Republic of Cyprus

Ministry of Finance

Public Debt Management Office

Annual Report

Public Debt Management

2021

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PUBLIC DEBT MANAGEMENT ANNUAL REPORT 2021

Republic of Cyprus
Ministry of Finance
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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 developing and strengthening further 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 financing needs of the Government at the lowest possible medium-term cost, within an acceptable range of financial risks.

Following the Covid-19 pandemic-induced recession in 2020, the Cypriot economy recovered stronger than anticipated during 2021, with the medium-term conditions remaining supportive of Cyprus's debt reduction efforts at a satisfactory pace. However, the medium-term economic outlook is now surrounded by a high degree of uncertainty caused by the Russia-Ukraine military conflict as to its impact on economic activity, its duration as well as its fiscal implications (through both fiscal revenue and expenditure).

Although Cyprus is directly exposed to the effects of the Russia-Ukraine military conflict through trade in services, foreign direct investments and indirectly through energy sector, however the strong budget performance of the previous year and cash position as well as the strong drivers of growth which supported by disbursements from the EU resilience and Recovery Facility coupled with the related progress in structural economic and budgetary reforms, will further improve economic activity and mitigate the expected risk.

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

Given the prevailing economic uncertainty internationally, the PDMO is constantly working on retaining the liquidity buffer of the State at a satisfactory level, as required by Articles 20 and 21 of the Public Debt Management Law. In this context, during the period of high uncertainty in 2020, the PDMO increased cash reserves significantly whilst as from 2021 the cash buffer has started to reduce in a gradual manner as the Covid-19 pandemic conditions ease. In 2021 the outstanding amount of general government debt decreased from 115 percent of GDP to 104 percent of GDP, of which about 5 percent was attributed to the decrease of cash balances of the Government.

The major part of the above-mentioned funds is intended to cover exclusively the financing needs of the Government for the following 6 – 9 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 beyond the next 9 months threshold, whereas new extended borrowing is currently avoided meaning the containment of a further increase of the public debt.

The developments made on the public debt management policy for the financial year 2021, as per article 25 of the Public Debt Management Law, are presented in the following Report which has been drafted by the end of March 2022.

Public Debt Management Office
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Cyprus
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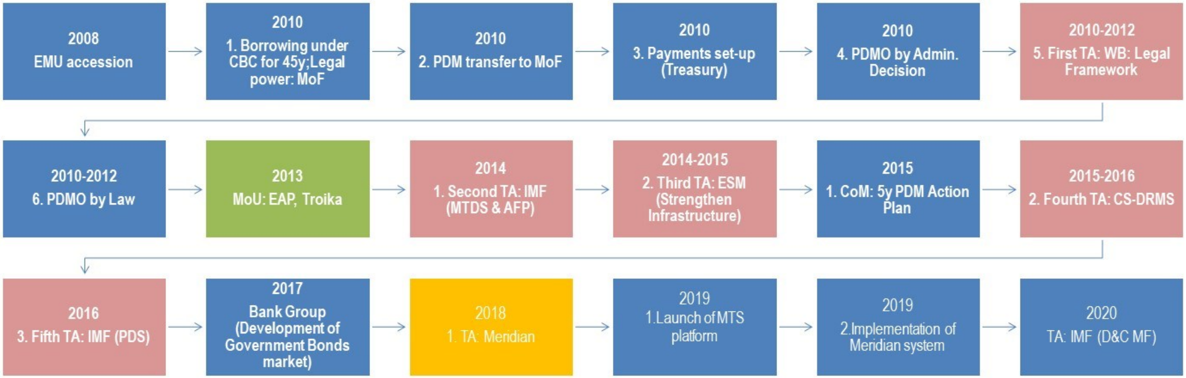
The timeline of Public Debt Management in Cyprus (2008-2021)



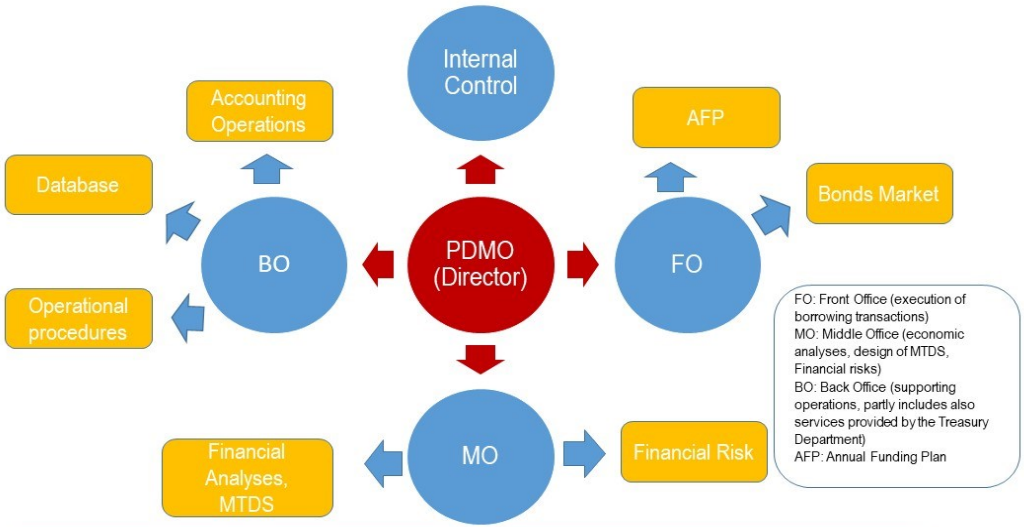
AFP: Annual Funding Plan
CBC: Central Bank of Cyprus
CoM: Council of Ministers
CS: CommonWealth Secretariat
DRMS: Debt recording management system
D&C MF: Debt&cash management framework

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 a strong economic growth in the period 2015-2019, with the growth rates retaining well above the eurozone average, economic activity recorded a significant contraction of about 5.2% in 2020 due to 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 5.6 percent of GDP in 2020 compared to 2.5 percent in 2019. This led to a significant increase in the general government debt to GDP reaching around 115 percent at the end of 2020 compared to 91 percent in 2019. The increase was attributed to the large GDP drop in 2020 by about 5.2 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.

The Cypriot economy has recovered relatively quickly from the pandemic shock with the real GDP grew 5.5% in 2021 surpassing its pre-crisis levels driven by improved economic activity in most sectors except the tourism sector. The budget balance recorded a significant improvement of about 3.5 p.p compared to the previous year, however remained in deficit of about 2.1 percent of GDP. This outcome combined with the strong cash position of the Government by the end of the previous year, are expected to mitigate the impact of the Russian-Ukraine crisis on the Cypriot economy and financial sector in 2022.

Regarding the bond market developments, the successful massive issuances carried out by the European Commission to fund its SURE and Next Generation EU programs were among the highlights of 2021. Since April 2021 and as the vaccination campaign as well as the ratification of the EU Recovery Fund proceeded at full speed, the confidence was affected positively and growth forecasts pushed upward the long end of the curve. During the second half of the year, benchmark yield curves shifted in different directions reflecting the uneven speed of the economic recovery, inflation projections and ECB policy.

Since the beginning of the year 2021, the secondary market yields of the Cypriot EMTN followed an upward path. Since March 2021 the Cyprus sovereign bond yields followed a downward path and towards the end of September 2021 turned to an upward path up to the end of 2021 with higher volatility than of the previous period. The upward path of the Cypriot sovereign yields continued during the first months of the year 2022, as it did with all other sovereign yields due to the Russian-Ukraine conflict started early in February 2022.

The main funding source for the Republic of Cyprus in 2021 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 2021, the share of foreign bonds exhibited an increase, widening the gap between official loans and foreign bonds. The distribution of instrument composition is in line with 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 decrease in 2021 mainly due to the strong recovery of the

Cypriot economy leading to a reduction of the impact of government's fiscal policy measures to mitigate the impact of the Covid-19 pandemic on the economy and the utilisation of a significant amount of cash reserves to cover a part of Government gross financing needs. The Central Government's liquid assets recorded a significant decrease in the reference period (2021) allowing public debt to GDP to record a higher reduction.

The majority of the debt portfolio risk indicators were retained at similar levels as were in the previous year. The weighted average maturity of marketable debt maintained at similar level of the previous year and performed very well compared to the euro area average surpassing the target set in the Medium-Term Debt Management Strategy (MTDS) 2021-2023. 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 confirmed by three Credit Rating Agencies (CRAs) at the investment category, of which two of them changed the outlook from stable to positive. The fourth CRA upgraded Cyprus's government bond by 1 notch changing the outlook from positive to stable. CRAs underlying, among others, that 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.), with a number of actions being rescheduled due to the coronavirus pandemic to be executed in 2021.

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 2021-2023 as well as the revised MTDS 2022-2024, the Annual Funding Plan (AFP) 2021 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 2021 as well as the debt redemptions (flow analysis), while Chapter 5 presents the main structural characteristics of public debt and their evolvement over time (stock analysis). The cost-risk profile is analysed in Chapter 6.

The operations on liquidity management are presented in Chapter 7, whereas sovereign rating developments are outlined in Chapter 8. The report concludes with Chapter 9 on the developments of the PDMO Action Plan for infrastructure and systems development in 2021.

II. Objectives and Evaluation

A. Mandate

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

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1 Any decision-making based exclusively only 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

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 previous Strategy covers the period 2021-2023. It was published at the end of October 2020. The said strategy was updated through the MTDS 2022-2024.

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

C. MTDS guidelines and targets

The guidelines of the MTDS and the actions/quantitative targets under each guideline related to the reference year 2021 are presented below.

1. **Smoothening of debt maturity profile and extension of the maturity of marketable debt**

    - *Maintain average remaining maturity of marketable debt not less than 7 years;*
    - *Maintain short term debt equal or less than 5 percent of total debt stock; and*

- *Maintain long term debt equal or more than 95 percent of total debt stock.*

2. **Risk mitigation**

- *Maintain total liquid funds to cover the financing needs of next 9 -12 months;*
- *Maintain annual gross financing needs up to 10 percent of the corresponding annual GDP;*
- *Maintain total debt foreign exchange exposure not to exceed 5 percent of total debt stock; and*
- *Maintain total debt floating interest rate exposure not to exceed 35 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 November 2021, the new MTDS 2022-2024 was approved by the Council of Ministers. The said strategy is a continuation of the existing debt management strategy 2021-2023. The main pillars of the new strategy remain the same, however the quantitative targets have been changed taking into consideration the new conditions created as a result of the pandemic.

D. Annual Funding Programme 2021

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 2021 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 9-12 months;
3. Maintain the average maturity of marketable debt not less than 7 years;
4. Further reduction of the weighted average cost of public debt, among others;
5. Containment of the annual refinancing needs up to 10 percent of the GDP;
6. Further development of the bonds market, and
7. Renewal of short-term debt and maintain the swift functioning of the Treasury Bills (TBs) market;

More details for the AFP 2021 are presented in chapter 4.

Taking into consideration the projected annual cash flows and the successful market access of Cyprus, the PDMO submitted an updated AFP to the Minister of Finance for the next year. The AFP 2022 was approved by the Minister of Finance by the end of November 2021.

E. Evaluation of MTDS guidelines and progress to date

The MTDS in 2021 was implemented under a number of challenges due to the continuation of uncertainty surrounding the development of the Covid-19 pandemic which hit the Republic of Cyprus in March 2020. However, the recovery of the Cypriot economy was stronger than initially expected by the Ministry of Finance and GDP has already reached its pre-pandemic level in 2021 facilitating the implementation of the MTDS and affecting positively the quantitative and qualitative objectives of the strategy. Despite the negative impact of the pandemic, the outcomes from the implementation of the strategy in 2021 could be characterised as satisfactory.

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

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

The share of outstanding short-term debt stood at around 1 percent of the total outstanding debt as at the end of 2021, which was in line with the target set (5 percent) in the strategy as a result of the repayment of the short-term 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 2021 stood at around 99 percent, below the target of 95 percent set in the strategy. The outstanding annual maturities profile are at satisfactory level and are extended up to the year 2051. The peak of the outstanding public debt is in year 2028 which is under control based on the historically data as well as on the strong recovery of the Cypriot economy from the year 2021. 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 a small decrease reaching 7.7 years as at the end of 2021 compared to 8.0 years as at the end of 2020, which was mainly attributed to the 5-year government bond issuance in the international market since the focus was on the reduction of the weighted average cost of public debt given the expected upward path of the interest rates from next year. The value of the said indicator is above the relevant MTDS target i.e. to be not less than 7 years. The continuation of longer-term benchmark EMTN issuances is anticipated to maintain the maturity of marketable debt above 7 years.

Risk mitigation

The size of the liquid funds throughout the year of 2021 was in line with the relevant target set in the strategy, to cover the financing needs of the next 9–12-month period at any time. Throughout the year 2021, 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. The strong cash position is expected to support the Government to cope with the uncertainty caused by the Russia-Ukraine military conflict in early 2022.

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. 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 2021. The variable rate debt is anticipated to decline from 2025 onwards with the gradual redemption of the instalments payable to ESM.

Developments of the government securities market

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

A significant improvement has been marked in the development of a suitable market structure to improve the price discovery mechanism and liquidity provision in the foreign market. An extended market group with eight international investment banks has continued to work towards this goal during the year 2021. The initial mandate of banks is to post indicative prices of the Cypriot international bonds on a voluntary basis in a platform jointly decided by the issuer and the banks. The MTS platform became operational since 2020 and it is expected that MTS will help the PDMO to increase the liquidity of Cypriot bonds and optimise the cost of funding in the long term.

The target of build-up of a sovereign yield curve, has achieved at a very satisfactory level. One new point was added in the sovereign yield curve in 2021. 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 2021 through the EMTN issuance despite the continuation of the uncertainty of the Covid-19 pandemic. The efforts are continuing to be 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 2021, 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 2021 EMTN issuance.

The results of this target are evident through the investors distribution statistics by geography and type in the benchmark bond issuance in 2021 which are shown in Chapter 6.

III. Sovereign Debt Markets Developments

A. Eurozone sovereign debt market developments

According to the notes and the Annual report issued by the Directorate General for Financial Stability, Financial Services and Capital markets Union, the first months of 2021 were characterised by sovereign yield curves shifting upwards and steepening.

In March 2021, the Euro area (EA) benchmark yield curve moved slightly downward and since April 2021 and up to the end of 2021 the bond yield curve moved at higher levels. With regards to the total euro-denominated bond issuances for the period January-May 2021, a decline by 6 percent was recorded compared to the corresponding period of 2020 whilst public issuances were slightly above the levels of 2020 by the order of 2 percent.

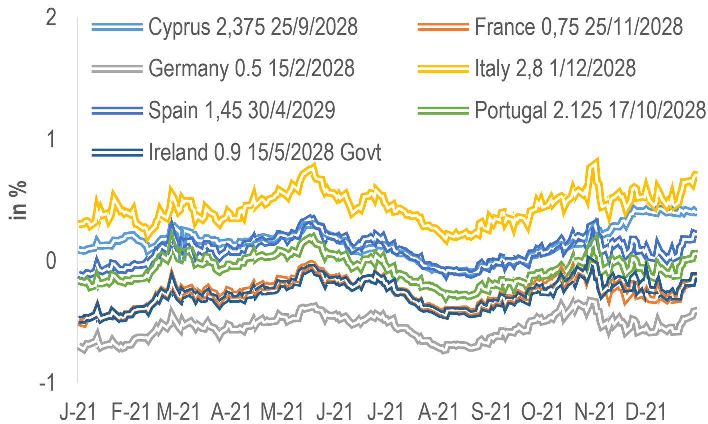
During the second half of the year 2021, benchmark yield curves shifted towards different directions, reflecting the uneven speed of the economic recovery recorded by each Eurozone State, inflation projections and commitments by Central Banks to ECB's regulations. With regards to the total euro-denominated bond issuance (until the end of October 2021), a small decline was recorded in relation to the same period of 2020 whilst public issuances were well above pre-pandemic levels.

Overall, the total bond issuances in 2021 reached the significant amount of EUR 2.9 trillion, slightly lower than that of 2020 whilst the public issuances remained above pre-crisis levels.

Amongst the highlights in 2021, were the successful massive issuances carried out by the European Commission to fund the programs related to SURE and Next Generation (NG) EU. It is noted that in October 2021 the first NGEU green bond of the order of EUR 12 bn was issued in order to fund green and sustainable investments across the EU. According to the ESDM Annual Report 2021 (Directorate General for Financial Stability, Financial Services and Capital markets Union, 2021) the main challenges for EU sovereign debt markets that would need to be achieved in the coming years, will be related to climate/green initiatives, geopolitical and pandemic-related developments.

The yield developments of 10-year bonds (where available) for selected Eurozone States throughout the year 2021 are illustrated in Figure 1. The 10-year Cyprus government bond yields followed an upward path during the first months of 2021 due to an improving economic outlook resulting from the progress made on the Covid-19 vaccination coverage by the population. As of the 1st week of March 2021, the Cyprus sovereign bond yields followed a downward path and towards the end of September 2021 the said yields followed an upward path until the end of 2021 with higher volatility when compared to the previous period. At the end of 2021, the 10-year Cyprus government bond yield increased by 30 basis points compared to the beginning of the year due to higher inflation expectations in the future. Similar paths were recorded for the 10-year bonds of selected Eurozone states during the same period with the Portuguese bond yield curve recording a minor increase of about 22 basis points compared to the corresponding value at the beginning of the year.

Figure 1: Secondary market yield curve levels of Cyprus and selected Eurozone States (10-year government bonds) in 2021



(Source: Bloomberg)

Regarding the implementation of the AFP, one new benchmark bond (EMTN) with a tenor of 5 year was issued during the year 2021, adding one further point in the sovereign yield curve of Cyprus.

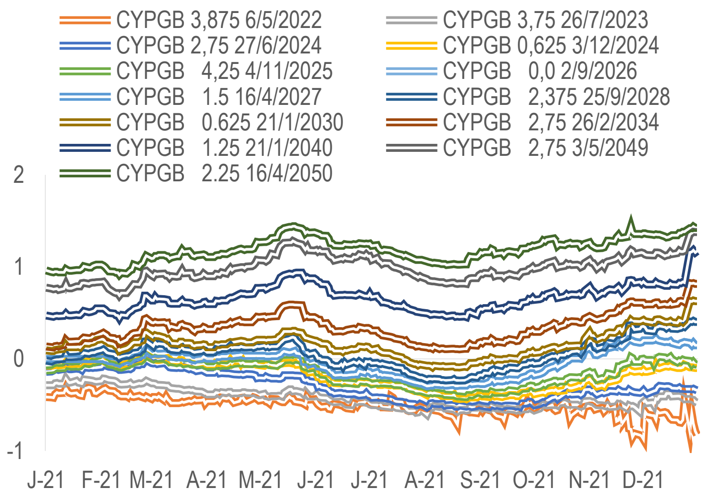
The market behaviour indicated a disaggregation of the thirteen benchmark (EMTNs) bonds of the Republic of Cyprus into three main groups. The four longer-dated bonds maturing in 2034, 2040, 2049 and 2050 moved in a similar pattern, recording an increase between 42 and 70 basis points by the end of the year 2021 compared to the corresponding values at the beginning of the year.

The second group of bonds maturing in 2027, 2028 and 2030 as well as the new bond issuance, due in 2026, increased by the end of the year 2021 by 55 basis points on average and 16 basis points since the beginning of the year and its launch, respectively.

The third group of bonds maturing in the short-term such as the bonds due in 2022, 2023, 2024 and 2025 moved in a similar pattern and towards the end of the year, they moved in the negative territory or very close to zero performing well compared to the beginning of the year.

Figure 2 below, illustrates the yield development of Cyprus' benchmark bonds in 2021, launched under the EMTN Programme which are under English law and listed on the London Stock Exchange.

Figure 2: Secondary yield levels for Cyprus EMTN in 2021

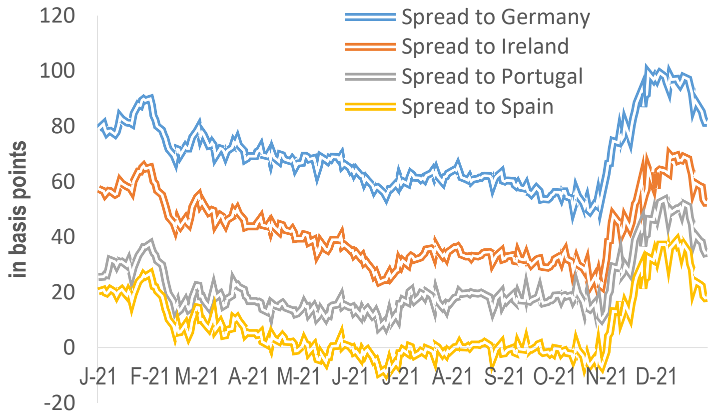


(Source: Bloomberg)

With regards to yield spreads developments, the Cyprus sovereign spreads of the 2028 bond over selected bonds of euro area countries have marked an increase since the beginning of the year. Since February 2021 until the end of October 2021, that trend reversed and the yield spreads narrowed significantly. Thereafter, the yield spreads continued to widen and towards the end of the year, they reached those levels at the beginning of the year, 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 marked a small increase in January 2021, and then marked significant decrease reaching 49 basis points which was the lowest difference within the year. Thereafter, a considerably increase by 32 basis points was marked reaching 81 basis points by the end of the year 2021 compared to the lowest point in the year. 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 increased by 30 basis points compared to the lowest point of the year reaching 52 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 were close throughout the year, however at lower spread levels, and towards the end of year had reduced by 27 basis points compared to the lowest point within the year reaching 34 basis points and 18 basis points, respectively.

Figure 3: Cyprus sovereign yield spread to selected euro area countries in 2021 (bonds maturing 2028, where available)



(Source: Bloomberg)

The secondary market activity and the clearly downward trend of Cyprus sovereign yield spreads for the most of the period in 2021 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 2021 is presented in the following chapter.

B. Cyprus sovereign debt market developments

The activity of the domestic government bond market has continued throughout the year 2021 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 2021 and the indicative auction schedule for TBs for the first half of the year 2022 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 2021 the TBs programme remains a significant short-term funding vehicle for Cyprus.

In 2021, the total cumulative amount of 13 weeks TBs auctions was EUR 1150 mn compared to EUR 998 mn in 2020 (excluding the 52-week TB of the order of EUR 1250 mn). The total net stock of TBs at the end of the year has marked a significant reduction of EUR 1175 mn reaching EUR 300 mn or 1 percent of the total short-term total public debt compared to EUR 1475 mn at the beginning of the year.

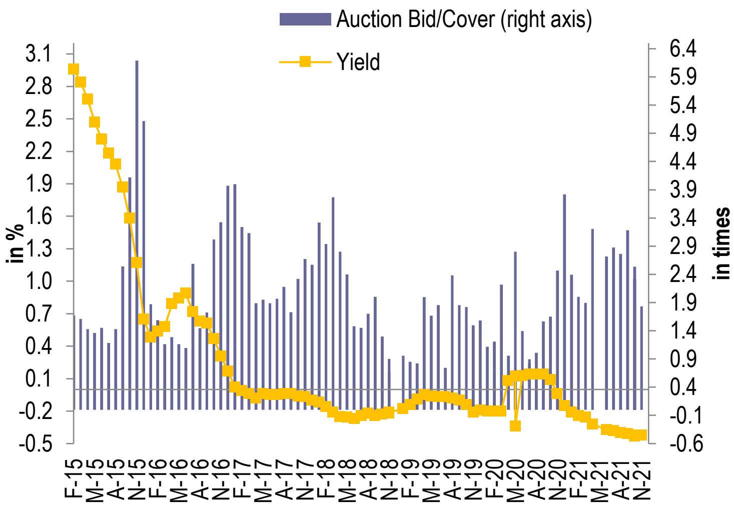
Figure 4 below, illustrates the historical evolution of TBs yields and auction bid to cover ratios[4] during the years 2015-2021. With regards to yields developments, the Cyprus TBs yields maintained at a negative territory for the whole year 2021 with the weighted average yield to be -0.35 percent compared to -0.001 percent in the year 2020.

Regarding the bid to cover ratios, it seems that the auction participation followed an upward path despite the continuation of the uncertainty surrounding the evolution of Covid-19 pandemic. The annual average auction bid to cover ratio in 2021 was 2.54 times the auction amount compared to 1.52 times in 2020.

The outcome of the TBs auctions in 2021 given that interest rates were maintained at negative territory could be regarded as a positive signal for the creditworthiness of the Republic of Cyprus.

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

Figure 4: Treasury Bills yields and auction bid/cover ratio in 2015-2021



(Source: PDMO)

IV. Financing of the Central Government in 2021 (AFP 2021)

A. Introduction

The financing of the Central Government in 2021 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 2021 by source and by maturity based on the AFP 2021. The next sub-chapter focuses on debt redemptions and liability management transactions executed in 2021. The chapter concludes with a review of the year's financing profile.

B. Financing actions in 2021

The Central Government annual borrowing plan by financing instrument has been revised one time during the year 2021, as you can see in Appendix, in order to confront the continuation of the impact of the Covid-19 pandemic on economic finances and to strengthen state reserves in accordance with the MTDS. However, the total borrowing amount in 2021 was lower than the initial AFP 2021 despite the fact that the fiscal deficit was higher than the initial projection. This was attributed to the utilisation of a significant amount of cash reserves accumulated in the previous year due to the uncertainty surrounding the development of the pandemic. The final AFP 2021, after the revision executed during the year, is illustrated in Table 1 below. The total borrowed amount of the Republic of Cyprus in 2021 reached EUR 1.8 bn, excluding debt issued and redeemed within the year.

The main component of the annual financing, was the issuance of one EMTN underpinned by strong and diversified participation of international, high quality of investors, with the five biggest categories, originating from UK, Nordic countries, Cyprus, Benelux and Germany/Austria/Switzerland. In total, about 74 percent of the annual funds borrowed originated by foreign investors mainly consisting of foreign bonds and loans under SURE instrument. The remaining share 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 353 mn or about 19.6 percent of the total annual financing was formed under SURE instrument and about 1.4 percent or EUR 26 mn under the Recovery and Resilience Facility whilst an amount of EUR 75 mn or about 4.2 percent of the total annual financing was formed by foreign loans granted by EIB and CEB throughout the year for ongoing and new infrastructure projects.

Table 1: Annual borrowing by financing instrument in 2021

		EUR mn		%	%
1	**Government Securities**		**1343**		**75**
	of which:				
	TBs (52 weeks TBs)	300		17	
	Retail bonds	43		2	
	Foreign bonds (EMTNs)	1000		56	
2	**Loans**		**454**		**25**
	of which:				
	EIB – CEB loans	75		4	
	Other bilateral Loans[2/]	379		21	
	Total net annual borrowing[1/]		**1797**	**100**	**100**

1/= Debt issued and redeemed within the year 2021 is not included.
2/= Loans issued by European Commission under the SURE instrument and the Recovery and Resilience Facility
(Source: PDMO)

Table 2 below, shows the distribution of total net annual borrowing by maturity in 2021. The maturity of the annual borrowing in 2021 ranged between 0.25 years to 30 years with the majority of the debt ranging in the spectrum of 1-5 years at 56 percent (an EMTN) and in the spectrum of 0.25-1 years at 17 percent (short-term TB issuances). The debt ranged in the spectrum of 6-10 years at 15% and is composed by loans under SURE instrument and retail bonds. The debt ranged in the spectrum of over 10 years at 12 percent and is composed by loans under SURE instrument maturing in 2047 and 2051, loan under RRF maturing in 2051 as well as loans provided by EIB maturing in 2033 and 2041.

The weighted average maturity of new debt issued during 2021 recorded a decrease compared to the respective debt during 2020, reaching 4.8 years, mainly due to the 5-year EMTN issuance.

Table 2: Distribution of total annual borrowing by maturity in 2021

		EUR mn	%
1	0,25 – 1 year	300	17
2	1 – 5 years	1000	56
3	6 -10 years	277	15
4	Over 10 years	220	12
	Total net annual borrowing	**1797**	**100**

(Source: PDMO)

As presented in Table 3 below, in terms of the utilization of borrowed funds, about 75 percent of the annual funding was used by the Government to pay the scheduled debt redemptions. About 20 percent of the annual funding was used within the framework of job and income protection whilst a small amount of EUR 75 mn granted by EIB or about 4 percent was used for the implementation of new and ongoing infrastructure projects. It is noted that in September 2021 a loan instalment of the order of EUR 26 mn was disbursed to Cyprus as a pre-financing under the Recovery and Resilience Facility.

Table 3: Summary of the use of the annual funding in cash terms in 2021

		EUR mn	%
1	Debt maturities[1/]	1343	75
2	Job and income protection (SURE)	353	20
3	Investments and reforms for sustainable recovery (RRF)	26	1
4	Infrastructure projects	75	4
	Total net annual borrowing	**1797**	**100**

(Source: PDMO)
1/= The remaining amount of debt maturities in 2021 has been paid through the use of cash buffer.

The overview of financing actions implemented during 2021 is presented in more details below. The main financing of 2021 took place in February 2021 through the issuance of a 5-year foreign bond of the order of EUR 1000 mn and loans of the order of EUR 229 mn under SURE instrument.

The 5-year benchmark bond was at a coupon rate of 0.0 percent and yield of 0.053 percent. The transaction was very successful attracting a high quality and diverse set of investors. The said bond was priced at spread of 48 basis points over the mid-swap rate. The orderbook was oversubscribed by 7.45 times. More details are presented in Box 1 below.

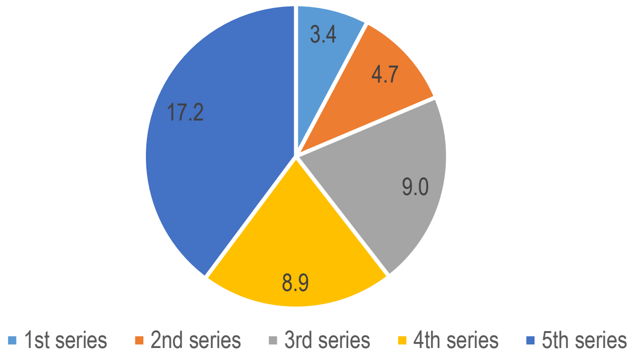
In February 2021, an amount of EUR 229 mn was disbursed under the SURE instrument via two transactions with the first instalment of the order of EUR 157 mn at a coupon rate of 0.0 percent maturing in June 2028 and the second instalment of the order of EUR 72 mn at a coupon rate of 0.3 percent maturing in November 2050. More details are presented in Box 2 below.

In May 2021, an additional amount of EUR 124 mn was disbursed under the SURE instrument on two transactions with the first transaction of the order of EUR 77 mn maturing on July 2029 at a coupon rate of 0.0 percent and the second transaction of the order of EUR 47 mn maturing on January 2047 at a coupon rate of 0.75 percent. More details are presented in Box 2 below.

In November and December 2021, an amount of EUR 35 mn and EUR 40 mn were granted by EIB at 0.1 percent and 0.8 percent maturing in 2033 and 2041, respectively, for new and ongoing infrastructure projects.

In addition, domestic retail bonds amounting to EUR 43 mn were issued throughout the year. The domestic retail bonds, designed to meet the characteristics of natural persons as investors, have a 6 years' maturity and can be redeemed by the holder pursuant to the specific terms of issuance. The interest rate follows a step-up structure and has a positive correlation with the time of holding, motivating the investors to hold the bond until to maturity. Figure 5 below, illustrates the series of retail bond sales in 2021.

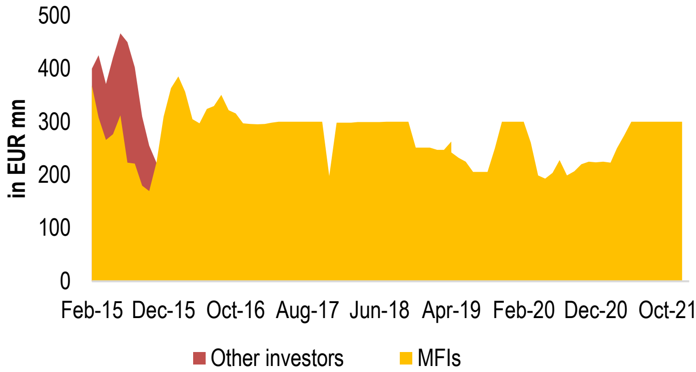
Figure 5: Series of Retail bond sales in 2021 (in EUR mn)



(Source: PDMO)

The annual funding in 2021 has been completed through monthly auctions of quarterly TBs of the total order of EUR 300 mn, on a roll-over basis. 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 2021, the participation in TB auctions of Non-MFIs was equal to zero.

Figure 6: Evolution of stock of TBs by investor distribution in 2015-2021



(Source: PDMO)

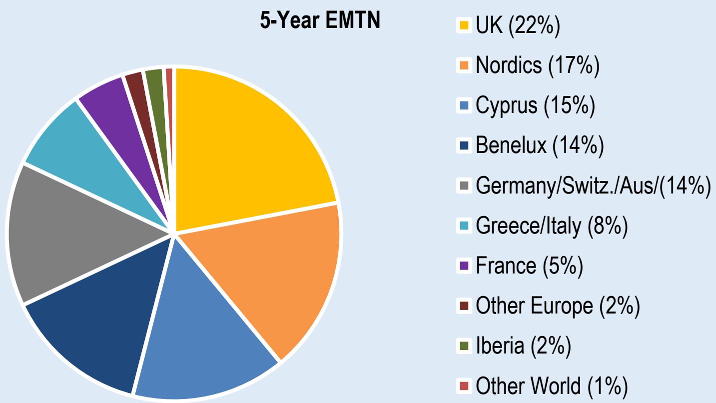
Box 1: Republic of Cyprus EUR 1000 mn, 0.00% 5-year benchmark bond due 9 February 2026

Within the framework of the strategic objectives set under the MTDS and taking into consideration the low interest rate environment on capital markets and the uncertainty still surrounding the evolution of Covid-19 pandemic, the Republic of Cyprus launched a new 5-year benchmark transaction. The rationale of the said tenor is based on the fact that the successful longer-term EMTN issuances in the previous year extended the bond yield curve at a very satisfactory level giving room to concentrate on the reduction of the weighted average cost of public debt. The mandate to take on the role of bank contractor was given by PDMO to Barclays, BNP Paribas, J.P. Morgan, Morgan Stanley and Société Générale in a statement issued on 1st February 2021. The mandate for the new 5-year benchmark bond was officially announced to market in the afternoon of Monday, on 1st February 2021. On the 2nd of February 2021, at 8.10 LDN, the initial pricing guideline was announced for the new 5-year benchmark at MS + 60 bp area and the issue size of the transaction was fixed at EUR 1000 mn with the remark that it “will not grow”.

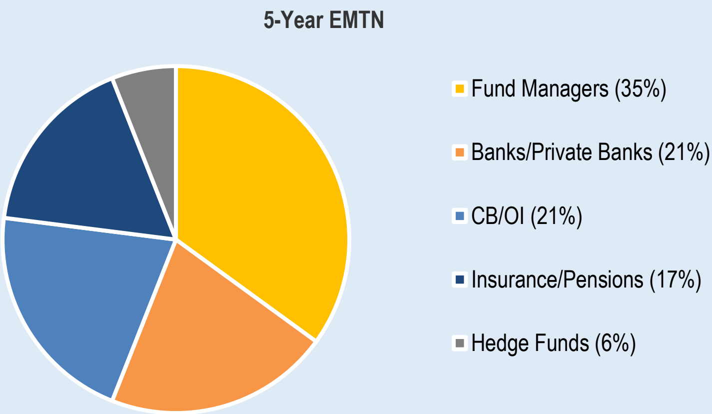
The offer book officially opened on 2nd February 2021 at 8:10 LDN with the transaction attracted sizeable investor interest (in excess of EUR 7.5 bn), allowing the issuer tighten the spread and set it at MS + 50-55 bps area at 9:46 LDN. The orderbook continued to grow excessing the EUR 8.5 bn attracting great interest from the investment community with quality of orders, allowing the issuer to set further reduction of the yield guide and its setting at MS + 48 bps. The orderbook closed at 11:00 LDN with the final amount of offers in excess of EUR 7.45 bn and as its peak of EUR 8.5 bn, it represents the largest orderbook has been achieved by the Republic of Cyprus since 2014 that Cyprus returned to international capital markets. This benchmark issue priced with the lowest coupon (0%) and lowest reoffer yield (0.053%) that has achieved by the Republic of Cyprus since its return to the capital markets in 2014.

From a geographical point of view, a wide distribution was achieved, attracting a significant and diversified number of investors. Once again, the large maze of offers came from investors from the United Kingdom and the group of Nordic countries. The increased participation from Benelux and Germany/Austria/Switzerland is also noted in the highlights. The Cypriot participation in the issue was limited to 15%. The remaining investor involvement came from various European countries, such as Greece, Italy, France, Spain and Portugal. In terms of the type of investors, the largest group of investors were Fund Managers, followed by Banks / Private banks and Central Banks/Official Institutions (More details on investor distribution by type and region are presented below)

Distribution by region



Distribution by type



Summary of terms and conditions

Issuer	Republic of Cyprus (through the PDMO)
Format	Reg S, Registered only, CACs
Settlement Date	9 February 2021
Maturity Date	9 February 2026
Size	1,000,000,000 EUR
Coupon Rate	0.0%, Annual/ACT/ACT
Re offer yield	0.053%
Spread	+48 bps
Denominations	EUR 1K + 1K
Listing / Law	London Stock Exchange / English Law
ISIN	XS2297209293
Lead Managers	Barclays, BNP Paribas, J.P.Morgan, Morgan Stanley, Société Générale

Box 2: 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 its Member States totaling up to €100 bn, of which an amount of €94.3 bn has already been approved and €89.6 bn has already been disbursed to 19 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 30th of June 2021.

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 €603 mn or about 2.9% of GDP_{2020}.

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

Box 3: Participation of the Republic of Cyprus, to the Recovery and Resilience Facility of the EU

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

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

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

The economic impact assessment of the RRP carried out by the Economic Research of the University of Cyprus, is expected to have significant macroeconomic impact in the short, medium and long term on economic growth, employment and productivity.

As per the payment profile, Cyprus has already received an amount of €157 mn on 9th of September 2021, being a 13% prepayment of the total grants and loan amounts. The remaining amounts are expected to be disbursed in the period 2022-2026 subject to the fulfilment of the milestones and targets agreed within the framework of Cyprus RRP. More details are presented in Table 2c in the Appendix.

C. Liability management transactions and Debt redemptions in 2021

One of the main strategic objectives of the MTDS 2021-2023 was the minimisation of marketable debt borrowing cost. In 2021 and given the successful longer-term EMTN issuances in the previous years which extended the bond yield curve at a very satisfactory level, the main attention was given to the reduction of the weighted average cost of public debt. Through the bond issuance in 2021, the PDMO achieved to reduce further the weighted average cost of public debt at more sustainable levels, enhance the liquidity buffer and improve the investor base in terms of geography, type and size.

Given the continuation of the uncertainty surrounding the development of the Covid-19 pandemic, the main attention by the PDMO was given to the enhancement of the cash buffer in order to cope with any changes regarding the financing requirements and the cash flow projections. Despite the fact that the AFP was revised in April 2021 by increasing the maximum borrowing amount between EUR 300 mn and EUR 380 mn, the final borrowing was lower due to the reduction of the uncertainty and better than expected macroeconomic conditions. Therefore, a significant part of the increased financing needs was covered through the utilisation of the cash buffer.

The details of debt redemptions in the domestic/foreign market and loan amortisations by creditor in 2021 are shown in the Appendix.

Table 4 below illustrates all long-term debt redemptions and early prepayment transactions in 2021. The scheduled long-term redemptions of the year, excluding early repayments, amounted to EUR 907 mn and are mainly related to domestic bonds.

With regards to short term debt and taking into consideration the repayment of the 52-week TB of the order of EUR 1250 mn in April 2021, an amount which was rolled over throughout the year, reached EUR 300 mn as outstanding debt up to the year end of 2021.

Table 4: Long term debt redemptions and early debt repayments in nominal terms in 2021

		EUR mn	%
1	Domestic Bonds	689	73
2	Loans	91	10
3	Retail securities of which: early repayments (EUR 38.1 mn)	165	17
	Total	**945**	**100**

(Source: PDMO)
Note: An amount of EUR 1250 mn of a 52-week TB matured in 2021 is not included.

D. Review of the annual financing plan 2021

This section illustrates how the annual financing plan changed the debt structure of the year 2021. The change of the debt structure was mainly attributed to the significant reduction of the short-term debt of the order of EUR 1175 mn as well as to the new EMTN issuance of the order of EUR 1000 mn with a tenor of 5 years. In addition, a reduction of the domestic bonds was recorded of the order of EUR 689 mn of which an amount of EUR 580 mn concerned the repayment of a bond issued in 2018 to facilitate the sale of the ex-CCB.

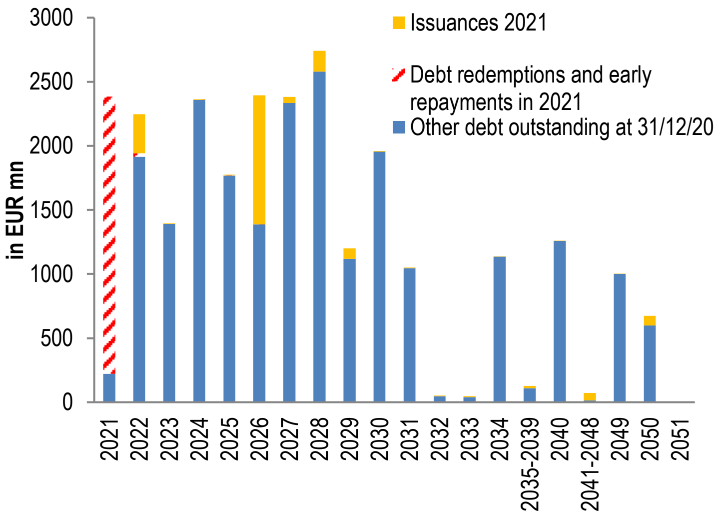
Table 5: Change in the public debt structure in 2021

		in EUR mn
1	Domestic Bonds	-689
2	EMTN	1000
3	Treasury Bills	-1175
4	Loans	363
5	Retail securities	-122
	Total	**-623**

(Source: PDMO)

Figure 7 below, shows how the public debt maturity profile changed due to funding and liability management transactions in 2021. A total amount of new issuances of around EUR 1.8 bn was added to the public debt maturity profile. An amount of EUR 1000 mn of the new debt issuances is related to a foreign bond fall in the year 2026. The second largest amount of debt of the order of EUR 162 mn due in 2028 is mainly related to a loan granted under the SURE instrument. An amount of EUR 300 mn (which was rolled over throughout the year) concerns TBs. The remaining amount spreads between 2022-2051 and refers to retail bonds and loans granted by EIB either for ongoing or new project financing.

Figure 7: Change of public debt maturity profile through 2021 actions



(Source: PDMO)

In general, the maturity profile at the end of 2021 remained within comfortable/manageable levels and within the targets set in the MTDS. The year 2028 which is the peak of the public debt is on a continuous monitoring in order to avoid adding new debt on this year. However, taking into consideration the strong recovery of the economy and the positive impact on the public finances, the Government will be in a position to refinance the said debt.

V. The size and Composition of Government Debt

A. Introduction

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

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

B. Statistical description

B.1 Size and evolution of General Government Debt

The General Government Debt (GGD) as a percent of GDP was on an upward path until the end of 2014 and thereafter, it marked an average reduction of around 5 percent for the next three consecutive years. In 2018 the outstanding amount of government debt increased by 5.8 percentage points (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.

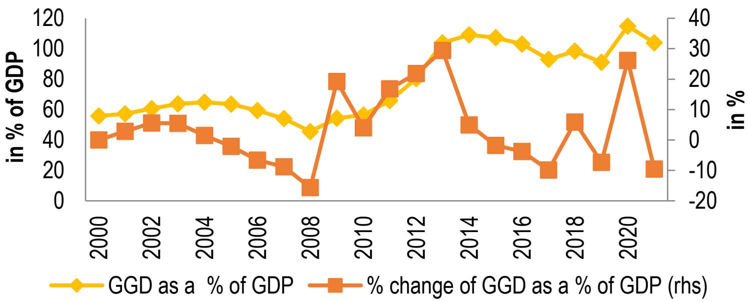
The debt to GDP ratio marked a significant decrease of 7 pp from 98 percent in 2018 to 91 percent in 2019 whilst in 2020, the debt to GDP ratio marked a significant increase of 24 pp, due to the coronavirus pandemic which affected many countries all over the world including Cyprus, reaching EUR 24.8 bn or about 114.9% of GDP, as presented in Figure 8 below. In 2021, the debt to GDP ratio recorded a significant reduction of 11 pp, to 104 percent, which was attributed to the following components:

(a) The decrease of cash buffer caused a decrease in public debt as a percent of GDP by around 3 pp;

(b) The increase in GDP caused a decrease in public debt as a percent of GDP by 8 pp.

Figure 8 also shows that the percentage change of debt as a ratio of GDP was on a downward pattern since 2014, excluding years 2018 and 2020. The net debt to GDP ratio, in which the accumulation of cash reserves of the order of EUR 2762 mn is excluded, was estimated at 88 percent at the end of 2021.

Figure 8: Debt to GDP ratio evolution in 2000-2021

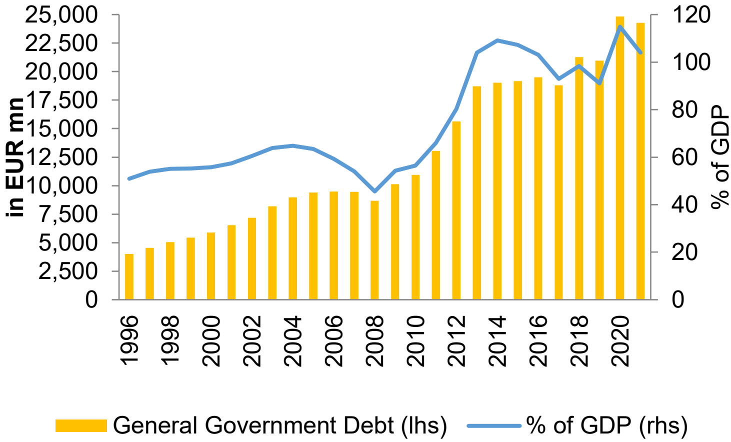


(Source: PDMO, Ministry of Finance and Eurostat)

The historical debt evolution over the years 1996 to 2021 is presented in Figure 9 below. During the period 1996-2004, the GGD followed an increasing path subsequently decreasing until 2008, when the Debt to GDP ratio reached a minimum point of 46 percent, due to fiscal consolidation, and the use of available sinking funds. Since then, fiscal slippage, low to negative growth rates, capital injections into the banking sector and measures under the Memorandum of Understanding and other emergency loans, contributed to a considerable increase to the ratio. The state capital support to the domestic financial sector reached EUR 3.8 bn or about 20 percent of the gross public debt at end 2015.

Despite the sharp increase in the public debt, the strong fiscal outcome and the balanced budget for the period 2014-2016 combined with the strong real GDP growth of 3.2 percent in 2015 and 6.4 percent in 2016, allowed debt to stabilise earlier and at lower levels than originally anticipated. The years 2017 and 2018 were also years of strong fiscal outcome with positive real GDP growth of 5.2 percent in each year whilst in 2019 the growth rate decreased to 3.1 percent, albeit above Eurozone levels. In 2020, the public debt recorded an increase of 24pp, reaching 115 percent of GDP whereas the real GDP exhibited a reduction of 5.1 percent due to the impact of the pandemic on economic activity. The historical evolution of gross general government debt in values and as a percent of GDP for the period 1995-2021 is presented in table 4 in Appendix.

Figure 9: Trend in the consolidated general government debt in 1996-2021

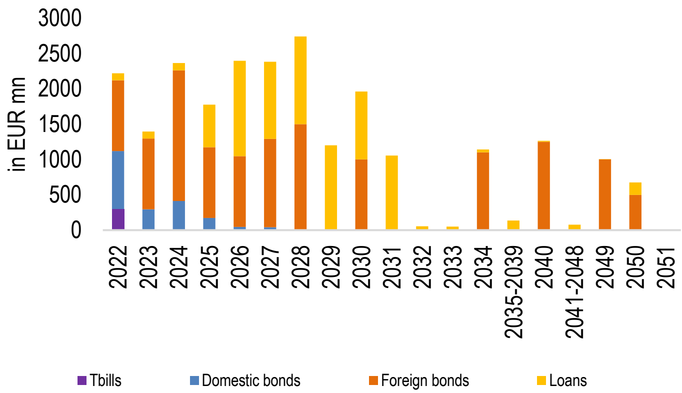


(Source: PDMO and Ministry of Finance)

B.2: Composition of the General Government Debt

This section presents the composition of the GGD as at the end of 2021. The maturity structure of the GGD gives a clear picture of the distribution profile among different outstanding liabilities. Figure 10, illustrates the debt maturity profile, in other words the size of the debt sums maturing in each individual year given the outstanding GGD, excluding the outstanding amount of loans under the European Financial Stability Facility (EFSF) of the order of EUR 225 mn as at the end of 2021. 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. During the period 2022-2026, an amount of EUR 5850 mn or about 59 percent of the total debt due in the said period concerns the repayments of the EMTNs and an amount of EUR 2258 mn or about 23 percent refers to the repayments of loans whilst the remaining amount concerns domestic bonds and retail bonds. The year 2028 shows the highest concentration of maturities of EUR 2743 mn of which an amount of EUR 1500 mn or about 55 percent is related to the repayment of an EMTN and EUR 1243 mn or about 45 percent to loans, mainly an instalment of the ESM loan.

Figure 10: General government debt redemption profile as at the end of 2021



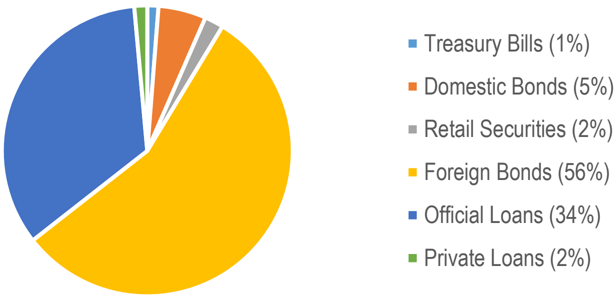
(Source: PDMO)

The share of the government debt by financing instrument, as at the end of December 2021, is illustrated in Figure 11 below. The two largest categories of the outstanding debt concerned foreign bonds and official loans. About 56 percent of the outstanding public debt in 2021 is related to EMTN issuances. About 34 percent of the loans' category comprised loans disbursed to the Republic of Cyprus of which the vast majority, about 84 percent of the official loans related to loans disbursed by the ESM during the years 2013-2016 and loans under SURE instrument disbursed in 2020-2021 whilst the remaining was comprised by other bilateral loans, mainly disbursed by EIB and CEB.

The remaining share of the outstanding public debt (around 9 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 2021 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 2021



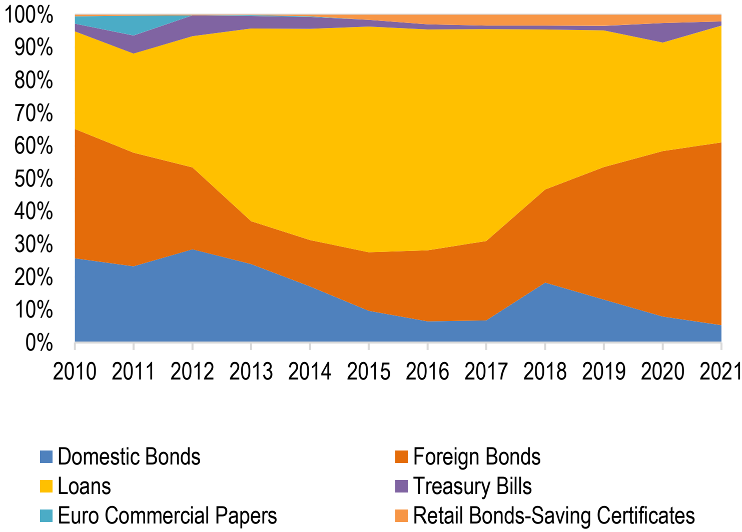
(Source: PDMO)

Figure 12 below, illustrates the historical breakdown of GGD by financing instrument during the years 2010-2021. 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 stabilized at 67 percent of public debt and then followed a downward trend reaching 33 percent by the end of 2020 due to the early prepayment of the bilateral loan granted by the Russian Federation in 2019 and by the IMF in 2020. In 2021, the outstanding amount of loan marked a minor increase by 2.5 pp reaching around 36 percent mainly due to the loans granted by the European Commission under the SURE Instrument in order to mitigate the unemployment risks as a result of the Covid-19 pandemic.

While in the past, domestic bonds were one of the main financing instruments with an average contribution of around 25 percent in years 2010-2013, since 2014 the contribution of the said category to the GGD has marked a significant reduction reaching 5 percent in 2021 compared to the highest point of 29 percent in 2012. It is noted that the significant increase in 2018 by 12 pp compared to the previous year was attributed to the domestic bond issuances of the order of EUR 3.19 bn to facilitate the sale of the ex-CCB. The said share is expected to reduce further in the following years because of 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, another increase of 12 pp has been recorded reflecting the intention of Cyprus to maintain its presence in international capital markets and build up a pertinent sovereign yield curve. By the end of 2020, the share of foreign bonds has exhibited a significant increase of about 10 pp reaching 50 percent in order to cope with the uncertainty surrounding the development of the Covid-19 pandemic whilst in 2021 the said share reached 56 percent of the outstanding public debt.

Figure 12: Historical breakdown of GGD by financing instrument in 2010-2021

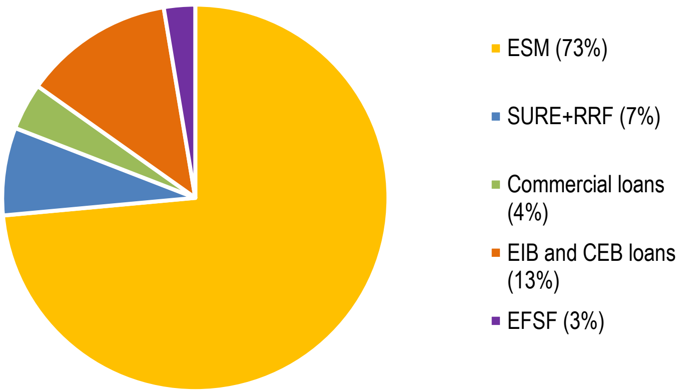


(Source: PDMO)

The distribution of outstanding loans by source as at the end of 2021 is presented in Figure 13 below. As mentioned above, the majority of the stock of outstanding loans as at the end of 2021 concerned the programme loans provided by ESM. Another important funding source was the loans disbursed by EIB and CEB for the implementation of new and ongoing infrastructure projects as well as by EC under SURE Instrument. These loans constitute 20 percent of the total outstanding loans as at the end of 2021 of which 13 percent are related to EIB and CEB loans. In 2021, the loans were provided to finance different projects such as to encourage the entrepreneurship and improvement of the national roads. The total value of Cyprus' loans from domestic sources reached at 4 percent towards the end of the year 2021.

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 statistics[5]. The government debt by instrument and lender as at the end of 2021 is presented in Table 7 in Appendix.

Figure 13: Distribution of loans by source as at the end of 2021

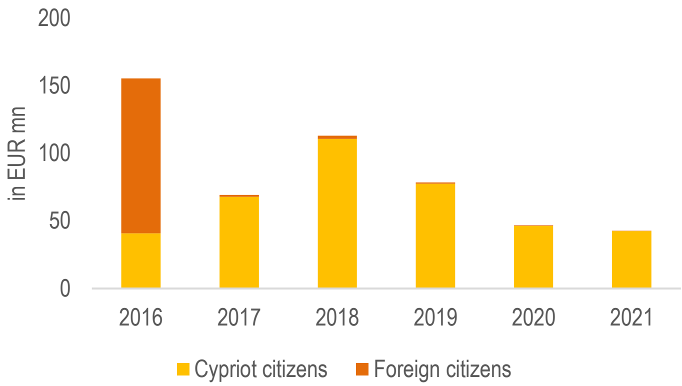


(Source: PDMO)

Figure 14 below, shows the outstanding amount of retail bond sales by citizenship during the years 2016-2021. The majority of the value of retail bonds during this period was held by Cypriot investors. Considering data as at the end of 2021, about 76 percent of the total outstanding amount of retail bonds were held by Cypriot citizens and about 24 percent by foreign citizens.

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

Figure 14: Distribution of retail bond sales by citizenship in 2015-2021



(Source: PDMO)

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

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

The highest percentage of the consolidated GGD, in gross terms, is made up of the Central Government debt. As at the end of 2021, the share of outstanding Central Government debt, excluding debt to SSF,

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

accounted for around 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 74 mn at the end of 2021. The majority of these loans is related to the borrowing of local authorities and concern infrastructure projects. Typically, the creditors are mainly local credit and ex-cooperative institutions[7]. 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 transfered 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 2021, amounted to EUR 9167 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 2021, the balance of the SSF in the form of deposits stood at EUR 9167 mn exhibiting an increase of around 3.6% in relation to the previous year balance of EUR 8852 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. After the repayment of a domestic bond due in June 2021 in which the SSF had an investment of the order of EUR 10 mn, the total outstanding amount of investments in government paper reduced to zero. It is noted that the SSF also maintains deposits with local credit institutions amounting to a total of EUR 105 mn as at the end of 2021.

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 2021 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 respectively, with a 5-year grace period. The total outstanding balance of the said loans at year end 2021 was EUR 6 mn.

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

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 2021-2023. 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.

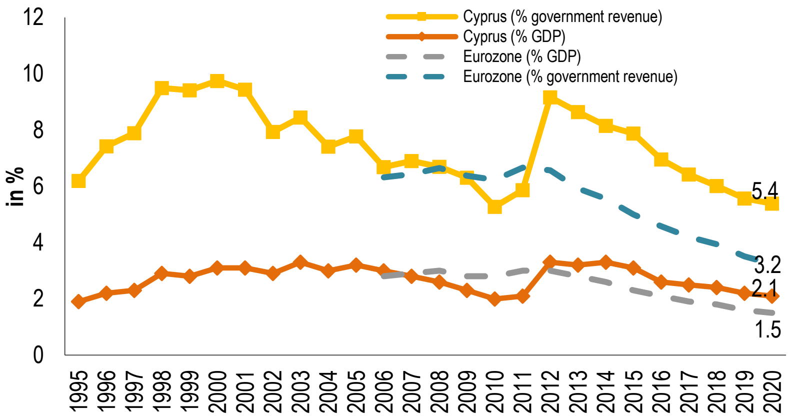
Historically, during the years 1995-2006 the average share of government revenue spent on the interest payments to service the public debt was 9 percent, with the highest share reaching 10 percent in 2000. The decrease of the public debt as a percent of GDP by around 8 pp in 2008 compared to 2007, contributed 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 ratio of government revenue for interest payments followed an upward path reaching 9 percent at the end of 2013. It then followed a downward direction reaching around 5 percent at the end of 2020, 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 exhibited an increase remaining above the corresponding values of the Eurozone average, as presented in Figure 15. It is important to highlight that despite the sharp increase of public debt during 2011-2013, the amount of interest payments was restrained by the considerable improvement in the borrowing cost due to official sources.

By the end of 2018, interest payments to GDP ratio were 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 attributed to the 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 recovery of the Cypriot economy as well as higher GDP. In addition, the first interest repayments for the increased debt of 2018 fell due during the next year 2019. In 2019, the interest payments to GDP ratio reduced to 2.2 percent whilst in 2020 the said figure reduced to 2.1 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 0.02 pp reaching 0.6 percent in 2020 compared to 2019. The historical debt servicing in 2012-2020 is presented in Table 9 in Appendix.

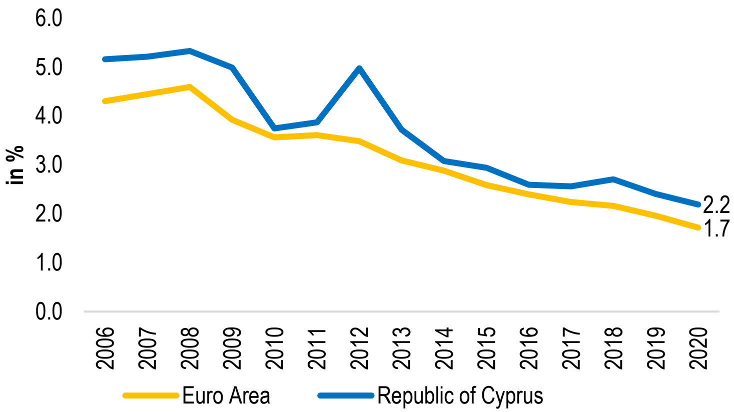
Figure 15: Distribution of interest payable on public debt during 1995-2020



Source: PDMO and Eurostat)
Note: The interest payable as a percent of GDP in 2021 was estimated at 1.8 percent.

Figure 16 illustrates the distribution of interest payable over debt for the Republic of Cyprus compared to Euro area countries in 2006-2020. 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, however a gap of about 0.5 percent remained by the end of 2020 compared to 1.5 percent at the end of 2012.

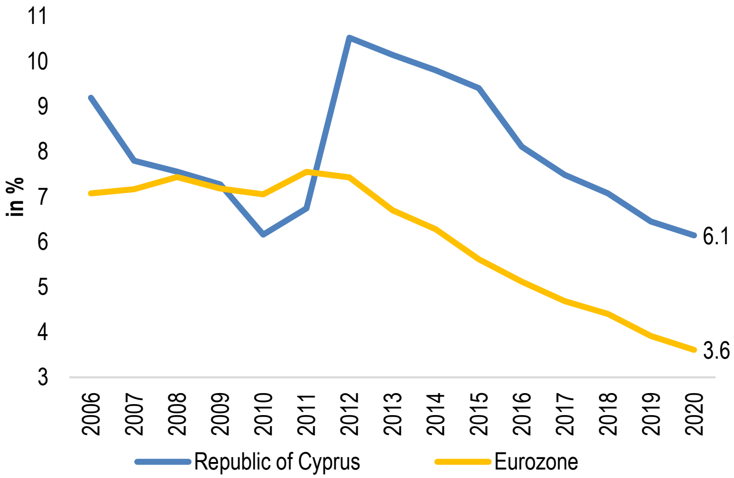
Figure 16: Distribution of Interest payable$_{(t)}$ to Debt $_{(t-1)}$ in 2006-2020



(Source: PDMO and Eurostat)
Note: The interest payable to Debt $_{(t-1)}$ was estimated at 1.7 percent in 2021 mainly to due to the increase 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 2006-2020. Since 2013, the gap is on a downward path however this gap remains excessive and during the period 2019-2020 was stabilised at 2.5 percent.

Figure 17: Distribution of interest payable to tax revenue in 2006-2020

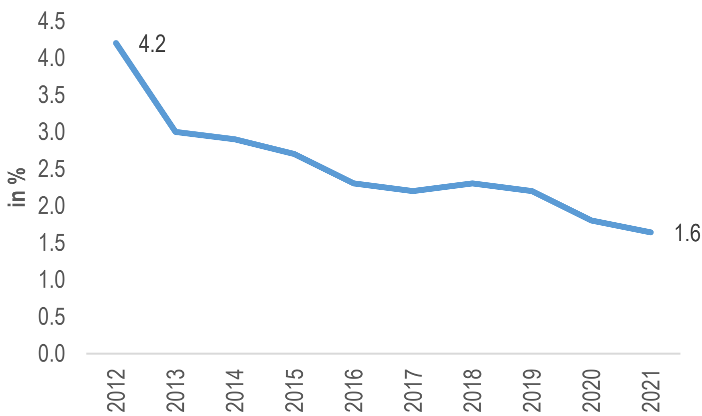


(Source: PDMO and Eurostat)

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 1.8 percent at year end of 2020 whilst in 2021 it reduced further to 1.6 percent. The downward path of the weighted average cost of debt curve was attributed to 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 2010-2021



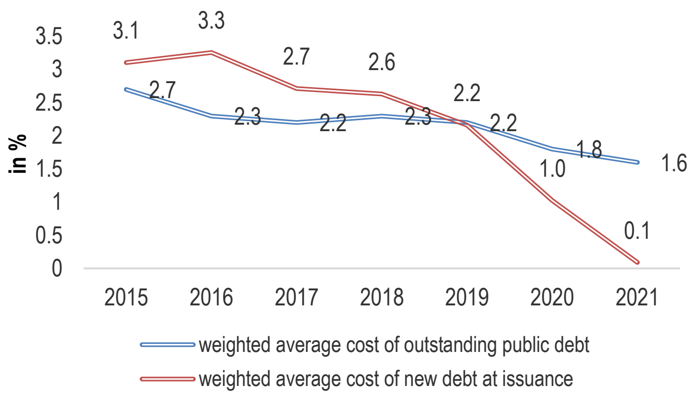
(Source: PDMO)

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 2015-2021.

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, intel alia, the liability management transactions executed throughout the reference period, the low interest rate environment in the European capital markets, the improved credit rating profile 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. In 2021, the weighted average cost of public debt exhibited further reduction of 0.2 pp benefited also from the reduction of the weighted average cost of new debt issuance which was retained at historically low levels reaching around 0.1 percent.

Figure 19: Weighted average cost of outstanding and issued debt (2015-2021)



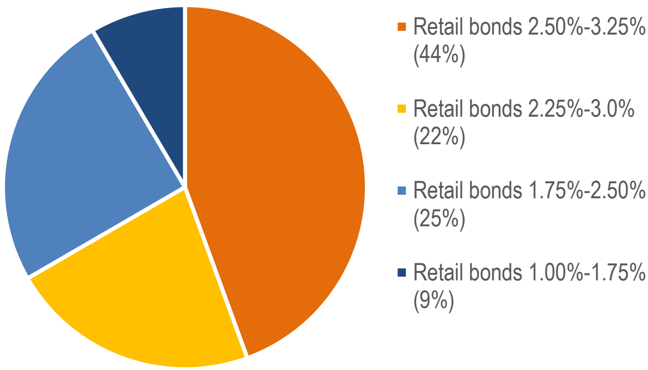
(Source: PDMO)

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 -0,43 percent at the end of 2021. The weighted average yield of short-term debt in 2021 retained at negative spectrum reaching -0.36 percent.

Regarding the interest rates of retail bonds, it is noted that in September 2021, 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 January 2022. The new step-up structure of interest rate starts from 0.75 percent in the first year and gradually increases to 1.50 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 2021. About 44 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 which was added in 2020 reached 9 percent at the end of December 2021.

Figure 20: Distribution of retail bonds by interest rate structure in 2021



(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 2021 EMTN issuance, an increased participation was recorded by Banks/Central Banks.

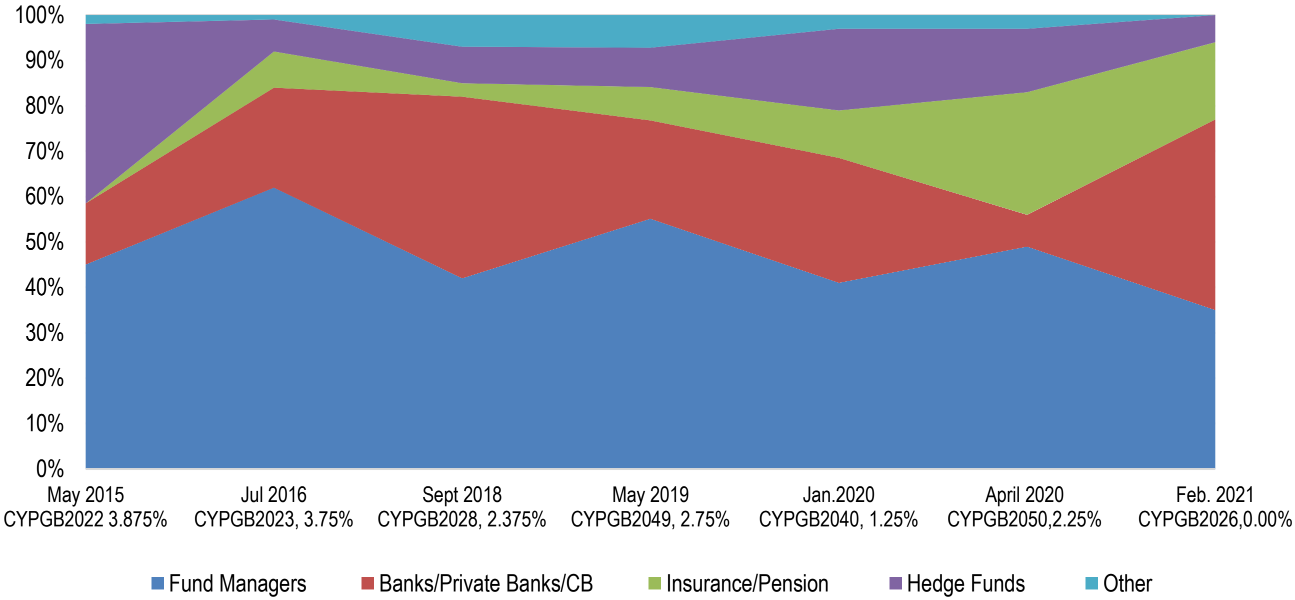
In all debt issuances presented in the Figure below, the largest category of investors was Fund Managers (at 47 percent on average) and then Banks/Central Banks (at 25 percent on average). The participation from Hedge Funds recorded a large decrease, approaching 14% on average. The participation from Insurance / Pension Funds was on average at 12 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 were 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 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. In 2021 EMTN issuance an increased participation was recorded from countries across Europe including increased participation from Cyprus whilst the participation from UK, German regions remained strong.

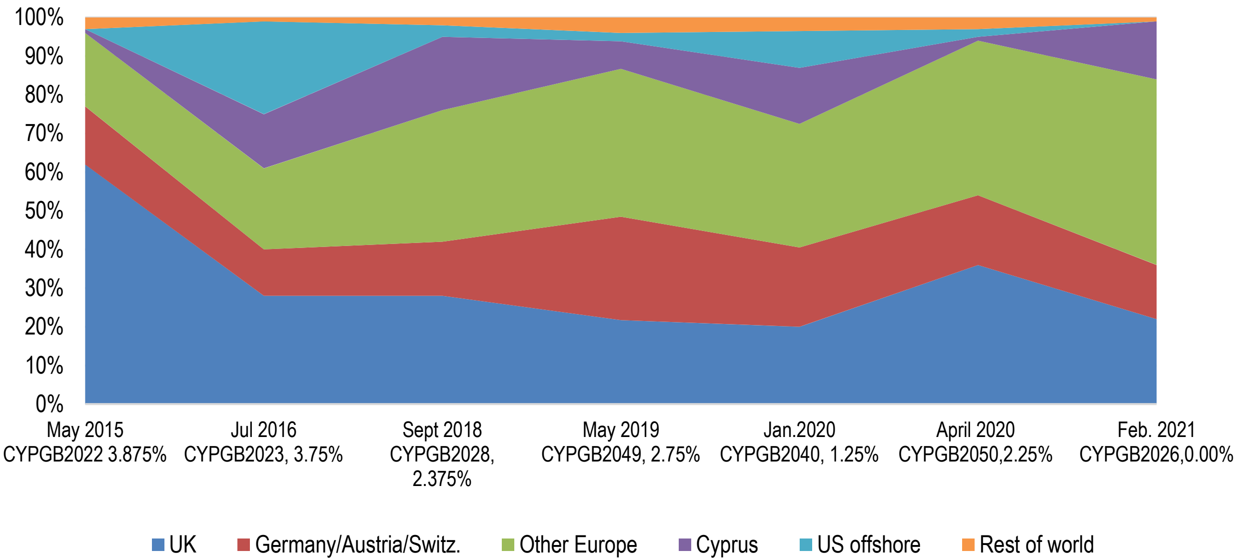
Taking into consideration all the selected bond issuances in the period 2015-2021, the average participation of investors from UK and German regions was closed to 48 percent (at issuance). The remaining participation was from countries across Europe at 33 percent, about 10 percent from Cyprus and about 6 percent and 3 percent from US Offshore and rest of World.

Figure 21: Evolution of investor distribution for selected EMTNs by type during 2015-2021



(Source: PDMO)

Figure 22: Evolution of investor distribution for selected EMTNs by geography during 2015-2021



(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 2021-2023 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 2021 on the debt portfolio risks were similar to the corresponding outcomes of the year 2020. The weighted average maturity of marketable debt was retained at very satisfactory level and closed to euro area average. The weighted average cost of public debt continued its downward path in 2021, a path that was supported, among others factors, by the low interest rate environment in the European capital markets. The share of debt due within one year as was stabilized around 9 percent whilst the share of debt due within five years recorded a minor increase of about 2 pp in 2021 compared to the year before. With regards to the foreign exchange risk, since February 2020 and after the repayment of the IMF loan, the said risk reduced to zero. On the floating rate debt and taking into consideration that the majority of the said debt concerns ESM loans with the first repayment to be executed in 2025, minor changes are expected to be recorded. However, the risk from the floating rate debt is limited at this moment given that ESM loans are indexed at low interest rates. With regards to the refinancing risk, the debt maturity profile has improved significantly during the last years and the liquidity risk as well as the credit risk have been reduced substantially.

Following active debt management and liability management transactions executed in the previous year, the debt maturity profile has smoothened out at very satisfactory level.

It is important to highlight that risk management of public debt does not, in the ordinary application, cover the debt sustainability assessment since the latter is related mostly to fiscal and macroeconomic indicators, conventionally the GDP and the fiscal balance. Thus, the debt sustainability analysis focuses on macroeconomic factors and prospects 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.

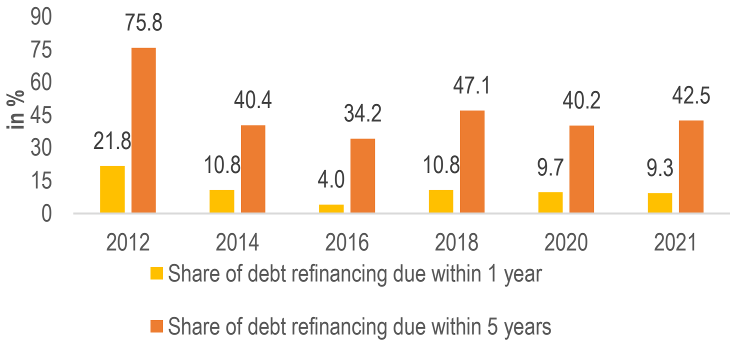
As presented in Figure 23 below, the share of debt due within one year followed a decreasing path since 2012. The large reduction of share of debt due within one year from 22 percent in 2012 to 10 percent in 2013 was attributed to the long-term official funding granted by ESM and IMF. In the following 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 and stabilised at this level in 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 it 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 and 2021 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 to further improve the debt maturity profile.

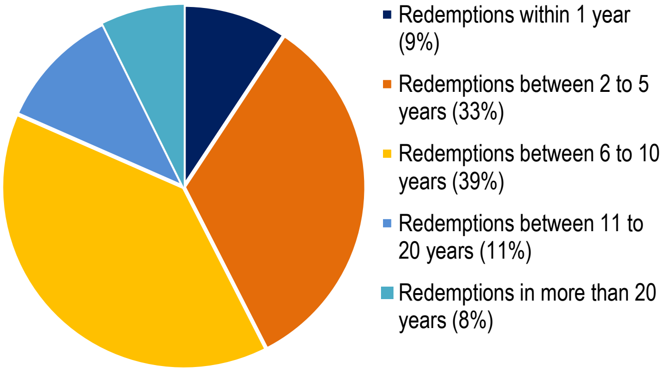
Figure 23: Share of debt refinancing due within 1 year and 5 years in 2012-2021



(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 2021. The majority of the debt redemptions of the order of EUR 9.3 bn fall due in the segment between 6 to 10 years. The said amount is mainly attributed to the loans provided by ESM (about 53 percent) and EMTNs due within the above period (about 40 percent). The second largest category of redemptions of the order of EUR 7.9 bn fall in the segment between 2 to 5 years. About 61 percent of the debt due in the said segment concerns EMTNs redemptions and about 17 percent is attributed to loans provided by ESM.

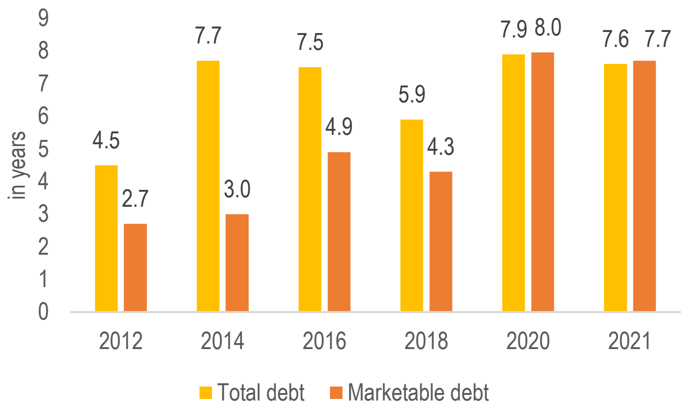
Figure 24: Total debt[1/] refinancing distribution as a percent of GGD at the end of 2021



(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 2021 stood at 7.6 years for the total debt and 7.7 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 is recording significant improvement and is maintaining at very satisfactory levels compared to the EU levels, thereby reducing the refinancing risk.

Figure 25: Weighted average maturity of debt (in years) in 2012-2021 as at the end of 2021



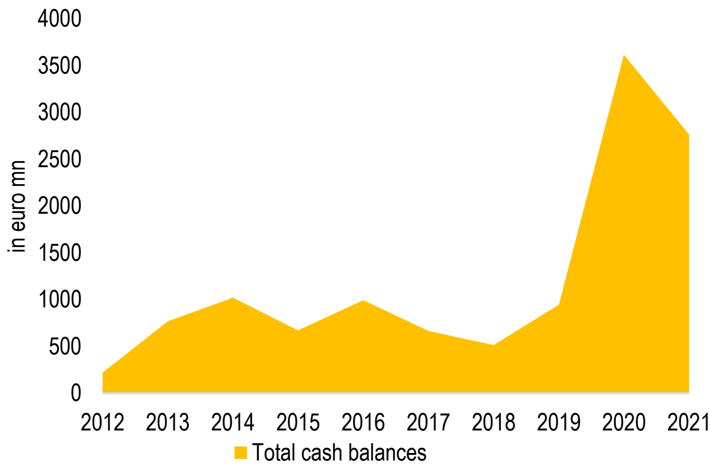
(Source: PDMO)

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. In 2021, the better-than-expected fiscal performance and the accumulation of cash reserves in the previous year maintained the strong cash position of the Government with the cash buffer reaching EUR 2762 mn at the end of this year.

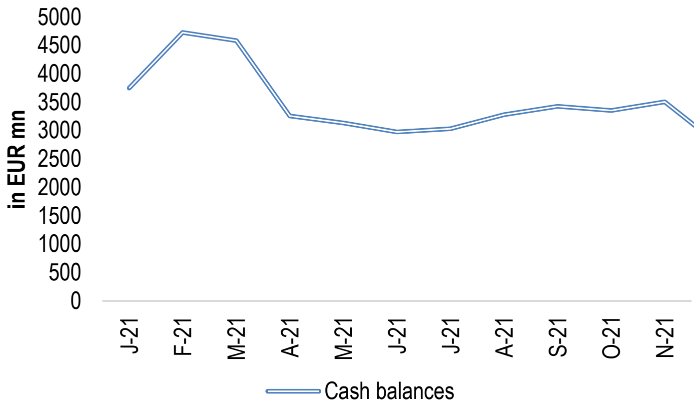
As presented in Figure 27 below, the total liquid funds increased by around EUR 1.0 bn in February 2021 compared to the cash buffer at the end of January 2021 which was mainly attributed to the EMTN issuance in February 2021. In April 2021, the cash buffer reduced significantly due to the repayment of the 52-week. Thereafter, the cash balance recorded minor fluctuations up to the end of July and then it was stabilised on average at EUR 3.4 bn during the period August - November 2021. At the end of 2021 the cash buffer exhibited a decrease and reached EUR 2.7 bn mainly due to the repayment of a domestic bond of the order of EUR 580 mn issued to ex-CCB. It is worth mentioning that this level of cash covers the financing needs of the year 2022 and the majority of the financing needs of the year 2023, without taking into consideration the fiscal impact of Russian-Ukraine crisis on the Cypriot economy and financial sector. The financing needs cover ratio of 2021 is illustrated in Figure 33 under the Chapter "Cash management".

Figure 26: Cash liquidity levels in 2012-2021



(Source: CBC)

Figure 27: Cash liquidity levels on a monthly basis in 2021



(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 since 2013. Following the Memorandum of Understanding in March 2013 on Economic Adjustment Program, the interest rate distribution has changed significantly mainly due to the borrowing by the ESM and IMF[9] at floating interest rates. In fact, the loans from the ESM and IMF were used to refinance the Cyprus debt which had fixed interest rate thereby reducing the share of the fixed rate debt. Another reason for the above change on the interest rate distribution was the borrowing by the EIB

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

and CEB at floating interest rates with low margins over the Euribor. It should be noted that the extension of the weighted average maturity of marketable debt restricted the interest rate risk.

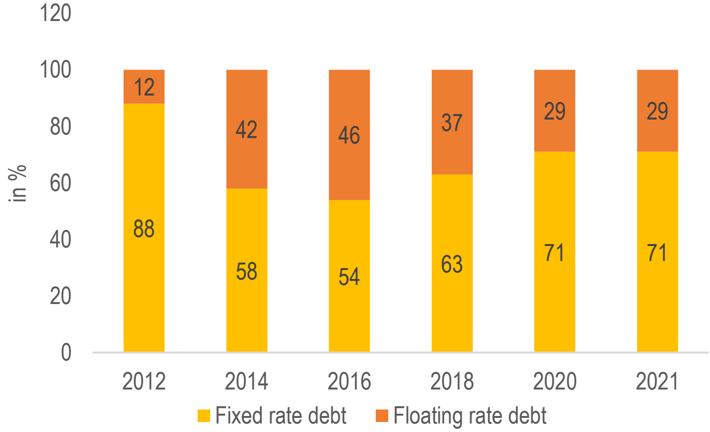
Therefore, the floating interest debt was increased by 24 pp reaching 36 percent at the end of 2013 compared to 12 percent at the end of 2012, prior to the loan agreement of Economic Adjustment Program.

As the loan disbursements by ESM and IMF were released, the proportion of debt at floating rate followed an upward path reaching 46 percent at the end of 2016 which was the last year of the financial assistance programme. In 2018, a large reduction of floating rate debt was marked because of the issuance of government bonds to CCB of the order of EUR 3.19 bn at fixed interest rates, therefore affecting the level of the debt of fixed rate. During the last two years, the floating rate debt was stabilized at 29 percent.

However, 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.

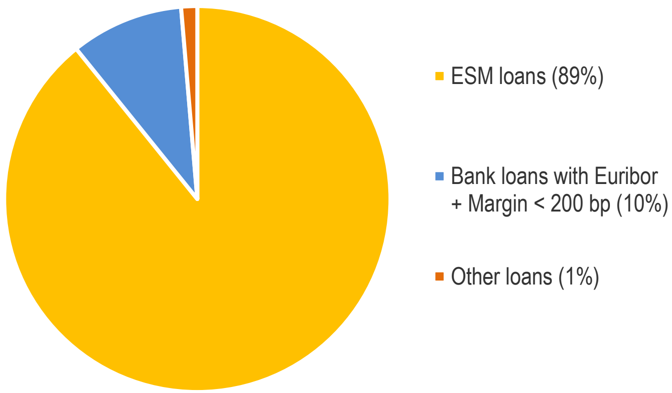
Given the continuation of historically low interest rates, it is expected that the said rates will rise in the near future.

Figure 28: Evolution of interest rate distribution of debt in 2012-2021



(Source: PDMO)

Figure 29: Composition of floating-rate debt as at the end of 2021



(Source: PDMO)

Foreign exchange risk

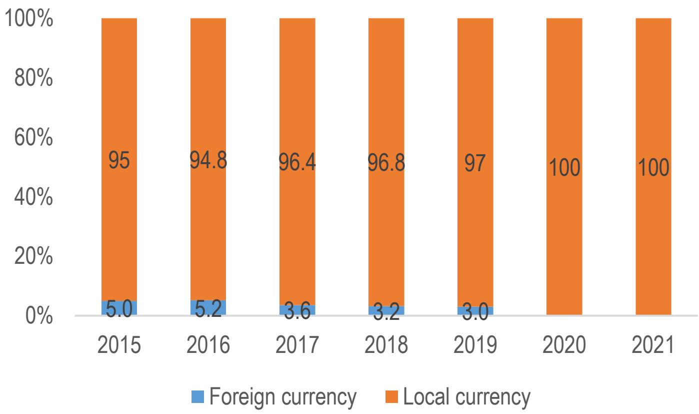
Although foreign currency debt has many benefits such as access to a large investor base and the geographical independence with possible interest rates benefits, foreign currency financing has substantial risks. Some of the risks are the increase of the country's external vulnerability to exchange rates 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 2015-2021. 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.

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

Figure 30: Currency composition of debt during the period 2015-2021



(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 2021, 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 action plan was extended up to the end of 2021 due to the coronavirus pandemic. 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 developments[11] regarding GG.

The Republic of Cyprus had outstanding GG[12] for loans as at the end of 2021 of EUR 1.64 bn or about 7.4 percent of GDP, which is lower than the relevant stock of EUR 1.76 bn at the end of 2020. 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 1.41 bn or about 6.0 percent of GDP as at the end of 2021. 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 2021 is presented in table 10 in Appendix.

Figure 31 shows that an amount of EUR 229 mn or about 13.9 percent of the total value of outstanding guarantees is also included in the public debt as at end of 2021.

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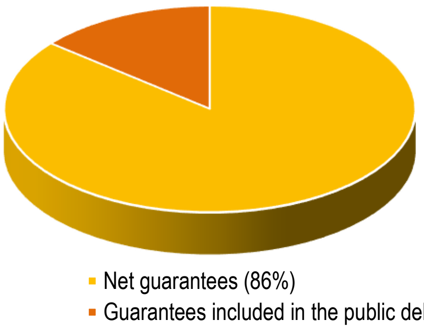
[11]Detailed analysis of explicit contingent liabilities is presented in the website of the Treasury of the Republic

[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 2021



(Source: Treasury)

Regarding the called guarantees, an amount of EUR 43 mn or about 3 percent of the outstanding amount of government guarantees at the end of 2021 was called. The majority of the called guarantees concerned guaranteed loans granted to natural persons. More information is presented in the website of the Treasury of the Republic of Cyprus.

VII.Cash Management

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

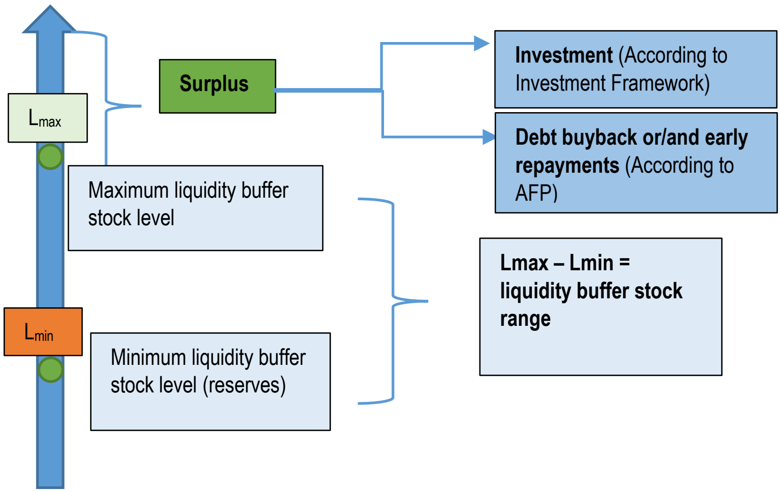
Pursuant to article 21 of the PDML, the PDMO has the responsibility to retain the liquidity buffer stock range by borrowing the necessary funds in time. The PDML authorizes the PDMO to operate an active cash management framework as was approved by the Minister of Finance in order to ensure a satisfactory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

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

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

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

Figure 32: Institutional structure of the government cash management



(Source: PDMO)

Given the strong cash position of the Government due to accumulation of cash through borrowing in the previous year as a result of the high uncertainty surrounding the development of the pandemic and taking into consideration the fact that the conditions about the pandemic begun to normalise, towards the end of the 3rd quarter of 2021 the Council of Ministers approved the proposal of the PDMO to amend the target of total liquid funds in the General Government Account to cover ahead the financing needs from 9-12 month period to 6-9 month period.

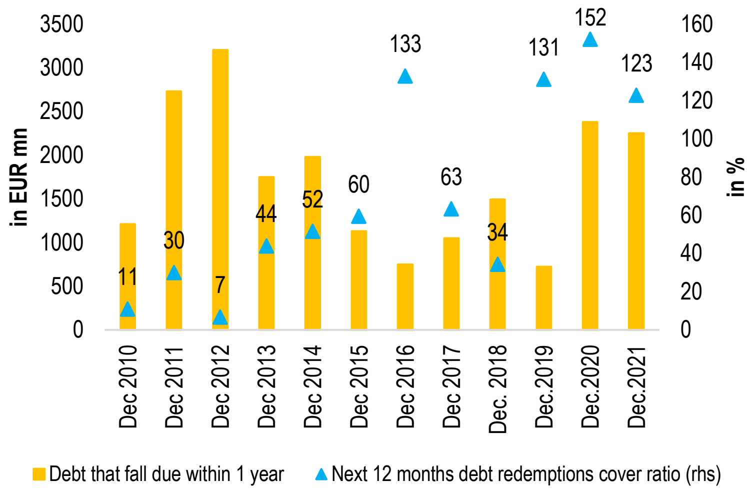
As a result of this amendment and taking into consideration the forward-looking upward interest rate expectations in the foreseeable future which will have a negative impact on servicing the public debt, the PDMO used a significant amount of cash buffer to cover the financing needs for the year 2021 leading the public debt as a percent of GDP to lower levels. Table 11 in Appendix, shows the historical distribution of total cash balances held by the CBC and cash deposited to MFIs.

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

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

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. The Covid-19 pandemic which has continued in 2021, had significant consequences on public finances. Although the uncertainty surrounding the development of the pandemic continued in 2021, towards the end of September the conditions about the pandemic begun to normalize leading to the amendment of the target set about total liquid funds to 6-9 months instead of 9-12 months. Therefore, through the utilization of a significant amount of cash buffer, by the end of the year 2021 the said buffer stood at 215% of the next 9-months funding needs or about 123% of the next 12-months funding needs, as presented in the Figure 33 below.

Figure 33: Distribution of cash balances and amount of debt that falls due within one year in 2010-2021



(Source: PDMO and CBC)

Notes:

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

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

VIII. Sovereign Credit Ratings of the Republic of Cyprus

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

Pursuant to article 26 of the PDML 2012-2016, the PDMO is the liaison with the international CRAs and it can enter into contracts on behalf of the Republic of Cyprus with the CRAs.

The Republic as a sovereign issuer, maintains a contractual (solicited) relationship with four CRAs, namely DBRS, Fitch, Moody's and Standard and Poor's.

In 2021, Cyprus's economic growth recorded, a positive sign of around 5.5% compared to a negative sign of 5.1% in 2020 due to the strong recovery of the economy in a number of sectors such as "Hotels and Restaurants", "Manufacturing", "Transport, Storage and Communication", "Wholesale and Retail Trade, Repair of Motor Vehicles", "Arts, Entertainment and Recreation" and "Other Service Activities".

Specifically, during the first quarter of 2021 the economic growth rate in real terms exhibited a reduction of -2.1% compared to the corresponding quarter of 2020, whilst in the second quarter of 2021 the economic growth rate in real terms marked a significant increase reaching 13.0% compared to the corresponding quarter of 2020. A positive growth rate of about 5.3% in real terms was also recorded in the third quarter of 2021 compared to the corresponding period of

2020. Although a significant recovery was recorded in tourist arrivals compared to the year 2020 contributing to the growth of the economy, the overall outcome is still far from the 2019 levels. The fourth quarter of 2021 recorded a positive growth rate 6.4% compared to a negative growth rate of 3.8% in the corresponding period the year before.

After a material reduction of Cypriot banks' non-performing exposures (NPEs) in 2018, the stock of NPEs has continued to decline in 2019-2021, albeit at a slower pace. It is noted that the NPEs are expected to drop further in the near future due to new NPE portfolio sales. The fiscal balance of the General Government recorded negative sign in 2021 reaching 2.1% due to fiscal measures taken in order to address the negative impact of the Covid-19 pandemic to the economy. Despite the deficit in the year under review, the general government gross debt to GDP ratio recorded a significant decrease of about 11 p.p. reaching 104% at the end of 2021. The said reduction is attributed to the substantial decrease of cash accumulated in the previous year (numerator effect) as well as of the increase of the GDP (denominator effect). 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 2021, three sovereign CRAs confirmed the credit rating of the Republic of Cyprus at the investment category, two of which changed the outlook from stable to positive. The fourth CRA upgraded Cyprus' government bond by 1 notch to “Ba1” from “Ba2” and changed the outlook from positive to stable. Despite the fact that the upward path of the Republic of Cyprus has stabilized in the first tier of the investment grade in 2021 mainly due to the uncertainty that still exists both on the rate and the form of the expected economic recovery, nonetheless, the strong fiscal performance due to a targeted prudent fiscal policy by

Cyprus Authorities as well as the fiscal support by the EU both the one already provided and the support to be provided in the future, either through loans or grants, pave the way for positive growth rates and for a new round of upgrades in the near future.

In January 2021, Moody's issued a credit opinion confirming Cyprus' long-term Issuer Default Rating at "Ba2" and maintaining the outlook stable. In July 2021, Moody's upgraded the Cyprus' long-term Issuer Default Rating by one notch to "Ba1" from "Ba2" changing the outlook from positive to stable.

Standard & Poor's affirmed its "BBB-" long-term foreign currency sovereign credit rating on Cyprus in March 2021 and in September 2021 affirmed the credit rating and changed the outlook from stable to positive indicating a likelihood of an upgrade within the next 12 months if specific conditions are met.

In March and September 2021, Fitch has affirmed Cyprus' long-term Issuer Default Rating (IDR) at 'BBB-' maintaining the outlook stable.

In May 2021 DBRS confirmed Cyprus' long-term Issuer Default Rating to 'BBB (low)' maintaining the outlook stable. In November 2021, the said CRA affirmed the Cyprus' long-term Issuer Default Rating to 'BBB (low)'and changed the outlook from stable to 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 2021 in terms of credit ratings. In 2021, the credit rating profile was maintained by all CRAs as it was in 2018 with the exception of one CRA which upgraded the rating of Cyprus by one notch whilst the outlook was revised from stable to positive by two CRAs.

Table 6: Solicited sovereign credit ratings developments in 2021[13]

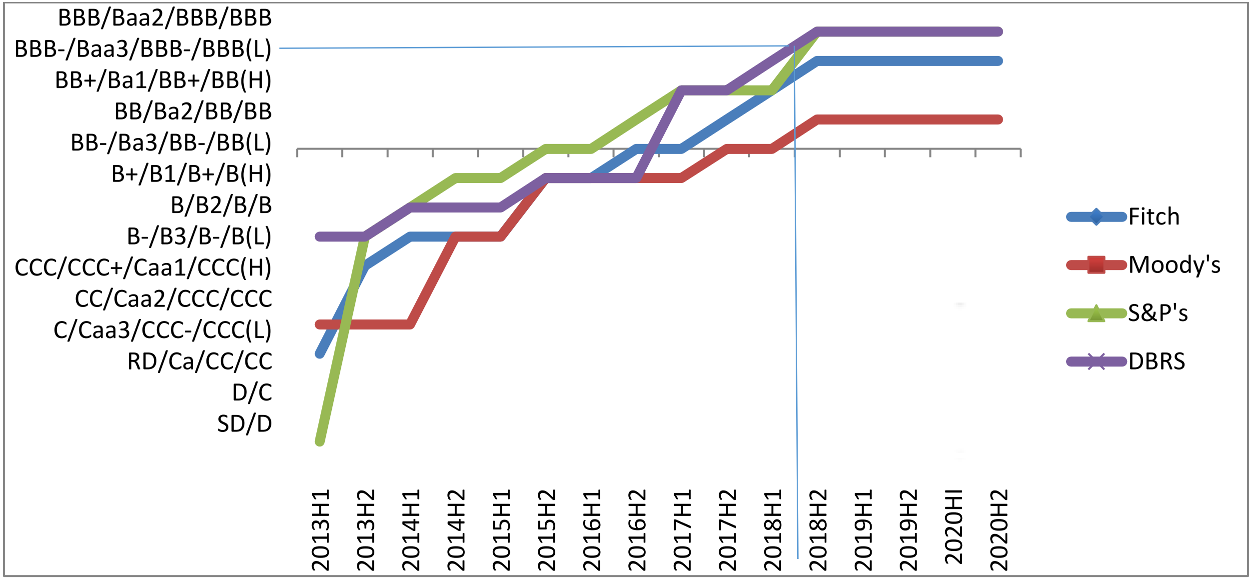
	Long-term debt					
	Latest rating			**Previous rating**		
CRAs	**Rating**	**Outlook**	**Notches to investment grade**	Rating	Outlook	Notches to investment grade
DBRS	**BBB (low) (Oct. 2021)**	**Positive**	**IG**	BBB (low) (May 2021)	Stable	IG
Fitch	**BBB- (Sept. 2021)**	**Stable**	**IG**	BBB- (March 2021)	Stable	IG
Moody's[1/]	**Ba1 (July. 2021)**	**Stable**	**-2**	Ba2 (Sept.2019)	Stable	-2
Standard & Poor's	**BBB- (Sept. 2021)**	**Positive**	**IG**	BBB- (March 2021)	Stable	IG

Source: PDMO
IG = Investment grade
1/ = Moody's issued credit opinions for the Republic of Cyprus in January 2021

The historical credit ratings of the long-term issuer rating of the Republic of Cyprus during the years 2013-2021 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. As mentioned above, in 2021, the outlook changed from stable to positive by two CRAs, namely S&P's and DBRS, was maintained stable by Fitch and changed from positive to stable by Moody's after an upgrade by one notch from "Ba2" to "Ba1".

[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 2013-2021



(Source: PDMO)

Note: Rating sequence on the graph is as following: Fitch/S&P/Moody's/DBRS. The green circles next to the names of the CRAs indicate the positive outlook. The horizontal and vertical blue line indicate the first upgrade by S&P's to investment category.

Regarding the rationale of the rating developments of the Cypriot economy in 2021, the rating of the Republic of Cyprus by Standard & Poor's [14], according to the CRA, was supported by Cyprus' income levels and the policymakers' efforts to consolidate public finances and restore the banking sector's health. The change of outlook from stable to positive, based on the CRA, was attributed to the positive contribution of pandemic measures to the strong economic recovery and better external performance over the next 24 months of EU Resilience and Recovery Facility on the improvement of economic prospects and the expectations that the government debt to GDP will return to a steep downward path. 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 and the high proportion of non-performing loans in the banking sector. It also considers that the strong cash position, solid growth prospects, historically prudent fiscal policies as well as the prudent political actions for the reduction of economic vulnerabilities and the improvement of the financial sector's health, will mitigate the Covid-19 impacts on the sovereign's creditworthiness and allow the economy to continue deleveraging through 2024.

In the case of Fitch's rating[15], the long-term sovereign credit rating of the Republic of Cyprus in 2021, based on the CRA, reflects Cyprus's institutional strength, a record of robust economic growth and sound fiscal policy. Coronavirus effects were contained in the second half of 2021, leading to a relatively strong economic recovery in 2021 and underlying the positive growth in the upcoming year of 2022. Fitch also highlighted the significant reduction of non-performing exposures and the positive growth prospects which will be supported by the Next Generation investments over the medium term. The CRA also made references to the weaknesses of the banking sector, the high

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[14] Standard & Poor's Rating Action Report on 5th of March and on 3rd of September 2021.
[15] Fitch Rating Action Commentary on 26th of March and on 24th of September 2021.

public and private sector debt, the current account deficit as well as the exposure of the Government to contingent liabilities.

The key drivers for the upgrade of long-term sovereign credit rating of Cyprus in 2021 from “Ba2” to “Ba1” by Moody’s[16] were: (a) the reduction in Cyprus’s exposure to event risks because of a decrease in banking sector risks as the primary driver and (b) the resilience of the economy to the pandemic shock and robust medium-term GDP growth prospects being supported by sizeable European funds. It is noted that based on Moody’s rating action in July 2021, the decision to change the outlook from positive to stable is attributed to the fact that credit strengths and challenges are balanced at the Ba1 rating level. 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 was affirmed by DBRS[17] in May 2021 at “BBB (low)” with stable outlook, underlining that the impact of the pandemic in the fiscal parameters was less severe than expected. In October 2021, the CRA confirmed the sovereign rating of Cyprus at “BBB (low)” and changed the outlook from stable to positive reflecting the fact that the risks to ratings are broadly balanced and the expectations that Cyprus’s public debt will most likely return to its pre-pandemic downward path underlined by a solid economic growth, fiscal repair and a reduction in the cash buffer. The implementation of the investments and reforms under NRRP could lead to improved longer-term prospects for the country. However, the rating agency underlined the depth of Cyprus challenges such as the continuation of the coronavirus disease, the legacy non-performing exposures in the banking sector as well as new problematic assets that could surface as public support

[16] Moody’s credit opinion on 22nd of January 2021 and a Rating Action Report on 23rd of July 2021.
[17] DBRS Morningstar Press Release on 14th of May 2021 and on 22nd of October 2021.

is withdrawn, high private and public sector debt, external imbalances as well as the small size of its service-driven economy.

The key drivers for the upgrade of Cyprus' government bond in the near future, based on CRAs latest rating reviews in 2021, could result from the ability of the Government to sustain the expectations of positive growth rates, maintain a sound fiscal policy, from further reduction in the debt-to-GDP ratio and the stock of bank non-performing exposures and from continued deleveraging of the private sector.

The historical credit ratings of the Republic of Cyprus during the period 1989-2021 are presented in Table 12 while the sovereign rating review calendar by CRAs for 2021 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 2021. The horizontal blue line illustrates the investment grade line while the vertical column under each CRA shows the ratings of the long-term debt.

It is worth-noting that during 2021 only a limited number of countries were upgraded by CRAs and only four Eurozone States were on a positive outlook. The fact that Cyprus is included in the said group of countries, indicates that economic prospects will be improved in the coming years.

Table 7: Government Bond rating in long-term local currency of Eurozone States[18] as at the end of 2021

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

(Source: Bloomberg)

[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

In September of 2015 a five-year action plan for the period from 2015 to 2019 was approved by the Council of Ministers. This action plan covers areas related to the internal organization and the IT infrastructure of the PDMO as well as the establishment of a market intelligence function. A number of actions were either completed throughout the aforementioned period or are in the process to be completed. Additionally, there are actions which are recurring and need to be monitored and updated on a continuous basis.

Due to the break out of the pandemic, some of the actions included in the Action Plan were rescheduled by decision of the Council of Ministers no.90.837 Π.Χ (restricted circulation) dated on 17th of February 2021 and the action plan was extended for a year until the end of 2021. The main actions implemented or updated during 2021 are the following:

i. Debt Management Committee: The aforementioned Committee convened during 2021, amidst the ongoing pandemic in accordance with the Decrees and the Health Protocols issued by the Health Ministry, in both under a broad and narrow structure. The main issues discussed involved the impact of the pandemic to the Cyprus economy, the cash management policy framework, fiscal and financial developments and prospects, debt sustainability analysis and the implementation of the debt management strategy. The meetings held under the broad structure focused on the exchange of information among the Directorates within the Ministry of Finance, in order to ensure the efficient and effective communication on debt related issues.

ii. Cash Management Framework: Having in place an effective and efficient Cash Management Framework, is of paramount importance since this ensures that, inter alia, the cost of carry is maintained to a minimum. The PDMO is in the process of improving its existing framework after having received related technical assistance from the IMF. The recommendations and suggestions by the IMF following the end of the mission, are evaluated so as to ensure that these are adopted and implemented within an acceptable time framework.

iii. Maintaining a suitable & control working environment: The PDMO aims to ensure that any transactions and any other operations taking place within the working environment adhere to strict procedures set, on a continuous basis. These procedures are improved and updated on a regular basis. During 2021, the internal procedures manual has been enriched and updated whilst the audit checklists have been further enhanced. Furthermore, during the second half of 2021, the Audit Office of the Republic of Cyprus proceeded with a compliance of the PDMO to examine compliance with the legislation in force and a performance audit to evaluate the efficiency of the management of the public debt. A report was concluded in January 2022 and the PDMO is currently in the process of evaluating related recommendations.

iv. Risk management – operational risk: The PDMO continues to update the database of operational risk incidents. Any incidents that have taken place in 2021 have been recorded and evaluated accordingly aiming towards minimizing any associated risks involved. This process is ongoing and it is reviewed and updated on a regular basis.

v. Contacts with the international investment bank market group: During 2021 the number of the Bank Group members increased from seven to eight. The creation of the group is providing a significant contribution to the ability of the Republic to maintain its access to the international capital markets even under difficult circumstances similar to those experienced in 2020-2021. Furthermore, beyond the primary market, the Bank Group has contributed to the better functioning of the secondary market by providing a steady stream of data to the PDMO regarding the activity of the banks in the secondary market. The electronic platform for dealer-to-dealer transactions, MTS Cyprus, was established in 2020 and is operating ever since. The PDMO in collaboration with the Bank Group intends to investigate ways to help increase the liquidity of the Eurobonds of the Republic in order to optimize the cost of funding in the long term.

vi. Investor' Relations Function: Despite the many problems created in this area by the pandemic in 2021, the PDMO continued its communication with investors in order to make sure they had the best possible information about developments in Cyprus. This information took the form of dissemination of material electronically and through teleconferences with investors throughout the year. The pinnacle of this effort was the success of the bond issuance that followed on the 13th of January 2022.

vii. IT Strategy: The new software system of the Commonwealth Secretariat 'Meridian' was formally adopted by the PDMO since its official launch in July 2019. The PDMO participated in the piloting of 'Meridian' prior to its general release, thus contributing in the designing and implementation of a new public debt management system which incorporates advanced and improved functionalities in order to better address emerging public debt management requirements. During 2021, a series of teleconferences took place with the participation of the PDMO and CS addressing issues that aimed towards the enhancement of Meridian.

Further to the above actions, it is important to underline that during 2021 officers of the PDMO participated in a number of virtual meetings (seminars, conferences, meetings) in the Economic and Financial Committee Sub-Committee on EU sovereign debt markets (ESDM) and other Working Groups regarding the management of public debt. Table 13 in Appendix illustrates the said participations in more detail.

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Appendix

List of Tables, Figures and Announcements

Table 1a: Auction schedule for Treasury Bills in 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	Wednesday	18/6/2021	25/6/2021	13 weeks	24/9/2021
7	Monday	26/7/2021	30/7/2021	13 weeks	29/10/2021
8	Monday	23/8/2021	27/8/2021	13 weeks	26/11/2021
9	Monday	20/9/2021	24/9/2021	13 weeks	23/12/2021
10	Wednesday	22/10/2021	29/10/2021	13 weeks	28/1/2022
11	Monday	22/11/2021	26/11/2021	13 weeks	25/2/2022
12	Monday	17/12/2021	23/12/2021	13 weeks	24/3/2022

(Source: PDMO)

Table 1b: Indicative auction schedule for Treasury Bills in January – June 2022

No	Auction day	Auction date	Value date	Tenor of TB	Maturity date
1	Monday	24/1/2022	28/1/2022	13 weeks	29/4/2022
2	Monday	21/2/2022	25/2/2022	13 weeks	27/5/2022
3	Friday	18/3/2022	24/3/2022	13 weeks	24/6/2022
4	Wednesday	20/4/2022	29/4/2022	13 weeks	29/7/2022
5	Monday	23/5/2022	27/5/2022	13 weeks	26/8/2022
6	Friday	20/6/2022	24/6/2022	13 weeks	23/9/2022

(Source: PDMO)

Table 2a: Revised Annual Financing Plan 2021 during the year

Funding Instrument	Initial AFP - 2021 (Oct. 2020) Upper Borrowing Limit (a)	First revised AFP - 2021 (April 2021) Upper Borrowing Limit (b)	Change (b) – (a)
Domestic 3-month Treasury Bills	€225 ~ €300 mn	€300 mn	€75 mn ~ €0 mn
Government Bonds (EMTN)	€1250 mn	€1450 mn	€200 mn
Domestic Retail Bonds	€40 ~ €50 mn	€40 mn	€0 mn ~ (€10 mn)
Loan from Supranational Institutions (EIB, EBRAD, CEDB)	€100 mn	€80 mn	(€20 mn)
Funding from European Commission – SURE instrument	€229 mn	€353 mn	€124 mn
Total approved maximum borrowing amount	€1844 mn ~ €1929 mn	€2223 mn	€294 mn ~ €379 mn

(Source: PDMO)

Table 2b: Liability management transactions: Early repayments of loans and securities details in 2021

Creditor	Interest rate	Maturity year	Principal payment amount	Remaining amount	Interest payments
	in %		in EUR mn	in EUR mn	in EUR mn

(Source: PDMO)

No execution of liability management transactions within the year 2021

Table 2c: Cyprus Recovery and Resilience Plan payment profile

Covers M&T from - to	Date Payment request	# M&Ts (Grants)	Grant amount in EUR mn	# M&Ts (Loans) in EUR mn	Loan amount in EUR mn	Total Amount in EUR mn	Date Actual payment
	13% Pre-financing	0	**130,772,986**	0	**26,041,600**	**156,814,586**	Sep-21
- Q4 2021[19]	Feb-22	14	**85,000,000**	0		**85,000,000**	Jun-22
Q1-Q2 2022	Aug-22	18	**85,000,000**	0		**85,000,000**	Dec-22
Q3-Q4 2022	Feb-23	30	**115,000,000**	1		**115,000,000**	Jun-23
Q1-Q2 2023	Aug-23	23	**100,000,000**	3	**50,000,000**	**150,000,000**	Dec-23
Q3-Q4 2023	Feb-24	31	**130,000,000**	1		**130,000,000**	Jun-24
Q1-Q2 2024	Aug-24	13	**65,000,000**	2	**50,000,000**	**115,000,000**	Dec-24
Q3-Q4 2024	Feb-25	34	**130,000,000**	1	**35,000,000**	**165,000,000**	Jun-25
Q1-Q2 2025	Aug-25	11	**60,000,000**	0		**60,000,000**	Dec-25
Q3-Q4 2025	Feb-26	45	**60,000,000**	3		**60,000,000**	Jun-26
Q1-Q3 2026	Aug-26	37	**45,173,061**	4	**39,278,400**	**84,451,461**	Dec-26
		256	**1,005,946,047**[20]	**15**	**200,320,000**	**1,206,266,047**	

[19] The milestone on audit & control of Q1 2022 is exceptionally included in the first payment request (which covers M&Ts until Q4 2021) because it is a prerequisite for the first payment

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

Table 3a: Matured securities (1/1/2021 to 31/12/2021)

I. Domestic market

A. Treasury Bills

Issue date	Maturity (in weeks)	Weighted average yield (in %)	Maturity date	ISIN	Nominal amount in EUR
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
24/4/2020	52	0,5	23/4/2021	CY0148960814	1250,0
29/1/2021	13	-0,21	29/4/2021	CY0149360816	75,0
26/2/2021	13	-0,24	26/5/2021	CY0149410819	75,0
26/3/2021	13	-0,26	25/6/2021	CY0149430817	100,0
29/4/2021	13	-0,32	30/7/2021	CY0149490811	100,0
28/5/2021	13	-0,34	27/8/2021	CY0149540813	100,0
25/6/2021	13	-0,37	24/9/2021	CY0149550812	100,0
30/7/2021	13	-0,38	29/10/2021	CY0149580819	100,0
27/8/2021	13	-0,40	26/11/2021	CY0149630812	100,0
24/9/2021	13	-0,41	23/12/2021	CY0149680817	100,0
					2325,0

B. Domestic Bonds

Issue date	Maturity (in years)	Coupon rate (in %)	Maturity date	ISIN code	Nominal amount in EUR mn
30/11/2015	5	2	29/1/2021	CY0146070814	31,39
9/6/2011	10	6	9/6/2021	CY0141990818	53,55
1/7/2013	8	5	1/7/2021	CY0143790810	1,08
25/8/2011	10	6,5	25/8/2021	CY0142120811	23,10
13/7/2018	3,4	3,25	15/12/2021	CY0148000819	580,00
					689,11

C. Repayments of Saving Certificates/Retail Bonds

	Nominal amount in EUR mn
Saving certificates	0,7
Retail bonds	164,7
	165,4

II. Foreign market

A. Euro Commercial Papers

	Nominal amount in EUR mn
	0

B. Euro Medium Term Notes

Issue date	Maturity (in years)	Coupon rate (in %)	Maturity date	ISIN CODE	Nominal amount in EUR mn
					0,0

Table 3b: Loan amortisations[1/] by creditor (1/1/2021 to 31/12/2021)

	Remaining amount in EUR mn	Principal payments in EUR mn
European Investment Bank	901,1	65,4
Council of Europe Development Bank	175,3	25,4
		90,8

Table 4: Historical evolution of gross general government debt[1/] in 1995-2021

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	109,1
2015	19164,0	107,2
2016	19509,2	103,1
2017	18814,1	92.9
2018	21256,3	98.4
2019	20958,9	91.1
2020	24828,7	115.0
2021	24271,0	103.9

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

Box 1: Historical evolution of the public debt of Cyprus

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

During 2009-2011 the resulting fiscal deterioration was the main contributor to the increase in the public debt. During 2012-2013, the fiscal deficit as well as the negative growth rate contributed to the debt deterioration. In addition, the state capital support of the Cyprus Popular Bank (ex Laiki Bank) in 2012 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 EUR 3.6 bn or about 20 percent of the gross public debt by end 2014, excluding interest payments. These funds were related to the state recapitalisation of Cyprus Popular Bank and the cooperative sector via debt securities. In late 2015, the Government provided an additional injection of EUR 175 mn or about 1 percent of GDP into the cooperative sector.

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

Table 5: Outstanding Central Government[1/] debt as at the end of 2021

A. TREASURY BILLS

Issue date	Maturity (in weeks)	Weighted average yield (in %)	Maturity date	ISIN code	Nominal value in EUR mn
29/10/2021	13	-0.42	28/01/2022	CY0149730810	100.0
26/11/2021	13	-0.43	25/02/2022	CY0149770816	100.0
23/12/2021	13	-0.43	24/03/2022	CY0149820819	100.0
					300,0

B. DOMESTIC BONDS

Issue date	Maturity (in years)	Yield (in %)	Maturity date	ISIN code	Nominal value in EUR mn
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
					1279,8

C. RETAIL/SPECIAL RETAIL BONDS-SAVING CERTIFICATES

	Coupon rate (in %)	Maturity year	Nominal value in EUR mn
Retail bonds	2.50-3.25	2022	155.5
Retail bonds	2.50-3.25	2023	68.5
Retail bonds	2.25-3.00	2024	112.0
Special retail bonds	0.75	2024	0.8
Retail bonds	1.75-2.50	2025	78.6
Special retail bonds	0.75	2025	1.0
Retail bonds	1.75-2.50	2026	46.8
Retail bonds	1.00-1.75	2027	42.8
Saving certificates	0.00	perpetual	2.7
			508,5

TOTAL DOMESTIC SECURITIES AS AT 31/12/2021 [EUR MN] **2088,3**

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
09/02/2021	5	0.000	09/02/2026	XS2297209293	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
					13450,0

TOTAL FOREIGN SECURITIES AS AT 31/12/2021 [EUR MN] **13450,0**

F. DOMESTIC LOANS

Issue year	Interest rate (in %) /2	Maturity year	Remaining maturity (in years)	Balance (in EUR mn)
2019	0.98	2026	5.6	250,0
				250,0

G. FOREIGN LOANS

Creditor [3]	Issue year [7]	Interest rate (in %)	Maturity year	Remaining maturity (in years)	Balance (in EUR mn)
EIB	2004	1	2022	0.9	0.0
EIB	2004	1	2022	0.9	0.1
CEB	2004	6mE+0,30	2023	2.0	2.9
CEB	2003	6mE+0,30	2023	2.0	6.7
EIB	2004	1	2025	3.5	0.5
EC	2020	0	2025	3.8	150.0
CEB	2010	3mE+0,60	2025	3.9	19.0
EIB	2004	1	2026	4.6	0.2
EIB	2006	3mE+0,704	2026	4.7	11.1
CEB	2014	6mE+0,15	2026	5.0	28.6
CEB	2007	6mE+0,09	2027	5.5	6.6
EIB	2003	4.43	2027	6.0	9.6
EIB	2018	6mE+0,181	2028	6.1	8.1
EC	2021	0	2028	6.4	157.0
CEB	2018	1.06	2028	6.9	14.5
CEB	2008	3.7	2028	7.0	20.5
EIB	2003	VSFR	2028	7.0	24.0
EIB	2004	VSFR	2028	7.0	10.0
EIB	2004	4.47	2029	7.5	11.5
EIB	2019	0.438	2029	7.5	32.0
EC	2021	0	2029	7.5	77.0
EIB	2017	6mE+0,217	2029	7.6	14.1
EIB	2019	0.269	2029	7.9	16.0
EIB	2019	6mE+0.413	2029	8.0	12.8
CEB	2009	3mE+0,48	2029	8.0	8.1
CEB	2009	3mE+0,48	2029	8.0	5.0
CEB	2014	1.46	2029	8.0	20.0
CEB	2010	3mE+0,55	2030	8.6	3.3
EIB	2003	VSFR	2030	9.0	30.8
EIB	2005	VSFR	2030	9.0	15.8
EIB	2004	VSFR	2030	9.0	10.3

ESM	2013	BLR+0,10	2031	9.8	6300.0
CEB	2017	1.08	2032	10.5	11.7
EIB	2005	VSFR	2032	11.0	10.0
EIB	2007	6mE+0,018	2032	11.0	40.5
EIB	2003	VSFR	2033	12.0	43.2
CEB	2013	6mE+0,81	2033	12.0	6.4
EIB	2021	1.08	2033	12.0	35.0
EIB	2011	12M+0,27	2034	13.0	28.0
CEB	2020	0.48	2035	13.0	6.0
CEB	2020	0.42	2035	13.3	10.0
CEB	2020	0.28	2035	13.5	6.0
EIB	2011	6M + 0,314	2035	14.0	23.3
EIB	2011	VSFR	2035	14.0	10.8
EIB	2011	6mE+0,314	2035	14.0	15.6
EIB	2011	12mE+0,305	2036	14.6	30.0
EIB	2017	1.514	2037	15.5	32.0
EIB	2017	1.634	2037	15.6	24.0
EIB	2012	12mE+1,517	2037	15.6	105.3
EIB	2017	1.563	2037	15.7	11.2
EIB	2012	12mE+1,137	2037	16.0	63.2
EIB	2010	6mE+0,28	2038	16.5	45.3
EIB	2011	12M+0,829	2038	17.0	14.5
EIB	2014	12mE+0,998	2039	17.9	14.2
EIB	2011	1.766	2040	19.0	38.0
EIB	2011	1.782	2040	19.0	21.0
EIB	2021	0.806	2041	19.9	40.0
EIB	2018	1.828	2043	21.5	30.0
EIB	2020	0.409	2045	23.1	19.2
EC	2021	0.75	2047	25.5	47.0
EC	2020	0.3	2050	28.9	100.0
EC	2021	0.3	2050	28.9	72.0
EC	2021	0	2051	29.7	26.0
EFSF (4)	2011				224.8
					8230,2

TOTAL LOANS AS AT 31/12/2021 [EUR MN]	**8480,2**
TOTAL DEBT OF CENTRAL GOVERNMENT DEBT AS AT 31/12/2021 [EUR MN]	**24018,5**

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 31/12/2021)
2/= E= Euribor rate; BLR=Basic Lending Rate; VSFR = other variable interest rate; m=months
3/= EIB=European Investment Bank, CEB= Council of Europe Development Bank, EFSF=European Financial Stability Facility, ESM=European Stability Mechanism
EC= European Commission
4/= Debt issued by the EFSF for Greece, Ireland and Portugal
5/= It refers to the first disbursement
6/= *Excluding liabilities due to the issuance of Euro coin*
7/=Currency of issue: Euro
8/=Loans under EC due in years 2025, 2028, 2029, 2047 and 2050 disbursed under SURE Instrument whilst the loan due in year 2051 disbursed under RRF
9/ There may be slight discrepancies between the totals shown and the sum of constituent items because of rounding

Table 6a: Outstanding Central Government debt as at the end of 2021

Year	Foreign law securities	Domestic law securities	ESM loans	Other loans	Total
2022	1000	1119	0	102	2221
2023	1000	295	0	102	1398
2024	1850	413	0	102	2365
2025	1000	172	350	253	1774
2026	1000	47	1000	349	2396
2027	1250	43	1000	90	2382
2028	1500	0	1000	243	2743
2029	0	0	1050	151	1201
2030	1000	0	900	60	1960
2031	0	0	1000	54	1054
2032	0	0	0	55	55
2033	0	0	0	49	49
2034	1100	0	0	42	1142
2035-2039	0	0	0	134	134
2040	1250	0	0	12	1262
2041-2048	0	0	0	77	77
2049	1000	0	0	1	1001
2050	500	0	0	173	673
2051	0	0	0	1	1
Total	**13450**	**2088**	**6300**	**2052**	**23890**

Notes
1/ = Preliminary data
2/ = Excluding debt for EFSF Loans
3/ = Excluding liabilities due to the issuance of Euro coins
4/ = A flat redemption profile is assumed for loans granted to local authorities and State-Owed 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 2021 (in EUR mn)

A. Domestic Debt			**2584,3**
I. Long-term debt		**2284,3**	
1. Domestic bonds	**1279,8**		
- Monetary Financial Institutions	1185,3		
- Private Sector	94,5		
2. Retail securities	**508,5**		
3. Loans	**339,9**		
- Other	250,0		
- Local Authorities	74,2		
- Semi-government organisations	15,7		
4. Liabilities to issuance of euro coins	**156,1**		
II. Short-term debt		**300,0**	
1. Treasury Bills	**300,0**		
- Monetary Financial Institutions	300,0		
- Private Sector	0,0		
B. Foreign debt			**21686,7**
I. Long-term debt		**21686,7**	
1. Long term loans	**8011,9**		
-ESM and IMF[2/]	6300,0		
-EIB and CEB	1076,4		
-SURE + RRF	629,0		
-Local Authorities	6,5		
2. Euro Medium Term Notes	**13450,0**		
3. EFSF loans	**224,8**		
II. Short-term debt		**0,0**	
Euro Commercial Papers	0,0		
C. Gross General Government Debt			**24271,0**

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 2021

	Amount in EUR mn
Social Insurance Fund	8132,3
Unemployment Benefits Account	56,2
Termination of Employment Fund	626,1
Central Holiday Fund	83,1
Insolvency Fund	269,4
Deposits with the Central Government	**9167,1**

Note

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

Table 9: Historical debt servicing in 2012-2020

	2012	2013	2014	2015	2016	2017	2018	2019	2020
				in EUR mn					
Interest payments (IP)	649	581	576	558	497	500	509	511	459
General Government Debt (GGD)	15618	18706	19014	19164	19509	18814	21256	20958	24852
Tax revenue (TR)	4627	4345	4407	4402	4528	4917	5292	5491	5000
Total government revenue (TGR)	7085	6722	7073	7093	7138	7787	8471	9129	8492
Interest payments to GDP	3.3	3.2	3.3	3.1	2.6	2.5	2.4	2.2	2.1
Interest payments to GGD	4.2	3.1	3.0	2.9	2.5	2.7	2.4	2.4	1.8
Interest payments to TR	14.0	13.4	13.1	12.7	11.0	10.2	9.6	9.3	9.2
Interest payments to TGR	9.2	8.6	8.1	7.9	7.0	6.4	6.0	5.6	5.4

Note:

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

Announcement 1

REPUBLIC OF CYPRUS

MINISTRY OF FINANCE

PUBLIC DEBT MANAGEMENT OFFICE

ANNOUNCEMENT

SIX-YEAR REGISTERED GOVERNMENT BONDS FOR NATURAL PERSONS

INTEREST RATE REDUCTION FOR THE SERIES TO BE ISSUED

AS FROM 2022 ONWARDS

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

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

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

It is clarified that the above reduction of interest rates will not affect the next issue of bonds (November 2021), for which the applications submission period will be from 4 to 20 October 2021. This specific series of bonds will be the last series of issues for 2021 and will have the same interest rates as the previous 2021 issue series.

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

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PUBLIC DEBT MANAGEMENT OFFICE

MINISTRY OF FINANCE

6 September 2021

Disclaimer:

This document does not constitute or form part of, and should not be construed as, an offer to sell or issue or the solicitation of an offer to buy or acquire securities of the Republic of Cyprus (Issuer) in any jurisdiction or an inducement to enter into investment activity in any jurisdiction. Neither this document nor any part thereof, nor the fact of its publication, shall form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever. Interested investors are encouraged to perform an independent review of the financial situation of the Issuer and the main characteristics/risks of the government bonds. For this purpose, advice may be sought from a registered/ licensed expert (eg. Investment Firms) as to whether this investment is suitable for them before taking any final decision as regards the government bonds.

Table 10: Stock of outstanding government guarantees[1/] as at the end of 2021

No	Principal debtors	Loan contracts	Stock of outstanding guarantees
		in number	EUR mn
1	**Corporate**	**97**	**530.554.315**
	Other Companies	3	10.085
	SMEs	25	4.075.092
	Banks and Other Credit Institutions	69	526.469.138
2	**Entities with Public Interest**	**68**	**700.317.952**
	Other Entities with Public Interest	3	28.928.415
	Public Organizations[2/]	9	200.110.982
	Sewerage Boards	56	471.278.555
3	**Local Authorities[3/]**	**103**	**229.232.890**
	Municipalities	82	226.037.215
	Community Boards	21	3.195.675
4	**Individuals / Retail**	**3063**	**86.404.858**
	Agricultural	1	42.413
	Small Business	1011	23.556.494
	Housing	2029	61.765.283
	Individuals / retail	22	1.040.668
5	**Total outstanding GG for loans excluding the issue of debt instruments (1+2+3+4)**	**3331**	**1.546.510.015**
6	**Issues of debt instruments**	**2**	**95.553.401**
	SURE loan	1	38.114.750
	European Financial Stability Facility (EFSF)	1	57.438.651
7	**Grand Total outstanding GG (5+6)**	**3333**	**1.642.063.416**

Source: Treasury
(PDMO calculations)

1/ = The guaranteed amount under the Asset Protection Scheme to Hellenic Bank is not included.
2/ = An amount of EUR 6.5 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 2012-2021 (in EUR mn)

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

1/ = An amount of EUR 3.094 mn placed to CCB is not included in the above table since CCB now is not considered as MFI. The said deposit was transferred to the Cyprus Asset Management Company.
2/= The amount of debt that falls due within next year based on the statistical information at the end of the reference year. The amount of debt at the end of 2018, 2019 and 2021 refer to the total amount of debt redemptions within the next 9-month period.
3/= % of cash over debt that falls due within one year. The ratio at the end of 2018, 2019 and 2021 refer to the % of cash over debt that falls due within 9-month period due to the amendment of the target set in the MTDS 2016-2020 and MTDS 2022-2024.

Table 12: Historical credit ratings[1/] 1989 – 2021 (Long term-short term rating)

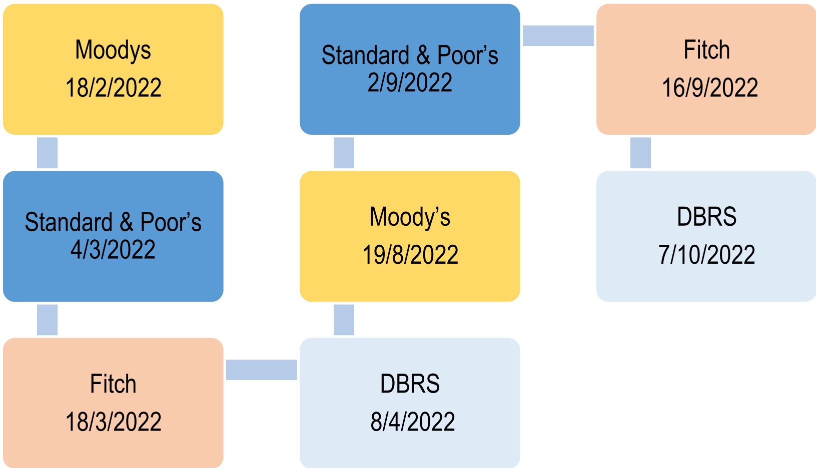
Long term Issuer Credit rating (ICR)							
DBRS		**Fitch**		**Moody's**		**S&P**	
Date	ICR	Date	ICR	Date	ICR	Date	ICR
22/10/2021	BBB (L)	24/9/2021	BBB-	23/7/2021	Ba1	3/9/2021	BBB-
14/5/2021	BBB (L)	26/3/2021	BBB-	------------	----	5/3/2021	BBB-
13/11/2020	BBB (L)	2/10/2020	BBB-	------------	----	4/9/2020	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		Fitch		Moody's		S&P	
Date	ICR	Date	ICR	Date	ICR	Date	ICR
22/10/2021	R-2M	24/9/2021	F3	23/7/2021	NP	3/9/2021	A-3
14/5/2021	R-2M	26/3/2021	F3	-----------	---	5/3/2021	A-3
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 2022



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 18th of February 2022 was cancelled by Moody's.

Table 13: Participation of PDMO officers to seminars, EU committees and other events (virtual meetings) during the year 2021

Description	Jan. - March	April-June	July-Sept.	Oct. – Dec.
Investors roadshows				November
EFS Sub-Committee on EU Sovereign debt markets	February ,March	June	August ,September	October , November
Green Bonds –ESDM Sub Committee		June	July, September	October, November
Workshop on the financing of NGEU (EU Commission)		May		
Green Bonds Working group	March	May	July, September	October, November, December
Annual EU Budget Conference				November
ESM Shareholders' Day				November

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