

EXECUTIVE SUMMARY

CYPRUS NATIONAL STRATEGIC REPORT, 2009

A. Introduction

The National Strategic Report ("Report") 2009 was prepared according to Article 29 of the General Regulation (EC) 1083/2006 and in accordance with the Guidelines communicated by the European Commission (DG REGIO and DG EMPL) regarding the Indicative Structure of the NSRs for 2009.

The aim of the NSR is to present the progress made so far in achieving the goals of the National Strategic Reference Framework (NSRF), in implementing the objectives of Cohesion Policy and the Community Strategic Guidelines, as well as the coherence with the Integrated Guidelines for Growth and Jobs and the National Reform Programme. Within this structure the main socioeconomic changes and trends are presented. Finally, the NSR presents a number of best practices both of projects of the programming period 2007-2013 but also of the previous period 2004-2006, with links to the current period.

The NSRF is implemented in Cyprus, through the two Operational Programmes (OPs) "Sustainable Development and Competitiveness" and "Employment, Human Capital and Social Cohesion" for the programming period 2007-2013, of total allocated community funds of €612,4 mln.

B. Socio-economic Changes and Trends

The Report analyses the socio-economic situation (2007-2009), in comparison with the state of play at the time of the adoption of the NSRF. The analysis mainly concentrates on changes and developments in macroeconomic indicators, the labour market, the business environment and social conditions.

As expected, the economy of Cyprus has been adversely affected by the global financial and economic crisis but to a much lesser extent than most countries in the Euro zone. In an effort to mitigate the adverse effects, the Government of Cyprus has early taken a series of economic and social measures in order to mitigate the effects of the crisis and boost the economy. The main macroeconomic indicators are presented in the Table below:

Table 1: Key Macroeconomic Indicators

% annual change	2008	2009 (est.)
GDP	3.7	-0.7
Unemployment Rate	4.0	5.5
HCPI	4.4	1.0
Fiscal Balance (% of GDP)	0.9	-2.9
Public Debt (% of GDP)	49.3	52.2
Current Account Balance (% of GDP)	-18.3	-9.0

The relative indicators of the labour market remain positive in general terms (participation rates, employment, unemployment, educational level and social cohesion indicators) in comparison to the corresponding indicators in the EU. However, the number of registered unemployed people had an upward trend in 2009, with the greatest increase observed in the sectors of tourism and constructions, demonstrating the adverse effects of global financial crisis on the domestic labour market. Rising unemployment of the newcomers, due to reduced employment opportunities, is also a source of great concern.

Productivity and competitiveness indicators, although they have improved in the last years, are still low. These indicators will be further improved through appropriate actions initiated and implemented under the Operational Programmes.

Expenditure on Research and Technological Development, as a percentage of the GDP, is also very low but increasing. Projects launched under the Operational Programme "Competitiveness and Sustainable Development" will contribute significantly to the increase of this percentage.

Despite the relative slowdown in 2009 (rate of growth reduced to -0,7% of the GDP against 3,7% in 2008), growth is expected to recover in 2012, starting with an expected positive but very low rate in 2010. However, unemployment rate is estimated to increase further in 2010.

C. Implementation of the NSRF

The period covered by this report relates mainly to the set up of the procedures and the selection of the projects to be implemented under the OPs, therefore there was no substantial physical progress in achieving the objectives of the NSRF. However, based on quantitative analysis of the indicators of the OPs that contribute to the objectives of the NSRF, up to 31 October 2009, there appears to be some progress in the achievement of specific strategic objectives of the

NSRF i.e. “Improving Competitiveness” and “Promoting Sustainable Development”. The implementation of several projects, which contribute to the achievement of the NSRF objectives, is already in progress.

The financial progress in the implementation of the NSRF is considered satisfactory. An amount of €258,7 mln., approximately 42% of the total EU funding, had already been committed by October 2009. At the same time, payment claims for 5,7% of the total funds have been sent to the EU.

With regards to the approved projects already implemented, it is mentioned that emphasis was given to the launching of state aid schemes in order to assist small and medium enterprises in improving their competitiveness and promoting women and youth entrepreneurship, all contributing to the promotion of the Revised Lisbon Strategy. At the same time, a significant number of research and technological development projects were approved, promoting the knowledge society and innovation. The signing of the Funding Agreement for the implementation of the JEREMIE initiative was also an important development and the first financial product is expected to be launched at the beginning of 2010. Finally, projects that support the employability of unemployed and economically inactive women were initiated, contributing, inter alia, to alleviate the effects of the global financial and economic crisis.

With regards to the implementation of the OPs and the commitment of funds to thematic priorities, there is a very high percentage of funds in the thematic priorities of Research and Technological Development, Innovation and Entrepreneurship, Transport, Urban and Rural Revitalization, Improvement of the Adaptability of Employees, Companies, Enterprises and Entrepreneurs as well as in the Implementation of Active and Proactive Labour Market Measures.

Also important, is the contribution of approved projects in the achieving the objectives of the Lisbon Strategy. In particular, the overall quantitative contribution of the OPs in implementing the objectives of the Lisbon Strategy is estimated to be around 60% of the funds. Based on commitments to already approved projects, this contribution has already reached 22%.

The competent authorities have taken all necessary measures in order to ensure timely implementation of the OPs and safeguard the quality and effectiveness of the implementation of the NSRF. Some delays observed in the selection of the projects, were result of the substantial time required for the preparation of the Management Information System, the strengthening of the administrative capacity of the beneficiaries and the level of maturity of some projects, were

directly addressed through the systematic and close monitoring of implementation by both the Intermediate Bodies and the Managing Authority.

The experience gained during the previous programming period 2004-2006 in implementing co-financed programmes, as well as the results of the relative evaluations undertaken, have both contributed to the better programming and coordination on behalf of the stakeholders involved, as well as to the improvement of the Management and Control System, in order to smoothly promote the implementation of the OPs.

D. Economic and Financial Crisis

In view of the global economic and financial crisis, specific measures were taken in response to the proposals provided within the European Economic Recovery Plan. In particular, the Government of Cyprus promoted a series of measures, in order to address the challenges from the crisis. Additionally, the Government has promoted targeted support measures for specific sectors/areas of the economy that have been mostly affected from the negative impacts of the crisis, such as the tourism and construction sectors, employment and social cohesion, as well as measures to support the financial sector.

More specifically, within the framework of the Structural Funds, the Managing Authority in co-operation with the Intermediate Bodies have taken a number of short- and medium-term measures for the maximum possible utilisation of the EU Structural and Cohesion Fund. For example, reference is made to the Special Incentive Plan for Employment of the Unemployed, under which a grant is provided to employers in order to hire unemployed people. The specific project is expected to help alleviate the effects of the crisis and boost employment.

The measures undertaken were divided into two categories. First, targeted measures were taken within the existing structure of the OPs, using the revised provisions of the Regulations on the Structural Funds and the Cohesion Fund. The second category concerns consultation and discussions made with all relevant stakeholders for the possible amendment of the OP. The possible amendment of the OPs was discussed with the European Commission in June 2009 and no final decision has been taken yet.

E. Conclusions

The current Report covers the first years of the implementation of the Operational Programmes. A considerable percentage of the period was needed for the setting up of the structures and procedures, in order to comply with the

EU Regulations. As a result during the reference period the main progress was in the approval of projects. The projects approved fully support the achievement of the objectives of the NSRF and are in coherence with the objective of the revised Lisbon Strategy.

The financial and economic crisis has had a slow down effect on the economy. In order to alleviate its effects on the sectors and target groups most severely affected, a number of measures are being implemented to speed up implementation and to design specific focused measures. Final decisions on the proposed amendment of the OPs will be taken in 2010.