



Republic of Cyprus

Market Communication

Cyprus Macro/ fiscal prospects

Given the high degree of uncertainty surrounding quantification of the economic effects of the COVID-19 pandemic, and taking into account the rapid evolution of measures taken to respond to the situation globally, it is currently very difficult for any country to provide accurate and detailed macro-economic and fiscal projections.

In the context of the projections that will be presented in the forthcoming Stability Programme 2020-2023, the Ministry of Finance is currently working on a scenario where the impact of the pandemic on the economy is expected to take place primarily during the second quarter of the year, and then rebound in the second half of the year. Such rebound is expected due to the Republic of Cyprus' preservation of production operations (such as employment, business) through the attached package of measures announced late last week.

More specifically, the GDP is expected to contract by about -5.0% and -9.7% during 2020, and unemployment is estimated to rise to 9% compared to 7.1% the year before. It is worth mentioning that all available information so far has been taken into consideration for the purpose of this scenario, including the impact of the measures detailed in the stimulus package, which target the most affected sectors in the economy in order to ensure that employment losses are limited to a great extent.

On public finances, the budget balance of the Government is projected to reach a deficit of about 4% of GDP in 2020, stemming from the impact of the pandemic on economic activity impacting both revenue and expenditure, as well as from the temporary fiscal impact brought by the related measures.

However, it should be emphasized that the Republic of Cyprus is dealing with this crisis from a very strong position on its business cycle and from a comfortable fiscal position. The Republic of Cyprus has been operating at close to potential output in the past few years, with sustainable fiscal surpluses to cushion the current crisis.

Finally, regarding the medium-term outlook, as the uncertainty is currently very high, it would not be possible to provide estimations for years 2021 onwards. We expect though that the economy will

rebound and follow a positive growth path, accompanied by positive developments on the fiscal front.

The main policy objective of the government remains the safeguarding of macroeconomic stability in order to facilitate growth and job creation, and to preserve a fiscal policy geared towards high primary surpluses in order to facilitate the swift decline of debt-to-GDP ratio at a satisfactory pace.

The cost of the below fiscal stimuli package of measures is currently estimated at about EUR 365 mn. Given, however, the high degree of uncertainty and the persistency of COVID-19, giving rise to the question of how long the disease is going to last and what will be its impact on the international economy as well as on international markets, the Republic of Cyprus decided to revise its annual funding plan and to re-access the markets as shown below:

Financing Instrument	Initial Annual Funding Plan - 2020 (Dec 2019) Up to:	Revised Annual Funding Plan - 2020 (March 2020) Up to:
Domestic 3-month Treasury Bills	€300 mn	€300 mn
European Govnt Bonds EMTN	€1,85 bn	€3,75 bn = €2.0 bn*
Domestic Retail Bonds	€100 mn	€100 mn
Loan from Supranational Institutions (EIB, EBRAD, CEDB)	€100 mn	€100 mn
New Domestic 12-month Treasury Bills	---	€1,25 bn
Maximum funding allowed Jan – Dec 2020	Up to €2,25 bn	Up to €5,5 bn

(*): €3.75 bn - €1.75 bn = €2.0 bn (€1.75 bn was raised in January 2020. So, the remaining amount approved is up to €2.0 bn).

The purpose of the new intended funding is, on the one hand, to cover the above-mentioned financing needs and on the other hand to strongly enhance our cash buffer in line with the pertinent provisions of the Medium –Term Public Debt Management Strategy (MTDS). In this context, it is worth noting that the said Strategy (MTDS) requires, *inter alia*, that the Government of the Republic

of Cyprus maintains a sizeable cash buffer which is sufficient, at any point in time, to finance the needs of at least the following 9 -12 months.

It should be noted that the current situation involves considerable uncertainty and the current estimated impact of COVID-19 will be subject to reassessment and adjustment over time. There can be no assurance that the impact of COVID-19 will be as described above, and the negative impact may exceed the current estimations set out above.

***.../ (Attachment, next page:
"Exceptional Financial Support Programme by the Republic of Cyprus due to COVID-19")***

Attachment

Exceptional Financial Support Programme by the Republic of Cyprus due to COVID-19

No	Action/Description	Timeline	Fiscal Cost/Effect/Liquidity (mn)	Stage/Notes
1. ENHANCING THE NETWORK FOR PROTECTION OF EMPLOYEES AND VALNURABLE GROUPS				
1.1.	<u>“Special Absence Leave” to parents working in the private and public sector in the event of a need for absence from work to look after their children up to 15 years old during the period when schools, private or public, nurseries, childcare or other educational institutions are suspending their operations.</u> For a period of 4 weeks and it will be given to parents with monthly gross salary up to €2.500.	March 2020	€20 (assume 50.000 persons)	The Supplementary Budget has been approved for €369 mn from Council of Ministers on 26/3 Voted by Parliament on 27/3
1.2	<u>Special Plan for Full Suspension of business</u> <u>Special Plan for partial Suspension of business</u> The total number of beneficiaries for the Full and Partial Suspension Plans is estimated at approximately 220,000 private sector employees for the period March 16, 2020 to April 12, 2020.	March 2020	€182 (for one month)	The Supplementary Budget has been approved for €369 mn from Council of Ministers on 26/3 Voted by Parliament on 27/3
1.3	<u>Self-Employed Workers</u> Around 40,000 self-employed workers will be able to benefit from the Special Plan for Suspension of business drawn up for the period March 16, 2020 to April 12, 2020 for the payment of a special unemployment allowance (Certain categories are excluded e.g supermarkets, doctors, pharmacies etc.)		€20	The Supplementary Budget has been approved for €369 mn from Council of Ministers on 26/3 Voted by Parliament on 27/3
1.4	<u>Remuneration scheme for employees/workers employed at the Ministry of Education’s afternoon programmes.</u> It involves approximately 5.000 persons.	March 2020	€3	The cost is already included in 2020 Budget. Therefore, no additional appropriations are needed

No	Action/Description	Timeline	Fiscal Cost/Effect/Liquidity (mn)	Stage/Notes
1.5	<u>Provision of "sickness allowance"</u>	March 2020	€15	The cost has been calculated on the assumption that 20,000 employees will receive it
1.6	<u>Extension of the submission period for objections to social security for self-employed persons</u> for one month until 30 April 2020 (ends 31 March 2020)	March – April 2020	N/A	
1.7	<u>Amendment of the Social Contribution Law on overdue contributions</u> Debtors who are involved in repayment of overdue social contributions in instalments, postponement for March and April should be suspended and the repayment period is extended by two months due to emergency measures taken to tackle the pandemic.	March – April 2020	N/A	Voted by Parliament on 27/3
1.8	<u>Creation of mobile units to serve the elderly and vulnerable people so they can be supplied with necessary goods.</u> Help will be sought from Volunteering Organizations and Businesses.			Approved the Council of Ministers on 27/3 (without a specific budget).
1.9	<u>Suspension of evictions for two months</u>	March 2020	N/A	Voted by Parliament on 27/3
2. ENHANCING THE HEALTH SYSTEM				
2.1	<u>Provision for the health care sector to combat the pandemic if necessary, which will cover, inter alia:</u> -Employment of additional medical, nursing and support staff and for a more effective and immediate response for the execution of their work. -Enhancing equipment and infrastructure -Enhancing the Institute of Neurology & Genetics both in human resources and infrastructure -Enhancing the Ambulance Center -Enhancing Service "1420" (help desk)	March – May 2020	€100	The Supplementary Budget has been approved for €369 mn from Council of Ministers on 26/3 Voted by Parliament on 27/3 The Ministry of Health should submit a proposal on how the fund will be used

No	Action/Description	Timeline	Fiscal Cost/Effect/Liquidity (mn)	Stage/Notes
3. Supporting Businesses, Enhancing Liquidity and Stimulating Internal Consumption				
3.1.	TAX MEASURES			
3.1.1	<p><u>Temporary suspension of VAT payments between for tax periods ending February, March and April, 2020</u></p> <p>It involves all companies, without imposing any charges or additional tax. It is noted that arrangements will be made so that the debts will be paid progressively until November 10, 2020 with the exception of companies that do not have liquidity problems such as pharmacies, supermarkets, etc.</p>	March -April 2020	€ 304	Voted by Parliament on 27/3
3.1.2	<p><u>Special arrangements for those involved in the Settlement of Overdue Taxes</u></p>	April 2020	N/A	Based on legislation adopted in 2020 (N11(I)/2020) and entered into force from 14/2/2020, for taxpayers that have been included in the Settlement of Overdue Taxes and for those who are eligible to join by 30/6/2020 it was arranged that failure to pay up to 5 instalments (out of 3 previously applicable) would not lead to the cancellation of the right to this settlement.
3.1.3	<p><u>Temporary suspension for income tax return for submission for companies and self-employed</u></p> <p>with accounts or obliged to submit a statement with notification issued by the Tax Department</p>	March 2020	N/A	Voted by the Parliament on 27/3 Relevant Decree is was issued on the 30 th March 2020.
3.1.4	<p><u>Applications for VAT or corporate tax refunds will be processed as soon as possible</u> in particular to the businesses most affected (e.g. restaurants, hotels, tour operators, self-employed, etc.)</p>	March – May 2020	N/A	It is implemented by the Tax Department
3.1.5.	<p><u>Advance payment of VAT by certain categories of taxpayers in the interest of the national economy (e.g. supermarkets, pharmacies).</u></p>	March 2020	N/A	Approved by the Council of Ministers on 26/3 Relevant Decree is was issued on the 2 nd April 2020.

No	Action/Description	Timeline	Fiscal Cost/Effect/Liquidity (mn)	Stage/Notes
3.2	MEASURES THROUGH THE BANKS			
3.2.1	<p><u>Government Guarantee Scheme for Low-Interest Loans</u></p> <p>The granting of Government Guarantees is of the amount of €2.000.000.000 for the purpose of:</p> <p>(a) The provision of new low interest loans of the amount of €1.750.000.000 to businesses and self-employed who suffered economic effects from the imposition of the measures taken by the Government to combat the COVID-19 pandemic.</p> <p>(b) The subsidisation of part of the interest paid by natural persons, self-employed and businesses up to the amount of €250.000.000.</p> <p>The Government Guarantees will cover up to 70% of the loss that may arise from loans and the credit institutions will cover the remaining 30%, irrespective whether the loan is secured or not.</p> <p>Duration of loans: 3 months-6 years (current accounts maximum duration 1 year)</p>	March 2020	<p>€2.000 (liability of the Govt) €620 (fiscal cost)</p> <p>2020-€0 2021-€250 2022-€20 2023-€40 2024-€60 2025-€80</p>	<p>The Bill has been approved by the Council of Ministers on 26/3. The approval of the Decree is pending by the Council of Ministers <u>The voting of the Bill is pending before the Parliament.</u></p> <p>The fiscal impact of the Government Guarantees is expected to reach in total €370 mn. Provided that the whole amount will be given (30% total loss).</p> <p>Subsidisation of the interest rate will have a fiscal impact of the amount of €250 mn. In 2021.</p> <p>For the provision of Government Guarantees a certain guarantee premium related to the interest rate will be paid to the state. Due to the low interest rate it is expected that the annual guarantee premium will reach €10-€15 mn in the first years.</p>
3.2.2	<p><u>Suspension on loan installments, including interests,</u> for credit facilities to banks and for all eligible borrowers who are experiencing difficulties as a result of the crisis. Eligible borrowers are natural persons, legal persons, semi-governmental organisations, self-</p>	March 2020	N/A	<p>The Bill has been approved by the Council of Ministers on 26/3. The Bill was voted by the Parliament on 29/3 Decree issued on 30/3.</p>

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	employed and businesses, provided they had no delays in paying over 30 days on 29.2.2020. These temporary measures apply for a period from 30 th March 2020 (date of issuance of the relevant Decree) until 31 st December 2020.			
3.2.4	<u>Temporary suspension of the process of foreclosures by KEDIPES for a period of 3 months.</u> Also from banks – Announcement of the Association of Cyprus Banks.		N/A	
3.2.5	<u>CBC announcement on relaxation of obligations of Cypriot financial institutions.</u>		N/A	Package of Measures announced on 18 March 2020 by the CBC to deal with the consequences of COVID-19.
3.2.6	<u>Extension of the requirement to submit the necessary supporting documents for 3 months for those who have already applied for the ESTIA Scheme.</u>	March – April 2020	N/A	
3.3	GENERAL BUSINESS SUPPORT MEASURES			
3.3.1	<u>Suspension of the increased contributions to the NHS scheduled for 1/4/2020 for three months, by employers, employees and state.</u> It is noted that the timetable for the implementation of the 2 nd Phase of the NHS is not affected.	April – June 2020	€147 (no fiscal impact)	This measure has a negative effect on the accounts of the General Government of €52,5 mn concerning additional contributions from private sector workers and employers.
3.3.2.	<u>Public Procurement Facilities::</u> <ul style="list-style-type: none"> - Forbearance of calling in guarantees under public and private contracts for the supply of services or products - Extension of the period of execution of public contracts for reasons of force majeure 	March 2020	N/A	Announcement issued by Public Procurement Directorate.
3.3.3	<u>Support for Tourism Recovery</u> Additional budget of €11m for the implementation of actions to support tourism between June and September 2020, in cooperation with Airlines and Travel	March – May 2020	€11	The Supplementary Budget has been approved for €369 mn from Council of Ministers on 26/3 Voted by Parliament on 27/3.

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	Organizers, as well as actions to enhance initiatives to attract tourists during the period October 2020 – March 2021.			
3.3.4	<p><u>Companies Registrar Facilities for Business:</u></p> <ul style="list-style-type: none"> - The process of publication in the Official Gazette of the Republic is suspended until January 2021, prior to the delisting of non-compliant companies. - The option to pay the € 350 fee is extended until 31/12/2020. - Annual Report may be submitted by 28/01/2021 - The application of the surcharge for late submission of statutory forms to the Companies Registrar Department will be postponed to 2021 	March 2020	N/A	Issued 23/3
4. Measures for the Proper Functioning of the Public Service and the Broader Public Sector				
4.1	<p>Necessary Personnel in the Public Service</p> <p>The public service and the broader public sector and education service providers for the coming month, starting Tuesday 17/03/2020, will be working on:</p> <ul style="list-style-type: none"> (a) where possible from their home (b) with emergency personnel and urgent services for civilians <p>Essential services are excluded from the above regulation. The responsible Ministers will determine the needs of their Ministry and their Departments for proper planning of work.</p>	March 2020	N/A	
4.2	<p>Amend legislation to allow Sessions via Teleconferencing</p>	March 2020	N/A	Voted by the Parliament on 27/3 the amendment to the Principles of Administrative Law Amendment of Cyprus Securities and Sion Law and Cyprus Stock Exchange law are pending
4.3	<p>Securing videoconferencing licenses for public services</p>	March – April	N/A	It is covered by an existing contract

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5. Citizen Protection Measures				
5.1	<u>Introduction of ceilings on the prices of personal hygiene products</u> Introduction of ceilings on the prices of personal hygiene products (masks, antiseptics, antibacterial liquids, soaps, etc.) to counter the effects of profiteering.	March 2020	N/A	<i>Decree issued on 18/3</i>
5.2	<u>Allowance of €750/ per month for students staying abroad</u>		€15	Approximately 20.000 students
5.3	<u>Plan for the repatriation of Cypriots</u>		€6	
5.4	<u>Universal reduction of the electricity tariff by 10% for a period of 3 months.</u>	March 2020	N/A	

Nicosia
06 April 2020

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