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2021/0090 (NLE)

Proposal for a

COUNCIL IMPLEMENTING DECISION

amending Implementing Decision (EU) 2020/1344 granting temporary support pursuant to Regulation (EU) 2020/672 to the Republic of Cyprus to mitigate unemployment risks in the emergency following the COVID-19 outbreak

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

Council Regulation (EU) 2020/672 (“SURE Regulation”) lays down the legal framework for providing Union financial assistance to Member States, which are experiencing, or are seriously threatened with, a severe economic disturbance caused by the COVID-19 outbreak. Support under SURE serves for the financing, primarily, of short-time work schemes or similar measures aimed at protecting employees and the self-employed and thus reducing the incidence of unemployment and loss of income, as well as for the financing, as an ancillary, of some health-related measures, in particular in the workplace.

On 25 September 2020 the Council granted financial assistance to Cyprus with a view to complementing its national efforts to address the impact of the COVID-19 outbreak and respond to the socioeconomic consequences of the outbreak for workers and the self-employed.

On 10 March 2021, Cyprus made a new request for Union financial assistance under the SURE Regulation.

In accordance with Article 6(2) of the SURE Regulation, the Commission has consulted the Cypriot authorities to verify the sudden and severe increase in actual and planned expenditure directly related to Cyprus’ labour market measures and health-related measures and caused by the COVID-19 pandemic. In particular, the increased expenditure for which additional financial assistance is requested pertains to existing measures referred to in Council Implementing Decision (EU) 2020/1344:

- (a) the special leave scheme, which provides wage compensation to parents working in the private sector who have children up to the age of 15 or children with disabilities of any age. The measure, initially in force for the period February 2020 to June 2020, was extended from January 2021 to May 2021;
- (b) the scheme supporting companies for total suspension of operations, which provides wage compensation to up to 97% of the employees of the businesses forced to suspend their operations, conditional on employment retention. The compensation covers 60% of the employee's salary or 60% of the employee's social insurance units earned in 2018 (2019 for the period from July 2020 to August 2020), whichever is the greater. The compensation ranges between a maximum of EUR 1 214 and a minimum of EUR 360 per month. The measure, initially in force for the period March 2020 to August 2020 was extended from September 2020 to May 2021;
- (c) the scheme supporting companies for partial suspension of operations, which provides wage compensation to the employees of businesses experiencing a decline in turnover due to the pandemic, conditional on employment retention. The compensation covers 60% of the employee's salary or 60% of the employee's social insurance units earned in 2018, whichever is the greater. The compensation ranges between a maximum of EUR 1 214 and a minimum of EUR 360 per month. The measure, initially in force for the period March 2020 to June 2020, was extended from January 2021 to May 2021;
- (d) the ‘special scheme for self-employed’, which provides compensation to self-employed persons who cannot exercise any activity according to the decree of the Minister of Health and/or a decision of the Council of Ministers. The measure,

initially in force for the period March 2020 to June 2020, was extended from July 2020 to May 2021;

- (e) the ‘special scheme for hotel units and tourist accommodation’, which provides wage compensation to support employees in the hotel industry and other businesses providing tourist accommodation whose employer has fully suspended their operations or experienced a decline in turnover of more than 40%. Participation in the scheme is conditional on employment retention. The measure, initially in force for the period June 2020 to October 2020, was extended from November 2020 to May 2021;
- (f) the ‘special scheme to support businesses related to the tourism industry or affected by tourism or associated with businesses that are subject to mandatory total suspension’, which provides wage compensation to the employees in those businesses that have fully suspended their operations or experienced a decline in turnover of more than 40%, as opposed to 55% in the original scheme, conditional on employment retention. The measure, initially in force for the period June 2020 to August 2020, was extended and amended from September 2020 to May 2021;
- (g) the subsidisation scheme for very small and small enterprises and self-employed who employ up to 50 employees, which provides a lump sum grant to support operating expenses of small businesses and the self-employed. The amounts of the lump-sum grants have been reviewed for various categories of businesses based on the number of employees. In addition, grants have been agreed for businesses, which suspended their operations since March 2020 with an amount of EUR 10 000 for up to 9 employees and EUR 15 000 for more than 9 employees. The measure, initially in force for the period April 2020 to May 2020, was extended and amended for November 2020;
- (h) the ‘sickness benefit scheme’, which provides wage compensation to employees of the private sector and self-employed, on the condition that they are either classified as vulnerable individuals according to a list published by the Ministry of Health, placed in quarantine by the Authorities, or infected by Covid-19. The measure, initially in force for the period March 2020 to June 2020, was extended from November 2020 to May 2021;

Cyprus provided the Commission with the relevant information.

Taking into account the available evidence, the Commission proposes to the Council to adopt an Implementing Decision to grant financial assistance to Cyprus under the SURE Regulation in support of the measures above.

Health-related measures, as requested by Cyprus on 10 March 2021, amount to EUR 440 000.

- **Consistency with existing policy provisions in the policy area**

The present proposal is fully consistent with Council Regulation (EU) 2020/672, under which the proposal is made.

The present proposal comes in addition to another Union law instrument to provide support to Member States in case of emergencies, namely Council Regulation (EC) No 2012/2002 of 11 November 2002 establishing the European Union Solidarity Fund (EUSF) (“Regulation (EC) No 2012/2002”). Regulation (EU) 2020/461 of the European Parliament and of the Council, which amends that instrument to extend its scope to cover major public health emergencies and to define specific operations eligible for financing, was adopted on 30 March.

- **Consistency with other Union policies**

The proposal is part of a range of measures developed in response to the current COVID-19 pandemic such as the “Coronavirus Response Investment Initiative”, and it complements other instruments that support employment such as the European Social Fund and the European Fund for Strategic Investments (EFSI)/InvestEU. By making use of borrowing and lending in this particular case of the COVID-19 outbreak for supporting Member States, this proposal acts as a second line of defence to finance short-time work schemes and similar measures, helping protect jobs and thus employees and self-employed against the risk of unemployment.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

The legal basis for this instrument is Council Regulation (EU) 2020/672.

- **Subsidiarity (for non-exclusive competence)**

The proposal follows a Member State request and shows European solidarity by providing Union financial assistance in the form of temporary loans to a Member State affected by the COVID-19 outbreak. As a second line of defence, such financial assistance supports the government’s increased public expenditure on a temporary basis in respect of short-time work schemes and similar measures to help them protect jobs and thus employees and self-employed against the risk of unemployment and loss of income.

Such support will help the population affected and helps to mitigate the direct societal and economic impact caused by the present COVID-19 crisis.

- **Proportionality**

The proposal respects the proportionality principle. It does not go beyond what is necessary to achieve the objectives sought by the instrument.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Stakeholder consultations**

Due to the urgency to prepare the proposal so that it can be adopted in a timely manner by the Council, a stakeholder consultation could not be carried out.

- **Impact assessment**

Due to the urgent nature of the proposal, no impact assessment was carried out.

4. BUDGETARY IMPLICATIONS

The Commission should be able to contract borrowings on the financial markets with the purpose of on-lending them to the Member State requesting financial assistance under the SURE instrument.

In addition to the provision of Member State guarantees, other safeguards are built into the framework in order to ensure the financial solidity of the scheme:

- A rigorous and conservative approach to financial management;

- A construction of the portfolio of loans that limits concentration risk, annual exposure and excessive exposure to individual Member States whilst ensuring sufficient resources could be granted to Member States most in need; and
- Possibilities to roll over debt.

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak¹, and in particular Article 6(1) thereof,

Having regard to the proposal from the European Commission,

Whereas:

- (1) On 25 September 2020, the Council granted financial assistance to Cyprus taking the form of a loan amounting to a maximum of EUR 479 070 000. with a maximum average maturity of 15 years, following the Cyprus' request of 6 August 2020, with a view to complementing its national efforts to address the impact of the COVID-19 outbreak and respond to the socio-economic consequences of the outbreak for workers and the self-employed.
- (2) The loan was to finance the short-time work schemes, similar measures and health-related measures adopted by Cyprus, as referred to in Council Implementing Decision (EU) 2020/1344².
- (3) The COVID-19 outbreak continues to immobilise a substantial part of the labour force in Cyprus. This has led to a still sudden and severe increase in public expenditure by Cyprus in respect of the measures referred to in Article 3(a) (b) (c) (d) (e) (g) (h) of Implementing Decision (EU) 2020/1344.
- (4) The COVID-19 outbreak and the extraordinary measures implemented by Cyprus in 2020 and 2021 to contain the outbreak and its socio-economic and health-related impact had and still have a dramatic impact on public finances. According to the Commission's 2020 autumn forecast, Cyprus was expected to have a general government deficit and debt of 6.1% and 112.6% of gross domestic product (GDP) respectively by the end of 2020. In 2021, Cyprus' general government deficit and debt are forecast to narrow to 2.3% and 108.2% of GDP respectively. According to the Commission's 2021 winter interim forecast, Cyprus' GDP is projected to increase by 3.2% in 2021.

¹ OJ L 159, 20.5.2020, p. 1.

² Council Implementing Decision (EU) 2020/1344 of 25 September 2020 on granting temporary support under Regulation (EU) 2020/672 to the Republic of Cyprus to mitigate unemployment risks in the emergency following the COVID-19 outbreak, OJ L 314, 29.9.2020, p. 13–16.

- (5) On 10 March 2021, Cyprus requested further financial assistance from the Union in an amount of EUR 124 700 000 with a view to continue complementing its national efforts undertaken in 2020 and 2021 to address the impact of the COVID-19 outbreak and respond to the socioeconomic consequences of the outbreak for workers and the self-employed. In particular it concerns the measures set out in recitals 6 to 13.
- (6) Law 27(I)/2020³, and Laws 49(I)/2020⁴, 140(I)/2020⁵, have been the basis for the introduction of a number of monthly Regulatory Administrative Acts⁶, outlining measures to address the impact of the COVID-19 outbreak. On the basis of these laws, the authorities have introduced a “special leave scheme”, as referred to in Article 3(a) of Implementing Decision (EU) 2020/1344, which provides wage compensation to parents working in the private sector who have children up to the age of 15 or children of any age with disabilities. That special leave scheme can be considered to be a similar measure to short-time work schemes, as referred to in Regulation (EU) 2020/672, as it provides income support to employees and helps preserve employment by preventing parents, who have to look after their children while schools are closed, from needing to terminate the employment relationship. The measure was initially in force for the period February 2020 to June 2020 and was subsequently extended to cover the period from January 2021 to May 2021.
- (7) Furthermore, Law 27(I)/2020 and Laws 49(I)/2020, 140(I)/2020, and a number of monthly Regulatory Administrative Acts⁷ have been the basis for a “scheme supporting companies that have had to completely suspend operations”, as referred to in Article 3(b) of Implementing Decision (EU) 2020/1344. It provides wage compensation to 97 % of the employees of the businesses forced to suspend their operations, conditional on employment retention. The compensation covers 60 % of the employee’s salary or 60 % of the employee’s social insurance units earned in 2018 (2019 for the period 7/2020-8/2020), whichever is the greater. The compensation ranges between a maximum of EUR 1 214 and a minimum of EUR 360 per month. The measure was initially in force for the period March 2020 to August 2020 and was subsequently extended to cover the period from September 2020 to May 2021.
- (8) Moreover, Law 27(I)/2020 and Laws 49(I)/2020, 140(I)/2020, and a number of monthly Regulatory Administrative Acts⁸ have been the basis for the ‘scheme supporting companies for partial suspension of operations’, as referred to in Article 3(b) of Implementing Decision (EU) 2020/1344. It provides wage compensation to the employees of businesses experiencing a decline in turnover due to the pandemic, conditional on employment retention. The compensation covers 60% of the employee’s salary or 60 % of the employee’s social insurance units earned in 2018, whichever is the greater. The compensation ranges between a maximum of EUR 1 214 and a minimum of EUR 360 per month. The measure was initially in force for the period March 2020 to June 2020 and was subsequently extended to cover the period from January 2021 to May 2021.

³ E.E., Παρ.Ι(Ι), Αρ.4748, 27/3/2020

⁴ E.E., Παρ.Ι(Ι), Αρ.4756, 26/5/2020

⁵ E.E., Παρ.Ι(Ι), Αρ.4780, 12/10/2020

⁶ Regulatory Administrative Acts 127/148/151/184/192/212/213/235/2020, and extended with Regulatory Administrative Acts 20/88/2021.

⁷ Regulatory Administrative Acts 130/148/151/187/212/213/238/243/271/273/2020, and extended with Regulatory Administrative Acts 319/395/421/501/536/634/2020 and 15/83/2021.

⁸ Regulatory Administrative Acts 131/148/151/188/212/213/239/2020, and extended with Regulatory Administrative Acts 16/84/2021.

- (9) Law 27(I)/2020 and Laws 49(I)/2020, 140(I)/2020, and a number of Regulatory Administrative Acts⁹ have been the basis for the ‘special scheme for the self-employed’, as referred to in Article 3(c) of Implementing Decision (EU) 2020/1344. It provides compensation to the self-employed who cannot exercise any activity according to the decree of the Minister of Health or a decision of the Council of Ministers. The measure was initially in force for the period March 2020 to June 2020 and was subsequently extended to cover the period from July 2020 to May 2021.
- (10) Law 27(I)/2020 and Laws 49(I)/2020, 140(I)/2020, and a number of Regulatory Administrative Acts¹⁰ have been the basis for the ‘special scheme for hotel units and tourist accommodation’, as referred to in Article 3(d) of Implementing Decision (EU) 2020/1344. It provides wage compensation to support employees in the hotel industry and other businesses providing tourist accommodation whose employer has fully suspended operations or experienced a decline in turnover of more than 40 %. Participation in the scheme is conditional on employment retention. The measure was initially in force for the period June 2020 to October 2020 and was subsequently extended to cover the period from November 2020 to May 2021.
- (11) Law 27(I)/2020 and Laws 49(I)/2020, 140(I)/2020, and a number of Regulatory Administrative Acts¹¹ have been the basis for the ‘special scheme to support businesses related to the tourism industry or affected by tourism or associated with businesses that are subject to mandatory total suspension’, as referred to in Article 3(e) of Implementing Decision (EU) 2020/1344. It provides wage compensation to the employees in the hotel industry and other businesses providing tourist accommodation that have fully suspended operations or experienced a decline in turnover of more than 40% as opposed to 55% in the original scheme, conditional on employment retention. The measure was initially in force for the period June 2020 to August 2020 and was extended and amended to cover the period from September 2020 to May 2021.
- (12) Moreover, the ‘subsidation scheme’ set by ‘Supplementary budget, Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak’, as referred to in Article 3(g) of Implementing Decision (EU) 2020/1344, introduced subsidies for very small and small enterprises and the self-employed who employ up to 50 employees. Only the part of expenditure related to the support of the self-employed and one-person companies has been requested. Those subsidies provide a lump sum grant to support operating expenses of small businesses and the self-employed. The amounts of the lump-sum grants have been reviewed for various categories of businesses based on the number of employees. In addition, grants have been agreed for businesses, which suspended their operations since March 2020 with an amount of EUR 10 000 for up to 9 employees and EUR 15 000 for more than 9 employees. The subsidisation scheme can be considered to be a similar measure to short-time work schemes, as referred to in Regulation (EU) 2020/672, as it aims at protecting the self-employed or similar categories of workers from reduction or loss of income. The measure was initially in force for the period April 2020 to May 2020 and was extended and amended for November 2020.

⁹ Regulatory Administrative Acts 129/148/151/186/213/237/322/2020, and extended with Regulatory Administrative Acts 398/423/503/538/636/2020 and 18/86/2021.

¹⁰ Regulatory Administrative Acts 269/317/2020, and extended with Regulatory Administrative Acts 393/418/498/533/631/2020 and 13/81/2021.

¹¹ Regulatory Administrative Acts 270/318/2020, and extended with Regulatory Administrative Acts 394/419/499/534/632/2020 and 14/82/2021.

- (13) Cyprus also further extended a health-related measure to address the COVID-19 outbreak provided for by Law 27(I)/2020, Laws 49(I)/2020, 140(I)/2020, and by Regulatory Administrative Acts¹². In particular, the ‘sickness benefit scheme’, as referred to in Article 3(h) of Implementing Decision (EU) 2020/1344, provides wage compensation to employees of the private sector and to the self-employed, on the condition that they are either classified as vulnerable individuals according to a list published by the Ministry of Health, placed in quarantine by the Authorities, or infected by COVID-19. The measure was initially in force for the period March 2020 to June 2020 and was extended to cover the period from November 2020 to May 2021.
- (14) Cyprus fulfils the conditions for requesting financial assistance set out in Article 3 of Regulation (EU) 2020/672. Cyprus has provided the Commission with appropriate evidence that the actual and planned public expenditure has increased by EUR 742 040 000 as of 1 February 2020 due to the national measures taken to address the socio-economic effects of the COVID-19 outbreak. This constitutes a sudden and severe increase because it is related also to an extension of existing national measures directly related to short-time work scheme and similar measures that cover a significant proportion of undertakings and of the labour force in Cyprus. Cyprus intends to finance EUR 138 270 000 of the increased amount of expenditure through Union funds.
- (15) The Commission has consulted Cyprus and verified the sudden and severe increase in the actual and planned public expenditure directly related to short-time work schemes and similar measures, as well as the recourse to relevant health-related measures related to the COVID-19 outbreak, referred to in the request of 10 March 2021, in accordance with Article 6 of Regulation (EU) 2020/672.
- (16) The health-related measure, as requested by Cyprus on 10 March 2021 and referred to in recital 13, amounts to EUR 440 000.
- (17) Financial assistance should therefore be provided with a view to helping Cyprus to address the socio-economic effects of the severe economic disturbance caused by the COVID-19 outbreak. The Commission should take the decisions concerning maturities, size and release of instalments and tranches in close cooperation with national authorities
- (18) Cyprus and the Commission should take this Decision into account in the loan agreement referred to in Article 8(2) of Regulation (EU) 2020/672.
- (19) This Decision should be without prejudice to the outcome of any procedures relating to distortions of the operation of the internal market that may be undertaken, in particular pursuant to Articles 107 and 108 of the Treaty. It does not override the requirement for Member States to notify instances of potential State aid to the Commission under Article 108 of the Treaty.
- (20) Cyprus should inform the Commission on a regular basis of the implementation of the planned public expenditure, in order to enable the Commission to assess the extent to which Cyprus has implemented that expenditure.
- (21) The decision to provide financial assistance has been reached taking into account existing and expected needs of Cyprus, as well as requests for financial assistance

¹² Regulatory Administrative Acts 128/148/151/185/212/236/2020, and extended with Regulatory Administrative Acts 637/2020 and 19/87/2021.

pursuant to Regulation (EU) 2020/672 already submitted or planned to be submitted by other Member States, while applying the principles of equal treatment, solidarity, proportionality and transparency,

HAS ADOPTED THIS DECISION:

Article 1

Implementing Decision (EU) 2020/1344 is amended as follows:

(1) Article 2 is amended as follows:

(a) paragraph 1 is replaced by the following:

‘1. The Union shall make available to Cyprus a loan amounting to a maximum of EUR 603 770 000. The loan shall have a maximum average maturity of 15 years.’;

(b) paragraph 4 is replaced by the following:

‘4. The first instalment shall be released subject to the entry into force of the loan agreement provided for in Article 8(2) of Regulation (EU) 2020/672. Any further instalments shall be released in accordance with the terms of such loan agreement or, where relevant, be subject to the entry into force of an addendum to the latter, or an amended loan agreement concluded between Cyprus and the Commission.’;

(2) Article 3 is replaced by the following:

‘Article 3

Cyprus may finance the following measures:

- (a) the special leave scheme for parents, as provided for by ‘Law 27(I)/2020’ and by ‘Regulatory Administrative Acts 127/148/151/184/192/212/213/235/2020’, as extended;
- (b) the schemes supporting companies for the total suspension of operations, as provided for by ‘Law 27(I)/2020’ and by ‘Regulatory Administrative Acts, 130/148/151/187/212/213/238/243/271/273/ 2020’, as extended;
- (c) the schemes supporting companies for the partial suspension of operations, as provided for by ‘Law 27(I)/2020’ and by ‘Regulatory Administrative Acts, 131/148/151/188/212/213/239/2020’, as extended;
- (d) the special scheme for the self-employed, as provided for by ‘Law 27(I)/2020’ and by ‘Regulatory Administrative Acts 129/148/151/186/213/237/322/2020’, as extended;
- (e) the special scheme for hotel units and tourist accommodation, as provided for by ‘Law 27(I)/2020’ and by ‘Regulatory Administrative Acts 269/317/2020’, as extended;
- (f) the special scheme to support businesses related to the tourism industry or affected by tourism or associated with businesses that are subject to mandatory total suspension, as provided for by ‘Law 27(I)/2020’ and by ‘Regulatory Administrative Acts 270/318/2020’, as extended and amended;

- (g) the special scheme for supporting businesses exercising special predefined activities, as provided for by ‘Law 27(I)/2020’ and by ‘Regulatory Administrative Acts 272/320/396/420/500/535/633/2020’;
- (h) the subsidisation scheme of very small and small enterprises and the self-employed, as provided for in ‘Supplementary budget, Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak’, for the part of expenditure related to the support of the self-employed and one-person companies, as extended and amended;
- (i) the sickness benefit scheme, as provided for by ‘Law 27(I)/2020’ and by ‘Regulatory Administrative Acts 128/148/151/185/212/236/2020’, as extended;

(3) Article 4 is replaced by the following:

‘Article 4

1. Cyprus shall inform the Commission by 30 March 2021, and every six months thereafter of the implementation of the planned public expenditure until that planned public expenditure has been fully implemented.
2. Where measures referred to in Article 3 are based on planned public expenditure and have been subject to an Implementing Decision amending Implementing Decision (EU) 2020/1344 Cyprus shall inform the Commission within 6 months after the date of adoption of that decision, and every 6 months thereafter of the implementation of the planned public expenditure until that planned public expenditure has been fully implemented.’.

Article 2

This Decision is addressed to the Republic of Cyprus.

Done at Brussels,

*For the Council
The President*