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VICE-PRESIDENT OF THE
EUROPEAN COMMISSION

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Brussels, 11 November 2011

Dear Minister Kazamias,

Dear Kikis,

On the occasion of yesterday's publication of the Commission services' autumn forecast, I would like to recall the Council recommendations addressed to Cyprus under the Stability and Growth Pact.

The Council Recommendation of 13 July 2010 under Article 126(7) of the Treaty set 2012 as the time limit for Cyprus to correct the excessive deficit. Specifically, to this end, the Cypriot authorities should define an expenditure-driven consolidation strategy, ensuring an average annual fiscal effort of 1½ % of GDP over the period 2011-2012, which would bring the deficit below 3% of GDP by 2012 in a credible and sustainable manner. To this end, the Cypriot authorities should specify and rigorously implement the measures that are necessary to achieve the correction of the excessive deficit by 2012.

Our forecast projects the deficit at 6.7% of GDP in 2011, to decrease to 4.9% in 2012 and remain at such elevated level also in 2013. Mirroring this forecast, available estimates suggest that the average annual fiscal effort in 2011-2012 is falling short of the adjustment recommended by the Council. In particular, it does not incorporate two main fiscal consolidation measures together accounting for almost 2 pps. of GDP of consolidation, that of targeting of social transfers and of increasing the VAT rate from 15 to 17%, which are still pending adoption by the Parliament. The Commission would strongly encourage their swift adoption and implementation.

Moreover, the first European Semester underlined that sound public finances must be complemented with structural reforms in order to bring Europe back on a path of sustained growth, as reflected in the Council's recommendations of 12 July 2011 addressed to Cyprus. I therefore expect the necessary budgetary correction to be carried out with due regard to these recommendations.

Mr Kikis Kazamias
Minister of Finance
1439 Nicosia
Cyprus

I am committed to rigorously apply the new rules of economic governance from day one of their entering into force. As it stands, this would be in the second half of December.

Given that the budgetary year 2012 will start soon, a Commission recommendation for a Council decision under Art. 126(8) followed by a Council decision to give notice under Article 126(9) of the Treaty would become unavoidable in the absence of corrective measures that are spelled out in detail and adopted by mid-December. As you are well aware, under the new Stability and Growth Pact this step could prompt sanctions.

I therefore call on you to treat as a matter of urgency the adoption of a 2012 budget that ensures a timely and lasting correction of the excessive deficit and the implementation of structural reforms according to the Council recommendations.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'J. Juncker', with a stylized flourish at the end.