**13151/13**

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**EXPLANATORY MEMORANDUM ON EUROPEAN UNION DOCUMENT**

**PROPOSAL FOR A COUNCIL IMPLEMENTING DECISION ON APPROVING THE MACROECONOMIC ADJUSTMENT PROGRAMME FOR CYPRUS AND REPEALING COUNCIL DECISION 2013/236/EU**

**September 2013**

Submitted by HM Treasury

# SUBJECT MATTER

1. This Explanatory Memorandum (EM) covers the proposal for a Council Implementing Decision addressed to the Republic of Cyprus to approve the macroeconomic adjustment programme for Cyprus and repeal Council Decision 2013/236/EU.
2. The implementation of the macroeconomic adjustment programme agreed after granting financial assistance to Cyprus from the European Stability Mechanism (ESM) (Council Decision 2013/236/EU) is now to be adopted in the form of a Council implementing decision following the entry into force of Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013. For reasons of legal clarity and certainty, the Commission proposes that the programme should be readopted on the basis of Article 7(2) of Regulation (EU) No 472/2013. The Commission recommends that substance of the programme should remain identical to the one approved by Council Decision 2013/236/EU, but also incorporate the results of the first review carried out in accordance with Article 1(2) of Decision 2013/236/EU by the Commission in liaison with the European Central Bank (ECB) and the International Monetary Fund (IMF) where appropriate, to assess the progress with the implementation of the agreed measures as well as their effectiveness and economic and social impact, and reflect the steps taken by the Cypriot authorities by the second quarter of 2013. At the same time, the Commission proposes that Council Decision 2013/236/EU should be repealed.
3. The Commission notes that the original Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) from 24 April 2013 has been updated in the areas of financial sector reform, fiscal policy and structural reforms to include: (i) a roadmap for the gradual relaxation of capital controls; (ii) a legal framework for a new governance structure to manage the stake of the State in the cooperative credit sector; (iii) an anti-money laundering action plan; (iv) a compensation scheme for provident fund and retirement funds in the Cyprus Popular Bank; (v) availability of national funds to cover national contributions for projects funded by the Structural and other EU funds; (vi) provision of details of the planned reform for public assistance; and (vii) preparation of detailed policy proposals for activation policies and swift action to create opportunities for young people and improve their employability prospects.
4. The Commission recommends that throughout the implementation of the macroeconomic adjustment programme the Commission should provide additional policy advice and technical assistance in specific areas to Cyprus.
5. Finally, the Commission advises that Cypriot authorities seek the view, in accordance with current national rules and practises, of social partners and civil society organisations in the preparation, implementation, monitoring and evaluation of the macroeconomic adjustment programme.

Recommendation for a Council Implementing Decision:

*[Article 1]*

1. The Council has decided to adopt the Commission advice and recommends the Republic of Cyprus to rigorously implement the macroeconomic adjustment programme as per Article 2 of this Decision. The programme shall take due account of the Council recommendations addressed to Cyprus under Articles 121, 126, 136 and 148 of the Treaty on the Functioning of the European Union (TFEU) as well as Cyprus’s actions to comply with them, while aiming to broaden, strengthen and deepen the policy measures required. The Commission, in liaison with the ECB and the IMF where appropriate, shall monitor the programme, and Cyprus shall give the Commission and the ECB its full cooperation. The Commission in liaison with the ECB and the IMF where appropriate, shall examine with the Cypriot authorities any changes and updates to the programme, review at regular intervals the economic impact of it and recommend necessary corrections with a view to enhancing job creation, securing the necessary fiscal consolidation and minimising harmful social impacts.

*[Article 2]*

1. The Council states that:

* the key objectives of the programme shall be threefold: 1) restore the soundness of the Cypriot banking sector; 2) continue the on-going process of fiscal consolidation; and 3) implement structural reform agenda to support competitiveness and sustainable and balanced growth.
* Cyprus shall continue consolidation measures consistent with its obligations under the excessive deficit procedure and be ready to take additional consolidation measures as necessary to bring its deficit below 3% of GDP by 2016.
* Cyprus shall preserve the good implementation of Structural and other EU funds and ensure the availability of national funds to cover national contributions, including non-eligible expenditure, under the European Structural and Investment Funds.
* Cyprus shall continue to thoroughly reform and restructure the banking sector and reinforce viable banks by restoring their capital, addressing their liquidity situation and strengthening their supervision.
* Cyprus shall rigorously implement the 2013 Budget Law over 2013, including the additional permanent measures adopted prior to the granting of the first disbursement of financial assistance, amounting to 2.1% of GDP. Furthermore, Cyprus shall also implement the stipulated expenditure and revenue measures during 2014 and the fiscal-structural reforms to ensure long-term sustainability of public finances.
* Cyprus shall suspend wage indexation in the wider public sector until the end of the programme and changes to the minimum wage shall be in line with economic and labour market developments.
* Cyprus shall prepare detailed policy proposals for activation policies, for recipients of unemployment benefits and other working-age persons who are outside the labour market, to help ensure that jobseekers have a better chance of finding employment. Cyprus shall take swift action to create opportunities for young people and improve their employability prospects in line with the Council Recommendation on Establishing a Youth Guarantee.
* Cyprus shall adopt other measures identified like the necessary amendments to sector specific legislation, reduction of the issuance of title deed backlog, amendment of the rules on the forced sale of mortgaged property and allowance for private auctions, implementation of the revised Tourism Strategy, formulation of a rearrangement of the Cypriot energy sector and implementation of the Third Energy Package.
* Cyprus shall request to the European Commission technical assistance during the programme period, identifying and specifying the areas of technical assistance or advisory services that the Cypriot authorities consider essential for the implementation of its macroeconomic adjustment programme.

*[Article 3]*

1. The Council repeals Council Decision 2013/236/EU.

**SCRUTINY HISTORY**

1. EM 8648/13 on the Council Decision addressed to the Republic of Cyprus on specific measures to restore financial stability and sustainable growth was submitted for Parliamentary scrutiny by HM Treasury on 6 May 2013.

**MINISTERIAL RESPONSIBILITY**

1. The Chancellor of the Exchequer has responsibility for United Kingdom policy on European Union monetary and economic issues. The Foreign and Commonwealth Secretary is responsible for overall United Kingdom policy towards the European Union.

# INTEREST OF DEVOLVED ADMINISTRATIONS

1. Policy concerning external action expenditure from the general EC Budget is a reserved matter under the UK’s devolution settlements and no devolved administration interests arise. The devolved administrations have therefore not been consulted in the preparation of this EM.

# LEGAL AND PROCEDURAL ISSUES

i. Legal basis

1. Article 7(2) of Regulation (EU) No 472/2013 of the European Parliament and Articles 121(6) and 136 TFEU.

ii. Legislative procedure

1. Qualified Majority Voting (for the Council Decision).

iii. Voting procedure

1. Per Article 15 of Regulation (EU) No 472/2013, only members of the Council representing euro area Member States may take part in the vote, which is by Qualified Majority Voting. The vote of the member of the Council representing the Member State concerned will not be taken into account in such a vote.

iv. Impact on United Kingdom Law

1. None – this recommendation is addressed to Cyprus only.

v. Application to Gibraltar

1. Not applicable.

vi. Analysis of Fundamental Rights Compliance

1. This proposal does not appear to engage any of the rights laid down in the European Convention on Human Rights or in the First or the Thirteenth Protocol.

**APPLICATION TO THE EUROPEAN ECONOMIC AREA**

1. Not applicable.

**SUBSIDIARITY**

1. The EU has competence under the Treaty for multilateral surveillance of economic policies. Member States remain responsible for their national budgetary policies subject to the provisions of the Treaty.

**POLICY IMPLICATIONS**

1. This document was issued to ensure full consistency between the Union multilateral surveillance framework established by the TFEU and the policy conditionality underpinning the economic adjustment programme for Cyprus. It is a re-adoption of the Cyprus programme, agreed by the Council on 25 May 2013, taking into consideration the first programme review recently concluded.

1. The Implementing Decision does not have any direct policy implications for the UK, and the UK does not have a vote. Cyprus is a Commonwealth member and the UK is pleased that Cyprus has reached an agreement with the euro area Member States and IMF on a package of financial assistance.

**REGULATORY IMPACT ASSESSMENT**

1. Not applicable.

**FINANCIAL IMPLICATIONS**

1. There are no direct financial implications to the UK arising from this document. Financial assistance to Cyprus will be provided by the European Stability Mechanism (ESM) in which the UK does not participate.

**CONSULTATION**

1. Not applicable.

# TIMETABLE

1. The revised version of the Proposal for a Council Implementing Decision was endorsed by the Economic and Financial Committee on 29 August 2013. It will be submitted to a Council written procedure on 12-13 September 2013.

### Greg Clark MP

### FINANCIAL Secretary

## HM Treasury