

COUNCIL DECISION
of 13 July 2010
on the existence of an excessive deficit in Cyprus
(2010/401/EU)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(6) in conjunction with Article 126(13) and Article 136 thereof,

Having regard to the proposal from the European Commission,

Having regard to the observations made by Cyprus,

Whereas:

- (1) According to Article 126(1) of the Treaty Member States shall avoid excessive government deficits.
- (2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.
- (3) The excessive deficit procedure (EDP) under Article 126 of the Treaty, as clarified by Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure⁽¹⁾ (which is part of the Stability and Growth Pact), provides for a decision on the existence of an excessive deficit. The Protocol on the excessive deficit procedure annexed to the Treaty sets out further provisions relating to the implementation of the EDP. Council Regulation (EC) No 479/2009⁽²⁾ lays down detailed rules and definitions for the application of the provision of the said Protocol.
- (4) The 2005 reform of the Stability and Growth Pact sought to strengthen its effectiveness and economic

underpinnings as well as to safeguard the sustainability of the public finances in the long run. It aimed at ensuring that, in particular, the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.

- (5) Article 126(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. Having taken into account its report in accordance with Article 126(3) and having regard to the opinion of the Economic and Financial Committee in accordance with Article 126(4), the Commission concluded that an excessive deficit exists in Cyprus. The Commission therefore addressed such an opinion to the Council in respect of Cyprus on 15 June 2010⁽³⁾.
- (6) Article 126(6) of the Treaty states that the Council should consider any observations which the Member State concerned may wish to make before deciding, after an overall assessment, whether an excessive deficit exists. In the case of Cyprus, this overall assessment leads to the following conclusions.
- (7) 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 reference value. The deficit was not close to the 3 % of GDP reference value, but the excess over the reference value can be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. In particular, it results from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact. According to the Commission services' 2010 spring forecast, real GDP in Cyprus is projected to shrink further, although to a lesser extent, by almost ½ % in 2010 compared with 1¾ % in 2009. However, the planned excess over the reference value cannot be considered temporary. According to the Commission services' spring 2010 forecast, the budgetary deficit would reach about 7¾ % of GDP in 2011 on a no-policy-change basis. The deficit criterion in the Treaty is not fulfilled.

⁽¹⁾ OJ L 209, 2.8.1997, p. 6.
⁽²⁾ OJ L 145, 10.6.2009, p. 1.

⁽³⁾ All EDP-related documents for Cyprus can be found at the following website: http://ec.europa.eu/economy_finance/sgp/deficit/countries/index_en.htm

(8) According to data notified by the Cypriot authorities in April 2010, the general government gross debt remains below the 60 % of GDP reference value and stood at 56,2 % of GDP in 2009. For 2010, Cyprus notified a planned debt of 62 % of GDP, thus exceeding the 60 % of GDP Treaty reference value. The Commission services' spring 2010 forecast projects debt to rise further to 62,3 % of GDP in 2010 and 67,6 % in 2011 on the back of a deteriorated primary balance. In view of these trends, the debt ratio cannot be considered as diminishing sufficiently and approaching the reference value at a satisfactory pace within the meaning of the Treaty and the Stability and Growth Pact. The debt criterion in the Treaty is not fulfilled.

(9) According to Article 2(4) of Regulation (EC) No 1467/97, 'relevant factors' can only be taken into account in the steps leading to the Council decision on the existence of an excessive deficit in accordance with Article 126(6) if the double condition — that the deficit remains close to the reference value and that its excess over the reference value is temporary — is fully met. In the case of Cyprus, this double condition is not met.

Therefore, relevant factors are not taken into account in the steps leading to this Decision,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that an excessive deficit exists in Cyprus.

Article 2

This Decision is addressed to the Republic of Cyprus.

Done at Brussels, 13 July 2010.

For the Council

The President

D. REYNERS