

Contains sensitive information, not for further distribution

accurate and timely information on the beneficial ownership and control of legal persons and on the transparency of trusts. Trust and company service providers should also be subject to adequate AML/CTF requirements. Finally, supervision should be stepped up to ensure that the requirements with regard to beneficial ownership are effectively implemented, in particular for lawyers and accountants.]]

2. Fiscal policy

Objectives

Putting public finances on a sustainable path is of overriding importance in order to stabilise the economy and to restore the confidence of companies, citizens and foreign investors in the longer-term prospects of Cyprus as an economically-advanced and investor-friendly economy. In this context, the objectives are: (1) to continue the on-going process of fiscal consolidation, taking into account the worsened macro-economic conditions, in order to correct the excessive general government deficit as soon as possible; (2) to this end, to reduce the government deficit to at most [EUR 700] million (4% of GDP based on current projections) in 2012, at most [EUR 440] million ([2.5%] of GDP) in 2013 through high-quality permanent measures, in particular measures to reduce the growth in expenditure on social benefits and the public sector wage bill, while minimising the impact of consolidation on vulnerable groups; and (3) to maintain fiscal consolidation over the medium term, reaching 1.X% of GDP deficit in 2014, and a further consolidation in 2015 in the direction of [a balanced budgetary position], by containing expenditure growth, improving the structure of taxation and undertaking fiscal-structural measures (see section 3). Over the programme period, revenues above program projections, including any windfall gains, will be used to reduce debt.

Fiscal policy in 2012

2.1. The authorities commit to achieving a general government deficit of no more than EUR [700 million] in 2012 ([4%] of GDP). Over the remainder of the year, the authorities will rigorously implement the Budget Law for 2012 and additional permanent measures with an end-of-year effect of EUR 175 million (1% of GDP). These additional budgetary measures will be presented for Troika review before submission to the Parliament.

The consolidation package will notably include the following measures, which will be adopted [end-September 2012], prior to the granting of the first disbursement of financial assistance:

Expenditure measures (estimated yield in 2012 of EUR 136 million)

2.2. End the practice of COLA for the wider public sector (no additional yield in 2012 and 2013).

2.3. Extend the wage freeze in the broader public sector and temporary contribution on gross earnings by two additional years until 31 December 2015. (no additional yield in 2012 and 2013)

2.4. Freeze the filling of vacant posts in the broader public sector for two additional years until 31 December 2015 and introduce measures to increase the mobility of civil servants within and across line ministries (see section 3.11).

Contains sensitive information, not for further distribution

2.5. Abolish the 13th salary for broader public sector employees and state officials. (estimated yield 2012: at least EUR 120 million per year).

2.6. Reduce the 13th public pension allowance in the Government Employee Pension Scheme (GEPS) by 50% for pensioners receiving a monthly allowance of EUR 1000-1500 and by 75% for pensioners receiving a monthly allowance above EUR 1500. (estimated yield in 2012: at least EUR 14 million)

2.7. Introduce an immediate 6% penalty on voluntary early retirement in the GEPS; the penalty rate will be fixed permanently in an actuarially neutral way as part of a comprehensive pension reform plan. (estimated yield in 2012: below EUR 1 million)

2.8. Introduce a permanent contribution towards pension entitlements for all public sector employees, similar to the contribution introduced in the general government. (estimated yield in 2012: below EUR 1 million; 2013: EUR 3 million)

2.9. Extend the wage freeze and temporary contribution on gross earnings to cover all state officials and permanent secretaries (129 individuals), including members of the Parliament. Include pensionable and tax-free allowances of these individuals in the calculation of their taxable income. Introduce a contribution of 6.8% on pensionable earnings of these individuals. Tax the hospitality allowance provided to senior government officials. (estimated yield in 2012: EUR 1 million and at least EUR 3.5 million in 2013)

Revenue measures (estimated yield in 2012 of EUR 23 million)

2.10. Increase excise duties on alcoholic drinks. Introduce excise duties of EUR 47.10 per hl on still wine, EUR 50.80 per hl on sparkling wine, and EUR 36.06 per hl on fermented still and sparkling beverages other than wine and beer. Increase excise duties on beers by 10% from EUR 4.78 per hl to EUR 6.00 per hl. Increase excise duties on ethyl alcohol from EUR 598.01 to EUR 898.02 per hl. (estimated yield in 2012: at least EUR 4 million; in 2013: at least EUR 12 million)

2.11. Increase excise duties on tobacco products, in particular on fine-cut smoking tobacco, from EUR 60/kg to EUR 150/kg. Increase excise duties on cigarettes by EUR 0.40/per packet of 20 cigarettes. (estimated yield in 2012: at least EUR 9 million; in 2013: at least EUR 45 million)

2.12. Increase excise duties on energy, i.e. on oil products, by increasing tax rate on motor fuels (petrol and gasoline) by EUR 0.08. (estimated yield in 2012: EUR 8 million; 2013: EUR 30 million)

2.13. Introduce a mechanism for regular review of excise taxes to secure the real value of excise tax revenue. (yield in 2012 to be estimated, expected to be small)

2.14. Increase tax on wealth by increasing the tax rate on deemed dividend distribution from 20% to 21% and the tax rate on interest accrued on deposits of local banks from 0.095% to 0.11%. (estimated yield in 2012: at least EUR 2 million; 2013: at least EUR 10 million)

Fiscal policy in 2013

Contains sensitive information, not for further distribution

2.15. The authorities will achieve a general government deficit of no more than [EUR 440] million ([2.5%] of GDP) in 2013. Over 2013, the authorities will rigorously implement the Budget Law, which will include additional permanent measures of at least EUR 360 million (2.5% of GDP).

The 2013 Budget Law will be presented for Troika review before submission to the Parliament [and will be adopted ~~before the first disbursement of the financial assistance~~]. The budgetary target will be part of a Medium-Term Budgetary Framework, which lays down binding expenditure ceilings for the next three years (2013-2015) and which will be embedded into the Budget 2013.

2.16. The following measures will be carried out under the 2013 Budget Law [at the latest December 2012] and will apply from 1 January 2013, unless otherwise specified:

Expenditure measures (estimated yield in 2013: EUR 413 million)

2.17. Implement an additional reduction in the wages and salaries of the general government in 2013, which will ensure a total reduction of the general government wage bill of a cumulative 15% over 2012-13, including through the abolition of obsolete allowances provided to all public sector employees (authorities to specify). (estimated yield in 2013: EUR 166 million)

2.18. Ensure a reduction in total outlays for social transfers, other than those specified in points 2.19. and 2.20., by 10% through simplification, better targeting, eliminating redundant benefits and/or reducing the benefit level (authorities to specify). Abolish those measures approved by the Council of Ministers in 2007, which are not targeted or are covered by other existing schemes. (estimated yield in 2013: EUR 75 million)

2.19. Ensure a reduction in total outlays on the special dietary allowance, the Easter allowance and the Christmas allowance by at least EUR 15 million. Abolish the heating allowance, since all social welfare recipients benefit from a special scheme subsidizing the cost of electricity. (estimated yield in 2013: EUR 20 million)

2.20. Consolidate housing-related schemes by bringing total expenditure back to 2008 levels [i.e. EUR 217 million] in the 2013 budget and to 2007 levels [i.e. EUR 150 million] in the 2014 budget, while ensuring the protection of those at highest risk of poverty. Provide a legal basis to use current income of assisted households rather than income at the time of application, for the calculation of recurrent housing assistance and abolish housing assistance to households exceeding certain income thresholds by Q4-2012. Streamline housing assistance schemes, including their administrative management, in the context of a wider reform of the social protection system Q4-2013. (estimated yield in 2013 and 2014: EUR 70 million)

2.21. Reduce transfers from central government to state-owned enterprises and semi-public institutions. Apply the same wage policy described in 2.4. and 2.17. in the broader public sector as in the general government. (estimated yield in 2013: EUR 45 million)

2.22. [Take further steps to control the growth of health expenditure, yielding annual savings of EUR 25 million (section 3.2).]

2.23. Ensure a reduction of the number of public sector staff over the period of 2013-2015 by an additional 250 per year (i.e. 1250 each year in total). Define a precise plan, including a

Contains sensitive information, not for further distribution

time schedule for recruiting one employee for every four retirements. (yield in 2013 to be estimated)

2.24. Reform the shift-work system and reduce overtime remunerations in the broader public sector by 20% in 2013 and by additional 10% in 2014. In addition, the amount of overtime paid will not increase in 2015. (estimated yield in 2013: EUR 17 million; in 2014: EUR 7 million)

Revenue measures (estimated yield in 2013: EUR 36 million)

2.25. Increase the statutory VAT rate from 17% to 18%. (estimated yield in 2013: EUR 50 million)

2.26. [Increase revenue by EUR 10 million through an increase in the annual road tax for large and luxury personal vehicles and utility cars.]

2.27. Increase the revenues from fees for public services, including education, to yield around EUR 30 million. The fees will be linked to associated costs and will cover at least 20% of these costs.

2.28. Ensure additional revenue from property taxation of at least EUR 20 million. Ensure technical implementation of the area-based tax base valuation system to achieve full coverage of the cadastre. Implement recurrent property tax based on the new tax base. In this context, implement differentiated treatment of primary and secondary residences. (estimated yield in 2013: at least EUR 20 million)

2.29. Introduce a standstill rule for all tax expenditure, blocking the creation of new items of tax expenditure and the enlargement of existing items. The rule will apply to all kinds of tax expenditure, of a temporary or permanent nature, at the central and local levels.

Fiscal policy in 2014-2015

2.30. The authorities will achieve a general government deficit of no more than EUR XXX million in 2014 (1.X% of GDP) and a [close to] balanced budget in 2015. The 2014 and 2015 Budget Law measures will be presented for Troika review before submission to the Parliament.

3. Fiscal-structural measures

Objectives

Cyprus enjoyed above euro-area average growth rates for more than a decade and in parallel expanded its public sector employment, support and services considerably. Looking ahead, if the public sector is to provide appropriate support for the sustainable and balanced growth of the Cypriot economy, fiscal-structural reform steps are needed to ensure the long-term sustainability of public finances, to provide the fiscal space necessary to support the diversification of the economy, and to alleviate the adverse impact on jobs and growth arising from Cyprus's exposure to external shocks. In this context, the objectives are: (1) to improve the efficiency of public spending and the budgetary process by means of an effective Medium-Term Budgetary Framework (MTBF) that is fully compliant with the Directive on requirements for budgetary frameworks and the Treaty on Stability, Coordination and

Contains sensitive information, not for further distribution

Governance (TSCG); (2) implement further reforms of the pension system to address the high projected increase in pension spending; (3) take further steps to control the growth of health expenditure; (4) enhance tax revenues by improving tax compliance and collection; (5) undertake reforms of the public administration to improve its functioning and cost-effectiveness, notably by reviewing the size, employment conditions and functional organisation of public services; (6) undertake reforms of the overall benefit structure with the aim of producing an efficient use of resources and ensuring an appropriate balance between welfare assistance and incentives to take up work; and (7) elaborate a programme for improving the efficiency of state-owned and semi-public enterprises and initiate a privatisation programme.

Pension reform

3.1. While reform measures have been undertaken recently, the implementation of further reforms of the pension system to address the high projected increase in pension spending is necessary in order to put the pension system on a sustainable path. The following measures will be taken to reduce the increase in pension spending and to ensure the viability of the pension system, while addressing the imbalances in and reducing the government contribution to the pension system.

In view of this, the authorities have agreed to implement the following measures by 31 March 2013:

- reform the Government Employee Pension Scheme (GEPS) so that the parameters are the same as for the General Social Insurance Scheme (GSIS), allowing for a phase-in period of no more than five years to avoid abrupt changes in pension entitlements; and
- adjust the penalties for voluntary early retirement cases in the GEPS and the GSIS (reduction of pension entitlements). The penalties should be actuarially neutral: i.e. the reduction in pension benefits should at least counterbalance the increase in expenditure due to a longer pay-out period and the loss in revenue due to a shorter contribution period.

In addition, the following measures will form part of a comprehensive reform, which should be adopted by 31 March 2013 and implemented at the latest from January 2014 onwards:

- for the GEPS and the GSIS, devise and implement an automatic mechanism linking the establishment of the statutory retirement age and the contributory period for a full pension to changes in life-expectancy at the statutory retirement age;
- for the GEPS and the GSIS, extend the minimum contributory period from the current 10 years to at least 15 years;
- streamline the number of combinable pension benefits available and introduce a cap on the total monthly amount of pension benefits that can be received; in particular no public sector employee should receive more than one pension from government pension scheme.
- dissolve/reform the Social Security Fund (GSIS reserve fund), as it currently represents an implicit state contribution to the pension system;

Contains sensitive information, not for further distribution

- proportionately reduce or tax public sector pension levels that exceed the average wage level.; and
- conduct an actuarial study within six months of the start of the programme to provide additional reform options to ensure the financial viability of the national pension system. The actuarial study should project the scheme's finances on a cash basis. Given the financial sustainability focus, the study should exclude any form of government contribution (i.e. the additional contribution currently at around 4 percent and the interest on bonds of the reserve fund) with the exception of the normal payment of pension contributions on behalf of its employees. The study should analyse the impact of additional reform options, if needed, such as benefit reductions, an increase in the statutory retirement age and increases in contribution rate increases or combinations thereof. Preference will be given to the first two options, given the negative impact of contribution rate increases on labour costs.

Health care expenditure

3.2. The authorities will come forward with concrete proposals to exert stronger control over the growth of public healthcare expenditure. The following steps will be considered and presented for Troika review before their implementation [Q1-2013]:

- introduce a co-payment system for medical services and pharmaceuticals;
- review the rules for prescription of drugs and complementary diagnostic exams on the basis of international prescription guidelines and encourage physicians at all levels to prescribe generic medicines;
- strengthen the monitoring mechanism and auditing of public healthcare expenditure, of all public hospitals and clinics, allocate budgets to individual public hospitals and clinics and strengthen commitment control procedures;
- introduce a coherent regulatory framework for pricing and reimbursement of goods and services based on the actual level of costs incurred;
- revisit the functioning of the procurement system of medicine from wholesale companies on the basis of experience of other Member States in order to facilitate the availability of less expensive pharmaceuticals;
- conduct health technology assessments to enable a change in the delivery of healthcare, making it more effective and cost-efficient; and
- adopt and implement a restructuring plan for public hospitals and clinics to ensure a proper balance across management, administrative and clinical staff and efficient operational management, including by steps to strengthen staff mobility.

Budgetary framework

3.3. The authorities will:

- embed into the Budget 2013 law a Medium-Term Budgetary Framework, designed in accordance with EU specifications for MTBFs, which lays down binding expenditure

Contains sensitive information, not for further distribution

ceilings for the next three years (2013-2015) [~~before the first disbursement of the financial assistance~~];

- adopt a law transposing Council Directive 2011/85/EU on requirements for budgetary frameworks, and provisions pertaining to the fiscal compact of the Treaty on Stability, Coordination and Governance (TSCG) in accordance with Article 3(2) of the TSCG and on the basis of the Common Principles for national fiscal correction mechanisms laid down in Commission Communication COM(2012)342 [Q4-2012];
- provide for the establishment of a Fiscal Council with a statutory regime, functions, nomination procedures of its governing body and funding arrangements grounded in primary legislation in line with international best practices [Q4-2012];
- complete the adoption of the essential provisions referred to above with implementing texts [Q1-2013];
- [Q3-2013]; and
- ensure a consistent approach in internal auditing throughout general government by preparing common methodological guidelines compatible with international standards [Q4-2013].

Public debt management

3.4. To support the development of an appropriate framework for the management of sovereign debt, including a more prudent and independent debt management strategy building on the issuance of long- maturity instruments and fully assessing the financial risk contained in granting government guarantees, the authorities will adopt and implement a Public Debt Management Law, the draft of which was submitted to the Parliament in May 2012 [Q4-2012].

Public Private Partnerships

3.5. The authorities will:

- carry out a review of major PPPs as regards: the financial risks and liabilities falling on the public budget; their contribution to the public budget (revenue streams); the effectiveness of attracting private capital and expertise; the efficiency and quality of the required service provision, including possible over-provision of both quantity and quality of the services in question; and their impact on market functioning. An interim report on this review will be delivered by Q1-2013 for review and approval by the Troika. The final report will be delivered by Q3-2013, for the purpose of review and approval by the Troika. In subsequent years, reporting on PPPs should take place in context of the annual budgetary procedure;
- based on the conclusions of the review, put in place a strengthened legal and institutional framework for PPPs, including ex-ante assessment and monitoring of the financial and fiscal risks of engaging in PPPs and concessions as compared to other public investments. A proposal for such a strengthened legal and institutional framework for PPPs should be drafted by Q1-2014; and

Contains sensitive information, not for further distribution

- commit to not engage in any new PPP agreements before the approval of the interim report and

State-Owned Enterprises and Privatization

3.6. As regards State-Owned Enterprises (SOEs) and other state-owned assets, the authorities will:

- establish an inventory of assets, including real estate, owned by central government, municipalities and regional administrations, which to be prepared in view of possible divestments or restructurings. To this end, the inventory will indicate which State-Owned Enterprises could be subject to divestment, which could be subject to restructuring and which could be considered for liquidation [Q3-2013];
- reduce the operational costs of SOEs by at least 15% on average compared with 2010, to be implemented in the 2014 budget, including proposing company-specific cuts that are consistent with a realistic economic and financial assessment [Q4-2013];
- prepare a plan to strengthen the governance of SOEs in accordance with international best practices and draft a report reviewing the operations and finances of SOEs. The report will assess these companies' business prospects, the potential exposure of the government to the SOEs and the scope for orderly privatisation. The authorities will adopt the necessary legal changes to fulfil this requirement. No additional SOEs will be created until this review is completed [Q3-2013]; and
- and submit to the Parliament a draft law to regulate the creation and the functioning of SOEs at the central and local levels and enhance the monitoring powers of the central administration, including reporting on SOE's in context of the annual budgetary procedure. [Q3-2013].

3.7. The authorities will initiate a privatisation programme. This should consider privatisation prospects of major state-owned and semi-public companies, inter alia Cyprus Airways and Cyprus Telecommunications Authority, as well as smaller firms and other companies, which are not natural monopolies. The privatization programme should be determined on the basis of the inventory of assets noted above - to be achieved by the end of the programme. To this end, the following measure will be taken:

- A concrete privatisation roadmap, including company-specific timetables, will be prepared by [Q4-2012].

Revenue administration and tax compliance

3.8. The authorities will propose a comprehensive reform plan to improve the effectiveness and efficiency of tax collection and administration. The reform plan will consider: [Q4-2012]

- adopting legislation to attribute personal responsibility for payment of company taxes to those, who truly and effectively control a company, and to levy a personal fine on them in case of non-payment;

Contains sensitive information, not for further distribution

- adopting legislation that would prohibit alienation of any property held by the taxpayer, should the testator not pay or not guarantee payment of all tax obligations, including tax on capital gains arising from alienation/sale of the last property;
- adopting legal changes that would limit the possibility for companies to carry forward losses in order to offset corporate company tax payments;
- encouraging mobility of staff between different tax administration entities in order to ensure appropriate staffing of entities with high revenue collection capacities;
- improving transparency regarding the performance of tax administration entities, namely via publication of the tax gap for main revenue categories (the difference between the tax that should be paid and the amount actually collected) and establishing clear performance objectives, as well as revenue collection results, for each tax administration entity;
- rationalise the tax administration, e.g. by creating a specialised office for high net worth tax payers, streamlining the coordination between Customs & Excise and VAT services and centralising and merging tax offices.

3.9. The authorities will as part of its comprehensive reform plan prepare a report on how to optimise the use of information systems in the tax administration and proposing concrete steps [Q4-2012]. The report will include:

- a proposal for improving IT systems in order to ensure the compatibility/integration between revenue administration and tax courts, as well as the interconnection of all tax offices;
- concrete measures to further enhance the use of e-filing of tax returns and e-payment, namely through an assessment of the feasibility of discontinuing of payments in cash and cheques in tax offices, which should be replaced by bank transfers; and
- a proposal for improving the exchange of information between relevant authorities for tax collection purposes, taking into account privacy concerns.

3.10. Following diagnostic technical assistance, the authorities will engage in the following reforms [Q4 2013]:

- take measures to increase tax compliance, aimed at reducing informal activities and reducing the administrative burden on businesses. The aim is to achieve voluntary compliance insofar as possible, with a proper balance between taxpayer services and enforcement; and
- step up administrative tax fraud investigations and enhance the cooperation between the tax and judicial systems, while addressing potential bottlenecks in the tax appeal system, e.g. through the strengthening of arbitration procedures.

Public administration reform

3.11. The public sector represents a large share of public expenditures in Cyprus. To ensure an efficient use of government resources, while delivering a quality service to the population; the authorities will undertake the following reform measures [Q4-2012]:

Contains sensitive information, not for further distribution

- remove all impediments to staff mobility (including permanent movement of staff) within the general government sector;
- revise working time arrangements so as to minimize the need to resort to overtime payments and shift allowances;
- streamline allowances; and
- implement a performance-based appraisal system and link to it the salary adjustment of staff.

In addition, the authorities will commission an independent external review of possible further reforms of the public administration. The terms of reference will be agreed with the programme partners in Q3 2012.

The review will cover the following areas:

- the appropriate size of the public sector to provide an efficient administration using the full potential of e-government;
- the appropriate remuneration and working conditions in relation to the private sector;
- the potential for development of part time work;
- the potential for streamlining staff categories; and
- the appropriateness of the public sector pay and working conditions for semi-governmental organisations.

The review will be published in Q1-2013. The authorities will discuss the main findings of the independent review with the programme partners and present a time-bound comprehensive action plan to follow up on its recommendations [Q2-2013]. The authorities will adopt a reform of the public administration based on the findings of the review and submit it to the Parliament for approval [Q3-2013] in sufficient time for the reform to take full effect as of the 2014 budget implementation.

Administration of the welfare system

3.12. The welfare system in Cyprus encompasses a broad range of individual benefits provided by different Ministries and Departments. To ensure efficient use of public funds within the welfare system, while at the same time ensuring an appropriate balance between welfare assistance and incentives to take up work, the authorities will carry out a reform of the welfare system. The reform will build on a full inventory of all social transfer programmes in cash and in kind to be delivered by [Q3-2012].

The reform will cover the following elements:

- introduce better targeting of various social transfers, so as to reduce the total number of beneficiaries while protecting the most vulnerable;

Contains sensitive information, not for further distribution

- streamline the number of benefits available through merging and phasing out of benefits;
- introduce a cap on the total amount provided to beneficiaries of multiple social benefits;
- reconsider the appropriate levels of individual benefits and the index for adjustment of benefit levels; and
- tighten the eligibility conditions for both initial and continued access to benefits.

The reforms must be consistent with the fiscal targets defined in this MoU. The authorities will discuss the proposed reforms with the programme partners and will present draft legislation to reform the welfare system by [Q1-2013].

4. Labour market

Objectives

While Cyprus' labour market was characterised by high employment rates and low unemployment in the years leading up to the crisis, the unwinding of unsustainable imbalances and worsening of macroeconomic conditions and prospects have resulted in rapidly rising unemployment and important labour market challenges over the medium-term. Labour market reforms can mitigate the impact of the crisis on employment, limit the occurrence of long-term and youth unemployment, facilitate occupational mobility and contribute to improving the future resilience of the Cypriot economy in the face of adverse economic shocks. In this context, the objectives are: (1) to implement a reform of the system of wage indexation commensurate with ensuring a sustainable improvement in the competitiveness of the economy and allowing wage formation to better reflect productivity developments; (2) to prepare and implement a comprehensive reform of public assistance in order to achieve an appropriate balance between public assistance and incentives to take up work, target income support to the most vulnerable, strengthen activation policies and contain the public finance impact of rising unemployment; and (3) to help attenuate adverse competitiveness and employment effects by linking any change in the minimum wage to economic conditions.

Cost of living adjustment (COLA) of wages and salaries

4.1. The authorities will reform the wage-setting framework in such a way so as to improve real wage adjustment, with the aim of preserving employment in the presence of adverse shocks and avoiding losses in competitiveness both in expansions and recessions. To this end, the authorities will:

- end the practice of wage and salary indexation (COLA) in the wider public sector; and
- pursue the termination of the practice of wage indexation in the private sector in a tripartite agreement with social partners [Q4-2012]. The agreement will act on relevant elements of the indexation system. Within the framework of this agreement, the COLA should not be applied during the programme period.

Contains sensitive information, not for further distribution

Minimum wage

4.2. With a view to preventing possible adverse competitiveness and employment effects, the authorities commit that, over the programme period, any change in the minimum wage which covers specific professions and categories of workers will take place only if justified by economic and labour market developments and after consultation of the programme partners.

Public assistance reform and activation of the unemployed

4.3. The increase in unemployment underlines the need for an overall assessment of available instruments for income support (after expiration of unemployment insurance benefits) and activation policies. The planned reform of public assistance should be effective in safeguarding incentives to take up work. Therefore, the authorities will:

- commission an independent review on existing institutions and instruments to provide income support after the expiration of unemployment insurance benefits and activate the unemployed, with a view to improving work incentives and activation. In particular, the review will cover the cooperation between the public employment service and the benefit-paying institutions in the activation of the unemployed. The terms of reference for the review will be submitted to programme partners by Q3-2012. The review will be completed by Q4-2012. [The delivery of the review will be accompanied by an assessment by the authorities of the need and possibilities for re-directing the European Social Fund finances towards the objectives outlined in the review.];
- present an action plan on activation policies; and
- consider the effect on work incentives when presenting legislation to reform public assistance. Programme partners will be consulted on the draft legislation before its adoption by the Council of Ministers [Q4-2012].

5. Goods and services markets

Objectives

Addressing issues of a structural nature is critical for rebalancing the Cypriot economy, restoring its growth potential and improving competitiveness. Removing unjustified obstacles in services markets can have a significant impact on growth, in particular for the services-intensive Cypriot economy. In addition, improving the quality and reducing the cost of regulated professional services can play an important role for the business environment and for Cyprus' competitive position. Since tourism is one of Cyprus' largest sectors and an important potential driver of future growth, a reinvigoration of the competitiveness of this sector is warranted. Finally, improving the regulation of administration related to the real estate sector will contribute to the overall functioning of the housing market and foster foreign demand at a time when the prospects of this sector are severely affected by downside risks.

Product market efficiency

Contains sensitive information, not for further distribution

5.1. The authorities will implement measures with a view to improving competition in the non-tradable sector. This can be achieved by, inter alia, reducing unwarranted rents in regulated sectors, promoting greater efficiency in the telecommunication sector through a reduction of costs, market-oriented pricing in the energy sector, reducing costs for licences in the transport sector, and abolishing fees for transfer of licenses in the retail trade sector. The authorities will take measures to improve competition in quasi-monopolistic wholesale markets and in the construction sector (Q4-2012).

Services Directive: Sector-specific legislation

5.2. The authorities will adopt the remaining necessary amendments to the sector-specific legislation in order to fully implement the Services Directive, easing the requirements related to entry and establishment. In addition, requirements concerning minimum tariffs should be eliminated unless they have a clearly defined economic justification. Amendments will be presented to the Parliament [Q4-2012] and minimum tariff requirements without justification will be abolished by [Q1-2013].

Services Directive: Regulated professions

5.3. The authorities will:

- eliminate restrictions to the use of commercial communication (advertising) in regulated professions, as required by the Services Directive [Q4-2012]; and
- further improve the functioning of the regulated professions sector (such as lawyers, engineers, architects) by carrying out a comprehensive review of requirements affecting the exercise of activity and eliminating those that are not justified or proportional [Q1-2013].

Housing market and immovable property regulation

5.4. To ensure market clearing of the property market, allow for efficient seizure of property collateral, and for market-based assessment of property prices, as well as alleviating the factors deterring both domestic and foreign demand, in particular the risks of legal disputes that may arise from incomplete documentation of ownership and property rights, the authorities will implement the following measures:

- strengthen existent enforcement procedures and, if necessary, plan for additional legal measures to ensure the issuance of the remaining outstanding Title Deeds by Q4-2013;
- provide a monthly review of the town-planning amnesty, and plan for additional incentives to reduce the majority of pending building permit certificates that are required for the issuance of title deeds by Q3-2012;
- implement consolidated electronic access to the registries of title deeds, mortgages, sales contracts and cadastre by Q3-2013. Report on a possible legal basis and regulation to produce a unified land registry (of immovable property sales contracts, title deeds, and mortgages) and a registry of indefeasible property rights [Q4-2012]; and

Contains sensitive information, not for further distribution

- fully implement Directive 52/2008 EC on mediation in civil and commercial matters and extend the coverage of the directive implementation to out-of-court settlement of domestic disputes.

Tourism

5.5. Tourism is an important export sector and is of great importance to domestic value added and employment. During recent years, tourism has experienced a gradual erosion of both price and non-price competitiveness mainly due to high labour costs as a result of out-dated terms and conditions of the Collective Agreement for hotel employees and the COLA, high electricity/energy costs, high tariffs applied for the central sewage system and water supplies, high cost of food and other hotel supplies, more difficult access to bank financing, excessive red-tape in the granting of necessary licences and permits, as well as restrictive provisions of the bilateral air-service agreements. To reinvigorate the competitiveness of the tourism sector, the authorities will:

- support efforts to review and amend the terms and conditions of the Collective Agreement for hotel employees to further lower hiring and employment costs, as well as the abolition of the application of COLA for tourism sector employees [Q2-2013];
- following an effectiveness-of-spending review to be undertaken by end of 2012, assess if the proposed budget of the Cyprus Tourism Organization for 2013-2015 is adequate to implement the planned measures/actions of the Tourism Strategy 2011-2015; additional allocations, if deemed appropriate, will be agreed with the programme partners;
- in view of cost competitiveness considerations, support a comprehensive review of the electricity, central sewage and water supply tariffs charged to hotels, with the aim of streamlining the respective tariffs with those charged to households [Q2-2013]; and
- carry out a study on how to improve the tourism sector business model, in particular, with a view to lengthening the tourist season, promoting resident tourism during winter time and defining niches such as medical tourism [Q4-2012].