

II

(Acts whose publication is not obligatory)

COUNCIL

COUNCIL DECISION

of 11 July 2006

abrogating Decision 2005/184/EC on the existence of an excessive deficit in Cyprus

(2006/627/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) By Decision 2005/184/EC⁽¹⁾, following a recommendation from the Commission in accordance with Article 104(6) of the Treaty, it was decided that an excessive deficit existed in Cyprus.

(2) In accordance with Article 104(7) of the Treaty and Article 3(4) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure⁽²⁾, the Council made a recommendation on 5 July 2004 addressed to Cyprus with a view to bringing the excessive deficit situation to an end by 2005 at the latest. The recommendation was made public. Specifically, it was recommended that the measures envisaged in the May 2004 convergence programme be implemented with vigour; in particular, that effective action be taken by 5 November 2004 in order to bring the deficit below 3% of GDP in 2005 in a credible and sustainable manner. The Council also recommended ensuring that the rise in the debt ratio

be brought to a halt in 2004 and reversed thereafter. The Council invited the Cypriot authorities to ensure that budgetary consolidation towards the medium-term objective (MTO) be sustained after the excessive deficit has been corrected.

(3) In accordance with Article 104(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.

(4) In accordance with the Protocol on the excessive deficit procedure annexed to the Treaty, the Commission provides the data for the implementation of the procedure. As part of the application of that Protocol, Member States are to provide 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 4 of Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community⁽³⁾.

(5) Based on data provided by the Commission (Eurostat) in accordance with Article 8g of Regulation (EC) No 3605/93 following the notification by Cyprus before 1 April 2006 and on the Commission services' Spring 2006 forecast, the following conclusions are warranted:

⁽¹⁾ OJ L 62, 9.3.2005, p. 19.

⁽²⁾ OJ L 209, 2.8.1997, p. 6. Regulation as last amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5).

⁽³⁾ OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

— the general government deficit was reduced from 4,1 % of GDP in 2004 to 2,4 % of GDP in 2005, which is below the 3 % of GDP deficit reference value. This compares with a target of 2,9 % of GDP set in the May 2004 update of the convergence programme and with the 2,5 % target of the latest Convergence Programme update of December 2005. The reduction below the reference value in 2005 is in line with the recommendation under Article 104(7) of the Treaty. Fiscal adjustment was pursued in 2005 through both revenue increases and expenditure restraint. Although some one-off measures helped reduce the deficit, the budgetary consolidation in Cyprus was achieved mainly through structural measures. The structural deficit (the cyclically adjusted deficit net of one-off and other temporary measures) fell to 3 % of GDP, compared to almost 5 % and 8 % of GDP in 2004 and 2003 respectively,

— for 2006, the Commission services' spring 2006 forecast projects the deficit to be reduced further, to 2,25 % of GDP, largely through measures of a structural nature. This is slightly above the official deficit target of 1,9 % of GDP set in the December 2005 update of the convergence programme. For 2007, the spring forecast projects, on a no-policy-change basis, a further decline in the deficit to 2 % of GDP. This suggests that the deficit has been brought below the 3 % of GDP ceiling in a credible and sustainable manner, as required by the recommendation under Article 104(7),

— Government debt declined from 71,75 % of GDP in 2004 to 70,25 % in 2005. According to the Commission services' spring 2006 forecast, the debt ratio is projected to fall further to around 69 % and 68 % of GDP in 2006 and 2007 respectively. The pace of debt reduction towards the 60 % of GDP reference value is in line with the recommendation under Article 104(7).

(6) According to the Council opinion of 14 March 2006 on the updated convergence programme of Cyprus, 2005 to

2009, the measures planned by the Cypriot authorities over the programme period would bring the structural deficit to about 0,5 % of GDP by 2009, which is considered the medium-term objective chosen by the Cypriot authorities. Based on the estimated outturn for 2005 and taking account of the balance of risks to the budgetary targets, the budgetary stance in the programme seems sufficient to ensure that the programme's MTO is almost reached by 2009, as envisaged in the programme. In the years following the correction of the excessive deficit, the pace of adjustment towards the programme's MTO implied by the programme is broadly in line with the Stability and Growth Pact.

(7) Decision 2005/184/EC 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 2005/184/EC is hereby abrogated.

Article 3

This Decision is addressed to the Republic of Cyprus.

Done at Brussels, 11 July 2006.

For the Council
The President
E. HEINÄLUOMA