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Ministry of Finance

Public Debt Management Office

Annual Report

Public Debt Management

2023

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PUBLIC DEBT MANAGEMENT ANNUAL REPORT 2023

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Table of Contents

Mission Statement

The main mission of the Public Debt Management Office (PDMO) is the design and implementation of the appropriate and ideal government policy in the field of public debt management, depending on the domestic and international economic conditions and prospects.

The above mission is accomplished on the basis of two different, however, interrelated pillars: first, through the exercise of the applicable medium-term debt management strategy of the Government, and second, through the implementation of specific continuous actions under the guidelines of PDMO's Action Plan.

The implementation of the above-mentioned actions constitutes a necessary condition for the achievement of the ultimate objective of debt management: i.e. to ensure the timely coverage of the financing needs of the Government, at the lowest possible medium-term cost, within an acceptable range of financial risks.

Following the strong growth rate of the Cypriot economy in 2022, Cyprus recorded in 2023, one of the highest growth rates among EU member states and significantly higher than the EU average, despite geopolitical developments and the tightening of monetary policy by ECB, creating substantial fiscal surpluses. The government debt-to-GDP ratio continued to drop significantly over the past year, creating, among others, the conditions for credit rating upgrades in the foreseeable future.

The economic outlook for Cyprus remains favourable with the real GDP growth to continue on a positive path, albeit at a decelerated pace which is attributed to the expected deterioration of the external economic environment, the impact of the continued increase of energy prices in conjunction with the current level of interest rates and the expected gradual process of cutting interest rates by ECB.

Given the prevailing economic uncertainty internationally, the PDMO is constantly working on retaining the liquidity buffer of the State at a satisfactory level, as required by Articles 20 and 21 of the Public Debt Management Law.

The PDMO is a small but fundamental part of the whole institutional mechanism of economic management of the country. In order to accomplish its mission, the PDMO is monitoring very closely the developments in the international capital markets and the financing needs of the country so that it can deliver the best possible result under the current volatile conditions.

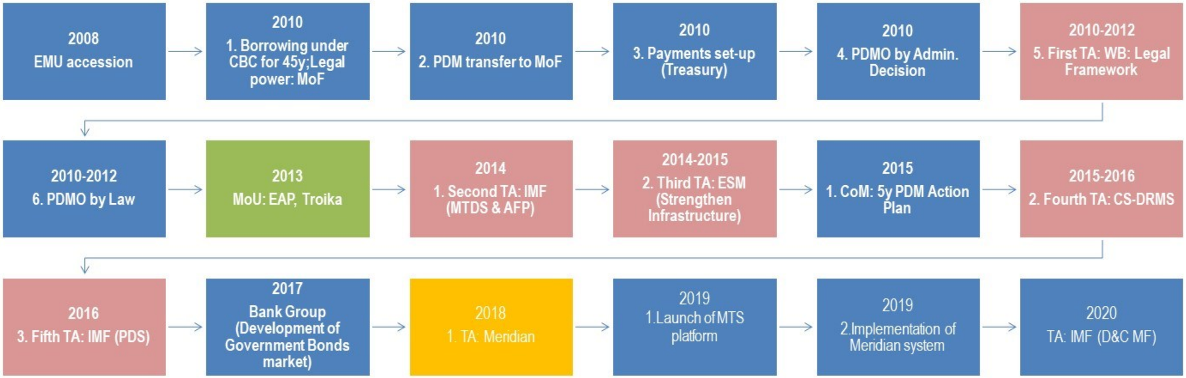
The major part of the cash reserve funds, which is kept for precautionary purposes, aims to cover exclusively the financing needs of the Government for the following 12 months, which are characterized by intense uncertainty in the global economy because of the geopolitical developments and economic uncertainty, and in compliance with the above mentioned Public Debt Management Laws as well as in line with the guidelines of the medium-term debt management strategy approved by the Council of Ministers (Articles 9-10 of the same laws mentioned above).

Today, the existing satisfactory size of the cash buffer reduces the gross borrowing requirements, securing, in this way, the further containment of public debt.

The developments made on the public debt management policy for the financial year 2023, as per article 25 of the Public Debt Management Law, are presented in the following Report which has been drafted at the end of March 2024.

Public Debt Management Office
Ministry of Finance
Nicosia
Cyprus
March 2024

The timeline of Public Debt Management in Cyprus (2008-2023)



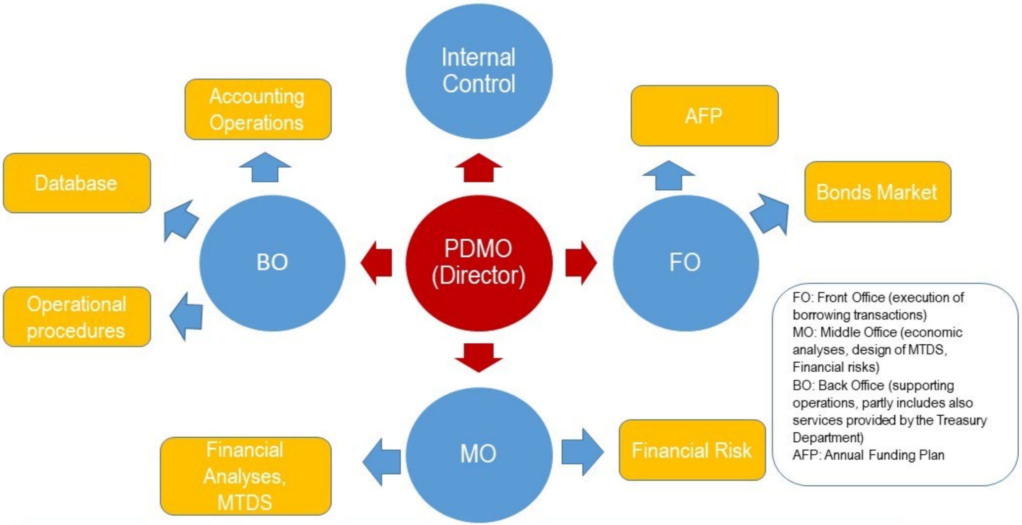
AFP: Annual Funding Plan
CBC: Central Bank of Cyprus
CoM: Council of Ministers
CS: CommonWealth Secretariat
DRMS: Debt recording management system
D&C MF: Debt&cash management framework

EMU: Economic and Monetary Union
ESM: European Stability Mechanism
EAP: Economic Adjustment Programme
IMF: International Monetary Fund
Meridian: New debt management system of CS
MoF: Ministry of Finance

MoU: Memorandum of Understanding
MTDS: Medium Term Debt Strategy
MTS: Electronic fixed income trading platform
PDM: Public Debt Management
PDS: Primary Dealer System

PDMO: Public Debt Management Office
TA: Technical assistance
WB: World Bank

Organisational Structure of the Public Debt Management Office



- The Minister of Finance has the exclusive power to borrow funds on behalf of the Republic of Cyprus
- The PDMO of the Ministry of Finance is the responsible office for the above borrowing
- PDMO is under the supervision of the Permanent Secretary of the Ministry of Finance.

List of abbreviations

AFP	Annual Financing Programme: "Annual Funding Plan''
bn	Billion (one thousand million)
CBC	Central Bank of Cyprus
CCB	Cyprus Cooperative Bank
CEB	Council of Europe Development Bank
CRAs	Credit Rating Agencies
CS	Commonwealth Secretariat
CYPGB	Cyprus Euro Medium Term Note (EMTN)
EFC	Economic and Financial Committee of the EU
EFSF	European Financial Stability Facility
ECPs	Euro Commercial papers
EIB	European Investment Bank
EMTNs	Euro Medium Term Notes
ESDM	European Sovereign Debt Markets (EFC Sub-Committee)
ESM	European Stability Mechanism
EUR	Euro
GDP	Gross Domestic Product
GG	Government Guarantees
GGD	General Government Debt
IMF	International Monetary Fund
MFIs	Monetary Financial Institutions
MTDS	Medium Term Public Debt Management Strategy
mn	Million
NPEs	Non-performing exposures
PDML	Public Debt Management Law
PDMO	Public Debt Management Office
RRF	Recovery and Resilience Facility
SDR	Special Drawing Rights
SSF	Social Security Fund
SURE	Support to mitigate unemployment risks in an emergency
TBs	Treasury Bills
WACD	Weighted Average Cost of Debt

List of Figures

List of Tables and Boxes

List of Tables

List of Boxes

I. Introduction

Following the strong growth rate of the Cypriot economy in 2022 by 5.6 percent of GDP in real terms, despite the adverse external environment, including the impact of the Russia-Ukraine crisis on the Cypriot economy and financial sector, growth remains on a positive path in 2023. Real GDP expanded by 2.5 percent in 2023, albeit at a decelerated path compared to the year 2022, recording one of the highest growths among EU member states and in fact significantly higher than the EU average. The budget balance in 2023 recorded a further improvement of about 0.5 pp compared to the previous year, reaching 2.9 percent of GDP. In general, Cyprus's diversified economy in the services sector has proven resilient, for another year, to geopolitical developments such as Russia-Ukraine and Israel – Hamas wars and despite the tightening of monetary policy. The economic outlook in the medium-term remains favourable with the growth to be expected to continue on a positive path, albeit at a decelerated pace. This is attributed to the expected deterioration of the external economic environment.

Regarding the bond market developments, the significant impact on markets and yield curves by the mentioned geopolitical developments and the tightening monetary policy (interest rate hikes by ECB) were among the highlights in 2023. During the period February to September 2023 the sovereign yield curves in euro area shifted upwards and steepened thanks to the consecutive hikes of the key interest rates for the euro area. Thereafter, and given the effective monetary policy transmission which was reflected on several economic indicators, underlining that the hiking cycle closes to an end, the sovereign yields followed a downward path until the end of December 2023.

The main funding source for the Republic of Cyprus in 2023 was the international market supplemented by small amounts from domestic market sources, both institutional and retail segments. The international market will continue to be strategically the main source of funding in the years to come, due to the capacity offered by the available large, diversified pool of investors. In 2023, the share of foreign bonds exhibited an increase, widening the gap between official loans and foreign bonds. The distribution of instrument composition is in line with Medium-Term Debt Management Strategy (MTDS) of the Government.

The public debt as a ratio of Gross Domestic Product (GDP) exhibited a material decrease in 2023, mainly due to the robust growth momentum, which was sustained for the whole year and the strong fiscal performance which led to the utilisation of a significant amount of cash reserves to cover a part of Government gross financing needs. The Central Government's liquid assets retained at strong level both on absolute terms and as a percent of the public debt in 2023 and slightly above the corresponding figures compared to the previous year.

The majority of the debt portfolio risk indicators were retained at similar levels as were in the previous year. The weighted average maturity of marketable debt recorded a minor increase, compared to the previous year, and performed very well compared to the euro area average surpassing the target set in the MTDS 2023-2025. The average cost of servicing the public debt, exhibited a minor increase due to the changes in the monetary policy by ECB and the geopolitical developments, in the global economy.

The sovereign's creditworthiness was upgraded by three Credit Rating Agencies (CRAs), of which two of them by one notch, within the investment category whilst the third of them, by two notches at once, moving the credit rating to the investment category. Two of the fourth CRAs, with which Cyprus maintains a solicited relationship, confirmed the credit rating of the Republic of Cyprus at the investment category and changed the outlook from stable to positive, indicating a likelihood of an upgrade within the next 12 months if specific conditions are met. CRAs underlying, among others, that the key drivers for any upgrade of Cyprus' government bond in the near future, could result from the ability of the Government to: (a) sustain the expectations of positive growth rates, (b) maintain a sound fiscal policy, (c) reduce further the debt-to-GDP ratio, (d) reduce the stock of bank non-performing exposures and (e) continue deleveraging the private sector debt and (f) maintain increased economic resiliency to external shocks, (g) reduction of the current account deficit and (h) absorb funds from the Recovery and Resilience Facility (RRF) enhancing further the economic growth of Cyprus.

Over the reference period, the Public Debt Management Office (PDMO) continued to monitor and upgrade a number of actions related to the internal organization and the IT infrastructure of the PDMO.

The PDMO participated inter alia in the Subcommittee of the EU Economic and Financial Committee on European Sovereign Debt Markets (ESDM), the International Monetary Fund (IMF) Annual-Spring meetings and the European Stability Mechanism (ESM) activities, specifically related to public debt management matters.

Following this introduction, the strategic objectives on public debt management set under the MTDS 2023-2025 as well as the revised

MTDS 2024-2026, the Annual Funding Plan (AFP) 2023 and the progress to date are presented in Chapter 2. The main developments in the debt capital markets for bills and bonds are presented in Chapter 3.

Chapter 4 outlines the financing actions of the Central Government in 2023 as well as the debt redemptions (flow analysis), while Chapter 5 presents the main structural characteristics of public debt and their evolvement over time (stock analysis). The cost-risk profile is analysed in Chapter 6.

The operations on liquidity management are presented in Chapter 7, whereas sovereign rating developments are outlined in Chapter 8. The report concludes with Chapter 9 on the developments of the PDMO Action Plan for infrastructure and systems development in 2023.

II. Objectives and Evaluation

A. Mandate

On behalf of the Republic of Cyprus, the Minister of Finance has the exclusive power to borrow funds by signing contracts of loans or issuing securities both in the domestic and foreign markets, in local or foreign currency. Pursuant to article 4 of the Public Debt Management Law (PDML), the PDMO is responsible, among other functions, for executing all borrowing transactions, the management of liquidity of the government and handling all other debt management operations, including the drafting of the MTDS and the designing of the AFP.

Government borrowings aim mainly at: (i) covering any fiscal deficit (if there is); (ii) maintaining the desired level of cash reserves; (iii) refinancing the outstanding public debt; and (iv) covering other government policy needs.

The ultimate objective of debt management strategy is to ensure that financing needs are always met in time and that the cost of borrowing is the lowest possible in the medium term[1], within the framework of an acceptable[2] level of risk[3].

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[1] Any decision-making based exclusively only on the minimization of the borrowing cost of a transaction (in raising a loan or a bond offering) i.e. using as a sole criterion the interest rate, constitutes a sub-optimal action that might undermine the ultimate objective of the public debt management strategy. This is why the minimisation of the borrowing cost is related to the medium term horizon.

[2] Borrowing has to be within reasonably acceptable and manageable levels of financial risks.

[3] In this context, the main financial risks are: (a) refinancing risk; (b) Interest rate risk; (c) Foreign exchange risk.

B. Legal Framework for public debt management

Pursuant to article 2 of the PDML, the debt management operations are concentrated on the preparation of the MTDS and the AFP as well as on the execution of the necessary borrowing transactions in order to facilitate the implementation of the AFP and meet the objectives of the MTDS.

The MTDS is a 3-5-year strategy which is revised at least once a year and is submitted for final approval to the Council of Ministers by the Minister of Finance, after informing the Budget and Finance Committee of the Parliament. According to the Law, the AFP is designed by the PDMO, and approved by the Minister of Finance. The execution of the necessary borrowing and other debt management transactions form the implementation of the financing plans in order to ultimately meet the guidelines of the Strategy. The previous Strategy, which was published at the end of November 2022, covers the period 2023-2025. The said strategy was updated through the MTDS 2024-2026.

The PDMO functions as an integral part of the Ministry of Finance, under the general supervision of the Permanent Secretary.

C. MTDS guidelines and targets

The guidelines of the MTDS and the actions / quantitative targets under each guideline related to the reference year 2023 are presented below.

1. **Smoothening of debt maturity profile and maintaining the maturity of marketable debt at satisfactory level**

   - *Maintain average remaining maturity of marketable debt not less than 7 years;*
   - *Maintain short term debt equal or less than 3 percent of total debt stock; and*

- *Maintain long term debt equal or more than 97 percent of total debt stock.*

2. **Risk mitigation**

- *Maintain total liquid funds to cover the financing needs of next 6 -9 months;*
- *Maintain annual gross financing needs up to 10 percent of the corresponding annual GDP;*
- *Maintain total debt foreign exchange exposure not to exceed 3 percent of total debt stock; and*
- *Maintain total debt floating interest rate exposure not to exceed 30 percent of total debt stock.*

3. **Development of the government securities market**

- *Improvement in the price discovery mechanism of the domestic market and increase accessibility to international investors;*
- *Introduce a suitable structure to enable a price discovery mechanism and liquidity/transparency provision in the foreign market; and*
- *Completion and extension of the long-term sovereign yield curve.*

4. **Minimisation of marketable debt borrowing cost**

- *Improvement of the investor relations and market intelligence;*
- *Expansion of the investor base in terms of geography, type and size.*

It is noted that in October 2023, the new MTDS 2024-2026 was approved by the Council of Ministers. The said strategy is a continuation of the existing debt management strategy 2023-2025. The main pillars of the new strategy remain the same, however some of the quantitative targets have been changed, such as the reduction of the exposure on short term debt and on exchange interest rate below 2 percent taking into consideration the new conditions created as a result of the geopolitical developments and changes in the monetary policy. Furthermore, on the 17th of January 2024 the Council of Ministers approved the proposal of the PDMO to retain the coverage target of financing needs in the General Government Account at 9-12 months period and to be applied during the 1st quarter of 2024 due to the global uncertainty.

D. Annual Funding Programme 2023

Pursuant to article 10 of the PDML, the PDMO design and develop an AFP, which covers the projected accumulated borrowing needs of the Republic of Cyprus in one calendar year. The AFP is based on the MTDS and the annual cash flow forecast of the Republic of Cyprus. The AFP is approved by the Minister of Finance and is updated at least twice a year.

The objectives of the AFP 2023 were the following:

1. Maintain Cyprus' presence in the international capital markets in order to complete and extend the long-term sovereign yield curve;
2. Mitigate the refinancing risks by setting reserve on liquid funds to cover the financing needs of the next 6-9 months;
3. Restrain the floating interest rate and exchange rate exposure by giving priority to the issuance of debt in the form of fixed interest rate and in euros.

4. Maintain the average maturity of marketable debt not less than 7 years;
5. Containment of the annual refinancing needs up to 10 percent of the GDP;
6. Further development of the bonds market, and
7. Renewal of short-term debt and maintain the swift functioning of the Treasury Bills (TBs) market;

More details for the AFP 2023 are presented in chapter 4.

Taking into consideration the projected annual cash flows and the successful market access of Cyprus, the PDMO submitted an updated AFP to the Minister of Finance for the next year. The AFP 2024 was approved by the Minister of Finance at the end of November 2023.

E. Evaluation of MTDS guidelines and progress to date

The MTDS in 2023 was implemented under a number of challenges due to the geopolitical developments, including the Russia-Ukraine crisis and Israel – Gazas war, as well as changes in the monetary policy. The economic activity in Cyprus recorded a positive growth rate during 2023, despite continued global economic uncertainty and rising interest rates, reaching 2.5 percent of GDP, in real terms, for the whole year. Although, the said growth rate is lower compared to the initial projection of 2.8 percent of GDP included in the Stability Program 2023-2026, it is well above the EU average. These developments did not affect negatively the quantitative and qualitative objectives of the strategy. In general, and despite the negative impact, thanks to the geopolitical developments and economic uncertainty, the outcomes from the implementation of the strategy in 2023, presented in the current Annual Report (2023) could be characterised as satisfactory.

The assessment of the process of each guideline is presented below.

Smoothening of debt maturity profile and extension of the maturity of marketable debt

The share of outstanding short-term debt stood at around 0.1 percent of the total outstanding debt as at the end of 2023, which was in line with the target set (3 percent) in the strategy. It is noted that TBs issuances are necessary to maintain pricing points, enrich funding instruments and reach out to investors interested in this particular segment.

The outstanding annual maturities profile are at a satisfactory level and are extended up to the year 2051. The peak of the outstanding public debt is in year 2028 which is under control, based on the historically data as well as on the strong recovery of the Cypriot economy since 2021 and the expected positive prospects of the growth rate in the medium term. For the following years, the PDMO’s intention is to issue at least one benchmark EMTN per year between EUR 1.0-1.5 bn in order to cover the financing needs of the Government. In order to smooth out further the debt maturity profile, the focus is drawn to longer-term debt issuances provided that the market conditions and new interest rate environment are favourable. The size of the issuance will depend on the performance of fiscal policy as well as of the progress of economic activity in the real economy.

The average remaining maturity of marketable debt exhibited a small increase reaching 8 years as at the end of 2023 compared to 7.9 years as at the end of 2022, which was mainly attributed to the reduction of the total marketable debt (denominator effect). The value of the said indicator is above the relevant MTDS target i.e. to be not less than 7 years.

Risk mitigation

The size of the liquid funds throughout the year of 2023 was in line with the relevant target set in the strategy, to cover the financing needs of the next 6–9-month period at any time. Throughout the year 2023, the total liquid funds maintained well above the said threshold, covering the financing needs of more than the next 9-month period and providing the flexibility to the Government to decide the appropriate timing to access the market as well as to cope with any unexpected events. The strong cash position is expected to support the Government to cope with the global economic uncertainty and restrain any negative effects on the cost-risk indicators at moderate levels.

Moreover, the target for the total foreign exchange exposure has been achieved up to date. The approach, generally followed, is to go for euro denominated debt issuances only. Since April 2020 the total foreign exchange exposure equals to zero.

The debt metrics comply with the target set for floating-fixed interest rate composition. Securities are generally issued in fixed interest rate form only. There is no outstanding marketable debt in floating or index type of interest. There is a sizeable share of outstanding debt in floating interest rates, mainly due to disbursements of ESM loan and to a lesser extent to a number of loans granted by European Investment Bank (EIB) and Council of Europe Development Bank (CEB). The total of the said debt with floating interest rates formed 30.5 percent of the outstanding public debt at the end of 2023, however the interest rate risk stemming from the floating rate debt is limited due to the low interest rate of loans granted by ESM. The variable rate debt is anticipated to decline from 2025 onwards with the gradual redemption of the instalments payable to ESM.

Developments of the government securities market

With regards to the efforts for improving the price discovery mechanism of the domestic market and increase accessibility to international investors, limited progress has been marked.

A significant improvement has been marked in the development of a suitable market structure to improve the price discovery mechanism and liquidity provision in the foreign market. An extended market group with eight international investment banks has continued to work towards this goal during the year 2023. The initial mandate of banks is to post indicative prices of the Cypriot international bonds on a voluntary basis in a platform jointly decided by the issuer and the banks. The MTS platform became operational since 2020 and it is expected that MTS will help the PDMO to increase the liquidity of Cypriot bonds and optimise the cost of funding in the long term.

The target of the completion and extension of a sovereign yield curve, has been achieved at a very satisfactory level. One new point was added in the sovereign yield curve in 2023 through the new EMTN issuance. According to the existing debt maturity profile, the PDMO aims at centralizing the funding efforts of at least one international bond issuance per year for the following years to serve also as benchmark bonds.

Minimisation of marketable debt borrowing cost

The outcome for the said guideline is envisaged to materialize gradually through the successful implementation of the other guidelines and the realisation of their targets. The contact list of investors has been expanded considerably throughout the years. Despite the high volatility in the secondary yields of the Cypriot international bonds, as also recorded for the whole EU, and the global uncertainty in 2023, the impact on the weighted average cost of servicing the public debt has retained at moderate levels due to the implementation of a disciplined fiscal strategy and a rational public debt management strategy. The said outcome is also reflected on the improvement of the sovereign credit ratings in 2023 by all CRAs. The improvement of investor base with more quality investors has continued in 2023 through the issuance of the first sustainable benchmark bond for the Republic of Cyprus. The efforts are continuing to be in the analysis of investors in order to approach more investors with longer investment horizon profile. The marketing efforts are promoted to higher participation of this type of investors.

The target of the provision of information to investors has been achieved by the PDMO through the production and dissemination directly to investors of two regular newsletter publications, namely Cyprus economy newsletter (bi-monthly) and public debt quarterly bulletin. Furthermore, an investor presentation is updated at intervals and published at the PDMO website informing investors about the main developments of the Cypriot economy.

With regards to market intelligence, the PDMO continues to monitor and analyse the financial markets observing the new debt issue premiums and new debt issue performance of peers compared to the

Republic of Cyprus. It is expected that more information on flows, volumes and investor statistics will be gathered by the newly established Bank group.

For the expansion of the investor base in terms of geography, type and size, the PDMO has focused on marketing activities which are conducted well ahead of any intended bond placements. In 2023, a number of virtual and physical meetings with investors were organised to provide update information about the Cypriot economy. The investor base has improved both in terms of geography and type in the 2023 EMTN issuance.

The results of the improvement of investor base both in terms of geography and type are evident through the investor distribution statistics by geography and type in the benchmark bond issuance in 2023 which are shown in Chapter 6.

III. Sovereign Debt Markets Developments

A. Eurozone sovereign debt market developments

According to the notes and the Annual report issued by the Directorate General for Financial Stability, Financial Services and Capital markets Union, the sovereign yield curves in euro area shifted upwards and steepened during the first two months of the year 2023 following stickier than expected inflation. At the beginning of March 2023, the situation on the banking sector in the US and the Switzerland, with the consecutive failure of several US regional banks and the takeover of Credit Suisse by USB, drove inflation and sovereign yields down in the euro area.

However, the need for continued policy tightening led the ECB to new hikes on interest rates in May 2023, signaling further hikes in the remaining of the year. Sovereign yields curves in euro area move up significantly and steepened during the period May to September 2023. Afterwards, and given the effective monetary policy transmission which was reflected on several economic indicators underlining that the hiking cycle closes to an end, the sovereign yields followed a downward path until the end of December 2023. With regards to the total euro-denominated bond issuances in 2023, an increase was recorded compared to the year 2022. The highest increase on the total gross long-term debt issuances was recorded in the period May – September 2023, with the total amount reaching EUR 1572 bn or about 19 percent higher compared to the same period one year ago.

As far as yield spreads, the euro 10-year government bond yield spreads over the Bund moved in different directions during 2023. In the period from January to March 2023, the government bond yield spreads over the Bund in the euro area have recorded a high volatility.

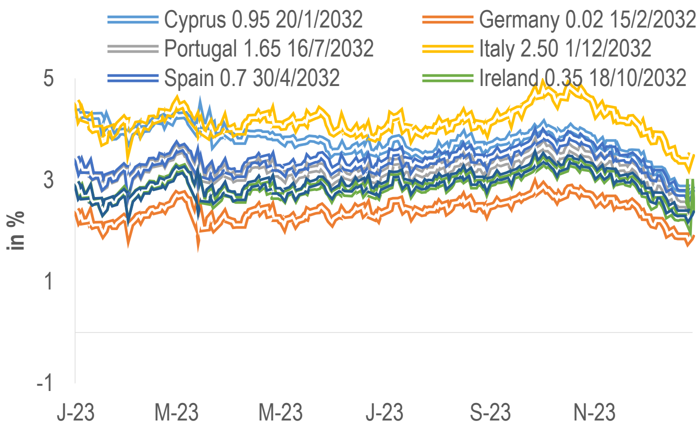
In the period April to December 2023, the government bond yield spreads over the Bund in the euro area have recorded minor fluctuations and towards the end of the year have stabilised around the levels of August 2023.

Among the highlights in 2023, were the significant impact on markets and yield curves by geopolitical developments (Russia-Ukraine war) and changes in monetary policy. During the period February to September 2023, ECB announced 6 hikes of the key interest rates for the euro area, setting the deposit facility rate from 2.5 percent in February to 4.5 percent in September 2023. In the period October to December 2023, ECB decided to keep the three key ECB interest rates unchanged considering the stagnating economy, rapidly decreasing inflation and evidence of effective transmission of its previous decisions for interest hikes. In terms of sovereign ratings, the euro area Member States were granted by 11 upgrades of credit ratings, of which three upgrades associated with Cyprus.

The yield developments of 10-year bonds (where available) for selected Eurozone States throughout the year 2023 in the secondary market are illustrated in Figure 1. The 10-year Cyprus government bond yield followed an upward path in the period January to February 2023 whilst from the beginning of March 2023 the said yield followed a downward path. In May 2023 and after the new hike on interest rates by ECB, signaling further hikes in the remaining of the year, 10-year bonds of selected EU countries move up and steepened up to the end of September 2023. On the other hand, the selected 10-year government bond yields of Cyprus recorded a significant reduction for the corresponding period reflecting possibly the improved economic resiliency and strong medium term growth prospects and positive debt trend and solid debt affordability metrics. For the remaining of the year, 10-year sovereign bond yields followed a downward path reaching to lower levels compared to the beginning of the year 2023.

At the end of 2023, the 10-year Cyprus government bond yield reduced by 143 basis points compared to the beginning of the year reflecting, among other factors, the strong resiliency of Cyprus economy to external shocks, strong growth prospects and improved credit rating profile of the Republic of Cyprus by all Credit Rating Agencies. Reduced sovereign yields were recorded for the 10-year bonds of selected Eurozone states during the same period with the Italian and Portuguese bond yield curve recording the second and third higher reduction of about 102 basis points and 81 basis points compared to the corresponding values at the beginning of the year. Similar paths were recorded, albeit at lower levels, for the Spanish bond (reduction of about 62 basis points), Irish bond (reduction of about 59 basis points), French bond (reduction of about 53 basis points) and German Bund (reduction of about 47 basis points).

Figure 1: Secondary market yield curve levels of Cyprus and selected Eurozone States (10-year government bonds) in 2023



(Source: Bloomberg)

Regarding the implementation of the AFP 2023, one new benchmark sustainability bond (EMTN) with a tenor of 10 year was issued in April 2023, adding one further point in the sovereign yield curve of Cyprus. The said issuance is expected to contribute positively to the implementation of the key strategic goals associated with the enhancement of the economy's resilience and the country's potential for economically, socially and environmentally sustainable long-term growth and welfare.

The market behaviour indicated a disaggregation of the thirteen benchmark (EMTNs) bonds of the Republic of Cyprus into four main groups. The bonds maturing in 2027, 2028, 2030, 2032 as well as the new bond issuance due in 2033 moved in a similar pattern, recording a reduction of more than 100 basis points by the end of the year 2023 since the corresponding values at the beginning of the year and its launch, respectively. The said reduction ranged between 105 basis points to 143 basis points.

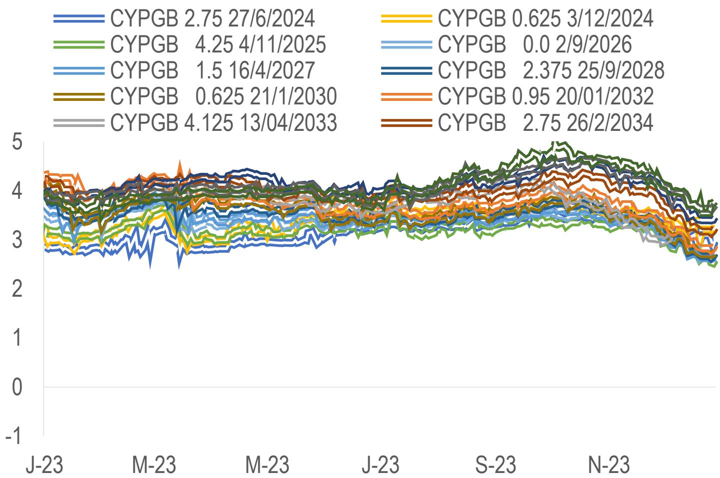
The second group of bonds maturing in 2026 and 2034 recorded a reduction in the range of 50 to 100 basis points by the end of the year 2023 since the corresponding values at the beginning of the year.

The third group of bonds maturing in the short-term such as the bonds due in 2024 and 2025 and in the very long-term such as the bonds due in 2040, 2049 and 2050 moved in a similar pattern and towards the end of the year, recorded a reduction in the range of 0 to 50 basis points compared to the beginning of the year.

The fourth group of bonds include only the 7-year bond maturing in the year 2024 which recorded an increase by 12 basis points at the end of 2023 compared to the beginning of the year reaching 297 basis points.

Figure 2 below, illustrates the yield development of Cyprus' benchmark bonds in 2023, launched under the EMTN Programme which are under English law and listed on the London Stock Exchange.

Figure 2: Secondary yield levels for Cyprus EMTN in 2023

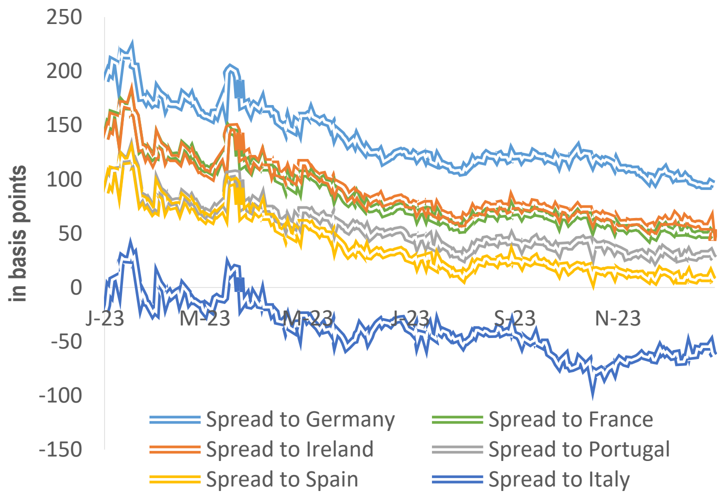


(Source: Bloomberg)

With regards to yield spreads developments, the Cyprus sovereign spreads of the 2032 bond over corresponding selected bonds of euro area countries have marked a significant decline since the beginning of the year until the end of September 2023, despite the continuation of geopolitical developments and interest rate hikes by ECB from the beginning of the year. The yield spreads continued to narrow during the year, representing a minor volatility during March 2023 and then narrowed for the whole year and reached well below compared to those levels at the beginning of 2023, as presented in Figure 3 below.

The Cyprus sovereign yield spread of the 2032 bond (0.95 percent) over German Bund (0.02 percent) maturing on 20th of January 2032 marked an increase up to 17th of January 2023 reaching 217 basis points, and then followed a downward path . During the year, the lowest value of the spread reached 94 basis points whilst the highest value of the spread reached 217 basis points. By the end of the year, the yield spread reduced by 94 basis points compared to the beginning of the year. The spread to the French bond (0.05 percent) maturing on 25th of May 2032 marked an increase up to 12th of January 2023 reaching 169 basis points, and then followed a downward path. During the year, the lowest value of the spread reached 46 basis points whilst the highest value of the spread reached 172 basis points. By the end of the year, the yield spread reduced by 90 basis points compared to the beginning of the year and narrowed to 47 basis points. The spread to the Irish bond (0.35 percent) maturing on 18th of October 2032 moved in a similar pattern to the spread over German Bund, albeit at lower levels and similar to French bond. The spread to the Irish bond followed an upward path up to 17th of January 2023 reaching 173 basis points, and then followed a downward path. The lowest point and maximum point reached -20 basis points (Cyprus bond performed better than Irish bond) and 173 basis points respectively, whilst towards the end of year the spread narrowed to 54 basis points compared to the beginning of the year recording a reduction of 83 basis points. Regarding the yield spread over Portuguese bond (1.65 percent) maturing on 16th of July 2032 and Spanish bond (0.7 percent) maturing on 30th of April 2032, they moved in a similar pattern and were close throughout the year, however at lower spread levels, and towards the end of year reduced by 61 basis points and 81 basis points, respectively compared to the beginning of the year reaching 27 basis points and 7 basis points, respectively. The spread to the Italian bond (2.50 percent) maturing in 1ist of December 2032 moved in a different pattern compared to the other bonds described above since the spread was in a negative territory for the longest period of the year. The minimum spread to the Italian bond was 32 basis points whilst the maximum spread was -86 basis points. By the end of the year, the spread to the Italian bond marked an increase of -40 basis points (in the negative territory) by the end of the year compared to the beginning of the year 2023, and widened to -63 basis points.

Figure 3: Cyprus sovereign yield spread to selected euro area countries in 2023 (bonds maturing 2032)



(Source: Bloomberg)

The secondary market activity and the clearly upward trend of key ECB interest rates for the most of the period in 2023, contributed to the creation of a new funding cost environment for the EMTN issuances in the primary markets. However, the funding cost of the Government for 2024 is expected to be affected at a moderate level given the low gross financing needs, thanks to strong economic growth which is projected in the foreseeable future. An overview of the financing of the Central Government in 2023 is presented in the following chapter.

B. Cyprus sovereign debt market developments

The activity of the domestic government bond market has continued throughout the year 2023, albeit at lower level compared to the year 2022, with regular monthly 13-week TBs auctions. TBs issuances are euro-denominated and are conducted at regular intervals, according to the indicative auction calendar. The auction schedule for 2023 and the indicative auction schedule for TBs for the first half of the year 2024 are presented in the Appendix. The annual outstanding amount of TBs is on a downward pattern since 2013, which is in line with the MTDS. However, in 2023 the TBs programme has been shrunk thanks to increased interest rates which led to the termination of TBs issuances during the period November to February 2024.

In 2023, the total cumulative amount of 13 weeks TBs auctions recorded a significant reduction reaching EUR 242 mn compared to EUR 671 mn in 2022. The total net stock of TBs at the end of the year has marked a significant reduction of around EUR 117 mn reaching around EUR 20 mn or 0.1 percent of the total public debt compared to around EUR 137 mn at the beginning of the year.

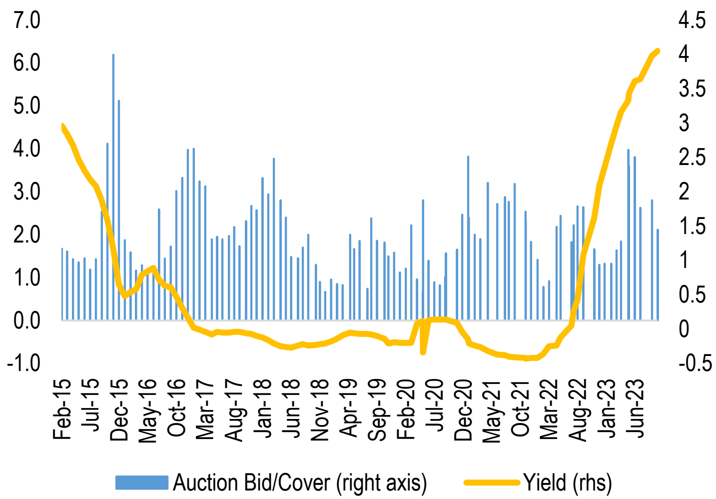
Figure 4 below, illustrates the historical evolution of TBs yields and auction bid to cover ratios[4] during the years 2015-2023. With regards to yields developments, the Cyprus TBs yields turned to positive territory since June 2022 following the ECB interest hikes in order to bring inflation under control. The weighted average yield in 2023 was 3.31 percent compared to 0.37 percent in the year 2022.

Regarding the bid to cover ratios, it seems that the auction participation followed an upward path after the reduction of the issuance amount

[4] The total value of bids received to the issuance amount announced.

announced (denominator effect). The PDMO continues its efforts to attract higher participation of investors for TBs issuances. The annual average auction bid to cover ratio in 2023 was 2.64 times the auctions amount compared to 1.78 times in 2022.

Figure 4: Treasury Bills yields and auction bid/cover ratio in 2015-2023



(Source: PDMO)

IV. Financing of the Central Government in 2023 (AFP 2023)

A. Introduction

The financing of the Central Government in 2023 was achieved through a number of financing instruments. The financing of the Central Government was mainly done through the issuance of a new benchmark EMTN indicating the continuation of the successful presence of the Republic of Cyprus in the international market.

Following the introduction of this Report, the second sub-chapter illustrates the financing of borrowing needs in 2023 by source and by maturity based on the AFP 2023. The next sub-chapter focuses on debt redemptions and liability management transactions executed in 2023. The chapter concludes with a review of the year's financing profile.

B. Financing actions in 2023

The Central Government annual borrowing plan implementation reached 76 percent of the approved plan in 2023, as you can see in Appendix. This is mainly attributed to the strong performance of the Cypriot economy and positive sign of budget balance performance in year 2023, which led to the reduction of the gross financing needs of the Government and to a lesser extent to the reduction of the short-term borrowing by the PDMO due to the significant increase of interest rates. Despite the geopolitical uncertainty and tightening monetary policy, the Cypriot economy has proven resilient for another year which was reflected in the reduction of the total annual borrowing in 2023. The actual borrowing amount in 2023 reached EUR 1.1 bn, excluding debt issued and redeemed within the year, as illustrated in Table 1.

The main component of the annual financing was the issuance of one EMTN of the order of EUR 1 bn underpinned by strong and diversified participation of international, high-quality investors, with the five biggest categories, originating from UK, Cyprus, Nordic - Scandinavian countries, Iberian countries (Portugal, Spain), Greece/Italy and the country cluster of Germany/Austria/Switzerland. In total, about 79 percent of the annual funds borrowed originated by foreign investors mainly consisting of foreign bond and bilateral loans granted by EIB and CEB. The remaining share of about 21 percent originated by domestic investors with both legal entities, mainly Monetary Financial Institutions (MFIs) by investing in foreign bond and TBs issuances as well as natural persons by investing in retail bonds. An amount of EUR 123 mn or about 11 percent of the total annual financing was formed by foreign loans granted by EIB/CEB throughout the year for new and ongoing infrastructure projects.

Table 1: Annual borrowing by financing instrument in 2023

		EUR mn		%	%
1	**Government Securities**		**1040,4**		**89**
	of which:				
	TBs (13 weeks)	19,8		1.70	
	Retail bonds	20,6		1.77	
	Foreign bond (EMTN)	1000,0		85.98	
2	**Loans**		**122,8**		**11**
	of which:				
	EIB – CEB loans	122,8		10.55	
	Total net annual borrowing[1/]		**1163,1**	**100**	**100**

1/= Debt issued and redeemed within the year 2023 is not included.
(Source: PDMO)

Table 2 below, shows the distribution of total net annual borrowing by maturity in 2023. The maturity of the annual borrowing in 2023 ranged between 0.25 years to 20 years with the majority of the debt ranging in the spectrum of over 10 years at around 97 percent (an EMTN maturing in 2033 and bilateral loans maturing in 2033 and 2043). The debt ranged in the spectrum of 0.25-1 year was only 2 percent and is composed by short-term TB issuances.

The weighted average maturity of new debt issued during 2023 recorded an increase reaching 10.4 years compared to 9.7 years the respective debt during 2022, mainly due to the 10-year EMTN issuance.

Table 2: Distribution of total annual borrowing by maturity in 2023

		EUR mn	%
1	0.25 – 1 year	19,8	1.70
2	1 – 5 years	0,0	0.00
3	6 -10 years	20,6	1.77
4	Over 10 years	1122,8	96.53
	Total net annual borrowing	**1163,1**	**100**

(Source: PDMO)

As presented in Table 3 below, in terms of the utilization of borrowed funds, about 89 percent of the annual funding was used by the Government to pay the scheduled debt redemptions. About 11 percent of the annual funding was used for the implementation of new and ongoing infrastructure projects.

Table 3: Summary of the use of the annual funding in cash terms in 2023

		EUR mn	%
1	Debt maturities[1/]	1040,4	89
2	Infrastructure projects	122,8	11
	Total net annual borrowing	**1163,1**	**100**

(Source: PDMO)
1/= The remaining amount of debt maturities in 2023 has been paid through the use of cash buffer.

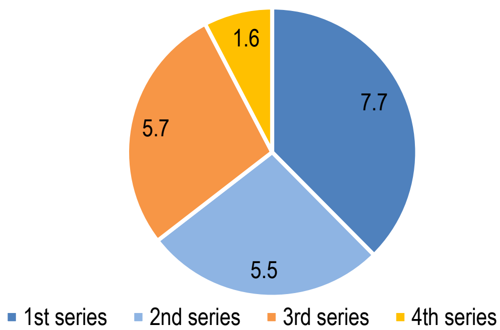
The overview of financing actions implemented during 2023 is presented in more details below. The main financing of 2023 took place in April 2023 through the issuance of the first sustainability benchmark 10-year EMTN of the order of EUR 1000 mn.

The 10-year benchmark bond was at a coupon rate of 4.125 percent and yield of 4.219 percent. The transaction was very successful attracting a high quality and diverse set of investors. The said bond was priced at spread of 125 basis points over the mid-swap rate. The orderbook was oversubscribed by more than 12.1 times. More details are presented in Box 1 below.

In February and July, two loans of the total order of EUR 43 mn were granted by CEB for the implementation of new and ongoing infrastructure projects. In June and August, three loans of the total order of EUR 80 mn were granted by EIB for the implementation of ongoing projects.

In addition, domestic retail bonds amounting to EUR 21 mn were issued throughout the year. The domestic retail bonds, designed to meet the characteristics of natural persons as investors, have a 6 years' maturity and can be redeemed by the holder pursuant to the specific terms of issuance. The interest rate follows a step-up structure and has a positive correlation with the time of holding, motivating the investors to hold the bond until to its maturity. Figure 5 below, illustrates the series of retail bond sales in 2023.

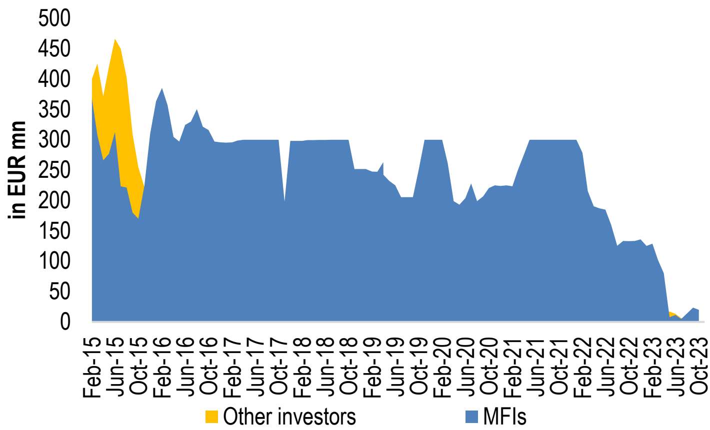
Figure 5: Series of Retail bond sales in 2023 (in EUR mn)



(Source: PDMO)

The annual funding in 2023 has been completed through auctions of quarterly TBs with the total order reaching around EUR 27 mn on average for the whole year, on a roll-over basis. As presented in Figure 6 below, domestic MFIs dominated the Treasury Bill investor base. The participation of non-MFIs such as pension funds and state-owned enterprises in the monthly TBs auctions, has decreased since January 2016 due to the low (negative) yields offered compared to alternative investments particularly bank deposits. Nevertheless, a small participation by non-MFIs in TB auction was recorded in 2023 indicating a sign for more possible demand in the near future.

Figure 6: Evolution of stock of TBs by investor distribution in 2015-2023



(Source: PDMO)

Box 1: Republic of Cyprus EUR 1000 mn, 4.125 10-year Sustainable bond due 13 April 2033

In April 2023, the Republic of Cyprus decided to issue its first Sustainable benchmark 10-year bond in the context of fulfilling its objectives of the MTDS and complementing the objectives of the Recovery and Resilience Plan. The purpose of the issue was to finance and/or refinance selected projects that fall into the green and social framework.

The mandate to take on the role of bank contractor was given by PDMO office to Barclays Bank, HSBC, J.P. Morgan, Morgan Stanley (B&D), Société Générale. Initially on 27th of March, the Republic of Cyprus announced its intention to proceed with a Global Investor Call, as well as, with a series of meetings with investors to present its Sustainable Bond Framework approved by the European Commission. After a strong expression of interest and feedback from investors, the Republic of Cyprus officially announced an inaugural Sustainable 10-year benchmark transaction at 11:55 London time (LDN), on Monday, on 3rd of April, 2023.

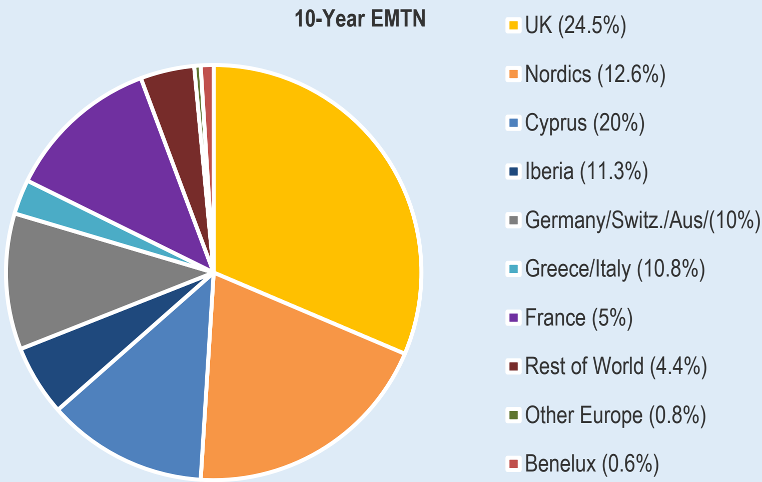
On 4th of April 2023, at 8:19 LDN, the orderbook was officially opened with an initial guidance price at the MS + 140 bps area. The transaction attracted strong investor's interest and at 10:01 LDN, the bids exceeded EUR 8 bn, allowing the issuer to revise guide price and set it at the area of MS + 130 bps, with the issue size to be finalized up to EUR 1 bn. At 10:52 LDN, with the high-quality bid book exceeding EUR12.5 bn, the transaction was launched with the final reoffer spread tightened further and set at MS + 125 bps. The orderbook closed at 11:15 LDN with the final amount of offers in excess of EUR 2.1 bn (including the interest offer by the sponsoring banks at about EUR 340 mn). This, represents the largest orderbook achieved in a single-tranche syndicated transaction by the Republic of Cyprus since its return to the markets in June 2014. It was also the second largest orderbook on record for a Sustainable benchmark issued by a Eurozone country. Finally, at 14:45 LDN, the new EUR 1 bn Sustainable 10-year bond was officially priced at MS +125 bps, equivalent to a reoffer yield of 4.219 percent and a spread of +189.6 bps against the corresponding German bond DBR 2.3 percent (Feb. 2033).

From a geographical origin, a wide distribution of investors was achieved, attracting a significant and diversified number of investors. The large number of offers came from UK investors who received the biggest part of the final allocation. Significant allocation was also given to Nordics countries, Iberian countries (Portugal, Spain), Greece/Italy and the cluster of countries Germany/Austria/Switzerland.

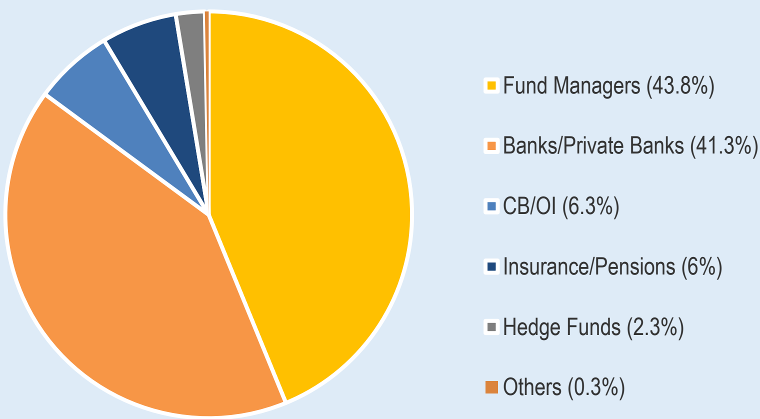
Regarding the type of investors, the largest group of investors in the allocation was Fund Managers with a participation share of 43.8 percent, followed by Banks / Private banks at 41.3 percent. Insurance organizations / Pension and Provident Funds as well as Central Banks / State interest organizations were limited to a participation share of 6 percent and 6.3 percent respectively. The participation of Hedge Funds was also limited to 2.3 percent.

More details on the distribution of investors by geographic region and by type of investor are presented in the graphs below.

Distribution by region



Distribution by type



Summary of terms and conditions

Issuer	Republic of Cyprus (through the PDMO)
Issuer Ratings	BBB/Ba1/BBB/BBB (stable/positive/stable/stable)
	by S&P's, Moody's, Fitch and DBRS
Format	Reg S, Registered only, CACs
Settlement Date	13 April 2023
Maturity Date	13 April 2033
Size	1,000,000,000 EUR
Coupon Rate	4.125%, Annual/ACT/ACT
Re offer price/yield	99.246 / 4.219% p.a.
Spread	+125 bps
Denominations	EUR 1K + 1K
Listing / Law	London Stock Exchange / English Law
ISIN	XS2610236445
Lead Managers	Barclays, HSBC, J.P. Morgan, Morgan Stanley (B&D), Société Générale

C. Liability management transactions and Debt redemptions in 2023

One of the main strategic objectives of the MTDS 2023-2025 was the minimisation of marketable debt borrowing cost. In 2023 the main attention was given to the reduction of the weighted average cost of public debt without affecting significantly the successful extension of the bond yield curve, achieved through longer-term EMTN issuances in the previous years. Through the bond issuance in 2023, the PDMO achieved to retain the weighted average cost of public debt at similar levels, enhance the liquidity buffer and improve the investor base in terms of geography, type and size.

Given the global uncertainty raised from the Russia – Ukraine war, still-high inflation and the related rapid monetary tightening by the ECB during 2023, the PDMO continued to retain the cash buffer at satisfactory levels. However, Cyprus' diversified economy has proven resilient to external shocks. As a result, the actual borrowing in 2023 did not reached the upper limit of the approved AFP. Therefore, a significant part of the financing needs was covered through the utilisation of the cash buffer.

The details of debt redemptions in the domestic/foreign market and loan amortisations by creditor in 2023 are shown in the Appendix.

Table 4 below illustrates all long-term debt redemptions and early prepayment transactions in 2023. The scheduled long-term redemptions of the year, excluding early repayments of the order of EUR 317 mn, amounted to EUR 1395 mn and are mainly related to an EMTN and one domestic bond.

With regards to short term debt, an amount which was rolled over throughout the year, reached EUR 20 mn as outstanding debt up to the year end of 2023.

Table 4: Long term debt redemptions and early debt repayments in nominal terms in 2023

		In EUR mn	%
1	EMTN	1000,0	58.4
2	Domestic bonds of which early prepayments: EUR 300 mn	525,1	30.7
3	Loans	103,9	6.1
4	Retail Securities of which early prepayments: EUR 16.6 mn	83,4	4.9
	Total	**1712,4**	**100**

(Source: PDMO)

D. Review of the annual financing plan 2023

This section illustrates how the annual financing plan changed the debt structure within the year 2023. The change of the debt structure was mainly attributed to the significant reduction of the domestic bonds of the order of EUR 525 mn and to a lesser extent to the reduction of the roll-over debt and retail bonds of the order of EUR 116 mn and EUR 63 mn respectively. It is noted that the reduction of the domestic bonds was also attributed to an early repayment of a domestic bond due in January 2024 of the order of EUR 300 mn.

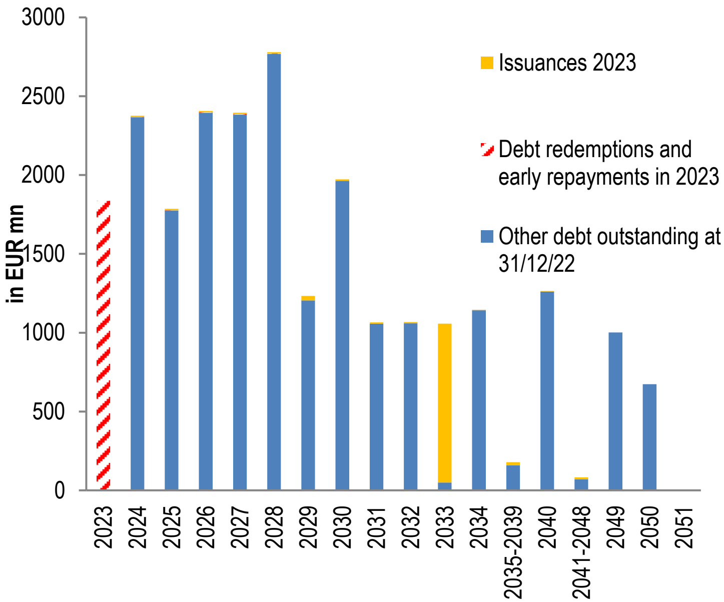
Table 5: Change in the public debt structure in 2023

		in EUR mn
1	Domestic Bonds	-525
2	EMTN	0
3	Treasury Bills	-116
4	Loans	19
5	Retail securities	-63
	Total	**-685**

(Source: PDMO)

Figure 7 below, shows how the public debt maturity profile changed due to funding and liability management transactions in 2023. A total amount of new issuances of around EUR 1.1 bn was added to the public debt maturity profile. An amount of EUR 1000 mn of the new debt issuances is related to a foreign bond fall in the year 2033. The second largest amount of debt of the order of EUR 123 mn concerns loans granted by supranational organisations for project financing with their repayments spread between 2024 to 2043 whilst a small amount of the order of EUR 21 mn related to retail bonds due in 2029.

Figure 7: Change of public debt maturity profile through 2023 actions



(Source: PDMO)

In general, the maturity profile at the end of 2023 remained within comfortable / manageable levels and within the targets set in the MTDS. The year 2028 which is the peak of the public debt is on a continuous monitoring, in order to avoid adding new debt on this year. However, taking into consideration the strong recovery of the economy and the significant improvement on the public finances, the Government will be in a position to refinance the said debt.

V. The size and Composition of Government Debt

A. Introduction

Statistical methodology and valuation for public debt is based on concepts defined in the European System of Accounts 2010. According to the consolidated version of the Treaty on the Functioning of the European Union (2012), the government debt is defined as “the total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government”. In the case of Cyprus, the relevant subsectors are the Central Government, the local authorities and the Social Security Fund (SSF).

Following the introduction of this Report, the second sub-chapter which is organized in three sections, provides the statistical description of government debt. The first and second sections deal with the size, historical evolution and structure of the consolidated general government debt, whereas the third section deals separately with the unconsolidated general government debt.

B. Statistical description

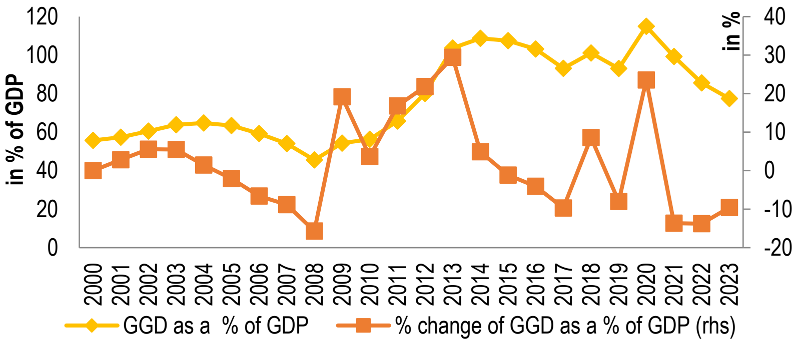
B.1 Size and evolution of General Government Debt

The General Government Debt (GGD) as a percent of GDP was on an upward path until the end of 2014 and thereafter, it marked an average reduction of around 5 percent for the next three consecutive years. In 2018 the outstanding amount of government debt increased by 8 percentage points (pp) reaching EUR 21.9 bn due to the government intervention of the order of EUR 3.5 bn to facilitate the sale of ex-Cyprus Cooperative Bank (CCB).

The debt to GDP ratio marked a significant decrease of 8.1 pp from around 101.1 percent in 2018 to 93 percent in 2019 whilst in 2020, the debt to GDP ratio marked a significant increase of 21.9 pp, due to the coronavirus pandemic which affected many countries all over the world including Cyprus, reaching EUR 25.4 bn or about 114.9 percent of GDP, as presented in Figure 8 below. In 2021, 2022 and 2023 the debt to GDP ratio recorded a significant reduction of 15.7 p.p, 13.7 p.p and 9.6 pp respectively due to the strong nominal GDP growth and the improved fiscal position of the General Government translated to a sharp decline in the government debt to GDP ratio.

Figure 8 also shows that the percentage change of debt as a ratio of GDP was on a downward pattern since 2014, excluding years 2018 and 2020. The net debt to GDP ratio, in which the accumulation of cash reserves of the order of EUR 2830 mn is excluded, was estimated at around 67.9 percent as at the end of 2023.

Figure 8: Debt to GDP ratio evolution in 2000-2023

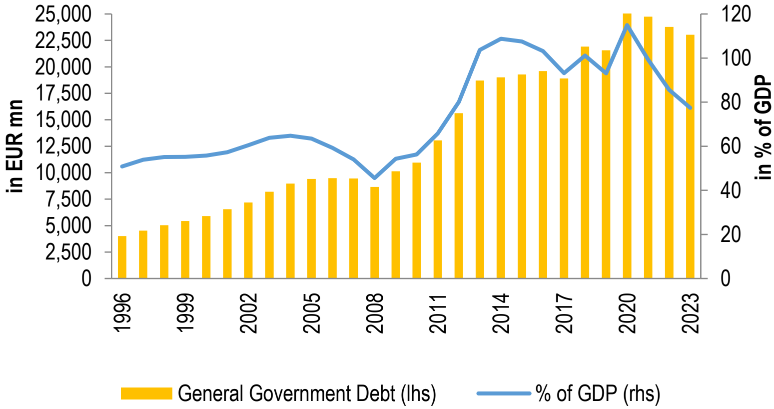


(Source: PDMO, Ministry of Finance and Eurostat)

The historical debt evolution over the years 1996 to 2023 is presented in Figure 9 below. During the period 1996-2006, the GGD followed an increasing path subsequently decreasing until 2008, when the debt to GDP ratio reached 46 percent, which was the lowest level, due to fiscal consolidation, and the use of available sinking funds. Since then, fiscal slippage, low to negative growth rates, capital injections into the banking sector and measures under the Memorandum of Understanding and other emergency loans, contributed to a considerable increase to the ratio. The state capital support to the domestic financial sector reached EUR 3.8 bn or about 20 percent of the gross public debt at end 2015.

Despite the sharp increase in the public debt, the strong fiscal outcome and the balanced budget for the period 2014-2016 combined with the strong real GDP growth of 3.4 percent in 2015 and 6.6 percent in 2016, allowed debt to stabilise earlier than expected and also at lower levels than originally anticipated. The years 2017 and 2018 were also years of strong fiscal outcome with positive real GDP growth of 5.7 percent and 5.6 percent respectively and in 2019 the growth rate exhibited an additional increase of 5.5 percent. In 2020, the public debt recorded an increase of 21.9 pp, reaching 114.9 percent of GDP whereas the real GDP exhibited a reduction of 3.4 percent due to the impact of the pandemic on economic activity. During the period 2021-2023, the strong nominal GDP growth improved the fiscal position of the Government translating to a sharp decline in the government debt to GDP ratio below 80 percent in 2023. The historical evolution of gross general government debt in values and as a percent of GDP for the period 1995-2023 is presented in table 4 in Appendix.

Figure 9: Trend in the consolidated general government debt in 1996-2023



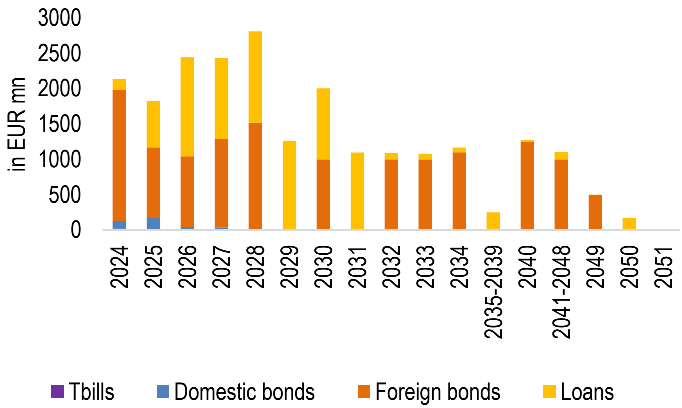
(Source: PDMO and Ministry of Finance)

B.2: Composition of the General Government Debt

This section presents the composition of the GGD at the end of 2023. The maturity structure of the GGD gives a clear picture of the distribution profile among different outstanding liabilities. Figure 10, illustrates the debt maturity profile, in other words the size of the debt sums maturing in each individual year given the outstanding GGD, excluding the outstanding amount of loans under the European Financial Stability Facility (EFSF) of the order of EUR 222 mn and of the nominal value of euro coins in circulation as at the end of 2023. In general, the debt maturity profile is smooth and the annual debt maturities are comfortably manageable.

The outstanding amount of debt, as described above, due within the period 2024-2028 is estimated at EUR 11619 mn or about 51 percent of the total debt. During the above period, an amount of EUR 6600 mn or 57 percent of the total debt due within this period, is associated with the repayments of EMTNs and an amount of EUR 4638 mn or about 40 percent refers to the repayments of loans during the same period. The remaining amount concerns domestic bonds and retail bonds. The year 2028 concentrates the highest annual maturities of EUR 2809 mn of which an amount of EUR 1500 mn or about 53 percent is related to the repayment of an EMTN and EUR 1290 mn or about 46 percent to loans, mainly to the repayment of the fourth instalment of the ESM loan.

Figure 10: General government debt redemption profile as at the end of 2023



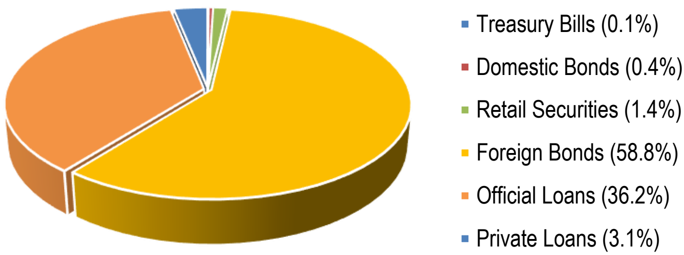
(Source: PDMO)

The share of the government debt by financing instrument, as at the end of December 2023, is illustrated in Figure 11 below. The two largest categories of the outstanding debt are the foreign bonds and the official loans. About 59 percent of the outstanding public debt in 2023 is related to EMTN issuances. About 39 percent of the loans' category comprised loans disbursed to the Republic of Cyprus of which the vast majority, about 70 percent of the official loans are associated to loans disbursed by the ESM during the period 2013-2016 whilst the remaining was comprised by other bilateral loans, disbursed by EIB, EC and CEB.

The remaining share of the outstanding public debt (around 2 percent) is related to domestic securities issued in the domestic market which is expected to reduce the following years but it will continue to serve as a complimentary financing source. The outstanding Central

Government debt as at the end of 2023 is presented in Tables 5, 6 and 7 in Appendix.

Figure 11: Share of general government debt by financing instrument as at the end of 2023



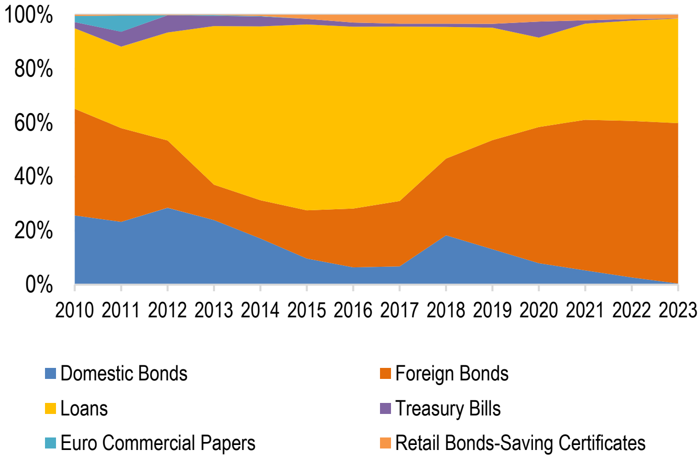
(Source: PDMO)

Figure 12 below, illustrates the historical breakdown of GGD by financing instrument during the years 2010-2023. During the above period, it is obvious that the vast majority of government debt concerned loans which increased abruptly in 2013 by 19 pp compared to 2012 and followed an upward trend until the end of 2015 reaching 69 percent mainly due to the official loans provided by ESM and IMF. In the years 2016 and 2017 the level of loans recorded a small reduction and then followed a downward trend reaching 33 percent by the end of 2020 due to the early prepayments of the two bilateral loans, the first one which was granted by the Russian Federation in 2019 and the second one by the IMF in 2020. From 2019 onwards the investor base of Cypriot public debt has started to change significantly and has shifted from foreign official creditors to foreign bondholder's investors. In 2022, the outstanding amount of loans marked an increase reaching around 37 percent, mainly due to the loans granted by the European Commission under the SURE instrument in order to mitigate unemployment risks, as a result of the Covid-19 pandemic and fund the social support measures taken by the Government. In 2023, the outstanding amount of loans marked a small increase as a result of the new loans granted by supranational organisations for project financing.

While in the past, domestic bonds were one of the main financing instruments with an average contribution of around 25 percent in years 2010-2013, since 2014 the contribution of the said category to the GGD has marked a significant reduction reaching around 3 percent in 2022 compared to the highest point of 29 percent in 2012. In 2023 the corresponding figure was around 0.4 percent after the early repayment of a domestic bond of the order of EUR 300 mn due in 2024. It is noted that the significant increase in 2018 by 12 pp compared to the previous year was attributed to the domestic bond issuances of the order of EUR 3.19 bn to facilitate the sale of the ex-CCB. However, domestic debt market is expected to continue to serve as a complimentary financing source, due to its strategic importance as a factor of diversification.

On the other hand, EMTN securities have increased by 15 pp since 2013 reaching 28 percent as at the end of 2018 whilst one year later, in 2019, another increase of 12 pp has been recorded reflecting the intention of Cyprus to maintain its presence in international capital markets and build up a pertinent sovereign yield curve. By the end of 2020, the share of foreign bonds has exhibited a significant increase of about 10 pp reaching 50 percent in order to cope with the uncertainty surrounding the development of the Covid-19 pandemic. In 2022 and 2023, the share of foreign bonds reached 58 percent and 59 percent of the outstanding public debt, respectively.

Figure 12: Historical breakdown of GGD by financing instrument in 2010-2023

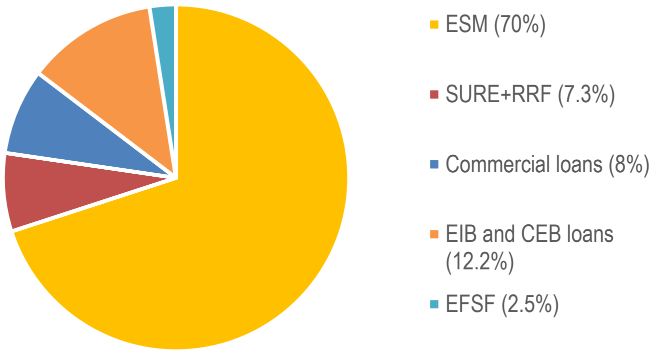


(Source: PDMO)

The distribution of outstanding loans by source as at the end of 2023 is presented in Figure 13 below. As mentioned above, the majority of the stock of outstanding loans as at the end of 2023 is associated with the programme loans provided by ESM. Another important funding source was the loans disbursed by EIB and CEB for the implementation of new and ongoing infrastructure projects as well as by EC under SURE Instrument. These loans constitute 19.5 percent of the total outstanding loans as at the end of 2023 of which around 12 percent are related to EIB and CEB loans. The total value of Cyprus' loans from domestic sources reached at 8 percent towards the end of the year 2023.

Finally, about 2.5 percent of the outstanding guaranteed loans granted via the EFSF to Greece, Ireland and Portugal, as attributed to the creditor countries of EU, including Cyprus, are included in the public debt statistics[5]. The government debt by instrument and lender as at the end of 2023 is presented in Table 7 in Appendix.

Figure 13: Distribution of loans by source as at the end of 2023

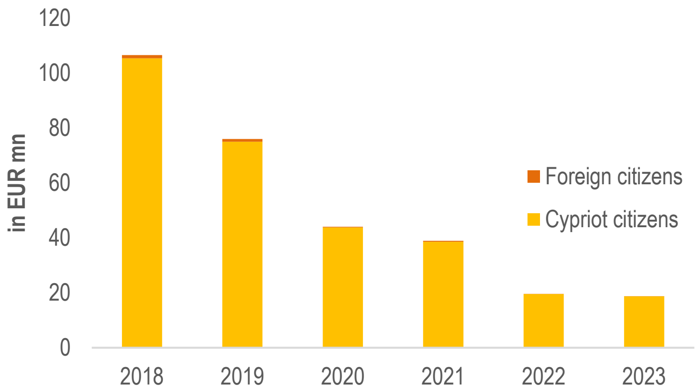


(Source: PDMO)

Figure 14 below, shows the outstanding amount of retail bond sales by citizenship during the years 2018-2023. The majority of the value of retail bonds during the said period was held by Cypriot investors. Considering data as at the end of 2023, about 99 percent of the total outstanding amount of retail bonds were held by Cypriot citizens and about 1 percent by foreign citizens.

[5] The creditor countries have an equal value of assets, as loans granted, in their balance sheet corresponding to the share of liabilities, i.e. the accumulated debt by the EFSF. However, any assets which may offset debt are not included in the general government debt, as this is reported on a gross basis.

Figure 14: Distribution of retail bond sales by citizenship in 2018-2023



(Source: PDMO)

As mentioned earlier, in the case of the Republic of Cyprus, the three subsectors of the general government are the Central Government, the Local Authorities and the SSF. The Central Government includes all activities under the State Budget and one State-Owned Enterprise[6]. It is worth-noting, that the responsibilities of the PDMO in practice are currently limited to the debt management operations of the Central Government.

According to the Eurostat definition, as described above, the public debt is reported in consolidated form and as a result, any obligations among the general government subsectors are not shown explicitly.

The highest percentage of the consolidated GGD, in gross terms, is made up of the Central Government debt. As at the end of 2023, the share of outstanding Central Government debt, excluding debt to SSF,

[6]The State-Owned Enterprise categorised within the Central Government and which has an outstanding debt balance is the Cyprus Sports Organisation.

accounted for around 97 percent of the general government debt on a consolidated basis. This share has historically remained constant.

Regarding the local authorities' loans, they were calculated to be around EUR 470 mn at the end of 2023. The majority of these loans is related to the borrowing of sewerage boards and local authorities. This debt is thus in the form of long-term bank loans either on floating or fixed interest rates.

The third subsector of the general government, the SSF, does not have an outstanding debt balance. On the contrary, the Fund records an annual surplus which is invested within the Central Government, the total balance of which constitutes intra-governmental borrowing. This intra-governmental asset - liability relation is presented in section B.3 below.

B.3: Investments of the SSF and Administered Funds

Due to its historical annual surpluses the SSF has a very large stock of investments with the Central Government. Investments of the SSF in the form of deposits within the general account of the government or by ownership of government securities, at year end of 2023, amounted to EUR 10609 mn according to the Social Insurance Services. The Funds, which are reported as a single account, in fact, comprise of five different accounts:

1. The Social Security Fund;
2. The Unemployment Benefits Account;
3. The Central Holiday Fund;
4. The Termination of Employment Fund; and
5. The Insolvency Fund.

Intra-governmental deposits

The majority of assets of the SSF are in the form of deposits within the Central Government. Annually, the surplus of the SSF is invested with the Government. By the end of 2023, the balance of the SSF in the form of deposits stood at EUR 10609 mn exhibiting an increase of around 10.4% in relation to the previous year balance of EUR 9609 mn.

Intra-governmental investments in government securities

In addition, the SSF in an effort to increase its revenue, has invested in Government EMTN bonds and Government domestic bonds. Since June 2021, the total outstanding amount of investments in government paper reduced to zero. It is noted that the SSF also maintains deposits with local credit institutions amounting to a total of EUR 106 mn as at the end of 2023.

Intra-governmental investments by Administered Funds

In addition to the SSF, intragovernmental investments (debt) are done through other five Administered Funds. There are five Administered Funds of the Central Government with an outstanding balance at year end 2023 of EUR 123 mn of which EUR 62 mn concerned investments of the Turkish Cypriot Properties Fund, EUR 57 mn of the Government Hourly Employees Provident Fund and EUR 4 mn of the Hunting Fund. The other two administered Funds are:

1. The Human Resources Development Authority Fund; and
2. The Agricultural Insurance Organisation Fund.

It is noted that the outstanding balance of the above two Funds since the year 2018 was equal to zero. The surpluses of these Funds are invested in Government Promissory Notes.

Finally, the only intragovernmental debt existing between the local authorities and the Central Government are two loans which were granted in 2011[7] by the Municipality of Nicosia to the Central Government at a variable interest rate extending to 2035 and 2026 respectively, with a 5-year grace period. The total outstanding balance of the said loans at the end of 2023 was EUR 4.5 mn. It is noted that the outstanding amount of EUR 1.5 mn has already been prepaid to

[7] That was before the enactment of the Public Debt Management Law (2012) and of the Fiscal Responsibility and Budgetary System Law (2014).

CEB in February 2024 whilst the remaining amount is also expected to be paid earlier to EIB in June 2024.

It is worth noting that the intra-governmental relationship between government - SSF and other Administered Funds, as mentioned above, on a consolidated basis, is merely a statistical and accounting methodology.

VI. Cost and risks

A. Introduction

The analysis of cost and risk was incorporated in the MTDS for the years 2023-2025. The cost-risk trade off was examined using the MTDS Analytical tool, which captures scenario analyses on various borrowing strategies.

This chapter is organized into two sub-chapters. The first one provides the cost of the public debt in terms of interest payments and the average interest rate. The second one discusses a number of risks which are related to the public debt.

B. Cost of the public debt

In this sub-chapter, the cost of the public debt is presented mainly by the perspective of the interest payments made to service the debt as well as by the weighted average cost of public debt.

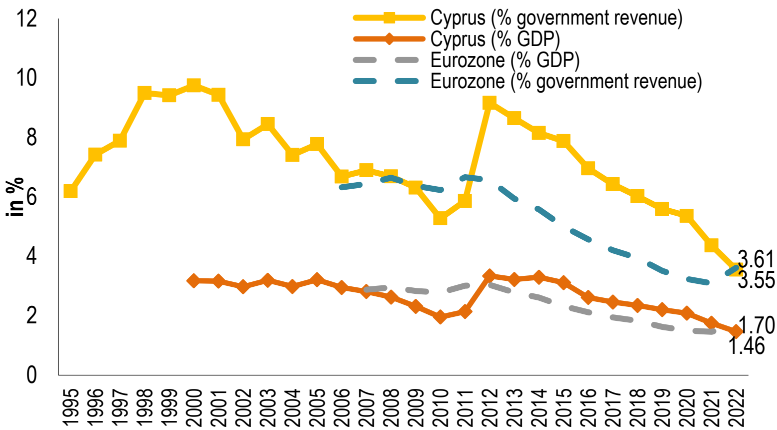
Historically, during the years 1995-2006 the average share of government revenue spent on the interest payments to service the public debt was 9 percent, with the highest share reaching 10 percent in 2000. The decrease of the public debt as a percent of GDP by around 8 pp in 2008 compared to 2007, contributed to the reduction in interest payments towards 7 percent of the government revenue and remained on average at 6 percent in 2009-2011.

Then, due to the sharp increase of public debt in the next years as well as the rise in the borrowing cost itself, the ratio of government revenue for interest payments followed an upward path reaching 9 percent at the end of 2013. It then followed a downward direction reaching around 5 percent at the end of 2020, around 4 percent at the end of 2021 and around 3.5 percent at the end of 2022, as presented in Figure 15 below. It is noted that the improvement of the indicator in 2022 was mainly attributed to the huge increase of government revenue and to a lesser extent to the reduction of interest payable.

Additionally, the interest payments as a percentage of GDP were close to 3 percent during the years 2000-2008 and then remained stable at around 2 percent until the end of 2011. Since 2012, the interest payments of Cyprus as a percentage of GDP exhibited an increase remaining above the corresponding values of the Eurozone average, as presented in Figure 15. It is important to highlight that, despite the sharp increase of public debt during 2011-2013, the amount of interest payments was restrained by the considerable improvement in the borrowing cost from official sources.

By the end of 2018, interest payments to GDP ratio were estimated at 2.3 percent compared to 2.5 percent of the previous year, despite the increase of the public debt in 2018. This is attributed to: (a) the lower amounts of interest payments due to lower borrowing cost because of low interest rates environment in the Eurozone, (b) improvements in the sovereign credit ratings, (c) the recovery of the Cypriot economy and (d) the increased GDP. In addition, the first interest repayments for the increased debt of 2018 fell due during the next year 2019. In 2019 and 2020, the interest payments to GDP ratio reduced to 2.2 percent and 2.1 percent respectively whilst in 2021 and 2022 interest payments reduced below 2.0 percent reaching 1.8 percent and 1.5 percent of GDP, respectively. As presented in the following Figure, the gap of interest payments as a share of GDP between the Republic of Cyprus and the Eurozone marked a reduction of 0.23 pp reaching 0.36 percent in 2021 compared to 0.59 percent in 2020. In 2022, for the first time after 2012, the difference of interest payments as a share of GDP between Cyprus and the Eurozone shifted to negative value territory meaning that the figure for eurozone was higher than the corresponding figure of Cyprus. The historical debt servicing in 2012-2022 is presented in Table 9 in Appendix.

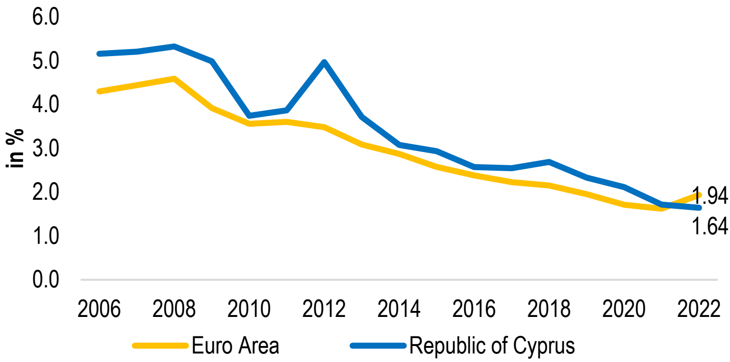
Figure 15: Distribution of interest payable on public debt during 1995-2022



Source: PDMO and Eurostat)
Note: The interest payable as a percent of GDP in 2023 was estimated at 1.47 percent.

Figure 16 illustrates the distribution of interest payable over debt for the Republic of Cyprus compared to Euro area countries in 2006-2022. Since 2013, interest payable to debt ratio is on a downward path exhibiting minor fluctuations. Regarding the gap between the Republic and Euro area countries, there is a convergence since the gap marked a significant reduction in 2021 reaching 0.1 pp compared to 0.5 pp in 2020 and 1.5 percent at the end of 2012. In 2022, the difference turned to negative reaching -0.3pp meaning that the said indicator is better than the corresponding figure of the euro area for the first time since 2006.

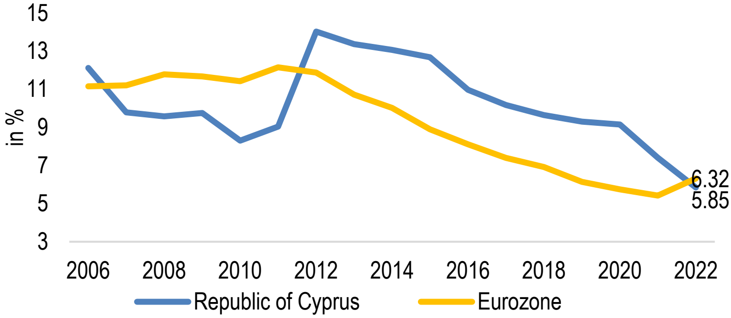
Figure 16: Distribution of Interest payable$_{(t)}$ to Debt $_{(t-1)}$ in 2006-2022



(Source: PDMO and Eurostat)
Note: The interest payable to Debt $_{(t-1)}$ was estimated at 1.84 percent in 2023

Figure 17 illustrates the distribution of interest payable to tax revenue for the Republic of Cyprus compared to Euro area countries in the period 2006-2022. During the period 2013-2019 the gap was on average 3.0 percentage points whilst in 2021 the said figure marked a significant reduction reaching around 2.0 pp compared to around 3.4 percent in 2020. In 2022, the said figure was negative reaching -0.5 pp indicating that the interest payable to tax revenue was lower than the eurozone.

Figure 17: Distribution of interest payable to tax revenue in 2006-2022



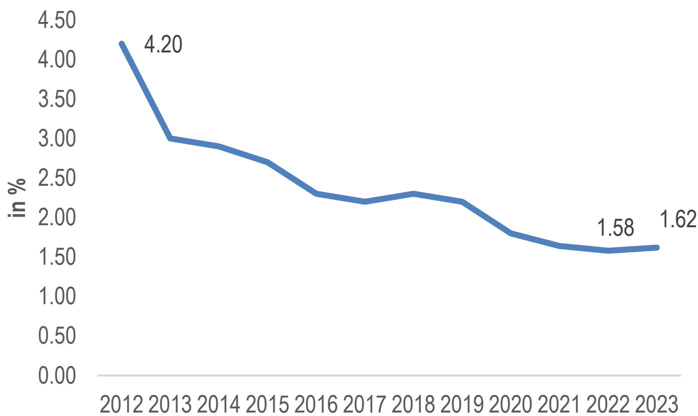
(Source: PDMO and Eurostat)

Another measure reflecting the overall rate being paid by the State on public debt financing is the weighted average cost of debt (WACD), although this alone does not indicate its burden on the economy as a whole. This indicator provides to investors information concerning the creditworthiness or the riskiness of the State implying that riskier States generally have a higher WACD. Within this framework, this indicator is very important for the sustainability of the public debt.

As presented in Figure 18 below, the peak of the WACD was in year 2012 when the said figure reached 4.2 percent. One year later the WACD marked a significant reduction by 1.2 pp mainly due to the official funding provided by ESM and IMF at low interest rates. During 2013-2020 the WACD followed a downward trend reaching 1.58 percent at year end of 2022. In general, the downward path of the weighted average cost of debt curve was attributed to: (a) EMTN issuances at lower interest rates due to the low interest rates environment in the European capital markets, (b) the positive impact from the low-cost ESM loans and (c) the liability management transactions implemented by the PDMO. In 2023 the WACD exhibited an increase of 0.04 pp reaching 1.62 percent, mainly due to the recent changes in the monetary policy by ECB to bring high inflation under control.

A necessary pre-condition to enhance the sustainability of public debt, is to achieve and maintain the WACD in the area below the level of the nominal growth rate of GDP.

Figure 18: Weighted average cost of debt in 2012-2023



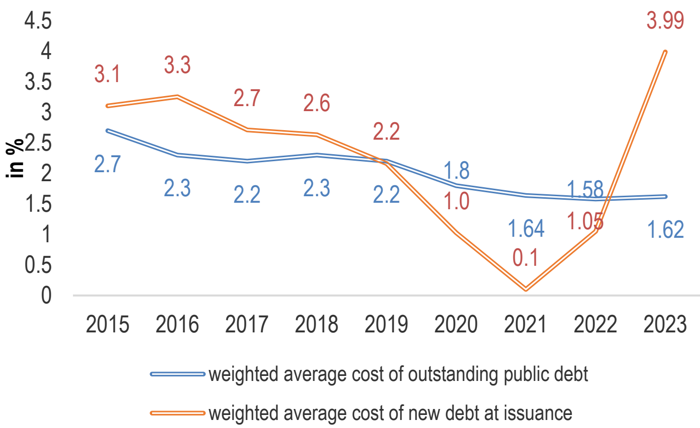
(Source: PDMO)

Figure 19 below, illustrates the historical evolution of the weighted average cost of the outstanding debt in comparison with the weighted average cost of new debt issued in each year for the period 2015-2023.

For the period 2015-2018, the weighted average cost of new debt moved above the weighted average cost of the outstanding public debt resulting in minor changes in the total index. It is noted that the reduction of the weighted average cost of outstanding public debt during the reference period is attributed mainly to the implementation of the debt management strategy of the PDMO since the last program fund which was provided to the Republic of Cyprus was in 2015 by ESM and in 2016 (a small amount) by IMF. Excluding the cost of programme fund provided in 2015 and in 2016, the weighted average cost of new debt at issuance in 2015 and 2016 were 3.8 percent and 3.4 percent indicating that the weighted average cost of new debt at issuance followed a downward trajectory. The gradual reduction of the weighted average cost of new debt at issuance was attributed to a number of factors, intel alia, the liability management transactions executed throughout the reference period, the low interest rate environment in the European capital markets, the improved credit rating profile of Cyprus and it's return to the investment grade since September 2018, the successful exit from the Economic Adjustment Programme as well as it's presence in the international capital markets.

In 2019, the weighted average cost of new debt at issuance reached the level of the weighted average cost of the outstanding debt whilst in 2020 the reduction of the weighted average cost of new debt at issuance by 1.2 pp has contributed further to the decrease of the total cost. In 2021, the weighted average cost of public debt exhibited further reduction of 0.2 pp benefited also from the reduction of the weighted average cost of new debt issuance which was retained at historically low levels reaching around 0.1 percent. In 2022, the weighted average cost of public debt exhibited a small reduction of 0.1 pp despite the upward path of interest rates during last year as well as the continued uncertainty affecting the global economy. On the other hand, the weighted average cost of new debt recorded an increase by 1.0 pp. In 2023, the weighted average cost of new debt marked a significant increase of about 2.9 pp as a result of the consecutive hikes of interest rates by ECB leading also to the increase of the weighted average cost of outstanding public debt at the end of 2023 by 0.04 pp after 10 consecutive years of a downward path.

Figure 19: Weighted average cost of outstanding and issued debt (2015-2023)



(Source: PDMO)

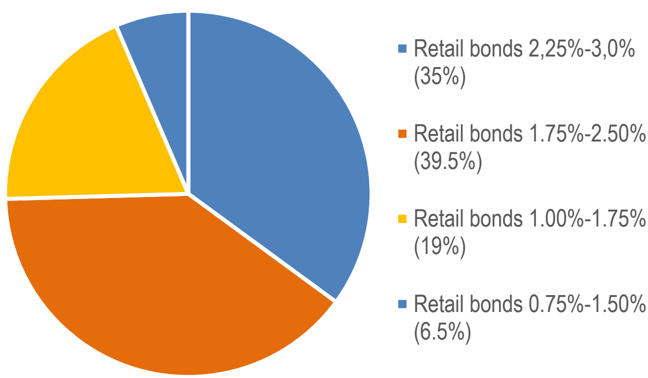
Furthermore, it is important to highlight that the refinancing of the short-term debt at negative interest rate was interrupted since June 2022 due to the changes in the monetary policy by ECB. In 2023, the refinancing of the short-term debt continued on a positive territory rate, reaching 4.05 percent at the last T.Bills issuance in October compared to 1.62 percent at the corresponding period of the year before. The weighted average yield of short-term debt in 2023 was 3.31 percent compared to 0.37 percent the year before.

Regarding the interest rates of retail bonds, it is noted that since 2021, the PDMO proceeded to two increases of the interest rates under the terms of issuance on six-year government bonds for natural persons.

By the first announcement of the PDMO, in September 2021, the new step-up structure of interest rate starts from November 2021 determined in a range from 0.75 percent to 1.50 percent, if retained until the sixth year whilst by the second announcement, in June 2023 the new step-up structure of interest rates starts from October 2023 determined in a range from 1.00 percent to 1.75 percent (see in Appendix).

Figure 20 below, shows the distribution of the outstanding amount of retail bonds by interest rate structure at the end of December 2023. About 39.5 percent of the outstanding amount of retail bonds ranged in the spectrum between 1.75 percent to 2.5 percent. The second largest category (about 35 percent) concerned retail bonds with interest rates between 2.25 percent to 3.0 percent, followed by the retail bonds ranged in the spectrum between 1.0 percent to 1.75 percent (about 19 percent).

Figure 20: Distribution of retail bonds by interest rate structure in 2023



(Source: PDMO)

As mentioned in chapter 2, in order to minimise the marketable debt borrowing cost, the PDMO continued its efforts to further expand and diversify the investor base for EMTN issuances since 2016. In the year 2019, there was a significant improvement in the quality of the order book in all EMO (EMTN) publications. This is mainly due to the improved credit rating profile, the positive outlook for the economy as well as the strong support of the Republic of Cyprus by the international investment community. In 2022 EMTN issuance, an increased participation was recorded by Fund Managers and Insurance/Pension Funds.

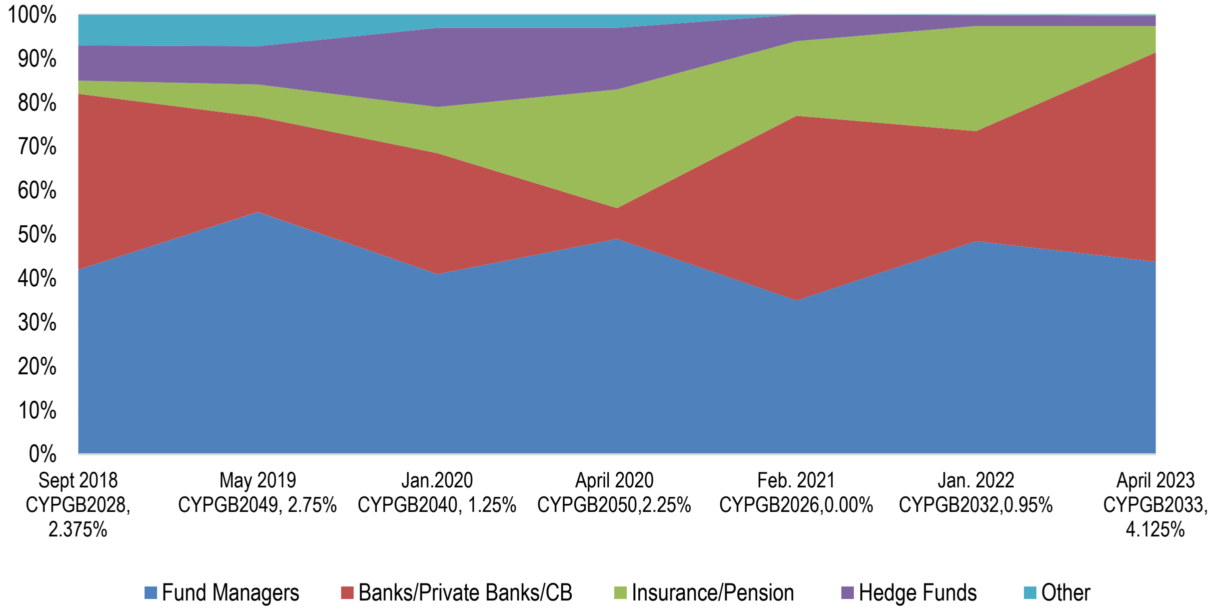
In 2023, marketing activities have been focused on sustainable borrowing under Green/Social/Sustainable instruments to complement the objectives of the Recovery and Resilience Plan. As a result, in April 2023 the Republic of Cyprus issued the first 10-year sustainability EMTN. The evolution of investor distributions by geography and type are presented in the Figure 21 and 22, respectively.

In all debt issuances included in the analysis presented in the Figure below, the largest category of investors was Fund Managers (at 45 percent on average) and then Banks/Central Banks (at 30 percent on average). The participation from Hedge Funds recorded a large decrease, approaching 9 percent on average. The participation from Insurance / Pension Funds was on average at 14 percent.

With regards to the EMTN issuances included in the mentioned analysis, it is worth-noting that the investors base by geography has improved significantly during the last years. UK investors continue to maintain a significant share on EMTN issuances with the average share on the final allocation reaching 26 percent for the selected EMTNs. The corresponding weighted average participation of investors from the German regions (Germany, Austria, Switzerland) was 16 percent whilst the corresponding weighted average participation from other Europe was 39 percent. The corresponding figure for Cypriot investors estimated at 13 percent on average.

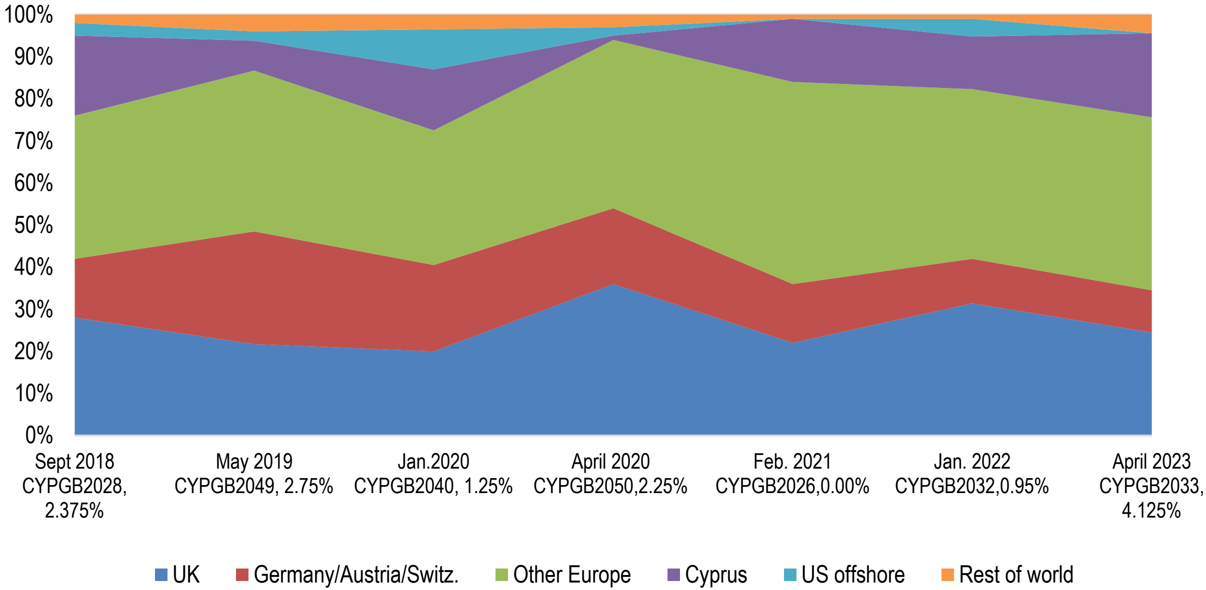
It is also important to note that in 2023 EMTN issuance, there was a significant participation of investors from Nordic countries, Iberia, Greece/Italy and France whilst the participation from UK, German/Austria/Switzerland regions remained in high level.

Figure 21: Evolution of investor distribution for selected EMTNs by type during 2018-2023



(Source: PDMO)

Figure 22: Evolution of investor distribution for selected EMTNs by geography during 2018-2023



(Source: PDMO)

C. Risks

C.1: Introduction

Risk management has become an increasingly important tool for achieving strategic debt targets. Therefore, the risk management framework is an integral part of the MTDS for the years 2023-2025, in which a number of quantitative risk targets were set by the PDMO.

The process of establishing and executing a strategy for managing the public debt contains unavoidable, both financial risks as well as non-financial risks such as operational risks. All of these risks are added to existing fiscal risks for the Government.

The most important categories of financial risks are the refinancing risk, the interest rate risk and the foreign exchange risk. In general, the developments of 2023 on the debt portfolio risks and cost were positive with minor changes to the corresponding outcomes of the year 2022. The weighted average maturity of marketable debt recorded a slight improvement retaining at a very satisfactory level and above the threshold determined in the MTDS 2023-2025. The share of debt due within one year exhibited an increase of about 2.7 pp whilst the share of debt due within five years recorded also an increase of about 5.6 pp in 2023 compared to the year before. However, the refinancing risk is mitigated by strong cash buffer. With regards to the foreign exchange risk, since February 2020 and after the fully repayment of the IMF loan, there is no exposure to foreign exchange risk. The interest rate risk remains material since the floating rate debt has stabilized at around 30 percent during the last four years. However, the interest rate risk is mitigated since the majority of the floating rated debt is associated with ESM loans which carry very low interest rates. It is noted that since the first repayment of the ESM loans is scheduled to be executed in 2025, only minor changes are expected to be recorded. In addition, despite the abrupt increase of market interest rates in 2023 of about 80 percent (y-o-y), the corresponding increase of the weighted average interest rate of ESM loans for the Republic of Cyprus was about 28 percent.

With regards to the weighted average cost of public debt, after 10 consecutive years of a downward path, the said indicator marked a minor increase by 0.04 pp due to geopolitical developments and tightening monetary policy by ECB, however the said figure was retained at low level.

Following active debt management and liability management transactions executed in the previous years, the debt maturity profile has smoothened out at very satisfactory level, therefore the maturity risk is sustained at low level.

It is important to highlight that risk management of public debt does not, in the ordinary application, cover the debt sustainability assessment since the latter is related mostly to fiscal and macroeconomic indicators, conventionally the GDP and the fiscal balance. Thus, the debt sustainability analysis focuses on macroeconomic factors and prospects which is not the primary subject of public debt management. However, the evolution of these parameters in conjunction with the WACD is closely monitored by the PDMO.

C.2: Financial and non-financial risks

This section has twofold objectives, of which the first one is to cover the analysis of the most important financial risks associated with the debt management operations whilst the second one is focusing on a discussion about the operational risks.

C.2.1: Financial risks

Refinancing risk

Refinancing risk is the probability (risk) for the Government to face a situation where a share of debt reaching maturity can only be replaced with the issuance of new loans either at very high cost or, in the extreme case, cannot be refinanced at all.

In order to capture the refinancing risk of the Government, two indicators were used. The first one is the share of debt due within one year and the second one is the share of debt due within five years.

As presented in Figure 23 below, the share of debt due within one year followed a decreasing path since 2012. The large reduction of share of debt due within two years, from 22 percent in 2012 to 11 percent in 2014, was attributed to the long-term official funding granted by ESM and IMF to address short-term and medium-term financial, fiscal and structural challenges that Cyprus was facing, which replace short-term borrowing with long-term borrowing. In the following years, the said indicator has continued to improve underpinned mainly to the disbursements granted by ESM and IMF and the liability management transactions implemented during 2014-2017.

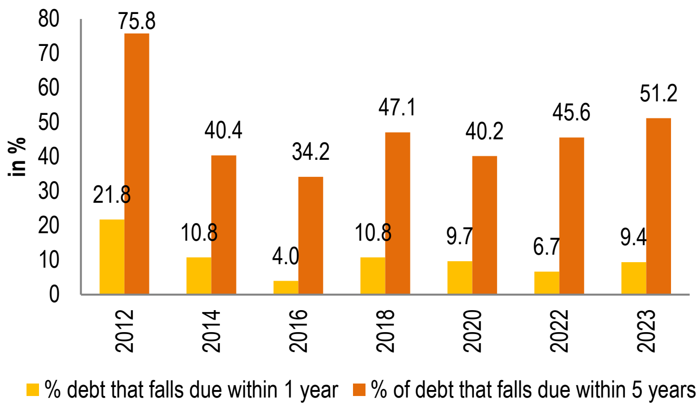
In 2018, the debt redemptions due within one year marked an increase reaching 11 percent compared to around 6 percent the year before, reflecting the bond issued to CCB of the order of EUR 750 mn due in

December 2019. In 2022, the share of debt due within next one year said figure recorded a significant reduction by 3 p.p reaching 6.7 percent whilst in 2023 the said figure marked an increase by 2.7 pp which was attributed to the scheduled repayment of two EMTNs in 2024. In conclusion, the refinancing risks exposure is at an acceptable level of risk which is also mitigated by the strong current cash buffer.

Regarding the share of debt due within the next five years, after a significant reduction by more than 40 pp during the period 2012-2017, in 2018 it marked an increase reaching 47 percent compared to 35 percent a year before mainly due to the government bonds issued to ex-CCB, which was paid in the period 2019-2022 as well as due to the outstanding EMTNs maturing in the said period. In 2020, the said indicator exhibited a reduction of 6.9 pp, whilst in 2022 and 2023, it marked an increase reaching around 46 percent and 51 percent, respectively. It is noted that the said indicator is expected at the best case to retain at similar levels or to increase in the following years, as more the ESM loan’s repayments are integrated in the period.

In order to mitigate the refinancing risk exposure and maintain the bond yield curve at a satisfactory level of completion, the PDMO is focusing on medium to long term issuances given the constraints due to the current interest rate environment.

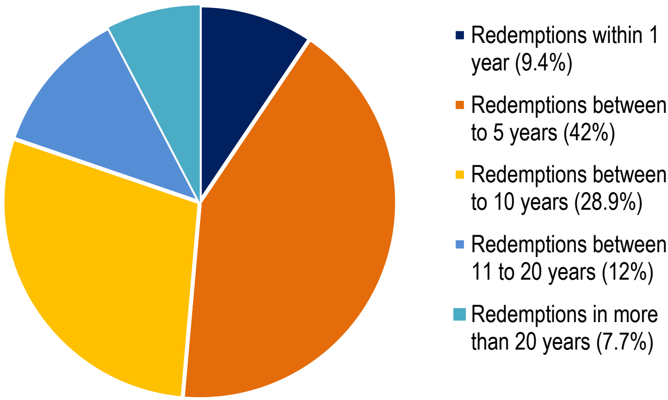
Figure 23: Share of debt refinancing due within 1 year and 5 years in 2012-2023



(Source: PDMO)

Figure 24 below, shows the debt refinancing distribution of the total debt of the Republic of Cyprus in five categories as at the end of 2023. The majority of the debt redemptions of the order of EUR 9.5 bn fall due in the segment between 2 to 5 years. The said amount is mainly attributed to EMTNs due within the above period (about 50 percent) and loans provided by ESM (about 35 percent). The second largest category of redemptions of the order of EUR 6.5 bn fall in the segment between 6 to 10 years. About 46 percent of the debt due in the said segment is attributed to EMTN redemptions and about 45 percent to loans provided by ESM.

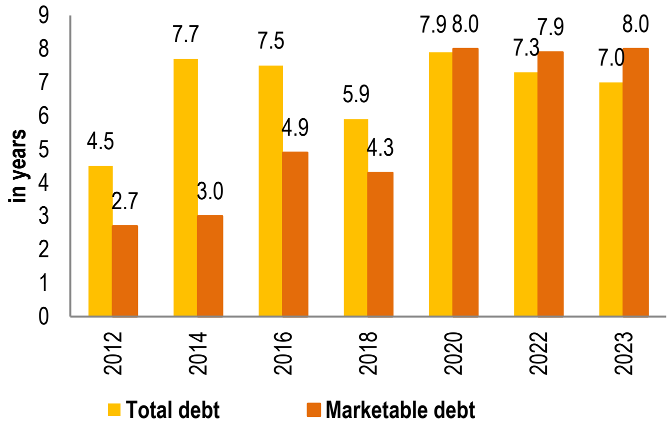
Figure 24: Total debt[1/] refinancing distribution as a percent of GGD at the end of 2023



(Source: PDMO)
1/ = Loans to EFSF are excluded

Another risk indicator which captures the refinancing risk is the weighted average maturity of debt. As presented in Figure 25 below, the outstanding average maturity exhibited a significant improvement in the period 2012-2016. This was attributed to the positive contribution of both long-term official loans by ESM and IMF and other bilateral loans such as by EIB, CEB and Russian loan as well as of liability management transactions implemented by the PDMO. At the end of 2023 the weighted average maturity stood at 7.0 years for the total debt, slightly below the corresponding figure of 2022 and 8 years for the marketable debt, slightly above the corresponding figure of 2022 and performs very well compared to the corresponding average EU figures, thereby reducing the refinancing risk.

Figure 25: Weighted average maturity of debt (in years) in 2012-2023 as at the end of 2023



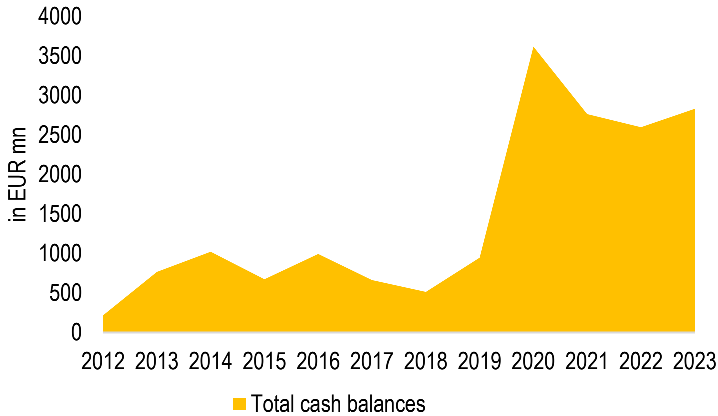
(Source: PDMO)

Liquidity risk

The cash balances at the end of each year (2012-2023) are presented in Figure 26 below. The liquidity levels of the Government were very comfortable since 2013 due to the fiscal outcomes being better than expected as well as to all the successful EMTN issuances, allowing the enhancement of the cash reserves. In 2020, the total cash balances have marked a significant increase mainly due to the uncertainty surrounding the development of the Covid-19 pandemic and its impact on the public finances and reached EUR 3616 mn at the end of 2020. Since 2021 the better-than-expected fiscal performance and the combination of a disciplined fiscal policy and a rational public debt management strategy, sustained the gross financing needs at comfortable levels and maintained the strong cash position of the Government with the cash buffer reaching EUR 2829 mn at the end of 2023.

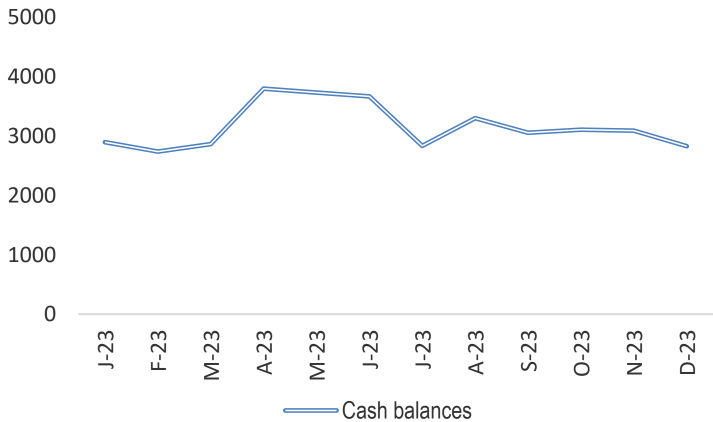
As presented in Figure 27 below, the total liquid funds increased by around EUR 300 mn in January 2023 compared to the cash buffer at the end of December 2022 which was attributed to the fiscal surplus of December 2022. In April 2023, the cash buffer increased significantly due to the new EMTN issuance of the order of EUR 1 bn whilst in July 2023 the cash buffer recorded a significant reduction due to the repayment of a 7-year EMTN of the order of EUR 1.0 bn. Thereafter, the cash balance recorded only minor fluctuations and moved on average around EUR 3.1 bn up to the end of November 2023. By the end of 2023 the cash buffer reached EUR 2.8 bn. It is worth mentioning that this level of cash covers the financing needs of the year 2024 and a significant part of the financing needs of the year 2025. The financing needs cover ratio of 2023 is illustrated in Figure 33 under the Chapter “Cash management”.

Figure 26: Cash liquidity levels in 2012-2023



(Source: CBC)

Figure 27: Cash liquidity levels on a monthly basis in 2023



(Source: CBC)

Interest rate risk

Interest rate risk refers to the risk Government is facing due either to the refixing of interest rates at the time of refinancing of outstanding debt or to the fluctuation of interest rates at the time of interest payments for debt carrying floating rates.

The interest rate distribution of debt has changed dramatically since 2013. Following the Memorandum of Understanding in March 2013 on Economic Adjustment Program, the interest rate distribution has changed significantly mainly due to the borrowing given by the ESM and IMF[8] at floating interest rates. In fact, the loans from the ESM and IMF were used to refinance the Cyprus debt which had fixed interest rate, thereby also reducing the share of the fixed rate debt. Another reason for the above change on the interest rate distribution was the borrowing by the EIB and CEB at floating interest rates with low margins over the Euribor. It should be noted that the extension of the weighted average maturity of marketable debt restricted the interest rate risk.

Therefore, the floating interest debt was increased by 24 pp reaching 36 percent at the end of 2013 compared to 12 percent at the end of 2012, prior to the loan agreement of Economic Adjustment Program.

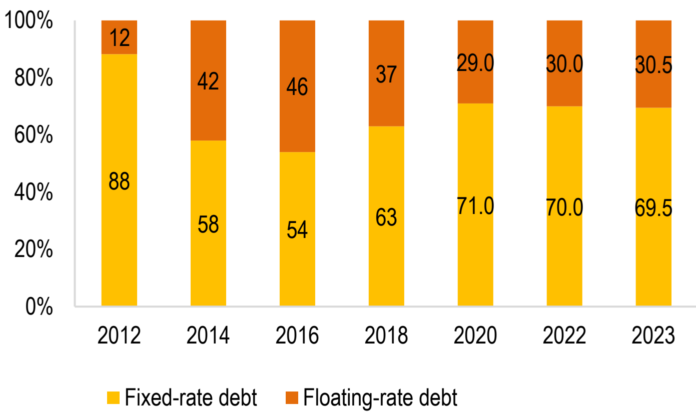
As the loan disbursements by ESM and IMF were released, the proportion of debt at floating rate followed an upward path reaching 46 percent at the end of 2016 which was the last year of the financial assistance programme. In 2018, a large reduction of floating rate debt was marked because of the issuance of government bonds to CCB of the order of EUR 3.19 bn at fixed interest rates, therefore affecting also

[8]The interest rate of IMF loan comprises of two components: Basic Lending rate plus 1 percent.

the level of the debt of fixed rate. Then, the floating rate debt exhibited a reduction reaching 29 percent by the end of 2020 thanks to IMF prepayment. Since 2020, the floating rate debt has stabilized at around 30 percent.

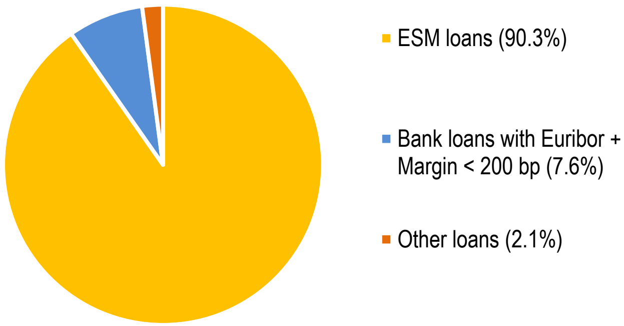
However, taking into consideration that the vast majority of floating rate debt is related to ESM loans which are indexed at low interest rates (about 90 percent or EUR 6.3 bn), as presented in Figure 29 below, the interest rate risk is mitigated. In fact, the weighted average cost of ESM loan recorded minor increases despite the changes in the market interest rates. It is expected that the floating rate debt will stabilise at this level up to the year 2024 and thereafter will follow a downward trajectory due to the gradual repayment of the ESM financial assistance.

Figure 28: Evolution of interest rate distribution of debt in 2012-2023



(Source: PDMO)

Figure 29: Composition of floating-rate debt as at the end of 2023



(Source: PDMO)

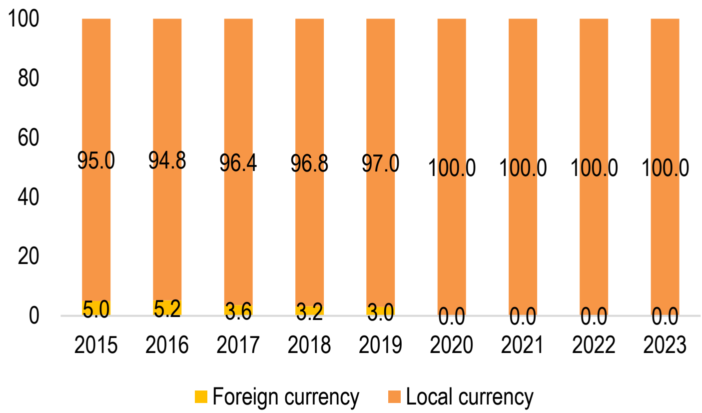
Foreign exchange risk

Although foreign currency debt has many benefits such as access to a large investor base and the geographical independence with possible interest rates benefits, foreign currency financing has substantial risks. Some of the risks are the increase of the country's external vulnerability to exchange rates in case of large-scale foreign issuance (new borrowing) which may lead to the increase of outstanding debt servicing and debt burden in case of a significant depreciation of the domestic currency. In case of hedging of the foreign exchange risk, additional debt management costs arise.

Figure 30 shows the historical currency composition of debt during the period 2015-2023. Through the said period, the majority of the public debt is denominated in domestic currency whilst only a small amount of the outstanding GGD is denominated in foreign currency. This amount was related to the loan from the IMF which, was denominated in SDR[9].

Since February 2020 and after the early prepayment of the IMF loan reducing the outstanding amount of debt denominated in foreign currency to zero, the foreign exchange risk is zero.

Figure 30: Currency composition of debt during the period 2015-2023



(Source: PDMO)

[9]The SDR is an international reserve asset, created by the IMF in 1969 and it was defined as a basket of currencies. The SDR basket consists of the U.S dollar, the euro, the Chinese yuan (Renmimbi), the Japanese yen, and the British pound sterling (Source: IMF).

Credit risk

Credit risk or counterparty risk for the government is the risk relating to the government's credit exposure to individual counterparties either through financing transactions-bond swap transactions or the investment of liquid assets.

During 2023, there were no outstanding derivative exposures for the Republic of Cyprus. Regarding the deposit levels in the money market, there were no deposits in the MFIs. More information is presented in Chapter 7.

In conclusion, the credit risk for the government in the reference period could be ignored.

C.2.2: Non Financial risks

Operational risks

Operational risk may arise mainly from the potential difficulties of implementing effective internal procedures, the lack of human resources, the internal control systems and the possible lack of appropriate software and computer systems. In order to enhance the above infrastructure, at the request of Cyprus, technical assistance was received by the ESM. The technical assistance provided by the ESM covered both an evaluation of internal organisation and IT infrastructure of the PDMO as well as proposals for the creation of a pool of information and knowledge about capital markets and further enhance relationships with investors. Appropriate technical assistance was also provided by the IMF for issues concerning MTDS as well as by the Commonwealth Secretariat (CS) for the appropriate software.

The five-year action plan for the internal organisation and the IT infrastructure of the PDMO as well as the establishment of a market intelligence function, which was approved by the Council of Ministers of the Republic of Cyprus in September 2015, have already been completed successfully. However, a number of actions have to be monitored and updated on a continuous basis. More information is presented under the final chapter, namely “PDMO action plan”.

The implementation of the roadmap for actions will enable the PDMO to further reduce the operational risks while undertaking public debt management operations and strengthen its capacity for effective market access, executing economic analysis, monitoring developments and designing an effective strategy.

C.3: Contingent liabilities

C.3.1: Introduction

Overall, contingent liabilities can be distinguished into (a) Direct (explicit) such as e.g. government guarantees and (b) Indirect, such as e.g. various risks arising from unforeseen developments, legal disputes, etc. A relevant report on contingent liabilities is submitted each year from the Treasury Department to the Minister of Finance.

Granting government guarantees (GG) to financial institutions is a common feature of government policy all over the world. In some cases, the cost for certain borrowers is too high due to asymmetry of information and therefore, the provision of GG may help to overcome the said issue. GG enhance the scope of financial intermediation within the financial system.

On the other hand, GG legally and explicitly bind the government to make loan repayments on behalf of a borrower that defaults. Therefore, they constitute a contingent liability that might impose fiscal costs on the government, which adversely affect the public finances and the public debt sustainability.

C.3.2: Government guarantees framework

Pursuant to a decision of the Council of Ministers in June 2015, the responsibility of management and coordination of procedures relating to guarantees was assigned to the Treasury of the Republic of Cyprus. For this purpose, an amendment of the PDML was enacted, in a way that the monitoring of the GG was removed from the PDMO's competencies.

C.3.3: Statistical description of Government Guarantees

Taking into consideration the above amendment of the PDML, this section describes only the main developments[10] regarding GG.

The Republic of Cyprus had outstanding GG[11] for loans as at the end of 2023 of EUR 1.43 bn or about 5.7 percent of GDP, which is lower than the relevant stock of EUR 1.53 bn as at the end of 2022. Excluding the GG granted to entities of the general government (since the outstanding amount of these guarantees is also included in the general

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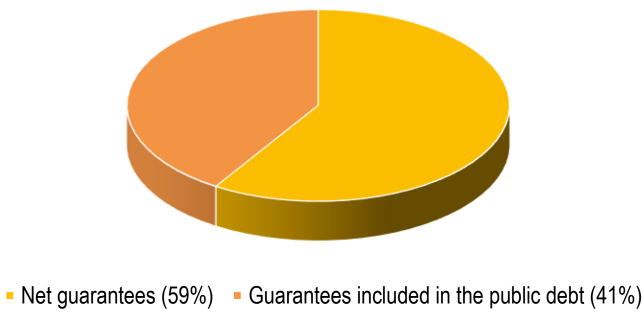
[10] Detailed analysis of explicit contingent liabilities is presented in the website of the Treasury of the Republic.

[11] Called guarantees and guaranteed loans which have been given by the Cyprus Cooperative Bank to refugee cooperative companies for settle the deposits of the refugees and guarantees given to Hellenic Bank under the Asset Protection Scheme are excluded.

government debt), the net value of outstanding GG was EUR 0.84 bn or about 1.5 percent of GDP as at the end of 2023. It is noted that the GG portfolio is denominated fully in euro. Analysis of the outstanding stock of government guarantees as at the end of 2023 is presented in table 10 in Appendix.

Figure 31 shows that an amount of EUR 585,5 mn or about 41 percent of the total value of outstanding guarantees is also included in the public debt as at end of 2023. It is noted that since 2023 the sewerage boards loans of the order of EUR 398 mn were included in the public debt of the General Government.

Figure 31: Outstanding GGs in percent as at the end of 2023



(Source: Treasury)

Regarding the called guarantees, an amount of EUR 46 mn or about 3.3 percent of the outstanding amount of government guarantees until the end of 2023 was called. The majority of the called guarantees concerned guaranteed loans granted to natural persons. More information is presented in the website of the Treasury of the Republic of Cyprus.

VII.Cash Management

Governments need to ensure an effective implementation of a cash management framework in order to meet with a high degree of certainty their financial obligations of debt servicing payments in a timely manner as well as to avoid the accumulation of idle cash balances which can increase the cost of holding cash. Furthermore, liquid financial assets can provide a high degree of flexibility in debt and cash management operations and enable governments to absorb shocks when occurred and reduce cost of borrowing when access in capital markets is costly. An efficient cash management framework enables debt managers to manage the trade-offs between expected cost and risk in the public debt portfolio.

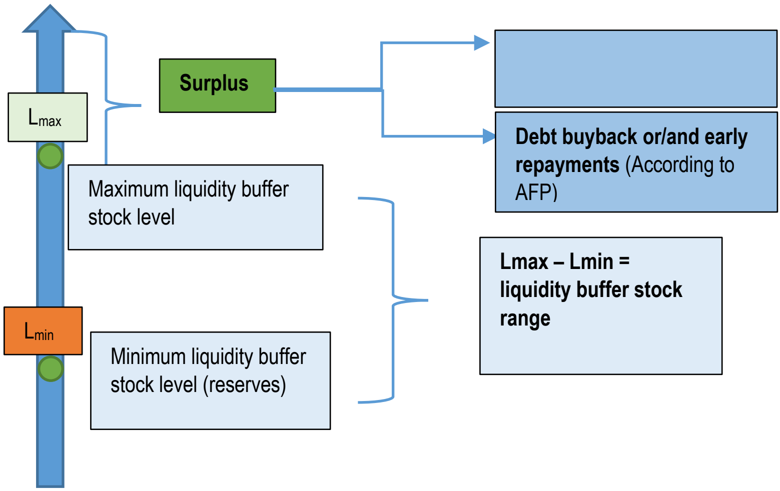
Pursuant to article 21 of the PDML, the PDMO has the responsibility to retain the liquidity buffer stock range by borrowing the necessary funds in time. The PDML authorizes the PDMO to operate an active cash management framework as was approved by the Minister of Finance in order to ensure a satisfactory return on the liquid funds maintaining refinancing risk to a minimum level.

The institutional structure of the government cash management pursuant to articles 20 and 21 of the PDML, that has been set, via a decision of the Council of Ministers {ΠΧ (restricted circulation) 84.568, 28/3/2018)} is presented in Figure 32. A maximum and a minimum liquidity buffer stock level are determined by the PDMO within the General Government Account considering, among others, the variability of the markets and the current credit facilities of the Republic of Cyprus.

When the cash amount exceeds the maximum buffer stock level, the said surplus can be invested by the PDMO according to the Investment

Policy Framework for cash management or it can be used either to buyback outstanding securities of the Republic or for the early repayment of loans according to the AFP.

Figure 32: Institutional structure of the government cash management



(Source: PDMO)

As a result of the positive growth rate in 2023 which was well above the EU average and taking into consideration the forward-looking upward interest rate expectations during the year 2023 and the fact that interest rates will probably remain higher for the foreseeable future which will have a negative impact on servicing the public debt, the PDMO used a significant amount of cash buffer to cover the financing needs for the year 2023 leading the public debt as a percent of GDP to lower levels. Table 11 in Appendix, shows the historical distribution of total cash balances held by the CBC and cash deposited to MFIs.

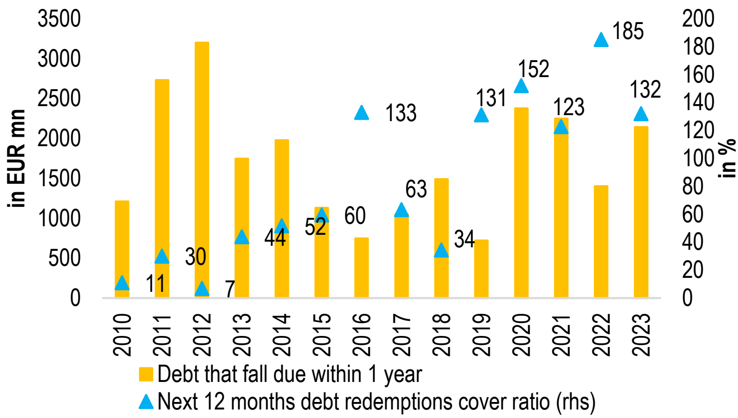
Figure 33 below, shows a comparative analysis between the historical distribution of total cash balances and the amount of debt that falls due within next year based on the statistical information as at the end of the current year. The debt redemptions of the next 12 months have peaked at the end of 2012, with the debt redemptions cover ratio reaching only at 7 percent. Taking into consideration the implementation of an active cash management on the one hand and the liability management transactions on the other hand in conjunction with the long-term loans issued by the ESM-IMF, the PDMO has achieved since 2012 to reduce the short-term refinancing needs and improved significantly the share of debt that falls due within the next year covered by cash balances.

The enhancement of the liquidity position of the Republic of Cyprus at the end of 2016 has reduced significantly the refinancing risk. On the other hand, in order to minimize the cost of idle cash balances and taking into account the low interest rate environment to invest cash balances in combination with the fact that the ability of the sovereign to access capital markets on increasingly favourable terms has improved, the Council of Ministers decided to amend the target of total liquid funds to cover the financing needs for the next 9-month period instead of 12-month period within the MTDS 2016-2020.

Although the uncertainty surrounding the development of the pandemic continued in 2021, towards the end of September the conditions about the pandemic begun to normalize leading to the amendment of the target set about total liquid funds to 6-9 months instead of 9-12 months for the year 2022. Despite the high uncertainty in the global economy and the external shocks such as Russia-Ukraine war and Covid-19 pandemic and the utilization of a significant amount of cash buffer to cover a part of the gross financing needs in 2022, the cash position of the Government remained very strong. By the end of the year 2022 the said buffer stood at 185 percent of the next 12-months funding needs whilst by the end of 2023 the corresponding figure was 132 percent, as presented in the Figure 33 below.

Despite the strong cash position of the Government as a result of the fiscal surplus in 2023 and the fact that medium-term economic prospects remain solid in the medium-term, on the 17th of January 2023, the Council of Ministers approved the proposal of the PDMO to reset the coverage target of financing needs in the General Government Account from 9 to 12 months period for the 1st quarter of 2024. The reasons for this proposal were the fact that the global economy is expected to remain uncertain throughout 2024.

Figure 33: Distribution of cash balances and amount of debt that falls due within one year in 2010-2023



(Source: PDMO and CBC)

Notes:

(1) The debt redemptions in December 2018 and December 2019 concern the 9-month period of the next year and not 12 month-period as were on the other years.

(2) In periods of budget surpluses or balanced budgets, the cash available should cover only the net needs of refinancing, i.e. debt arrears minus the surplus. On the contrary, in periods of budget deficits, the cash available must cover all gross financial needs, i.e. both the cash deficit and the need for refinancing (debt maturities).

VIII. Sovereign Credit Ratings of the Republic of Cyprus

Credit Rating Agencies (CRAs) play an important role into financial markets by helping to reduce any information asymmetry between lenders and investors on the one hand, and different sovereign issuers on the other hand, regarding the creditworthiness and the prospects of individual economies.

Pursuant to article 26 of the PDML 2012-2016, the PDMO is the liaison with the international CRAs and it can enter into contracts on behalf of the Republic of Cyprus with the CRAs. The Republic of Cyprus as a sovereign issuer, maintains a contractual (solicited) relationship with four CRAs, namely DBRS, Fitch, Moody's and Standard and Poor's.

In 2023, Cyprus's economic growth recorded a positive sign of 2.5% compared to 5.6% in 2022. The said growth rate is attributed to a number of sectors such as "Hotels and Restaurants", "Construction", "Wholesale and Retail Trade, Repair of Motor Vehicles", "Administrative and support service activities", "Information and communication" and "Transportation and Storage".

Specifically, during the first quarter of 2023 the economic growth rate in real terms exhibited an increase of 3.4 percent compared to the corresponding quarter of 2022 and in the second quarter of 2023 the economic growth rate in real terms marked also an increase of 2.1 percent compared to the corresponding quarter of 2022. A positive growth rate of about 2.5% in real terms was also recorded in the third quarter of 2023 compared to the corresponding period of 2022. The fourth quarter of 2023 recorded a positive growth rate of about 2.1% compared to the corresponding period of the year 2022.

The stock of NPEs has continued to decline in 2023, albeit at a slower pace reaching around EUR 2.0 bn or about 8.3 percent of the gross loans by the end of November 2023. The acquisition of a large part of the NPLs from the Credit Acquiring Companies resulted to the significant reduction of the NPLs in the banking sector. The fiscal balance of the General Government recorded positive sign in 2023 reaching 2.9 percent of GDP compared to a surplus of 2.4 percent of GDP the year before reflecting the continued strong economic growth in 2023. Regarding the public debt developments, the general government gross debt to GDP ratio recorded a significant decrease of about 9.1pp reaching 77.4 percent at the end of 2023. The said reduction is attributed to the substantial decrease of outstanding debt maturing within the year through the utilization of cash accumulated in the previous years (numerator effect) which was used to cover a part of the refinancing needs as well as of the increase of the GDP (denominator effect). The prudent debt management strategy has also resulted in a favourable debt profile reducing refinancing risks and improving the cost-risk indicators of the debt portfolio.

In 2023, three of the CRA’s upgraded the credit rating of Cyprus long-term debt, two of them by one notch, within the investment category, and one of them, Moody's, by two notches at once. S&P's and Fitch affirmed the credit rating of Cyprus long-term bond in the investment category, changing the outlook from stable to positive. It should be noted that Moody's was the last Rating agency that kept Cyprus economy in the non-investment category, so with the double upgrade, the return of the outstanding long-term bond of Cyprus to the investment category was achieved by all CRAs.

In March 2023, S&P's issued a credit opinion, affirming the long-term bond Issuer rating of the Republic of Cyprus at "BBB", maintaining a stable outlook, while in its September 2023 report, it affirmed the said credit rating, setting the outlook from stable to positive indicating the possibility of a credit upgrade within the next 12 months if certain conditions are met. DBRS Morningstar confirmed the creditworthiness of Cyprus long-term Issuer Default Rating at "BBB" with stable outlook, in March 2023. In September 2023, the said CRA, upgraded the long-term bond of the Republic of Cyprus by one notch, to "BBB high" from "BBB" maintaining a stable outlook.

In addition, in March 2023, Fitch upgraded the long-term sovereign credit rating of the Republic of Cyprus by one notch, to "BBB" from "BBB-", maintaining a stable outlook, while in June 2023, in a new report, it confirmed the credit rating of long-term Issuer of the Republic of Cyprus to "BBB" with a stable outlook. In December 2023, Fitch issued a final rating report, confirming the creditworthiness of the long-term bond Issuer of the Republic at "BBB" and setting the outlook from stable to positive.

In April 2023, Moody's issued a credit opinion confirming the long-term Issuer Default Rating of Cyprus at "Ba1" and maintaining the outlook as positive. In September 2023, the said CRA upgraded the long-term credit rating of Cyprus by two (2) notches, to "Baa2" from "Ba1", classifying Cyprus economy in the investment category and also changing the outlook from positive to stable.

Table 6 below, illustrates where the Republic of Cyprus stood at the end of 2023 in terms of credit ratings. In 2023, the credit rating profile of Cyprus improved significantly as there were three credit rating upgrades, by one and two notches whilst two CRAs changed the outlook from stable to positive.

Table 6: Solicited sovereign credit ratings developments in 2023[12]

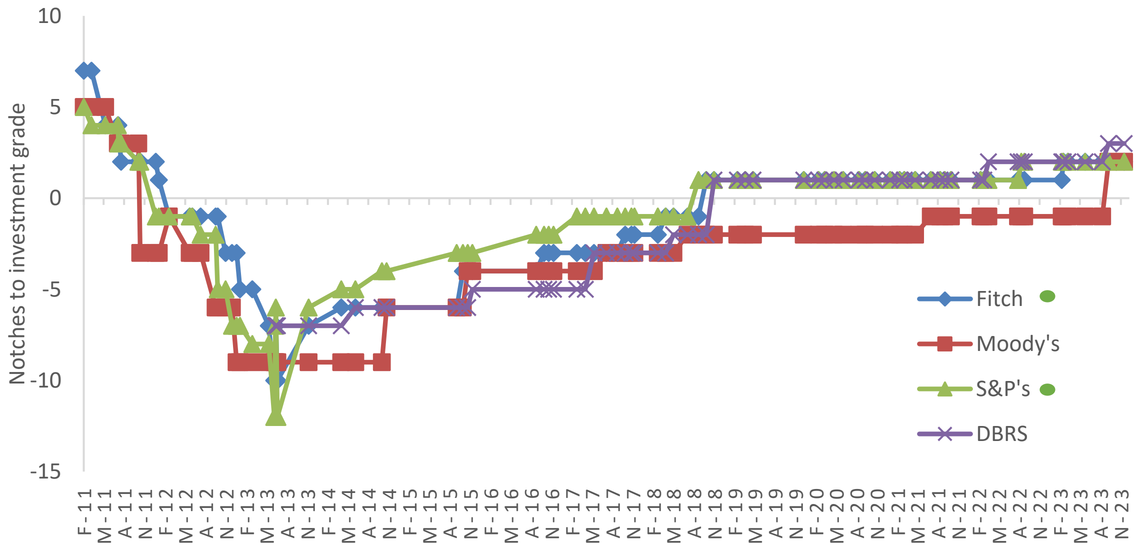
	Long-term debt					
	Latest rating			**Previous rating**		
CRAs	**Rating**	**Outlook**	**Notches to investment grade**	Rating	Outlook	Notches to investment grade
DBRS	**BBB high (Sept. 2023)**	**Stable**	**+3**	BBB (Mar. 2023)	Stable	+2
Fitch	**BBB (Dec. 2023)**	**Positive**	**+2**	BBB (June 2023)	Stable	+2
Moody's	**Baa2 (Sept. 2023)**	**Stable**	**+2**	Ba1 (April 2023)	Positive	-1
Standard & Poor's[1/]	**BBB (Sept. 2023)**	**Positive**	**+2**	BBB (Mar. 2023)	Stable	+2

Source: PDMO
IG = Investment grade
1/ = S&P's issued credit opinion for the Republic of Cyprus in March 2023.

The historical credit ratings of the long-term issuer rating of the Republic of Cyprus during the years 2013-2023 are illustrated in Figure 34 below. The Republic of Cyprus is on an upgrading path since 2013 which reflects the economy's turnaround. Since 2018 the restoration of investment grade status was achieved by three CRAs, and in 2023, as mentioned above, by all CRAs.

[12] More recent developments on the sovereign credit rating of the Republic of Cyprus are available at the website of the PDMO.

Figure 34: Historical evolution of credit ratings of the Republic of Cyprus in 2013-2023



(Source: PDMO)

Note: The green circles next to the names of the CRAs indicate the positive outlook.

Regarding the rationale of the rating developments about the Cypriot economy in 2023, the rating of the Republic of Cyprus by Standard & Poor's[13], based on the CRA, was supported by the medium-term prospects of the Cypriot economy which remain strong and solid despite the change in political leadership. The change of the outlook from stable to positive reflects the continued macroeconomic normalization seen since the financial crisis of 2012-2013, the expected continuation of stable fiscal surpluses in the upcoming years and significant progress achieved in reducing non-performing loans in the Cyprus banking system.

In the case of Fitch's rating[14], the long-term sovereign credit rating of the Republic of Cyprus in 2023 based on the CRA, reflects the significant improvement of Cyprus financials, the strong pace of economic growth and the improvement of the fiscal position, leading to the sharp reduction of public debt as a percent of GDP. The upgrade of the rating was attributed to the degree of resilience that Cypriot economy has shown to external shocks and to the improvement of the banks' asset quality. The change of outlook, from stable to positive in 2023, reflects a number of key rating drivers including the further expected fiscal surpluses, government indebtedness declining and improved banking sector metrics. Finally, the rating agency points out that the Cypriot BBB Issuer Default Rating reflects various key rating drivers such as fundamental rating drivers, resilient macroeconomic performance, large current account deficits and ESG – Governance.

In April 2023, Moody's[15] issued a credit opinion underlining that the positive outlook reflects CRA's view that the strong decline in the public debt-to-GDP ratio will continue in the following years and the debt affordability ratios are expected to improve further. The rationale of upgrade of Cyprus long-term

[13] Standard & Poor's Rating report and Action Report on 3rd of March and on 1st of September 2023.
[14] Fitch Report on 10th and 16th of March, and Rating Action Commentary on 8th of December 2023.
[15] Moody's credit opinion on 31st of March 2023, and a Rating Action Report on 29th of September 2023.

Issuer default credit rating in September 2023 by two notches to 'Baa2' from "Ba1" by Moody's was attributed to the ongoing economic, fiscal and banking reforms as well as to the accelerated diversification in the services sector and the significant deleveraging of private sector debt. It is pointed out that the significant private and public investments combined with the implementation of further structural reforms under the framework of Next Generation EU (NGEU), support the stable medium-term growth prospects. The stable outlook balances these positive credit trends against remaining challenges. These challenges include potentially slower progress in implementing investments and reforms related to the Cyprus National Recovery and Resilience Plan (NRRP), remaining risks related to the banking system as well as the climate risks to which Cyprus is exposed, could undermine growth more than currently expected.

The rationale of reaffirming the creditworthiness of the long-term bond Issuer rating of Cyprus at "BBB" by DBRS[16] Morningstar, in March 2023 with a stable outlook was attributed to the significant improvement of fiscal balances contributing to a noticeable fall in the public debt-to-GDP ratio. The upgrade of Cyprus long-term bond Issuer rating in September to 'BBB (high)' from 'BBB', reflects the significant reduction of debt-to-GDP ratio, thanks to strong economic growth and large primary surpluses and to CRA's expectations that public debt metrics will continue to improve over the next years. It also estimates that economic growth of Cyprus is likely to remain among the strongest in the euro area and it takes the view that the new government will continue to pursue prudent fiscal policy.

The key drivers for the upgrade of Cyprus' government bond in the near future, based on CRAs latest rating reviews in 2023, could result from the ability of the Government to: (a) sustain the expectations of positive growth rates,

[16] DBRS Morningstar Press Release on 31st of March and on 29th of September 2023.

(b) maintain a sound fiscal policy, (c) reduce further the debt-to-GDP ratio, (d) reduce the stock of bank non-performing exposures, (e) continue deleveraging the private sector debt, (f) maintain increased economic resiliency to external shocks, (g) reduction of the current account deficit and (h) to absorb funds from the RRF.

The historical credit ratings of the Republic of Cyprus during the period 2008-2023 are presented in Table 12 while the sovereign rating review calendar by CRAs for 2024 is presented in Figure 2 in the Appendix.

Table 7 below, illustrates where Cyprus stood in the long-term rating scale compared to selected Eurozone States at the end of 2023. The horizontal blue line illustrates the investment grade line while the vertical column under each CRA shows the ratings of the long-term debt.

It is worth-noting that during 2023, only four eurozone members of the EU (Cyprus, Greece, Ireland and Portugal) were upgraded by CRAs. The fact that Cyprus is included in the said group of countries, indicates that economic prospects have improved significantly and they are expected to be improved in the upcoming years. However, there is no room for complacency due to the uncertainty prevailing in the external environment and changes in the monetary policy.

Table 7: Government Bond rating in long-term local currency of Eurozone States[17] as at the end of 2023

Fitch		**Moody's**		**S&P**		**DBRS**	
AAA	DE, LU, NL	Aaa	DE, LU, NL	AAA	DE, LU, NL	AAA	DE, LU, NL, AT
AA+	AT, FI	Aa1	AT, FI	AA+	AT, FI	AA high	FI, FR
AA		Aa2	FR	AA	BE, FR, IE	AA	BE
AA-	BE, IE, FR	Aa3	BE, IE	AA-	EE, SI	AA low	EE, IE
A+	MT, EE	A1	EE,	A+	SK, LV, LT	A high	MT, SI, LT
A	SI, LT	A2	MT, SK, LT	A	ES	A	ES, LV, SK, PT
A-	ES, LV, SK, PT	A3	LV, SI, PT	A-	MT	A low	
BBB+	HR	Baa1	ES	BBB+	PT, HR	BBB high	IT, CY
BBB	IT, CY	Baa2	CY, HR	BBB	IT, CY	BBB	
BBB-	EL	Baa3	IT	BBB-	EL	BBB low	EL
BB+		Ba1	EL	BB+		BB high	
BB		Ba2		BB		BB	
BB-		Ba3		BB-		BB low	
B+		B1		B+		B high	
B		B2		B		B	
B-		B3		B-		B low	
CCC		Caa1		CCC+		CCC high	
CC		Caa2		CCC		CCC	
C		Caa3		CCC-		CCC low	
RD		Ca		CC		CC	
D		C		SD/D		C	
						D	

(Source: Bloomberg)

[17] The abbreviations in the Table are interpreted as following: CY=Cyprus, ES=Spain, EL=Greece, IE=Ireland, IT=Italy, MT=Malta, PT=Portugal and SI=Slovenia, DE=Germany, LU=Luxembourg, NL=Netherland, AT=Austria, FI=Finland, FR=France, BE=Belgium, EE=Estonia, SK=Slovakia,LV=Latvia, LT=Lithuania, HR=Kroatia. Green/black/red color for countries abbreviations indicates Positive/Stable/Negative outlook. It is noted that Kroatia is not rated by DBRS.

IX. Public Debt Management Office Action Plan

In September of 2015 a five-year action plan for the period from 2015 to 2019 was approved by the Council of Ministers. This action plan covers areas related to the internal organization and the IT infrastructure of the PDMO as well as the establishment of a market intelligence function. The main actions of the said plan have already been completed successfully. However, a number of actions, which are recurring, have to be monitored and updated on a continuous basis and therefore, the PDMO will continue to implement or update them and present the outcomes once a year on the Annual Report of the Public Debt Management.

The main actions implemented or updated during 2023 are the following:

i. Debt Management Committee: The meetings held under the said Committee were mainly focused on the governance process for ongoing review of eligible projects to be incorporated within the Sustainable Finance Framework and on the preparation of the relevant with the implementation projects annual reporting.

ii. Cash Management Framework: Having in place an effective and efficient Cash Management Framework, is of paramount importance since this ensures that, inter alia, the cost of carry is maintained to a minimum. During 2023 the PDMO taking into consideration the increased interest rates due to recent changes in the monetary policy, proceeded to the update of the cash management framework informing the Council of Ministers. Necessary procedures for investments of the cash buffer surplus firstly in the domestic market and then in the foreign market have been adopted by the PDMO. During the 1st quarter of 2024 the PDMO executed 2 cash auctions in the domestic market. This procedure, will assist the PDMO to achieve a more rational and congruous approach in efficiently and effectively managing the cash framework.

iii. Maintaining a suitable & control working environment: The PDMO aims to ensure that any transactions and any other operations taking place within the working environment adhere to strict procedures set, on a continuous basis. These procedures are improved and updated on a regular basis and when deemed necessary are either updated, enhanced or revised in order to better reflect conditions that exist at the time within the PDMO. During 2023, the internal procedures manual has been enriched and updated whilst the audit checklists have been further enhanced. The process of evaluating related recommendations by the Audit Office of the Republic of Cyprus about the efficiency of the management of the public debt, is ongoing.

iv. Risk management – operational risk: The PDMO continues to update the database of operational risk incidents. Any incidents that have taken place have been recorded and evaluated accordingly aiming towards minimizing any associated risks involved. This process is ongoing and it is reviewed and updated on a regular basis.

v. Contacts with the international investment bank market group: The creation of the group is providing a significant contribution to the ability of the Republic to maintain its access to the international capital markets even under difficult circumstances similar to those experienced in previous years. Furthermore, beyond the primary market, the

Bank Group has contributed to an improved functioning of the secondary market by providing a steady stream of data to the PDMO regarding the activity of the investor in the secondary market. The electronic platform for dealer-to-dealer transactions, MTS Cyprus, was established in 2020 and is operating ever since. The PDMO is always, in collaboration with the Bank Group, intending to investigate ways of how to increase the liquidity of the Republic's EMTNs, in order to optimize the cost of funding in the long term. In 2023, a number of teleconferences were made between the PDMO and the international bank market group, discussing present and future market developments as well as the main challenges of the upcoming years.

vi. Investor' Relations Function: The PDMO continued its communication with investors in order to make sure they had the best possible information about developments in Cyprus. This information took the form of dissemination of material electronically and through teleconferences with investors throughout the year.

vii. IT Strategy: The new software system of the Commonwealth Secretariat 'Meridian' which was formally adopted by the PDMO in July 2019 is monitored in a continuous basis. During 2023, a series of teleconferences took place with the participation of the PDMO and CS addressing issues that aimed towards the enhancement of Meridian.

viii. Sustainability bond launch: In 2022, the PDMO received political approval by the Council of Ministers to include an issuance of a green/sustainability bond in the financing actions of the 2023 Annual Financing Plan. In January 2023 the Cyprus Framework for sustainable financing which was one of the main part of documentations for the issuance of a sustainability bond, was published in the PDMO website. The PDMO prepared an asset register with all the projects that would be financed by the bond. As a result, and after a short however efficient marketing operation, the PDMO executed the issuance in April 2023 which was the first sustainable bond in the history of the Republic of Cyprus. The Framework includes, among others, the main strategy of the Cyprus on issues related to environmental and social policy, the pillars of the strategy, the grouping of the projects, the monitoring procedures for the projects and the Government obligations to investors. In June 2023 the Minister's Council set up a monitoring committee to monitor the progress of the different projects financed by the bonds and to act when necessary. The Committee started operations in September 2023 and the PDMO acting on behalf of the committee has started collecting data in collaboration with all the different government departments involved. The first Annual Report on the evaluation of the progress of the projects will be published in late 2024.

Further to the above actions, it is important to underline that during 2023 officers of the PDMO participated in a number of virtual meetings (seminars, conferences, meetings) in the Economic and Financial Committee Sub-Committee on EU sovereign debt markets (ESDM) and other Working Groups regarding the management of public debt. Table 13 in Appendix illustrates the said participations in more detail.

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Appendix

List of Tables, Figures and Announcements

Table 1a: Auction schedule for Treasury Bills in 2023

No	Auction day	Auction date	Value date	Tenor of TB	Maturity date
1	Monday	23/01/2023	27/01/2023	13 weeks	28/04/2023
2	Monday	20/02/2023	24/02/2023	13 weeks	26/05/2023
3	Monday	20/03/2023	24/03/2023	13 weeks	26/06/2023
4	Monday	24/04/2023	28/04/2023	13 weeks	28/07/2023
5	Monday	22/05/2023	26/05/2023	13 weeks	25/08/2023
6	Monday	19/06/2023	23/06/2023	13 weeks	22/09/2023
7	Monday	24/07/2023	28/07/2023	13 weeks	27/10/2023
8*	Monday	21/08/2023	25/08/2023	13 weeks	24/11/2023
9	Monday	18/09/2023	22/09/2023	13 weeks	22/12/2023
10	Monday	23/10/2023	27/10/2023	13 weeks	26/01/2024
11*	Monday	20/11/2023	24/11/2023	13 weeks	23/02/2024
12*	Monday	18/12/2023	22/12/2023	13 weeks	22/03/2024

(Source: PDMO)

* Scheduled auctions for T-bills in August, November and December were cancelled

Table 1b: Indicative auction schedule for Treasury Bills in January – June 2024

No	Auction day	Auction date	Value date	Tenor of TB	Maturity date
1*	Monday	22/01/2024	26/01/2024	13 weeks	26/04/2024
2*	Monday	19/02/2024	23/02/2024	13 weeks	31/05/2024
3	Friday	15/03/2024	22/03/2024	13 weeks	21/06/2024
4	Monday	22/04/2024	26/04/2024	13 weeks	26/07/2024
5	Monday	27/05/2024	31/05/2024	13 weeks	30/08/2024
6	Monday	17/06/2024	21/06/2024	13 weeks	20/09/2024

(Source: PDMO)

* Scheduled auctions for T-bills in January and February were cancelled

Table 2a: Annual Financing Plan (AFP) 2023

Financing Instrument	Initial AFP_2023 (Nov. 2022) Upper borrowing limit (in EUR mn)	Actual borrowing (as at the end of 2023) (in EUR mn)
Domestic 3-month Treasury Bills	300	19,8
Euro Medium Term Notes (EMTN)	1000	1000
Domestic Retail Bonds	40	20,6
Loans from Supranational Institutions (EIB, EBRD, CEB)	180	123
Total approved maximum borrowing amount in Jan. ~ Dec. 2023	**1520**	**1163,4**

(Source: PDMO)

Notes:
(a) EIB = European Investment Bank, EBRD = European Bank for Reconstruction and Development, CEB = Council of Europe Development Bank.
(b) The 3-months Treasury Bills are encounter in a 3-months roll-over base.
(c) Any amounts that are expected to be received, as a grant, under RRF were not included in the above figures.

Table 2b: Liability management transactions: Early repayments of loans and securities details in 2023

Creditor	Interest rate	Maturity year	Principal payment amount	Remaining amount	Interest payments
	in %		in EUR mn	in EUR mn	in EUR mn
Hellenic Bank	3.25	2024	300	0	6,5
			300	**0**	**6,5**

(Source: PDMO)

Table 2c: Indicative Cyprus Recovery and Resilience Plan payment profile

Details of payment request	# M&Ts (Grants)	Grant amount in €mn	# M&Ts (Loans)	Loans amount (net) in €mn	Total amount (net) in €mn	Year of payment
13% Pre-financing[1/]	0	130,772,986	0	26,041,600	156,814,586	2021
1st instalment	14	85,000,000	0		85,000,000	2022
20% Repower EU pre-financing[2/]	0	20,893,034	0		20,893,034	2024
2nd and 3rd instalment	38	152,218,713	0		152,218,713	2024
4th and 5th instalment	44	197,238,918	4	50,000,000	247,238,918	2025
6th and 7th instalment	58	224,526,184	4	71,553,800	296,079,984	2026
8th, 9th and 10th instalment	112	209,573,846	8	52,724,600	262,298,446	2027
Total	**256**	**1,005,946,047**	**15**	**200,320,000**	**1,206,266,047**	

Important note: The schedule of grant and loan disbursements is indicative and all above mentioned years for disbursements are estimated assumptions by PDMO.

1/ = This amount corresponds to the financial allocation after deduction of Cyprus' proportional share of the expenses of Article 6(2) of Regulation (EU) 2021/241, calculated in accordance with the methodology of Article 11 of that Regulation and corresponds to 0.02% of the allocation.

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2/ = Re Power EU is the new scheme by the European Union that was recently launched, targeting to reduce EU dependence on Russian fossil fuels.

Table 3a: Matured securities (1/1/2023 to 31/12/2023)

I. Domestic market

A. Treasury Bills

Issue Date	Maturity (in weeks)	Weighted average yield (in %)	Maturity Date	ISIN code	Nominal amount in EUR mn
21/10/2022	13	1.62	27/01/2023	CY0240280814	50,00
21/11/2022	13	2.09	24/02/2023	CY0240330817	41,00
19/12/2022	13	2.36	24/03/2023	CY0240370813	45,75
23/01/2023	13	2.70	28/04/2023	CY0240440814	39,10
20/02/2023	13	2.96	26/05/2023	CY0240460812	47,65
20/03/2023	13	3.16	26/06/2023	CY0240500815	25,00
24/04/2023	13	3.33	28/07/2023	CY0240520813	25,00
22/05/2023	13	3.43	25/08/2023	CY0240540811	25,00
19/06/2023	13	3.61	22/09/2023	CY0240580817	25,00
24/07/2023	13	3.64	27/10/2023	CY0240610812	11,15
18/09/2023	13	3.98	22/12/2023	CY0240660817	23,84
					358,5

B. Domestic Bonds

Issue date	Maturity (in years)	Coupon rate (in %)	Maturity date	ISIN code	Nominal amount in EUR mn
18/01/2016	7	3.25	18/01/2023	CY0146250812	221,9
01/07/2013	10	6.00	01/07/2023	CY0143810816	3,2
					225,1

Note: Early repayment of a bond due in 24/1/2024 of the order of EUR 300 mn is not included.

C. Repayments of Saving Certificates/Retail Bonds

	Nominal amount in EUR mn
Saving certificates	0,1
Retail bonds	83,3
	83,4

II. Foreign market

A. Euro Commercial Papers

Nominal amount in EUR mn
0

B. Euro Medium Term Notes

Issue date	Maturity (in years)	Coupon rate (in %)	Maturity date	ISIN CODE	Nominal amount in EUR mn
26/07/2016	7	3.75	26/07/2023	XS1457553367	1000,0
					1000,0

Table 3b: Loan amortisations by creditor (1/1/2023 to 31/12/2023)

	Remaining amount in EUR mn	Principal payments in EUR mn
European Investment Bank	930,5	78,5
Council of Europe Development Bank	167,3	25,4
		103,9

Table 4: Historical evolution of gross general government debt[1/] in 1995-2023

Year	Consolidated gross general government debt (in EUR mn)	Consolidated gross general government debt (% of GDP)
1995	3765,7	46.8
1996	4012,6	50.9
1997	4531,8	53.9
1998	5043,6	55.1
1999	5428,9	55.2
2000	5905,2	55.7
2001	6544,4	57.3
2002	7187,9	60.5
2003	8200,1	63.8
2004	8974,3	64.8
2005	9402,8	63.4
2006	9481,7	59.3
2007	9461,8	54.0
2008	8658,6	45.6
2009	10139,0	54.3
2010	10953,7	56.3
2011	13057,9	65.8
2012	15618,4	80.1
2013	18706,4	103.7
2014	19013,8	108.8
2015	19288,9	107.5
2016	19610,1	103.1
2017	18914,4	93.1
2018	21922,2	101.1
2019	21565,8	93.1
2020	25387,8	116.0
2021	24744,8	103.0
2022	23775,8	86.5
2023	23036,3	77.4

1/ = Since 2010 figures include also liabilities due to the issuance of euro coins

Box 1: Historical evolution of the public debt of Cyprus

During the period 1996-2004, the GGD followed an increasing path from 51 percent of GDP in 1996 to 65 percent of GDP in 2004. Following years of fiscal consolidation, and due to the use of available sinking funds, the debt-to-GDP ratio reached a minimum point of 46 percent of GDP in 2008. Since then, fiscal slippage and low to negative growth rates as well as repetitive capital injection into the banking sector in combination with measures under the Memorandum of Understanding and other emergency loans, contributed to a considerable increase in the debt to GDP ratio.

During 2009-2011 the resulting fiscal deterioration was the main contributor to the increase in the public debt. During 2012-2013, the fiscal deficit as well as the negative growth rate contributed to the debt deterioration. In addition, the state capital support of the Cyprus Popular Bank (ex Laiki Bank) in 2012 (EUR 1.9 bn) and of the cooperative sector in 2013 (EUR 1.5 bn) increased the public debt by a total amount of EUR 3.4 bn, excluding interest payments.

The banking crisis resulted in state support to the domestic financial sector of EUR 3.6 bn or about 20 percent of the gross public debt by end 2014, excluding interest payments. These funds were related to the state recapitalisation of Cyprus Popular Bank and the cooperative sector via debt securities. In late 2015, the Government provided an additional injection of EUR 175 mn or about 1 percent of GDP into the cooperative sector.

It is important to highlight that despite the sharp increase of the public debt over the past few years, the strong fiscal outcome and the fact that the budget outcome was close to balance in 2014-2015 and positive in 2016, as well as, the strong real GDP growth of 3,2 percent and 6,4 percent in 2015 and 2016 respectively, indicate that debt is stabilising earlier and at lower levels than originally anticipated. The years 2017 and 2018 were years of strong fiscal outcome with positive real GDP growth of 5.2 percent in each year whilst in 2019 the growth rate has slowed down towards 3.1 percent, albeit at above Eurozone levels. In 2020, the public debt recorded a material increase of 24pp reaching 115 percent of GDP whereas the real GDP exhibited a reduction of 5.1 percent due to the impact of the pandemic on economic activity affecting both revenue and expenditure of the Government. In 2021, the public debt recorded a significant reduction of about 11 pp, dropping to 103.9 percent of GDP as a result of the increase of real GDP of about 5.5 percent and the utilisation of a significant amount of cash buffer to cover the gross financing needs of the Government without any need for further borrowing. In 2022 the public debt to GDP ratio recorded a further reduction of about 14.5pp reaching 86.5 percent of GDP as a result of the significant increase of GDP by 5.6% and the reduction by 0.9 bn of the nominal value of the cumulative public debt. Finally, in 2023, the public debt to GDP recorded a further decrease of about 9.8 pp, approaching 77.4%, due to the reduction of approximately EUR 740 mn in the total amount of public debt (numerator effect) and to the strong increase in nominal GDP (denominator effect).

Table 5: Outstanding Central Government[1/] debt as at the end of 2023

A. TREASURY BILLS

Issue date	Maturity (in weeks)	Weighted average yield (in %)	Maturity date	ISIN code	Nominal value in EUR mn
23/10/2023	13	4.05	26/01/2024	CY0240730818	19,8
					19,8

B. DOMESTIC BONDS

Issue date	Maturity (in years)	Yield (in %)	Maturity date	ISIN code	Nominal value in EUR mn
18/12/2015	10	4.00	18/12/2025	CY0146120817	92,0
					617,1

C. RETAIL/SPECIAL RETAIL BONDS-SAVING CERTIFICATES

	Coupon rate (in %)	Maturity year	Nominal value in EUR mn
Retail bonds	2.25-3.00	2024	106,56
Special retail bonds	0.75	2024	0,77
Retail bonds	1.75-2.50	2025	75,98
Special retail bonds	0.75	2025	1,00
Retail bonds	1.75-2.50	2026	44,07
Retail bonds	1.00-1.75	2027	38,95
Retail bonds	0.75-1.50	2028	19,61
Retail bonds	1.00-1.75	2029	18,76
Saving certificates	0.00	perpetual	2,44
			308,1

TOTAL DOMESTIC SECURITIES AS AT 31/12/2023 [EUR MN] **419,9**

D. EURO COMMERCIAL PAPERS

Issue date	Maturity (in months)	Yield (in %)	Maturity date	ISIN code	Discount value in EUR mn
					0,0
					0,0

E EURO MEDIUM TERM NOTES (EMTN)

Issue date	Maturity (in years)	Yield (in %)	Maturity date	ISIN code	Nominal value in EUR mn
27/06/2017	7	2.750	27/06/2024	XS1637276848	850,0
03/05/2019	5	0.625	03/12/2024	XS1989405425	1000,0
04/11/2015	10	4.250	04/11/2025	XS1314321941	1000,0
09/02/2021	5	0.000	09/02/2026	XS2297209293	1000,0
16/04/2020	7	1.500	16/04/2027	XS2157184255	1250,0
25/09/2018	10	2.375	25/09/2028	XS1883942648	1500,0
21/01/2020	10	0.625	21/01/2030	XS2105095777	1000,0
20/01/2022	10	0.950	20/01/2032	XS2434393968	1000,0
13/04/2023	10	4.125	13/04/2033	XS2610236445	1000,0
26/02/2019	15	2.750	26/02/2034	XS1956050923	1100,0
21/01/2020	20	1.250	21/01/2040	XS2105097393	1250,0
03/05/2019	30	2.750	03/05/2049	XS1989383788	1000,0
16/04/2020	30	2.250	16/04/2050	XS2157183950	500,0
					13450,0

TOTAL FOREIGN SECURITIES AS AT 31/12/2023 [EUR MN] **13450,0**

F. DOMESTIC LOANS

Issue year	Interest rate (in %) /2	Maturity year	Remaining maturity (in years)	Balance (in EUR mn)
2019	0.975	2026	2.6	250,0
				250,0

G. FOREIGN LOANS

Creditor (3)	Issue year (7)	Interest rate (in %)	Maturity year	Remaining maturity (in years)	Balance (in EUR mn)
EIB	2004	1	2025	1.5	0,2
EC	2020	0	2025	1.8	150,0
CEB	2010	3mE+0.60	2025	1.9	9,5
EIB	2004	1	2026	2.5	0,1
EIB	2014	3mE+0.704	2026	2.7	6,7
CEB	2006	3mE+0.15	2026	3.0	17,1
CEB	2007	3mE+0.09	2027	3.5	4,4
EIB	2003	4.43	2027	4.0	6,7
EIB	2018	6mE+0.181	2028	4.1	5,6
EC	2021	0	2028	4.4	157,0
CEB	2018	1.06	2028	4.9	14,5
CEB	2008	3.7	2028	5.0	14,7
EIB	2004	VSFR	2028	5.0	15,0
EIB	2004	VSFR	2028	5.0	6,3
EIB	2019	6mE+0.413	2029	5.2	9,4
EIB	2004	4.47	2029	5.5	8,8
EIB	2019	0.438	2029	5.5	24,0
EC	2021	0	2029	5.5	77,0
EIB	2017	6mE+0.217	2029	5.6	10,6
EIB	2019	0.269	2029	5.9	12,0
CEB	2009	3mE+0.48	2029	6.0	6,1

CEB	2009	3mE+0.48	2029	6.0	3,8
CEB	2014	1.46	2029	6.0	15,0
CEB	2010	3mE+0.55	2030	6.6	2,5
EIB	2006	VSFR	2030	7.0	21,5
EIB	2006	VSFR	2030	7.0	11,1
EIB	2006	VSFR	2030	7.0	9,0
ESM	2013	BLR+0.10	2031	7.8	6300,0
EIB	2022	1.296	2032	8.4	36,0
CEB	2017	1.08	2032	8.5	9,6
EIB	2007	VSFR	2032	9.0	9,5
EIB	2007	6mE+0.018	2032	9.0	33,2
CEB	2023	3.47	2033	9.6	10,0
EIB	2023	3.449	2033	9.7	15,0
EIB	2023	3.449	2033	9.7	20,0
EIB	2008	VSFR	2033	10.0	41,0
EIB	2021	0.106	2033	10.0	29,2
CEB	2013	6mE+0.81	2033	10.0	5,3
CEB	2020	0.48	2035	11.0	6,0
EIB	2011	12mE+0.27	2035	11.2	24,0
CEB	2020	0.42	2035	11.3	10,0
CEB	2020	0.28	2035	11.5	6,0
EIB	2011	6mE+ 0.314	2035	12.0	20,0
EIB	2011	6mE + 0.25	2035	12.0	9,2
EIB	2011	6mE+0.314	2035	12.0	13,3
EIB	2011	12mE+0.305	2036	12.6	26,0
EIB	2022	1.95	2037	13.5	18,0
EIB	2017	1.514	2037	13.5	28,0
EIB	2017	1.634	2037	13.5	21,0
EIB	2012	12mE+1.517	2037	13.5	92,1
EIB	2017	1.563	2037	13.7	9,8
EC	2022	2.75	2037	13.9	29,0
EIB	2017	12mE+1.137	2037	14.0	55,3
ETE	2011	12mE+0.327	2038	14.5	40,0
ETE	2013	12mE+0.829	2038	15.0	12,8
EIB	2014	12mE+0.998	2039	15.9	12,6

EIB	2015	1.766	2040	17.0	34,0
EIB	2015	1.782	2040	17.0	18,8
EIB	2021	0.806	2041	17.9	36,0
EIB	2022	1.933	2042	18.4	37,0
CEB	2023	3.17	2043	19.1	32,8
EIB	2018	1.828	2043	19.5	29,3
EIB	2023	3.602	2043	19.5	45,0
EIB	2020	0.409	2045	22.0	17,6
EC	2021	0.75	2046	22.9	47,0
EC	2020	0.3	2050	26.9	100,0
EC	2021	0.3	2050	26.9	72,0
EC	2021	0	2051	27.8	26,0
EFSF (4)	2011				221,8
					8277,6

TOTAL LOANS AS AT 31/12/2023 [EUR MN]	**8527,6**
TOTAL DEBT OF CENTRAL GOVERNMENT AS AT 31/12/2023 [EUR MN]	**22397,5**

TOTAL DEBT OF CENTRAL GOVERNMENT AS AT 31/12/2023 [EUR MN]

Notes:
(1) Definition: Debt of the budgetary Central Government (BCG) excluding debt of Social Security Investments, state-owned enterprises categorised within the Central Government and the debt of local authorities. BCG is around 99% of the general government debt (as at 31/12/2023)
(2) E= Euribor rate; BLR=Basic Lending Rate; VSFR = other variable interest rate; m=months
(3) EIB=European Investment Bank, CEB= Council of Europe Development Bank, EFSF=European Financial Stability Facility, ESM=European Stability Mechanism, EC = European Commission
(4) Debt issued by the EFSF for Greece, Ireland and Portugal
(5) It refers to the first year of the disbursement
(6) Excluding liabilities due to the issuance of Euro coir
(7) Currency issue: in Euro
(8) Loans under EC due in years 2025,2028, 2029,2037,2047 and 2050 disbursed under SURE Instrument whilst the loan due in year 2051 disbursed under RRF
(9) There may be slight discrepancies between the totals shown and the sum of constituent items because of rounding.

Table 6a: Outstanding Central Government debt as at the end of 2023

Year	Foreign law securities	Domestic law securities	ESM loans	Other loans	Total
2024	1850	129	0	157	2136
2025	1000	170	350	303	1822
2026	1000	44	1000	398	2442
2027	1250	39	1000	140	2429
2028	1500	20	1000	290	2809
2029	0	19	1050	196	1265
2030	1000	0	900	105	2005
2031	0	0	1000	96	1096
2032	1000	0	0	90	1090
2033	1000	0	0	81	1081
2034	1100	0	0	67	1167
2035-2039	0	0	0	250	250
2040	1250	0	0	25	1275
2041-2048	0	0	0	103	103
2049	1000	0	0	1	1001
2050	500	0	0	173	673
2051	0	0	0	1	1
Total	**13450**	**420**	**6300**	**2476**	**22646**

Notes
1/ = Preliminary data
2/ = Excluding debt for EFSF Loans
3/ = Excluding liabilities due to the issuance of Euro coins
4/ = A flat redemption profile is assumed for loans granted to local authorities.
5/ = There may be slight discrepancies between the totals shown and the sum of constituent items because of rounding.

Table 6b: Disbursements of ESM financial assistance to Cyprus

Date of disbursement	Amount disbursed	Final maturity	Cumulative amount disbursed
13/05/2013	€1 bn	13/05/2026	€2 bn
	€1 bn	13/05/2027	
26/06/2013	€1 bn	26/06/2028	€3 bn
27/09/2013	€750 mn	27/09/2029	€4.5 bn
	€750 mn	27/09/2030	
19/12/2013	€100 mn	19/12/2029	€4.6 bn
04/04/2014	€150 mn	04/04/2030	€4.75 bn
09/07/2014	€600 mn	09/07/2031	€5.35 bn
15/12/2014	€350 mn	15/12/2025	€5.7 bn
15/07/2015	€100 mn	15/07/2031	€5.8 bn
08/10/2015	€200 mn	08/10/2029	€6.3 bn
	€300 mn	08/10/2031	

Table 7: Government debt[1/] by instrument and lender at the end of 2023 (in EUR mn)

A. Domestic Debt			**980,3**
I. Long-term debt		**960,5**	
1. Domestic bonds	**92,0**		
- Monetary Financial Institutions	90,0		
- Private Sector	2,0		
2. Retail securities	**308,1**		
3. Loans	**394,8**		
- Other	250,0		
- Local Authorities	73,2		
- Semi-government organisations	71,6		
4. Liabilities to issuance of euro coins	**165,6**		
II. Short-term debt		**19,8**	
1. Treasury Bills	**19,8**		
- Monetary Financial Institutions	19,8		
- Private Sector	0,0		
B. Foreign debt			**22055,9**
I. Long-term debt		**22055,9**	
1. Long term loans	**8384,1**		
-ESM	6300,0		
-EIB and CEB	1097,7		
-SURE + RRF	658,0		
-Semi-government organisations	328,3		
2. Euro Medium Term Notes	**13450,0**		
3. EFSF loans	**221,8**		
II. Short-term debt		**0,0**	
Euro Commercial Papers	0,0		
C. Gross General Government Debt			**23036,2**

Note:

1/ = Preliminary data

2/ = Debt is reported in consolidated form and therefore any obligations among subsectors of the general government are omitted.

3/ = There may be slight discrepancies between the totals shown and the sum of constituent items because of rounding.

Table 8: Investments[1/] of the Social Security Fund with the Central Government as at the end of 2023

	Amount in EUR mn
Social Insurance Fund	9238.9
Unemployment Benefits Account	152.8
Termination of Employment Fund	792.2
Central Holiday Fund	105.7
Insolvency Fund	319.8
Total	**10609,4**

Note

1/ = Investments in the form of deposits in financial institutions of EUR 106 mn are not included.

Table 9: Historical debt servicing in 2012-2022

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					in EUR mn						
Interest payments (IP)	649	581	576	558	497	500	509	511	457	436	407
General Government Debt (GGD)	15619	18707	19014	19289	19610	18914	21922	21566	25388	24745	23767
Tax revenue (TR)	4627	4345	4407	4402	4528	4911	5273	5491	4986	5878	6958
Total government revenue (TGR)	7085	6722	7073	7093	7138	7780	8451	9134	8514	9984	11456
Interest payments to GDP	3.3	3.2	3.3	3.1	2.6	2.5	2.4	2.2	2.1	1.8	1.8
Interest payments to GGD	4.2	3.1	3.0	2.9	2.5	2.7	2.4	2.4	1.8	1.8	1.8
Interest payments to TR	13.9	13.3	13.0	12.5	10.8	10.1	9.6	9.2	9.1	7.4	7.4
Interest payments to TGR	9.2	8.6	8.1	7.9	7.0	6.4	6.0	5.6	5.4	4.4	4.4

Note:

1/ =Interest payments exclude intragovernmental interest payments to the Social Security Fund.

Announcement 1

REPUBLIC OF CYPRUS
MINISTRY OF FINANCE
PUBLIC DEBT MANAGEMENT OFFICE

ANNOUNCEMENT

SIX-YEAR REGISTERED GOVERNMENT BONDS FOR NATURAL PERSONS

INTEREST RATE REDUCTION FOR THE SERIES TO BE ISSUED

AS FROM 2022 ONWARDS

The Public Debt Management Office announces the reduction of interest rates on six-year registered government bonds for natural persons (hereinafter "bonds"), with effect as from the 1st issue of 2022.

In particular, the bonds that will be issued from 1st of February 2022 onwards, will yield a reduced interest rate as shown in the table below:

Holding period of the government bond	Annual Coupon per holding period (with effect as from the 1st of February 2022)
For the first 24 months	0.75%
For the period after the first 24 months and up to 48 months	1.00 %
For the period after the first 48 months and up to 60 months	1.25%
For the period after the first 60 months and up to 72 months	1.50%

It is clarified that the above reduction of interest rates will not affect the next issue of bonds (November 2021), for which the applications submission period will be from 4 to 20 October

2021. This specific series of bonds will be the last series of issues for 2021 and will have the same interest rates as the previous 2021 issue series.

Finally, it is noted that bond issues in 2022 will be done on a quarterly basis, as they are done this year. Specifically, the bond issues in 2022 will take place in February, May, August and November, for which the application submission periods will be during January, April, July and October, respectively, according to the respective Specific Terms of Issuance

.

For more information please contact:

Cyprus Stock Exchange

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PUBLIC DEBT MANAGEMENT OFFICE

MINISTRY OF FINANCE

6 September 2021

Disclaimer:

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Announcement 2

REPUBLIC OF CYPRUS
Ministry of Finance
Public Debt Management Office

SIX YEAR REGISTERED GOVERNMENT BONDS FOR NATURAL PERSONS INTEREST RATE INCREASE AS FROM 3rd (OCTOBER) SERIES 2023

The Public Debt Management Office announces the increase of the interest rates on the six-year registered government bonds for natural persons (hereinafter "bonds"). The increase will take effect from the 3rd (October) series of 2023, for which applications will be received during September 2023.

In particular, the bonds that will be issued on 2nd of October 2023 (the period for submitting the applications will be from 1/9/2023 to 20/9/2023), will yield increased interest rates as shown in the table below:

Holding period of the bond	Annual nominal interest rate corresponding to the holding period of the bond (with effect as from the 2nd of October 2023)
For the first 24 months	1,00%
For the period after the first 24 months and up to 48 months	1,25%
For the period after the first 48 months and up to 60 months	1,50%
For the period after the first 60 months and up to 72 months	1,75%

The weighted average annual interest rate, if the bond is held until its maturity (6 years), is 1.292%.

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Public Debt Management Office
Ministry of Finance
16 June 2023

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Table 10: Stock of outstanding government guarantees[1/] as at the end of 2023

No	Principal debtors	Loan contracts	Stock of outstanding guarantees
		in number	EUR mn
1	**Corporate**	**105**	**380,113,577**
	Other Companies	4	3,977,811
	SMEs	39	7,661,070
	Banks and Other Credit Institutions	62	368,474,695
2	**Entities with Public Interest**	**76**	**723,002,502**
	Other Entities with Public Interest	8	182,797,345
	Public Organizations[2/]	12	142,426,249
	Sewerage Boards[3/]	56	397,778,908
3	**Local Authorities[3/]**	**95**	**187,740,320**
	Municipalities	76	184,742,126
	Community Boards	19	2,998,194
4	**Individuals / Retail**	**2404**	**67,873,303**
	Agricultural	1	48,202
	Small Business	766	19,163,183
	Housing	1618	47,625,582
	Individuals / retail	19	1,036,336
5	**Total outstanding GG for loans excluding the issue of debt instruments (1+2+3+4)**	**2680**	**1,358,729,703**
6	**Issues of debt instruments**	**3**	**68,287,029**
	SURE loan	1	38114750
	EE-Support to Ukraine	1	5,502,098
	European Financial Stability Facility (EFSF)	1	24670181
7	**Grand Total outstanding GG (5+6)**	**2683**	**1,427,016,732**

Source: Treasury (PDMO calculations)

1/ = The guaranteed amount under the Asset Protection Scheme to Hellenic Bank is not included.

2/ = An amount of EUR 1.9 mn concerns loans granted to Cyprus Sport Organisation which is included in the public debt

3/ = These entities are included in the General Government sector and therefore their loans are part of the General Government Debt

Table 11: Central Government liquid assets and cash/debt ratios in 2012-2023 (in EUR mn)

Date	Cash at the CBC	Cash at MFIs[1/]	Total	Debt that falls due within 1 year[2]	Cash/debt[3]
31.12.2012	148,8	69,5	218,3	3.202,0	6.8
31.12.2013	760,9	6,5	767,4	1.748,0	43.9
31.12.2014	1.015,9	6,5	1.022,4	1.978,0	51.7
31.12.2015	666,8	6,5	673,3	1.131,0	59.5
31.12.2016	564,2	430,0	994,2	748,0	132.9
31.12.2017	284,0	380,0	664,0	1.048,0	63.4
31.12.2018	513,22	0,0	513,22	1.491,0	34.4
31.12.2019	947,24	0,0	947,24	721,7	131.2
31.12.2020	3.615,96	0,0	3.615,96	2.378,0	152.1
31.12.2021	2.761,62	0,0	2.761,62	1.257,6	219.59
31.12.2022	2.595,55	0,0	2.595,55	1.542.0	168.32
31.12.2023	2.829,46	0,0	2.829,46	2.143,5	132.00

1/ = An amount of EUR 2.559,6 mn placed to CCB is not included in the above table since CCB now is not considered as MFI. The said deposit was transferred to the Cyprus Asset Management Company.
2/= The amount of debt that falls due within next year based on the statistical information at the end of the reference year. The amount of debt at the end of 2018, 2019 and 2021 refer to the total amount of debt redemptions within the next 9-month period.
3/= % of cash over debt that falls due within one year. The ratio at the end of 2018, 2019 and 2021 refer to the % of cash over debt that falls due within 9-month period due to the amendment of the target set in the MTDS 2016-2020 and MTDS 2022-2024.

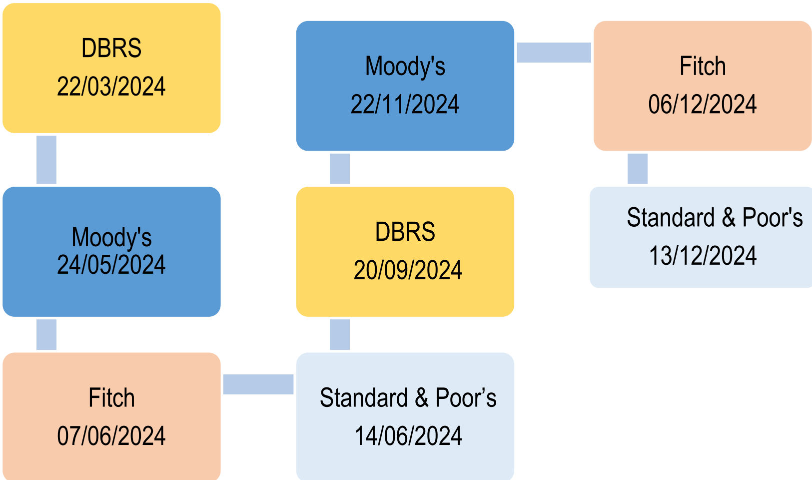
Table 12: Historical credit ratings[1/] 2008 – 2023 (Long term-short term rating)

Long term Issuer Credit rating (ICR)							
DBRS		Fitch		Moody's		S&P's	
Date	ICR	Date	ICR	Date	ICR	Date	ICR
29/09/2023	BBB (high)	08/12/2023	BBB	29/09/2023	Baa2	01/09/2023	BBB
31/03/2023	BBB	16/06/2023	BBB	03/04/2023	Ba1	06/03/2023	BBB
07/10/2022	BBB	10/03/2023	BBB	19/08/2022	Bα1	02/09/2022	BBB
08/04/2022	BBB	16/09/2022	BBB-	23/07/2021	Bα1	04/03/2022	BBB-
22/10/2021	BBB (L)	18/03/2022	BBB-	------------	----	03/09/2021	BBB-
13/11/2020	BBB (L)	24/09/2021	BBB-	------------	----	04/09/2020	BBB-
15/05/2020	BBB (L)	02/10/2020	BBB-	20/09/2019	Ba2	06/03/2020	BBB-
15/11/2019	BBB (L)	03/04/2020	BBB-	27/07/2018	Ba2	06/09/2019	BBB-
17/05/2019	BBB (L)	11/10/2019	BBB-	28/07/2017	Ba3	08/03/2019	BBB-
23/11/2018	BBB (L)	12/04/2019	BBB-	11/11/2016	B1	14/09/2018	BBB-
25/05/2018	BB	19/10/2018	BBB-	13/11/2015	B1	16/03/2018	BB+
01/12/2017	BB(L)	20/04/2018	BB+	14/11/2014	B3	17/03/2017	BB+
02/06/2017	BB(L)	20/10/2017	BB	10/01/2013	Caa3	16/09/2016	BB
02/12/2016	B	24/04/2017	BB-	08/10/2012	B3	25/09/2015	BB-
04/12/2015	B	21/10/2016	BB-	13/06/2012	Ba3	24/10/2014	B+
27/06/2014	BL	23/10/2015	B+	12/03/2012	Ba1	25/04/2014	B
12/07/2013	CCC	25/04/2014	B-	04/11/2011	Ba3	29/11/2013	B-
		05/07/2013	CCC	27/07/2011	Baa1	03/07/2013	CCC+
		28/06/2013	RD	24/02/2011	A2	28/06/2013	SD
		03/06/2013	CCC	03/01/2008	Aa3	21/03/2013	CCC
		25/01/2013	B			20/12/2012	CCC+
		21/11/2012	BB-			17/10/2012	B
		25/06/2012	BB+			01/08/2012	BB
		27/01/2012	BBB-			13/01/2012	BB+
		10/08/2011	BBB			27/10/2011	BBB
		31/05/2011	A-			29/07/2011	BBB+
						30/03/2011	A-
						16/11/2010	A
						24/04/2008	A+

1/ = A credit upgrade/downgrade/affirmation is indicated in green/red/black color respectively.

Short term Issuer Credit Rating (ICR)							
DBRS		Fitch		Moody's		S&P	
Date	ICR	Date	ICR	Date	ICR	Date	ICR
29/09/2023	R-1 (low)	08/12/2023	F2	29/09/2023	(P) P-2	01/09/2023	A-2
31/03/2023	R-2(H)	16/06/2023	F2	03/04/2023	NP	06/03/2023	A-3
07/10/2022	R-2(H)	10/03/2023	F2	19/08/2022	NP	02/09/2022	A-3
08/04/2022	R-2(H)	16/09/2022	F3			04/03/2022	A-3
22/10/2021	R-2M	18/03/2022	F3	23/07/2021	NP	03/09/2021	A-3
14/05/2021	R-2M	24/09/2021	F3	-----------	---	05/03/2021	A-3
13/11/2020	R-2M	26/03/2021	F3	-----------	---	040/9/2020	A-3
15/05/2020	R-2M	02/10/2020	F3	-----------	---	06/03/2020	A-3
15/11/2019	R-2M	03/04/2020	F3	20/09/2019	NP	06/09/2019	A-3
17/05/2019	R-2M	11/10/2019	F3	27/07/2018	NP	08/03/2019	A-3
23/11/2018	R-2M	12/04/2019	F3	12/03/2012	NP	14/09/2018	A-3
25/05/2018	R-4	19/10/2018	F3	04/11/2011	P-3	14/09/2017	B
12/04/2015	R-4	25/04/2018	B	27/07/2011	P-2	29/11/2013	B
07/12/2013	R-5	26/03/2013	B			03/07/2013	C
		03/06/2013	B			28/06/2013	SD
		10/08/2011	F3			20/12/2012	C
		31/05/2011	F1			13/01/2012	B
						27/10/2011	A-3
						30/03/2011	A-2

Figure 2: Sovereign Rating Review Calendar for the Republic of Cyprus in 2024



Note

1/= CRAs are able to announce other evaluation dates outside the above official planned evaluations if required by economic conditions. They have not the obligation to issue a credit assessment decision at all of the above evaluation dates.

Table 13: Participation of PDMO officers to seminars, EU committees and other events during the year 2023

January - March	April - June	July - September	October - December
EFS Sub-Committee on EU sovereign debt markets	Capital Markets seminar by ESM, EC and EIB	Green Bond – Sub-committee ESDM	Investors roadshows
Investors roadshows	IMF-World Bank meetings		EFS Sub-Committee on EU sovereign debt markets
			NGEU - Sub-committee ESDM
			ESM Shareholders' Day

Box 1: Participation of the Republic of Cyprus, to SURE instrument of the EU

The coronavirus outbreak (COVID-19) has had a significant negative economic impact worldwide, affecting the production chain and the demand, with unavoidable effects on the labor market. As a result, a number of measures have been launched at European level, in order to support the European economies. In this context, a European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) and a Regulation laying down the conditions and procedures for the provision of this Union support to its Member States, have been put in place. The duration and scope of the new temporary support instrument are limited to tackling the effects of the coronavirus pandemic and are intended to protect jobs and employees affected. It will provide financial support in the form of loans granted by the European Commission ('the Commission') to its Member States totaling up to €100 bn, of which an amount of €98.4 bn has already been approved and €91.8 bn has already been disbursed to 19 Member States, as per 30 September 2022, to help them cover directly related costs by creating or extending national systems for part-time employees and similar measures they introduced for the self-employed to address the effects of the pandemic.

In order to finance its loans to Member States, the Commission has resorted to lending from the financial markets through the issuance of bonds. Member States benefit from the Commission's strong credit rating and its very low borrowing cost, as these loans are backed by a system of voluntary guarantees from the Member States, depending on each country's share of the Union's GDP, which amounted to € 38.1 mn in the case of Cyprus. These loans will be repaid upon maturity, and in the interim period only interest and related expenses will be paid. The total amount that Cyprus has received through the Loan Agreement is €632 mn or about 2.6% of GDP_{2021}.

In October 2020, EU proceeded to the first bond issuances. At the issuance of 12 November 2020, Cyprus received €250 mn. In 2021, it received an additional amount of €229 mn on the 2nd of February 2021 and €124 mn on the 25th of May 2021. More specifically, in 2020 Cyprus received a 5-year bond of €150mn and a 30-year amount of € 100mn with an annual nominal interest rate of 0.0% and 0.3% respectively. In February 2021 it received a 7-year bond of €157 mn and a 30-year bond of €72 mn with an annual nominal interest rate of 0.0% and 0.3% respectively and in May 2021 an 8-year bond of €77 mn and a 25-year bond of €47 with an annual nominal interest rate of 0.0% and 0.75% respectively. In addition, based on the latest issuance of the EU in December 2022, Cyprus received a 15-year bond of €29 mn with an annual nominal interest rate of 2.75%.

Box 2: Participation of the Republic of Cyprus, to the Recovery and Resilience Facility of the EU

In 2020, the European Commission proceeded to the creation of "Next Generation EU" fund in order to repair the immediate economic and social damage brought about by the coronavirus pandemic. At its core is the Recovery and Resilience Facility which aims to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, more resilient and better prepared for the challenges and opportunities of the green and digital transitions.

The Recovery and Resilience Plan (RRP) of the Republic of Cyprus which was approved by The European Commission was €1206 mn, which will be financed through grants of €1006 mn (at current prices) and additional funding of about €200 mn in the form of loans during the period 2021-2026. The key strategic goal of the RRP of Cyprus is to strength the economy's resilience and the country's potential for economically, socially and environmentally sustainable long-term growth and welfare. Through the implementation of the RRP measures, the aim is to promote Cyprus as:

- A country with high levels of resilience, productivity and competitiveness;
- A country where the education system and workforce development are aligned with the skills needed for the future;
- A country with high performance in green and digital transition;
- A country with a resilient health system;
- A welfare state with a strong protection network;
- A state of law, transparency and accountability with strong anti-corruption mechanisms.

The economic impact assessment of the RRP carried out by the Economic Research of the University of Cyprus, is expected to have significant macroeconomic impact in the short, medium and long term on economic growth, employment and productivity. As per the payment profile, Cyprus has already received an amount of €157 mn on 9th of September 2021, being a 13% prepayment of the total grants and loan amounts as well as an amount of €85 mn in 2nd of December 2022. The payment in 2022 was the result of the achievement by Cyprus of the 14 milestones related to reforms and investments in the electricity markets, financial sector and public administration as well as in the areas of energy efficiency, circular economy, anti-corruption and transparency, digital skills and budget audit and control. The remaining amounts are expected to be disbursed in the period 2023-2026 subject to the fulfilment of the milestones and targets agreed within the framework of Cyprus RRP. More details are presented in Table 2c above in the Appendix.

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