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Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Cyprus and delivering a Council opinion on the 2022 Stability Programme of Cyprus

{SWD(2022) 604 final} - {SWD(2022) 640 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Cyprus and delivering a Council opinion on the 2022 Stability Programme of Cyprus

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

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

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transition, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility [was] updated on [XX] June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the reaffirmed joint commitment of the Porto

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

Social Summit of May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified Cyprus as one of the Member States for which an in-depth review[4] would be needed. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which was adopted on 5 April 2022 by the Council, as well as the proposal for the 2022 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which was adopted by the Council on 14 March 2022.

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt for example through higher energy and food prices and weaker growth prospects. The higher energy prices weigh particularly on the most vulnerable households experiencing or at risk of energy poverty. The EU is also seeing an unprecedented inflow of people fleeing Ukraine. In this context, on 4 March 2022, the Temporary Protection Directive was triggered[5] for the first time, granting displaced persons from Ukraine the right to legally stay in the EU, as well as access to education and training, labour market, healthcare, housing and social welfare.

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any country-specific recommendations issued up to the date of submission of the modified plan.

(5) The General Escape Clause has been active since March 2020[6]. In its Communication of 3 March 2021[7], the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued

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4 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306, 23.11.2011, p. 25.

5 Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection, OJ L 71, 4.3.2022, p. 1.

6 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

7 Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council opinion of 18 June 2021 on the 2021 Stability Programme, the fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures), excluding COVID-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth[8]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally-financed[9] primary current expenditure (net of discretionary revenue measures and excluding COVID-19 crisis-related temporary emergency measures) and investment.

(7) On 2 March 2022, the Commission adopted a Communication providing broad guidance for fiscal policy in 2023, aiming at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination[10]. The Commission noted that, based on the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020-2022 to a broadly neutral aggregate fiscal stance would appear appropriate in 2023, while standing ready to react to the evolving economic situation. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate across Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its Semester spring package of late May 2022.

(8) With respect to the fiscal guidance provided on 2 March 2022, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transition and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second round effects via targeted and temporary measures; fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, and be differentiated across countries depending on their fiscal and economic situation, including as regards the exposure to the crisis and the inflow of displaced persons from Ukraine.

(9) On 17 May 2021, Cyprus submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 20 July

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8 The estimates on the fiscal stance and its components in this recommendation are Commission estimates based on the assumptions underlying the Commission 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

9 Not financed by grants from the Recovery and Resilience Facility and other EU funds.

10 Communication from the Commission to the Council: Fiscal policy guidance for 2023, Brussels, 2.3.2022, COM(2022) 85 final.

2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Cyprus[11]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Cyprus has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(10) On 5 May 2022, Cyprus submitted its 2022 National Reform Programme and, on 2 May 2022, its 2022 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Cyprus' bi-annual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2022 country report for Cyprus[12] on 23 May 2022. It assessed Cyprus' progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Cyprus' implementation of the recovery and resilience plan, building on the Recovery and Resilience Scoreboard. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. It also assessed Cyprus' progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Cyprus and published its results on 23 May 2022[13]. The Commission concluded that Cyprus is experiencing excessive macroeconomic imbalances. In particular, the large current account deficit deteriorated significantly during the COVID-19 crisis which put an additional burden on the already high external, public and private debt, while non-performing loans in the financial sector remain high, despite significant reduction.

(13) On 2 May 2022, Cyprus submitted its 2022 Stability Programme. The Council has examined the 2022 Stability Programme of Cyprus and its opinion is reflected in particular in recommendation (1) below.

(14) On 20 July 2020, the Council recommended Cyprus to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Cyprus to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, based on data validated by Eurostat, Cyprus's general government deficit decreased from 5.8% of GDP in 2020 to 1.7% in 2021. The fiscal policy response by Cyprus supported the economic recovery in 2021, while temporary emergency support measures increased from 3.6% of GDP in 2020 to 3.9% in 2021. The measures taken by Cyprus in 2021 have been in line

[11] Council Implementing Decision of 20 July 2021 on the approval of the assessment of the recovery and resilience plan for Cyprus (ST 10686/2021; ST 10686/2021 ADD 1).

[12] SWD(2022) 604 final.

[13] SWD(2022) 628 final.

with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were temporary or matched by offsetting measures. Based on data validated by Eurostat, general government debt stood at 103.6% of GDP in 2021.

(15) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is realistic. The government projects real GDP to grow by 2.7% in 2022 and 3.8% in 2023. By comparison, the Commission's 2022 spring forecast projects a lower real GDP growth of 2.3% in 2022 and 3.5% in 2023, mainly due to an expected weaker external demand in the Commission's forecast, thus a negative contribution of net exports compared to a muted one in the 2022 Stability Programme. In its 2022 Stability Programme, the Government expects that Cyprus will reach a balanced budgetary position in 2022 and a budgetary surplus of 0.4% of GDP in 2023. The improvement in 2022 mainly reflects the unwinding of most emergency measures. According to the Programme, the general government debt-to-GDP ratio is expected to decrease to 93.9% in 2022, and to decline to 88.2% by 2023 Based on policy measures known at the cut-off date of the forecast, the Commission 2022 spring forecast projects a government deficit for 2022 and 2023 of 0.3% of GDP and 0.2% respectively. This is lower than the balances projected in the 2022 Stability Programme, mainly due to more conservative tax revenue projections in the Commission's forecast. The Commission 2022 spring forecast projects a broadly similar general government debt-to-GDP ratio, of 93.9% in 2022 and 88.8% in 2023.

Based on the Commission spring 2022 forecast, the current estimate of the medium-term (10-year average) potential output growth is 2.6%. However, this estimate does not include the impact of the reforms that are part of the Recovery and Resilience Plan and can boost Cyprus' potential growth.

(16) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency support measures are projected to decline from 3.9% of GDP in 2021 to 0.1% in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission spring 2022 forecast are estimated at 0.2% of GDP in 2022 and expected to be phased out in 2023.[14] These measures mainly consist of social transfers to poorer households, cuts to indirect taxes on energy consumption and price caps on retail and wholesale prices. These measures have been announced as temporary. However, in case energy prices remain elevated also in 2023, some of these measures could be continued. Some of these measures are not targeted, notably the reduction of tax rate for household electricity bills, the reduction of price of consumer tariffs or the reduction of excise duties on petroleum. The government deficit is also impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast are projected at 0.1% of GDP in 2022 and 0.2% in 2023.[15]

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14 The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

15 The total number of displaced persons from Ukraine to the EU is assumed to gradually reach 6 million by the end of 2022, and their geographical distribution is estimated based on the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the EU as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

(17) On 18 June 2021, the Council recommended that in 2022 Cyprus[16] maintains a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserves nationally financed investment. It also recommended Cyprus to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential.

(18) In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Cyprus's 2022 Stability Programme, the fiscal stance is projected to be broadly neutral, at +0.1% of GDP, while the Council recommended a supportive fiscal stance.[17] Cyprus plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.7% of GDP compared to 2021. Nationally-financed investment is projected to provide a contractionary contribution to the fiscal stance of 0.6 percentage points in 2022.[18] Therefore, Cyprus does not plan to preserve nationally financed investment. At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a broadly neutral contribution of 0.2 percentage points to the overall fiscal stance. This includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.1 % of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1 % of GDP).

(19) In 2023, the fiscal stance is projected in the Commission 2022 spring forecast at +0.1% of GDP on a no-policy change assumption.[19] Cyprus is projected to continue using the grants from the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.3 percentage points of GDP compared to 2022. Nationally-financed investment is projected to provide a contractionary contribution to the fiscal stance of 0.1 percentage points in 2023.[20] At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a broadly neutral contribution of 0.1 percentage points to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0.2 % of GDP) and additional costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP).

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16 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Cyprus, OJ C 304, 29.7.2021, p. 58.

17 A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

18 Other nationally-financed capital expenditure is projected to provide an neutral contribution of 0.0 percentage points of GDP.

19 A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

20 Other nationally-financed capital expenditure is projected to provide a contractionary contribution of 0.2 percentage points of GDP.

(20) In the 2022 Stability Programme, the general government surplus is expected to gradually increase to 1.5% of GDP in 2024 and to 1.7% by 2025. Therefore, the general government deficit is planned to remain below 3% of GDP within the Programme horizon. These projections assume decreasing certain public expenditure, in particular subsidies, and limiting the growth of others, including intermediate consumption and social transfers in kind. A decline in public investments as percentage of GDP is also envisaged after the peak in 2022. According to the Programme, the general government debt-to-GDP ratio is expected to decrease by 2025, specifically with a decrease to 81% in 2024, and a decline to 76.7% in 2025. Based on the Commission's analysis, debt sustainability risks appear medium over the medium term.

(21) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2, to Regulation (EU) 2021/241 the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Cyprus by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a plan. In particular, they relate to public finances and health care, labour market and social policy, education and skills, public and private investment and green and digital transition, structural reforms to improve the functioning of the public sector, fight corruption and facilitate the reduction of non-performing loans in the banking sector.

(22) The implementation of the recovery and resilience plan of Cyprus is expected to contribute to making further progress on the green and digital transition. Measures supporting the climate objectives in Cyprus account for 41% of the plan's total allocation, while measures supporting digital objectives account for 23% of the plan's total allocation. The fully-fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Cyprus swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(23) Cyprus submitted the Partnership Agreement and the other cohesion policy programming documents[21] on 30 December 2021. In line with Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, Cyprus shall take into account the relevant country-specific recommendations in the programming of the 2021-2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting the coordination, complementarity and coherence between these funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and

[21] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. OJ L 231, 30.6.2021, p. 159.

cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transition and balanced territorial development.

(24) Beyond the economic and social challenges addressed by the recovery and resilience plan, Cyprus faces an additional challenge related to the governance of state-owned entities (SOEs). The governance system shows gaps with respect to international standards (e.g., the guidelines on corporate governance of SOEs of the Organisation for Economic Co-operation and Development and the World Bank Toolkit for Corporate Governance of SOEs), which weighs on Cyprus' productivity and business environment. In particular, increased transparency of and higher accountability for financial performance and public objectives would increase SOEs' efficiency and effectiveness. So would implementation of best practices such as merit-based and transparent process for nominations to SOE management bodies and shift of the SOE ownership function from the policy-oriented line ministries to a dedicated central body. Opening up commercially viable markets where SOEs currently have a dominant position (e.g. renewables) would make these markets more efficient, accelerate the green and digital transition, and help diversify the economy. Taking action on SOEs would make governance in Cyprus more effective and the market for local and foreign businesses fairer and more transparent. This is in line with the objectives of the long-term strategy for Cyprus and the action plan underpinning it (under the 'Modernise state-owned enterprises and create the right incentives for innovation and efficiency' initiative area). Policies aimed at improving SOE governance can be conducive to reducing government debt as better SOE governance would increase public sector efficiency. It can also help improve the business environment and increase potential growth.

(25) In response to the mandate by the EU Heads of State or Government set out in the Versailles Declaration, the REPowerEU plan aims to phase out the European Union's dependence on fossil fuel imports from Russia as soon as possible. For this purpose, the most suitable projects, investments and reforms at national, regional and EU level are being identified in dialogue with the Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil fuel imports away from Russia.

(26) The full potential of renewable energy sources in Cyprus could be further unlocked and accelerated, in particular by further streamlining permitting procedures and further investing in solar facilities. Cyprus currently uses no gas, though oil represents 85.6% of the energy mix. Given the widely fluctuating energy prices on global markets, it is crucial for the sustainability of the Cypriot economy to reduce its heavy reliance on oil. Oil supply is fully dependent on imports, though at only 1%, oil imports from Russia are well below the EU average of 23%.[22] To diversify energy supplies and reduce import dependence, Cyprus would benefit from expediting the development of hydrogen-compatible gas import infrastructure and additional electricity interconnections to facilitate the expansion of renewable energy sources. New infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to facilitate their long-term sustainability through future repurposing for sustainable fuels. In addition, energy efficiency policies could be extended and accelerated, including in transport, to rein in the growth of energy consumption, which is significantly above the EU average. Energy efficiency measures are expected to also help address the energy poverty experienced by a high

[22] Eurostat (2020), share of Russian imports over total imports of natural gas, oil and hard coal. For the EU27 average, the total imports are based on extra-EU27 imports. For Cyprus, total imports include intra-EU trade. Oil includes crude oil and refined oil products.

share of the population (20.9%), including by using cohesion policy funds as appropriate. Further increase in ambition for reducing greenhouse gas emissions and increasing of renewable energy and energy efficiency will be needed for Cyprus to be in line with the 'Fit for 55' objectives.

(27) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Cyprus can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socio-economic impact of the transition in the most affected regions. In addition, Cyprus can make use of the European Social Fund Plus to improve employment opportunities and strengthen social cohesion.

(28) In the light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion[23] is reflected in recommendation (1) below.

(29) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Cyprus, this is reflected in particular in recommendations (1) and (2) below.

(30) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2022 National Reform Programme and the 2022 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2), (3) and (4) below. The recommendations (1) and (2) also contribute to the implementation of the Recommendation for the euro area, in particular the first and fourth euro area recommendations. Fiscal policies referred to in recommendation (1) help inter-alia address imbalances linked to high government debt. Policies referred to recommendation (2) help inter alia address imbalances linked to high private debt, by limiting excess borrowing of the private sector. They also address imbalances linked to high government debt and the current account deficit, by diversifying the economy, as well as imbalances linked to the high stock of non-performing loans. Policies referred to in recommendation (3) help inter-alia address imbalances linked to high government debt, by increasing government efficiency and long-term growth, and imbalances linked to private and external debt, by increasing long-term growth. Policies referred to in recommendation (4) help inter alia address vulnerabilities linked to high external debt in the longer term.

HEREBY RECOMMENDS that Cyprus take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.

2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 28 July 2021. Swiftly finalise the negotiations with the Commission of the 2021-2027

[23] Under Article 5(2) of Council Regulation (EC) No 1466/97.

cohesion policy programming documents with a view to starting their implementation.

3. Take measures to improve governance of the state-owned entities in line with international standards.

4. Reduce overall reliance on fossil fuel and further diversify energy supply by accelerating the deployment of renewables, in particular by further streamlining permitting procedures and expanding photovoltaics. Develop energy interconnections with neighbouring countries, while extending and accelerating energy efficiency measures, including in the transport sector.

Done at Brussels,

For the Council
The President