



**COUNCIL OF
THE EUROPEAN UNION**

**Brussels, 5 January 2005
(OR. en)**

15117/04

**ECOFIN 395
UEM 176**

LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject : Council Recommendation with a view to bringing an end to the situation of an excessive government deficit in Cyprus

COUNCIL RECOMMENDATION

of 5 July 2004

with a view to bringing an end to the situation of an excessive
government deficit in Cyprus

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(7)
thereof,

Having regard to the Recommendation from the Commission,

Whereas:

- (1) According to Article 104 of the Treaty, Member States are to 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 Council decided on 5 July 2004, in accordance with Article 104(6), that an excessive deficit exists in Cyprus.
- (4) Having decided on the existence of an excessive deficit in Cyprus, the Council, in accordance with Article 104(7) of the Treaty and Article 3 of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure¹, is required to make at the same time recommendations to the Member State concerned with a view to bringing that situation to an end within a given period.
- (5) According to Article 3(4) of Council Regulation (EC) No 1467/97, this Recommendation should specify that effective action is to be taken by the Member State concerned within four months at most and that the correction of the excessive deficit should be completed in the year following its identification unless there are special circumstances.

¹ OJ L 209, 2.8.1997, p. 6.

- (6) It is appropriate to consider the convergence programme submitted by Cyprus in May 2004 and the Council Opinion thereon as providing the adjustment path for the correction of the excessive deficit. The convergence programme of May 2004 plans to complete the correction of the excessive deficit by 2005, with the following annual targets for the general government deficit: 5,2% of GDP in 2004 and 2,9% of GDP in 2005. In addition, the programme expects the debt ratio, which reached 72,6% in 2003, to rise further above the 60% of GDP Treaty reference value in 2004 (to 75,2%) but to decline thereafter to 68,4% in 2007. The adjustment path is based on a macro-economic scenario which, according to the Council Opinion of 5 July 2004 on the convergence programme, is plausible.
- (7) In the view of the Council, budgetary consolidation measures should secure a lasting improvement in the general government balance, while being geared towards enhancing the quality of the public finances and reinforcing the growth potential of the economy,

HEREBY RECOMMENDS:

- the Cypriot authorities to put an end to the present excessive deficit situation as rapidly as possible,
- the Cypriot authorities to implement with vigour the measures envisaged in the May 2004 convergence programme; in particular, to take effective action by 5 November 2004 in order to achieve their objective of bringing the deficit below 3% of GDP in 2005 in a credible and sustainable manner, as specified in the Council Opinion of 5 July 2004 on the convergence programme submitted in May 2004,

- the Cypriot authorities to ensure that the rise in the debt ratio is brought to a halt in 2004 and reversed thereafter as specified in the Council Opinion on the convergence programme.

In addition, the Council invites the Cypriot authorities to ensure that budgetary consolidation towards the medium term budgetary position of close to balance or in surplus is sustained after the excessive deficit has been corrected.

This Recommendation is addressed to the Republic of Cyprus.

Done at Brussels, 5 July 2004.

For the Council
The President
