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Recommendation for a

COUNCIL DECISION

abrogating Decision 2010/401/EU on the existence of an excessive deficit in Cyprus

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) On 13 July 2010 following a recommendation from the Commission, the Council decided, by Decision 2010/401/EU[1] in accordance with Article 126(6) of the Treaty that an excessive deficit existed in Cyprus. The Council noted that according to data notified by the Cypriot Authorities in April 2010, the general government deficit in Cyprus reached 6.1% of GDP in 2009, thus exceeding the 3% of GDP Treaty reference value. The general government gross debt was planned to reach 62% of GDP in 2010, thus above the 60%-of-GDP Treaty reference value.

(2) On the same date, in accordance with Article 126(7) of the Treaty and Article 3(4) of Council Regulation (EC) No 1467/97, the Council, based on a recommendation from the Commission, addressed a recommendation to Cyprus with a view to bringing an end to the situation of an excessive government deficit by 2012 at the latest. That Council recommendation was made public.

(3) On 27 January 2011, the Commission concluded that, on the basis of information available at the time, Cyprus had taken action representing adequate progress towards the correction of the excessive deficit within the time limits set by the Council. On 11 January 2012, the Commission again confirmed that Cyprus had taken effective action towards a timely and sustainable correction of the excessive deficit.

(4) The Cypriot authorities requested financial assistance from the European Union, the Member States whose currency is the euro and the International Monetary Fund (IMF) with a view to supporting the return of Cyprus' economy to sustainable growth. On 25 April 2013, the Council addressed a decision to Cyprus on specific measures to restore financial stability and sustainable growth[2]. In parallel, the European Stability Mechanism (ESM) granted a financial assistance facility to Cyprus. In this context, a Memorandum of Understanding on Specific Economic Policy Conditionality (the "Memorandum of Understanding") was signed on 26 April 2013 by the Cypriot authorities and the Commission, acting on behalf of the ESM.

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1 Council Decision 2010/401/EU of 13 July 2010 on the existence of an excessive deficit in Cyprus (OJ L 186, 20.7.2010, p. 30).

2 Council Decision 2013/236/EU of 25 April 2013 addressed to Cyprus on specific measures to restore financial stability and sustainable growth (OJ L 141, 28.5.2013, p. 32).

(5) On 16 May 2013, in accordance with Article 3(5) of Council Regulation (EC) No 1467/97, the Council concluded that effective action had been taken but that unexpected adverse economic events with major unfavourable consequences for government finances had occurred after the adoption of the recommendation in 2010. Therefore, the Council, following a recommendation from the Commission, considered that the conditions envisaged in Article 3(5) of Regulation (EC) No 1467/97 were fulfilled and issued a revised recommendation to Cyprus under Article 126(7) TFEU, with a view to bringing the excessive deficit situation to an end by 2016.

(6) On 6 September 2013, the Commission concluded that Cyprus had taken effective action towards correcting the excessive deficit by 2016 as recommended by the Council on 16 May 2013.

(7) In line with Article 10(2), letter (a), of Regulation (EU) No 472/2013, Cyprus was exempted from a separate reporting under the excessive deficit procedure and reported in the framework of its macroeconomic adjustment programme.

(8) In March 2016, Cyprus exited its three-year macroeconomic adjustment programme which included the implementation of an ambitious reform agenda and contributed to ensuring financial stability, improving public finances and restoring sustainable economic growth.

(9) In accordance with Article 4 of the Protocol on the excessive deficit procedure annexed to the Treaties, the Commission provides the data for the implementation of the procedure. As part of the application of this Protocol, Member States are to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 3 of Council Regulation (EC) No 479/2009[3].

(10) The Council should take a decision to abrogate a decision on the existence of an excessive deficit on the basis of notified data. Moreover, a decision on the existence of an excessive deficit should be abrogated only if the Commission forecasts indicate that the deficit will not exceed the 3% of GDP Treaty reference value over the forecast horizon[4].

(11) Based on data provided by the Commission (Eurostat) in accordance with Article 14 of Regulation (EC) No 479/2009, following the April 2016 notification by Cyprus, the 2016 Stability Programme and the Commission 2016 spring forecast, the following conclusions are justified:

- In 2015, the general government deficit amounted to 1.0% of GDP, bringing the deficit below the 3% of GDP reference value of the Treaty one year ahead of the deadline set by the Council. This improvement was driven by fiscal consolidation efforts and the fading-out of the one-off impact of financial sector stabilisation measures on the deficit of 2014.
- The 2016 Stability Programme, submitted by the Cypriot government on 13 May 2016, plans a general government deficit of 0.4% of GDP in 2016 and of 0.5% of GDP in 2017. The Commission 2016 spring forecast projects a

[3] Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (OJ L 145, 10.6.2009, p. 1).

[4] In line with the "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes" of 3 September 2012. See: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

headline balance of -0.4% of GDP in 2016, and of 0% of GDP in 2017 under unchanged policies. Thus, the deficit is set to remain below the Treaty reference value of 3% of GDP over the forecast horizon.

– The Commission estimates the structural balance, which is the general government balance adjusted for the economic cycle and net of one-off and other temporary measures, to have improved by 6.6% of GDP over the period 2013-2015.

– The general government gross debt-to-GDP ratio increased to 108.9% in 2015 from 102.5% in 2013 on account of the public support granted to the financial sector and contraction of the nominal GDP. The Commission 2016 spring forecast projects the general government gross debt to remain stable in 2016 and to decrease to 105.4% of GDP in 2017 mainly due to increase in nominal GDP.

(12) As from 2016, the year following the correction of the excessive deficit, Cyprus will be subject to the preventive arm of the Stability and Growth Pact and should ensure compliance with its medium-term objective, the expenditure benchmark and make sufficient progress towards compliance with the debt criterion in accordance with Article 2(1a) of Regulation (EC) No 1467/97 of July 1997. In this context, it appears that Cyprus is expected to be compliant with its medium term objective in 2016 while some deviation is projected in 2017. Cyprus' structural balance is projected to deteriorate more than what is allowed under the transitional debt rule. Further measures will be needed in 2017.

(13) In accordance with Article 126(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

(14) In the view of the Council, the excessive deficit in Cyprus has been corrected and Decision 2010/401/EU should therefore be abrogated,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in Cyprus has been corrected.

Article 2

Decision 2010/401/EU is hereby abrogated.

Article 3

This Decision is addressed to the Republic of Cyprus.

Done at Brussels,

For the Council
The President