

# Report on the Impact Assessment of the Recovery and Resilience Plan of Cyprus

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## ABSTRACT

Under the Recovery and Resilience Plan (RRP), Cyprus is expected to draw significant funds totalling around 1.2 billion euro in the period 2021-2026. The economic impact assessment of the Cypriot RRP has provided estimates of the Plan's macroeconomic impact in the short, medium and long term. The analysis adopts several complementary methods and techniques – a Production Function approach, econometric models, and an Input-Output framework – to obtain multiple perspectives on the potential impacts.

Our Production Function (PF) approach evaluates the effects of RRP measures across all time horizons and accounts for reforms and it is therefore considered the primary method for this impact analysis. Results show that the RRP can increase the GDP of Cyprus by about 3% in the short-term and by around 7% in the medium-term), compared to the baseline development of the economy without the RRP. Reforms, among others, of public and local administration, the judicial, and the labour market would significantly affect productivity and GDP growth, in the medium-term and especially in the long-term. In the short-term, GDP growth is mainly induced directly by RRP investments and to a lesser extent by an increase in productivity and by additional employment stimulated by the Plan. In the medium-term, the effect of productivity becomes stronger due to the full implementation of reforms. In particular, the contribution of productivity to GDP and employment rises from 10.6% and 13.2% in the short-term and 23.5% and 29.3% in the medium-term. The Plan also increases employment by more than 2.5%, or by around 11,000 new jobs during the period 2021-2026, which can significantly reduce the unemployment rate in Cyprus.

The positive effects of the RRP are projected to be largely maintained in the long-term. GDP levels are expected to be 16.5% higher 20 years ahead (i.e. in 2041) compared to a scenario without RRP implementation. This is mainly due to the lasting contribution of productivity (reforms), if all reforms foreseen in the RRP are realized. Reforms account for around 60% and 75% of GDP and employment increase, respectively relative to the baseline scenario.

The results of the econometric analysis are broadly in line with the above findings and show that the maximum effect of the RRP on the growth rates of GDP and employment is realized in 2025-2026, which coincides with the end of the period of implementation of the RRP. Finally, the Input-Output analysis offer insights into the sectors of the economy that will be most significantly affected and assessed the broader welfare impacts of the Plan's green economy measures of the RRP due to environmental co-benefits.

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