

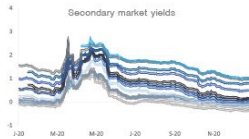


Republic of Cyprus
Ministry of Finance
Public Debt Management Office



2020 ANNUAL REPORT

Public Debt Management



April 2021

PUBLIC DEBT MANAGEMENT ANNUAL REPORT 2019

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“The current crisis is an unprecedented wake-up call...”
António Guterres
UN Secretary-General
International Mother Earth Day
22 April 2020

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Mission Statement

The main mission of the Public Debt Management Office (PDMO) is the design and implementation of the appropriate 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 but interrelated pillars: first, through the exercise of the medium-term debt management strategy of the Government, and second, through the implementation of the approved by the Council of Ministers action plan for further development and strengthening of the infrastructure of PDMO.

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 financial needs of the Government at the lowest possible medium-term cost, within an acceptable range of financial risks.

The impressive progress performed during the reporting period, which lasted until the end of February - beginning of March 2020, allowed among other things, the early and full repayment of the International Monetary Fund loan and the improvement of all relevant financial risk indicators. Unfortunately, this progress was severely reversed as a result of the emergence and rapid spread of the coronavirus SARS-Cov-2, which causes CoVID-19 disease, which, sadly, has developed into a pandemic through its global spread (Pandemic Covid-19).

Beyond the inconceivable loss of thousands of lives, rapid developments as a result of the pandemic and the overwhelming effects on the international and European economy and society have created such conditions of uncertainty as to the shrinking economic activity, its duration, and the fiscal implications (through both fiscal revenue as well as expenditure) so that, for the time being, it is impossible to make satisfactory credible forecasts about the future financial needs of any country.

Today, we are going through the third wave of the pandemic whilst the vaccination program is in progress and implemented at a steady pace. Alongside, it would not be an exaggeration to say that managing the economic aspect of the current crisis requires such a degree of diligence and attention, proportional to the corresponding degree that

has been demonstrated for the management of the epidemiological aspect of the crisis. In both the first and second aspects, the ultimate objective is to maintain and improve the well-being of the citizens and to protect social cohesion, which aims to safeguard the economic viability and strength of the country.

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 markets and the financial needs of the country so that it can deliver the best possible result under the current volatile conditions.

Given the prevailing economic uncertainty internationally, the PDMO is constantly working on strengthening the liquidity buffer of the State, as required by Articles 20 and 21 of the Public Debt Management Law. In this context, during the period from January to December 2020, a total gross funding of more than €6,0 billion was obtained, which more than doubled the existing stock of cash buffer. Between 2019 and 2020, the outstanding amount of general government debt increased from 94 percent of GDP to 118 percent of GDP (by 24 percentage points). About 13 percentage points of the increase of the public debt was attributed to the increase of cash balances of the Republic of Cyprus.

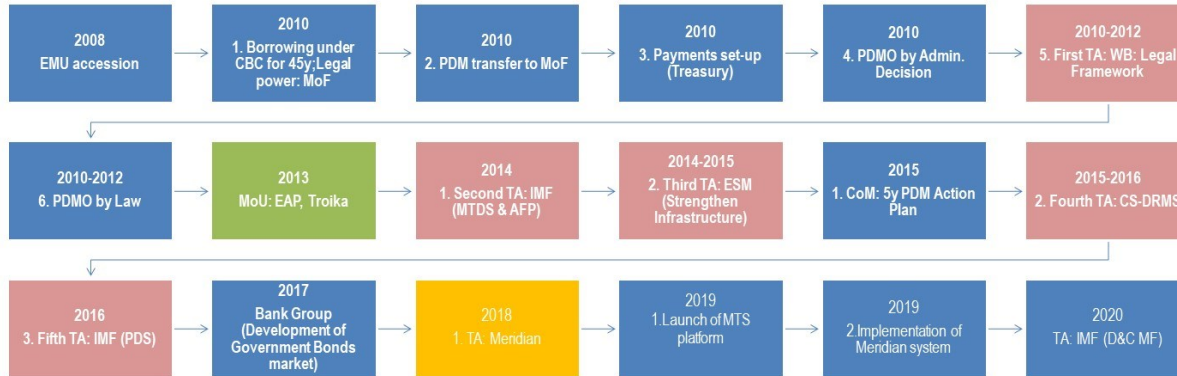
The major part of the above-mentioned funds is intended to cover exclusively the financing needs of the Government for the following 9 – 12 months, which are characterized by intense uncertainty and, therefore, the said funds must be preserved as the apple of the eye, in compliance with the current legislation (Article 20-21 of the Public Debt Management Law) and the medium-term debt management strategy approved by the Council of Ministers (Articles 9-10 of the same laws mentioned above).

Today, the cash buffer is at a satisfactory level since it covers the projected financing needs for at least the next 9 months, whereas new extended borrowing is currently avoided meaning the containment of further increase on the public debt.

The developments made on the public debt management policy for the financial year 2020, as per article 25 of the Public Debt Management, are presented in the following Report which has been drafted by the end of March 2021.

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Public Debt Management Office
Ministry of Finance
Nicosia
Cyprus
April 2021

The timeline of Public Debt Management in Cyprus (2008-2020)



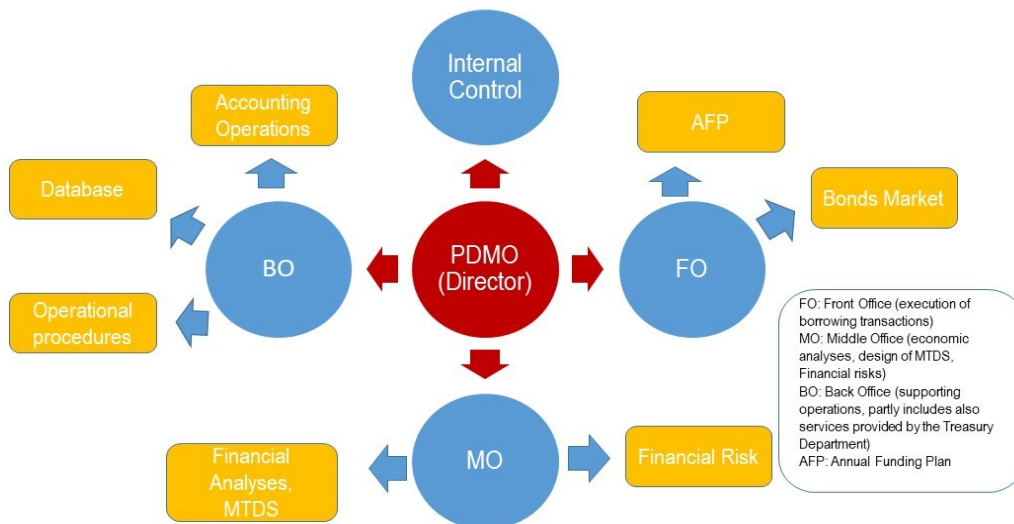
AFP: Annual Funding Plan
 CBC: Central Bank of Cyprus
 CoM: Council of Ministers
 CS: Commonwealth Secretariat
 DRMS: Debt recording management system
 D&C MF: Debt&cash management framework

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
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

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I. Introduction

Following a period of rapid economic recovery from the 2012-2013 financial crisis, Cyprus's strong economic growth is gradually settling in at a more sustainable pace but it is continuing to be robust in 2019, despite the global economic slowdown. As a result, the said situation creates favourable conditions to correct a number of macroeconomic imbalances such as the stock of public debt, non-performing exposures as well as to sustain growth in the long term, capable to cope with any unexpected events.

Public finances have returned to nominal surpluses in 2019, after recording a temporary fiscal deficit of 4.4 percent in 2018 due to the one-off banking sector measures related to the sale of the ex-Cyprus Cooperative Bank (CCB). Cyprus recorded a fiscal surplus of about 2.7 percent and a primary balance of about 5.2 percent in 2019.

The continuation of the above outcomes was interrupted in 2020 since the Republic of Cyprus was significantly affected by the Covid-19 pandemic, although at a slower pace than the euro area average, which induced economic recession. As a result of the recession and the government's fiscal policy measures to mitigate the impact on the economy, the budgetary position shifted into a deficit, estimated at around 5 percent of GDP in 2020 compared to 2.7 percent in 2019. This led to a significant increase in the general government debt to GDP around 118 percent at the end of 2020 compared to 94 percent in 2019. The increase was attributed to the large GDP drop in 2020 by about 5.8 percent, sizeable strengthening of the cash buffer to cope with the high uncertainty of the development of Covid-19 pandemic by about 282 percent compared to the previous year and increase of fiscal deficits.

However, the year 2020 was proved successful in the government bond market since following the EU decisions to support the economies of the Member States due to the pandemic's economic impact combined with the European Central Bank's extensive intervention on the capital and money market, a significant increase of the confidence of international investors for Cyprus was highlighted in the benchmark EMTNs (Euro Medium Term Notes) issuances of the Member States, including the Republic of Cyprus. This increased confidence was occurred after April – May 2020 with a dramatic decline in sovereign bond yields and borrowing costs to even lower levels than in the pre-pandemic period.

Since the beginning of the year 2020, the secondary market yields of the Cypriot EMTN were relatively stable with a slow tendency towards declining. These developments were interrupted in the first half of March 2020, as the announcements of the first lockdowns in Europe resulting a sharp increase on sovereign bond yields. Following the announcements of the expansion of long-term liquidity to bank at better terms and of the Pandemic Emergency Purchase Programme (PEPP) to safeguard the smooth transition of monetary policy in euro area, sovereign bond yields embarked on a downward trajectory. Towards the end of the year, the majority of the euro-area sovereign bond yields, were trading in negative territory. In Cyprus, about 50 percent of the outstanding EMTNs were trading in negative territory by the end of the year 2020.

The main funding source for the Republic of Cyprus in 2020 was the international market supplemented by domestic market sources from 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 2020, the share of foreign bonds has marked a significant increase as opposed to the share of official loans that has recorded a decrease. The distribution of instrument composition is in line with our debt management strategy for the international market to continue to be the main source of funding in the following years.

The public debt as a ratio of Gross Domestic Product (GDP) exhibited a material increase in 2020 following government's fiscal policy measures to mitigate the impact of the Covid-19 pandemic on the economy. The Central Government's liquid assets recorded a significant increase in the reference period (2020) allowing full coverage both for the subsequent 9-month period refinancing needs in 2021 as well as the refinancing needs up to May of the year 2022.

The majority of the debt portfolio risk indicators were affected positively by the public debt management transactions mainly in the international markets. The weighted average maturity of marketable debt exhibited an increase, surpassing the target set in the Medium-Term Debt Management Strategy (MTDS) 2020-2022, reaching a very satisfactory level and it almost fully converge to euro area average. It is noted that the weighted average maturity of the debt issued in 2020 has marked a slightly increase compared to the corresponding indicator the year before. The average cost of servicing the public debt, reached an all-time low, benefiting, liability management transactions, the low interest rate environment in the European capital markets and the improved credit rating profile of the Republic of Cyprus.

The sovereign's creditworthiness was maintained at the same level as was in the previous year by all Credit Rating Agencies (CRAs), however two of them changed the outlook from positive to stable. CRAs underlying, among others, the key drivers for the upgrade of

Cyprus' government bond in the near future, could result from continued ability of the Government to sustain the expectations of growth and maintain a sound fiscal policy, from further reduction in the debt-to-GDP ratio and the stock of bank non-performing exposures as well as from continued deleveraging of the private sector.

Over the reference period, the Public Debt Management Office (PDMO) continued its infrastructure development as part of its five-year Action Plan 2015 (Dec.) – 2020 (Dec.). However, a number of actions were rescheduled due to the coronavirus pandemic and were extended by one year.

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) Spring meetings and the European Stability Mechanism (ESM) activities, specifically related to public debt management matters. However, due to the Covid-19 pandemic the engagement was done through virtual meetings.

Following this introduction, the strategic objectives on public debt management set under the MTDS 2020-2022 as well as the revised MTDS 2021-2023, the Annual Funding Plan (AFP) 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 2020 as well as the debt redemptions (flow analysis), while Chapter 5 presents the main structural characteristics of public debt and their evolution 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 2020.

II. Objectives and Evaluation

A. Mandate

On behalf of the Republic of Cyprus, the Minister of Finance borrows funds by raising 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 AFP.

Government borrowings aim mainly at: (i) covering the fiscal deficit; (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.

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 of the AFP as well as on the execution of the necessary borrowing transactions in order to facilitate the implementation of the AFP and to 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 current active Strategy covers the period 2020-2022. It was published at the end of 2019. The said strategy was updated through the MTDS 2021-2023.

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

¹ Any decision-making based on the minimization of the borrowing cost of the 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 PDM. 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

C. MTDS guidelines and targets

The guidelines of the MTDS and the actions/quantitative targets under each guideline related to the reference year 2020 are presented below.

1. Smoothing of debt maturity profile and extension of the maturity of marketable debt

- *Gradually increase and maintain average maturity of marketable debt, not less than 5 years;*
- *Maintain short term debt equal or less than 2 percent of total debt stock; and*
- *Maintain long term debt equal or more than 98 percent of total debt stock.*

2. Risk mitigation

- *Maintain total liquid funds to cover the financing needs of at least next 9 months;*
- *Maintain annual gross financing needs up to 10 percent of the corresponding annual GDP;*
- *Maintain total debt foreign exchange exposure not more than 5 percent of total debt stock; and*
- *Maintain total debt floating interest rate exposure not more than 40 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 provision in the foreign market; and*
- *Build-up and extend 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 2020, the new MTDS 2021-2023 was approved by the Council of Ministers. The said strategy is a continuation of the existing debt management strategy 2020-2022. The main pillars of the new strategy remain the same, however the quantitative targets have been changed.

D. Annual Funding Programme 2020

Pursuant to article 10 of the PDML, the PDMO prepares 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 2020 were the following:

1. Maintain Cyprus' presence in the international capital markets in order to build up 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 9 months;
3. Increase the average maturity of marketable debt further than 5 years;

4. Further reduction of the weighted average cost of public debt, among others, through the execution of liability management transactions;
5. Further development of the bonds market, and
6. Renewal of short-term debt and maintain the swift functioning of the Treasury Bills (TBs) market;

More details for the AFP 2020 are presented in chapter four.

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 2021 was approved by the Minister of Finance by the end of October 2020.

E. Evaluation of MTDS guidelines and progress to date

The implementation of the MTDS in 2020 was passed through difficult period due to the Covid-19 pandemic which hit the Republic of Cyprus in March 2020. The basic macroeconomic assumptions and risk factors which have been used to the compilation of the MTDS, have been changed due to the high uncertainty of the coronavirus affecting the quantitative and qualitative objectives of the strategy. Despite the negative impact of the pandemic, the outcomes from the implementation of the strategy could be characterized as satisfactory.

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

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

A substantial change has been marked on the debt maturity profile during the year 2020 which was attributed both to the EMTNs

transactions executed during the year 2020, as well as to the early prepayment of the IMF loan maturing in the period 2020-2026 which was replaced by longer debt maturities. The share of outstanding short-term debt stood at 6 percent of the total outstanding debt at the end of 2020, above the target set (2 percent) in the strategy as a result of the short-term TB of 52-week issued in April 2020 in order to enhance the cash buffer due to the high uncertainty surrounding the development of the Covid-19 pandemic. This indicator is expected to be in line with the strategy, after the repayment of the TB of 52-week in April 2021. 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 share of outstanding long-term debt as at the end of 2020 stood at 94 percent, below the target set in the strategy. The outstanding annual maturities profile were at satisfactory. The execution of the early prepayment of the loan granted by the IMF has contributed to the further smoothening of the debt maturity profile. 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 on longer-term debt issuances provided that the market conditions 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 has recorded an increase reaching 8.0 years at the end of 2020 compared to 7.0 years at the end of 2019 which was attributed to the government bond issuances in the international markets with the longest-term debt due in 2050. The value of the said indicator is above the relevant MTDS

target i.e. to be not less than 5 years as a result of the 7-year, 10-year, 20-year and 30-year EMTN issued in 2020. The continuation of longer-term benchmark EMTN issuances is anticipated to maintain the maturity of marketable debt above 5 years.

Risk mitigation

The size of the liquid funds throughout the year of 2020 was in line with the relevant target set in the strategy, to cover the financing needs of the next 9-month period in any time. Throughout the year 2020, 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 unexpected events and specifically with the uncertainty of the development of the Covid-19 pandemic.

Moreover, the target for the total foreign exchange exposure has been achieved to date. The approach, generally followed, is to go for euro denominated debt issuances only. The only non-euro debt outstanding which is denominated in Special Drawing Rights (SDR), was the IMF loan which was prepaid earlier. Therefore, 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 29 percent of the

outstanding public debt at the end of 2020, mainly due to the early prepayment of the IMF loan. The variable rate debt is anticipated to decline further 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. A market group with seven international investment banks has been formed and has continued to work towards this goal during the year 2020. 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. By the end of November 2019, the MTS (electronic trading platform) has started the first transactions of secondary markets for Cypriot Government Bonds. In early 2020, the MTS platform became operational. 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 build-up of a sovereign yield curve, has achieved at a very satisfactory level. Four new points were added in the sovereign yield curve in 2020 contributing to the extension of the bond yield curve up to 30 year. 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 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. As the secondary yields of the Cypriot international bonds continue to follow a downward trend and the sovereign credit ratings tend to improve further, the composition of investors will continue to change over time. The improvement of investor base with more quality investors has continued in 2020 through the EMTN issuances. The efforts now need to be placed in the analysis of investors in order to approach more investors with longer investment horizon and link marketing efforts to 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 the 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 2020, due to the restrictive measures set by a number of countries to cope with the Covid-19 pandemic, non-deal related roadshows were not executed instead a number of virtual meetings were implemented to provide update information about the Cypriot economy. The investor base has improved both in terms of geography and type in the 2020 EMTN issuances.

The results of this target are evident through the investors distribution statistics by geography and type in the benchmark bond issuances in 2020 which are shown in Chapter 6.

III. Sovereign Debt Markets Developments

A. Eurozone sovereign debt market developments

According to the notes issued by Directorate General Financial Stability, Financial Services and Capital markets Union, since the beginning of the year 2020, developments in bond markets sovereign yields were relatively stable with a slow tendency towards declining in most euro area Member States. These developments were interrupted in the first half of March 2020, as the announcements of the first lockdowns in Europe resulting a sharp increase on sovereign bond yields. In January and February 2020 euro-denominated bond issuances remained strong, including the first two bond issuances of the Republic of Cyprus for this year.

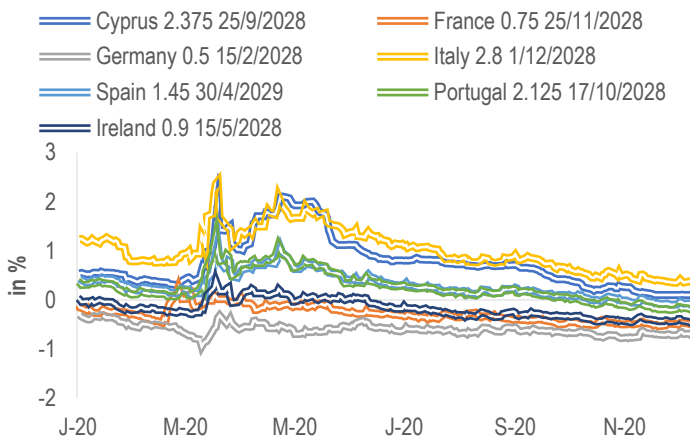
Over the period mid-March to June 2020, the benchmark sovereign bond yields in the euro area have marked a significant volatility amid continued uncertainty as to the effects for the Covid-19 pandemic. The bond yields were peaked by the end of April 2020, however, following the announcement of the expansion of its long-term liquidity provision to banks at better terms and the announcement of the Pandemic Emergency Purchase Programme to safeguard the smooth transition of monetary policy in the euro area, sovereign bond yields embarked on a downward trajectory. They remained somewhat volatile and then towards the end of the summer 2020, government bond yields in euro area countries reached pre-pandemic figures.

While the summer months sovereign bond yields were overall relatively calm and risk appetite remained robust despite the persisting uncertainty in the medium-term outlook, after the summer the markets had started to become more agitated. In autumn, equity markets had marked some significant volatility, however developments in global

bond markets remained unruffled. This is mainly attributed to the increased expectations for more European Central Bank stimulus which drove bond yields at lower levels. With regards to spreads in euro area countries, the yield spreads of the long-term government bonds to the German Bund of all euro-area sovereign bonds declined with the volume of negative yielding sovereign bonds exhibiting an increase in the euro area. According to the note issued by Directorate General Financial Stability, Financial Services and Capital markets Union in November 2020, by the end of October 2020, over 70% of total outstanding euro-area sovereign bonds were trading in negative territory. In aggregate terms, the total euro-denominated bond issuances had remained strong in the period June to October 2020, including the execution of a dual-tranche re-opening of the Republic's existing bonds of the order of EUR 1000 mn maturing on 3rd December 2024 and 21st January 2040.

The yield developments of 10-year bonds, where available, for selected Eurozone States throughout the year 2020 are illustrated in Figure 1. The 10-year Cyprus government bond yields were relatively stable with a slow tendency towards declining and after the 1st week of March 2020 followed an upward path as a result of the spread of the coronavirus until the end of April 2020. The 10-year Cyprus government bond yield, has peaked by the end of April 2020 and marked an increase by 157 basis points compared to the beginning of the year. Similar paths were recorded for the 10-year bonds of selected Eurozone states during the same period. Since May 2020, the gap between Cyprus government bond and other selected bonds presented in the figure below, narrowed and particularly Cyprus, Spain and Portuguese yields were very close towards the end of the year.

Figure 1: Secondary market yield curve levels of Cyprus and selected Eurozone States (10-year government bonds) in 2020



(Source: Bloomberg)

Since mid of March 2020, all Cyprus government bond yields followed an upward trend, similar to Eurozone States reflecting the high uncertainty surrounding both the evolution of Covid-19 pandemic and any quantification of its economic impact.

Regarding the implementation of the AFP, four new benchmark bonds (EMTNs) with a tenor of 7 years, 10 years, 20 years and 30 years were issued during the year 2020, adding four further points in the sovereign yield curve of Cyprus.

In addition, in July 2020 the Republic of Cyprus proceeded with the re-opening of two existing EMTNs maturing in 2024 and 2040 in order to, inter alia, improve the liquidity of the said bonds and enhance further the cash buffer towards the end of the year due to the prevailing

uncertainty surrounding the evolution of the Covid-19 pandemic and any impact on the Cyprus financing requirements.

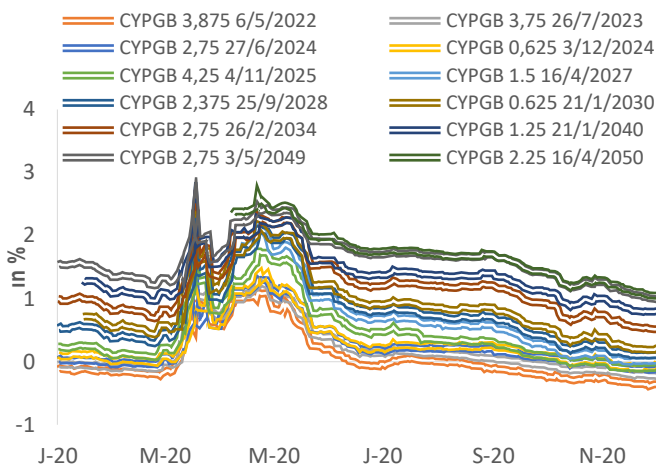
The market behaviour indicated a disaggregation of the twelve benchmark (EMTNs) bonds of the Republic of Cyprus into three main groups. The two longer-dated bonds maturing in 2034 and 2049 as well as the newly issued benchmark bonds maturing in 2040 and 2050 moved in a similar pattern, tightened slightly and performed well since April 2020. Specifically, the longer-term bonds performed slightly well in the secondary market with the year closing on average around 54 basis points tighter either than the beginning of the year or its launch with the exception of the newly issued bond due in 2050, where yield narrowed by 134 basis points by the end of the year than its launch.

The second group of bonds maturing in 2028 and 2030 performed also slightly well in the secondary market since April 2020 with the year closing 44 and 58 basis points tighter than the beginning of the year and its launch, respectively.

The third group of bonds maturing in 2022, 2023, 2024, 2025 and 2027 moved in a similar pattern and towards the end of the year moved in the negative territory and performed slightly well compared to the beginning of the year with the exception of the newly issued bond due in 2027, where yield performed very well and narrowed by 176 basis points by the end of the year than its launch.

Figure 2 below, illustrates the yield development of Cyprus' benchmark bonds in 2020, launched under the EMTN Programme which are under English law and are listed on the London Stock Exchange.

Figure 2: Secondary yield levels for Cyprus EMTN in 2020



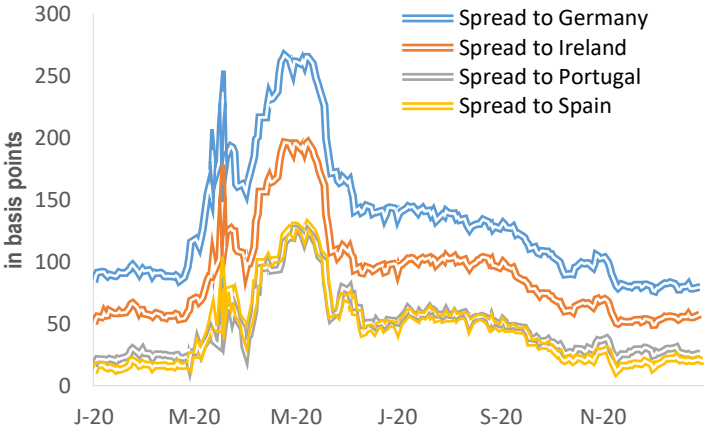
(Source: Bloomberg)

With regards to yield spreads developments, the Cyprus sovereign spreads of the 2028 bond over selected bonds of euro area countries has remained stable since the beginning of the year. By the end of February 2020 until early May 2020, that trend reversed due to the appearance of the Covid-19 pandemic and spreads widened considerably. Thereafter, the yield spreads continued to narrow significantly and towards the end of the year, they reached at levels of pre-pandemic era, as presented in Figure 3 below.

The Cyprus sovereign yield spread of the 2028 bond (2.375 percent) over German Bund (0.5 percent) maturing on 15th of February 2028 remained stable between the period January-February 2020 and then marked a considerably increase reaching 266 basis points by the end of the first week of May 2020, thereafter followed a downward path and towards the end of year had reduced by 187 basis points compared to

the peak of the year reaching 79 basis points. The spread to the Irish bond (0.9 percent) maturing on 15th of May 2028 moved in a similar pattern to the spread over German Bund and towards the end of year was reduced by 139 basis points compared to the peak of the year reaching 57 basis points. Regarding the yield spread over Portuguese bond (2,125 percent) maturing on 17th of October 2028 and Spanish bond (1.45 percent) maturing on 30th of April 2029 moved in a similar pattern and very closed throughout the year, however at lower spread levels and towards the end of year had reduced by 99 basis points and 110 basis points compared to the peak of the year reaching 26 basis points and 20 basis points, respectively.

Figure 3: Cyprus sovereign yield spread to selected euro area countries in 2020 (bonds maturing 2028, where available)



(Source: Bloomberg)

The secondary market activity and the clearly downward trend of Cyprus sovereign yield spreads since May 2020, as a result of the initiation of the ECB'S PEPP launched in March 2020 along with a

swift, strong and coordinated response from other EU Institutions, have contributed to the funding cost reduction of issuing new debt in the primary market. An overview of the financing of the Central Government in 2020 is presented in the next chapter.

B. Cyprus sovereign debt market developments

The activity of the domestic government bond market has continued throughout the year 2020 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 2020 and the indicative auction schedule for TBs for the first half of the year 2021 is presented in the Appendix. Although the annual outstanding amount of TBs is on a downward pattern since 2013 which is in line with the MTDS, in 2020 the TBs programme remains a significant short-term funding vehicle for Cyprus. In 2020, the total cumulative amount of 13 weeks TBs auctions was EUR 998 mn compared to EUR 993 mn in 2019. The total net stock of TBs at the end of the year, including the 52-week TB of the order of EUR 1.250 mn has marked an increase of EUR 1169 mn reaching EUR 1475 mn or 6 percent of the total public debt compared to EUR 300 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 2015-2020. With regards to yields developments, the Cyprus TBs yields maintained at a negative territory for the period January – March 2020 at -0.20 percent, thereafter the yields turned to positive territory during the period April to October 2020 with the weighted average yield to be 0.12 percent.

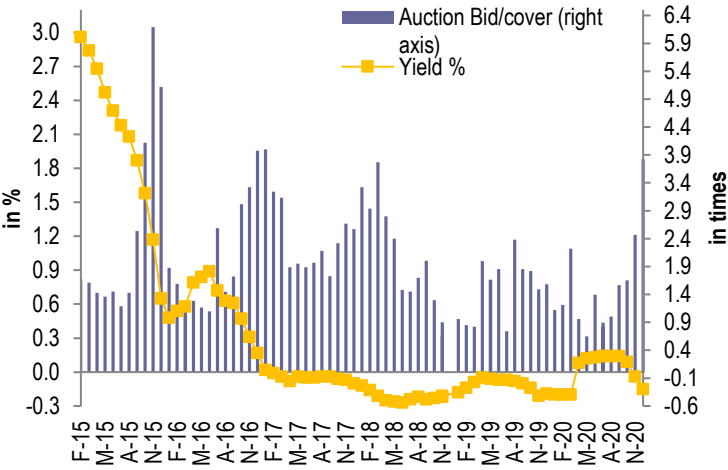
⁴ The total value of bids received to the issuance amount announced.

Then, the TBs yields turned again to negative territory reaching -0.15 percent at the end of the year. The weighted average yield of TBs maintained at the same level in 2020, as was in the year 2019 reaching -0,01 percent.

Regarding the bid to cover ratios, it seems that the auction participation followed similar path despite the uncertainty surrounding the evolution of Covid-19 pandemic uncertainty, the reduction of interest rates and given that yields are on a negative territory on average in 2020. The annual average auction bid to cover ratio in 2020 was 1,52 times the auction amount compared to 1.50 times in 2019.

The outcome of the TBs auctions in 2020 given that interest rates were either at negative territory or closed to zero could be regarded as a positive signal for the creditworthiness of the Republic of Cyprus.

Figure 4: Treasury Bills yields and auction bid/cover ratio in 2015-2020



(Source: PDMO)

IV. Financing of the Central Government in 2020 (AFP 2020)

A. Introduction

The financing of the Central Government in 2020 was achieved through a number of financing instruments. The financing of the Central Government was mainly done through the issuance of 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 2020 by source and by maturity based on the AFP 2020. The next sub-chapter focuses on debt redemptions and liability management transactions executed in 2020. The chapter concludes with a review of the year's financing profile.

B. Financing actions in 2020

The Central Government annual borrowing plan by financing instrument has been revised three times during the year 2020, as you can see in Appendix, in order to confront the economic impact of the Covid-19 pandemic and to strengthen state reserves in accordance with the MTDS. The final AFP 2020, after all the revisions executed during the year, is illustrated in Table 1 below. The total borrowed amount of the Republic of Cyprus in 2020 reached EUR 6,1 bn, excluding debt issued and redeemed within the year.

The main component of the annual financing, was the issuance of six EMTNs underpinned by strong participation of international investors, with the first biggest category, in total amount, originated from UK, Germany/Austria/Switzerland, France and Greece and by high quality

of investors who submitted their orders. In general, about 74 percent of the annual funds originated by foreign investors mainly in foreign bonds. The remaining share of the annual fund originated by domestic investors with both legal entities, mainly Monetary Financial Institutions (MFIs) investing in foreign bond and TBs issuances as well as natural persons investing in retail bonds. An amount of EUR 250 mn or about 4 percent of the total annual financing was formed under SURE instrument whilst an amount of EUR 42 mn or about 1 percent of the total annual financing was formed by foreign loans granted by EIB and CEB throughout the year for ongoing infrastructure projects.

Table 1: Annual borrowing by financing instrument in 2020

	EUR mn	%	%
1 Government Securities	6023		95
of which:			
TBs	1475	23	
<i>of which: 52 week TB (1250mn)</i>			
Retail bonds	48	1	
Foreign bonds (EMTNs)	4500	71	
2 Loans	292		5
of which:			
EIB – CEB loans	42	1	
Other bilateral Loan (SURE)	250	4	
Total annual borrowing^{1/}	6315	100	100

1/= Debt issued and redeemed within the year 2020 is not included.

(Source: PDMO)

Table 2 below, shows the distribution of total annual borrowing by maturity in 2020. The maturity of the annual borrowing in 2020 was ranged between 0.25 years to 30 years with the majority of the debt to be ranged in the spectrum of 6-10 years at 37 percent and over 10 years at 30 percent. The debt ranged in the spectrum of 6-10 years was mainly composed by two EMTNs, one with a 7-year tenor and the other with a 10-year tenor. The second largest amount of debt was ranged in the spectrum of over 10 years which was mainly composed by one EMTN with a 20-year tenor and an amount of EUR100 mn maturing in 2050 under the SURE instrument. The remaining amount was originated from a 5-year EMTN and short-term TBs issuances.

The weighted average maturity of new issued debt during 2020 was slightly increased compared to the respective debt during 2019, reaching 11.1 years, underpinned by the longer-term foreign bond's issuances.

Table 2: Distribution of total annual borrowing by maturity in 2020

	EUR mn	%
1 0,25 – 1 year	1475	23
2 1 – 5 years	650	10
3 6 -10 years	2298	37
4 Over 10 years	1892	30
Total net annual borrowing	6315	100

(Source: PDMO)

As presented in Table 3 below, in terms of the utilization of borrowed funds, about 62 percent of the annual funding was used by the Government to enhance cash buffer due to the uncertainty surrounding the evolution of the Covid-19 pandemic and any impact on the Cyprus financing requirements. About 25 percent of the annual funding was used to pay the scheduled debt redemptions within the year 2020 and about 12 percent to make early repayments whilst a small amount granted by EIB and CEB was used for the implementation of infrastructure projects.

Table 3: Summary of the use of the annual funding in cash terms in 2020

	EUR mn	%
1 Debt maturities	1577	25
2 Early repayments	788	12
<i>of which: IMF loan^{1/}</i>	717	
3 Infrastructure projects	42	1
4 Enhancement of cash buffer	3908	62
Total net annual borrowing	6315	100

(Source: PDMO)

1/= Excluding accrued interest payments paid to the IMF

The overview of financing actions implemented during 2020 is presented in more details below. The main financing of 2020 took place in January, April and July 2020 through the issuance of foreign bonds and a 52-week Treasury Bill.

In January 2020, 10-year and 20-year benchmark bonds were issued of the order of EUR 1000 mn at a coupon rate of 0.625 percent and yield of 0.73 percent and EUR 750 mn at a coupon rate 1.25 percent and yield of 1.33 percent, respectively. The transactions were very

successful attracting a significant and diversified number of investors. More details are presented in Box 1 below.

In April 2020, a 7-year and 30-year benchmark bonds were issued of the order of EUR 1250 mn at a coupon rate 1.5 percent and yield 1.564% and EUR 500 mn at a coupon rate of 2.25 percent and yield 2.339%, respectively. Both transactions attracted a notably high quality and diversified number of investors. More details are presented in Box 2 below. In the same month, a 52-week TB of the order of EUR 1250 mn was issued at an annual yield of 0.50 percent.

In July 2020, a dual-tranche re-opening of two existing benchmark-sized EMTNs for a total amount of EUR 1000 mn, adding EUR 500 mn to Cyprus existing bonds maturing in 2024 and in 2040 in order, inter alia, to enhance the cash buffer of the Government. The said bonds were priced at spread of 70 basis points and 140 basis points over the mid-swap rate, respectively. The transactions were very successful with the combined orderbook exceeded EUR 5 bn, reaching approximately EUR 2 bn for the 5-year EMTN and EUR 3 bn for the 20-year EMTN.

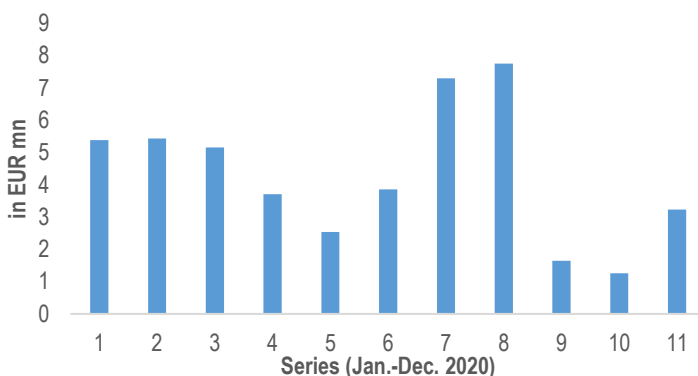
In November 2020, an amount of EUR 250 mn was disbursed under the SURE instrument on two transactions with the first transaction of the order of EUR 150 mn maturing on November 2025 at a coupon rate of 0.0 percent and the second transaction of the order of EUR 100 mn maturing on November 2050 at a coupon rate of 0.3 percent. More details are presented in Box 3 below.

In addition, monthly series of the domestic retail bonds amounted to EUR 48 mn were issued throughout the year. The domestic retail bonds are 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 maturity.

Figure 5 below, illustrates the monthly series of retail bond sales in 2020.

Figure 5: Monthly series of Retail bond sales in 2020 (Jan.-Dec.)

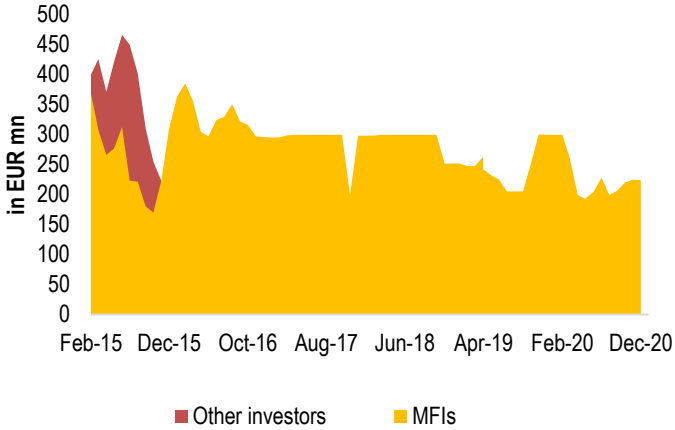


(Source: PDMO)

Note: It is noted that there was no sale of retail bonds in May 2020.

The annual funding in 2020 has been completed through monthly auctions of quarterly TBs of the total order of EUR 225 mn, four loans totalling EUR 42 mn granted by EIB and CEB for ongoing infrastructure projects. As presented in Figure 6 below, domestic MFIs dominated the Treasury Bill investor base. Regarding the participation of Non-MFIs in monthly TBs auctions such as pension funds and state-owned enterprises, this is on a downward path since January 2016 as the TBs offered low (negative) returns compared to alternative investments particularly bank deposits. In year 2020, the participation on TB auctions of Non-MFIs reached 0.5% at the end of the year 2020.

Figure 6: Evolution of stock of TBs by investor distribution in 2015-2020



(Source: PDMO)

Box 1: Republic of Cyprus EUR 1000 mn, 0.625% 10-year benchmark bond due 21 January 2030 and EUR 750 mn, 1.25% 20-year benchmark bond due 21 January 2040

Within the framework of the strategic objectives of the MTDS for the creation of a full yield curve on international bonds, the management of refinancing risk, through the smoothing of the debt maturity schedule and the extension of the debt repayment period, as well as the expansion of the debt repayment period, the Republic of Cyprus proceeded to issue two new reference bonds of EMTN, 10-year and 20-year.

The exit to the markets took place mainly to cover the annual financing needs but also due to the early repayment of the IMF loan.

The mandate to take on the role of bank contractor was given by PDMO to Citi, Goldman Sachs International, BofA Securities and HSBC in a statement issued on 13 January 2020. The mandate for the new 10-year and 20-year benchmark bonds was officially announced to market in the morning of Monday 13 January. On January 14, 2020, the initial pricing guideline was declared at MS + 65 basis points for the 10-year benchmark bond and the corresponding initial pricing guideline for the 20-year bond was MS + 85 basis points.

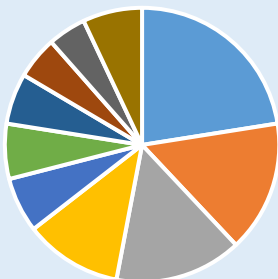
The offer book officially opened on January 14, 2020 at 9:58 am Eurozone time with a reduced performance guide to MS + 60 basis points and MS + 80 basis points due to strong demand from investors with offers exceeding 5 bn euros for each bond individually. The bid book continued to grow with greater interest from the investment community, allowing the issuer to set the € 1 bn and € 750 mn, respectively, as the final issue amount for the two new bonds in order to achieve more further reduction of the yield guide by 5 basis points and its setting at MS + 55 basis points for the 10-year bond and at MS + 75 basis points for the 20-year bond. With the closing of the bid book on January 14, 11:07 Central Eurozone time, the final amount reached 7.5 bn euros for the 10-year and 6 bn euros for the 20-year, reflecting the extended interest that the new publications of the Republic of Cyprus have attracted.

From a geographical point of view, a wide distribution was achieved through mentioned transactions, attracting a significant and diversified number of investors. Once again, the large maze of offers came from investors from the group of countries of Germany / Austria / Switzerland and the United Kingdom, as a result of which most of the issues ended up to them. The high turnout from Scandinavia and France is also noted in the highlights. The Cypriot participation in the issues was limited to 15% for the 10-year bond and to 14.5% respectively in the 20-year bond. The remaining investor involvement came from various European countries, but also from the rest of the world such as America and Asia. The percentages of geographical distribution of the investors are presented in detail in the following graphs.

In terms of the type of investors, the largest group of investors were fund managers, followed by banks / private banks, then by Hedge Funds and finally by Insurance / Pension Funds.

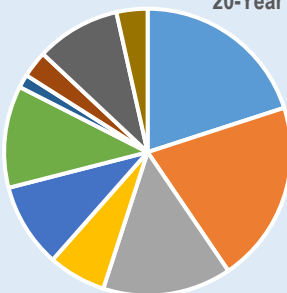
Distribution by region

10-Year EMTN



- UK (22.5%)
- Germany/Switz./Aus.(15.5%)
- Cyprus (15%)
- Scandinavia (11.5%)
- France (6.5%)
- South Europe (6.5%)
- Greece (6%)
- Rest of Europe (5%)
- North America (4.5%)
- Rest of World (7%)

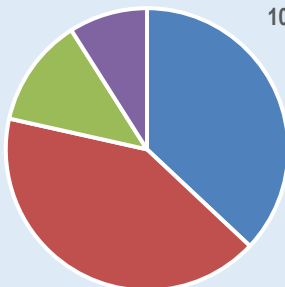
20-Year EMTN



- UK (20%)
- Germany/Switz./Aus.(20.5%)
- Cyprus (14.5%)
- Scandinavia (6.5%)
- France (9.5%)
- South Europe (11.5%)
- Greece (1.5%)
- Rest of Europe (3.0%)
- North America (9.5%)
- Rest of World (3.5%)

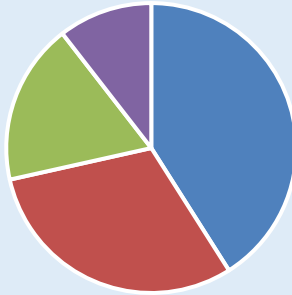
Distribution by type

10-year EMTN



- Fund Managers (37%)
- Banks/CB/Private Banks (41.5%)
- Hedge Funds (12.5%)
- Insurance/Pensions (9%)

20-year EMTN



- Fund Managers (41%)
- Banks/CB/Private Banks (30.5%)
- Hedge Funds (18%)
- Insurance/Pensions (10.5%)

Summary of terms and conditions

Issuer	Republic of Cyprus (through the PDMO)	
Format	Reg S Cat 1, Registered only, CACs	
Invoice Date	14 January 2020	
Issue Date	21 January 2020	
Maturity Date	21 January 2030	21 January 2040
Size	1,000,000,000 EUR	750,000,000 EUR
Coupon Rate	0.625%, Annual/ACT/ACT	1.25%, Annual/ACT/ACT
Re offer yield	0.73%	1.33%
Spread	+55 bps	+75 bps
Denominations	EUR 1K + 1K	EUR 1K + 1K
Listing / Law	London Stock Exchange / English Law	
ISIN	XS2105095777	XS2105097393
Lead Managers	BofA Securities, Citi, Goldman Sachs International, HSBC	

Box 2: Republic of Cyprus EUR 1250 mn, 1.5% 7-year benchmark bond due 16 April 2027 and EUR 500 mn, 2.25% 30-year benchmark due 16 April 2050

Taking into consideration the increased funding needs for the year 2020 due to cover the measures undertaken by the Republic of Cyprus to confront the economic impact of the Covid-19 outbreak as well as to strengthen state reserves in accordance with the strategic objectives of the MTDS, the Republic of Cyprus launched a new 7-year and 30-year benchmarks transactions.

The mandate for lead management was extended by the PDMO to Barclays, J.P. Morgan, Morgan Stanley and SG CIB with an announcement issued on 6th April 2020. On 7th April 2020 at 8:12 LDN Initial Price Thoughts were announced for the new 7-year tranche at MS+170bp area and for the new 30-year tranche at MS+220bp area.

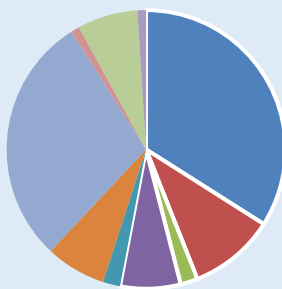
The order book was officially opened on 7th April at 10:12 LDN with guidance unchanged and with indications of interest exceeding EUR 2.1 bn for the 7-year bond and EUR 1 bn for the 30-year bond. While the demand continued to grow (with orders totalling in excess of EUR 2.2 bn for the 7-year tranche and EUR 1.1 bn for the 30-year tranche) allowing the issuer tighten the spread and set at MS+165bps for the 7-year tranche and at MS+215bps for the 30-year tranche. By the closing of the order book on 24th April at 12:00 LDN, with the publisher setting the amount of EUR 1.25 bn and EUR 500 mn, respectively, as the final issue amount, for the two new bonds, in the aforementioned yield guidelines.

From a geographical point of view, a high-quality distribution was achieved through transactions, attracting a significant and diversified number of investors. Once again, a large maze of offers came from investors from the group of countries of Germany / Austria / Switzerland and the United Kingdom, resulting to allocate them a big part of the publications. The high participation from Greece, Italy and Scandinavia is also recorded in the notables. The remaining investor participation came both from various European countries such as Spain, Portugal and France, as well as from the rest of world e.g. USA and Asia.

Regarding the type of investors, the largest group of investors were fund managers, followed by banks / private banks and central banks, then followed by Hedge Funds and lastly by Insurance / Pension Funds.

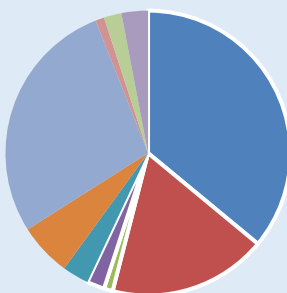
Distribution by region

7-year EMTN



- UK (34%)
- Germany/Switz./Aus.(10%)
- Cyprus (2%)
- Scandinavia (7%)
- France (2%)
- Iberia (7%)
- Italy/Greece (29%)
- Other Europe (1%)
- US (Offshore) (7%)
- Asia (1%)

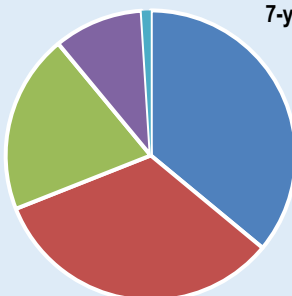
30-year EMTN



- UK (36%)
- Germany/Switz./Aus/(18%)
- Cyprus (1%)
- Scandinavia (2%)
- France (3%)
- Iberia (6%)
- Italy/Greece (28%)
- Other Europe (1%)
- US (Offshore) (2%)
- Asia (3%)

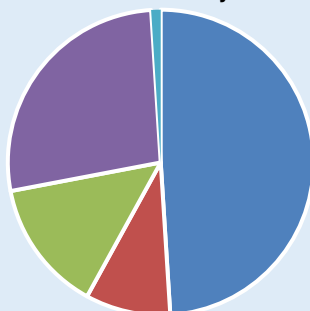
Distribution by type

7-year EMTN



- Fund Managers (36%)
- Banks/CB/Private Banks (33%)
- Hedge Funds (20%)
- Insurance/Pensions (10%)
- Other (1%)

30-year EMTN



- Fund Managers (49%)
- Banks/CB/Private Banks (9%)
- Hedge Funds (14%)
- Insurance/Pensions (27%)
- Other (1%)

Summary of terms and conditions

Issuer	Republic of Cyprus (through the PDMO)	
Format	Reg S, Registered only, CACs	
Invoice Date	7 April 2020	
Issue Date	16 April 2020	
Maturity Date	16 April 2027	16 April 2050
Size	1,250,000,000 EUR	500,000,000 EUR
Coupon Rate	1.500%, Annual/ACT/ACT	2.250%, Annual/ACT/ACT
Re offer yield	1.564%	2.339%
Spread	+165 bps	+215 bps
Denominations	EUR 1K + 1K	EUR 1K + 1K
Listing / Law	London Stock Exchange / English Law	
ISIN	XS2157184255	XS2157183950
Lead Managers	Barclays, JP Morgan, Morgan Stanley, SG CIB	

Box 3: Participation of the Republic of Cyprus, to the 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 the/its Member States totaling up to €100 bn, of which an amount of €90.3 bn has already been approved and €62.5 bn have already been disbursed to 16 Member States, 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, as of the 1st of February 2020.

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 €479.0 mn and amounts to 2.0% of its GDP2019, being the largest percentage among the 16 Member States that applied for participation in SURE, whereas the average percentage is close to 1.5%. It is noted that Cyprus is one of only four Member States that obtained approval for all of the schemes they submitted, which in the case of Cyprus is 8 schemes, thus demonstrating the proper scope and targeting of government planning.

In October 2020, EU proceeded to the first bond issuances. At the issuance of 12 November 2020, Cyprus received €250 mn, while the remaining amount of €229 mn was received on the 2nd of February 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, and in 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. It is noteworthy that Cyprus has benefited from the additional amount of €12.6 mn, given that the actual net amount from the total issuances of bonds amount to €491.6 mn.

C. Liability management transactions and Debt redemptions in 2020

One of the strategic objectives of the MTDS 2020-2022 is the continuation of the development of the yield curve. In 2020, the main attention with regards to the above objective was to complete further the bond yield curve by issuing longer-term bonds in the international market. Through the above bond issuances, the PDMO achieved to improve further the other objectives of the MTDS such as the extension of the maturity of marketable debt, reduction of the weighted average cost of public debt at more sustainable levels and enhance the liquidity buffer.

In addition, in February 2020 an early prepayment of the IMF loan executed through market financing in an attempt to reduce the total interest payment in the future, the weighted average cost of debt, the foreign exchange risk and the floating rate risk. It is noted that the total prepaid amount of the IMF loan was EUR 717 mn, carrying floating interest rate which was 1.74 percent by the end of January 2020.

However, the identification of the Covid-19 pandemic in Wuhan in 2019 and the spread of it in all of the world, created a high uncertainty to the Governments surrounding the economic effects. As a result, the main attention by the PDMO was given to enhance the cash buffer in order to cope with the uncertainty regarding the financing requirements and the cash flow projections. Taking into consideration this uncertainty, the PDMO proceeded with additional benchmark EMTNs during the year 2020 as well as a 52-week T.B enhancing the cash buffer and reducing the liquidity risk at very low levels.

The details of liability management operations as well as the debt redemptions in the domestic/foreign market and loan amortisations by creditor in 2020 are shown in the Appendix.

Table 4 below shows all long-term debt redemptions and liability management transactions in 2020. The scheduled long-term redemptions of the year, excluding early repayments, amounted to EUR 905 mn and are mainly related to domestic securities and instalments for domestic and foreign loans.

With regards to short term debt, an amount which was rolled over throughout the year, reached at EUR 225 mn as outstanding debt up to the year end of 2020. Taking into consideration the 52-week TB of the order of EUR 1250 mn, the total outstanding amount of short-term debt was EUR 1475 mn at the end of the year 2020.

Table 4: Long term debt redemptions and liability management transactions in nominal terms in 2020

	EUR mn	%
1 Domestic Bonds	770	46
2 Loans of which: early repayments (EUR 717 mn)	802	47
3 Retail securities of which: early repayments (EUR 71 mn)	121	7
Total	1693	100

(Source: PDMO)

D. Review of the annual financing plan 2020

This section illustrates how the annual financing plan changed the debt structure of the year 2020. The debt structure has changed significantly in 2020 compared to the previous years. This change was mainly attributed to government bonds issuances in the foreign market adding new debt of the order of EUR 3.8 bn in years 2024, 2027, 2030, 2040 and 2050 as well as to the repayments of loans and domestic bonds of the total order of EUR 2.3 bn. During 2020, the stock of TB has marked an increase of the order of EUR 1175 mn due to the 52-week TB issue in April 2020 in order to cope with the high uncertainty surrounding the economic effects of the Covid-19 pandemic. It is noted that an amount of EUR 717 mn of the total loans amount paid concerned the prepayment of the IMF loan. In addition, a small reduction on the retail bonds was recorded of the order of EUR 73 mn.

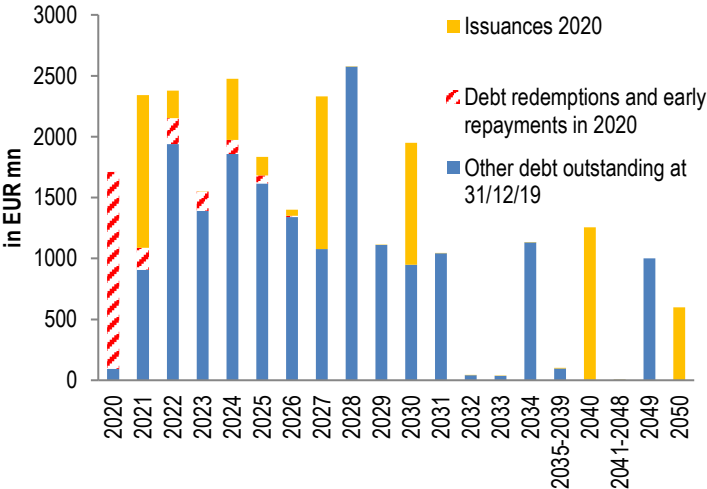
Table 5: Change in the public debt structure in 2020

		in EUR mn
1	Domestic Bonds	-770
2	EMTN	3828
3	Treasury Bills	1175
4	Loans	-510
5	Retail securities	-73
Total		3650

(Source: PDMO)

Figure 7 below, shows how the public debt maturity profile changed due to funding and liability management transactions in 2020. A total amount of new issuances of around EUR 6,3 bn was added to the public debt maturity profile. An amount of EUR 4500 mn of the new debt issuances which is related to foreign bonds falls in the year 2024, 2027, 2030, 2040 and 2050. The second largest amount of debt of the order of EUR 1250 mn due in 2021 is related to the 52-week TB whilst an amount of EUR 250 mn concerns loans under the SURE instrument due in 2025 (EUR 150 mn) and in 2050 (EUR 100 mn). An amount of EUR 225 mn (which was rolled over throughout the year) concerns TBs. The remaining amount spreads between 2021-2045 and refers to retail bonds and loans granted by EIB and CEB for ongoing project financing.

Figure 7: Change of public debt maturity profile through 2020 actions



(Source: PDMO)

Following the liability management transactions executed in the year 2020 combined with the EMTN issuances, improved further the debt maturity profile and extend the annual debt redemptions up to the year 2050. In general, the maturity profile at the end of 2020 remained within comfortable/manageable levels and within the targets set in the MTDS. The impact of liability management transactions in 2020 on debt maturity profile at the end of 2020 is presented in Appendix.

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 has marked an average reduction of around 5 percent for the next three consecutive years. In 2018 the outstanding amount of government debt has increased by 5.7 pp reaching EUR 21,3 bn due to the government intervention of the order of EUR 3,5 bn to facilitate the sale of ex-CCB.

The debt to GDP ratio marked a significant decrease of 5 percentage points (pp) from 99 percent in 2018 to 94 percent in 2019 whilst in

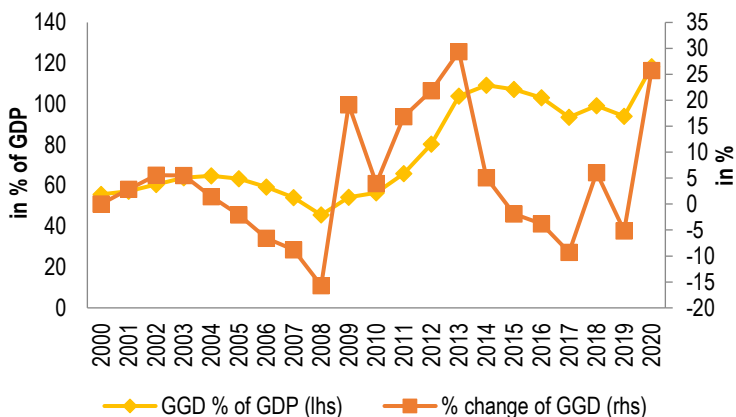
2020, the debt to GDP ratio has marked a significant increase of 24 pp, due to the coronavirus pandemic which hit many countries in all the world including Cyprus, reaching EUR 24.8 bn or about 118% of GDP, as presented in Figure 8 below. It is worth mentioning that the increase of the public debt by 24 pp is attributed to the following components:

- (a) The increase of cash buffer caused an increase in public debt as a percent of GDP by 13pp;
- (b) The decrease in GDP caused an increase in public debt as a percent of GDP by 6pp and
- (c) The fiscal deficits caused an increase of public debt as a percent of GDP by 5pp.

The Figure also shows that the percentage change of debt as a ratio of GDP was on a downward pattern since 2014, excluding the year 2018 and 2020.

The net debt to GDP ratio, in which the accumulation of cash reserves of the order of EUR 3616 mn is excluded, was estimated at 101 percent at the end of 2020.

Figure 8: Debt to GDP ratio evolution in 2000-2020



(Source: PDMO, Ministry of Finance and Eurostat)

The historical debt evolution over the years 1996 to 2020 is presented in Figure 9 below. 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 repeatedly capital injection into the banking sector in combined with measures under the Memorandum of Understanding and other emergency loans, contributed to a considerable increase in the debt to GDP ratio.

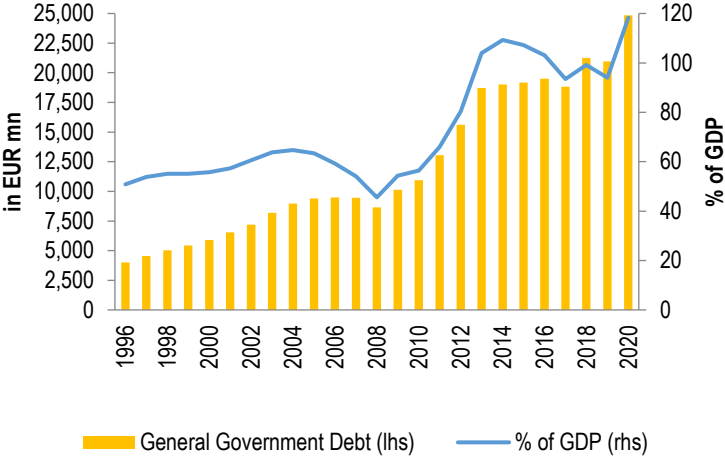
During 2009-2011 the resulting fiscal deterioration was the main contributor to the increase in the public debt. During 2012-2013 both the fiscal deficit and the negative growth rate contributed to the debt deterioration, but additionally the state capital support of the Cyprus Popular Bank (ex Laiki Bank) in 2012 and of the cooperative sector in

2013 increased the public debt by a total amount of EUR 3.5 bn, excluding interest payments.

The banking crisis resulted in state support to the domestic financial sector of currently 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 in the public debt of 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 huge increase of 24pp reaching 118 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. The historical evolution of gross general government debt in values and as a percent of GDP for the period 1995-2020 is presented in table 4 in Appendix.

Figure 9: Trend in the consolidated general government debt in 1996-2020

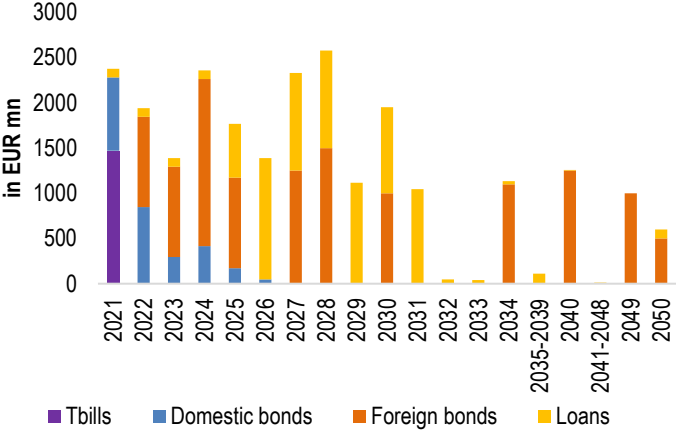


(Source: PDMO and Ministry of Finance)

B.2: Composition of the General Government Debt

This section presents the composition of the GGD as at the end of 2020. 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, on 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 225 mn as at the end of 2020. Despite the relatively large amount of public debt and the need for significant reduction, the debt maturity profile is smooth and the annual debt maturities are within comfortable levels and fulfil the objectives set in the MTDS 2020-2022. During the period 2021-2025, an amount of EUR 4850 mn or about 49 percent of the total debt due in the said period concerns the repayments of the EMTNs and an amount of EUR 2541 mn or about 26 percent refers to the repayments of the domestic bonds and retail bonds. The year 2028 shows the highest concentration of maturities of EUR 2578 mn of which an amount of EUR 1500 mn or about 58 percent is related to the repayment of an EMTN and EUR 1000 mn or about 39 percent to an instalment of the ESM loan.

Figure 10: General government debt redemption profile as at the end of 2020

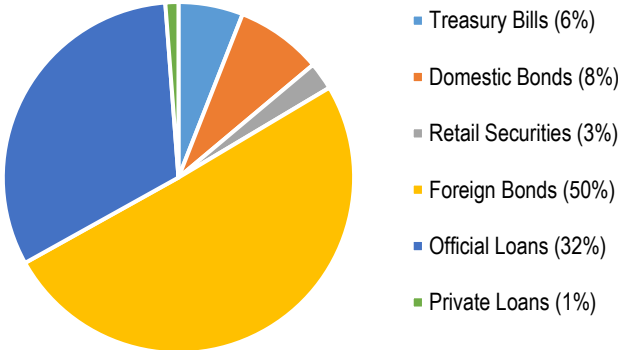


(Source: PDMO)

The share of the government debt by financing instrument, as at the end of December 2020, is illustrated in Figure 11 below. The two largest categories of the outstanding debt concerned foreign bonds and official loans. About 50 percent of the outstanding public debt in 2020 is related to EMTN issuances of which 36 percent has been added during the year 2020. About 30 percent of the loan’s category comprised loans disbursed to the Republic of Cyprus of which the vast majority, about 80 percent of the official loans related to loans disbursed by the ESM during the years 2013-2016 and loans under SURE instrument disbursed in November 2020 whilst the remaining comprised by other bilateral loans which were mainly disbursed by EIB and CEB.

The remaining share of the outstanding public debt (around 19 percent) concerned 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 2020 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 2020



(Source: PDMO)

Figure 12 below, illustrates the historical breakdown of GGD by financing instrument during the years 2010-2020.

During the said 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 2016 the level of loans was stabilized at 67 percent of public debt and then followed a downward trend reaching 49 percent by the end of 2018. By the end of 2019, the outstanding amount of

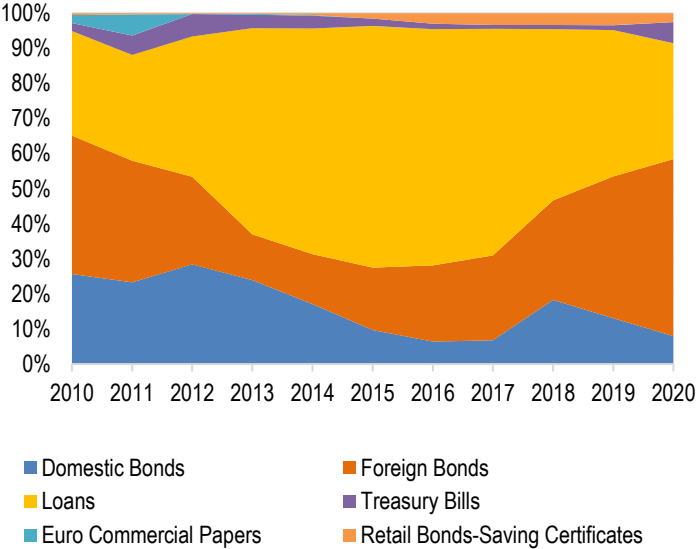
loans marked a significant reduction of about 7 pp reaching 42 percent mainly due to the early prepayment of the bilateral loan granted by the Russian Federation. In 2020, the outstanding amount of loan reduced significantly by 8.6 pp reaching 33 percent due to the increase of the outstanding amount of public debt (denominator effect) and the prepayment of the IMF loan of the order of EUR 717 mn in February 2020.

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 domestic bonds to the GGD has marked a significant reduction reaching 7 percent in 2017 compared to the peak of 29 percent in 2012. In 2018, the share of domestic bonds has increased by 12 pp compared to the previous year reaching 18 percent of public debt. This is attributed to the domestic bond issuances of the order of EUR 3.19 bn to facilitate the sale of the ex-CCB. In 2019 and 2020 the contribution of domestic bonds to the GGD marked a reduction by around 5 pp at each year. The said share is expected to reduce further in the following years combining the redemptions of the domestic bonds and the fact that the main financing will be through the international capital markets. Nevertheless, domestic debt market is expected to continue to serve as an important complimentary financing source, due to its strategic importance.

On the other hand, EMTN securities have increased by 15 pp since 2013 reaching 28 percent at the end of 2018 whilst one year later, in 2019, the said share has marked an important increase by 12 pp reflecting the intention of Cyprus to maintain its presence in international capital markets and build up a pertinent sovereign yield curve. In 2020, after three consecutive times presence of the Republic of Cyprus in international capital markets within the same year in order

to cope with the uncertainty surrounding the development of the Covid-19 pandemic, the share of foreign bonds has exhibited a significant increase of about 10 pp reaching 50 percent at the end of 2020. It is worth mentioning that the short-term debt has marked an increase by 4.6 pp in 2020 compared to the previous year reaching 6 percent due to a 52-week TB issuance of the order of EUR 1250 mn in order to enhance the cash buffer due to the high uncertainty of the development of the Covid-19 pandemic.

Figure 12: Historical breakdown of GGD by financing instrument in 2010-2020



(Source: PDMO)

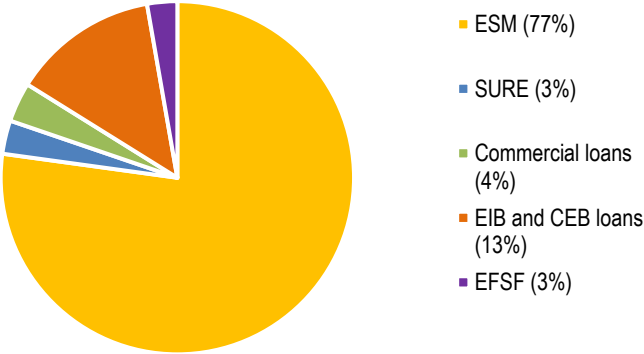
The distribution of outstanding loans by source as at the end of 2020 is presented in Figure 13 below. As mentioned above, the majority of the stock of outstanding loans as at the end of 2020 concerned the programme loans provided by ESM. Another important funding source

was the loans disbursed by EIB and CEB for the implementation of ongoing infrastructure projects. These loans constitute 13 percent of the total outstanding loans as at the end of 2020. The said loans are provided to finance different projects such as the extension and modernisation of the facilities at the University of Cyprus, other projects for small-medium enterprises to enhance the growth and encourage the entrepreneurship, the construction of sewerage systems and rural settlements. As already mentioned, in November 2020 an amount of EUR 250 mn or about 3 percent of the outstanding amount of loans provided under the SURE instrument. The total value of Cyprus' loans from domestic sources reached at 4 percent towards the end of the year 2020.

Finally, about 3 percent of the outstanding loans granted via the EFSF to Greece, Ireland and Portugal, as attributed to the creditor countries including Cyprus, are included in the debt statistics⁵. The government debt by instrument and lender as at the end of 2020 is presented in Table 7 in Appendix.

⁵The 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 13: Distribution of loans by source as at the end of 2020

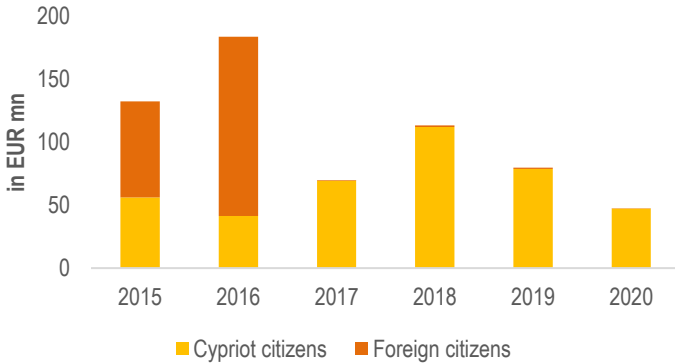


(Source: PDMO)

Figure 14 below, shows the outstanding amount of retail bond sales by citizenship during the years 2015-2020. The majority of the value of retail bonds during the period 2015-2016 was held by foreign investors due to the criteria for the obtainment of the Cypriot citizenship, as a measure to further encourage foreign investment and to attract high net worth individuals into doing business in the jurisdiction of the Republic of Cyprus. Since the launch of the scheme in 2014 and before the amendment of the criteria for the exceptional obtainment of the Cypriot citizenship in October 2016, foreign investors acquired about 76 percent of the total value of retail bond sales during the period 2014-2016. Following this amendment, the retail bond sales have been directed mainly to Cypriot citizens whilst since 2018, a small interest came back from foreign investors. Considering data as at the end of

2020, about 65 percent of the total outstanding amount of retail bonds were held by Cypriot citizens and about 35 percent by foreign citizens.

Figure 14: Distribution of retail bond sales by citizenship in 2015-2020



(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 Enterprise⁶. 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.

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

The highest percentage of the consolidated GGD, in gross terms, is made up of the Central Government debt. As at the end of 2020, the share of outstanding Central Government debt, excluding debt to SSF, accounted for around 99 percent of the general government debt on a consolidated basis. This share has historically been fairly constant.

Regarding the local authorities' loans, it is noted that the said loans were EUR 38 mn at the end of 2020. The borrowing of local authorities is related normally to infrastructure projects and typically the creditors are mainly local credit and ex-cooperative institutions⁷. This debt is thus in the form of long-term bank loans with a floating interest rate.

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 with 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.

⁷ The said loans were transferred to state-owned Cyprus Asset Management Company (KEDIPES)

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 with the government or by ownership of government securities, at year end of 2020, amounted to EUR 8852 mn according to the Social Insurance Services. The Funds, which are reported as a single account, in fact, comprise 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 with the Central Government. Annually, the surplus of the SSF is invested with the Government. By the end of 2020, the balance of the SSF in the form of deposits stood at EUR 8852 mn exhibiting an increase of around 4.9% in relation to the previous year balance of EUR 8435 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. The total outstanding amount of investments in government paper reduced to EUR 10 mn at the end of 2020, after the maturity of the EMTN issued

by the Republic of Cyprus in February 2020 in which the SSF invested an amount of EUR 204 mn. (See details in Table 8 in the Appendix). It is noted that the SSF maintains also deposits with local credit institutions amounting to a total of EUR 105 mn as at the end of 2020.

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 2020 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 2011.⁸ by the Municipality of Nicosia to the Central Government at a variable interest rate extending to 2035 and 2026

⁸ That was before the enactment of the Public Debt Management Law (2012) and of the Fiscal Responsibility and Budgetary System Law (2014).

respectively, with a 5-year grace period. The total outstanding balance of the said loans at year end 2020 was EUR 6750 mn.

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 2020-2022. 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 average interest rate. The second one discusses a number of risks of public debt.

B. Cost of the public debt

In this sub-chapter, the cost of the public debt is presented mainly on the basis of the interest payments 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.

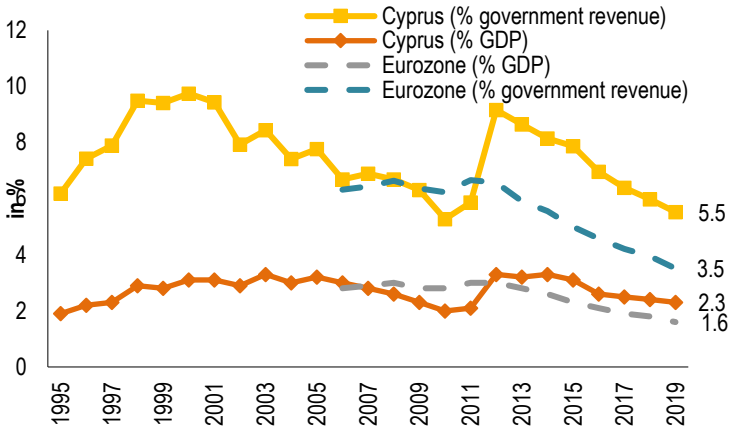
Then, due to the sharp increase of public debt in the next years as well as the rise in the borrowing cost itself, the share of government revenue for interest payments followed an upward path reaching 9 percent at the end of 2013. It then followed a downward direction reaching around 6 percent at the end of 2018 whilst at the end of 2019 the share of government revenue for interest payments exhibited a reduction of 0.5 pp reaching 5.5 percent, as presented in Figure 15

below. It is noted that the increase of interest payable was partially offset by the low base rates.

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 have started to 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 restricted by the considerable improvement in the borrowing cost due to official sources.

By the end of 2018, interest payments to GDP ratio was estimated at 2.4 percent compared to 2.5 percent of the previous year, despite the increase of the public debt in 2018. This is explained by lower amounts of interest payments due to lower borrowing cost because of low interest rate environment in the Eurozone and improvements in the sovereign credit ratings and outturn for the Cypriot economy as well as higher GDP. In addition, the first interest repayments for the increased debt of 2018 fall due during the next year 2019. In 2019, the interest payments to GDP ratio reduced to 2.3 percent. 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 minor increase of 0.1 pp reaching 0.7 percent in 2019 compared to 2018. The historical debt servicing in 2012-2019 is presented in Table 9 in Appendix.

Figure 15: Distribution of interest payable on public debt during 1995-2019

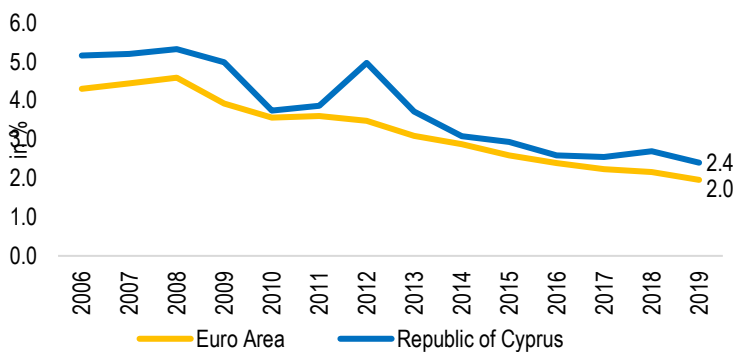


Source: PDMO and Eurostat)

Note: The interest payable as a percent of GDP in 2020 was estimated at 2.4 percent.

Figure 16 illustrates the distribution of interest payable over debt for the Republic of Cyprus compared to Euro area countries in 2006-2019. 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 reaching 0.4 percent at the end of 2019 compared to 0.4 percent in 2013.

Figure 16: Distribution of Interest payable_(t) to Debt _(t-1) in 2006-2019

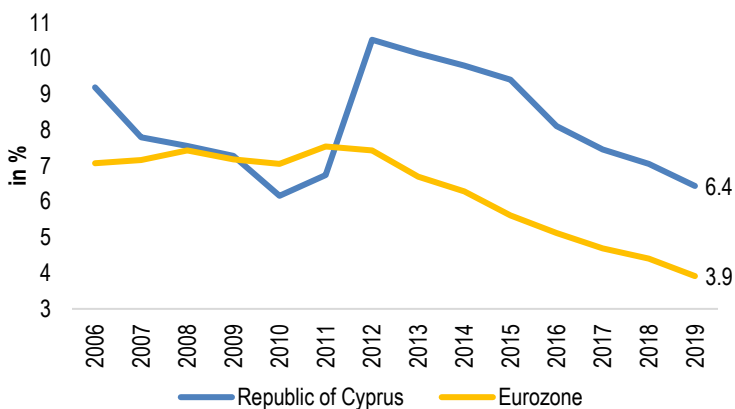


(Source: PDMO and Eurostat)

Note: The interest payable to Debt _(t-1) was estimated at 2.4 percent in 2020 mainly to due to the decrease of public debt (denominator effect) and to a lesser extent to the decrease of interest payable (numerator effect)

Figure 17 illustrates the distribution of interest payable to tax revenue for the Republic of Cyprus compared to Euro area countries in the period 2006-2019. Since 2013, the gap is on a downward path reaching 2.5 percent at the end of 2019 compared to 2.7 percent and 3.4 percent at the end of 2018 and 2013, respectively, however this gap remains excessive.

Figure 17: Distribution of interest payable to tax revenue in 2006-2019



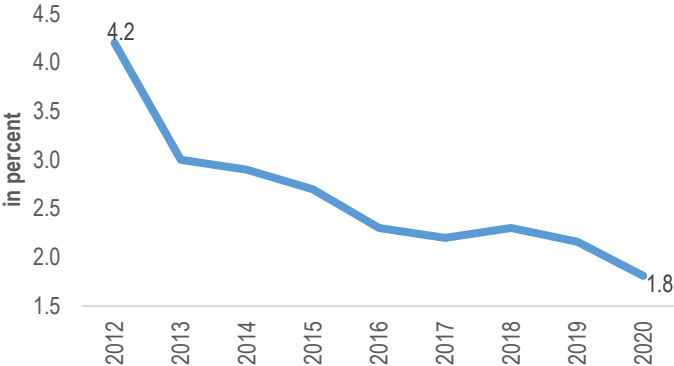
(Source: PDMO and Eurostat)

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, during the years 2010-2012, the WACD followed an upward trend reaching 4.2 percent at the end of 2012. One year later the WACD marked a significant reduction by 1.2 pp in relation to 2012 mainly due to the official funding provided by ESM and IMF at low interest rates. During 2013-2019 the WACD followed a downward trend reaching 2.2 percent at year end of 2019 whilst in 2020 it reduced further to 1.8 percent as a result of EMTN issuances at lower interest rates due to the environment of low interest

rates in the European capital markets, the positive impact from the low-cost ESM loans as well as from the liability management transactions implemented by the PDMO. 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 2010-2020



(Source: PDMO)

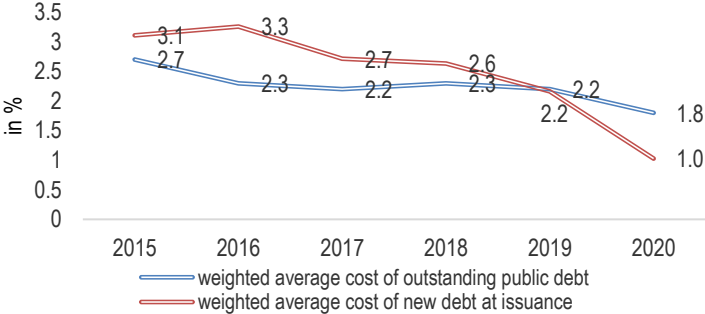
Figure 19 below, illustrates the historical evolution of the weighted average cost of the outstanding debt in comparison with the weighted average cost of new debt issued in each year for the period 2015-2020.

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 small changes in the second indicator. 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 is attributed to a number of factors, inter 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 and the return of Cyprus to the investment grade since September 2019 as well as successful exit from the Economic Adjustment Programme and 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.

Figure 19: Weighted average cost of outstanding and issued debt (2015-2020)



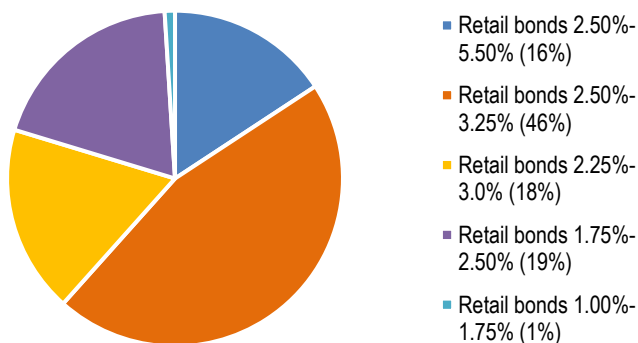
(Source: PDMO)

Furthermore, it is important to highlight that the refinancing of the short-term debt has continued to be achieved at negative interest rates since February 2017, with the exception of a small period in 2020, reaching -0,15 percent at the end of 2020. The weighted average yield of short-term debt in 2020, excluding the cost of the 52-week TB issuance in April 2020, maintained within negative spectrum reaching -0.01 percent.

Regarding the interest rates of retail bonds, it is noted that in June 2020, the PDMO announced the reduction of interest rates under the terms of issuance on six-year government bonds for natural persons as of the 1st of October 2020. The new step-up structure of interest rate starts from 1.0 percent in the first year and gradually increases to 1.75 percent if retained until the sixth year (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 2020. About 46 percent of the outstanding amount of retail bonds ranged in the spectrum between 2.50 percent to 3.25 percent. The second largest category concerned retail bonds with interest rates between 1.75 percent to 2.50 percent, followed by the retail bonds ranged in the spectrum between 2.25 percent to 3.00 percent. It is important to note that a new category of interest class of retail bonds between 1.00 percent to 1.75 percent was added in 2020. Based on the current conditions, it is expected that the interest rates of retail bonds are expected to reduce further in the coming years.

Figure 20: Distribution of retail bonds by interest rate structure in 2020



(Source: PDMO)

As mentioned in chapter 2, in order to minimise the marketable debt borrowing cost, the PDMO increased its efforts to further expand the investor base for EMTN issuances. Since 2016, marketing activities have been increased covering more financial centres in US and EU markets. The evolution of investor distributions by geography and type are presented in the Figure 21 and 22 respectively.

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 all debt issuances presented in the Figure below, the largest category of investors was Fund Managers (at 49 percent on average) and then banks (at 22 percent on average). The participation from Hedge Funds recorded a large decrease,

approaching 16% on average. The participation from Insurance / Pension Funds was on average at 11 percent.

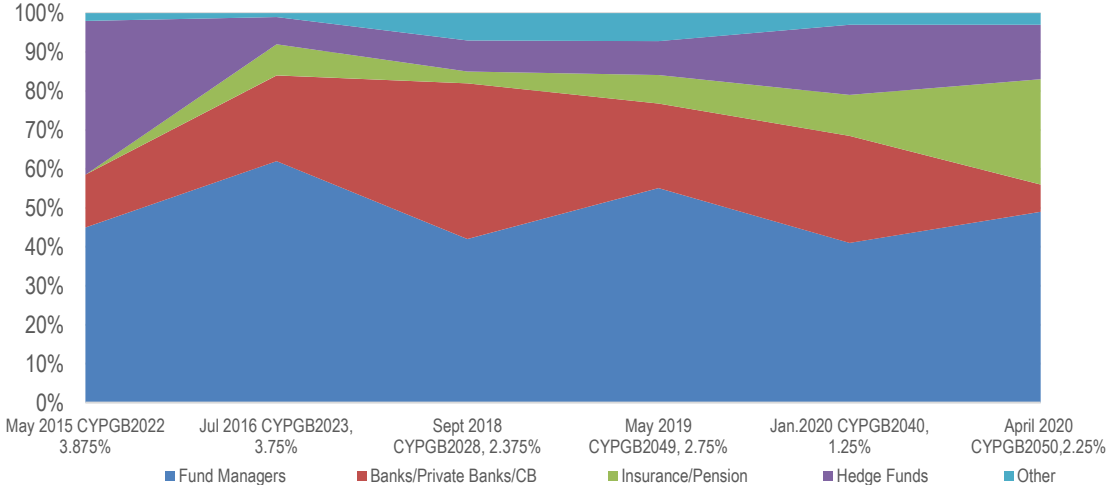
Taking into consideration all the outstanding bond issuances in the period 2015-2020, the average participation of Fund Managers was 49 percent, followed by Banks/CB at 24 percent, Hedge Funds at 16 percent and Insurance/Pensions at 9 percent.

With regards to investor distribution for EMTNs by geography, it is worth-noting that since 2016, a more balanced distribution was achieved between UK investors and investors from other countries, however UK investors continue to maintain a significant share on our issuances. At the issuances executed in 2019, the Republic of Cyprus has achieved a broad distribution across Europe and UK. Investors from the German regions being the largest investor class represented by around 29 percent on average of the trade in 2019. In addition, an increased participation was marked by investors around Europe including Cypriot investors at 7 percent on average.

At the issuances executed in 2020, investors from UK and German regions were being the largest investor class represented by around 46 percent (at issuances) on average. It is also important to note that in 2020 EMTN issuances, there was a significant participation of investors from Greece, France, Italy and Nordic countries.

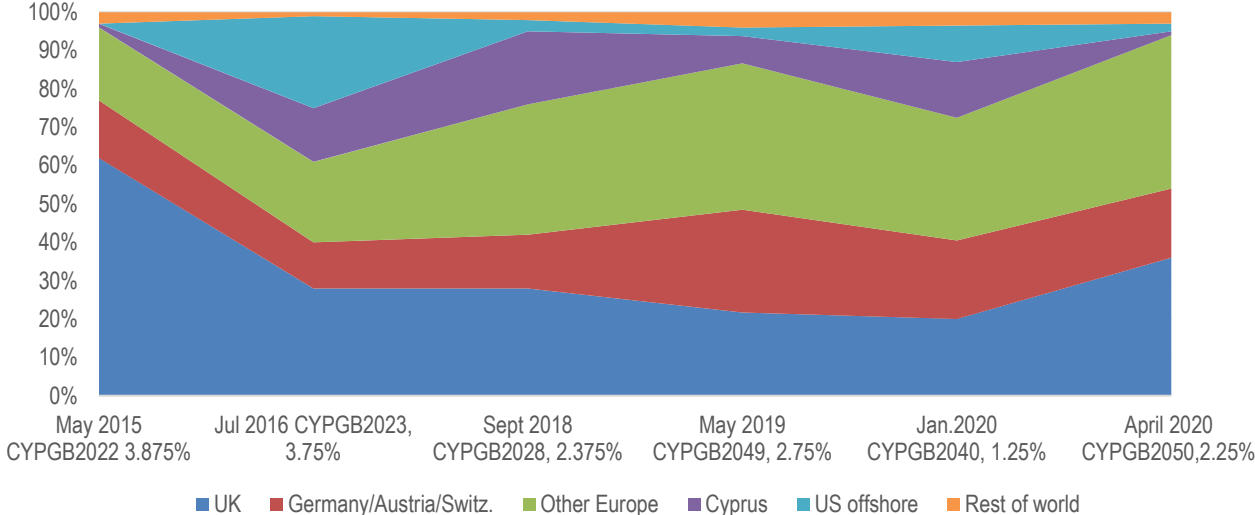
Taking into consideration all the outstanding bond issuances in the period 2015-2020, the average participation of investors from UK and German regions was closed to 50 percent. The remaining participation was from countries across Europe, about 8 percent from Cyprus and about 6 percent and 3 percent from US Offshore and rest of World.

Figure 21: Evolution of investor distribution for selected EMTNs by type during 2015-2020



(Source: PDMO)

Figure 22: Evolution of investor distribution for selected EMTNs by geography during 2015-2020



(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 2020-2022 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 2020 on the debt portfolio risks were affected positively both by longer term debt issuances as well as from liability management transaction executed in February 2020. The EMTN issuances in 2020 with 7-year, 10-year, 20-year and 30-year tenor have certainly led to a significant improvement of the debt maturity profile, thereby increasing the weighted average maturity of debt and as result the reduction of the refinancing risk and the credit risk. In addition, through the said bond issuances and taking into consideration, among others factors, the low interest rate environment contributed to the reduction of the weighted average cost of public debt. The share of debt due within one year exhibited a small increase due to the 52-week TB issuance maturing in February 2021 whilst the share of debt due within five years maintained at the corresponding level of 2019. Due to the early prepayment of the IMF loan the floating rate debt has marked a significant reduction and the foreign exchange risk reduced to zero. Although, the said figure is above the Euro area average, taking into consideration that these loans are mainly provided

by the ESM which are indexed at low interest rates, the interest rate risk is limited. With regards to the refinancing risk, the debt maturity profile has been improved significantly and the liquidity risk as well as the credit risk have been reduced substantially.

As mentioned earlier, the execution of longer-term transactions combined with the early prepayment of the IMF loan reduced significantly the concentration of maturities in the following years maintaining the debt maturity profile at manageable levels and within the targets set in the MTDS 2020-2022. The current MTDS 2021-2023 is focusing on longer-term issuances in order to avoid the need to mitigate portfolio risks through liability management transactions, which are costly.

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 and 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 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 one year from 22 percent in 2012 to 10 percent in 2013 was attributed to the long-term official funding granted by ESM and IMF. 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.

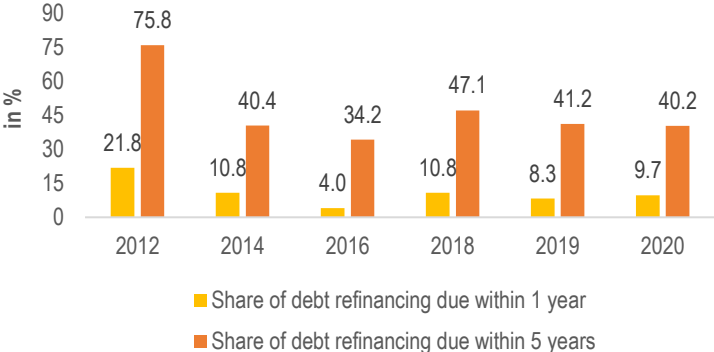
In 2018, the debt redemptions due within one year marked an increase reaching 11 percent compared to around 6 percent in 2017 reflecting the amount of EUR 750 mn of the bond issued to CCB due in December 2019. One year later, in 2019, the share of debt due within one year exhibited a reduction by 2,5 pp due to the early prepayment

of the Russian loan. In 2020, the share of debt due within one year marked an increase by 1.4 pp mainly due to the 52-week TB maturing in April 2021. In conclusion, the refinancing risks exposure is at an acceptable level of risk given the level of current cash balances and comfortable market access.

Regarding the share of debt due within five years, after a significant reduction by more than 40 pp during the period 2012-2017, in 2018 marked an increase reaching 47 percent compared to 35 percent a year before mainly due to the government bonds issued to ex-CCB due in the period 2019-2022 as well as due to the EMTNs due in the said period. In 2019, the said indicator recorded a reduction of around 6 pp due to the early prepayment of the Russian loan whilst in 2020 the said indicator maintained at similar level as was in 2019.

In order to mitigate the refinancing risk exposure and extend the bond yield curve, the PDMO is focusing on longer term issuances improving further the debt maturity profile.

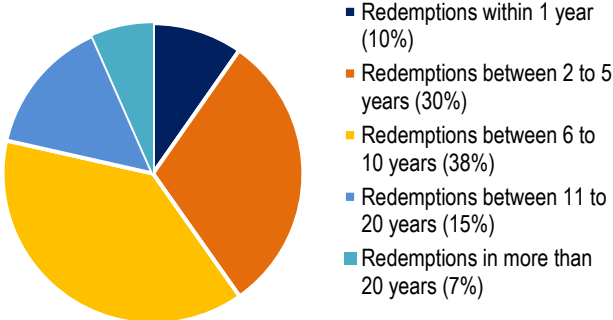
Figure 23: Share of debt refinancing due within 1 year and 5 years in 2012-2020



(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 2020. The majority of the debt redemptions of the order of EUR 9.4 bn fall due in the segment between 6 to 10 years. The said amount is mainly attributed to the loans provided by ESM (about 52 percent) and EMTNs due within the above period (about 40 percent). The second largest category of redemptions of the order of EUR 7.5 bn fall in the segment between 2 to 5 years. About 65 percent of the debt due in the said segment concerns EMTNs redemptions and about 23 percent is attributed to domestic bond redemptions.

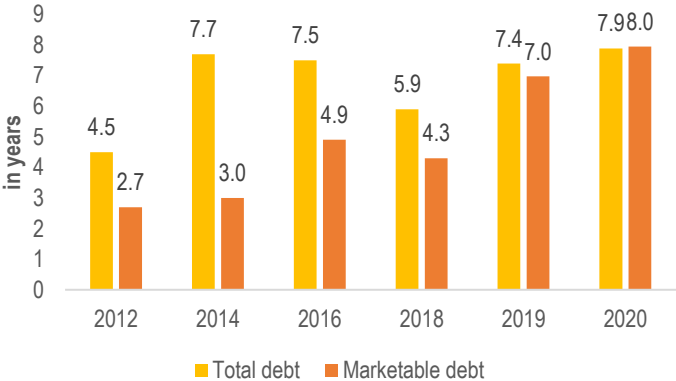
Figure 24: Total debt^{1/} refinancing distribution as a percent of GGD at the end of 2020



(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 at the end of 2020 was 7.9 years for the total debt and 8.0 years for the marketable debt. Comparing the figures in 2016 with the corresponding sizes at the end of 2012, the situation has improved significantly showing 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. In 2018 the figures marked a reduction compared to the corresponding figures in previous years due to the government bonds issued to CCB. Since 2019, due to the longer-term bond issuances, the weighted average maturity of marketable debt followed an upward trend reaching at very satisfactory levels in 2020 compared to the EU levels, thereby reducing the refinancing risk.

Figure 25: Weighted average maturity of debt (in years) in 2012-2020 as at the end of 2020



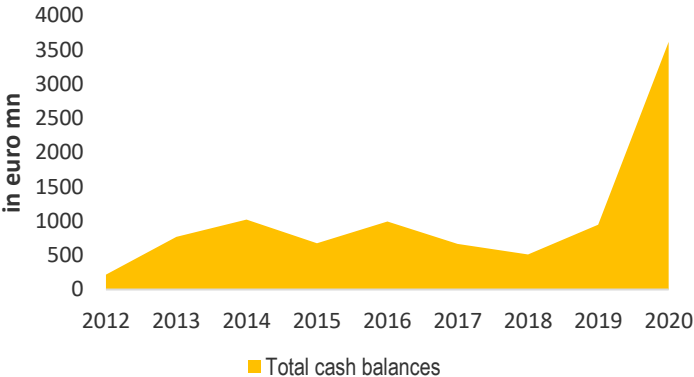
(Source: PDMO)

Liquidity risk

The annual cash balances in years 2012-2020 are presented in Figure 26 below. The liquidity levels of the Government were comfortable since 2013 due to the fiscal outcomes being better than expected as well as to 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.

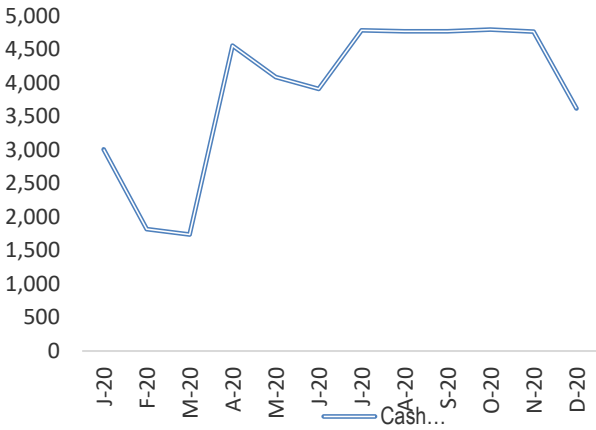
As presented in Figure 27 below, the total liquid funds increased by around EUR 2.1 bn in January 2020 compared to the cash buffer at the end of 2019 which was mainly attributed to the two EMTN issuances in January 2020. In February 2020, the cash buffer reduced due to the early prepayment of the IMF loan and the maturity of an EMTN. Thereafter, the cash balance followed an upward path as a result of the PDMO policy to enhance the cash position of the Government to cope with the Covid-19 pandemic. The cash buffer has peaked in October 2020 reaching EUR 4.8 bn and toward the end of the year reduced to EUR 3.6 bn. The change of the cash buffer by the end of the year was attributed to the repayment of a domestic bond of the order of EUR 750 mn issued to ex-CCB. It is worth mentioning that this level of cash covers the financing needs of the year 2021 and the financing needs up to May 2022. The financing needs cover ratio of 2020 is illustrated in Figure 33 under the Chapter “Cash management”.

Figure 26: Cash liquidity levels in 2012-2020



(Source: CBC)

Figure 27: Cash liquidity levels on a monthly basis in 2020



(Source: CBC)

Interest rate risk

Interest rate risk for the Government refers to the risk it will have 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 in 2013, as presented in the Figure 28 below. Following the Memorandum of Understanding in March 2013 on Economic Adjustment Program, the interest rate distribution has changed significantly mainly due to the borrowing by the ESM and IMF⁹ 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 reducing therefore 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 2017, the debt of floating rate remained at the same level whilst in 2018 a large reduction of floating rate debt was marked. The reason for the said change was the issuance of

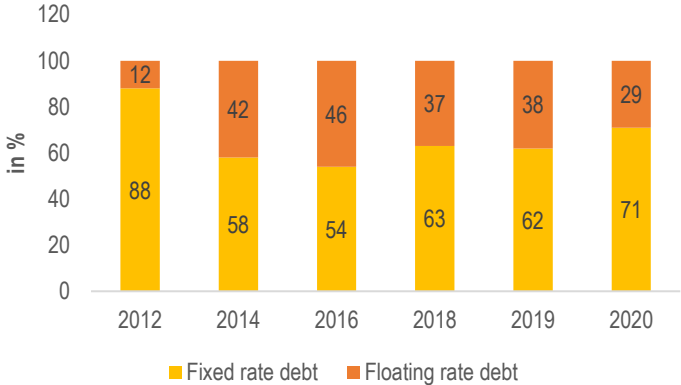
⁹The interest rate of IMF loan comprises of two components: Basic Lending rate plus 1 percent.

government bonds to CCB of the order of EUR 3.19 bn at fixed interest rates, therefore affecting the level of the debt of fixed rate. In 2019, the interest rate distribution of debt maintained at the same levels as was in 2018 despite the early prepayment of the Russian loan. In fact, a large amount of fixed rate debt related to the Russian loan was paid through the utilisation of funds received by EMTN issuances at fixed interest rate. In 2020, the floating rate debt diminished by 9 pp mainly due to the early prepayment of the IMF loan in February 2020 and to a lesser extent to new loans provided by EIB-CEB in fixed interest rates in line with the MTDS 2020-2022.

Although, the debt of floating rate stood at 29 percent at the end of 2020, taking into consideration that the vast majority of floating rate debt is indexed at low interest rates, as presented in Figure 29 below, the interest rate risk is expected to be limited. Specifically, loans by ESM of EUR 6.3 bn or about 89 percent of total floating rate debt are indexed at low rates whilst an amount of EUR 0.7 bn or about 10 percent of the total floating rate debt by EIB and CEB are indexed at low margins over the Euribor rate. 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 loan.

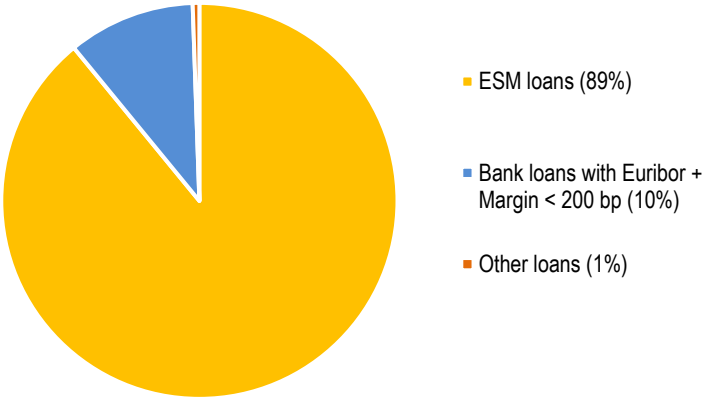
Given, however, the historically current low interest rate period, interest rates in general are expected to gradually rise in the following years.

Figure 28: Evolution of interest rate distribution of debt in 2012-2020



(Source: PDMO)

Figure 29: Composition of floating-rate debt as at the end of 2020



(Source: PDMO)

Foreign exchange risk

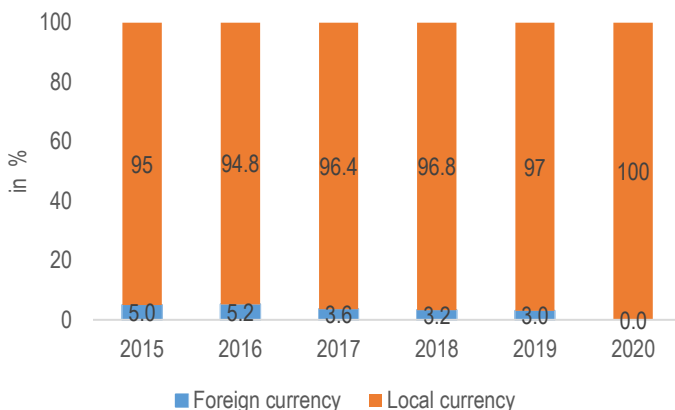
Although foreign currency debt has many benefits such as access to a large investor base and the geographical independence with possible interest rates benefits, foreign currency financing has substantial risks. Some of the risks are the increase of the country's external vulnerability to exchange rates 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 2015-2020. 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.¹⁰

Taking into account that SDR includes also the euro, the foreign exchange risk was limited during the period 2015-2020 but not insignificant. In February 2020, the PDMO proceeded with the early prepayment of the IMF loan reducing the outstanding amount of debt denominated in foreign currency to zero. As a result, since February 2020 the foreign exchange risk is zero.

¹⁰The 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).

Figure 30: Currency composition of debt during the period 2015-2020



(Source: PDMO)

Credit risk

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

During 2020, 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 roadmap for actions for the period 2015 (Dec.) -2020 (Dec.) concerning the internal organization and IT infrastructure of the PDMO was approved by the Council of Ministers of the Republic in September 2015. The implementation progress is described 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 analyses, 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 developments¹¹ regarding GG.

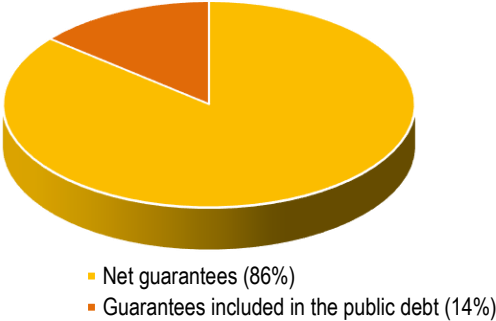
The Republic of Cyprus had outstanding GG¹² for loans as at the end of 2020 of EUR 1.76 bn or about 8.4 percent of GDP, which is slightly lower than the relevant stock of EUR 1.86 bn at the end of 2019. Excluding the GG granted to entities of the general government (since the outstanding amount of these guarantees is also included in the general government debt), the net value of outstanding GG was EUR 1.51 bn or about 7.2 percent of GDP as at the end of 2020. 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 2020 is presented in table 10 in Appendix.

Figure 31 shows that an amount of EUR 247 mn or about 14 percent of the total value of outstanding guarantees is also included in the public debt as at end of 2020.

¹¹Detailed analysis of explicit contingent liabilities is presented in the website of the Treasury of the Republic

¹² 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.

Figure 31: Outstanding GGs in percent as at the end of 2020



(Source: Treasury)

Regarding the called guarantees, an amount of EUR 42 mn or about 2 percent of the outstanding amount of government guarantees at the end of 2020 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 where access to borrowing 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.

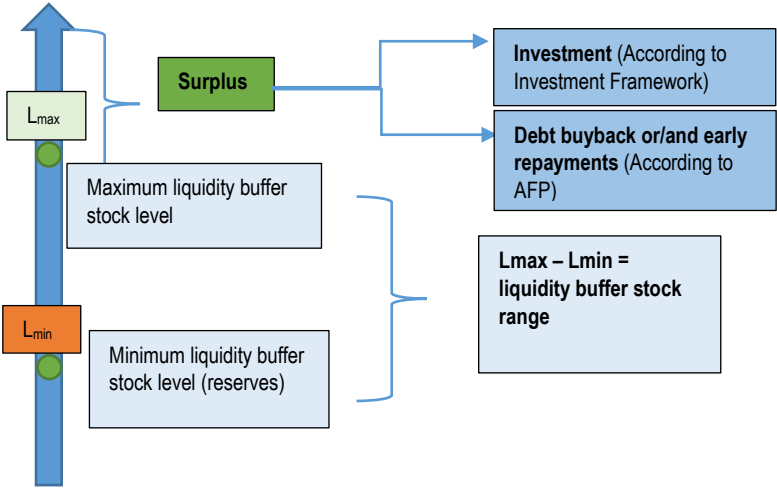
The institutional structure of the government cash management pursuant to articles 20 and 21 of the PDML, that has been set, via a decision of the Council of Ministers {ΠΧ (restricted circulation) 84.568, 28/3/2018}} is presented in Figure 32. A maximum and a minimum liquidity buffer stock level are determined by the PDMO within the General Government Account taking into account, 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. It is noted that during 2020, IMF provides technical assistance to the PDMO on further strengthening the debt and cash management framework. It seems that the Covid-19 outbreak has caused Debt Management Offices to increase cash buffer in recognition of the additional known and unknown risks which would be appear at short notice, however at the same time making the cash management imperative.

In February 2020 and taking into consideration that the government liquidity was above the maximum liquidity buffer stock level, the PDMO pursuant to article 21 of the PDML, proceeded with an early repayment of the outstanding amount of the IMF loan of the order of EUR 717 mn. Table 11 in Appendix, shows the historical distribution of total cash balances held by the CBC and cash deposited to MFIs.

Figure 32: Institutional structure of the government cash management



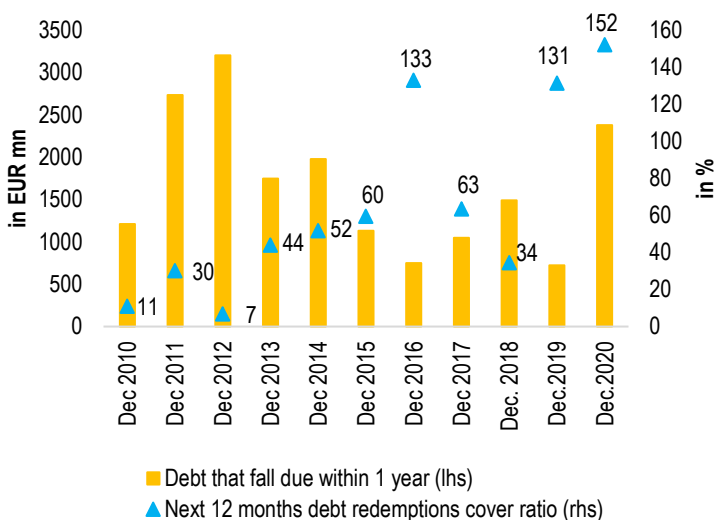
(Source: PDMO)

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 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. However, the Covid-19 pandemic which was identified in December 2019 in Wuhan (China) and has spread in all the world, including Cyprus (in March 2020), had significant consequences on public finances. Given the high degree of uncertainty due to the Covid-19 pandemic, the PDMO proceeded with a number of debt issuances in 2020 to strongly enhance the cash buffer in line with the pertinent provisions of the MTDS as well as to maintain a sizeable cash buffer to cope with a possible second wave of coronavirus disease, the magnitude of which could not be adequately established at that point in time. During the

year 2020 the cash balance increased and towards the end of the year covered about 152 percent of the next 12-month debt redemptions. As was mentioned in Chapter two, the new MTDS 2021-2023 which was approved by the Council of Ministers, requires, *inter alia*, that the Government of the Republic of Cyprus maintains a sizeable cash buffer which is sufficient, at any point in time, to finance the needs of at least the following 9-12 months.

Figure 33: Distribution of cash balances and amount of debt that falls due within one year in 2010-2020



(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 a pivotal role in financial markets by helping 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 as a sovereign issuer, maintains a contractual (solicited) relationship with four CRAs, namely DBR Morningstar, Fitch, Moody's and Standard and Poor's.

Cyprus's economic growth recorded a negative sign in 2020 reaching -5.1% compared to 2019 due to the negative impact of the Covid-19 pandemic on the global economy. Specifically, during the first quarter of 2020 the economic growth rate has declined reaching 1.1% compared to the corresponding quarter of 2019, whilst in the second quarter of 2020 the economic growth rate has marked a significant reduction reaching -12.2% compared to the corresponding quarter of 2019. It is noted that the significant reduction of the economic growth rate in the second quarter was attributed to the implementation of precautionary measures and relevant decrees to cope with the pandemic and the temporary closure of businesses and restrictions to the movements of citizens. The re-launch of the economy at the end of the second quarter improved the economic activity and moderate the negative impact of the general lockdown in Cyprus's economy. During the third quarter of 2020, the economic growth rate has marked an

improvement reaching -4.7%. The appearance of second wave of Covid-19 pandemic in the mid of the fourth quarter, brought the uncertainty in the economy with the economic growth rate reaching -4.5% in the fourth quarter of 2020 compared to the corresponding quarter of 2019.

After a material reduction of Cypriot banks' non-performing exposures (NPEs) in 2018, the stock of NPEs has continued to decline in 2019-2020 but at a slower pace. The fiscal balance of the General Government recorded negative sign in 2020 reaching -4.5% due to fiscal measures to address the negative impact of the Covid-19 pandemic to the economy. As a result, public debt has recorded an increase reaching 119% whilst the net public debt, excluding cash reserves, reached 102%. The prudent debt management strategy has resulted in a favourable debt profile reducing refinancing risks and significant improvement of debt portfolio cost-risk indicators.

In 2020, three sovereign CRAs confirmed the credit rating of the Republic of Cyprus at the investment category whilst the outlook was changed from positive to stable by two CRAs. Despite the fact that the upward path of the Republic of Cyprus has stabilized in the first tier of the investment grade in 2020 mainly due to the uncertainty that still exists both on the rate and the form of the expected economic recovery, however the strong fiscal performance due to a targeted prudent fiscal policy by Cyprus Authorities as well as the fiscal support provided and will be provided by the EU, either through loans or grants, pave the way for growth rates and at least for maintaining the credit rating profile of the Republic of Cyprus.

Standard & Poor's affirmed its 'BBB-' long-term foreign currency sovereign credit rating on Cyprus in March 2020 and in September 2020 maintaining the outlook stable.

In April 2020, Fitch has affirmed Cyprus' long-term Issuer Default Rating (IDR) at 'BBB-' revising the outlook from positive to stable outlook and in October 2020 it has affirmed the IDR at 'BBB-' maintaining the outlook stable.

In May 2020 DBRS Morningstar confirmed Cyprus' long-term Issuer Default Rating to 'BBB (low)' and changed the outlook from positive to stable. In November 2020, DBRS Morningstar confirmed Cyprus's long-term issuer default rating to 'BBB (low)' maintaining the outlook stable.

In June 2020, Moody's affirmed Cyprus' long-term Issuer Default Rating at 'Ba2' and maintained the outlook positive indicating a likelihood of an upgrade within the next 12 months if specific conditions are met.

Table 6 below, illustrates where the Republic of Cyprus stood at the end of 2020 in terms of credit ratings and the rating developments during the year. In 2020, the credit rating profile was maintained by all CRAs as it was in 2018 whilst the outlook was revised from positive to stable by three CRAs.

Table 6: Solicited sovereign credit ratings developments in 2020¹³

Long-term debt						
CRAs	Latest rating			Previous rating		
	Rating	Outlook	Notches to investment grade	Rating	Outlook	Notches to investment grade
DBRS Morningstar	BBB (low) (Nov. 2020)	Stable	IG	BBB (low) (May 2020)	Stable	IG
Fitch	BBB- (Oct.2020)	Stable	IG	BBB- (April 2020)	Stable	IG
Moody's^{1/}	Ba2 (Sept.2019)	Positive	-2	Ba2 (Jul.2018)	Stable	-2
Standard & Poor's	BBB- (Sept. 2020)	Stable	IG	BBB- (March 2020)	Stable	IG

Source: PDMO

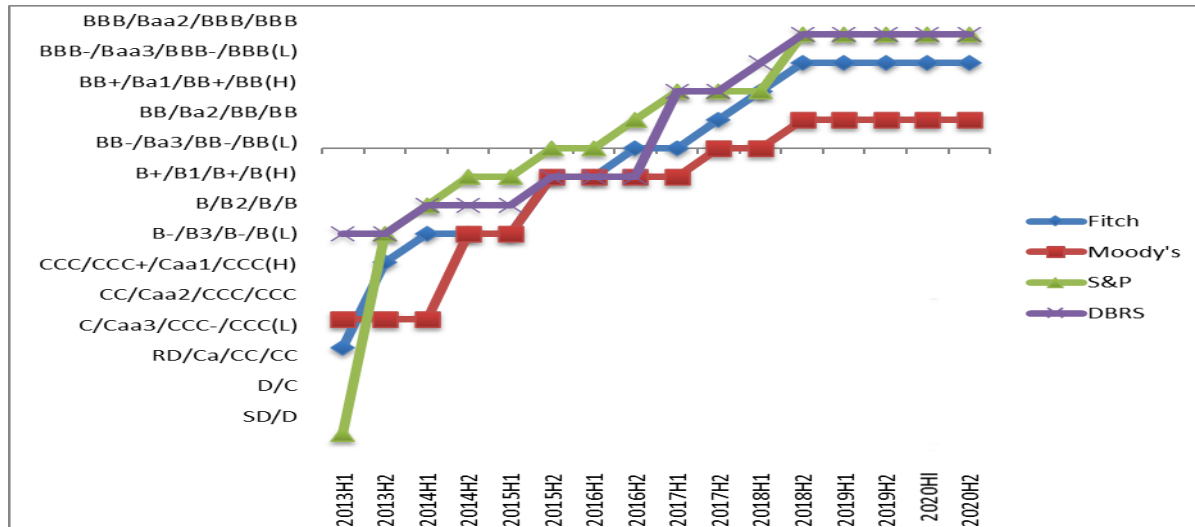
IG = Investment grade

^{1/} = Moody's issued credit opinions for the Republic of Cyprus in June and December 2020

The historical credit ratings of the long-term issuer rating of the Republic of Cyprus during the years 2013-2020 are illustrated in Figure 34 below. The Republic of Cyprus is on an upgrading path since 2013 which reflects the economy's turnaround whilst since 2018 the restoration of investment grade status was achieved. At the end of 2020, as mentioned earlier, the outlook changed from positive to stable by two CRAs.

¹³ 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 2013-2020



(Source: PDMO)

Note: Rating sequence on the graph is as following: Fitch/S&P/Moody's/DBRS MORNINGSTAR

Regarding the rationale of the rating developments of the Cypriot economy in 2020, the rating of the Republic of Cyprus by Standard & Poor's¹⁴, based on the CRA, was supported by Cyprus' income levels and the policymakers' efforts to consolidate public finances and restore the banking sector's health. The stable outlook balances, based on the CRA, the Cyprus' strong growth prospects and strong cash position against its still highly leveraged public and private balance sheets. Standard & Poor's underlined as the main challenges for the rating of the Republic of Cyprus, the high indebtedness-reflected both in its public and private balance sheet, the high proportion of non-performing loans in the banking sector as well as the small size of Cyprus relative to other Eurozone member states. It also considers that the strong cash position, solid growth prospects and historically prudent fiscal policies will mitigate the Covid-19 impacts on the sovereign's creditworthiness.

In the case of Fitch's rating¹⁵, the long-term sovereign credit rating of the Republic of Cyprus in April 2020, based on the CRA, was supported by the fact that coronavirus can be contained in the second half of 2020, leading to a relatively strong economic recovery in 2021. The change to outlook from positive to stable in April 2020, reflects the significant impact of the global Covid-19 pandemic on Cyprus's economy and on the sovereign's fiscal position. In October 2020, the CRA reaffirmed the credit rating of Cyprus and maintained the outlook stable, emphasizing on the balance between the institutional strength of the Cypriot economy and on the prudent fiscal policy prior to the Covid-19 shock with high level of the public debt and still elevated non-performing exposures. The CRA made references to the weaknesses of the banking sector, the high public and private sector debt as well as the exposure of the Government to contingent liabilities.

¹⁴ Standard & Poor's Rating Action Report on 6th of March and on 4th of September 2020.

¹⁵ Fitch Rating Action Commentary on 3rd of April and on 2nd of October 2020.

The long-term sovereign credit rating of Cyprus in 2020 at 'Ba2' by Moody's¹⁶ is supported by improvements in the economic resilience of Cyprus as well as the consistent outperformance on fiscal targets despite a number of constraints such as a lack of economic diversification, high debt of the economy and still-high NPEs in the banking sector. It is noted that based on Moody's credit opinions issued in June and December 2020, the decision to maintain the outlook positive is attributed to the declining path of non-performing exposures and the policy actions to tackle the high stock of NPEs as well as the expectation that debt reduction will resume at a sustained pace after the 2020 coronavirus crisis. According to the CRA, the increase in debt that is related to coronavirus will be temporary. The key rating challenges of the Republic by Moody's are the small and relatively undiversified economy of Cyprus, the high level of government, non-financial and household debt as well as the high level of non-performing exposures of the financial sector.

The long-term sovereign credit rating of Cyprus by DBRS Morningstar¹⁷ and the change of the outlook from positive to stable in May 2020, based on CRA, was reflected by the fact that the improvement in the public debt trajectory, driven by the sustained robust economic growth and large primary balance, was interrupted by the global coronavirus disease. In November 2020, the CRA confirmed the sovereign rating of Cyprus at BBB (low) and the stable outlook reflecting the fact that the risks to ratings are broadly balanced despite the contraction of GDP in 2020 and the deterioration of public finances due to the outbreak of Covid-19 pandemic. However, the rating agency underlined the depth of Cyprus challenges such as the sizeable non-performing loans in the banking sector, high private and public sector debt, external imbalances as well as the small size of its service-driven economy.

¹⁶ Moody's credit opinions on 25th of June and 22nd of December 2020.

¹⁷ DBRS Morningstar Press Release on 15th of May and on 13th of November 2020

The key drivers for the upgrade of Cyprus' government bond in the near future, based on CRAs latest rating review in 2020, could result from continued ability of the Government to sustain the expectations of growth and maintain a sound fiscal policy, from further reduction in the debt-to-GDP ratio and the stock of bank non-performing loans and from continued deleveraging of the private sector.

The historical credit ratings of the Republic of Cyprus during the period 1989-2020 are presented in Table 12 while the sovereign rating review calendar by CRAs for 2020 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 2020. The horizontal blue line illustrates the investment grade line while the vertical column under each CRA shows the ratings of the long-term debt.

Table 7: Government Bond rating in long-term local currency of Eurozone States¹⁸ as at the end of 2020

Fitch		Moody's		S&P		DBRS Morninstar	
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, BE
AA	FR	Aa2	FR	AA	BE, FR	AA	
AA-	BE, EE	Aa3	BE	AA-	IE, EE, SI	AA low	EE
A+	MT, IE,	A1	EE	A+	SK, LV, LT	A high	IE, MT, SK, SI
A	SI, SK, LT	A2	IE, MT, SK	A	ES	A	ES, LT
A-	ES, LV	A3	LV, LT, SI	A-	MT	A low	LV
BBB+		Baa1	ES	BBB+		BBB high	IT, PT
BBB	PT, IT	Baa2		BBB	PT	BBB	
BBB-	CY	Baa3	IT, PT	BBB-	IT, CY	BBB low	CY
BB+		Ba1		BB+		BB high	
BB		Ba2	CY	BB		BB	
BB-	EL	Ba3	EL	BB-	EL	BB low	EL
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)

¹⁸ 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. Green/black/red color for countries abbreviations indicates Positive/Stable/Negative outlook.

IX. Public Debt Management Office Action Plan

A five-year action plan 2015 (Dec.) – 2020 (Dec.) was approved by the Council of Ministers in September 2015 covering both the internal re-organisation and the IT infrastructure of the PDMO as well as the establishment of a market intelligence function.

Although, a number of actions within the said action plan have been completed, many of them are ongoing and have to be updated, reviewed and strengthened when needed. Due to the coronavirus pandemic, a number of actions included in the Action Plan in 2020 were rescheduled and as a result the plan was extended by one year, up to the end of December 2021.

The main actions implemented/continued or updated by the PDMO during 2020 are the following:

- i. **Continuation of the operation of Debt Management Committee:** The said Committee with a narrow and larger composition has continued its meetings during the year 2020 discussing various issues such as the impact of the ongoing Covid-19 pandemic to the Cyprus economy, cash management policy, fiscal and financial developments and prospects, debt sustainability analysis, investors presentation and in general the implementation of the debt management strategy; The main purpose is the exchange of information between the various sectors of the Ministry of Finance.
- ii. **Continuation of an appropriate risk & control environment:** The PDMO has implemented stricter procedures to follow throughout the transactions since 2019. Further to the adoption of audit checklists on the transactions and

segregation of duties in order to minimise the operational risks for each function, the PDMO proceeded with the writing of an internal control procedures manual underscoring the PDMO policy regarding the recording and updating of the procedures governing its operations. Due to the coronavirus pandemic, the number of meetings between the Internal Audit Service of the Republic of Cyprus and the PDMO were limited. Specifically, the aim of the meetings was to verify and evaluate the recorded procedures pursuant to the draft manual of internal procedures and the legal framework of the PDMO. This action is ongoing through 2021;

- iii. **Risk management – operational risk:** The PDMO has continued to update the database of operational risk incidents other than the one related to execution of transactions. It is noted that this action is also ongoing and it is updated and reviewed on a regular basis; In addition, the PDMO is in the process of improvement and enhancement of the existing cash management framework. In 2020, IMF provides technical assistance on further strengthening the debt and cash management framework.
- iv. **Contacts started with the market group of international investment banks:** The appointment of seven international banks by the Republic of Cyprus has already been done under the PDML 2012-2016 which is expected to increase the efficiency of the secondary market for government bonds of the Republic of Cyprus and enhance market intelligence on investor behavior. By the end of November 2019, the MTS has launched first electronic trading platform for Cypriot Government Bonds. From the said date, primary dealers are able to electronically trade Cypriot debt (EMTN) offering a

liquid, transparent and efficient secondary market for European bonds. It is expected that MTS will help us increase liquidity of EMTN of the Republic of Cyprus and optimise our cost of funding in the long term. In addition, the said platform will enable us to extract at any time, a time series of useful data for further analysis.

- v. **Investor' Relations Function:** The PDMO has continued to undertake a number of interrelated activities in order to keep investors apprised on a timely basis. In 2020 due to the coronavirus pandemic, there were no any organisation of roadshows in foreign financial centres and physical meetings in Cyprus. The activities were focused on teleconferences-videoconferences, production and distribution of marketing information, maintenance and enrichment of investors database and investor list with contact details.
- vi. **IT Strategy:** Since 2019, the new software system of the CS, namely 'Meridian' has become operational. The purpose of the new system is the stronger management of public debt, including the formulation of the MTDS as well as the maintaining all the information in one database. The new system due to advanced and improved functionalities, is expected to address debt management requirements in a better way. During 2020 a number of teleconferences were made between PDMO and CS in order to improve debt reporting on some debt reports. The continuous upgrade of the functionalities of the Meridian, will contribute further to the better management of public debt.

Further to the above actions, it is important to underline that during 2020 officers of the PDMO have 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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Table 1a: Auction schedule for Treasury Bills in 2020

No	Auction day	Auction date	Value date	Tenor of TB	Maturity date
1	Monday	23/12/2019	03/01/2020	12 weeks	27/03/2020
2	Monday	27/01/2020	31/01/2020	13 weeks	30/04/2020
3	Monday	24/02/2020	28/02/2020	13 weeks	29/05/2020
4	Monday	23/03/2020	27/03/2020	13 weeks	26/06/2020
5	Monday	27/04/2020	30/04/2020	13 weeks	31/07/2020
6	Monday	25/05/2020	29/05/2020	13 weeks	28/08/2020
7	Monday	22/06/2020	26/06/2020	13 weeks	25/09/2020
8	Monday	27/07/2020	31/07/2020	13 weeks	30/10/2020
9	Monday	24/08/2020	28/08/2020	13 weeks	27/11/2020
10	Monday	21/09/2020	25/09/2020	13 weeks	28/12/2020
11	Monday	26/10/2020	30/10/2020	13 weeks	29/01/2021
12	Monday	23/11/2020	27/11/2020	13 weeks	26/02/2021
13	Monday	21/12/2020	28/12/2020	13 weeks	26/03/2021

(Source: PDMO)

Table 1b: Indicative auction schedule for Treasury Bills in January – June 2021

No	Auction day	Auction date	Value date	Tenor of TB	Maturity date
1	Monday	25/1/2021	29/1/2021	13 weeks	29/4/2021
2	Monday	22/2/2021	26/2/2021	13 weeks	28/5/2021
3	Monday	22/3/2021	26/3/2021	13 weeks	25/6/2021
4	Monday	26/4/2021	29/4/2021	13 weeks	30/7/2021
5	Monday	24/5/2021	28/5/2021	13 weeks	27/8/2021
6	Friday	18/6/2021	25/6/2021	13 weeks	24/9/2021

(Source: PDMO)

Table 2a: Revised Annual Financing Plan 2020 during the year

Funding Instrument	Initial AFP - 2020 (Dec 2019) Upper Borrowing Limit	First revised AFP - 2020 (March 2020) Upper Borrowing Limit	Second Revised AFP - 2020 (July 2020) Upper Borrowing Limit	Third Revised AFP - 2020 (August 2020) Upper Borrowing Limit
Domestic 3-month Treasury Bills	€300 mn	€300 mn	€300 mn	€300 mn
Government Bonds (EMTN)	€1.85 bn	€3.75 bn	€4.50 bn	€4.50 bn
Domestic Retail Bonds	€100 mn	€100 mn	€100 mn	€100 mn
Loan from Supranational Institutions (EIB, EBRAD, CEDB)	€100 mn	€100 mn	€100 mn	€100 mn
New Domestic 12-month Treasury Bills	---	€1.25 bn	€1.25 bn	€1.25 bn
Funding from European programme - SURE	---	---	---	€500 mn
Total approved maximum borrowing amount	Up to €2.35 bn	Up to €5.5 bn	Up to €6.25 bn	Up to €6.75 bn

(Source: PDMO)

Table 2b: Liability management transactions: Early repayments of loan details in 2020

Creditor	Interest rate	Maturity year	Principal payment amount	Remaining amount	Interest payments
	in %		in EUR mn	in EUR mn	in EUR mn
IMF loan	1.74 ^{1/}	2026	716,7 ^{2/}	0,0	4,1
			716,7	0,0	4,1

(Source: PDMO)

1/ = Interest rate as at the end of January 2020.

2/= The corresponding amount in SDR in 27th of February 2020 was SDR 569,6 mn.

Table 3a: Matured securities (1/1/2020 to 31/12/2020)

I. Domestic market

A. Treasury Bills

Issue date	Maturity (in weeks)	Weighted average yield (in %)	Maturity date	ISIN	Nominal amount in EUR mn
11/10/2019	12	-0.14	03/1/2020	CY0148730811	100,0
1/11/2019	13	-0.21	31/1/2020	CY0148740810	100,0
29/11/2019	13	-0.19	28/2/2020	CY0148790815	100,0
3/1/2020	12	-0.20	27/3/2020	CY0148850817	100,0
31/1/2020	13	-0.20	30/4/2020	CY0148880814	100,0
28/2/2020	13	-0.20	29/5/2020	CY0148900810	100,0
27/3/2020	13	0.08	26/6/2020	CY0148930817	61,0
30/4/2020	13	0.12	31/7/2020	CY0148970813	38,0
29/5/2020	13	0.13	28/8/2020	CY0149000818	100,0
26/6/2020	13	0.14	25/09/2020	CY0149070811	67,0
31/7/2020	13	0.14	30/10/2020	CY0149140812	61,5
28/8/2020	13	0.14	27/11/2020	CY0149180818	70,5
25/9/2020	13	0.14	28/12/2020	CY0149220812	75,0
					1073,0

B. Domestic Bonds

Issue date	Maturity (in years)	Coupon rate (in %)	Maturity date	ISIN code	Nominal amount in EUR mn
20/4/2005	15	6.10	20/4/2020	CY0049570811	11,15
9/6/2005	15	5.35	9/6/2020	CY0049630813	8,44
1/7/2013	7	4.75	1/7/2020	CY0143830814	0,01
13/7/2018	2.4	2.75	15/12/2020	CY0147990812	750,00
					769,6

C. Repayments of Saving Certificates/Retail Bonds

	Nominal amount in EUR mn
Saving certificates	0,3
Retail bonds	120,9
121,2	

II. Foreign market

A. Euro Commercial Papers

	Nominal amount in EUR mn
	0

B. Euro Medium Term Notes

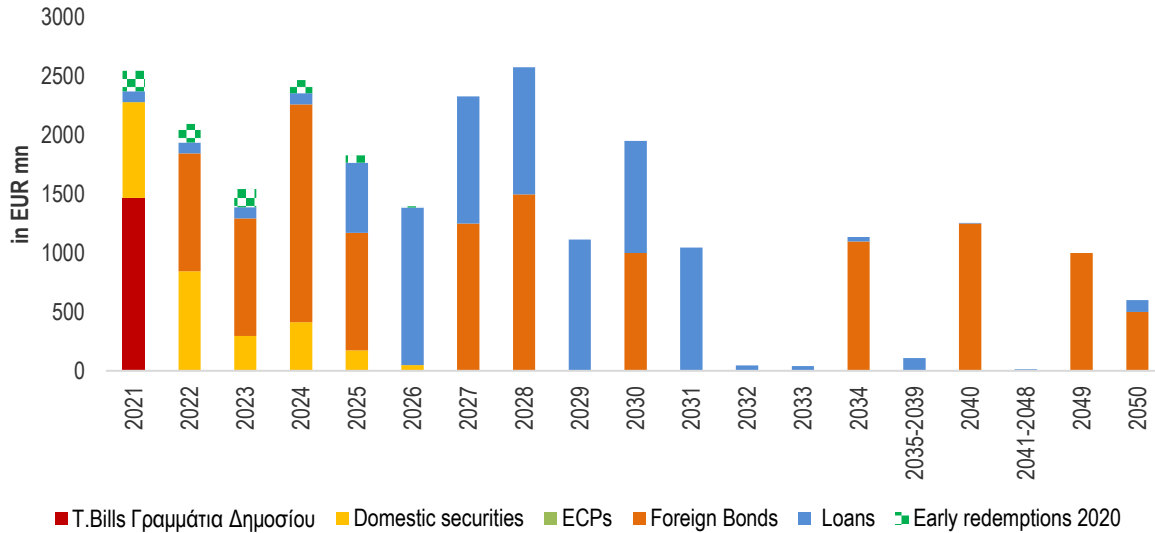
Issue date	Maturity (in years)	Coupon rate (in %)	Maturity date	ISIN CODE	Nominal amount in EUR mn
3/2/2010	10	4.625	3/2/2020	XS0483954144	668,00
2/5/2014	6	6.500	2/5/2020	XS1064662890	3,65
					671,65

Table 3b: Loan amortisations^{1/} by creditor (1/1/2020 to 31/12/2020)

	Remaining amount in EUR mn	Principal payments in EUR mn
International Monetary Fund	0,0	716,7
European Investment Bank	894,5	57,5
Council of Europe Development Bank	200,7	25,4
		799,7

1/= Early repayments transactions are included.

Figure 1: Impact of liability management (LM) transactions on debt^{1/} maturity profile as at the end of 2020



(Source: PDMO)

1/ = Excludes debt for EFSF loans

Table 4: Historical evolution of gross general government debt^{1/} in 1995-2020

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	56,4
2011	13057,9	65,9
2012	15618,4	80,3
2013	18706,4	104,0
2014	19013,8	109,2
2015	19164,0	107,2
2016	19509,2	103,1
2017	18814,1	93,5
2018	21256,3	99,2
2019	20958,9	94,0
2020	24828,7	118,2

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

Table 5: Outstanding Central Government^{1/} debt as at the end of 2020

A. TREASURY BILLS

Issue date	Maturity (in weeks)	Weighted average yield (in %)	Maturity date	ISIN code	Nominal value in EUR mn
24/4/2020	52	0.50	23/4/2021	CY0148960814	1250,3
30/10/2020	13	0.09	29/1/2021	CY0149280816	75,0
27/11/2020	13	-0.04	26/2/2021	CY0149310811	75,0
28/12/2020	13	-0.15	26/3/2021	CY0149330819	75,0
					1475,3

B. DOMESTIC BONDS

Issue date	Maturity (in years)	Yield (in %)	Maturity date	ISIN code	Nominal value in EUR mn
9/6/2011	10	6.00	9/6/2021	CY0141990818	43,6
30/11/2015	5	2.00	29/1/2021	CY0146070814	31,4
1/7/2013	8	5.00	1/7/2021	CY0143790810	1,1
25/8/2011	10	6.50	25/8/2021	CY0142120811	23,1
13/7/2018	3.4	3.25	15/12/2021	CY0148000819	580,0
1/7/2013	9	5.25	1/7/2022	CY0143800817	52,7
13/7/2018	4.4	3.50	15/12/2022	CY0148010818	610,0
1/7/2013	10	6.00	1/7/2023	CY0143810816	3,2
18/1/2016	7	3.25	18/1/2023	CY0146250812	221,9
24/1/2017	7	3.25	24/1/2024	CY0147060814	300,0
18/12/2015	10	4.00	18/12/2025	CY0146120817	92,0
					1958,9

C. RETAIL/SPECIAL RETAIL BONDS-SAVING CERTIFICATES

	Coupon rate (in %)	Maturity year	Nominal value in EUR mn
Retail bonds	2.50-5.50	2021	98,5
Retail bonds	2.50-3.25	2021	33,7
Retail bonds	2.50-3.25	2022	183,5
Retail bonds	2.50-3.25	2023	69,8
Retail bonds	2.25-3.00	2024	113,2
Retail bonds	1.75-2.50	2025	79,6
Retail bonds	1.75-2.50	2026	41,3
Retail bonds	1.00-1.75	2026	6,2
Special bonds	0.75	2024	0,8
Special bonds	0.75	2025	1,0
Saving certificates	0.00	Perpetual	2,7
			630,2

TOTAL DOMESTIC SECURITIES AS AT 31/12/2020 [EUR MN] **4064,4**

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
6/5/2015	7	3.875	6/5/2022	XS1227247191	1000,0
26/7/2016	7	3.750	26/7/2023	XS1457553367	1000,0
3/5/2019	5	0.625	3/12/2024	XS1989405425	1000,0
27/6/2017	7	2.750	27/6/2024	XS1637276848	850,0
4/11/2015	10	4.250	4/11/2025	XS1314321941	1000,0
16/4/2020	7	1.500	16/4/2027	XS2157184255	1250,0
25/9/2018	10	2.375	25/9/2028	XS1883942648	1500,0
21/1/2020	10	0.625	21/1/2030	XS2105095777	1000,0
26/2/2019	15	2.750	26/2/2034	XS1956050923	1100,0
21/1/2020	20	1.250	21/1/2040	XS2105097393	1250,0
3/5/2019	30	2.750	3/5/2049	XS1989383788	1000,0
16/4/2020	30	2.250	16/4/2050	XS2157183950	500,0
					12450,0

TOTAL FOREIGN SECURITIES AS AT 31/12/2020 [EUR MN]

12450,0

F. DOMESTIC LOANS

Issue year	Interest rate (in %) ¹²	Maturity year	Remaining maturity (in years)	Balance (in EUR mn)
2019	0.98	2026	5.6	250,0
				250,0

G. FOREIGN LOANS

Creditor ⁽³⁾	Issue year ⁽⁵⁾	Interest rate (in %)	Maturity year	Remaining maturity (in years)	Balance (in EUR mn)
EIB	2004	1	2022	1.9	0,1
EIB	2004	1	2022	1.9	0,2
CEB	2004	6mE+0.30	2023	3.0	4,4
CEB	2003	6mE+0.30	2023	3.0	10,0
EIB	2004	1	2025	4.5	0,6
SURE	2020	0	2025	4.8	150,0
CEB	2010	3mE+0.60	2025	4.9	23,8
EIB	2004	1	2026	5.6	0,3
EIB	2006	3mE+0.70	2026	5.7	13,3
CEB	2014	6mE+0.15	2026	6.0	34,3
CEB	2007	6mE+0.09	2027	6.5	7,7
EIB	2018	6mE+0.181	2028	7.1	9,3
CEB	2018	1.06	2028	7.9	14,5
CEB	2008	3.7	2028	8.0	23,5
EIB	2019	6mE+0.413	2029	8.0	14,5
EIB	2004	4.45	2029	8.5	23,7
EIB	2019	0.438	2029	8.5	36,0
EIB	2017	6mE+0.217	2029	8.6	15,9
EIB	2019	0.269	2029	8.9	18,0
CEB	2009	3mE+0.48	2029	9.0	9,1
CEB	2009	3mE+0.48	2029	9.0	5,6
CEB	2014	1.46	2029	9.0	22,5
CEB	2010	3mE+0.55	2030	9.6	3,6
EMΣ	2013	BRL+0.10	2031	11.0	6300,0
CEB	2017	1.08	2032	11.5	12,8
CEB	2013	6mE+0.81	2033	13.0	6,9
EIB	2004	VSFR	2033	13.0	108,1
EIB	2011	12mE+0.27	2034	14.0	30,0
CEB	2020	0.48	2035	14.0	6,0
CEB	2020	0.42	2035	4.3	10,0
CEB	2020	0.28	2035	14.5	6,0

EIB	2005	VSFR	2035	15.0	53,4
EIB	2004	VSFR	2035	15.0	34,4
EIB	2007	6mE+0.06	2035	15.0	60,9
EIB	2017	1.514	2037	16.5	34,0
EIB	2017	1.634	2037	16.6	25,5
EIB	2012	12mE+1.37	2037	16.6	178,9
EIB	2017	1.563	2037	16.7	11,9
EIB	2010	6mE +0.28	2038	17.5	48,0
EIB	2011	12mE+0.829	2038	18.0	15,3
EIB	2011	12mE+0.50	2039	18.9	47,0
EIB	2011	1.766	2040	20.0	40,0
EIB	2011	1.782	2040	20.0	22,2
EIB	2018	1.828	2043	22.5	30,0
EIB	2020	0.4	2045	25.0	20,0
SURE	2020	0.3	2050	29.9	100,0
EFSF ⁽⁴⁾	2011				224,8

7867,0

TOTAL LOANS AS AT 31/12/2020 [EUR MN]

8117,0

**TOTAL DEBT OF CENTRAL GOVERNMENT DEBT
AS AT 31/12/2020 [EUR MN]**

24631,5

Notes:

1/ = Definition: Debt of the budgetary Central Government (BGG) excluding debt of Social Security Investments, state-owned enterprises categorized within the Central Government and the debt of local authorities. BCG is approximately 99% of the general government debt (as at 31/12/2020)

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

4/= Debt issued by the EFSF for Greece, Ireland and Portugal

5/= It refers to the first disbursement

6/= Excluding liabilities due to the issuance of Euro coin

7/=Currency of issue: Euro

8/= 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 2020

Year	Foreign law securities		Domestic law securities		ESM loans		Other loans		Total
2021	0		2282		0		94		2376
2022	1000		847		0		94		1941
2023	1000		295		0		95		1390
2024	1850		414		0		95		2359
2025	1000		173		350		245		1767
2026	0		48		1000		340		1387
2027	1250		0		1000		82		2332
2028	1500		0		1000		78		2578
2029	0		0		1050		66		1116
2030	1000		0		900		52		1952
2031	0		0		1000		46		1046
2032	0		0		0		46		46
2033	0		0		0		40		40
2034	1100		0		0		36		1136
2035-2039	0		0		0		109		109
2040	1250		0		0		7		1257
2041-2048	0		0		0		13		13
2049	1000		0		0		0		1000
2050	500		0		0		100		600
Total	12450		4058		6300		1638		24446

Notes

1/ = Preliminary data

2/ = Excluding debt for EFSF Loans

3/ = Excluding debt to Social Security Fund and liabilities due to the issuance of Euro coins

4/ = A flat redemption profile is assumed for loans granted to local authorities and State-Owned Enterprises.

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 2020 (in EUR mn)

A. Domestic Debt		4504,3
I. Long-term debt		3029,0
1. Domestic bonds	1958,9	
- Monetary Financial Institutions	1800,6	
- Private Sector	158,3	
2. Retail securities	630,2	
3. Loans	288,5	
- Other	250,0	
- Local Authorities	38,5	
- Semi-government organisations	0,0	
4. Liabilities to issuance of euro coins	151,4	
II. Short-term debt		1475,3
1. Treasury Bills	1475,3	
- Monetary Financial Institutions	1475,3	
- Private Sector	0,0	
B. Foreign debt		20324,4
I. Long-term debt		20324,4
1. Long term loans	7649,6	
-ESM and IMF ^{2/}	6300,0	
-EIB and CEB	1092,2	
=SURE	250,0	
-Local Authorities	7,4	
2. Euro Medium Term Notes	12450,0	
3. EFSF loans	224,8	
II. Short-term debt		0,0
Euro Commercial Papers	0,0	
C. Gross General Government Debt^{3/}		<u>24828,7</u>

Note:

1/ = Preliminary data

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

Table 8: Investments^{1/} of the Social Security Fund with the Central Government as at the end of 2020

		Amount in EUR mn
1	Deposits with the Central Government	8851,9
	Social Insurance Fund	7938,4
	Unemployment Benefits Account	13,5
	Termination of Employment Fund	565,1
	Central Holiday Fund	82,4
	Insolvency Fund	252,5
2	Investment in Cyprus Domestic bond 6.00% mat.9/6/2021	10,0
		8861,9

Note

1/ = Investments in the form of deposits in financial institutions of EUR 105 mn are not included.

Table 9: Historical debt servicing in 2010-2018

	2012	2013	2014	2015	2016	2017	2018	2019
	in EUR mn							
Interest payments (IP)	611	621	557	566	510	504	510	511
General Government Debt (GGD)	15618	18706	19014	19164	19509	18814	21256	20958
Tax revenue (TR)	4627	4349	4412	4369	4493	4892	4516	4916
Total government revenue (TGR)	7085	6664	7014	6976	7086	7688	8278	9256
Interest payments to GDP	3.1	3.4	3.2	3.2	2.8	2.6	2.4	2.3
Interest payments to GGD	3.9	3.3	2.9	3.0	2.6	2.7	2.4	2.4
Interest payments to TR	13.2	14.3	12.6	13.0	11.3	10.3	11.3	10.4
Interest payments to TGR	8.6	9.3	7.9	8.1	7.2	6.6	6.2	5.5

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 OCTOBER 2, 2020 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 2nd of October 2020.

In particular, the bonds that will be issued from October 2, 2020 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 2 nd of October 2020)
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%

It is clarified that the abovementioned interest rate reduction will take effect as from the issuance of bonds with value date October 2, 2020 for which the applications submission period will be from the 1st to the 18th of September 2020.

It is understood that the interest rate reduction will not apply to bond series issued before October 2, 2020, for which their corresponding Specific Terms will continue to apply.

For more information please contact:

Cyprus Stock Exchange

Tel.: 22712300

PUBLIC DEBT MANAGEMENT OFFICE

MINISTRY OF FINANCE

29 June 2020

Disclaimer:

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Table 10: Stock of outstanding government guarantees^{1/} as at the end of 2020

No	Principal debtors	Loan contracts	Stock of outstanding guarantees
		in number	EUR mn
1	Corporate	104	514.735.222
	Other Companies	3	9.599
	SMEs	29	3.988.673
	Banks and Other Credit Institutions	72	510.736.950
2	Entities with Public Interest	70	783.438.890
	Other Entities with Public Interest	3	27.636.472
	Public Organizations ^{2/}	9	236.012.467
	Sewerage Boards	58	519.789.951
3	Local Authorities^{3/}	106	248.670.993
	Municipalities	82	244.980.846
	Community Boards	24	3.690.147
4	Individuals / Retail	3382	97.813.231
	Agricultural	1	39.595
	Small Business	1112	26.464.026
	Housing	2246	70.244.559
	Individuals / retail	23	1.065.051
5	Total outstanding GG for loans excluding the issue of debt instruments (1+2+3+4)	3662	1.644.658.336
6	Issues of debt instruments	2	114.234.922
	SURE loan	1	38.114.750
	European Financial Stability Facility (EFSF)	1	76.120.172
7	Grand Total outstanding GG (5+6)	3664	1.758.893.258

Source: Treasury
(PDMO calculations)

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

2/ = An amount of EUR 7 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 2012-2020
(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

1/ = An amount of EUR 3.314 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 and 2019 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 and 2019 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.

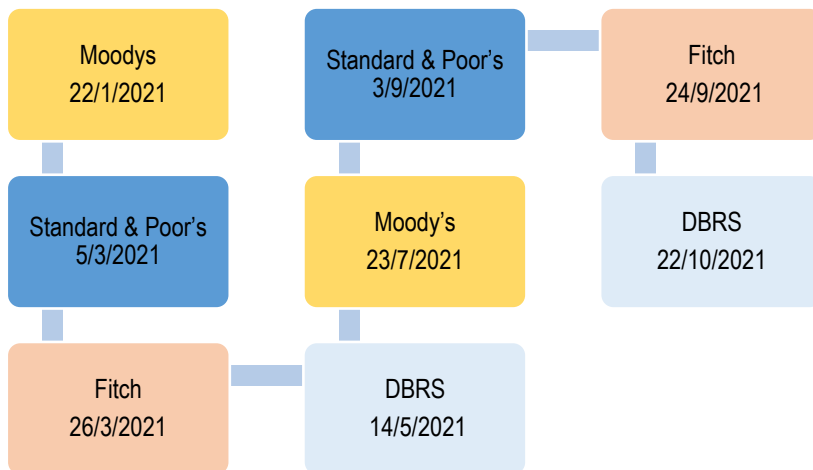
Table 12: Historical credit ratings^{1/}1989 – 2020 (Long term-short term rating)

Long term Issuer Credit rating (ICR)							
DBRS MORNINGSTAR		Fitch		Moody's		S&P	
Date	ICR	Date	ICR	Date	ICR	Date	ICR
13/11/2020	BBB (L)	2/10/2020	BBB-	-----	----	4/9/2020	BBB-
15/5/2020	BBB (L)	3/4/2020	BBB-	-----	----	6/3/2020	BBB-
15/11/2019	BBB (L)	11/10/2019	BBB-	20/9/2019	Ba2	6/9/2019	BBB-
17/5/2019	BBB (L)	12/4/2019	BBB-	27/7/2018	Ba2	8/3/2019	BBB-
23/11/2018	BBB (L)	19/10/2018	BBB-	28/7/2017	Ba3	14/9/2018	BBB-
25/5/2018	BB	20/4/2018	BB+	11/11/2016	B1	16/3/2018	BB+
1/12/2017	BB(L)	20/10/2017	BB	13/11/2015	B1	17/3/2017	BB+
2/6/2017	BB(L)	24/4/2017	BB-	14/11/2014	B3	16/9/2016	BB
2/12/2016	B	21/10/2016	BB-	10/1/2013	Caa3	25/9/2015	BB-
4/12/2015	B	23/10/2015	B+	8/10/2012	B3	24/10/2014	B+
27/6/2014	BL	25/4/2014	B-	13/6/2012	Ba3	25/4/2014	B
12/7/2013	CCC	5/7/2013	CCC	12/3/2012	Ba1	29/11/2013	B-
		28/6/2013	RD	4/11/2011	Ba3	3/7/2013	CCC+
		3/6/2013	CCC	27/7/2011	Baa1	28/6/2013	SD
		25/1/2013	B	24/2/2011	A2	21/3/2013	CCC
		21/11/2012	BB-	3/1/2008	Aa3	20/12/2012	CCC+
		25/6/2012	BB+	10/7/2007	A1	17/10/2012	B
		27/1/2012	BBB-	19/7/1999	A2	1/8/2012	BB
		10/8/2011	BBB			13/1/2012	BB+
		31/5/2011	A-			27/10/2011	BBB
		12/7/2007	AA-			29/7/2011	BBB+
		4/2/2002	AA			30/3/2011	A-
						16/11/2010	A
						24/4/2008	A+
						1/12/2004	A
						12/8/2003	A+
						3/12/1999	AA-
						9/11/1998	AA
						16/7/1996	AA+

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

Short term Issuer Credit Rating (ICR)							
DBRS MORNINGSTAR		Fitch		Moody's		S&P	
Date	ICR	Date	ICR	Date	ICR	Date	ICR
13/11/2020	R-2M	2/10/2020	F3	-----	---	4/9/2020	A-3
15/5/2020	R-2M	3/4/2020	F3	-----	---	6/3/2020	A-3
15/11/2019	R-2M	11/10/2019	F3	20/9/2019	NP	6/9/2019	A-3
17/5/2019	R-2M	12/4/2019	F3	27/7/2018	NP	8/3/2019	A-3
23/11/2018	R-2M	19/10/2018	F3	12/3/2012	NP	14/9/2018	A-3
25/5/2018	R-4	25/4/2018	B	4/11/2011	P-3	14/9/2017	B
12/4/2015	R-4	26/3/2013	B	27/7/2011	P-2	29/11/2013	B
7/12/2013	R-5	3/6/2013	B	6/11/1989	P-1	3/7/2013	C
		10/8/2011	F3			28/6/2013	SD
		31/5/2011	F1			20/12/2012	C
		12/7/2007	F1+			13/1/2012	B
		1/2/2002	F1			27/10/2011	A-3
						30/3/2011	A-2
						12/8/2003	A-1
						16/7/1996	A-1+

Figure 2: Sovereign Rating Review Calendar for the Republic of Cyprus in 2021



Notes

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.

2/= The scheduled evaluation date in 22nd of January 2021 was cancelled by Moody's.

Table 13: Participation of PDMO officers to seminars, EU committees and other events during the year 2020

Description	Jan. - March	April-June	July-Sept.	Oct. – Dec.
EU investors roadshow	Teleconference	Teleconference	Teleconference	
EFS Sub-Committee on EU Sovereign debt markets	Teleconference (10/3)	Teleconference (18/6)	Teleconference (15/9)	Teleconference (10/11)
10th Nicosia Economic Congress		Teleconference (30/6)		
IMF online course – Macroeconomic Diagnostics MDSx-OL20.118				Teleconferences And Seminars (1/9-30/12)
Working group on European Deposit Insurance Scheme (Regulatory treatment of sovereign exposures)				Teleconference (8/11)
Commonwealth Secretariat Debt Forum				Teleconference (12/11)
ESM Shareholders' Day				Teleconference (29-30/10)

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