
20. Net lending/borrowing (= 7-19)	B.9	1,439.2	4.3	3.7	3.2
21. Primary balance (= 20+10)	B.9+D.41p	1,862.3	5.5	5.1	4.5

Table 6. RRF Grants

	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF grants							
1. RRF GRANTS as included in the revenue projections		0.2	0.2	0.3	0.5	0.9	0.9
2. Cash disbursements of RRF GRANTS from EU		0.5	0.3	-	0.4	0.4	1.3
Expenditure financed by RRF grants							
3. Total current expenditure	0.0	0.0	0.1	0.1	0.1	0.2	0.2
4. Gross fixed capital formation	0.1	0.1	0.1	0.1	0.2	0.4	0.4
5. Other capital expenditure	0.0	0.0	0.0	0.1	0.2	0.3	0.2
6. Total capital expenditure (= 4+5)	0.1	0.1	0.1	0.2	0.4	0.7	0.6
Other costs financed by RRF grants							
7. Reduction in tax revenue	-	-	-	-	-	-	-
8. Other costs with impact on revenue	-	-	-	-	-	-	-
9. Financial transactions	-	-	-	-	-	-	-

Table 7. RRF Loans

	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF loans							
1. Disbursements of RRF loans from EU		0.1	-	-	-	-	0.3
2. Repayment of RRF loans to EU		-	-	-	-	-	-
Expenditure financed by RRF loans							
3. Total current expenditure	-	-	-	-	-	-	0.3
4. Gross fixed capital formation	-	-	-	-	-	-	0.1
5. Other capital expenditure	-	-	-	-	-	-	-
6. Total capital expenditure (4+5)	-	-	-	-	-	-	0.1
Other costs financed by RRF loans							
7. Reduction in tax revenue	-	-	-	-	-	-	-
8. Other costs with impact on revenue	-	-	-	-	-	-	-
9. Financial transactions	-	-	-	-	-	-	-



MINISTRY OF FINANCE