Republic of Cyprus

Ministry of Finance

Public Debt Management Office

Annual Report

Public Debt Management

2018

March 2019

PUBLIC DEBT MANAGEMENT ANNUAL REPORT 2018

Republic of Cyprus
Ministry of Finance
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Mission Statement

The core mission of the Public Debt Management Office is the design and implementation of the appropriate government policy in the field of 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 action plan by the Council of Ministers for the further development and strengthening of the infrastructure for public debt management.

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

The developments relating to the above-mentioned two pillars of debt management for the last financial year are described in this report 2018.

(Phaedon Kalozois),

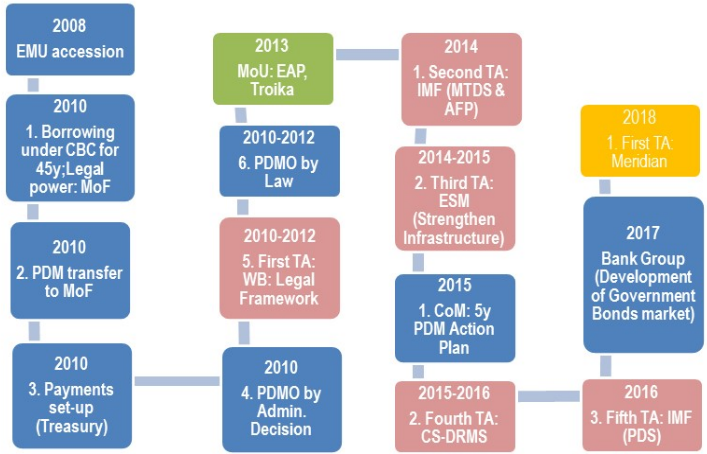
Director of Finance

Head of PDMO

Ministry of Finance

March 2019

The timeline of Public Debt Management in Cyprus (2008-2018)

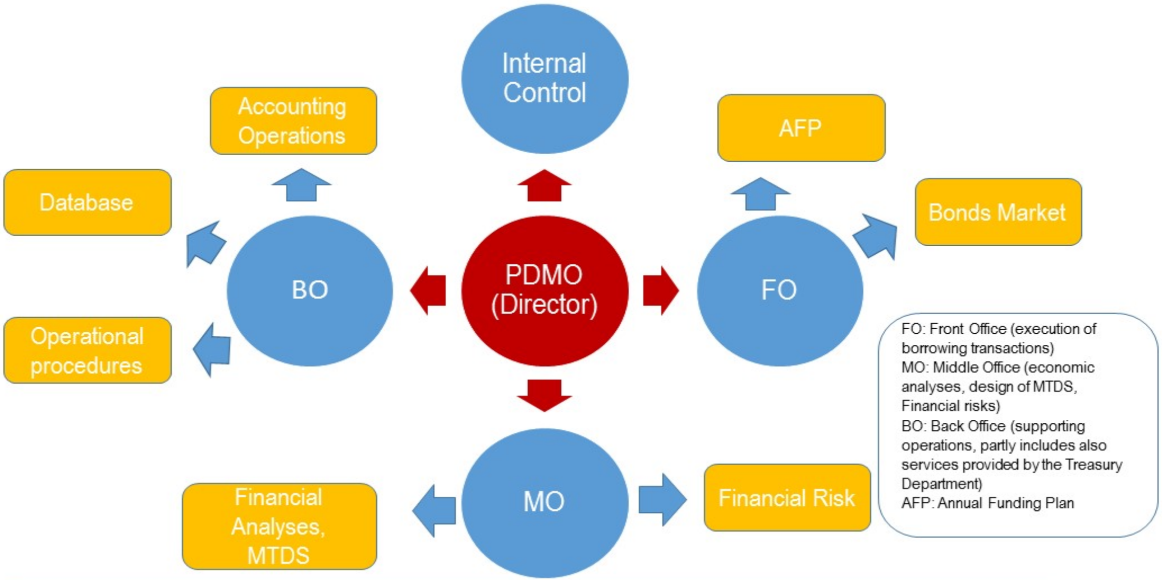


AFP: Annual Funding Plan
CBC: Central Bank of Cyprus
CoM: Council of Ministers
CS: Common Wealth Secretariat
DRMS: Debt recording management system
EMU: Economic and Monetary Union

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
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 actions are 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
CEDB	Council of Europe Development Bank
CRAs	Credit Rating Agencies
CS	Commonwealth Secretariat
CYPGB	Cyprus Euro Medium Term Note (EMTN)
DRMS	Debt Recording Management System
EAP	Economic Adjustment Programme
EFC	Economic and Financial Committee of the EU
EFSF	European Financial Stability Facility
EIB	European Investment Bank
EMTN	Euro Medium Term Note
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
PDML	Public Debt Management Law
PDMO	Public Debt Management Office
SDR	Special Drawing Rights
SSF	Social Security Fund
TBs	Treasury Bills
WACD	Weighted Average Cost of Debt

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I. Introduction

The economic recovery of Cyprus has continued to be robust in 2018, despite the global economic slowdown, creating favourable conditions to correct a number of macroeconomic imbalances such as the stock of public debt and non-performing loans as well as to sustain growth in the long term.

Public finances momentum has remained very strong in 2018, even though the general government surplus turned into deficit due to the one-off banking sector measures related to the sale of the Cyprus Cooperative Bank (CCB). The continuation of these outcomes constitutes a prerequisite to safeguard the debt sustainability of the Republic of Cyprus in the future. Another important element in 2018 was the increased confidence of international investors for Cyprus which was highlighted in the benchmark EMTN (Euro Medium Term Note) issuance in September 2018.

The secondary market yields of the Cypriot EMTN have evolved smoothly and demonstrated overall resilience during 2018. A short period of high volatility was recorded around the mid of the year which was attributed to external events. The Cyprus sovereign spreads of the 2025 bond over selected bonds of euro area countries, after a short period of high volatility, continued to narrow toward the end of the year.

The main financing source of the Republic in 2018 was the international market supplemented by domestic market sources of both the institutional and retail segments. The international market is expected to be strategically the main source of funding in the years to come due to the possibilities offered by the available large, diversified pool of investors. It is noted that the increase of the share of domestic bonds in 2018 is attributed to the government bond issuances to CCB in order to facilitate the sale of the bank and is not related to the government financing needs.

The public debt as a ratio of Gross Domestic Product (GDP) exhibited a material increase in 2018 following the bank support measures related to the CCB, but despite this increase, it is expected to be on a firm declining path based on the Debt Sustainability Analysis implemented by the Ministry of Finance. The central government's liquid assets were maintained at a sufficient level in the reference period (2018) to allow full coverage of the next 9-month period financing needs. Towards the end of the year the liquid assets were reduced but only for a short period since from January 2019 the said assets were increased and February 2019 was around the same level as before.

The debt portfolio risk indicators were affected by the government intervention for the sale of the CCB in the reference period (2018). The weighted average maturity of marketable debt reduced below the target set in the Medium Term Debt Management Strategy (MTDS) 2016-2020, a situation that was changed positively early next year through the issuance of a longer international bond. The average cost of servicing the public debt, reached an all-time low benefiting from official borrowing, 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 upgraded by all Credit Rating Agencies (CRAs) underlying, among others, the continuation of a very strong fiscal performance and the significant progress made in consolidating Cypriot banking sector and reducing non-performing loans. In 2018 Standard & Poor's, Fitch and DBRS assigned the Republic of Cyprus to investment grade.

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.).

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.

Following this introduction, the strategic objectives on public debt management, the Annual Funding Plan (AFP) and the progress to date are presented in Chapter 2. The main developments in the debt capital markets for bills and bonds are presented in Chapter 3.

Chapter 4 outlines the financing actions of the central government in 2018 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 2018.

II. Objectives and Evaluation

A. Mandate

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

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

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

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

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

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

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 and is submitted for final approval to the Council of Ministers by the Minister of Finance, after informing the Budget and Finance Committee of the Parliament. According to the Law, the AFP is designed by the PDMO, and approved by the Minister of Finance. The execution of the necessary borrowing and other debt management transactions form the implementation of the financing plans in order to ultimately meet the guidelines of the Strategy. The current active Strategy covers the period 2016-2020. It was published in early 2016.

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 2018 are presented below. It is noted that after an approval of the Council of Ministers in September 2017, the main pillars and targets of the MTDS 2016-2020 remain the same.

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

   - *Gradual increase and maintain average maturity of marketable debt, not less than 5 years;*
   - *Maintain short term debt equal or less than 4 percent of total debt stock; and*
   - *Maintain long term debt equal or more than 96 percent of total debt stock and respecting the maturity limits:*
     - ➢ *Long term debt maturities 2016-2018: up to EUR 1,2 bn per annum;*
     - ➢ *Long term debt maturities of 2019 and thereafter: up to EUR 2,2 bn per annum.*

2. **Risk mitigation**

   - *Maintain total liquid funds to cover the financing needs of at least next 9 months;*
   - *Maintain marketable debt foreign exchange exposure not more than 5 percent of the total debt stock;*
   - *Maintain total debt foreign exchange exposure not more than 10 percent of total debt stock;*
   - *Maintain marketable debt floating interest rate exposure not more than 5 percent of total debt stock; and*
   - *Maintain total debt floating interest rate exposure not more than 55 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.*

D. Annual Funding Programme 2018

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 2018 were the following:

1. Maintain Cyprus' presence in the international capital markets in order to build up and extend the long-term sovereign yield curve;
2. Mitigate the refinancing risks by setting reserve on liquid funds to cover the financing needs of the next 9 months;

3. Execution of a number of transactions to facilitate the sale of the state-owned CCB; and
4. Renewal of short-term debt and maintain the swift functioning of the Treasury Bills (TBs) market;

By the end of October 2018 and 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 2019 was approved by the Minister of Finance in mid-November 2018.

E. Evaluation of MTDS guidelines and progress to date

The three years passed since the commencement of the implementation of the said strategy, provide a good overview where we stand today in relation to the targets said under this strategy. It is noted that the MTDS includes not only quantitative but also qualitative targets which are more difficult to evaluate.

Given the outcomes presented in this Annual Report 2018, the overall MTDS guidelines have been fulfilled at a satisfactory level following the projected trajectory. The assessment of the process of each guideline is presented below.

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

A substantial changed has been marked on the debt maturity profile during the year 2018 which was attributed to the transactions executed to facilitate the sale of the state-owned CCB. A high concentration of debt maturities appeared in the period 2019-2022 with the average annual debt amounting to EUR 2,1 bn. The share of outstanding short term debt stood at 1 percent of the total outstanding debt at the end of 2018, in line with the target set in the strategy. It is noted that TBs issuances are necessary to maintain pricing points, enrich funding instruments and reach out to investors interested in this particular segment.

The share of outstanding long term debt at end 2018 stood at 99 percent, in line with the strategy. The outstanding annual maturities profile comply with the corresponding minimum limits set in the strategy for the length of debt maturity. After the early repayments of two loans granted by Central Bank of Cyprus (CBC) and CCB and the new issuance of EMTN with maturity falling beyond the years with high peak maturities have been completed, the new debt maturity profile is within comfortable levels. For the following years, our intention is to issue at least one benchmark EMTN per year in order to cover the financing needs of the Government. In order to smooth out further the debt maturity profile, our focus is on longer-term debt issuances given that the market conditions are favourable. The size of the issuance will depend on the performance of fiscal policy.

The average remaining maturity of marketable debt was reduced to 4,4 years at the end of 2018 compared to 4,9 years at the end of 2017 which was attributed to the domestic bond issuances to the CCB with the longest term debt due in 2022.The value of the said indicator is lower than the relevant MTDS target i.e. to be not less than 5 years. The continuation of longer term benchmark EMTN issuances is anticipated to increase the maturity of marketable debt above 5 years.

Risk mitigation

The size of the liquid funds throughout the year of 2018 was in line with the relevant target set in the strategy, to cover the financing needs of the next 9-month period. But, by the end of 2018 the total liquid funds were reduced due to early repayments of two loans as mentioned earlier and as a result the said liquid funds covered almost the financing needs of the next 6-month period.

Moreover, the target for the total and marketable foreign exchange exposure has been achieved to date. The approach, generally followed, is to go for euro denominated issuances only. The only non-euro debt outstanding which is denominated in Special Drawing Rights (SDR), is the IMF loan. By the end of 2018, the said loan stood at around 3 percent of the total debt.

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 and IMF loans and to a lesser extent to a number of loans granted by European Investment Bank (EIB) and Council of Europe Development Bank (CEDB). The total of the said debt with floating interest rates formed 37 percent of the outstanding public debt at the end of 2018. The variable rate debt is anticipated to decline with the gradual redemption of the instalments payable to loans.

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, some progress has been marked. The main objective is how clearing and settlement of domestic bonds listed at the Cyprus Stock Exchange can be undertaken indirectly through the international depositories which are easily accessible by international investors. This project is still underway.

A significant improvement has been marked in the development of a suitable market structure to improve the price discovery mechanism and liquidity provision in the foreign market. A market group with seven international investment banks was formed and has started to work towards this goal. 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 international banks have already submitted their suggestions with regards to the selection of the platform and it is anticipated that the selected platform will operate in 2019.

The target of build-up of a sovereign yield curve, is ongoing. A new point was added in the sovereign yield curve in 2018. According to the existing debt maturity profile, the PDMO aims at centralizing the funding efforts 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 first upgrade of Cyprus' government bond to investment grade by Standard & Poor's, was a proof of the improvement of the investor pool with more quality investors. The efforts now need to be placed in the analysis of investors in order to approach more investors with longer investment horizon and link marketing efforts to this type of investors.

The target of the provision of information to investors has been achieved by the PDMO through the production and dissemination directly to investors of two regular 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 issue premiums and new 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. A number of non-deal related roadshows were executed well ahead the benchmark EMTN issuance in September 2018 both in core and non-core EU market as well as in the US market. The investor base has improved both in terms of geography and type in the 2018 EMTN issuance. It is noted that the investment grade status few days before the issuance, improved the quality of investors portfolio.

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

III. Sovereign Debt Markets Developments

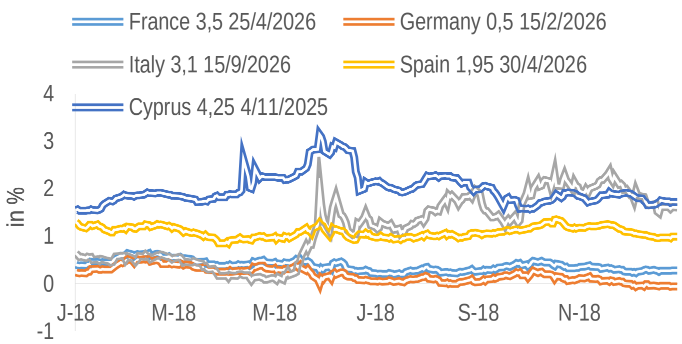
A. Eurozone sovereign debt market developments

According to the notes issued by Directorate General Financial Stability, Financial Services and Capital markets Union, during the first month of the year 2018, developments in bond markets sovereign bond yields have marked an increase in most euro area Member States. The increase was attributed to the expectations of a faster than anticipated winding down of the European Central Bank's asset purchase programme. In February 2018, European bond yields were stabilised following the sharp sell –off in bond markets.

Over the same period, the yield spreads of the long-term government bonds over German Bunds for the most euro area member States exhibited a reduction mainly due to the increase in German bond yields. From the mid-June to end October 2018, the main benchmark sovereign bond yield curves in the euro area have been quite volatile reflecting concerns in some EU countries such as Italy. The yield spreads of long-term government bonds over German Bunds for a number of euro area member States have moved in different directions. The increase in the spreads reflected market concerns from possible spillovers from Italy's fiscal plans. During the year 2018 several EU countries received upgrades including Cyprus.

The yield developments of 10-year bonds, where available, for selected Eurozone States throughout the year 2018 are illustrated in Figure 1. The 10-year Cyprus government bond yield followed an upward trend for the period January – May 2018 whilst for the remaining period until the end of 2018 was in a downward trend and decreased by 127 basis points compared to the end of May 2018. As a result, the gap between Cyprus government bond and other selected bonds presented in the figure below, narrowed.

Figure 1: Secondary market yield curve levels of Cyprus and selected Eurozone States (10-year government bonds) in 2018



(Source: Bloomberg)

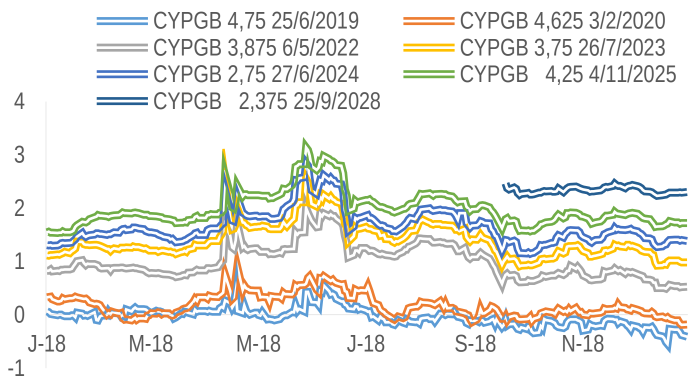
Regarding the implementation of the AFP, a new 10-year benchmark bond (EMTN) was issued in September 2018, adding a further point in the sovereign yield curve of Cyprus. Since the beginning of the year 2018, all Cyprus government bond yields demonstrated overall resilience with some short periods of yield steepening, especially in the period April – June 2018. Within this period, Cyprus bond yield curves had been volatile due to sovereign and non-sovereign related Cyprus news. Over the remaining period of the year, the Cyprus government bond yields have responded in a rather stabilised way despite the political uncertainty related to major events internationally, namely Italy situation and the question of how Europe and the UK will handle Brexit.

The market behaviour indicated a disaggregation of the seven benchmark (EMTN) bonds of the Republic of Cyprus into two main groups. The four longer-dated bonds due in 2022, 2023, 2024, 2025 as well as the newly issued benchmark bond due in 2028 moved in a similar pattern, tightened stronger and over-performed vis-à-vis the other two bonds with shorter-dated maturities. Specifically, the longer-term bonds performed very well in the secondary market with the year closing on average around 148 basis points tighter than their peak in the year with the exception of the newly issued bond, where yield narrowed by 17 basis points by the end of the year than its launch.

The second group of bonds due in 2019 and 2020 performed also well in the secondary market with the year closing 96 and 108 basis points tighter than their peak in the year respectively.

Figure 2 below, illustrates the yield development of Cyprus' international benchmark bonds in 2018, launched under the EMTN Programme and listed on the London Stock Exchange.

Figure 2: Secondary yield levels for Cyprus international bonds in 2018

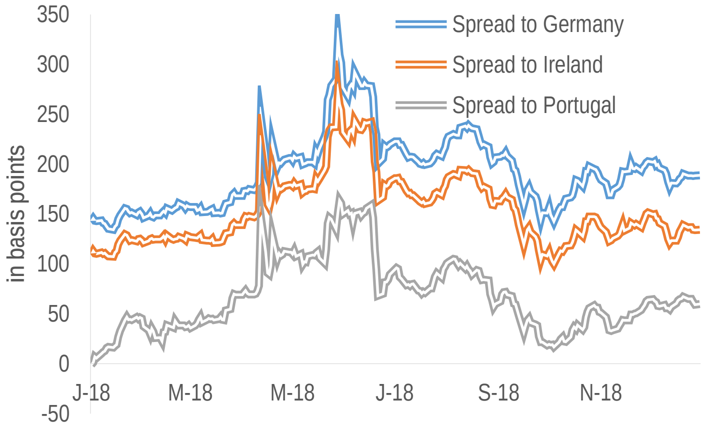


(Source: Bloomberg)

With regards to yield spreads developments, the Cyprus sovereign spreads of the 2025 bond over selected bonds of euro area countries stabilised between January and mid-March 2018 and after a short period of high volatility between April-June, the yield spreads continued to narrow, as presented in Figure 3 below.

The Cyprus sovereign yield spread of the 2025 bond (4,25%) over German Bund (1,0%) maturing in February 15 2025 increased between January-May 2018 and then followed a downward trend and towards the end of year had reduced by 137 basis points compared to the peak of the year reaching 188 basis points. The spread to the Irish bond (5,40%) maturing in March 13 2025 moved in a similar pattern closed to the spread over German Bund and towards the end of year was reduced by 138 basis points compared to the peak of the year reaching 134 basis points. Regarding the yield spread over Portuguese bond (2.875%) maturing in October 15 2025 moved in a similar pattern throughout the year but at lower spread levels and towards the end of year had reduced by 104 basis points compared to the peak of the year reaching 60 basis points.

Figure 3: Cyprus sovereign yield spread to selected euro area countries in 2018 (bonds maturing 2025)



(Source: Bloomberg)

The secondary market activity and the clearly downward trend of Cyprus sovereign yield spreads 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 2018 is presented in the next chapter.

B. Cyprus sovereign debt market developments

The activity of the domestic government bond market has continued throughout the year 2018 with regular monthly 13 week TBs auctions. TBs issuances are euro-denominated and the PDMO does have regular announced auctions of TBs.

Although the annual outstanding amount of TBs is on a downward pattern since 2013, the TBs programme remains the short-term funding vehicle for Cyprus. In 2018, the total cumulative amount of TBs auctions was EUR 1152 mn whilst the total stock of TBs at the end of the year was EUR 252 mn or 1 percent of the total public debt compared to EUR 200 mn at the beginning of the year.

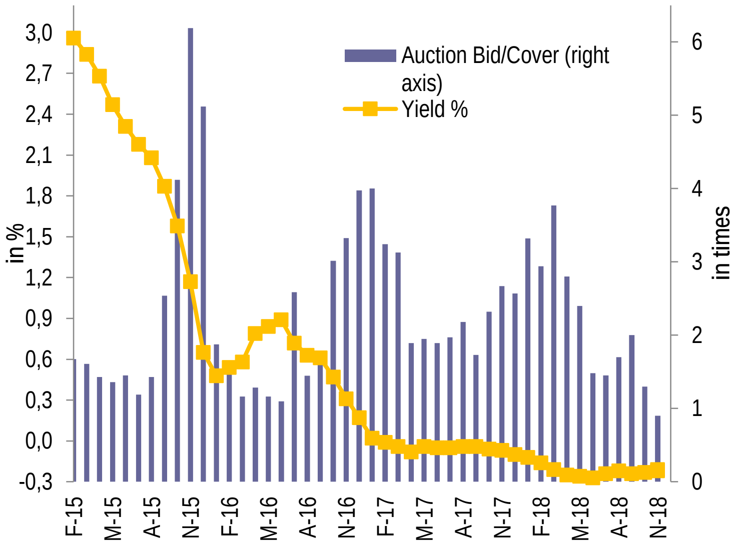
Figure 4 below, illustrates the historical evolution of TBs yields and auction bid to cover ratios[4] during the years 2015-2018. With regards to yields developments, the Cyprus TBs yields showed a clear declining pattern with the weighted average yield reaching -0,22 percent in 2018 compared to -0,05 percent in 2017. It is noted that, TBs yields is on a negative territory since February 2017 reaching -0,21 percent in the last auction in 2018.

Regarding the bid to cover ratios, it seems that the auction participation followed a downward path taking into consideration the materially reduction of interest rates and given that yields are on a negative territory. The annual average auction bid to cover ratio in 2017 was 2,5 times the auction amount whilst in 2018 the said ratio has reduced by 0,4 times reaching 2,1 times the auction amount. The outcome of the TBs auctions in 2018 given that interest rates are on a negative territory

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

can be regarded as a positive signal for the creditworthiness of the government.

Figure 4: Treasury Bills yields and auction bid/cover ratio in 2015-2018



(Source: PDMO)

IV. Financing of the Central Government in 2018

A. Introduction

The financing of the Central Government during 2018 was done through a number of financing instruments. Excluding the amount of domestic bond issuances for the resolution of the CCB, 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 the borrowing needs in 2018 by source and by maturity. The next sub-chapter focuses on the debt redemptions and liability management transactions executed in 2018. The chapter concludes with a review of the year's financing profile.

B. Financing actions in 2018

The central government annual borrowing by financing instrument in 2018 is illustrated in Table 1 below. The total borrowed amount of the Republic of Cyprus in 2018 reached EUR 5,2 bn, excluding debt issued and redeemed within the year. Excluding government intervention to facilitate the sale of the CCB, the total borrowed amount reached EUR 2,0 bn.

The main component of the annual financing, excluding government bonds to CCB, more than two third of the annual funds, was done through the issuance of an EMTN underpinned by strong participation of international investors across Europe and UK and by improved quality of investors. In general, about 36 percent of the annual funds (excluding government bonds to CCB) 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. The remaining share of the annual funds originated by foreign investors investing mainly in foreign bond. An amount of EUR 56 mn or about 1 percent of the total annual financing was formed by foreign loans granted by EIB and the CEDB throughout the year for ongoing infrastructure projects.

Table 1: Annual borrowing by financing instrument in 2018

		EUR mn		%	%
1	Government Securities		5110		99
	of which:				
	TBs	300		6	
	Domestic bonds	3190		62	
	Retail bonds	120		2	
	Foreign bond (EMTN)	1500		29	
2	Loans by EIB-CEDB		56	1	1
	Total annual borrowing[1/]		5166	100	100

1/= Debt issued and redeemed within the year 2018 is not included.

(Source: PDMO)

Table 2 below, shows the distribution of total annual borrowing by maturity in 2018. The maturity of the annual borrowing in 2018 ranged between 0,25 years to 25 years with the majority of the debt ranged in the spectrum of 1 to 5 years. The said debt was composed of the four government bonds issued to CCB (the first one redeemed in December 2018). The second largest amount of debt ranged in the spectrum of 6-10 years which was mainly composed of the EMTN issuance whilst the remaining amount was originated from retail bonds issuances throughout the year and two loans provided by EIB and CEDB for ongoing infrastructure projects.

The weighted average maturity of new issued debt during 2018 was reduced by 1,8 year compared to the respective debt during 2017, reaching 4,8 years, affecting by the government bonds issuance to the CCB due in the period 2018-2022.

Table 2: Distribution of total annual borrowing by maturity in 2018

		EUR mn	%
1	0,25 – 1 year	800	15
2	1 – 5 years	2690	52
3	6 -10 years	1646	32
4	Over 10 years	30	1
	Total net annual borrowing	5166	100

(Source: PDMO)

As presented in Table 3 below, in terms of the utilization of borrowed funds, about 68 percent of the annual funding was placed by the Government to support the CCB. The remaining amount of funding was used to pay the scheduled debt redemptions in 2018, to make early repayments of loans and a small amount for the implementation of infrastructure projects.

Table 3: Summary of the use of the annual funding in cash terms in 2018

		EUR mn	%
1	Debt maturities	762	15
2	Banking sector needs	3541	68
3	Early repayment of CBC and CCB loans[1/]	807	16
4	Infrastructure projects	56	1
	Total net annual borrowing	5166	100

(Source: PDMO)

1/= Excluding accrued interest payments paid to CBC and CCB

The overview of financing actions implemented during 2018 are presented in more details below.

The main financing of 2018 took place in July 2018 through the issuance of five domestic bonds of the order of EUR 3190 mn which were issued in the local market and placed to CCB matched by a corresponding amount of deposits.

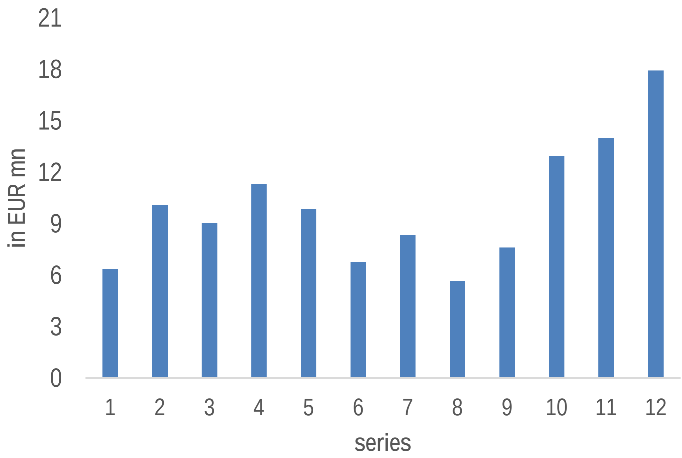
In September 2018, a 10 year EMTN was issued of the order of EUR 1500 mn at a coupon rate of 2,375 percent and yield of 2,40 percent. The new benchmark bond represents the lowest coupon rate and the lowest reoffer yield that the Republic of Cyprus has ever achieved in international capital markets for a benchmark size euro-denominated syndicated issuance. In addition, by notional size the issuance represents the largest ever transaction for the sovereign in euro currency.

The benchmark bond added a further point in the sovereign bond yield curve of Cyprus after the 5 EMTN issuances during the period 2014-2017 underpinned by the largest order book for Cyprus benchmark and diversified pool of investors across Europe and the UK and improved quality of investors (see further Box 1).

In addition, monthly series of the domestic retail bonds amounted to EUR 120 mn were issued throughout the year. The domestic retail bonds are designed to meet the characteristics of natural persons as investors and 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.

Figure 5 below, illustrates the monthly series of retail bond sales in 2018. The increased demand for retail bonds series during the period October-December 2018 was partly attributed to the expected amendment of the interest rates for 2019 series of retail bond sales, which was announced by Government in October 2018.

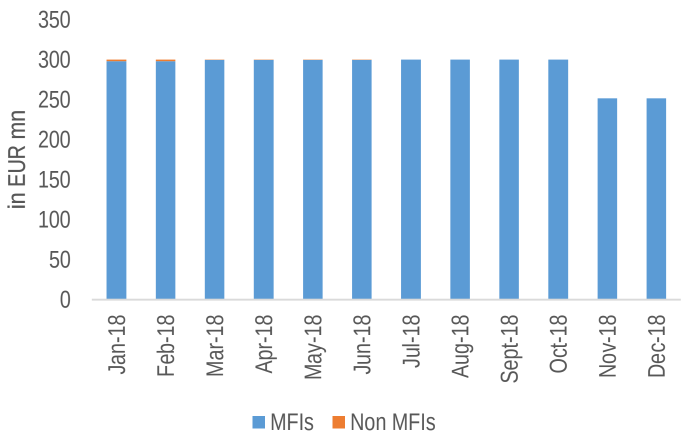
Figure 5: Monthly series of Retail bond sales in 2018



(Source: PDMO)

The annual funding in 2018 has been completed through monthly TBs auctions of the order of EUR 100 mn and three loans amounting EUR 56 mn granted by EIB and CEDB for ongoing infrastructure projects. As presented in Figure 6 below, domestic MFIs dominated the Treasury Bill investor base. Regarding the participation of Non-MFIs in monthly TBs auctions such as pension funds and state-owned enterprises, this is on a downward path since January 2016 as the TBs offered low (negative) returns compared to alternative investments particularly bank deposits.

Figure 6: Evolution of stock of TBs by investor distribution in 2018



(Source: PDMO)

Box 1: Republic of Cyprus EUR 1500 mn, 2.375% 10-year benchmark bond due 25 September 2028

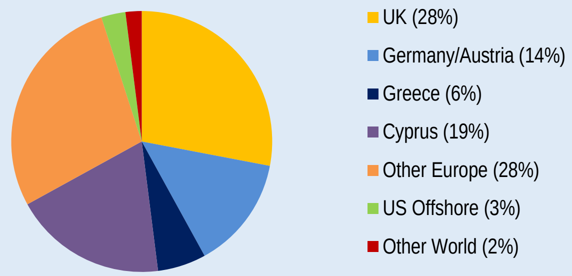
Given the strategic objectives under the MTDS to build out an international bond yield curve and smooth out the debt maturity profile and taking into account the supportive underlying conditions in the international capital markets and the upgrade by S&P's to investment grade (BBB-), the Republic of Cyprus launched a new 10-year benchmark transaction.

The mandate for lead management was extended to Barclays, J.P. Morgan, Morgan Stanley and Societe Generale with an announcement made on 17th September. With the mandate announcement, a netroadshow was also released in order to inform investors of the latest economic developments in the country. On 18th September Initial Pricing Thoughts were released for a 10-year benchmark bond at 2.60% yield area due in 2028. The 10-year tenor was chosen given the availability in the debt maturity profile and in line with the strategic target of increasing the average maturity of marketable debt as well as the positive feedback received from investors.

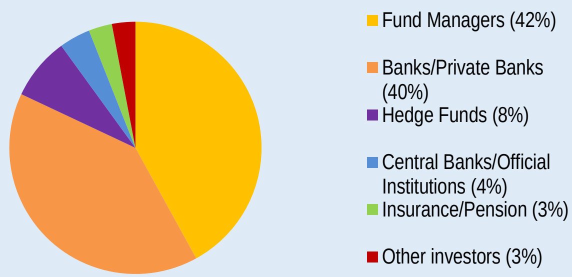
The order book was officially opened on 18th September at 9:05 GMT with a revised price guidance of 2,50% while the demand continued to grow allowing the issuer to further tighten the yield by 10 basis points and set at 2,40%. By the closing of the order book on 18th September at 11:00 GMT, the final demand reached EUR 5,7 bn representing the largest order book generated for the Republic of Cyprus benchmark transaction since its return to markets in June 2014.

Geographically, the placement achieved a broad distribution attracting in particular a significantly higher number of investors from Europe than previous issuances. The UK market continued to be the largest single origin market of investors with 28% share in the final participation. The remaining increased participation of investors came from various European countries, excluding Cyprus, with total European accounts reaching 48% of the final distribution of which around a third from German and Austrian investors. There was also a significant participation from Cypriot investors with 19% share of the issuance. With regards to the investor type the largest pool of investors were Fund Managers (42%), followed by Banks/Private banks at 40% of the final distribution. Hedge funds participation was reduced significantly at 8% compared to 25% at the previous issuance, whilst a fourth participation was recorded by the insurance and pension fund segment at 3%.

Distribution by region



Distribution by type



Summary of terms and conditions

Issuer	The Republic of Cyprus
Format	Reg S Registered only, CACs
Pricing	18 September 2018
Settlement	25 September 2018 (T+5)
Maturity	25 September 2028
Size	EUR 1,500,000,000
Coupon	2,375% annual, ACT/ACT
Re-offer Yield	2,400% p.a.
Spread vs MS	+143,5 bps
Denominations	EUR 1K+1K
Listing/Law	London Stock Exchange/English Law
ISIN	XS1883942648
Lead Managers	Barclays, J.P. Morgan, Morgan Stanley, SG CIB

C. Liability management transactions and Debt redemptions in 2018

The first strategic objective of the MTDS for the years 2016-2020 is the smoothening of the public debt maturity profile and the extension of the maturity of marketable debt. In 2018, the main attention with regards to debt maturity profile was given to early repayments of loans in an attempt to reduce the total interest payment in the future and the weighted average cost of debt. As a result, the exposure of the banking sector to the Government of the Republic of Cyprus was reduced.

The first early repayment of loan was made in December 4 2018 and concerned the outstanding amount of credit provided by the CBC. The total amount of early repayment was EUR 489,5 mn, carrying interest rate of 3,00%, of which an amount €6,1 mn is related to interest payments. The second early repayment of loan was made in December 31 2018 and was related to the outstanding amount of credit provided by the CCB. The total amount of early repayment to the CBC was EUR 325,3 mn, carrying floating interest rate, of which an amount EUR 1,2 mn is related to interest payments.

The details of liability management operations as well as the debt redemptions in the domestic/foreign market and loan amortisations by creditor in 2018 are shown in the Appendix.

Table 4 below shows all long term debt redemptions and liability management transactions in 2018. The scheduled long term redemptions of the year, excluding early repayments, amounted to EUR 849 mn and related to domestic bonds, instalments for domestic and foreign loans as well as to retail securities.

With regards to short term debt, an amount of EUR 300 mn was rolled over throughout the year and towards the end of 2018, the amount of TBs was reduced to EUR 252 mn.

Table 4: Long term debt redemptions and liability management transactions in nominal terms in 2018

		EUR mn	%
1	Domestic Bonds[1/]	95	5,6
2	Loans of which: early repayments (EUR 808 mn)	1555	92,0
3	Retail securities of which: early repayments (EUR 33 mn)	40	2,4
	Total	1690	100

(Source: PDMO)

1/ = Domestic bond of the order of EUR 500 mn issued to CCB in July 2018 and due in December 2018 is excluded since it is considered as a short-term debt.

D. Review of the annual financing plan

This section illustrates how the annual financing plan changed the debt structure of the year 2018. The debt structure has changed significantly in 2018 compared to the previous years. This change was mainly attributed to the government bonds issuances to CCB adding new debt of the order of EUR 3,19 bn in years 2018 to 2022. An increase of public debt was also attributed to a new 10 year EMTN issuance of EUR 1,5 bn underpinned by the objectives set in the MTDS. During 2018, the stock of loans was reduced by EUR 1,5 bn of which an amount of EUR 808 mn concerned early repayments of two domestic loans.

With regards to retail securities and TBs, a small increase was recorded in 2018 compared to the year 2017 by EUR 79 mn and EUR 52 mn respectively by the end of the year.

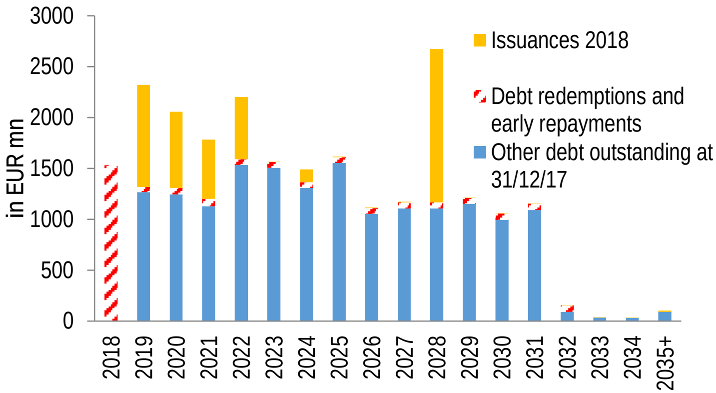
Table 5: Change in the public debt structure in 2018

		in EUR mn
1	Domestic Bonds	2595
2	EMTN	1500
3	Treasury Bills	52
4	Loans	(1499)
5	Retail securities	79
	Total	2727

(Source: PDMO)

Figure 7 below, shows how the public debt maturity profile changed due to funding and liability management transactions in 2018. A total amount of new issuances of around EUR 5 bn was added to the public debt maturity profile. An amount of EUR 3190 mn of the new debt issuances which is related to domestic bonds falls in the period 2018-2022. The second largest amount of new issuances of the order of EUR 1500 mn due in 2028 and an amount of EUR 300 mn (which was rolled over throughout the year) concerns TBs whilst the remaining amount spreads between 2019-2043 and refers to retail bonds and loans granted by EIB and CEDB for ongoing project financing.

Figure 7: Change of public debt maturity profile through 2018 actions



(Source: PDMO)

Although the domestic bond issuances increased the concentration of debt maturities within the period 2019-2022, the maturity profile at the end of 2018 was within comfortable/manageable levels and within the targets set in the MTDS. The impact of liability management transactions in 2018 on debt maturity profile at the end of 2018 is presented in Appendix.

V. The size and Composition of Government Debt

A. Introduction

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

Following the introduction of this Report, the second sub-chapter which is organized in three sections, provides the statistical description of government debt. The first and second sections deal with the size, historical evolution and structure of the consolidated general government debt, whereas section 3 deals separately with the unconsolidated general government debt.

B. Statistical description

B.1 Size and evolution of General Government Debt

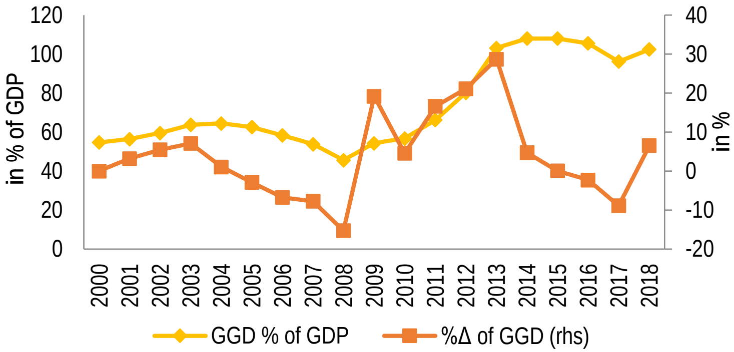
After four consecutive years of an upward path of General Government Debt (GGD), in 2017 the said debt has declined substantially by EUR 700 mn reaching EUR 18,8 bn at the end of 2017. In 2018, the outstanding amount of government debt has increased by EUR 2,2 bn reaching EUR 21,3 bn. Excluding government intervention of the order of EUR 3,5 bn to facilitate the sale of CCB, the GGD marked a significant reduction of EUR 1 bn compared to the debt at the end of 2017 reaching EUR 17,8 bn.

The debt to GDP ratio marked a major decrease over 2017 from 106 percent in 2016 to 96 percent of GDP whilst in 2018 it has increased by 6 percentage points due to government intervention mentioned above reaching 102 percent of GDP, as presented in Figure 8 below. The Figure also shows that the percentage change of debt as a ratio of GDP was on a downward pattern since 2013 with negative signs presented in 2016-2017 whilst in 2018 marked an increase.

The net debt to GDP ratio which excludes accumulation of cash reserves of the order of EUR 513 mn reached 100 percent at the end of 2018.

However, after a one-off increase of public debt in 2018, from 2019 onwards public debt is expected to resume a rapid decline based on debt sustainability analysis implemented by the Ministry of Finance.

Figure 8: Debt to GDP ratio evolution in 2000-2018



(Source: PDMO, Ministry of Finance and Eurostat)

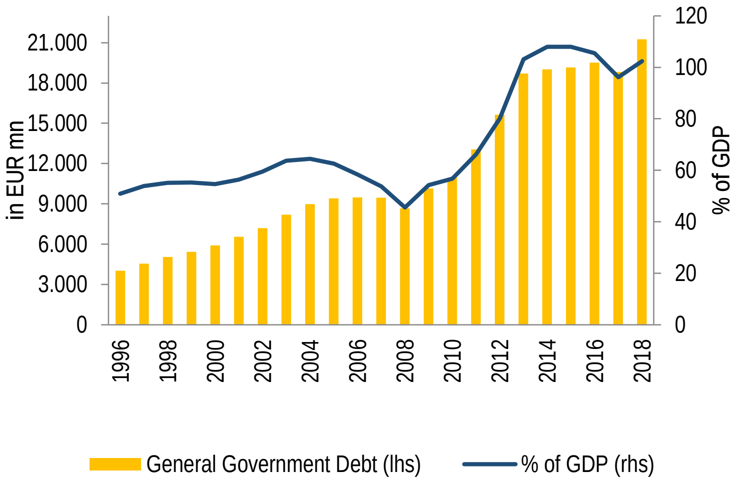
The historical debt evolution over the years 1996 to 2018 is presented in Figure 9 below. During the period 1996-2004, the GGD followed an increasing path from 51 percent of GDP in 1996 to 64 percent of GDP in 2004. Following years of fiscal consolidation, and due to the use of available sinking funds, the debt-to-GDP ratio reached a low of 46 percent of GDP in 2008. Since then, fiscal slippage and low to negative growth rates and as well as capital injection into the banking sector and corrective measures under the Memorandum of Understanding, contributed to a considerable increase in the debt to GDP ratio.

During 2009-2011 the fiscal deterioration was the main contributor to the increase in the public debt. During 2012-2013 both the fiscal deficit and the negative growth rate contributed to the debt deterioration, but additionally the state capital support of the Cyprus Popular Bank (ex Laiki Bank) in 2012 and of the cooperative sector in 2013 increased the public debt by a total amount of EUR 3,5 bn, excluding interest payments.

The banking crisis resulted in state support to the domestic financial sector of currently EUR 3,6 bn or about 20 percent of the gross public debt by end 2014 excluding interest payments. These funds were related to the state recapitalisation of Cyprus Popular Bank and the cooperative sector via debt securities. In late 2015 the Government provided an injection of EUR 175 mn or about 1 percent of GDP of additional public funds into the cooperative sector.

It is important to highlight that despite the sharp increase in the public debt of the past few years, the strong fiscal outcome and the fact that the budget outcome was close to balance in 2014-2015 and positive in 2016, as well as, the positive real GDP growth of 2,0 percent and 4,8 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 another years of strong fiscal outcome with positive real GDP growth of 4,5 percent and 3,9 percent respectively. The historical evolution of gross general government debt in values and as a percent of GDP for the period 1996-2018 is presented in table 4 in Appendix.

Figure 9: Trend in the consolidated general government debt in 1996-2018

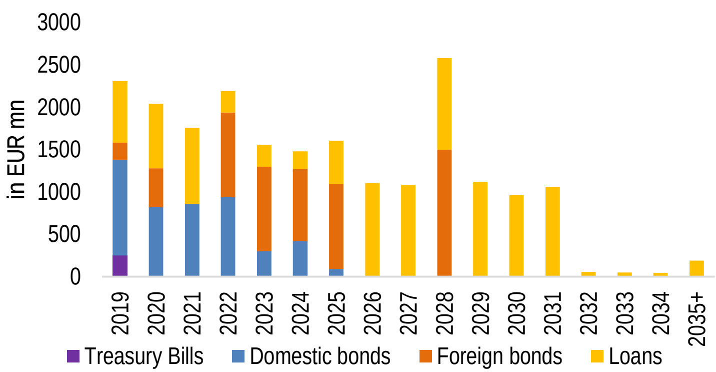


(Source: PDMO and Ministry of Finance)

B.2: Composition of the General Government Debt

This section presents the composition of the GGD at the end of 2018. The maturity structure of the GGD gives a clear picture of the distribution profile among different outstanding liabilities. Figure 10, illustrates the size of the debt sums maturing in each individual year given the outstanding GGD, excluding debt for European Financial Stability Facility (EFSF) loans amounting to EUR 229 mn as at the end of 2018. The said maturity profile shows higher concentration of maturities in years 2019, 2020 and 2022 due to government bonds issued to CCB with the remaining amount of EUR 2,7 bn as well as in year 2028 due to an EMTN issuance of the order of EUR 1,5 bn. In general, the debt maturity profile is smooth and the debt maturities are within comfortable levels and within the objectives set in the MTDS 2016-2020. During the period 2019-2021, an amount of EUR 1875 mn or about 31 percent of the total debt due in the said period concerns the repayments of the bilateral loan granted by the Russian Federation.

Figure 10: General government debt redemption profile as at the end of 2018



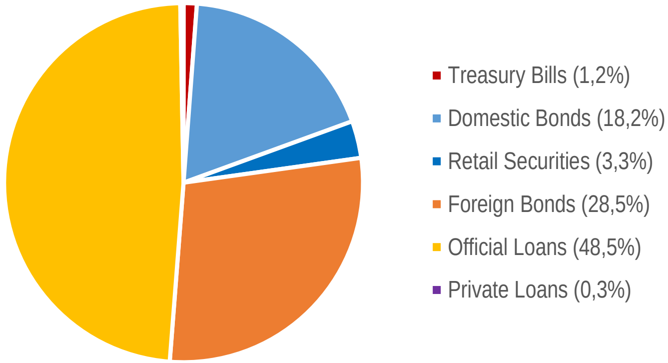
(Source: PDMO)

The share of the government debt by financing instrument, as at the end of December 2018, is illustrated in Figure 11 below. About half of the outstanding public debt in 2018 comprised loans disbursed to the Republic of Cyprus of which the vast majority, about 97 percent or EUR 10,6 bn, concerned official loans. About 68 percent of the official loans related to loans disbursed by the ESM and IMF during the years 2013-2016, whilst the remaining comprised other bilateral loans which were mainly disbursed by the Russian Federation, the EIB and the CEDB.

The second largest category of the outstanding government debt concerned foreign-law securities amounting to EUR 6,0 bn or about 28 percent of the total debt reflecting the increased importance of foreign market as a financing source.

The remaining share of the outstanding public debt (about 18 percent) concerned 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. This is not due to any deficiencies of the domestic market, but it is the result of our strategic decision for Cyprus to be a frequent issuer in the international markets. The outstanding central government debt as at the end of 2018 is presented in Tables 5, 6 and 7 in Appendix.

Figure 11: Share of general government debt by financing instrument in 2018

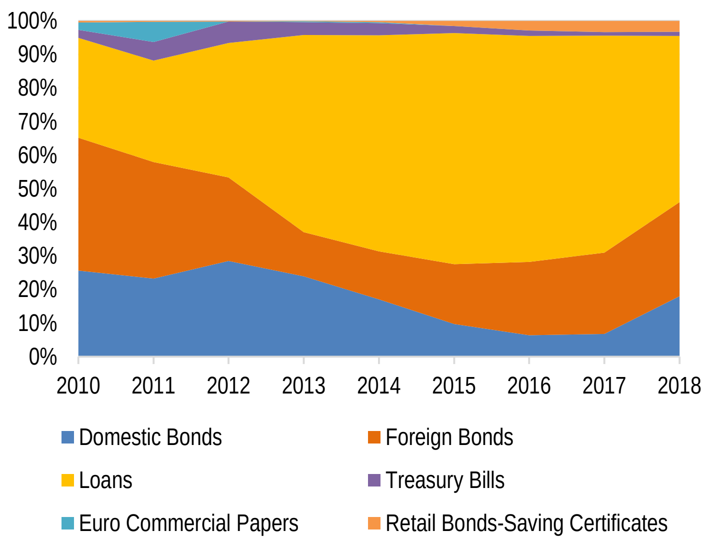


(Source: PDMO)

Figure 12 below, illustrates the historical breakdown of GGD by financing instrument during the years 2010-2018. During the said period, it is obvious that the vast majority of government debt concerned loans which increased abruptly in 2013 by 19 percentage points compared to 2012 and followed an upward trend until the end of 2015 reaching 69% mainly due to the official loans provided by ESM and IMF. In 2016 the level of loans was stabilized at 67% of public debt and then followed a downward trend reaching 49% by the end of 2018. While in the past, domestic bonds were one of the main financing instruments with an average contribution of around 25 percent in years 2010-2013, since 2014 the contribution of domestic bonds to the GGD has marked a significant reduction reaching 7 percent in 2017 compared to the peak of 29 percent in 2012. In 2018, the share of domestic bonds has increased by 12 percentage points compared to the previous year reaching 18% of public debt. This is attributed to the domestic bond issuances to facilitate the sale of the CCB and the said share is expected to reduce from 2019 onwards since 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 percentage points since 2013 reaching 28 percent at the end of 2018 reflecting the intention of Cyprus to maintain its presence in international capital markets and build up a pertinent sovereign yield curve.

Figure 12: Historical breakdown of GGD by financing instrument in 2010-2018



(Source: PDMO)

The distribution of outstanding loans by source as at the end of 2018 is presented in Figure 13 below. As mentioned above, the majority of the stock of outstanding loans as at end 2018 concerned the programme loans provided by ESM and IMF and the intergovernmental loan by the Russian Federation. The said loans stood at 86 percent of the outstanding loans at the end of 2018. The total value of Cyprus' loans from domestic sources was reduced significantly after the early repayments of the CBC loan and the CCB loan in December 2018, reaching 1 percent of the outstanding loans at the end of 2018. Another important funding source was the loans disbursed by the EIB and the CEDB for the implementation of ongoing infrastructure projects. These loans constitute 11% of GGD as at the end of 2018. The said loans are provided to finance different projects such as the extension and modernisation of the facilities of the University of Cyprus, other projects for small-medium enterprises to enhance the growth and encourage the entrepreneurship, the construction of sewerage systems and rural settlements.

Finally, about 2 percent of the outstanding loans granted via the European Financial Stability Facility (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 2018 is presented in Table 7 in Appendix.

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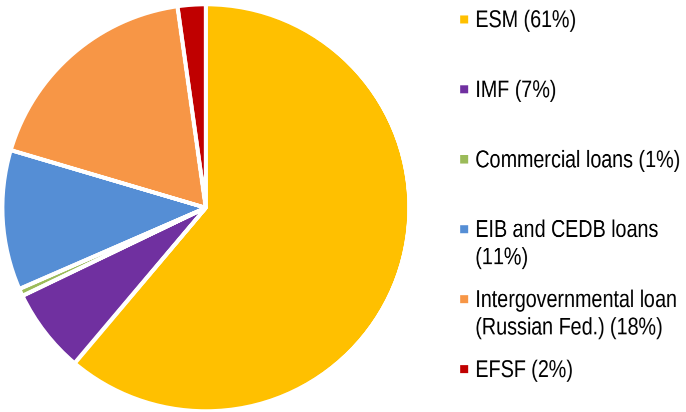
[5]The creditor countries have an equal amount of assets, as loans granted, in their balance sheet corresponding to the share of liabilities, i.e. the accumulated debt by the EFSF. However, any assets which may offset debt are not included in the general government debt, as this is reported on a gross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

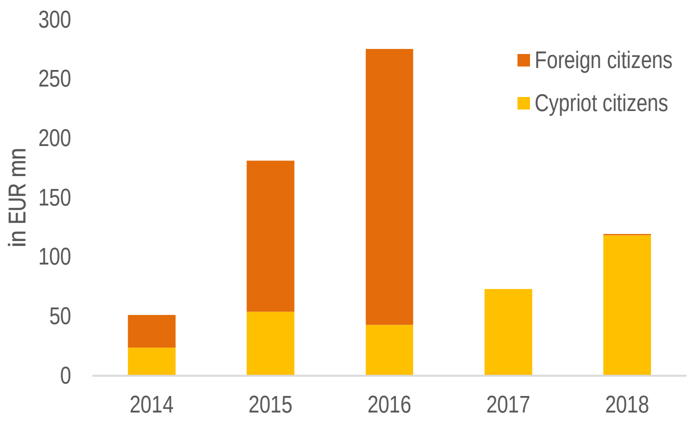
Figure 13: Distribution of loans by source as at the end of 2018



(Source: PDMO)

Figure 14 below, shows the outstanding amount of retail bond sales by citizenship during the years 2014-2018. The majority of retail bond buyers during the years 2014-2016 were foreign investors due to the criteria for the obtainment of the Cypriot citizenship, as a measure to further encourage foreign investment and to attract high net worth individuals into doing business in the Republic of Cyprus. Since the launch of the scheme in 2014 and before the amendment of the criteria for the exceptional obtainment of the Cypriot citizenship in October 2016, foreign investors purchased about 76% of the total retail bond sales in years 2014-2016. After this amendment, the retail bond sales have been directed mainly to Cypriot citizens whilst in 2018, a small interest came back from foreign investors.

Figure 14: Distribution of retail bond sales by citizenship in 2014-2018



(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 2018, the

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

share of outstanding central government debt, excluding debt to SSF, accounted for around 99 percent of the general government debt on a consolidated basis. This share has historically been fairly constant.

Regarding the local authorities' loans, it is noted that the said loans were EUR 61 mn at the end of 2018. The borrowing of local authorities is related normally to infrastructure projects and 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 stock of State-Owned Enterprises loans has been declining due to continuous amortisation and absence of new borrowing reaching EUR 28 mn at the end of 2018 compared to EUR 47 mn at the end of 2017.

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 2018, amounted to EUR 8037 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 2018, the balance of the SSF in the form of deposits stood at EUR 8037 mn exhibiting an increase of 3,1% in relation to the previous year balance of EUR 7798 mn.

Intra-governmental investments in government securities

In addition, the SSF in an effort to increase its revenue, has invested in Government EMTN bonds and Government domestic bonds. The total outstanding amount of investments in government paper was EUR 214 mn as at end 2018 and is presented in further detail in Table 8 in the Appendix.

It is noted that the SSF maintains also deposits with local credit institutions amounting to a total of EUR 95 mn at the end of 2018.

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 2018 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 at year end 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 2018 was around EUR 8 mn.

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

VI. Cost and risks

A. Introduction

The analysis of cost and risk was incorporated in the MTDS for the years 2016-2020. 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 percentage points in 2008 compared to 2007, contributed to the reduction in interest payments towards 7 percent of the government revenue and remained on average at 6 percent in 2009-2011.

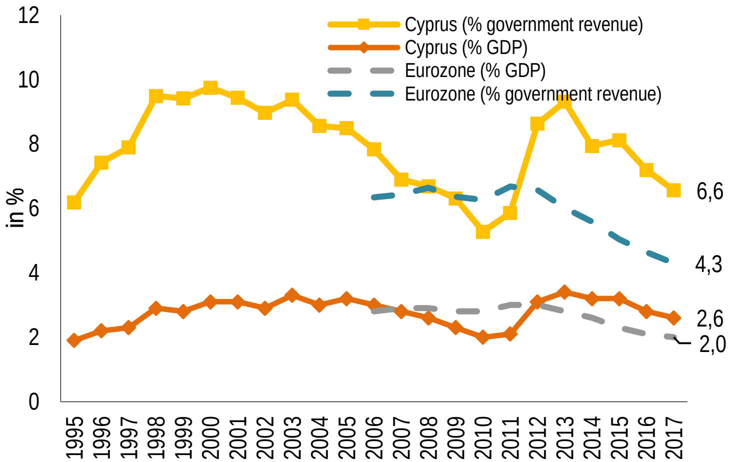
Then, due to the sharp increase of public debt in the next years as well as the rise in the borrowing cost itself, the share of government revenue for interest payments followed an upward path reaching 9 percent at the end of 2013. It then followed a downward direction reaching around 7 percent at the end of 2017, as presented in Figure

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

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

By the end of 2017, interest payments to GDP ratio was estimated at 2,6 percent compared to 2,8 percent of the previous year. This is explained by lower amounts of interest payments due to lower borrowing cost because of low interest rate environment in the Eurozone and improvements in the sovereign credit ratings and outturn for the Cypriot economy as well as higher GDP. As presented in the following Figure, the gap of interest payments as a share of GDP between the Republic of Cyprus and the Eurozone marked a reduction by 0,3 percentage points reaching 1,0 percent in 2017. The historical debt servicing in 2010-2017 is presented in Table 9 in Appendix.

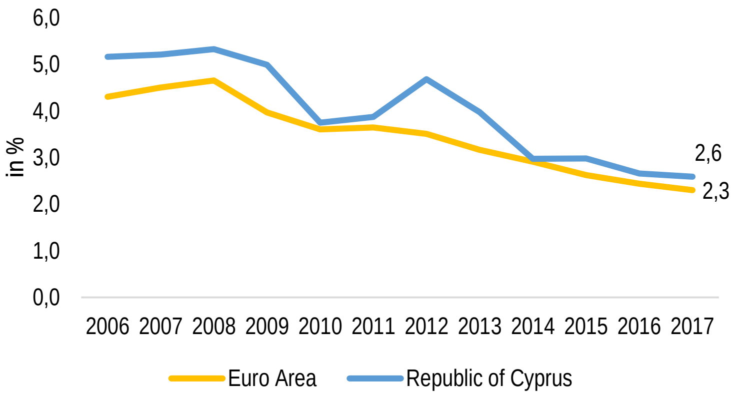
Figure 15: Distribution of interest payable on public debt during 1995-2017



Source: PDMO and Eurostat)
Note: The interest payable as a percent of GDP in 2018 was estimated at 2,5 percent.

Figure 16 illustrates the distribution of interest payable over debt for the Republic of Cyprus compared to Euro area countries in 2006-2017. Since 2013, interest payable to debt ratio is on a downward path exhibiting minor fluctuations. Regarding the gap between the Republic and Euro area countries, there is a convergence reaching 0,3 percent at the end of 2017 compared to 0,8 percent in 2013.

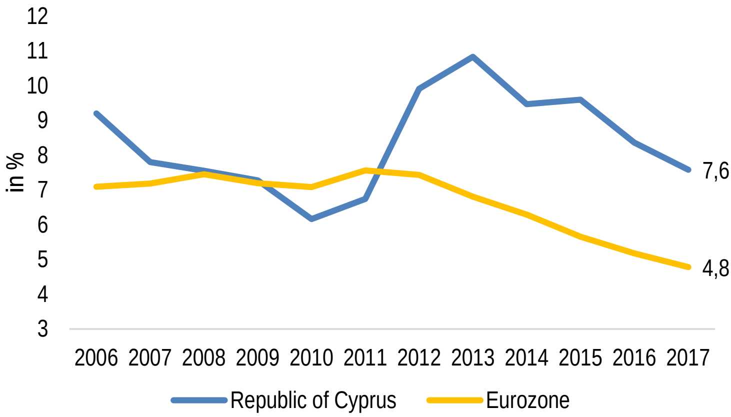
Figure 16: Distribution of Interest payable$_{(t)}$ to Debt $_{(t-1)}$ in 2006-2017



(Source: PDMO and Eurostat)
Note: The interest payable to Debt $_{(t-1)}$ was estimated at 2,7 percent in 2018 due to the reduction of public debt (denominator effect)

Figure 17 illustrates the distribution of interest payable to tax revenue for the Republic of Cyprus compared to Euro area countries in 2006-2017. Since 2013, the gap is on a downward path reaching 2,8 percent at the end of 2017 compared to 4 percent at the end of 2013. Although there is a significant difference, we expect a reduction of the gap underpinned by further improvement of public finances in the next years.

Figure 17: Distribution of interest payable to tax revenue in 2006-2017



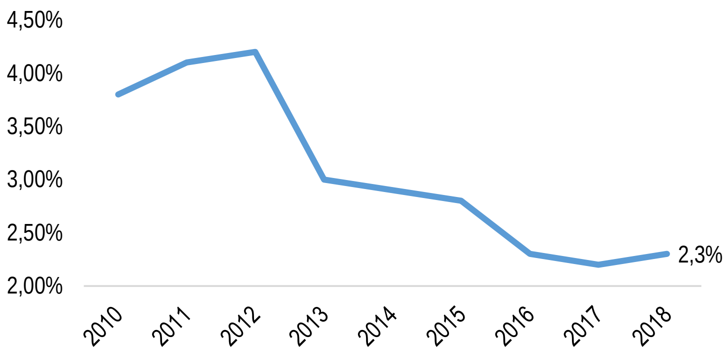
(Source: PDMO and Eurostat)

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 public finances or 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 percentage points in relation to 2012 mainly due to the official funding provided by ESM and IMF at low interest rates. During 2013-2018 the WACD followed a downward trend reaching 2,3 percent at year end of

2018 as a result of the positive impact from the low cost ESM and IMF loans as well as from the liability management transactions implemented by the PDMO and the environment of low interest rates in the European capital markets. 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 2010-2018

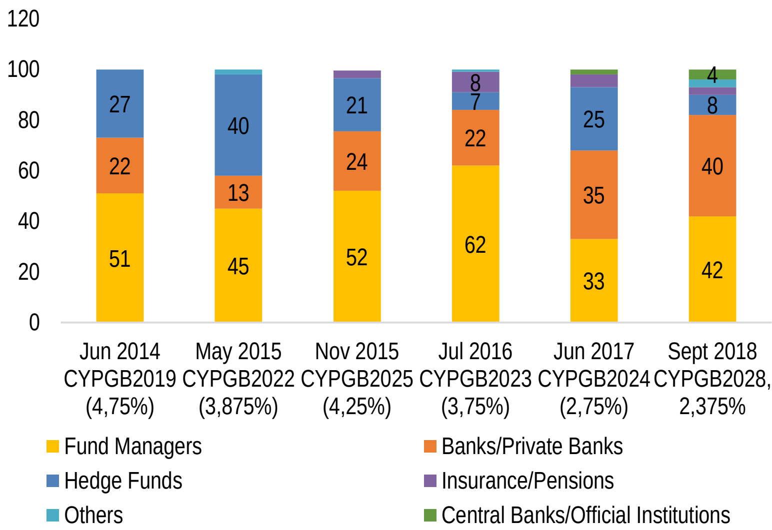


(Source: PDMO)

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 19 and 20 respectively.

During the last issuance in September 2018 (due in 2028), significant improvement of the quality of the orderbook has been marked. This is mainly due to the upgrade of the Republic of Cyprus to investment grade by S&P's few days before the date of issuance. The largest investor class was Fund Managers at 42 percent, closely followed by Banks/Private Banks at 40%. The participation from Hedge Funds exhibited a large reduction reaching 8 percent compared to the previous issuances. The participation from insurance/pension funds and Central Banks/Official Institutions reached 7 percent totally.

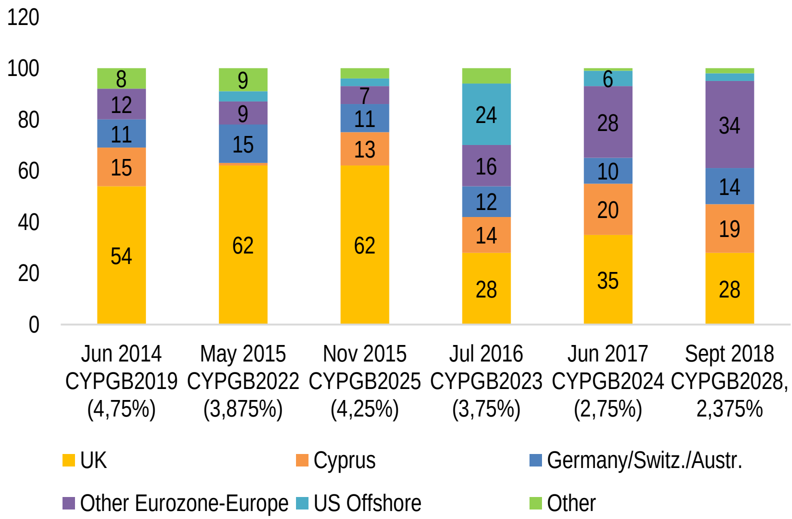
Figure 19: Evolution of investor distribution for EMTNs by type during 2014-2018



(Source: PDMO)

With regards to investor distribution for EMTNs by geography, it is worth-noting that during the last three issuances, a more balance distribution was achieved between UK investors and investors from other countries. At the last issuance the Republic of Cyprus has achieved a broad distribution across Europe and UK. The third largest investor class was Cypriot investors at 19 percent whilst an increased participation marked from the German regions represented with 14 percent of the trade.

Figure 20: Evolution of investor distribution for EMTNs by geography during 2014-2018



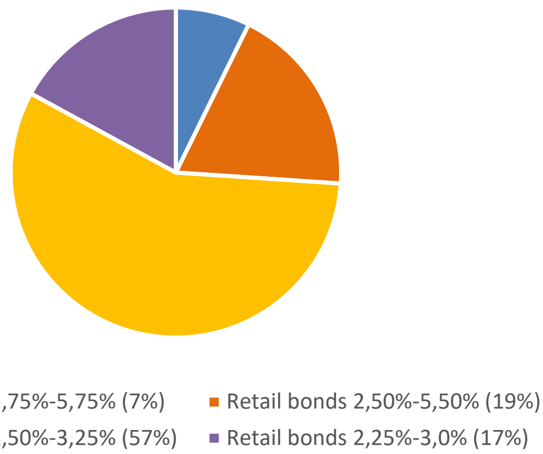
(Source: PDMO)

Furthermore, it is important to highlight that the refinancing of the short term debt was achieved at negative interest rates since February 2017 reaching -0,21 percent at the end of 2018. The weighted average yield of short term debt in 2018 exhibited a significant reduction reaching -0,22 percent from -0,05 percent which was in 2017.

Regarding the interest rates of retail bonds, it is noted that in October 2018, 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 series of 2019. The new step-up structure of interest rate starts from 1,75 percent in the first year and gradually increases to 2,50 percent if retained until the sixth year (see Announcement in Appendix).

Figure 21 below, shows the distribution of retail bonds by interest rate structure at the end of December 2018. About 2/3 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 2,50 percent to 5,50 percent.

Figure 21: Distribution of retail bonds by interest rate structure



(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 2016-2020 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 2018 on the debt portfolio risks were affected by the CCB-HB transaction. The government bonds issuance to facilitate the sale of CCB in 2018 has certainly led to a concentration of maturities in years 2019-2022, thereby reducing the weighted average maturity of debt and increasing the share of debt due within one year and five years. The floating rate debt provided by ESM as a percent of the total debt reduced in 2018 compared to the previous year whilst the rate by IMF recorded an increase, albeit still high, taking into consideration that these loans are indexed at low interest rates, the interest rate risk is limited.

Although, the CCB-HB transaction provided a high concentration of maturities in the years 2019-2022, the debt maturity profile remained at manageable levels and within the targets set in the MTDS 2016-2020. The current MTDS 2016-2020 is focusing on longer-term issuances in order to avoid the need to mitigate portfolio risks through liability management transactions, which are costly.

It is important to highlight that risk management of public debt does not, in the ordinary application, cover the debt sustainability assessment since the latter is related mostly to fiscal and macroeconomic indicators, conventionally the GDP and the fiscal balance. Thus, the debt sustainability analysis focuses on macroeconomic factors and prospects and is not the 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 1 year and the second one is the share of debt due within 5 years.

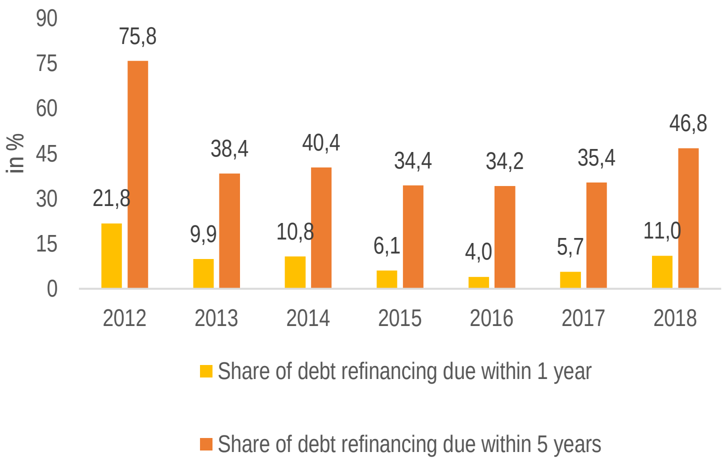
As presented in Figure 22 below, the share of debt due within 1 year followed a decreasing path since 2012. The large reduction of share of debt due within 1 year from 22 percent in 2012 to 10 percent in 2013 was attributed to the long term official funding granted by ESM and IMF. In the following years, the said indicator has continued to improve underpinned mainly to the disbursements granted by ESM and IMF and to a lesser extent to the liability management transactions implemented during 2014-2017.

The debt redemptions due within 1 year at the end of the year 2018 marked an increase reaching 11 percent compared to around 6,0 percent in 2017 reflecting the amount of EUR 750 mn of the bond issued to CCB due in December 2019. Although, the share of debt due within 1 year marked an increase, 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 5 years, after a significant reduction by more than 40 percentage points during the period 2012-2017, in 2018 marked an increase reaching 47 percent compared to 35 percent a year before mainly due to the government bonds issued to CCB due in the period 2019-2022 as well as due to the EMTNs due in the said period.

Since the share of debt due within 5 years exhibited an increase, in order to mitigate the refinancing risk exposure, the Republic of Cyprus is focusing on longer term issuances improving further the debt maturity profile.

Figure 22: Share of debt refinancing due within 1 year and 5 years in 2012-2018

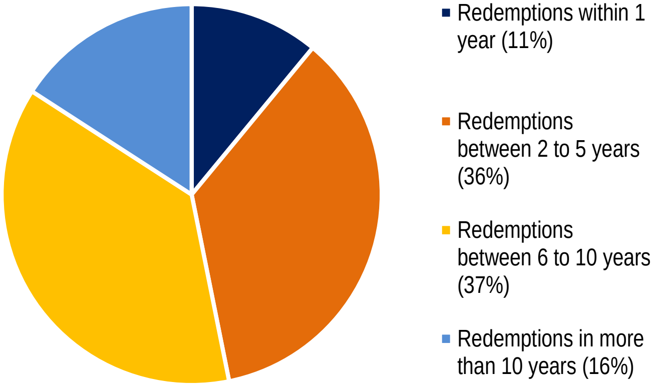


(Source: PDMO)

Figure 23 below, shows the debt refinancing distribution of the total debt of the Republic of Cyprus in four categories as at the end of 2018. The majority of the debt redemptions of the order of EUR 7,8 bn fall due in the segment between 6 to 10 years since ESM loans will start to be repaid as from 2025. About 45 and 43 percent of the debt due in the said segment concerns loans repayments to the ESM and EMTNs redemptions respectively. The second largest category of redemptions of the order of EUR 7,5 bn fall in the segment between 2 to 5 years. About 39 percent of the redemptions fall in this segment related to domestic bonds of which 66 percent is related to the bonds issued to CCB. About 33 percent of the debt due in the above segment concerns three EMTNs due in 2020, 2022 and 2023. The remaining amount of

EUR 2,1 bn due in the said segment is related to loans of which about 59 percent refers to the remaining amount provided by the Russian Federation.

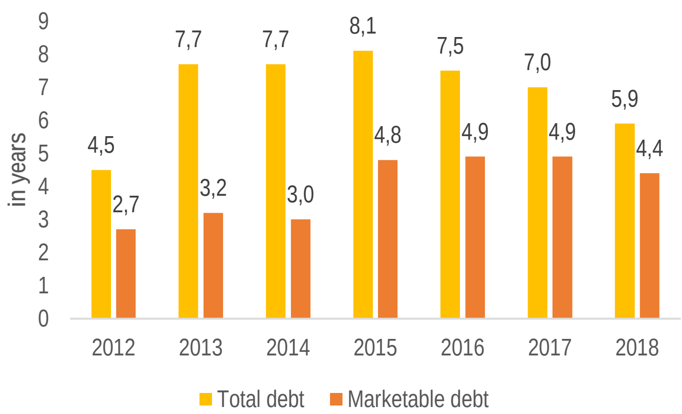
Figure 23: Total debt[1/] refinancing distribution as a percent of GGD at the end of 2018



(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 24 below, the outstanding average maturity was 5,9 years for the total debt and 4,4 years for the marketable debt. Comparing these sizes 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, CEDB and Russian loan as well as of liability management transactions implemented by the PDMO. Since the figures marked a reduction in 2018 compared to the corresponding figures in 2017 due to the government bonds issued to CCB, our focus under the MTDS 2016-2020 is on longer term debt issuances in order to improve further the weighted average maturity of marketable debt, thereby reducing the refinancing risk.

Figure 24: Weighted average maturity of debt (in years) in 2012-2018 as at the end of 2018



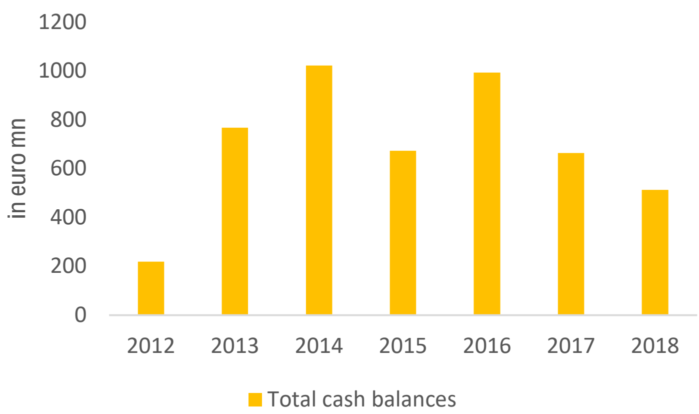
(Source: PDMO)

Liquidity risk

The annual cash balances in years 2012-2018 are presented in Figure 25 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. The total cash balances reached EUR 513 mn at the end of 2018.

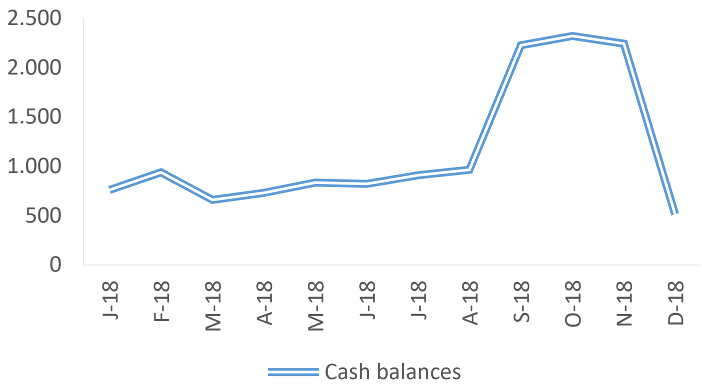
As presented in Figure 26 below, the total liquid funds maintained stable during the period January – August 2018, then exhibited an increase and remained at high level of around EUR 2 bn during the period September – November 2018. In December 2018, a large reduction on the cash balances was marked due to early repayments of CBC and CCB loan financed by cash balances. One month later, the total liquid funds marked a significant increase of about 83 percent reaching EUR 941 mn. The financing needs cover ratio of 2018 is illustrated in Figure 32 under the Chapter “Cash management”.

Figure 25: Cash liquidity levels in 2012-2018



(Source: CBC)

Figure 26: Cash liquidity levels on a monthly basis in 2018



(Source: CBC)

Interest rate risk

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

The interest rate distribution of debt has changed dramatically in 2013, as presented in the Figure 27 below. Following the Memorandum of Understanding in March 2013 on Economic Adjustment Program, the interest rate distribution has changed significantly mainly due to the borrowing by the ESM and 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 reducing therefore share of the fixed rate

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

debt. Another reason for the above change on the interest rate distribution was the borrowing by the EIB and CEDB 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 percentage points reaching 36 percent at the end of 2013 compared to 12 percent at the end of 2012, prior to the loan agreement of Economic Adjustment Program.

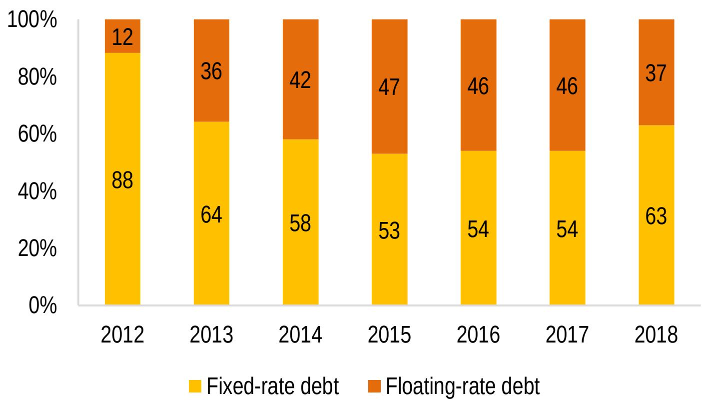
As the loan disbursements by ESM and IMF were released, the proportion of debt at floating rate followed an upward path reaching 46 percent at the end of 2016 which was the last year of the financial assistance programme. In 2017, the debt of floating rate remained at the same level whilst in 2018 a large reduction of floating rate debt was marked. The reason for the said change was the issuance of 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.

Although, the debt of floating rate stood at 37 percent at the end of 2018, taking into consideration that the vast majority of floating rate debt is indexed at low interest rates, as presented in Figure 28 below, the interest rate risk is expected to be limited. Specifically, loans by ESM and IMF [10] of EUR 7,0 bn or about 89 percent of total floating rate debt are indexed at low rates whilst an amount of EUR 0,8 bn or about 11 percent of the total floating rate debt by EIB and CEDB are indexed at low margins over the Euribor rate.

[10] IMF loan was estimated according to the exchange rate of Euro/SDR as at 28 December 2018.

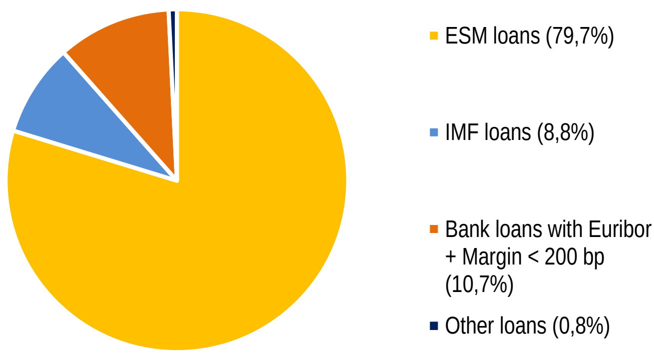
Given, however, the historically current low interest rate period, interest rates in general are expected to gradually rise.

Figure 27: Evolution of interest rate distribution of debt in 2010-2018



(Source: PDMO)

Figure 28: Composition of floating-rate debt as at the end of 2018



(Source: PDMO)

Furthermore, it is important to highlight that in 2017 ESM proceeded with amendment of its borrowing guidelines for non-EUR issuances in order to expand the investor pool and reduce the risks arising from adverse circumstances in the euro markets. This amendment is expected to affect the borrowing cost of the ESM either positively or negatively affecting ultimately the cost of debt held by beneficiary member states of ESM/EFSF funding, including Cyprus, and therefore it should be noted.

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) and the increase of outstanding debt servicing and debt burden in case of a significant depreciation of the domestic currency.

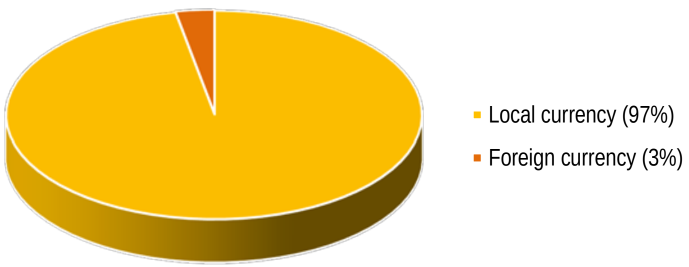
Figure 29 shows the currency composition of debt as at the end of 2018. The majority of the public debt is denominated in domestic currency whilst only EUR 692 mn or about 3 percent of the outstanding GGD is denominated in foreign currency. This percentage refers to the loans from the IMF which, are denominated in SDR [11].

Taking into account that SDR includes also the euro, we conclude that the foreign exchange risk is limited. The exchange rate of EUR/SDR

[11] 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).

increased by almost 2,3 percent reaching to EUR 1,21424 per SDR at the end of 2018 from EUR 1,18747 per SDR at the end of 2017 indicating an appreciation of foreign debt denominated in SDRs.

Figure 29: Currency composition of debt as at the end of 2018



(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 swap transactions and the investment of liquid assets.

During 2018, there were no outstanding derivative exposures for the Republic of Cyprus. Regarding the deposit levels in the money market, there was an amount of EUR 380 mn since January 2018, which was deposited in MFI. The said amount exhibited a reduction by EUR 100 mn in February 2018 and toward the mid of the year 2018, there were no any deposits in the MFIs. It is noted, that the deposits were overcollaterised. More information is presented in Chapter 7.

In conclusion, the credit risk for the government in the reference period was not material and can 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 CS for the appropriate software.

The roadmap for actions for the period 2015 (Dec.) -2020 (Dec.) concerning the internal organization and IT infrastructure of the PDMO was approved by the Council of Ministers of the Republic in September 2015. The implementation progress is described under the final chapter, namely “PDMO action plan”.

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

C.3: Contingent liabilities

C.3.1: Introduction

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.

C.3.3: Statistical description of Government Guarantees

Taking into consideration the above amendment of the PDML, this section describes only the main developments [12] regarding GG.

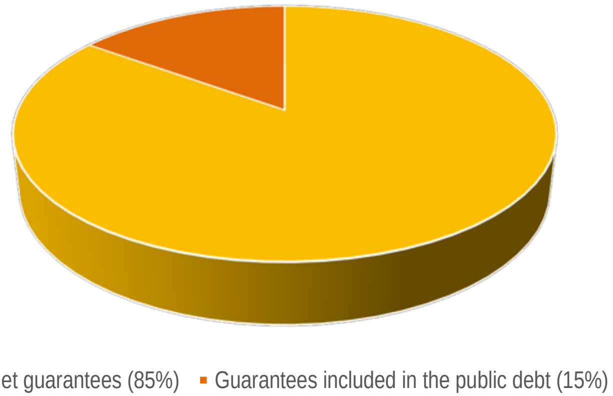
The Republic of Cyprus had outstanding GG [13] for loans as at end 2018 of EUR 1,9 bn or about 9 percent of GDP, which is slightly lower than the relevant stock of EUR 1,93 bn at the end of 2017. Excluding the GG granted to entities of the general government (since the outstanding amount of these guarantees is also included in the general government debt), the net value of outstanding GG was EUR 1,61 bn or about 7,8 percent of GDP as at end 2018. It is noted that the GG portfolio is denominated fully in euro. Analysis of the outstanding stock of government guarantees as at end 2018 is presented in table 10 in Appendix.

[12] Detailed analysis of explicit contingent liabilities is presented in the website of the Treasury of the Republic http://www.treasury.gov.cy/treasury/treasurynew.nsf/page22_en/page22_en?OpenDocument

[13] 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 30 shows that an amount of EUR 286 mn or about 15 percent of the total value of outstanding guarantees is also included in the public debt as at end 2018.

Figure 30: Outstanding GGs in percent as at the end of 2018



(Source: Treasury)

Regarding the called guarantees, an amount of EUR 38 mn or about 2 percent of the outstanding amount of government guarantees at the end of 2018 was called. The majority of the called guarantees concerned guaranteed loans granted to natural persons. More information is presented in the website of the Treasury of the Republic of Cyprus.

VII. Cash Management

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

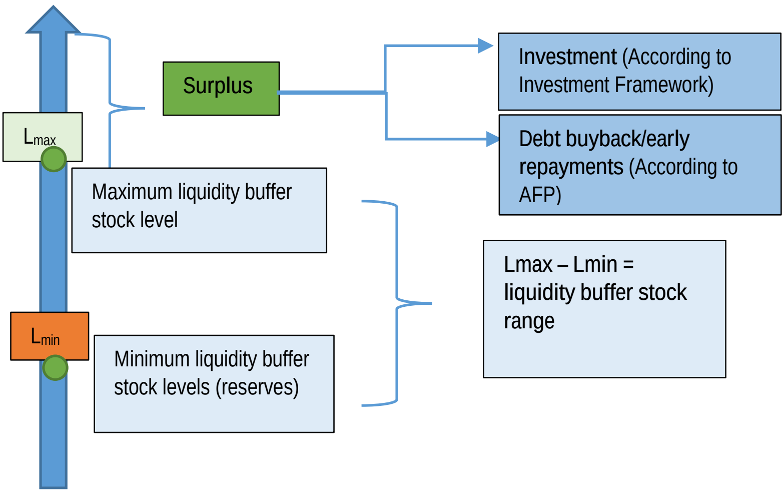
Pursuant to article 21 of the PDML, the PDMO has the responsibility to retain the liquidity buffer stock range by borrowing the necessary funds in time. The PDML authorizes the PDMO to operate an active cash management framework in order to ensure a satisfactory return on the liquid funds maintaining 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 is presented in Figure 31. A maximum and a minimum liquidity buffer stock level are determined by the PDMO within the General Government Account taking into account, among others, the variability of the markets and the current credit facilities of the Republic of Cyprus.

When the cash amount exceeds the maximum buffer stock level, the said surplus can be invested by the PDMO according to the Investment Policy Framework for cash management or it can be used either to buyback outstanding securities of the Republic or for the early repayment of loans according to the AFP.

During the year 2018 and taking into consideration that the government liquidity was above the maximum liquidity buffer stock level by the end of the year, the PDMO pursuant to article 21 of the PDML, proceeded with two early repayments of loans granted by CCB and CCB of the order of EUR 808 mn. In addition, the PDMO made government deposits within the banking sector of Cyprus of the order of EUR 380 mn under a guarantee scheme. Table 11 in Appendix, shows the historical distribution of total cash balances held with the CBC and cash deposited with MFIs.

Figure 31: Institutional structure of the government cash management

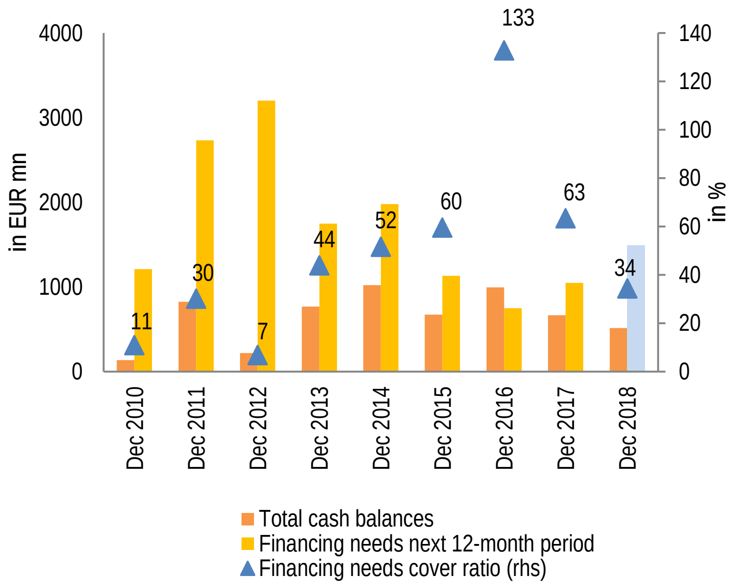


(Source: PDMO)

Figure 32 below, shows a comparative analysis between the historical distribution of total cash balances and the amount of debt which falls due within next year based on the statistical information at the end of the current year. The financing needs of the next 12 months has peaked at the end of 2012 with the financing needs 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 financing 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 State amended 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. By the end of 2018, cash balances covered about 34 percent of the next 9-month debt redemptions.

Figure 32: Distribution of cash balances and amount of debt that falls due within one year in 2010-2018



(Source: PDMO and CBC)
Note: The financing needs (only debt redemptions) in December 2018 concern the 9-month period of the next year and not 12 month-period as the previous years.

VIII. Sovereign Credit Ratings of the Republic of Cyprus

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

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

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

The Cypriot economy continued to improve its economic resilience and after performing strongly in the past two years, Cyprus's economic growth remained robust in 2018. The banking sector has marked a material reduction in Cypriot banks' non-performing loans. As a result, all CRAs upgraded the credit profile of the Republic of Cyprus during 2018. Cyprus' government bond rating was upgraded to investment grade by three CRAs changing the outlook from positive to stable, a practice which is usually implemented by CRAs in case of an upgrade.

Standard & Poor's affirmed its 'BB+' long-term foreign currency sovereign credit rating on Cyprus in March 2018 with positive outlook while in September 2018 raised Cyprus' government bond by one notch to 'BBB-' and changed the outlook to stable from positive.

In April 2018, Fitch upgraded Cyprus' long-term issuer default rating by 1 notch to 'BB+' from 'BB' and maintained the outlook to positive indicating a likelihood of an upgrade within the next 12 months if specific conditions are met. In October 2018, Fitch upgraded Cyprus's long-term issuer default rating by 1 notch to 'BBB-' from 'BB+' and changed the outlook to stable from positive.

In May 2018 DBRS upgraded Cyprus' government bond by 1 notch to 'BB' from 'BB (low)' and changed the trend to positive from stable indicating a likelihood of an upgrade within the next 12 months if specific conditions are met. In November 2018, DBRS upgraded Cyprus's long-term issuer default rating by 2 notches to 'BBB (low)' from 'BB' and changed the outlook to stable from positive.

In July 2018, Moody's upgraded Cyprus' government bond by 1 notch to 'Ba2' from 'Ba3' and changed the outlook to stable from positive. It is noted that based on Moody's Press release for Cyprus issued in July 2018, the decision to change the outlook to stable is attributed to pressures for higher public expenditure and uncertainty whether the new legal tools will enable a material reduction in the banking system's non-performing loan ratio.

Table 6 below, illustrates where the Republic of Cyprus stood at end 2018 in terms of credit ratings comparing with the corresponding ratings in 2013. The situation has been improved significantly in 2018 compared to 2013. For the reference year 2018 and specifically since September 2018, Cyprus's investment grade status has been restored commencing by Standard & Poor's in September, by Fitch in October and by DBRS in November. After the upgrades, the outlook changed from positive to stable by all four CRAs.

Table 6: Solicited sovereign credit ratings as at the end of 2018 [14]

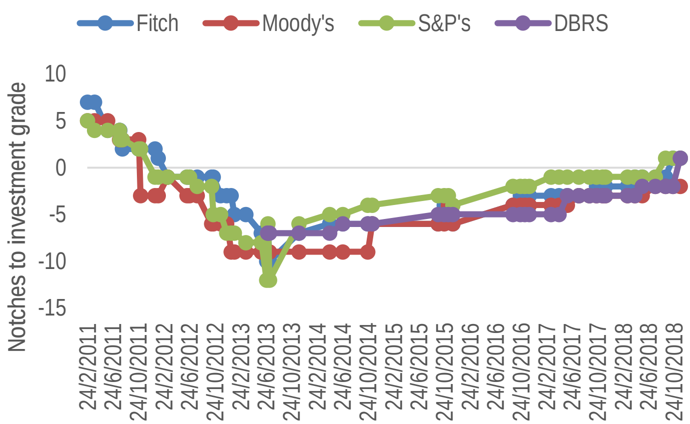
	Long-term debt					
	Rating as at 31/12/2018			Rating as at 30/6/2013		
CRAs	Rating	Outlook	Notches to investment grade	Rating	Outlook	Notches to investment grade
DBRS	BBB (low) (Nov. 2018)	Stable	IG	CCC[1/]	Negative	-7
Fitch	BBB- (Oct.2018)	Stable	IG	RD	Negative	-10
Moody's	Ba2 (July 2018)	Stable	-2	Caa3	Negative	-9
Standard & Poor's	BBB- (Sept. 2018)	Stable	IG	SD	Negative	-12

Source: PDMO
1/ = The first rating of the DBRS for the Republic of Cyprus done in 12/7/2013
IG = Investment grade

The historical credit ratings of the long-term issuer rating of the Republic of Cyprus during the years 2011-2018 are illustrated in Figure 33 below. The Republic of Cyprus is on an upgrading path of up to 12 notches since 2013 which reflects the economy's turnaround. At the end of 2018, as mentioned earlier, the outlook changed to stable from positive by all CRAs.

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

Figure 33: Historical evolution of credit ratings of the Republic of Cyprus in 2011-2018



(Source: PDMO)

The government bond rating of Cyprus upgraded by Moody's [15] due to the recent improvements in the economic resilience of Cyprus as well as the consistent outperformance on fiscal targets and at the same time on positive fundamental debt dynamics. The key rating challenges of the Republic by Moody's are the small and relatively undiversified economy of Cyprus, the high level of government and household debt as well as the high level of non-performing exposures of the financial sector.

Regarding the rationale of the rating and outlook developments of the Cypriot economy in 2018, the upgrade of the Republic by Standard & Poor's [16], based on the CRA, was attributed to the fact that the Cypriot economy will continue to grow at a solid pace through 2021 and as a result it will enable the Government to alleviate its debt burden. The

[15] Moody's Press Release and Rating Action Report in July 27 and in August 1, 2018 respectively.
[16] Standard & Poor's Rating Action Report in September 14, 2018.

upgrade reflects also the CRA's views that measures taken by Cypriot policymakers for the reduction of the stock of non-performing loans in the banking sector have improved the health of the sector. Standard & Poor's underlined as the main challenges for the rating of the Republic of Cyprus, the high indebtedness-reflected both in its public and private balance sheet, the high proportion of non-performing loans in the banking sector as well as the small size of Cyprus relative to other Eurozone member states.

In the case of Fitch's rating [17], the first upgrade in April 2018, based on the CRA, reflects the substantial improvement of Cyprus's external financing flexibility, the fiscal performance which was benefited from a strong cyclical economic recovery, the positive debt dynamics and the robust real GDP growth in the coming years. The second upgrade to investment grade area in October 2018, reflects the buoyant fiscal revenue and prudent fiscal policy, the downward trend of public debt, the decisive steps to address legacy issues within the banking sector as well as CRA's forecasts that economic recovery will remain sustained and resilient. The CRA made references to the main weaknesses of the Republic relative to rated peers which are the external finances and structural features. The first factor reflects the high share of non-resident deposits in the banking sector and the second factor reflects the banking sector weakness that could lead to macro-stability risks.

The government bond rating of Cyprus upgraded twice by DBRS [18] in 2018. The one notch upgrade in May 2018, based on the CRA, was driven by the reduction of non-performing loans, better than expected

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[17] Fitch Rating Action Commentary in April 20 and October 19 2018.
[18] DBRS Press Release in May 25 and in November 23, 2018.

fiscal performance of Cypriot economy and the significant fall in debt to GDP ratio. The key factors for the rating upgrade were the improvements in the ‘Fiscal Management and Policy’, the ‘Monetary Policy and Financial Stability’ as well as the ‘Debt and Liquidity’. The two notches upgrade in November 2018, based on the CRA, is driven by the material reduction in non-performing loans in the banking sector together with a strengthened legal framework and the continued solid performance of the Cypriot economy. The key factors for the upgrade by two notches were the improvements in the ‘Monetary policy and financial stability’ and ‘Economic Structure and Performance’. However, the rating agency underlined the depth of Cyprus challenges such as the sizeable non-performing loans in the banking sector, the 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 review in 2018, could result from continued ability of the Government to sustain the expectations of growth at current levels for the next years, from further reduction in the debt-to-GDP ratio and the stock of bank non-performing loans and from continued deleveraging of the private sector.

The historical credit ratings of the Republic of Cyprus during the period 1989-2018 are presented in Table 12 while the sovereign rating review calendar by CRAs for 2019 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 end 2018. The horizontal blue line illustrates the investment grade line while the vertical column under each CRA shows the ratings of the long term debt.

Table 7: Government Bond rating in long-term local currency of Cyprus and selected Eurozone States [19] as at the end of 2018

Fitch		Moody's		S&P		DBRS	
AAA		Aaa		AAA		AAA	
AA+		Aa1		AA+		AA high	
AA		Aa2		AA		AA	
AA-		Aa3		AA-		AA low	
A+	MT, IE	A1		A+	IE, SI	A high	IE, MT
A		A2	IE	A		A	SI, ES
A-	SI, ES	A3	MT	A-	MT, ES	A low	
BBB+		Baa1	SI, ES	BBB+		BBB high	IT
BBB	IT, PT	Baa2		BBB	IT	BBB	PT
BBB-	CY	Baa3	IT, PT	BBB-	PT, CY	BBB low	CY
BB+		Ba1		BB+		BB high	
BB		Ba2	CY	BB		BB	
BB-	GR	Ba3		BB-		BB low	
B+		B1		B+	GR	B high	GR
B		B2		B		B	
B-		B3	GR	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)

[19] The abbreviations in the Table are interpreted as following: CY=Cyprus, ES=Spain, GR=Greece, IE=Ireland, IT=Italy, MT=Malta, PT=Portugal and SI=Slovenia. Green/black/red color for countries abbreviations indicates Positive/Stable/Negative outlook.

IX. Public Debt Management Office Action Plan

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

Although, a number of actions within the said action plan have been completed, many of them are ongoing and have to be updated, reviewed and strengthened when needed.

The main actions implemented/continued or updated by the PDMO during 2018 are the following:

i. Continuation of the operation of Debt Management Committee: The said Committee with a narrow and larger composition has continued its meetings during the year 2018 discussing various issues such as cash management policy, fiscal and financial developments and prospects, debt sustainability analysis, investors presentation and in general the implementation of the debt management strategy;

ii. Continuation of an appropriate risk & control environment: The PDMO has continued to implement stricter procedures to follow throughout the transactions. Further to the adoption of audit checklists on the transactions and segregation of duties in order to minimise the operational risks for each function, the PDMO proceeded with the writing of an internal control procedures manual underscoring the PDMO policy regarding the recording and updating of the procedures governing its operations. During 2018 a number of meetings between the Commissioner of Internal Audit of the Republic of Cyprus and the PDMO were executed in order to assess the said manual. Specifically, the aim of the meetings was to verify and evaluate the recorded procedures pursuant to the draft manual of internal procedures and the legal framework of the PDMO. This action is ongoing;

iii. Risk management – operational risk: The PDMO has continued to update the database of operational risk incidents other than the one related to execution of transactions. It is noted that this action is also ongoing and it is updated and reviewed on a regular basis;

iv. Contacts started with the market group of international investment banks: The appointment of seven international banks by the Republic of Cyprus has already been done under the PDML 2012-2016 which is expected to increase the efficiency of the secondary market for government bonds of the Republic of Cyprus and enhance market intelligence on investor behavior.

v. Investor' Relations Function: The PDMO has continued to undertake a number of interrelated activities in order to keep investors apprised on a timely basis. During 2018, these activities concern the organisation of roadshows in foreign financial centres, teleconferences, physical meetings with investors in Cyprus, production and distribution of marketing information, maintenance and enrichment of investors database and investor list with contact details.

vi. IT Strategy: In the last quarter of 2018, a new pilot system of the CS, namely 'Meridian' was adopted by the PDMO. In October 2018, the CS provided training to a dedicated team comprising officers from the PDMO and the Treasury of the Republic with the technical support of the IT Department. It is worth-noting, that during the two-week training programme, a number of tasks was executed capturing the installation of Meridian, data validation, set up of live environment for parallel run of the Commonwealth Secretariat (CS) Debt Recording Management System (DRMS) software and the Meridian as well as the audit features. The said pilot system which will replace the current debt management system CS-DRMS in 2019, incorporates advanced and improved functionalities in order to address debt management requirements in a better way. According to the CS, the new system is expected to be released in 2019 to all countries which use the CS-DRMS.

Further to the above actions, it is important to underline that during 2018 the officers of the PDMO have participated in a number of seminars, conferences, meetings of the Economic and Financial Committee Sub-Committee on EU sovereign debt markets (ESDM) and other events both in Cyprus and abroad. Table 13 in Appendix illustrates the said participations in more detail.

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Appendix

List of Tables, Figures and Announcements

Table 1: Liability management transactions: Early repayments of loans details in 2018

Creditor	Interest rate	Maturity date	Principal payment amount	Remaining amount	Interest payments
	in %		in EUR mn	in EUR mn	in EUR mn
Central Bank of Cyprus	3	4/7/2032	483,38	0,0	6,1
Cyprus Cooperative Bank	6mE + 1,50	6/7/2032	324,12	0,0	1,2

(Source: PDMO)

Table 2: Matured securities (1/1/2018 to 31/12/2018)

I. Domestic market

A. Treasury Bills

Issue date	Maturity (in weeks)	Weighted average yield (in %)	Maturity date	ISIN	Nominal amount in EUR mn
3/11/2017	13	-0,07	2/2/2018	CY0147460816	100
1/12/2017	13	-0,10	2/3/2018	CY0147520817	100
12/1/2018	13	-0,12	13/4/2018	CY0147590810	100
2/2/2018	13	-0,16	4/5/2018	CY0147630814	100
2/3/2018	13	-0,21	1/6/2018	CY0147640813	100
13/4/2018	13	-0,25	13/7/2018	CY0147730812	100
4/5/2018	13	-0,26	3/8/2018	CY0147840819	100
1/6/2018	13	-0,27	31/8/2018	CY0147880815	100
13/7/2018	13	-0,24	12/10/2018	CY0147960815	100
3/8/2018	13	-0,22	2/11/2018	CY0148060813	100
31/8/2018	13	-0,24	30/11/2018	CY0148080811	100
					1100

B. Domestic Bonds

Issue date	Maturity (in years)	Coupon rate (in %)	Maturity date	ISIN	Nominal amount in EUR mn
18/1/2016	2	2	18/1/2018	CY0146220815	75
29/1/2003	15	5,1	29/1/2018	CY0048440818	14
23/4/2003	15	4,6	23/4/2018	CY0048610816	5
23/10/2003	15	4,6	23/10/2018	CY0048870816	1
13/7/2018	0,5	1,9	17/12/2018	CY0147970814	500
					595

C. Repayments of Saving Certificates/Retail Bonds

	Nominal amount in EUR mn
Saving certificates	7
Retail bonds	33
	40

II. Foreign market

A. Euro Commercial Papers

	Nominal amount in EUR mn
	0

B. Euro Medium Term Notes

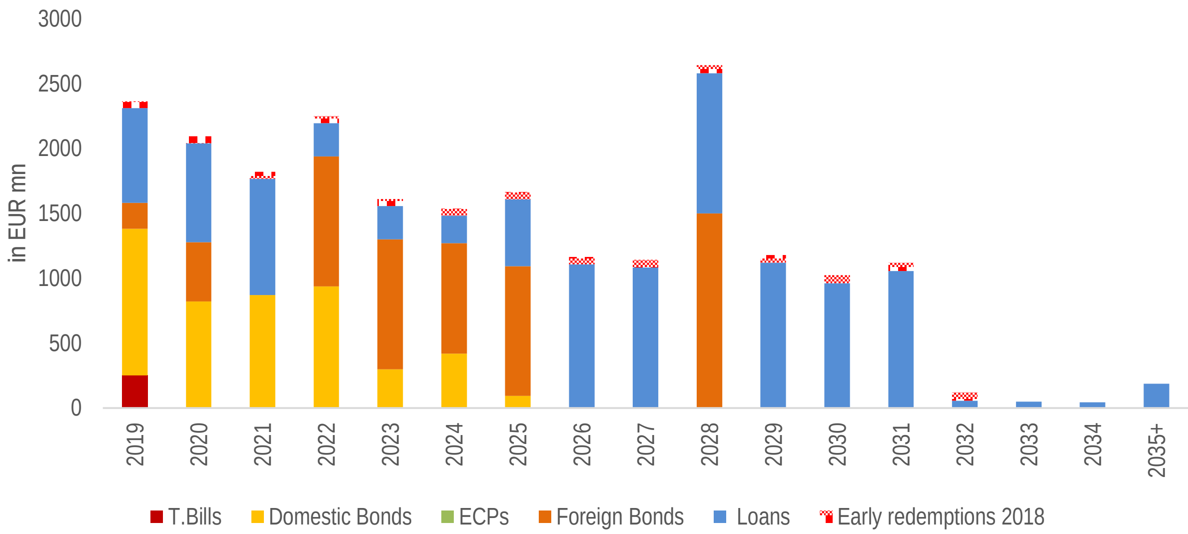
	Nominal amount in EUR mn
	0

Table 3: Loan amortisations[1/] by creditor (1/1/2018 to 31/12/2018)

	Remaining amount in EUR mn	Principal payments in EUR mn
Government of the Russian Federation	1875	625
Central Bank of Cyprus	0,0	511
Cyprus Cooperative Bank	0,0	347
European Investment Bank	917	53
Council of Europe Development Bank	227	19
		1555

1/= Early repayments transactions are included

Figure 1: Impact of liability management (LM) transactions on debt[1/] maturity profile at the end of 2018



(Source: PDMO)

1/ = Excludes debt for EFSF loans

Table 4: Historical evolution of gross general government debt[1/] in 1995-2018

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	54,7
2001	6544,4	56,4
2002	7187,9	59,5
2003	8200,1	63,7
2004	8974,3	64,4
2005	9402,8	62,5
2006	9481,7	58,3
2007	9461,8	53,8
2008	8658,6	45,6
2009	10139,0	54,3
2010	10953,7	56,8
2011	13057,9	66,2
2012	15618,4	80,1
2013	18706,4	103,1
2014	19013,8	108,0
2015	19164,0	108,0
2016	19509,2	105,5
2017	18814,1	95,7
2018	21258,1	102,5

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

Table 5: Outstanding Central Government[1/] debt as at the end of 2018

A. TREASURY BILLS

Issue date	Maturity (in weeks)	Weighted average yield (in %)	Maturity date	Currency of issue	ISIN code	Discount value in EUR mn
12/10/2018	13	-0,23	11/1/2019	EUR	CY0148180819	100,0
2/11/2018	13	-0,22	1/2/2019	EUR	CY0148220813	85,0
30/11/2018	13	-0,21	1/3/2019	EUR	CY0148240811	66,8
						251,8

B. DOMESTIC BONDS

Issue date	Maturity (in years)	Coupon rate (in%)	Maturity date	Currency of issue	ISIN code	Nominal value in EUR mn
26/2/2004	15	4,60	26/2/2019	EUR	CY0049070812	1,6
24/6/2004	15	6,10	24/6/2019	EUR	CY0049250810	7,2
1/7/2013	6	4,50	1/7/2019	EUR	CY0143820815	367,7
13/7/2018	1,4	2,50	16/12/2019	EUR	CY0147980813	750,0
20/4/2005	15	6,10	20/4/2020	EUR	CY0049570811	11,1
9/6/2005	15	5,35	9/6/2020	EUR	CY0049630813	8,4
1/7/2013	7	4,75	1/7/2020	EUR	CY0143830814	0,0
13/7/2018	2,4	2,75	15/12/2020	EUR	CY0147990812	750,0
9/6/2011	10	6,00	9/6/2021	EUR	CY0141990818	43,55
30/11/2015	5	2,00	29/1/2021	EUR	CY0146070814.	31,4
1/7/2013	8	5,00	1/7/2021	EUR	CY0143790810	1,1
25/8/2011	10	6,50	25/8/2021	EUR	CY0142120811	23,1
13/7/2018	3,4	3,25	15/12/2021	EUR	CY0148000819	580,0
1/7/2013	9	5,25	1/7/2022	EUR	CY0143800817	52,7

13/7/2018	4,4	3,50	15/12/2022	EUR	CY0148010818	610,0
1/7/2013	10	6,00	1/7/2023	EUR	CY0143810816	3,2
18/1/2016	7	3,25	18/1/2023	EUR	CY0146250812	221,9
24/1/2017	7	3,25	24/1/2024	EUR	CY0147060814	300,0
18/12/2015	10	4,00	18/12/2025	EUR	CY0146120817	92,0
						3855,0

C. RETAIL/SPECIAL RETAIL BONDS-SAVING CERTIFICATES

Coupon rate	(in %)	Maturity year	Currency of issue	Nominal value in EUR mn
Retail Bonds	2,75-5,75	2020	EUR	50,9
Retail Bonds	2,50-5,50	2021	EUR	131,5
Retail Bonds	2,50-3,25	2021	EUR	50,0
Retail Bonds	2,50-3,25	2022	EUR	275,2
Retail Bonds	2,50-3,25	2023	EUR	73,0
Retail Bonds	2,25-3,00	2024	EUR	119,3
Special Bonds	0,75	2024	EUR	0,8
Special Bonds	0,75	2025	EUR	1,0
Saving certificates	0	Perpetual	EUR	4,1
				705,7

TOTAL DOMESTIC SECURITIES AS AT 31/12/2018 [EUR MN]	*4812,5*

D. EURO COMMERCIAL PAPERS

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

E. EURO MEDIUM TERM NOTES (EMTN)

Issue date	Maturity (in years)	Coupon rate (in%)	Maturity date	Currency of issue	ISIN code	Nominal value in EUR mn
25/6/2014	5	4,750	25/6/2019	EUR	XS1081101807	199
3/2/2010	10	4,625	3/2/2020	EUR	XS0483954144	454
2/5/2014	6	6,500	2/5/2020	EUR	XS1064662890	4
6/5/2015	7	3,875	6/5/2022	EUR	XS1227247191	1000
26/7/2016	7	3,750	26/7/2023	EUR	XS1457553367	1000
27/6/2017	7	2,750	27/6/2024	EUR	XS1637276848	850
4/11/2015	10	4,250	4/11/2025	EUR	XS1314321941	1000
18/9/2018	10	2.375	18/9/2028	EUR	XS1883942648	1500
						6006,6

TOTAL FOREIGN SECURITIES AS AT 31/12/2018 [EUR MN]	6006,6

F. DOMESTIC LOANS

Creditor	Issue year	Interest (in %)(2)	Maturity year	Currency of issue	Remaining maturity (in years)	Balance (in EUR mn)
						0,0
						0,0

G. FOREIGN LOANS

Creditor (3)	Issue year (6)	Interest rate (in %)	Maturity year	Currency of issue/reserve asset	Remaining maturity (in years)	Balance (in EUR mn)
EIB	2004	5,35	2019	EUR	0,9	8,1
Gov. of the R.F	2011	2,50	2021	EUR	2,7	1875,0
EIB	2004	1	2022	EUR	3,9	0,2
EIB	2004	1	2022	EUR	3,9	0,5
CEDB	2004	6mE+0,30	2023	EUR	5,0	7,3
CEDB	2003	6mE+0,30	2023	EUR	5,0	16,7
EIB	2004	1	2025	EUR	6,5	0,9
CEDB	2010	3mE+0,60	2025	EUR	6,9	33,3
IMF(4)	2013	BLR+1,00	2026	SDR	7,1	691,7
EIB	2004	1	2026	EUR	7,8	0,4
EIB	2006	3mE+0,70	2026	EUR	8,0	17,8
CEDB	2014	6mE+0,15	2026	EUR	8,2	45,7
CEDB	2007	6mE+0,09	2027	EUR	8,7	9,9
EIB	2018	E+0,181	2028	EUR	9,4	11,8
CEDB	2018	1,06	2028	EUR	9,9	14,5
CEDB	2008	3,7	2028	EUR	10,0	29,3
EIB	2004	4,45	2029	EUR	10,5	28,7
EIB	2017	6mE+0,217	2029	EUR	10,6	19,4
CEDB	2009	3mE+0,48	2029	EUR	11,0	11,2
CEDB	2009	3mE+0,48	2029	EUR	11,0	6,9
CEDB	2014	1,46	2029	EUR	11,0	25,0

CEDB	2010	3mE+0,55	2030	EUR	11,6	4,4
ESM	2013	ΒΕΔ+0,10	2031	EUR	12,8	6300,0
CEDB	2017	1,08	2032	EUR	13,5	14,9
CEDB	2013	6mE+0,81	2033	EUR	15,0	8,0
EIB	2004	VSFR	2033	EUR	15,0	128,5
EIB	2011	12mE+0,27	2034	EUR	16,0	34,0
EIB	2005	VSFR	2035	EUR	17,0	62,0
EIB	2004	VSFR	2035	EUR	17,0	41,0
EIB	2007	6mE+0,06	2035	EUR	17,0	70,5
EIB	2017	1,514	2037	EUR	18,5	38,0
EIB	2017	1,634	2037	EUR	18,6	28,5
EIB	2012	12mE+1,37	2037	EUR	18,6	200,0
EIB	2017	1,563	2037	EUR	18,7	13,3
EIB	2010	6mE +0,28	2038	EUR	19,5	53,3
EIB	2011	12mE+0,83	2038	EUR	19,5	17,0
EIB	2011	12mE+0,50	2039	EUR	20,9	51,0
EIB	2011	1,766	2040	EUR	22,0	40,0
EIB	2011	1,782	2040	EUR	22,0	22,2
EIB	2018	1,828	2043	EUR	24,7	30,0
EFSF (5)	2011			EUR		228,9
						10239,4

TOTAL LOANS AS AT 31/12/2018 [EUR MN]	*10239,4*
TOTAL DEBT OF CENTRAL GOVERNMENT AS AT 31/12/2018 [EUR MN]	*21058,5*

Notes:

(1) Definition: Debt of the budgetary central government (BCG) excluding debt of Social Security Investments, state-owned enterprises categorised within the central government and the debt of local authorities. BCG is approximately 99,7% of the general government debt (as at 31/12/2018)

(2) E= Euribor rate; BLR=Basic Lending Rate; VSFR = other variable interest rate;m=months

(3) EIB=European Investment Bank, CEDB= Council of Europe Development Bank, EFSF=European Financial Stability Facility, RF=Russian Federation, IMF=International Monetary Fund, ESM=European Stability Mechanism

(4) *Loan balance in EUR using the relevant exchange rate as at 28/12/2018*

(5)) Debt issued by the EFSF for Greece, Ireland and Portugal

(6) It refers to the first disbursement

(7) *Excluding liabilities due to the issuance of Euro coin*

(8 There may be slight discrepancies between the totals shown and the sum of constituent items because of rounding.)

Table 6: Outstanding Central Government debt as at the end of 2018

	Foreign-law securities	Domestic-law securities	IMF - ESM loans	Other loans	Total
2019	199	1382	0	715	2297
2020	458	820	38	710	2026
2021	0	861	168	714	1742
2022	1000	938	153	89	2180
2023	1000	298	153	90	1540
2024	850	420	108	89	1466
2025	1000	93	413	87	1592
2026	0	0	1010	82	1092
2027	0	0	1000	71	1071
2028	1500	0	1000	67	2567
2029	0	0	1050	56	1106
2030	0	0	900	49	949
2031	0	0	1000	43	1043
2032	0	0	0	43	43
2033	0	0	0	37	37
2034	0	0	0	32	32
2035+	0	0	0	108	108
TOTAL	6007	4812	6992	3080	20891

Notes
1/ = Preliminary data
2/= Excluding debt for EFSF Loans
3/= Foreign currency debt valued according to exchange rate as at 28/12/2018
4/ = Excluding debt to Social Security Fund and liabilities due to the issuance of Euro coins
5/ = A flat redemption profile is assumed for loans granted to local authorities and State-Owed Enterprises.
6/= There may be slight discrepancies between the totals shown and the sum of constituent items because of rounding.

Table 7: Government debt[1/] by instrument and lender at the end of 2018 (in EUR mn)

A. Domestic Debt			5000,8
I. Long-term debt		4749,0	
1. Domestic bonds	3855,0		
- Monetary Financial Institutions	3669,8		
- Private Sector	185,2		
2. Retail securities	705,7		
3. Loans	50,1		
- Central Bank of Cyprus	0,0		
- Local Authorities loans	21,9		
- Cyprus Cooperative Bank[2/]	0,0		
- Semi-government organisations loans	28,2		
4. Liabilities to issuance of euro coins	138,2		
II. Short-term debt		251,8	
1. Treasury Bills	251,8		
- Monetary Financial Institutions	251,8		
- Private Sector	0,0		
B. Foreign debt			16257,2
I. Long-term debt		16257,2	
1. Long term loans	10021,6		
-ESM and IMF[3/]	6991,7		
-Bilateral governments	1875,0		
-EIB and CEDB	1143,8		
-Other loans	11,1		
2. Euro Medium Term Notes	6006,6		
3. EFSF loans	229,0		
II. Short-term debt		0,0	
Euro Commercial Papers	0,0		
C. Gross General Government Debt[4/]			21258,0

Note:

1/ = Preliminary data

2/ = Loans provided by the CCB for school committees which were paid earlier in 2018.

3/ = Foreign currency debt valued according to exchange rates as at 28/12/2018.

4/ = 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 2018

		Amount in EUR mn
1	Deposits with the Central Government	8036,8
	Social Insurance Fund	7261,8
	Unemployment Benefits Account	24,2
	Termination of Employment Fund	447,0
	Central Holiday Fund	83,1
	Insolvency Fund	220,7
2	Investment in Cyprus EMTN bond 4,625% mat. 3/2/2020	204,1
3	Investment in Cyprus Domestic bond 6,00% mat. 9/6/2021	10.0
		8250,9

Note

1/ = Investments in the form of deposits in financial institutions of EUR 95 mn are not included.

Table 9: Historical debt servicing in 2010-2017

	2010	2011	2012	2013	2014	2015	2016	2017
					in EUR mn			
Interest payments (IP)	380	424	611	621	557	566	510	504
General Government Debt (GGD)	10954	13058	15618	18706	19014	19164	19509	18814
Tax revenue (TR)	4574	4686	4627	4349	4412	4369	4493	4892
Total government revenue (TGR)	7203	7233	7085	6664	7014	6976	7086	7688
					in %			
Interest payments to GDP	2,0	2,1	3,1	3,4	3,2	3,2	2,8	2,6
Interest payments to GGD	3,5	3,2	3,9	3,3	2,9	3,0	2,6	2,7
Interest payments to TR	8,3	9,0	13,2	14,3	12,6	13,0	11,3	10,3
Interest payments to TGR	5,3	5,9	8,6	9,3	7,9	8,1	7,2	6,6

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 GOVERMENT BONDS FOR NATURAL PERSONS
INTEREST RATE
REDUCTION 2019 SERIES

For the purposes of transparency and disclosure of information to investors, the Public Debt Management Office announces the amendment of the Specific Terms of Issuance of the six-year government bonds for natural persons in order to reduce the interest rates and increase the required early repayment notice period, with effect from the 1st series of issue 2019 until further notice.

In particular, as of the 1st series of 2019, the said bonds will return a reduced interest rate as shown in the table below:

Holding period of the bond	**Annual coupon per holding period**
Up to 24 months	1,75%
Over 24 months and up to 48 months	2,00%
Over 48 months and up to 60 months	2,25%
Over 60 months and up to 72 months	2,50%

Additionally, as of the issuance of the 1st series 2019, the required early full/partial repayment notice period for the said bonds will increase from 30 to 90 days.

It is clarified that the above amendments (interest rate reduction and increase in early repayment notice period) will entry into force on the issuance of the 1st series of 2019, for which applications can be submitted from the 3rd to 20th of December 2018.

With regard to the current and the upcoming series of 2018 (11th and 12th series), it is noted that the existing interest rates and the existing early repayment notice period, as set out in the relevant Specific Terms, will apply. Applications for these series, can be submitted between 2-19 October 2018 and 1-20 November 2018, respectively.

Finally, it is clarified that bonds which were already issued will remain unaffected from all the above changes.

Further information can be found at: Debt Management Office (PDMO) Website: http://www.mof.gov.cy/pdmo

PUBLIC DEBT MANAGEMENT OFFICE
MINISTRY OF FINANCE
3 October 2018

Disclaimer:

IMPORTANT CLARIFICATION: 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 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 Bonds.

Table 10: Stock of outstanding government guarantees[1/] as at the end of 2018

No	Principal debtors	Loan contracts	Stock of outstanding guarantees
		in number	EUR mn
1	Corporate	58	450.028.286
	Other Companies	1	11.552
	SMEs	8	3.967.898
	Banks and Other Credit Institutions	49	446.048.836
2	Entities with Public Interest	64	916.321.156
	Other Entities with Public Interest	1	25.116.484
	Public Organizations[2/]	11	311.052.203
	Sewerage Boards	52	580.152.468
3	Local Authorities[3/]	105	286.319.648
	Municipalities	86	282.234.954
	Community Boards	19	4.084.694
4	Individuals / Retail	3554	125.133.500
	Agricultural	1	34.174
	Small Business	1055	33.762.926
	Housing	2477	90.262.289
	Individuals / retail	21	1.074.111
5	Total outstanding GG for loans excluding the issue of debt instruments (1+2+3+4)	3781	1.777.802.589
6	Issues of debt instruments	1	122.421.110
	European Financial Stability Facility (EFSF)	1	122.421.110
7	Grand Total outstanding GG (5+6)	3782	1.900.223.699

Source: Treasury

(PDMO calculations)

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

2/ =An amount of EUR 11 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 2012-2018

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	3202,0	6,8
31.12.2013	760,9	6,5	767,4	1748,0	43,9
31.12.2014	1015,9	6,5	1022,4	1978,0	51,7
31.12.2015	666,8	6,5	673,3	1131,0	59,5
31.12.2016	564,2	430,0	994,2	748,0	132,9
31.12.2017	284,0	380,0	664,0	1048,0	63,4
31.12.2018	513,22	0	513,22	1491	34,4

1/ = An amount of EUR 3541 mn placed to CCB is not included in the above table since CCB now is not considered as a 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 refers 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 in 31/12/2018 refers to the % of cash over debt that falls due within 9-month period due to the amendment of the target set in the MTDS 2016-2020.

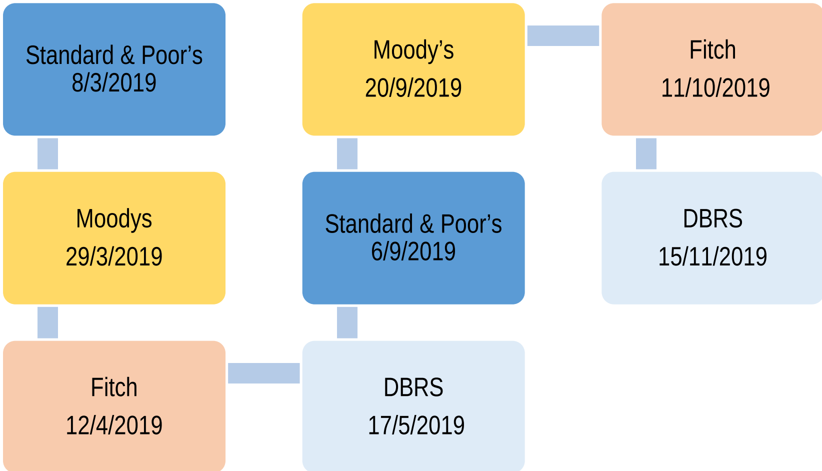
Table 12: Historical credit ratings[1/] 1989 – 2018 (Long term-short term rating)

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

Short term rating							
Fitch		Moody's		S&P		DBRS	
F3	19/10/2018	NP	27/7/2018	A-3	14/9/2018	R-2M	23/11/2018
B	25/4/2018	NP	13/3/2012	B	14/9/2017	R-4	25/5/2018
B	3/6/2013	P-3	4/11/2011	B	29/11/2013	R-4	12/4/2015
B	26/3/2013	P-2	27/7/2011	C	3/7/2013	R-5	12/7/2013
B	25/6/2012	P-1	16/5/2011	C	20/12/2012		
F3	27/1/2012	P-1	6/11/1989	B	13/1/2012		
F3	16/12/2011			A-3	5/12/2011		
F3	10/8/2011			A-3	27/10/2011		
F1	31/5/2011			A-2	12/8/2011		
F1+	12/7/2007			A-2	30/3/2011		
F1	4/2/2002			A-1	12/8/2003		
				A-1+	16/7/1996		

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

Figure 2: Sovereign Rating Review Calendar for the Republic of Cyprus in 2019



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

Table 13: Participation of PDMO officers to seminars, EU committees and other events during the year 2018

Description	February	March	June	Sept.	Nov.
USA investors roadshow	Boston (28/2)	Philadelphia, New York (1-2/2)			
EU investors roadshow		London, Paris, Munich (12-15/3)			
EFS Sub-Committee on EU Sovereign debt markets (Belgium)			Brussels (13/6)		Brussels (12/11)
ESM Shareholdings' Day					Luxembourg (6-7/11)
10th International Forum of Sovereign Wealth Fund				Morocco (19-21/9)	
Participation in the piloting phase of the new CS Debt Management System ('Meridian')					Nicosia (15-26/11)

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