

VALDIS DOMBROVSKIS
Vice-President of the European Commission

PIERRE MOSCOVICI
Member of the European Commission

Brussels, 25th October 2016

Dear Minister,

Thank you for the submission of Cyprus' Draft Budgetary Plan (DBP) for 2017, which we received on 18 October.

A preliminary assessment of the DBP suggests that Cyprus plans to depart significantly from its medium term objective (MTO) of a balanced budget in structural terms in 2017. The structural balance is expected to deteriorate by 1.9 pp of GDP compared to 2016. The recalculated structural position is expected to deteriorate from a surplus of 1.5% of GDP in 2015 to a deficit of -0.1% of GDP in 2016 and further to -2.0% of GDP in 2017. While it is true that the output gap estimates derived from the commonly agreed methodology are subject to uncertainty in the case of Cyprus, there seems to be a number of measures that lead to a significant relaxation of the fiscal stance.

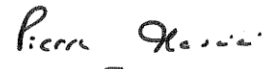
In line with the provisions of Article 7 of Regulation (EU) No. 473/2013 of 21 May 2013, we are writing to consult you on the reasons why Cyprus plans a change in the structural balance in 2017 which is well below the requirements of the preventive arm of the Stability and Growth Pact.

The Commission seeks to continue a constructive dialogue with Cyprus in order to come to a final assessment. We would welcome your views by 27 October 2016, close of business, to allow the Commission to take these into account in its further analysis. Our services stand ready to assist you in this process.

Yours sincerely,



Valdis Dombrovskis



Pierre Moscovici

Mr Haris GEORGIADES
Minister of Finance
Ex-Secretariat Compound
CY-1439 NICOSIA