

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: NON OECD** Local currency - Euro (EUR)

#### POPULATION AND GEOGRAPHY\*

AREA: **9 250 / 5 695** km<sup>2</sup>

POPULATION: **1.153 / 0.853** million inhabitants (2014), an increase of 1.05%/ 0.69% per year (2010-14)

DENSITY: **124 / 150** inhabitants/km<sup>2</sup>

URBAN POPULATION: **67%** of national population

CAPITAL CITY: **Nicosia / Lefkosia**  
(22% / 30% of national population)

Sources: Eurostat, OECD, World Bank, UNDP, ILO

\*Note: Throughout this document, where only one figure or statistic is presented this does not include the northern part of the island unless otherwise provided. Where two figures appear (e.g. 'XX / YY'), the first figure refers to the whole island, while the second does not include the northern part thereof.

#### ECONOMIC DATA

GDP: **25.8** billion (current PPP international dollars)

REAL GDP GROWTH: **-2.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **16.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **861.1** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **11.5%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.850** (high), rank **32**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>526 / 380</b> 39 / 30 MUNICIPALITIES (DEMOS) AND 487 / 350 COMMUNITIES (KOINOTITES) AVERAGE MUNICIPAL SIZE: 2 190 / 2 245 INHABITANTS	-	-	<b>526 / 380</b>

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The principle of local autonomy is recognised in the Constitution ratified in 1960 (Articles 173 to 178). Cyprus has a single tier local government system, comprising two categories of local government: municipalities (over 5 000 inhabitants) and communities in rural areas (less than 5 000 inhabitants). In the Northern part of the island there are 9 municipalities and 137 communities. In the rest of the island, there are 30 municipalities (created under the 1985 Municipal Act of the Republic of Cyprus) and 350 communities (governed by the Communities Act of 1999). The latter can become a municipality by local referendum and approval of the Council of Ministers if its population is greater than 5 000 inhabitants, or if it has sufficient economic resources to carry out municipal functions. For administrative purposes, Cyprus is also divided into 6 districts (*eparchies*) which are part of the Ministry of Interior. A local government reform began in 2010. A set of three bills was presented by the government in July 2015 to be approved by the Parliament in spring 2016. The reform aims at clustering some municipal services on a district level in order to cut administrative costs. It also includes a reform of local wages.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Competencies differ for communities and municipalities, the latter having more functions. Communities are responsible for waste disposal, water supply and public health. Municipalities are also responsible for these competencies, plus social services and building permits. Larger municipalities are also responsible for the provision of planning permission. As communities have limited functions, a large proportion of services in rural areas are carried out by district offices, on behalf of communities.

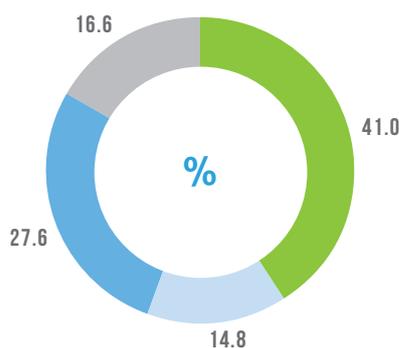
### SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	1.5%	3.7%	100%
CURRENT EXPENDITURE	1.2%	-	78.0%
STAFF EXPENDITURE	0.7%	5.1%	47.6%
INVESTMENT	0.3%	33.1%	22.0%

Cyprus ranks among the EU countries in which the weight of SNG spending in GDP and public expenditure is the lowest (second to Malta). SNGs have very few spending responsibilities, which is also reflected in the low level of spending in total staff spending. However, staff expenditure represents almost half of SNG expenditure, well above the EU average of 34%. Investment also amounts to a relatively large share of SNG spending (above the EU average of 10%) but remains very limited as a percentage of GDP and public investment (well below the EU average).

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The largest shares of expenditure are allocated to general public services, followed by housing and community amenities (urban lighting, water supply), recreation and culture as well as environmental protection (waste, municipal gardens and parks, sewerage, etc.). Responsibility for water can fall to water boards and sewerage boards, especially in large cities.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	1.7%	4.6%	100%
TAX REVENUE	0.6%	2.4%	33.6%
GRANTS AND SUBSIDIES	0.7%	-	38.9%
OTHER REVENUES	0.5%	-	27.5%

The different sources of revenue are quite balanced between taxation, grants and subsidies and other types of revenue.

**TAX REVENUE.** All tax revenue is own-source taxes coming from three main taxes: property tax, municipal professional tax, hotel accommodation tax and entertainment tax. Property tax, which represented 55% of local tax revenue in 2013, is calculated based on the market value of immovable property on 1 January 1980, progressive tax rates ranging from 0.6% to 1.9% depending on the value category. Professional tax, introduced in 1985, is levied on companies based on the turnover, share capital and number of employees. An important tax reform has been announced which would have an impact on local taxation.

**GRANTS AND SUBSIDIES.** A general grant is proposed annually by the Council of Ministers and approved by the House of Representatives. One-third of the overall grant is divided equally among the 30 Municipalities and the remaining two-thirds are distributed according to the number of voters. In addition, the government contributes special grants for development projects, approved on a project-by-project basis, according to the project and the financial situation of the council.

**OTHER REVENUES.** User charges and fees account for a large share of SNG revenue, well above the EU average (16%). A large part comes from duties, permits, licences and other royalties. Other municipal revenues include fees for refuse collection, fines, fees for water supply services, charges for the provision of various municipal services, rents, etc.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	1.6%	1.6%

According to the Municipal Act, municipalities can borrow to fund capital expenditure and debt refinancing (golden rule). Municipal loans have to be approved by the Council of Ministers. Community loans must be approved by the district officer. An umbrella legislation, known as the *Fiscal Responsibility and Budget System Law (FRBSL)*, passed in February 2014. It will have an impact on municipalities, in particular on reporting requirements, when relevant provisions are extended to local authorities (2016). In addition, the FRBSL mandates the Council of Ministers, through the *Fiscal Strategy Statement*, to establish any rules for debt and the balancing of local government budgets. It also contains new measures related to local government oversight and control.

A joint- study of:



Sources: Eurostat (Government Finance Statistics) • Local Government Reform in Cyprus: Final Options Report (2014) • Union of Cyprus municipalities, <http://www.ucm.org.cy/> • Commonwealth Local Government Forum, [http://www.clgf.org.uk/default/assets/File/Country\\_profiles/Cyprus.pdf](http://www.clgf.org.uk/default/assets/File/Country_profiles/Cyprus.pdf) • Dexia (2008) Subnational governments in the EU: organisation, responsibilities and finance.