



Public Debt Management Annual Report 2010

**Ministry of Finance
Republic of Cyprus**

March 2011

PUBLIC DEBT MANAGEMENT ANNUAL REPORT 2010

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List of abbreviations

bps	Basis points
CBC	Central Bank of Cyprus
CDB	Council of Europe Development Bank
CDS	Credit Default Swaps
CCB	Cooperative Central Bank
CHF	Swiss franc
E	Euribor, Euro Interbank Offered Rate
EA	Euro Area
EC	European Commission
ECP	Euro Commercial Paper
EIB	European Investment Bank
EMTN	Euro Medium Term Note
EMU	European Monetary Union
EU	European Union
EUR	Euro
FG	Government of France
GBP	Sterling
GDP	Gross Domestic Product
GGD	General Government Debt
GRDS	Government Registered Development Stocks
JPY	Japanese Yen
IMF	International Monetary Fund
KUW	Kuwait Fund for Arab Economic Development
KWD	Kuwaiti Dinar
LT	Long Term
mln	million
PDMO	Public Debt Management Office
SSF	Social Security Fund
ST	Short Term
TB	Treasury Bill
VSFR	Variable-Spread Floating Interest Rate

Foreword

The Annual Public Debt Management Report for 2010, is the first issued by the Ministry of Finance.

This Report is prepared by the Public Debt Management Office of the Ministry of Finance and it intends, inter alia, to describe the public debt management policy framework, to point out the developments in the sovereign debt markets of the Eurozone and the financing of the Government of the Republic of Cyprus, as well as to site useful statistical data in relation to public debt management transactions.

Public debt management policy and fiscal policy

Usually, fiscal results are the outcome of the combined effect of various factors and functions including the economic conditions at a given time, the fiscal policy itself as well as the public debt management policy.

Nevertheless, the two aforementioned policies are formulated and implemented separately from each other.

The formulation and implementation process of the public debt management policy is divided in three different sections (i) the front office for the issue of government financing instruments (ii) the middle office for the design and execution of the public debt management policy and (iii) the back office for the servicing of public debt through account keeping and follow-up, and the repayment of loans.

Public debt policy framework and organisation

Following a Decision by the Council of Ministers in July 2008, the public debt management responsibilities were transferred from the Central Bank of Cyprus to the Ministry of Finance, as of August 1, 2010.

Legal Framework

Debt management of the Republic of Cyprus is based, mainly, on the following legislation and administrative Acts:

- The Loan (Development) Laws and Regulations
- The Cyprus Treasury Bills Laws
- The Loan (Savings) Law and Regulations
- Terms of Issue of domestic Government Bonds and Treasury Bills
- The EMTN & ECP Programmes
- The Central Bank of Cyprus Laws
- The Council of Ministers Decision No. 45.382, dated 8/1/1997, by which decision on the issuance of Treasury Bills was transferred from the Council of Ministers to the Minister of Finance
- The Council of Ministers Decision No. 45.727, dated 19/3/1997, by which decision on the issuance of Development Stocks was transferred from the Council of Ministers to the Minister of Finance
- The Council of Ministers Decision No. 67.443, dated 9/7/2008, by which public debt management responsibilities were transferred from the Central Bank of Cyprus to the Ministry of Finance

Public debt management objectives

The main objectives in managing the public debt are:

- Ensuring adequate funding of the gross financing requirements of the Government, through unrestricted access to domestic and international capital markets

-
- Minimisation of borrowing cost at each acceptable level of risk
 - Developing the domestic market for Government securities and strengthening its competitiveness, liquidity and efficiency
 - Establishment of the Republic of Cyprus as an issuer in the international markets

The responsibilities of the Ministry of Finance regarding public debt management concern:

- Drafting an indicative issuance program for bonds and bills in the domestic and international markets. The said annual funding program is adjusted during the year, if and when required
- Determining the specific borrowing instruments, including any derivatives, to be used to cover the financing needs
- Formulating policy with regard to reopening, buyback / exchange and suspension of issues
- Designing the medium-term public debt management strategy within which the daily management of the public debt portfolio and its resulting risks is undertaken, including the setting of targets for: (i) the average remaining term (remaining life, original average maturity, duration), (ii) the share of debt with fixed and variable interest rates, (iii) the nominal amount and/ or the percentage of debt denominated in foreign and domestic currency, and (iv) the debt distribution
- Formulating the proper policy regarding the Depository for Government securities and the clearing & settlement of transactions
- Reviewing policy and institutional issues in relation to the development and modernisation of the domestic market for government securities.

For the purpose of achieving the objectives of public debt management strategy, the Public Debt Management Office of the Ministry of Finance undertakes the implementation of the above-mentioned responsibilities of the Ministry. Thus, the Public Debt Management Office assumes the following tasks:

- Developing medium-term public debt management strategy
- Preparation of annual borrowing policy
- Drafting legislation for the management of public debt/modernising the legal framework governing the management of public debt
- Preparing, planning and execution of all new Government Securities issues of Cyprus in the domestic and international markets
- Negotiation of loan agreements, agreements relating to derivative products and other related transactions
- Management of foreign exchange and interest rate risk
- Development of the Government securities market
- Cash management for the central Government
- Ensuring sufficient liquidity of the Government General Account to service its debt
- Management of the surpluses of the Social Security Fund
- Maintaining relations with credit rating agencies and with international organisations, as regards public debt matters
- Representation of Cyprus in the EFC sub-committee on Government Bills and Bonds Markets

-
- Preparation/submission of statistical data and other reporting requirements on Government borrowing operations and debt
 - Advising the Permanent Secretary of the Ministry of Finance and, through the Permanent Secretary, the Minister of Finance in relation to all the above issues.

Financing instruments of the Republic of Cyprus

The Republic of Cyprus currently issues Treasury Bills and Government Registered Development Stocks in the domestic market and Euro Commercial Papers and Euro Medium Term Notes in the foreign market.

Treasury Bills

Treasury Bills have a maturity of up to 52 weeks and are issued to investors via auctions. They are listed and traded on the Cyprus Stock Exchange.

Government Registered Development Stocks

The Government Registered Development Stocks (GRDS) are bullet bonds issued via a bid-price auction system in the domestic market with maturities of 2, 5, 10 and 15 years. Buyers may be both legal and natural persons. The stocks are listed and traded on the Cyprus Stock Exchange.

Euro Commercial Papers

The multi-currency €5.000 mln Euro Commercial Paper (ECP) Programme of the Republic of Cyprus was launched in November 1989. The Programme allows short-term borrowing of the Republic between 7 days and 12 months. Notes under the Programme are not listed in any stock exchange and may be issued in euro, US dollars and swiss francs. Notes in any other currency may also be issued subject to any necessary approval and consents having been obtained.

The current named dealer group under the ECP Programme comprises the following institutions:

1. Citibank International plc
2. Credit Suisse First Boston
3. Deutsche Bank
4. Goldman Sachs International
5. Natixis
6. Société Générale
7. The Royal Bank of Scotland
8. UBS Investment Bank

In addition, the Programme incorporates a "reverse inquiry" feature whereby Notes may be issued to or through dealers who are not included in the above named dealer group.

The ECP Programme limit was increased in 2010 from €5.000 mln to €6.000 mln, of which €2.000 mln is permanently reserved for crisis management purposes.

Euro Medium Term Notes

The Republic of Cyprus has in place a €6.000 mln Euro Medium Term Note (EMTN) Programme. The Programme was established in 1997 and facilitates issuance in several currencies and structures.

The dealers appointed currently are Deutsche Bank, Société Générale and UBS Investment Bank, with the latter also acting as the Programme arranger.

In addition, the Programme incorporates a "reverse inquiry" feature whereby Notes may be issued to or through dealers who are not included in the above named dealer group. Currently there are 5 outstanding Notes, of medium to long term maturity, which have all been issued via syndicate. The Programme limit is planned to be further increased to €9.000 mln in 2011.

Retail Schemes

The Republic has in place three retail schemes, which have been suspended or terminated.

- The Government used to issue 3-year Government Registered Development Stocks by subscription at par value. The stock was offered to private individuals only. The issue of 3-year Development Stocks has been suspended since the end of 2007. The last 3-year GRDS were redeemed in September 2010.
- Savings Bonds with a nominal value of £5 (€8,54) and £10 (€17,09) participated in regular draws and prizes won were exempted from income tax. The issue of Savings Bonds was terminated in 2001.
- Savings Certificates, with a 5- or 7-year maturity, were non-tradable securities, with interest being compounded

annually and paid only upon redemption. The issuance of Savings Certificates has been suspended since the end of 2007. At the end of 2010, about €50 mln of Saving Certificates were outstanding. The interest rate has been set at 3,85% since April 2006.

Loans

The Republic now has several institutional loans from supranational institutions, mainly the European Investment Bank and the Council of Europe Development Bank. These loans are typically of long term maturity and granted for infrastructure financing.

The Euro Area government debt market

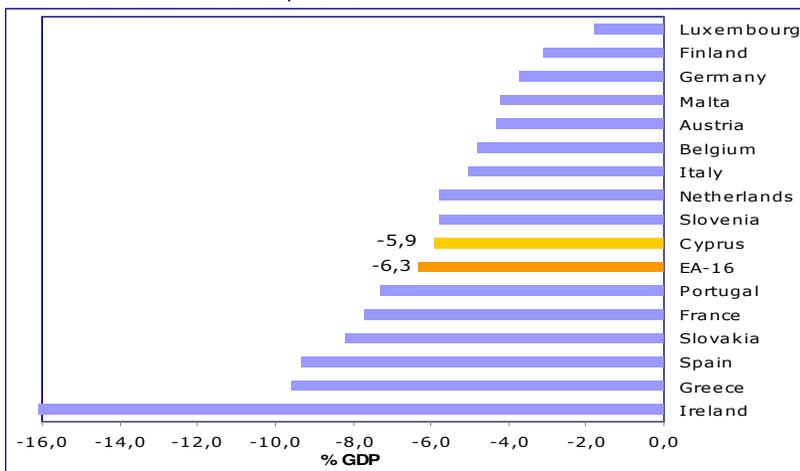
Debt and deficit development

Public finances in the Eurozone in 2010 were in a similarly difficult situation as in the year before – with only few Euro Area sovereigns achieving any reduction in their deficits and only Luxembourg left outside the excessive deficit procedure.

With a slow economic growth in 2010, debt is forecast to be on average 84,1% of GDP for the Eurozone countries up from 79,1% in 2009¹ and 69,7% in 2008.

In Cyprus, fiscal deterioration and economic downturn in 2009 and 2010 reversed the positive development of debt consolidation of previous years. However, in 2010 Cyprus was, both in fiscal and debt terms, in a better position than the Euro Area average. Estimates for 2010 show that public debt will rise to 60,6% of GDP, up from 58% in 2009, remaining more than 20 percentage points lower than the EMU average.

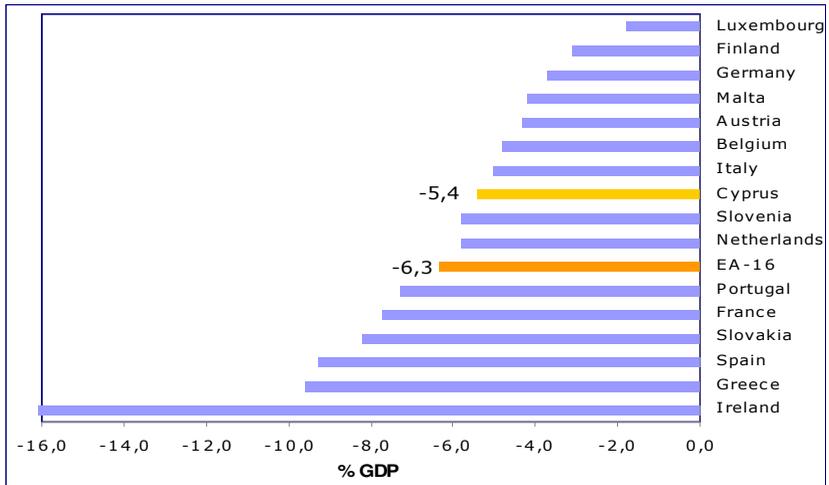
Euro Area fiscal balance, 2010^f



Sources: Cyprus Ministry of Finance, European Commission - European Economic Forecast Autumn 2010

¹ Source: European Commission- European Economic Forecast Autumn 2010

Euro Area gross general government debt, 2010^f



Sources: Cyprus Ministry of Finance, European Commission - European Economic Forecast Autumn 2010

Sovereign Bond market

The focus in 2010 was in the so-called peripheral countries of the Eurozone. Spreads of peripheral countries' sovereign bonds vs. the German Bund increased during 2010 to unprecedented levels not seen since the introduction of the single currency. At the same time, sovereign risk premia of highly rated euro countries such as Germany and the Netherlands tightened against euro swaps.

Cyprus government bond yields fell from January to mid April 2010 perhaps due to the general shift of investors to sovereign markets. Cyprus benchmark bonds have been affected particularly in April-May but normalised after the announcement of the EMU/IMF financial support for Greece. The Standard & Poor's downgrade in mid November sparked a second significant increase in yield levels. This development, combined with the overall persistence of peripheral countries' yield levels caused the Cyprus spreads to remain in the last two months of the year at historically high levels (+85 bps over the average of the rest of the year).

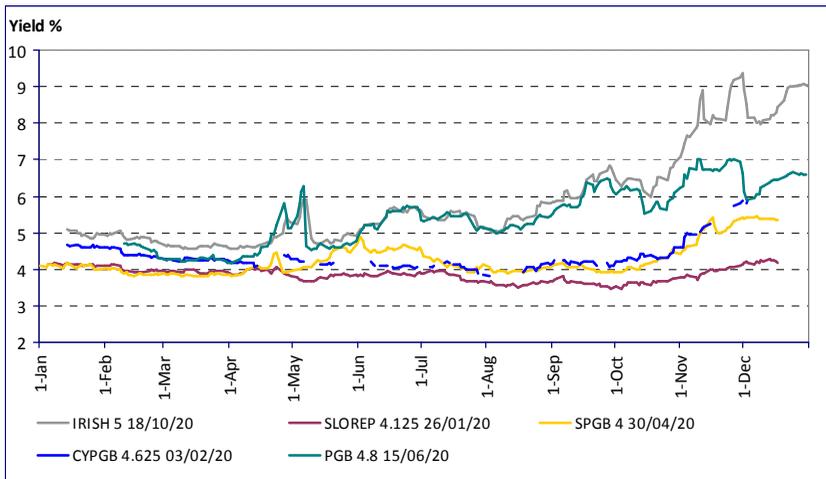
Overall, yield development for Cypriot benchmark bonds throughout 2010 was in line with peer Eurozone countries (rating

wise), however Cyprus generally traded at relatively higher levels. Cyprus now has in place a sovereign yield curve with 5 bonds maturing in the 2 to 10-year maturities. Throughout the year Cyprus has been placed below the yield levels of Portugal, but higher than those of Spain, Slovakia and Slovenia.

Risk premium levels indicated investor perception for the country to be in the peripheral Europe basket of sovereigns, and could not be fully justified by its economic fundamentals.

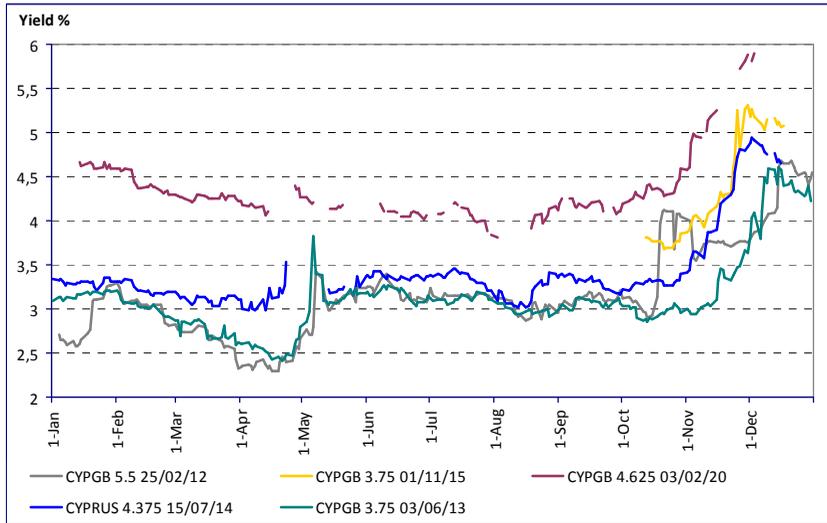
Yields analysis and interpretation should be done with cautiousness in the case of Cyprus, as it has currently a relatively illiquid secondary market. This is the result of the fact that Cyprus is a small and relatively infrequent issuer as well as the absence of a Primary Dealer System. Thus the large proportion of Cyprus debt belongs to buy-and-hold investors. Furthermore, the lack of reliable trading volumes data hinders the fair assessment of market prices.

Yield development 10-year bonds, Cyprus and peers



Note: peer countries are Ireland, Spain, Portugal and Slovenia
Source: Bloomberg

Cyprus benchmark bond yields



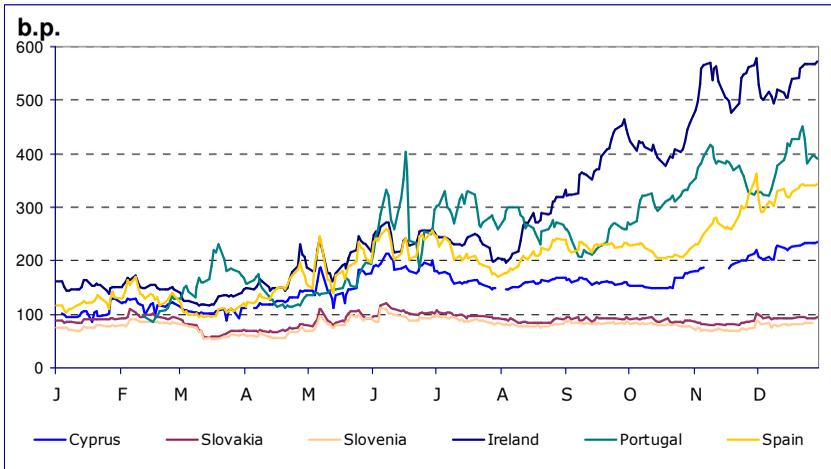
Source: Bloomberg

Credit Default Swaps

There was an overall similar development throughout the year for Credit Default Swaps. CDS on euro countries with weaker public finances widened considerably. However, the CDS market size is significantly smaller and less transparent than the bond market size.

The developments in the 5- and 10-year Cyprus Credit Default Swap followed the general Eurozone trend during the year. There was a significant increase in May amidst the general volatility and uncertainty surrounding the euro and Greece especially. CDS continued to remain at relatively high levels until mid-July before stabilizing at around 150-160 bps for both the 5-year and 10-year CDS. After the 5-year Eurobond issue in October and the Standard & Poor's downgrade that followed soon afterwards, Cyprus CDS increased again. In the last 2 months of the year, the 5yr CDS averaged 206 bps (vs. 142 bps average of the rest of the year). It is however important to note that trading activity for Cyprus in this type of derivatives is low.

10-year CDS, selected countries



Source: Bloomberg

Cyprus CDS



Source: Bloomberg

Financing of the central government

Total borrowing operations in 2010 amounted to €3.439 mln². Of this, refinancing needs amounted to €2.664 mln with the remainder €775 mln being used in the financing of the budget.

The financing in 2010 comprised a good mixture of all financing instruments used by the Republic with more weight given to eurobonds issuance, in the context of promoting the country as a more frequent issuer.

The year's financing kicked off in January with two issuances in the domestic market. Short-term financing needs were covered by a €500 mln, 6-month Treasury Bill issue in the domestic market, which was priced at 1,24%. In the same month a 2-year Development Stock of €116 mln achieved a yield of 2,07% among domestic investors. The rest of the financing was covered by ECPs of €65 mln.

In January, the Republic issued a new benchmark 10-year EMTN bond of €1 bln. Despite the challenging market, the bond was priced at a yield of 4,683% or a spread of 125 basis points over mid-swaps. Bids oversubscribed supply by a ratio of 1,5. Due to the market volatility and adequate funding from the January issue, the Ministry of Finance chose to proceed with short term financing in the summer.

ECPs were issued for the first time in foreign currency, with the issue of a 6-month Paper of \$480 mln in June. Further financing during the summer was achieved by the issue of a €250 mln 12-month Treasury Bill in the domestic market, with a yield of 1,70%.

Despite the fall in spreads after the summer, the widened spreads that dominated the euro markets since the beginning of the year caused higher financing costs upon the return of the Republic in the euro financial markets in autumn.

October marked the second EMTN issue of the Republic within the year, namely a €1 bln, 5-year benchmark bond. This issue created

² The EMTN investments of the SSF, totaling €342 mln are not included in this figure

a new reference point and filled an important gap in the Cyprus sovereign yield curve. The bond was priced at a new issue spread of 172bps over mid-swaps (overall yield of 3,842%; coupon 3,75%). The issue achieved a healthy cover ratio of 1,3.

The October issue showed an increased placement among international investors vs. the January 10-year bond. International investors bought 80% of the new bond vs. 62% in January. Also, distribution to asset managers and insurance and pension funds was higher than in January (53% in October vs. 36% in January 2010).

Remaining financing needs of €245 mln were covered by the issue of Commercial Papers in the last two months of the year. Yields achieved were 1,53% for 3-month securities and 1,98% for 6-month securities.

During the year the Ministry of Finance made use of derivatives by hedging transactions against foreign exchange fluctuations.

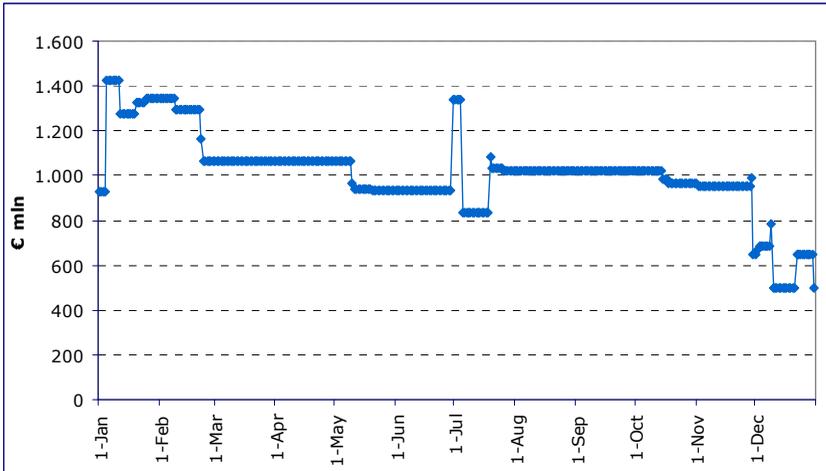
Additionally, throughout the year, the Council of Europe Development Bank granted loan financing amounting in total to €55 mln.

Overall, net debt issuance³ in 2010 followed the issuance pattern of the previous year by concentrating on EMTN issues. These issuances covered more than half of total borrowing requirements for 2009 and 2010 (55% and 73% respectively). This reflects an attempt by the Republic, to establish itself in the euro sovereign market as a frequent issuer after the euro adoption in January 2008. The rest of net issuance was covered by €116 mln GRDS, the €55 mln loans and short term borrowing of €495 mln.

In total, short term borrowing actions, concluded mainly for liquidity management, were €1.610 mln, which represented 46,9% of financing actions. The average outstanding amount in short term debt (Treasury Bills and Euro Commercial Papers) over the year was €1.010 mln.

³ Defined as the difference between total debt issuance and debt issuance maturing within same year

Daily outstanding amount of short term debt in 2010

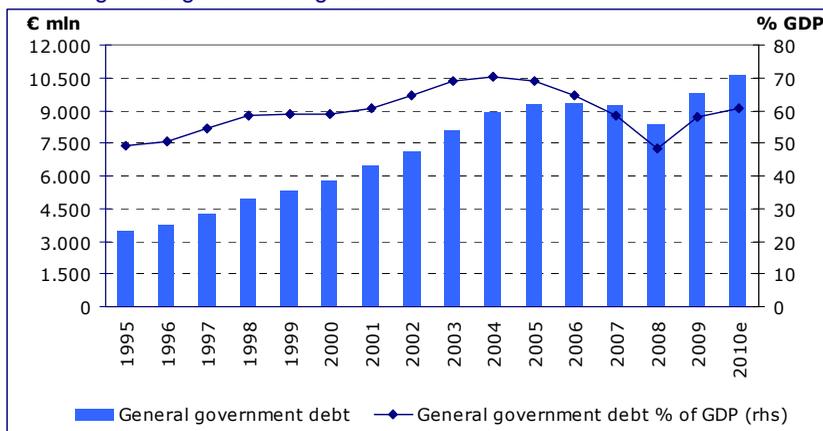


Level and structure of public debt

Evolution of debt

In the years 1995-2004 public debt deteriorated. The public debt ratio increased from 49,2% of GDP in 1995 to 58,8% in 2000 and 70,2% in 2004. Public debt fell in the years 2005 to 2008 due to fiscal surplus and high growth rates; the year 2008 even marked a 20-year record low in debt at 48,3% of GDP. Fiscal deterioration and negative to only slightly positive growth rates in the next two years caused an increase in debt to 60,8% of GDP in 2010. This is lower than the 10 year average of the decade 2000 to 2010 of 62%.

Trend in general government gross debt



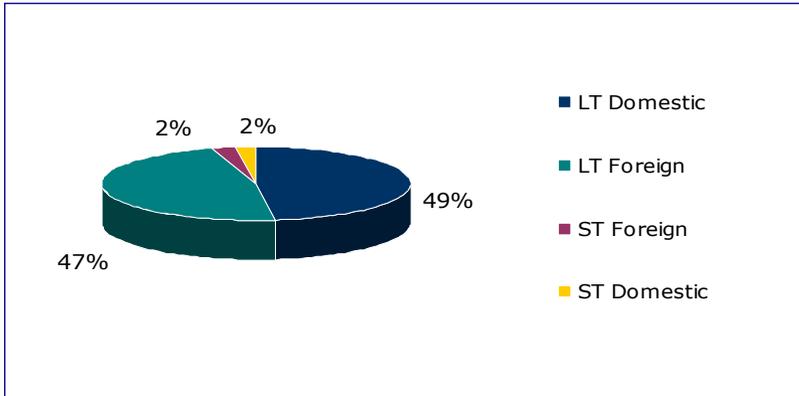
Composition of outstanding general government debt

Long term domestic debt forms the largest component of debt at 49%, with a bond⁴ to loan ratio of 6:4. Long term foreign debt makes approximately 47% of general government debt, the structure of which was approximately 5:1 between bonds and loans. Furthermore, total short term debt accounted for 4% of

⁴ Sinking Funds, are part of the government's liquid assets and are used in the redemption of Development Stocks. At year end, less than 5% of outstanding development stocks was covered by sinking funds.

outstanding debt at year end, or €495 mln, spread nearly equally between foreign debt (ECPs) and domestic Treasury Bills⁵.

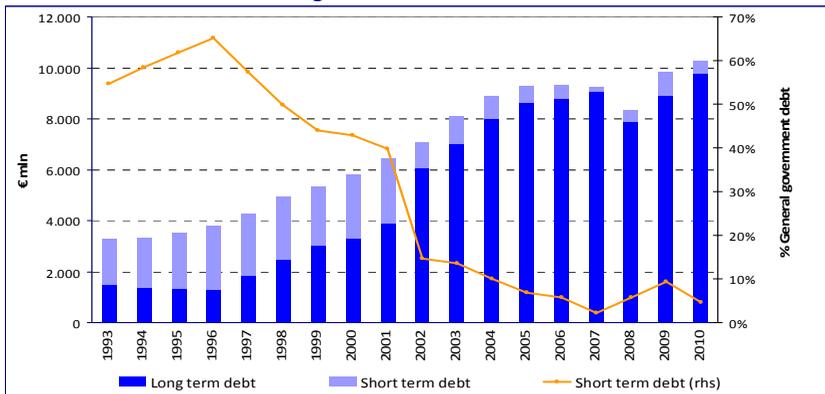
General government debt, 31st Dec. 2010



Short and Long Term general government debt

Short term debt has had a steady decline since the mid 90s. Short term refinancing risk has been kept at low levels since debt maturing within 12 months has stabilised to less than 10% of the yearly outstanding debt or 6% of GDP since 2005.

Evolution of short and long term debt

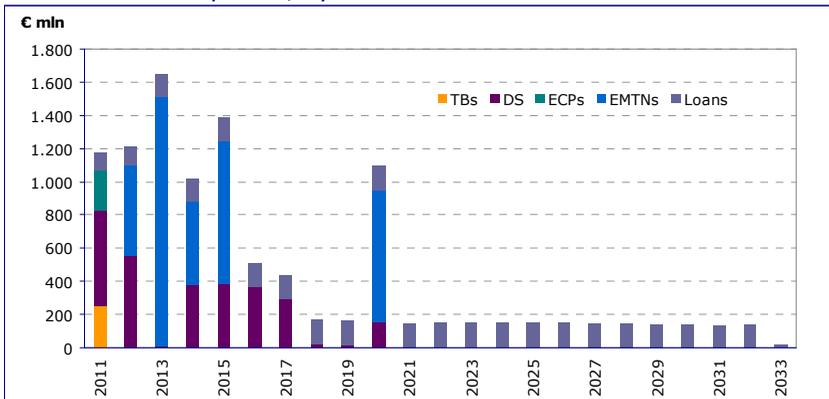


⁵ Short term debt shown at nominal value

Maturity structure of debt profile

The debt distribution profile extends up to the year 2033. EMTN redemptions cause the peaks in the maturity profile between the years 2012-2015 and 2020. After 2020 the outstanding debt is made up of institutional loans only. The general government debt average maturity is 6,07 years⁶.

Debt distribution profile, by instrument



Debt ownership

Domestic debt (securities) is almost exclusively held by domestic investors. The banking sector is by far the largest investor accounting for 79% of outstanding Bills and Bonds ownership. Some 17% are owned by insurance corporations and various provident and pension funds, the rest being owned by other companies and households.

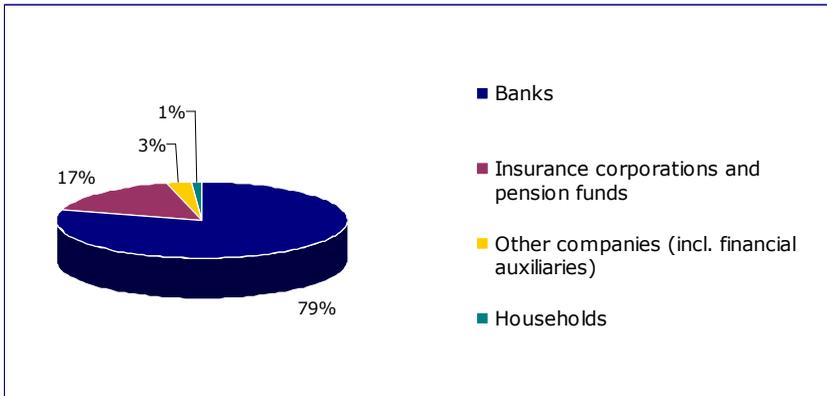
Two loans of significant volume and maturity are currently pending in the domestic market. With the abolition of the Central Bank of Cyprus financing window to the government in June 2002, all outstanding advances were converted to a 30-year loan with an interest rate of 3% and a 5-year grace period for capital repayment. The second main loan of the Government from domestic institutions relates to school committees.

⁶ With redemptions of securities (nominal amounts) and repayments of loan principals as weights

Furthermore, there is a number of local authorities loans, co-financed by the central government, granted mainly for infrastructure projects.

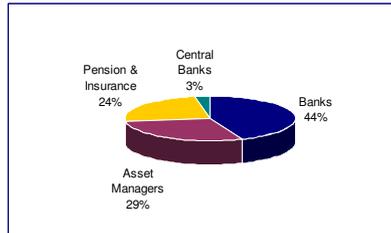
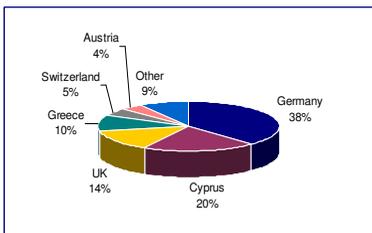
All domestic debt loans have been granted by domestic banking institutions or by the Central Bank of Cyprus.

Domestic debt holders, 31st Dec. 2010



Securities issued in the foreign market have had typically the largest non-domestic investors based mainly in Germany (and also Austria and Switzerland), Greece and the United Kingdom. Banks form the largest investor group by institution type. An indicative EMTN ownership, is shown below, taken from the latest Eurobond issue of the Republic.

Investor distribution of EMTN due 1/11/2015



Bilateral loans form the final foreign debt component. About €822 mln or 8% of the public debt is owed to supranational institutions, almost entirely the European Investment Bank and the Council of Europe Development Bank for loans granted mainly for infrastructure projects.

Portfolio risk

Around 94% of public debt carries fixed rates of interest. The remaining balance amounting to €630 mln, relates exclusively to long-term loans granted from supranational organizations with generally low margins over Euribor rates.

With the introduction of the euro on 1st January 2008, debt denominated in foreign currencies has virtually been eliminated. Currently debt denominated in currencies other than the euro makes up less than 1% of outstanding debt.

Adding the fact that currently no index-linked securities are issued by the Republic, market risk resulting from fluctuations in interest rates, exchange rates and inflation is very low.

Intragovernmental and other obligations of the central government

Future intragovernmental obligations of the central government are the surplus of the Social Security Fund, as well as the surpluses of some other small administered funds. In total these make up 10 administered funds. Under the ESA95 methodology these items do not count towards general government debt. At the end of 2010 these intragovernmental commitments amounted to €7.632 mln. The 10 administered funds are listed below.

Social Security Funds:

1. Social Insurance Fund
2. Unemployment Benefits Account
3. Central Holiday Fund
4. Termination of Employment Fund
5. Insolvency Fund

Other Administered Funds:

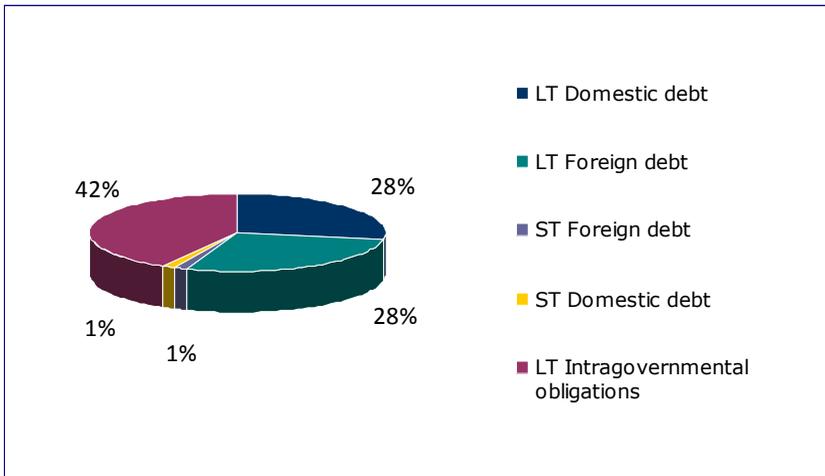
6. Government Hourly Employees Provident Fund
7. Human Resources Development Authority Fund
8. Turkish Cypriot Properties Fund
9. Agricultural Insurance Organisation Fund
10. Hunting Fund

(a) Social Security Funds

Following debt transfer responsibility change⁷, as of 1st August 2010, the bulk of intragovernmental debt owed to the SSF is in the form of a long term deposit carrying an interest rate at the ECB Marginal Lending Facility Rate – 0,25%. Following the decision of the Minister of Finance for the creation of a reserve in January 2010, the SSF has invested in the 2010 EMTN issues of the Republic (€137 mln of Government Eurobonds due on 1/11/2015 and €204 mln due on 3/2/2020). Other funds are deposited with domestic banking institutions and do not represent commitments of the central government towards the SSF.

⁷ Before 1st August 2010, under the public debt management of the Central Bank of Cyprus, the surplus of the SSF was invested in 13-week Treasury Bills with interest rate being calculated by the same formula as today.

Public debt and intragovernmental obligations, 31st Dec. 2010



(b) Other Administered Funds

Furthermore, there are 5 administered funds of the central government and semi-governmental sector with a total balance outstanding at year end of €155,8 mln. Their surpluses are invested in 13-week Treasury Bills of the Republic.

Other items

(a) Special Government Bonds

Zero coupon, Special Government Bonds of €3 bln were issued in November 2009 with a 3 year maturity expiring on 30.11.2012 to domestic banking institutions to be used by the latter as collateral for purposes of liquidity extraction from the ECB.

Under chapter 7 "Exchange of assets" of the Eurostat Guidance Note on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis, the exchange of government securities do not form part of the government consolidated gross debt if:

- The liquidity scheme is temporary (less than 5 years), and

- The risk for the government that the securities will not be returned is very small (usually due to arrangements in place for the valuation and substitution of the assets provided in exchange for the government securities).

For the allocation of the bonds, bilateral contracts were signed between the Ministry of Finance and the credit institutions and upon expiry the bonds will be returned and cancelled.

(b) Government guarantees

Government guarantees are granted to municipalities, community boards, sewerage boards, public and other organizations, and enterprises. Government guarantees are not part of public debt. Guarantees at the end of 2010 totaled €1461 mln⁸, or 13,8% of the general government debt. A list of outstanding guarantees can be found in Table 8 of the Statistical Annex.

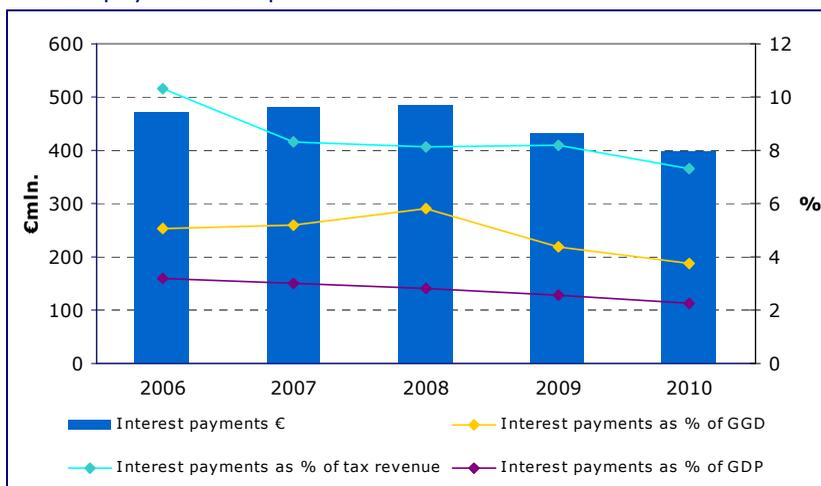
⁸ In order to avoid double-counting, this figure excludes guarantees of the general government for loans that count towards public debt

Cost of servicing the public debt

Interest payments in 2010 are estimated to be €397,7 mln⁹, the lowest in 5 years. The interest-to-tax revenue has improved in the past few years, whereas the interest-to-GDP ratio is since 2008 below the Euro Area average. In 2010 interest payments accounted for 7,3% of tax revenue and 2,3% of GDP.

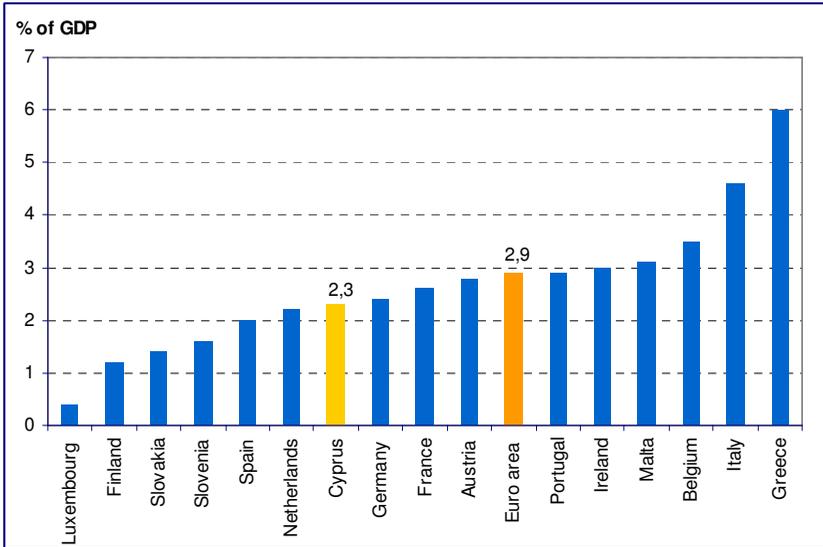
A few different factors have contributed to this development. The debt consolidation from 2005 to 2008, which resulted in a record low debt to GDP ratio in 2008, impacted most significantly in reducing the interest payment burden. The Republic also benefited from the low interest level environment between 2008 and 2010, which affected positively the servicing of short-term borrowing and floating rate debt. Additionally, the redemption of some old high-yield Development Stocks in 2007 and 2008 eased the interest payment burden. Finally, the gradual elimination of sinking funds reduced the Government's new borrowing and the servicing of this.

Interest payments on public debt



⁹ Interest payments on general government debt, i.e. excluding intragovernmental payments to the SSF and administered funds

Interest payments in 2010^f in the Euro Area



Source: European Commission - European Economic Forecast Autumn 2010

Debt Management Policy

During 2010 the Republic's main financing instruments in both the domestic and international markets have been effectively used to satisfy financing requirements.

Within the context of ensuring a sensible debt distribution profile:

- Short term debt has been kept to less than 5% of outstanding debt at year end (beginning of the year: 9,4%)
- Presence in the euro debt market has been enhanced, with two EMTN issues at important maturity points in the sovereign yield curve, in an effort to establish Cyprus as a more frequent issuer in the euro market

Furthermore, the policy of low risk in the debt portfolio has been followed by hedging any debt positions in foreign currency.

Finally, further expansion of potential investor base, both geographically and institutionally as well as consideration of other, less standard, financing products has continued during the year.

The Ministry of Finance also arranged for the profitable use of excess cash of the central government. As the General Government Account with the Central Bank of Cyprus carries no interest, excess cash can be deposited with domestic banking institutions. Factors, other than the interest rate, taken into account were the credit rating and the capital adequacy ratios of the institutions. In practice, cash was deposited, via auctions, in accounts of 7 to 90 days, as well as 35-day-notice accounts. In 2010 profit from interest on excess cash amounted to €5 mln.

The present debt management is being reformed and modernised. In this context, a regular electronic Treasury Bill auction system via Bloomberg for authorised domestic dealers has been put in place in late 2010. During 2011 regular auctions are planned to take place, followed by the introduction of an issuance calendar.

A key target for the Ministry of Finance is to create a liquid and efficient market for its government bonds to ensure smooth and efficient trading as well as price transparency.

The introduction of a primary dealer system and a central depository and settlement system has been central components of this aim. Progress in the past few years has been slow; however this project remains a priority for the modernisation of public debt management.

The Ministry of Finance also focuses on the enhancement of the public debt management capacity. Steps towards this encompass most importantly the modernisation of existing legislation put in place, as well as institutional arrangements that reflect today's financial markets and the improvement of the organisational and infrastructure requirements of the PDMO.

Sovereign credit ratings

In June 2010, Fitch affirmed the country's ratings, granted since July 2007, as the economy experienced a small decline in GDP in 2009 – one of the smallest among the peer group countries ratingwise - and also had a lower fiscal deficit compared to comparable EU countries. Public debt-to-GDP ratio remained below the 60% benchmark.

Moody's issued a credit opinion in July identifying the economy's main challenges to be its small size and undiversified structure, the sheer size of its banking sector and the vulnerability of the tourism sector to foreign price competition. Given the aforesaid challenges Moody's stressed the importance of maintaining a healthy public debt-to-GDP ratio.

In November Standard and Poor's downgraded the long-term sovereign credit rating of the Republic by one notch.

The credit ratings of the Republic of Cyprus as at 31st December 2010 are shown below¹⁰.

Agency	Long Term Debt	Short Term Debt	Outlook	Latest 2010 assessment
Fitch	AA-	F1+	Stable	24.06.2010
Moody's	Aa3	P-1	Stable	02.07.2010
Standard and Poor's	A	A-1	Negative	16.11.2010

¹⁰ For recent developments in the sovereign credit rating of the Republic of Cyprus please refer to the website of the Public Debt Management Office, www.mof.gov.cy/pdmo

Statistical Annex

Data for 2010 is provisional. Reference date for all data in the Statistical Annex is the 31st Dec. 2010, unless otherwise stated

Table 1: Public Debt by Instrument and Lender (€ mln)

<u>A. DOMESTIC</u>	<u>12.633,55</u>
I. LONG-TERM	12.231,99
1. Development Stocks	2.738,84
- Central Bank	0,00
- Deposit Money Banks	2.191,07
- Private Sector	546,95
- Sinking Funds	0,00
- Social Security Funds	0,82
2. Savings Certificates	49,97
- Private Sector	49,97
3. Other	9.443,18
- Central Bank	1.502,88
- Local Authorities Loans	345,02
- Loan No.6362 (School Committees)	463,03
- Social Security Funds*	7.476,11
II. SHORT-TERM	401,57
1. Treasury Bills	401,57
- Central Bank	0,00
- Deposit Money Banks	245,78
- Private Sector	0,00
- Sinking Funds	0,00
- Administered Funds *	155,79
<u>B. FOREIGN</u>	<u>5.273,79</u>
1. Short-term liabilities of the Central Bank to the I.M.F.	0,00
2. Long-term Loans	822,38
3. Medium-term Loans (E.M.T.N.)	4.208,72
4. Short-term Loans (E.C.P.)	242,69
<u>C. PUBLIC DEBT</u>	<u>10.618,49</u>

*Do not count towards general government debt according to the ESA95 definition

Table 2: Outstanding securities in the foreign market**EURO COMMERCIAL PAPERS**

Issue date	Maturity (months)	Yield %	Maturity date	ISIN	Amount € mln
29.11.2010	3	1,53	28.02.2011	XS0565268033	20
29.11.2010	6	1,75	30.05.2011	XS0565222477	17
30.11.2010	6	1,76	31.05.2011	XS0565381943	40
30.11.2010	6	1,86	31.05.2011	XS0565381943	20
02.12.2010	6	1,97	02.06.2011	XS0566359989	20
03.12.2010	6	2,11	03.06.2011	XS0566759733	15
09.12.2010	6	2,11	09.06.2011	XS0567960611	100
10.12.2010	6	2,12	10.06.2011	XS0569024499	13
Outstanding ECP debt					245

EURO MEDIUM TERM NOTES

Issue date	Maturity (years)	Coupon %	Maturity date	ISIN	Amount € mln
27.02.2002	10	5,500	27.02.2002	XS0143546207	550
15.07.2004	10	4,375	15.07.2014	XS0196506694	500
03.06.2009	4	3,750	03.06.2013	XS0432083227	1.500
03.02.2010	10	4,625	03.02.2020	XS0483954144	796
01.11.2010	5	3,750	01.11.2015	XS0554655505	863
Outstanding EMTN debt					4.209

Total outstanding securities in the foreign market

4.454

Notes:

1. ECPs are shown at their nominal value
2. Nominal amount of issue of 5-yr EMTN (Nov2015) and 10-yr EMTN (Feb2020) is €1000 mln respectively; the balance relates to ownership by the Social Security Fund.

Table 3: Outstanding securities in the domestic market**TREASURY BILLS**

Issue	Yield %	Maturity	ISIN	€ mln
19/7/2010	1,70	18/7/2011	CY0141400818	250,0

GOVERNMENT REGISTERED DEVELOPMENT STOCKS

Issue	Coupon %	Maturity	ISIN	€ mln
29/1/2001	7,00	29/1/2011	CY0046400814	63,2
1/2/2006	4,25	1/2/2011	CY0049830819	512,6
4/1/2007	4,25	4/1/2012	CY0140150810	427,2
25/2/2002	5,50	25/2/2012	CY0047970815	6,3
16/1/2010	2,00	16/1/2012	CY0141180816	116,0
29/1/2003	5,00	29/1/2013	CY0048450817	7,7
23/4/2003	4,60	23/4/2013	CY0048580811	1,9
23/10/2003	4,50	23/10/2013	CY0048880815	1,0
9/1/2009	5,00	9/1/2014	CY0140870813	150,0
15/1/2009	5,00	15/1/2014	CY0140890811	165,2
26/2/2004	4,50	26/2/2014	CY0049060813	3,8
24/6/2004	6,00	24/6/2014	CY0049240811	5,0
18/11/2004	6,00	18/11/2014	CY0049360817	34,2
9/12/2004	6,00	9/12/2014	CY0049390814	21,1
3/1/2005	6,00	3/1/2015	CY0049420819	27,6
20/1/2005	6,00	20/1/2015	CY0049450816	51,2
28/2/2005	6,00	28/2/2015	CY0049510817	68,3
20/4/2005	6,00	20/4/2015	CY0049560812	59,4
9/6/2005	5,25	9/6/2015	CY0049620814	68,3
30/9/2005	4,75	30/9/2015	CY0049710813	85,4
2/12/2005	4,75	2/12/2015	CY0049770817	25,6
2/1/2006	4,50	2/1/2016	CY0049790815	102,6
30/3/2006	4,50	30/3/2016	CY0049880814	85,4
2/6/2006	4,50	2/6/2016	CY0049930817	17,4
11/7/2006	4,50	11/7/2016	CY0049990811	102,5
9/10/2006	4,50	9/10/2016	CY0140090818	51,2
26/10/2001	6,60	26/10/2016	CY0047860818	6,9
4/1/2007	4,50	4/1/2017	CY0140160819	85,4
15/2/2007	4,50	15/2/2017	CY0140190816	85,4
2/4/2007	4,50	2/4/2017	CY0140330818	85,4
28/9/2007	4,50	28/9/2017	CY0140500816	17,8
15/4/2002	5,60	15/4/2017	CY0048900811	13,3
29/1/2003	5,10	29/1/2018	CY0048440818	13,7
23/4/2003	4,60	23/4/2018	CY0048610816	5,1

23/10/2003	4,60	23/10/2018	CY0048870816	0,8
26/2/2004	4,60	26/2/2019	CY0049070812	3,8
24/6/2004	6,10	24/6/2019	CY0049250810	7,2
20/4/2005	6,10	20/4/2020	CY0049570811	85,4
9/6/2005	5,35	9/6/2020	CY0049630813	68,3
Total outstanding GRDS				2738,9
SAVINGS CERTIFICATES				49,9
Total outstanding securities in the domestic market				<u>3038,8</u>

Table 4: Outstanding loans

Creditor	Currency	Interest Rate %	Nominal amount € mln	Maturity	Balance 31/12/2010 € mln
EIB	EUR	VSFR	35,0	2011	3,2
EIB	EUR	4,23	0,8	2011	0,0
EIB	USD	4,23	1,4	2011	0,0
CDB	EUR	E+0,28	5,6	2011	5,6
CDB	JPY	5,63	30,8	2013	27,6
EIB	EUR	3,62	6,7	2014	2,4
EIB	CHF	3,62	2,6	2014	0,7
EIB	STG	5,95	6,3	2014	2,6
GF	EUR	2	0,0	2015	0,0
EIB	EUR	0	4,0	2016	3,2
GF	EUR	2	2,1	2017	0,8
CDB	EUR	E+0,28	12,1	2018	9,7
EIB	EUR	5,35	90,0	2019	61,3
EIB	EUR	1	1,0	2022	0,4
EIB	EUR	1	3,0	2022	1,3
CDB	EUR	E+0,30	21,8	2023	18,9
CDB	EUR	E+0,30	50,0	2023	43,3
EIB	EUR	1	3,7	2025	1,9
CDB	EUR	E+0,6	47,5	2025	47,5
EIB	EUR	1	1,2	2026	0,7
CDB	EUR	E+0,15	85,7	2026	85,7
CDB	EUR	E+0,09	16,5	2027	16,5
CDB	EUR	3,7	44,0	2028	44,0
EIB	EUR	4,45	50,0	2029	44,6
CDB	EUR	E+0,48	20,3	2029	19,3
CDB	EUR	E+0,48	12,5	2029	11,9
EIB	EUR	VSFR	65,0	2030	47,5
CDB	EUR	E+0,55	7,3	2030	7,3
EIB	EUR	VSFR	50,0	2032	50,0
EIB	EUR	E+0,01	70,0	2032	70,0
EIB	EUR	VSFR	200,0	2033	194,0
Total					822,4
CBC	EUR	3	1642,1	2032	1502,9
CCB	EUR	E+0,1	463	2032	463
Total					1965,9
					<hr/> 2788,3 <hr/>

Table 5: General government debt maturity profile (€ mln)

	Domestic Bonds		Foreign Bonds		Domestic Loans	Foreign Loans	Total
	TBs	DS	ECPs	EMTNs			
2011	250	575,8	245	0	64,2	42,0	1177,0
2012	0	549,5	0	550	65,7	43,2	1208,5
2013	0	10,57	0	1500	90,4	44,8	1645,7
2014	0	379,3	0	500	91,9	45,7	1016,8
2015	0	385,8	0	863	93,5	46,6	1388,8
2016	0	366	0	0	95,2	51,8	512,9
2017	0	287,3	0	0	96,9	51,6	435,7
2018	0	19,61	0	0	98,7	51,9	170,1
2019	0	11	0	0	100,5	51,2	162,6
2020	0	153,7	0	796	102,4	43,2	1095,1
2021	0	0	0	0	104,3	43,3	147,5
2022	0	0	0	0	106,3	43,4	149,6
2023	0	0	0	0	108,3	42,1	151,6
2024	0	0	0	0	110,4	38,7	149,1
2025	0	0	0	0	112,6	38,8	151,3
2026	0	0	0	0	114,8	34,1	148,8
2027	0	0	0	0	117,1	28,5	145,5
2028	0	0	0	0	119,5	25,7	145,1
2029	0	0	0	0	121,9	17,7	139,5
2030	0	0	0	0	124,4	15,1	139,5
2031	0	0	0	0	127,0	8,8	135,7
2032	0	0	0	0	129,7	8,8	138,4
2033	0	0	0	0	15,0	4,1	19,0
	250	2738,6	245	4213	2310	823	10576

Notes:

1. Further €49,97 mln of Savings Certificates will be repaid
2. Short term borrowing is shown at nominal value

Table 6: Debt servicing

	2006	2007	2008	2009	2010
Interest payments (€ mln)	470,4	479,7	484,2	430,3	397,7
General government debt (GGD, € mln)	9.330,9	9.261,5	8.345,9	9.826,3	10.618,5
Tax Revenue (TR, € mln)	4568,4	5760,8	5954,3	5270,9	5415,5
Interest payments (% of GDP)	3,21	3,01	2,80	2,54	2,28
Interest payments (% of GGD)	5,04	5,18	5,80	4,38	3,75
Interest payments (% of TR)	10,30	8,33	8,13	8,16	7,34

Note:

Interest payments exclude intragovernmental interest payments to the SSF

Table 7: Structure of the Social Security Fund (€ mln)

Deposit with the central government	7.134.451,9
Social Insurance Fund	6.593.372,2
Unemployment Benefits Account	5.302,1
Termination of Employment Fund	338.976,4
Central Holiday Fund	87.054,6
Insolvency Fund	109.746,9
Investment in Cyprus Government Bond 3.750% mat. 1/11/2015	137.000,0
Investment in Cyprus Government Bond 4.625% mat. 3/2/2020	204.000,0
Total	7.475.451,9

Table 8: Government guarantees (€ thousand)

	31/12/08	31/12/09	31/12/10
LOCAL AUTHORITIES*			
Municipalities	192.383	183.009	201.082
Community Boards	8.645	8.824	9.451
SEMI – GOVERNMENT ORGANISATIONS			
Cyprus Sports Organisation *	26.563	27.158	24.004
Cyprus Olympic Committee *	4.026	3.706	3.375
A. Guarantees for loans included in the general government debt	<u>231.617</u>	<u>222.697</u>	<u>237.912</u>
SEMI – GOVERNMENT AND OTHER ORGANISATIONS			
Public Corporate Bodies			
Sewerage boards	140.992	476.081	588.585
Electricity Authority of Cyprus	365.467	335.182	479.053
Cyprus State Fairs Authority	514	432	345
Cyprus Ports Authority	38.845	41.662	42.986
Cyprus Land Development Corporation	5.202	0	0
Cyprus Broadcasting Corporation	27.833	23.500	19.424
Agricultural Insurance Organisation	507	0	0
Central Agency for Equal Distribution of Burdens	179.935	206.225	228.647
Central Slaughter-House Board	14.986	15.712	17.889
Cyprus Potato Marketing Board	6.841	2.898	0
Cyprus Theatrical Organization	961	419	382
	782.083	1.102.111	1.377.310
Non Profitable Organisations	<u>2.688</u>	<u>1.278</u>	<u>1.596</u>
	<u>815.360</u>	<u>1.134.253</u>	<u>1.406.285</u>
ENTERPRISES			
Companies with Share Capital Participation by the Government			
Cyprus Airways	60.295	53.282	46.365
Companies			
ETKO, LOEL, etc	16.054	17.244	18.420
Co-operative Societies	13.055	13.770	13.816
Sundries			
Sundry Persons	5.390	6.756	4.096
	<u>94.794</u>	<u>91.052</u>	<u>82.697</u>
B. Other guarantees	<u>879.565</u>	<u>1.194.441</u>	<u>1.461.603</u>

* These entities are included in the general government sector

Table 9: Average yield history Government Registered Development Stocks (in %, as at issue)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
2yr	3,73	3,32	4,22	3,38	3,40	4,03	-	-	2,00
5yr	5,06	4,16	4,83	5,61	4,25	4,25	-	5,00	-
10yr	5,50	4,88	5,91	5,51	4,50	4,50	-	-	-
15yr	5,60	4,95	5,58	3,06	-	-	-	-	-
	4,43	3,86	4,58	5,18	4,14	4,31	-		2,00

Table 10: Number of issues of Government Registered Development Stocks

	2002	2003	2004	2005	2006	2007	2008	2009	2010
2yr	12	10	13	4	3	1	-	-	1
5yr	11	11	12	2	1	1	-	2	-
10yr	1	3	4	7	5	5	-	-	-
15yr	1	3	2	2			-	-	-
	25	27	31	15	9	7	0	2	1

Table 11: 52-week Treasury Bills

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Yield	4,32	3,71	4,43	4,33	2,89	4,12	-	1,52	1,70
No. of issues	11	13	11	8	4	1	0	1	1

**Table 12: Matured securities in the domestic market
1.1.2010 – 31.12.2010**

TREASURY BILLS

Issue	Yield %	Maturity	ISIN	€ mln
5/1/2010	1,24	5/7/2010	CY0141150819	300
11/12/2009	1,52	10/12/2010	CY0141140810	250
				550

GOVERNMENT REGISTERED DEVELOPMENT STOCKS

Issue	Interest rate %	Maturity	ISIN	€ mln
3/1/2005	5,75	3/1/2010	CY0049410810	289,0
29/1/2007	3,75	29/1/2010	-	14,5
26/2/2007	3,75	26/2/2010	-	3,0
28/2/2000	7,00	28/2/2010	CY0045140817	51,5
22/3/2007	3,75	22/3/2010	-	4,6
23/4/2007	3,75	23/4/2010	-	6,3
25/5/2007	3,75	25/5/2010	-	22,2
9/6/2005	5,00	9/6/2010	CY0049610815	68,3
25/6/2007	3,75	25/6/2010	-	14,8
27/7/2007	3,75	27/7/2010	-	16,9
28/9/2007	3,75	28/9/2010	-	17,3
				508,4

SAVINGS CERTIFICATES

18,6

**Table 13: Matured securities in the foreign market
1.1.2010 – 31.12.2010**

EURO COMMERCIAL PAPERS

Issue	Months	Interest rate %	Maturity	€ mln
12/10/2009	3	0,741	12/1/2010	150
9/11/2009	3	0,700	9/2/2010	50
22/11/2009	3	0,820	22/2/2010	80
22/11/2009	3	0,820	22/2/2010	50
23/11/2009	3	0,705	23/2/2010	50
23/11/2009	3	0,705	23/2/2010	50
9/11/2009	6	0,992	10/5/2010	30
9/11/2009	6	0,997	10/5/2010	40
10/11/2009	6	0,997	10/5/2010	25
11/11/2009	6	0,997	11/5/2010	30
20/10/2009	6	1,040	20/5/2010	2
20/1/2010	6	0,975	20/7/2010	50
25/1/2010	6	0,968	26/7/2010	15
16/10/2009	12	1,300	15/10/2010	17
20/10/2009	12	1,220	15/10/2010	20
19/10/2009	12	1,200	18/10/2010	17
3/11/2009	12	1,222	2/11/2010	17
30/6/2010	5	1,490	30/11/2010	400
22/12/2010	0,3	1,120	31/12/2010	150
				1243

Table 14: Repaid loans 1.1.2010 – 31.12.2010

Creditor	Year raised	Currency	Nominal amount € mln.	Balance 31/12/09 € mln.
KUW	1994	KWD	10,5	0,7
EIB	2003	EUR	35,0	3,5
CDB	2000	EUR	24,0	4,8
CDB	2000	EUR	8,6	1,7
				10,7

Table 15: Historical credit ratings

Fitch Ratings

Outlook		Long term foreign currency	
Stable	10/3/08	AA-	12/7/07
		A+	06/11/03

Moody's

Outlook		Long term foreign currency	
Stable	03/01/08	Aa3	03/01/08
		A1	10/07/07
		A2(watch +)	17/05/07
		A2	29/01/98

Standard and Poor's

Outlook		Long term foreign currency	
Negative	16/11/10	A	16/11/10
Stable	24/04/08	A+ (watch -)	21/07/10
		A+	24/04/08
		A	03/12/99
		A+	09/11/98
		AA-	14/02/94

Table 15 (continued)

Fitch Ratings

Long term local currency		Short term	
AA-	12/07/07	F1+	12/07/07
AA	04/02/02	F1	01/02/02

Moody's

Long term local currency		Short term	
Aa3	03/01/08	P-1	06/11/89
A1	10/07/07		
A2 (watch +)	17/05/07		
A2	19/07/99		

Standard and Poor's

Long term local currency		Short term foreign currency		Short term local currency	
A	16/11/10	A-1	09/11/98	A-1	12/08/03
A+ (watch-)	21/07/10	A-1+	26/08/91	A-1+	16/07/96
A+	24/04/08				
A	01/12/04				
A+	12/08/03				
AA-	03/12/99				
AA	09/11/98				
AA+	16/07/96				

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