



# MEDIUM TERM PUBLIC DEBT MANAGEMENT STRATEGY

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2016-2020



## **Republic of Cyprus**

**Ministry of Finance**

**Public Debt Management Office**

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## Executive summary

The medium term debt management strategy (MTDS) 2016-2020 envisages to advance the progress achieved in 2015 as stipulated in the strategy of 2015-2019. It essentially forms an update of the previous strategy in light of macroeconomic developments and recent debt management improvement, but not a change of strategic direction. The new strategy is characterised in its very early stage by the exit from the macroeconomic adjustment programme, which is due in the first quarter of 2016, and thus envisages to achieve stable and reliable market funding for the Republic, subject to prudent macroeconomic policies and a stable financial market environment.

The drafting of this MTDS has benefited and relied to a great extent on the IMF – World Bank Public Debt Management Guidelines, as revised, the relevant Guiding Principles for Managing Sovereign Risk and High Levels of Public Debt (the “Stockholm Principles”) as well as on publications by the OECD and the IIF on investor relations best practices. The underlying technical assistance provided by the IMF on strategy design and formulation and the ESM on internal organisation, infrastructure and investors relations has been of considerable importance.

The present MTDS is expected to function in a period of a returning but low growth. With the economy expanding and the fiscal balance forecast to turn positive as early as 2016 the public debt-to-GDP ratio will follow a swift downward path to about 80% by the year 2020. This forecast incorporates proceeds from the planned privatisation actions and the anticipated debt-asset swap. In the macroeconomic fundamentals unemployment will remain above acceptable levels. The biggest challenge however will be to alleviate the weakness of the domestic banking sector with regards to the high non-performing loans which, albeit important regulatory measures taken, will by its nature take some years to materially improve.

There are a number of risk factors and challenges although manageable. Fiscally related risks may materialise although steps are taken for their proactive management. More concretely the fiscal impact of explicit and implicit contingent liabilities such as government guarantees, liabilities of the general government entities and pending lawsuits may fall out higher than anticipated. In terms of market risks the possibility of exclusion of the Cyprus government bonds from ECB refinancing operations and participation in the Public Sector Purchase Programme will cause upward pressure on the borrowing cost. At the same time, unlike in the past, the possibility of state support to credit institutions is highly unlikely given the new framework in force from 1.1.2016 under the Single Resolution Mechanism Regulation.

With regards to the characteristics of the outstanding public debt portfolio the debt maturity profile shows a concentration of maturities in certain years even though the average term to maturity of debt is projected to exceed 8 years. This leaves scope to pre-emptively manage the maturity profile and moderate the need of market funding. Furthermore, at end 2015 nearly half of the interest rate structure (47% of public debt) is projected to be in floating terms. It is worth-noting, however, that the largest share of debt with variable interest rates relates to official loans by the ESM and the IMF, whilst further bank loans carry low margins over base rates. The average time to refixing is projected to be 3 years. The currency risk is low as nearly the entire portfolio is denominated in euro.

The guidelines of this MTDS as well as of the resulting Annual Financing Programmes (AFP) are the following four: (i) Smoothing out the maturity profile of marketable debt; (ii) Risk mitigation through increased cash reserves and management of foreign exchange and interest rate risk; (iii) Development of the government securities market; and (iv) Minimisation of medium-term cost of public debt.

For selecting the proper MTDS for Cyprus, under current conditions, four alternative strategies have been assessed under four different interest rate and exchange rate scenarios. In this framework, the jointly IMF-World Bank developed MTDS Analytical Tool has been employed. While cost-risk analysis is particularly insightful when evaluated analytically the decision-making mechanism for selecting the proper MTDS has entailed a heavy weight of mindful judgment over and above the technical results.

The outcome of this analysis has led to the selection of a strategy which gives particular emphasis on the public debt maturity extension. Under the selected debt management strategy, borrowing is mainly undertaken in long-term foreign-law bonds. In the domestic market the share of Treasury Bills will gradually be reduced over time, making room for the issuance of domestic government bonds.

The selected strategy is consistent with the overall aim of reducing the existing debt portfolio refinancing risk. At the same time, its cost impact in terms of the implied interest rate, is within the framework outlined in the Guidelines and it does not indicate a severe impact on debt sustainability. In addition, the marketable debt risk indicators improve considerably. In particular, this strategy follows the Guidelines of 2016-2020 and leads to the goals set out in the MTDS. The debt profile is smoothed as there is little concentration of future repayments following the end of the strategy period. An element of the selected strategy is the extension of the liquidity buffer which should contribute to the management of refinancing risk most effectively than alternative options. Furthermore, the selected debt management strategy avoids any accumulation of market risks, by focusing on euro-denominated fixed-rate issuances while allowing some limited flexibility for other currencies and/or interest rate structures in case favourable terms can be achieved. At the same time the adopted strategy facilitates the development of domestic primary and secondary market by moving gradually from Treasury Bills to a higher share of domestic bonds.

It is commonplace that even the most carefully designed strategies, cannot deliver the expected results if sufficient attention is not paid to the quality of the implementing mechanism. To this end, specific steps are being taken to improve and strengthen the organizational structure of the Public Debt Management Office (PDMO). In addition, improvements in the internal controls of the PDMO will also be undertaken. In the same context, an Information Technology solution has been identified to modernize the internal infrastructure. While initial steps have been taken for the upgrade of investors' relations, this function will gain particular focus and efforts so as to both broaden the investor base as well as to promote the Cyprus "credit story".

In sum, this MTDS reflects all planned actions that have to be taken in a concerted manner in order to secure stable market access combined with fiscally sustainable cost of borrowing, under acceptable levels of financial risks.

The resulting Annual Financing Programmes will thus be designed and implemented on the basis of and in compliance with the selected strategy.

## 1. Introduction

The Medium Term Debt Management Strategy (MTDS) is a policy statement detailing the direction and actions of public debt management during the period 2016-2020. The purpose of the strategy is threefold:

- The strategic guidelines for government financing are set and explained
- A framework for quantitative and qualitative targets as well as the use of analytical tools facilitating the strategic decision making is put in place
- A framework for the development of an effective investors relations strategy and a market intelligence function is set

The strategy is intended to be a working policy document and is updated at least once annually, on a rolling basis.

### Legal framework

Public debt management in Cyprus is regulated under the Public Debt Management Laws 2012-2013. As per the Law, the medium term debt management strategy covers a horizon of 3 to 5 years and is prepared and updated at least once a year or a rolling basis by the Public Debt Management Office (PDMO). The MTDS is submitted for approval to the Council of Ministers by the Minister of Finance after informing the Budget and Finance Committee of the parliament. The approval by the Council of Ministers is made by end October of the year preceding the first year of the strategy. Following the final approval the borrowing and other debt management operations are subject to and enforced on the basis of the strategy. This is formalized in the Annual Financing Programme for each calendar year.

### Objective of debt management

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

### Scope of the strategy

The analysis covers the debt of budgetary central government, which forms about 98% of the general government debt. In terms of the scope of the financing needs analysed, sources of risk such as potential called guarantees, are included in the strategy to the extent that these have been incorporated in the fiscal forecasts. As it is explained in the remainder of this document, potential upside risks such as the realization of privatisation revenue has been excluded.

### Reading instructions

The document structure begins by defining the guidelines and targets that will apply to public debt management over the years 2016-2020. Then in Chapter 3 and 4, conditions and assumptions for the debt management strategy are described. Chapter 5 describes the discussion and analysis leading to the selected debt management strategy and forms the basis for the Guidelines of the current strategy. Chapter 6 describes specific initiatives undertaken by the PDMO to achieve stable market access and strengthen internally.

## 2. Guidelines for 2016-2020

Based on the debt management objectives, analysis and discussions lead to strategic decisions guiding the debt management in the medium term. The strategic decisions take the form of guidelines and reflect the desired balance between expected costs and risks.

The focal point of the guidelines and, thus, of the MTDS, is the reduction of risks to acceptable levels in the immediate post-Programme period, a target that takes precedence over pure cost minimization.

The guidelines that will drive the strategy and the design of the Annual Financing Programmes are the following:

- Smoothing of maturity profile of public debt and extension of maturity of marketable debt;
- Risk mitigation through increased cash reserves and management of foreign exchange and interest rate risk;
- Development of the government securities market;
- Minimisation of marketable debt borrowing costs, without compromising the above guidelines.

The guidelines translate into more concrete actions and, where the goal permits, into quantitative targets in the form of ranges or directions. These are outlined in Table 1. The rationale and background driving the guidelines is analysed in Section 5 “Analysis and discussions”.

Table 1: Overview of guidelines, actions and targets

Guidelines	Actions/Quantitative targets
Smoothing of maturity profile of public debt and extension of maturity of marketable debt	<ul style="list-style-type: none"> <li>• Average remaining maturity of marketable debt: not less than 5 years</li> </ul> <p>The debt profile with regards refinancing aspects is envisaged to be composed as follows:</p> <ul style="list-style-type: none"> <li>• Short term debt between 1- 4% of total debt stock. Short term debt is the debt of an original maturity up to 12 months.</li> <li>• Long term debt at least 96% of total debt stock and respecting the maturity limits:               <ul style="list-style-type: none"> <li>○ Long term debt maturities 2016-2018: up to €1200 million per annum</li> <li>○ Long term debt maturities of 2019 and thereafter: up to €2200 million</li> </ul> </li> </ul> <p>Long term debt is any debt with original maturity of 1 year or longer.</p>
Risk mitigation ➤ Increase of total liquid funds of the Budgetary Central Government	<p>The minimum size of total liquid funds throughout the year 2016 should satisfy the highest of the following quantitative targets:</p> <ul style="list-style-type: none"> <li>• The total financing needs of the forthcoming 12-month period; or</li> <li>• The benchmark of 1,0 bn euro; or</li> <li>• The equivalent of 200% of the outstanding amount of short-term debt;</li> </ul> <p>Any amount of liquid funds in excess of the highest threshold which is decided to be adjusted downwards, should be converged towards the highest threshold via an equivalent repayment of public debt</p>

<p>➤ Management of foreign exchange and interest rate risk</p>	<ul style="list-style-type: none"> <li>• The size of total liquid funds between the years 2017-2020 will be reevaluated on an annual basis</li> </ul> <p>The debt profile with regards to market risk aspects is envisaged to be composed as follows:</p> <ul style="list-style-type: none"> <li>• Marketable debt foreign exchange exposure: not more than 5% of total debt stock ; total debt foreign exchange exposure: not more than 10% of total debt stock</li> <li>• Marketable debt floating interest rate exposure: not more than 5% of total debt stock ; total debt floating interest rate exposure: not more than 55% of total debt stock</li> </ul>
<p>Development of the government securities market</p>	<ul style="list-style-type: none"> <li>• Improvement in the price discovery mechanism of the domestic market and increase accessibility to international investors</li> <li>• Introduce a suitable market structure to enable a price discovery mechanism and liquidity provision in the foreign market</li> <li>• Buildup of a sovereign yield curve</li> </ul>
<p>Minimisation of marketable debt borrowing costs</p>	<ul style="list-style-type: none"> <li>• Improved investor relations and market intelligence</li> <li>• Expansion of the investor base in terms of geography, type and size</li> </ul>

### 3. Conditions and assumptions for the strategy

#### 3.1. Baseline macroeconomic assumptions and risk factors

##### 3.1.1. Macroeconomic and fiscal situation and outlook

The Cypriot economy is on a recovery path. Growth is estimated at 1,4% in 2015, expected to pick up to 1,5% in 2016, supported by buoyant consumption and resilient export performance in the services sectors of tourism and professional business. The medium term outlook projects a moderate growth of between 1,8% and 2,2% between the years 2017 and 2020.

Compliance with the Programme conditionality has been generally strong. Fiscal targets have been met with considerable over-performance, reflecting better than projected revenue results and prudent budget execution. The fiscal balance is projected to turn marginally positive as early as in 2016 and reach 1,7% of GDP by 2018. The debt-to-GDP ratio is on a downward trajectory and is projected to reach about 80% by the year 2020 including the privatisation proceeds or about 91% in a no privatisation, no asset-swap scenario.

The Cyprus banking sector has gone through a reformation phase and is now in a strengthened capital and liquidity position. Its size has been reduced to a moderate 4 times the GDP or about the EU average. Foreign exposures have been eliminated and domestic operations form the main focus. While decisive steps were taken and swift progress has been achieved throughout the banking sector, the high share of non-performing loans (47% of gross loans) is impacting both on the banks' balance sheets as well as on their ability to extend credit to the economy.



Going forward, the asset quality of banks needs to be monitored and addressed effectively even if the nature of the issue requires time for substantial progress to be achieved. Additionally it is imperative that fiscal discipline does not ease. Structural measures and growth enhancing policies will be critical for the support of employment and competitiveness in the medium to long term.

### 3.1.2. Potential risk factors

Possible risk factors may have an impact on borrowing costs, credit ratings and stable market access. Under such events the continuation of a sufficient and uninterrupted market access must be ensured.

#### Contingent liabilities

Contingent liabilities in the form of government guarantees could be a source of risk to the government budget. The outstanding amount of government guarantees at end June 2015 was €3,129 billion or about 18 percent of GDP,. The guarantee portfolio is denominated solely in Euro.

As Table 2 indicates the main single beneficiaries of guarantees are the Bank of Cyprus and the European Financial Stability Facility which account together for €1,3 billion (41% of the portfolio). The remaining guarantees of €1,8 billion (59% of the portfolio) have been extended to public corporate bodies, local authorities, natural persons, non-for-profit organizations and companies.

Table 2: Government guarantees by beneficiary at end June 2015

Category of Beneficiary	Outstanding guaranteed loans or securities (in € million)	Share (%)
Public corporate bodies <sup>1/</sup>	1.229	39%
Financial Institutions <sup>2/</sup>	1.000	32%
Local authorities	338	11%
International organisations <sup>3/</sup>	285	9%
Natural persons	200	6%
Companies	77	2%
<b>Total</b>	<b>3.129</b>	<b>100</b>

1/ Mainly Sewerage Boards (€0,7 billion) and Electricity Authority of Cyprus (€0,5 billion)

2/ Bank of Cyprus (€1 billion)

3/ European Financial Stability Facility

The current medium term budgetary framework covers the years 2016-2018. The relevant budgetary provision for called guarantees is €50 million for 2016, which will be updated for the years 2017-2018 according to the related risk analysis undertaken by the Government Treasury. It is emphasized that this provision is included in the projections for the fiscal outcome and thus in the financing needs examined under the current medium term debt management strategy. While the budget outline for the later years of the strategy (2019-2020) has not been drafted yet it is assumed that the fiscal projections for these years similarly include a provision for called guarantees.

Given that contingent liabilities might adversely affect both the liquidity position of the State and the effective implementation of the MTDS, a new policy framework for the management of guarantees has been adopted while the risk-assessment mechanism will be subject to further improvement<sup>1</sup>.

### **Other risks**

A broader capital markets volatility in the Eurozone could hamper the access to financing. While direct links with Eurozone countries in the so-called periphery have been eliminated, spillover risks may arise due to confidence effects rather than economic fundamentals. It is however noteworthy that past periods of Eurozone peripheral tension have been withstood by the Cypriot economy. Additionally the prospect of exclusion of Cyprus government bonds from the Public Sector Purchase Program and a loss of their eligibility for ECB refinancing operations following the conclusion of the Macroeconomic Adjustment Programme are likely to push upward pressure on yields and the cost of market borrowing.

### **3.1.3. Financing needs and characteristics of funding**

#### **Financing needs**

Financing needs in the Strategy period relate solely to debt amortisations. The government budget balance is positive as early as 2016 and continues with an increasing trend throughout 2020 thus contributing to a reduction in borrowing needs. The financing needs examined in the strategy do not include the use of Programme buffers, privatisation proceeds (est. 8% of GDP) and a potential debt-asset swap accounting for about 3% of GDP. The source for the financing needs over the programming period is the 8<sup>th</sup> review of the Macroeconomic Adjustment Programme for Cyprus<sup>2</sup>.

#### **Sources of funding**

The main potential sources of financing over the 5-year period covered by the MTDS are marketable instruments. The long-term market sources can be broken down into (a) foreign government securities, (b) domestic government securities, with the differentiation among the two lying in the issuance law and investors' origin but not in the currency, and (c) issuance in foreign currency presuming thereby foreign law *and* foreign investors. Of these three market sources the foreign government securities will be the main financing instrument in the Strategy period. More concretely this refers to bonds issued under the Euro Medium Term Note Programme, governed by English law, listed at the London Stock Exchange and cleared at main international common depositories.

Treasury Bills will continue to be issued at meaningful but not excessive levels, in order to minimize funding costs and manage short-term liquidity needs. Additionally the Euro Commercial Papers are aimed to be used as backstop short-term financing and for maintenance of a diversified funding pool.

To a lesser extent, non-marketable loans will contribute to the government financing. While these infrastructure and project-specific loans provide generally long-term low cost funding they cover only a small share of the annual financing needs.

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<sup>1</sup> The Policy for Issuance of New Guarantees and the Procedures Manual for Managing and Monitoring Government Guarantees are available under [www.treasury.gov.cy](http://www.treasury.gov.cy) (in Greek only).

<sup>2</sup> IMF Country Report No. 15/271, September 2015

An overview of the currently available borrowing instruments of the Republic of Cyprus is presented in Table 3.

Table 3: Characteristics of borrowing instruments

Market instruments				
Security	Maturity	Interest rate type	Currency	Governing Law
Treasury Bills	up to 12 months	zero coupon	EUR	Cypriot
Euro Commercial Papers	up to 12 months	zero coupon	EUR or other	English
Domestic Retail Bonds	6 years	step-up structure	EUR	Cypriot
Domestic Bonds	more than 12 months	Fixed, variable, Indexed, zero coupon	EUR	Cypriot
Euro Medium Term Notes	more than 12 months	Fixed, variable, Indexed, zero coupon	EUR or other	English
Non-market instruments				
Type and Creditor	Maturity	Interest rate type	Currency	Governing Law
Loans by the European Investment Bank and the Council of Europe Development Bank	Typically more than 10 years	Fixed or variable	EUR	English
Loans by the International Monetary Fund (until May 2016)	Average of 7 years	Semi-fixed/semi-variable	SDR	International public
Loans by the European Stability Mechanism (until March 2016)	Average of 15 years	Variable	EUR	International public

### Investor base

The domestic investor base is heavily dominated by the domestic credit institutions<sup>3</sup> with holdings of approx. 86% of domestic bonds. The non-bank holdings are attributed mainly to insurance companies and pension & provident funds. The domestic investor base is thus homogenous and its behavior relates highly to the developments in the domestic banking sector.

The current foreign investor base is mainly asset management and hedge fund investors. During the last ETMN issuance in November 2015 the majority of investors were Fund Managers (52%) and Banks/Private Banks (24%). Geographically it was concentrated in the UK (62%); 21% of the bond was purchased by other European investors, excluding domestic ones, while 13,5% of the issue was covered by domestic investors.

In the last benchmark issuance a larger demand by banks, so called real money investors and asset managers was observed. This trend is expected to continue with the gradual improvement of the sovereign credit rating of the Republic of Cyprus.

The domestic bonds and treasury bills are settled and listed only at the Cyprus Stock Exchange and attract low demand by foreign investors. Conversely, foreign securities which are settled at international common depositories are more easily accessible and attract increasing demand by domestic investors.

<sup>3</sup> This comprises of about 13 institutions of either local banks or subsidiaries of banks from EU and non-EU countries. A number of branches of foreign banks and representative offices within the domestic banking sector are not in fact involved in Cyprus government domestic securities.

### **3.2. Working assumptions**

#### **Medium term financing assumptions**

The working assumptions of the MTDS with regards to the evolution of fiscal balance and GDP growth are those forecast under the Programme, as recorded in the 8<sup>th</sup> Review of the Macroeconomic Adjustment Programme for Cyprus.

Potential privatisation proceeds are not included in the projections of financing needs. It is worth-mentioning that privatisation proceeds, once realized, are intended to be used for debt reduction. . For prudential reasons and for the purposes of the strategy only it is assumed that no borrowing needs during the strategy period will be offset from privatisation proceeds, although this remains a non-baseline scenario. Additionally the financing assumes the execution of the scheduled ESM-IMF disbursements up to May 2016 and no use of the Programme buffers.

#### **Pricing assumptions**

The long term market borrowing cost has been computed based on the German Bunds forward curve. The forward curves of Germany, and thus Cyprus, follow an increasing trend but the Cyprus curve is less steep as the credit and liquidity risk premium gradually decreases. The domestic market borrowing cost has been calculated based on a premium over the foreign borrowing cost. The interest rates of ESM loans were taken from own ESM estimations based on market data and Programme assumptions as of July 2015. The interest rate of other variable-rate loans was projected according to the Euribor forward rates. All pricing assumptions are sensitive to global and country specific developments in fixed income and currency markets.

### **3.3. Sovereign credit rating and rating outlook**

The current Republic of Cyprus credit ratings are the following: DBRS: B with stable outlook; Fitch Ratings: B+ with positive outlook; Moody's Investors Service: B1 with stable outlook; Standard & Poor's: BB- with positive outlook.

The credit rating has been on an increasing path since mid-2013. In this 2,5-year period the Republic has been upgraded between 3 to 5 notches by the aforesaid credit rating agencies. The potential is generally encouraging towards further upgrades albeit existing risk factors in the strategy period. A crucial point in the ratings horizon will be the restoration of investment grade quality.

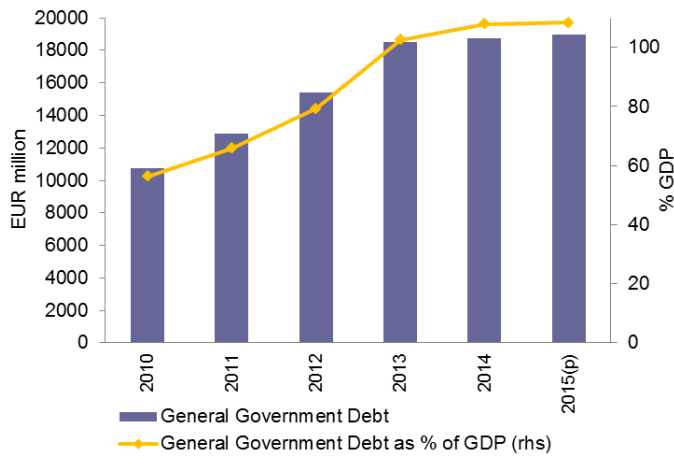
While market views and rating developments may not always coincide the credit rating will generally keep its role in terms of investors' risk and pricing guidance and is useful in peer comparisons. It is expected that a gradual rating improvement should have an enhancing impact both on the structure of the investor base as well as to the overall market demand of Cyprus government bonds. This should in turn translate, *ceteris paribus*, into a lower cost.

## **4. Stock and structure of existing debt portfolio**

### **4.1. Stock and composition of existing portfolio**

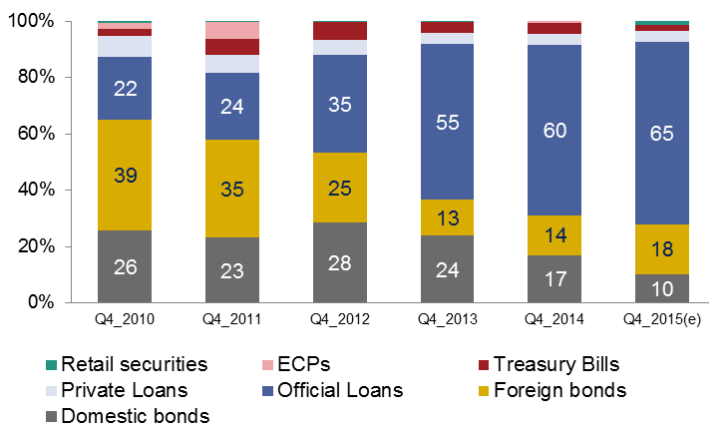
Cyprus experienced a sharp worsening of the public debt situation over the crisis due to fiscal loosening, financial sector recapitalization and negative growth rates. The public debt as share of GDP increased from 56% in 2010 to an estimated 109% in 2015. Despite this quick increase, in the years 2014-2015 the public debt has in fact stabilized and the net debt accumulation has been diverted towards the enhancement of liquid assets. The full stock of outstanding debt is presented in Appendix I.

Figure 1: Public debt evolution



The current debt structure is dominated by non-marketable debt in the form of loans by supranational organisations (mainly ESM, IMF, EIB) as well as other governments and the Central Bank of Cyprus. The second largest component is formed by international bonds, the share of which has been increasing thus maintaining the presence of the Republic in the international capital markets. On the contrary, the domestic bond share continues to decline. Owing largely to the restructuring and deleveraging phase of the domestic banking sector there has been in the past years no significant issuance activity in the domestic market. Any domestic demand has been absorbed in the foreign bond issuances.

Figure 2: Estimated debt composition by instrument



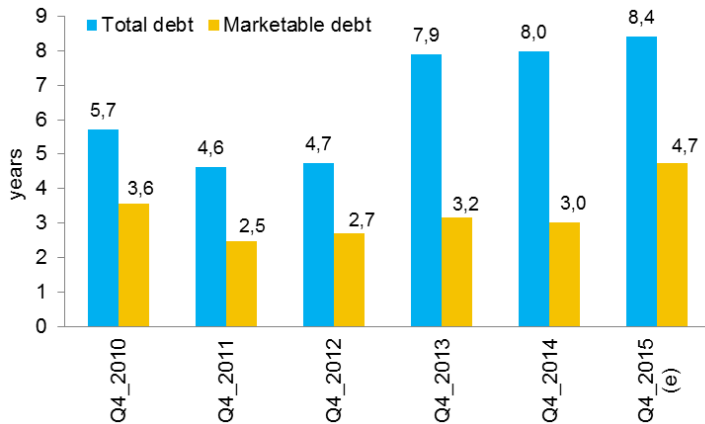
#### 4.2. Costs and risks of existing portfolio

The weighted average cost of outstanding debt is expected to be 2,7% at end 2015 which is the lowest level since end 2010. The cost has benefited significantly from the low interest rate of ESM-IMF loans, albeit this at a semi-fixed/semi-variable nature, and the low base rates of the Euribor. Notwithstanding this, the market cost of Treasury Bills and foreign bonds, the main market instruments, has been the second highest in the Eurozone although following a decreasing trend.

#### Refinancing risk

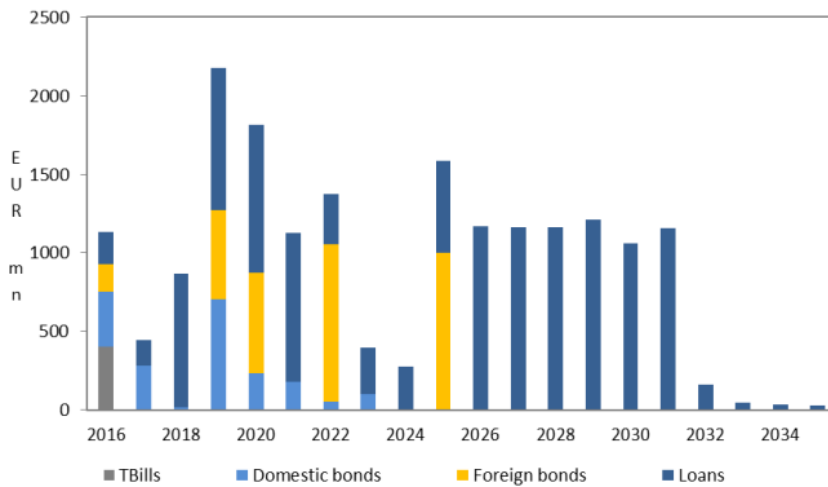
At end 2015 the average term to maturity of debt is expected to be at a historic high of 8,4 years (preliminary estimation). This is a natural result of the long term official loans with the average maturity of the ESM loans at 15 years, and increasingly longer term bond issuances. Indeed the average maturity of marketable debt is expected to increase to 4,7 years showing a marked improvement over the previous years.

Figure 3: Average term to maturity



While the maturity concentration over the next 3-year period has been alleviated the years 2019-2020 still have the highest maturity level with about one fifth of the total debt or €4 billion falling due in those years. Of this about €2,3 billion is due within 9 months between mid 2019 to beginning 2020.

Figure 4: Debt maturity profile, end 2015



**Interest and Currency risk**

At end December 2015 the interest rate structure is projected to be 53% fixed-rate debt and 47% floating-rate debt as shown in Figure 5.

A further split of variable-rate debt (Figure 6) indicates that the interest-rate risk is to a significant extent contained as the largest share of floating-rate debt relates to official loans by the ESM and the IMF, whilst further bank loans carry low margins over base rates. The average time to refixing is projected to be 3 years.

Figure 5: Interest composition of debt

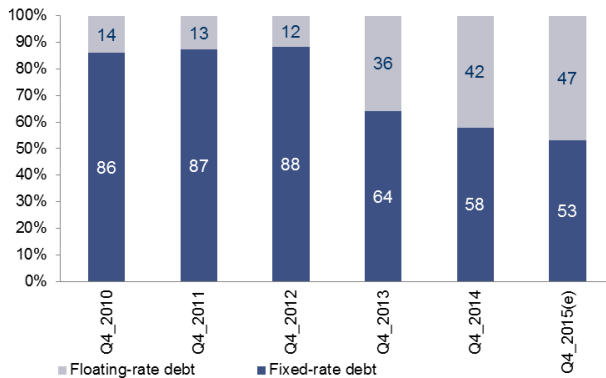
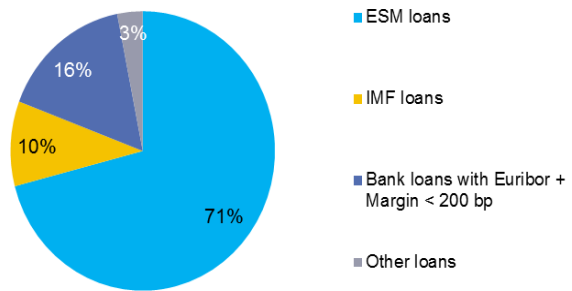
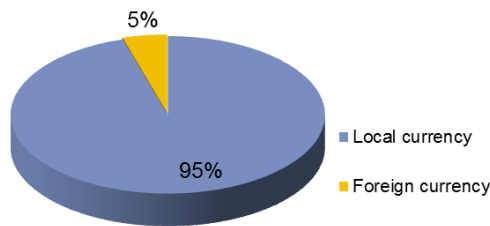


Figure 6: Breakdown of floating interest rate debt



The currency risk in the existing portfolio is limited since about 5% of outstanding debt is denominated in foreign currency which, in fact, is exclusively the SDR basket of currencies of which the domestic currency (EUR) forms a major component.

Figure 7: Currency composition of debt, end 2015



## 5. Analysis and discussion

This section outlines the guidelines but more importantly the underlying situation which was the motivation for the guideline as well as how the core actions and quantitative benchmarks contribute towards addressing the issues.

### 5.1. Smoothing of debt maturity profile and extension of marketable debt maturity

Until market access is stable and reliable, it will be important to maintain low debt maturities to moderate market dependency. In a broader perspective, the aim is the reduction of both the debt maturities in single years as well as the concentration of debt maturities in consecutive years.

The first three years of the strategy have a low refinancing volume, which has been achieved through liability management actions in the years 2014 and 2015. Indeed, maintaining low maturities during the first post Programme years was one of the main targets of recent public debt management actions. Building on to the accomplishments so far the maturity concentration for the years 2019 and 2020 could be further alleviated, as about one fifth of outstanding debt falls due within this period.

The level of short term debt on any given year will be influenced by the overall debt maturities of the following year. Given the general direction of increasing the share of domestic bond issuances over Treasury Bills the range of short term debt is envisaged to range between 1%-4% of total debt stock.

Consequently medium and long term debt is expected to be at least 96% of outstanding debt. At the same time, debt redemptions should be managed by, inter alia, not violating any upper limits in medium-long term maturities. Medium/long-term maturities for 2016-2018 are set to maximum of €1200 million annually. For the year 2019 onwards this target is raised to a maximum of €2200 million annually. Restriction of medium/long-term maturities does not imply an increase in the short term borrowing but could be achieved by the issuance of longer-term bonds or with the use of liability management techniques such as switch and outright buyback of bonds.

As a further controlling tool for maturity concentration and market issuance activity, the average remaining maturity of marketable debt is targeted to remain above 5 years by the end of the strategy period. While the average maturity of marketable debt is already 4,7 years this will deteriorate in the immediate future due to the upcoming maturity concentration of bonds in 2019-2020 and additionally in 2022. Continuous effort to maintain a stable maturity profile would re-establish a target level of 5 years in average maturity by 2020.

## **5.2. Mitigation of potential risks**

The potential risks until steady market access is secured will be mitigated through increased levels of liquid funds and containment of foreign exchange and interest rate risk.

A higher level of liquid funds will shield from periods of market instability. Indeed the window of opportunity to issue new securities may not always match the timing of financing needs. A liquidity buffer can provide flexibility in temporary disturbances in the capital markets. The total liquid funds throughout 2016 (the “buffer”) will be at the highest of either the necessary level to cover the total financing needs of the next 12-month period or twice the size of the outstanding short term debt but in no case less than the benchmark size of €1 billion which reflects a reasonable amount of annual financing requirements in the medium term. This choice is based on the assessment of risk outlook following the end of the Macroeconomic Adjustment Programme. It also allows for a comforting liquidity since cash flow forecasts are quite accurate owing to the fact that the large majority of financing needs is made up by debt redemptions and is thus fixed and known well ahead. The level of the cash buffer will be reevaluated on an annual basis.

It should be noted that while the strategic choice of maintaining high cash holdings is important for the reduction of liquidity risk it is accompanied by an opportunity cost as the funding cost will be higher than the return on the buffer. It should thus be monitored closely and combined with an efficient investment policy of excess liquidity to mitigate its cost impact.

As the IMF funding is denominated in a basket of currencies the foreign exchange risk has increased in the last few years. However currency risk exposure in the portfolio remains low and, as shown in Section 5.6, under stress scenarios there is a limited impact of the currency shock on overall debt service costs. Moreover given the potential diversification of investor base associated with issuance in non-Euro currencies this risk can be justified, albeit in a limited manner, due to its positive attributes on liquidity and refinancing risk. It is thus envisaged that marketable debt issuances in foreign currency will not accumulate to more than 5% of the outstanding debt which corresponds to total foreign currency exposure in marketable and official debt not exceeding 10% of total debt stock by the end of the strategy period. This benchmark target allows some room for flexibility in the market activity while still focusing on euro issuances. In more practical terms, this size allows issuances of a minimum amount which is in most cases necessary for a deal in the international market to take place (i.e. the “benchmark size”).



Although most floating rate debt has currently highly favorable terms the possibility of the associated costs increasing is quite high since interest rates at the moment are at a historically low level and a rise in base interest rates in the medium term is almost certain. Importantly, floating rate debt already makes up a significant share of (47%) of the debt portfolio and is expected to remain broadly stable over the strategy period. While it is preferable to have fixed interest profile for certainty of debt service payments it may be possible to reach new investors and achieve longer maturities by offering floating interest rate structures. A range of up to 5% marketable debt exposure to floating interest rates is thus considered appropriate to balance the associated risk while allowing some borrowing flexibility. As in the case of market issuances in foreign currencies, an issuance in floating rates totaling 5% of the marketable debt allows for a meaningful deal size to be achieved in the international market. This translates to a total of up to 55% of total debt stock being under variable interest rates when accounting for both official and market sources.

While this target share is sizeable it is important to highlight that most of the variable debt is relatively low risk as the majority relates to the ESM loans which are funded on a pool of fixed rate instruments that would only generate an increase in borrowing cost gradually over time (see also sub-section 4.2). The repayment of official loans will commence in 2017 marking the start in the gradual decline of floating rate debt stock as in parallel more fixed rate instruments will be issued.

In order to avoid increasing foreign exchange rate and interest rate risk the Public Debt Management Office will focus on fixed rate euro denominated issuances while closely monitoring market conditions and possible opportunities. This practice will be reevaluated towards the end of the MTDS period.

### **5.3. Development of government securities market**

The existence of a developed liquid securities market is essential both for the maintenance of a stable market access and the reduction of costs. A well-functioning market lowers the borrowing cost, allows the issuance of longer-term securities and can function as a fiscal discipline tool by signaling swiftly and more accurately the investors' reaction towards government fiscal policies. In addition to being a sustainable source of government financing an efficient government securities market has positive externalities to the private sector.

This objective can be achieved through the establishment and maintenance of a sovereign yield curve and the creation of a more robust price discovery mechanism.

A specific characteristic of the Cyprus government bond market is the segregation into domestic-law, locally settled securities and English-law internationally settled securities. Both markets are similar in their low size and the absence of a robust price discovery mechanism. The relatively shallow market both in and outside Cyprus results in high liquidity premiums during new issuances and reduces the available investor pool. This is an issue that the PDMO sees as central to the reduction of costs and plans to improve within the reference period.

The development of a well-functioning securities market is a gradual process which is expected to take some years to complete. This process will be twofold but interlinked: development of the short to medium term part of the curve in the domestic market and the medium to long term part of the curve in the foreign market. This should result in an overall complete sovereign yield curve with defined benchmark points and no to low premium between the domestic and foreign markets.

As a first step in this process, a functioning Treasury Bills market with frequent auctions at pre-set dates and a published auction calendar has been established. The next step will be to create the

incentives and set up the organisational structure for a group of domestic banks to regularly post indicative quotes for domestic securities. In parallel, the current arrangements for foreign investors to enter the domestic market will be examined and enhanced with the uttermost aim of achieving a full delivery vs payment system for international investors. The arrangements to increase price discovery and remove barriers to entry will increase the depth and diversification of the domestic market.

During the MTDS period the PDMO will re-introduce domestic bonds in an effort to restore the domestic government bond market activity. The existence of a domestic bond market will act as a complement and not a replacement of the international bond market. The existence of such a market is necessary to maintain local-law presence and to provide additional options for investor and instrument diversification.

In order to build up the sovereign yield curve medium to long-term EMTNs will be issued in the international market. Issuances will remain benchmark-oriented in terms of size and, where possible, tenor. A structural target which is aimed towards the end of the period will be the introduction of an appropriate market structure (e.g. Primary Dealers) to provide a price discovery mechanism and market liquidity.

In a small but smoothly-functioning bond market providing for adequate liquidity, issue and other risk premiums will converge towards those of peers with a developed bond market.

#### **5.4. Minimisation of marketable debt borrowing cost**

The PDMO aims to minimise borrowing costs in order to improve both fiscal performance and the sustainability of public debt to the largest extent possible subject to the risk parameters as defined in the Guidelines 2016-2020. Borrowing cost minimisation is envisaged to be achieved through improved investor relations, expansion of the investor base and an improvement of the mechanics and infrastructure of the Republic's debt markets. The latter has been described in sub-section 5.3.

A well-diversified investor base will lead to a better price discovery mechanism as more investors are involved and increased demand will by itself drive costs lower. The existence of a non-homogenous investor base will reduce the possibility of all investors abandoning the market at the same time and thus reduce refinancing risks. Beyond the obvious positive effects of attracting a larger pool of investors, sound investor relations are important as a well-informed investor base is less volatile and is more confident in dealing with the borrower.

These qualitative factors should translate into quantitative reductions of borrowing costs through better pricing and the reduction of risk premiums.

The investor relations work will be systematic and based on a long term commitment. Its main aspects relate to: (i) expansion and deepening of the potential investor base in terms of geography, type and size, and (ii) provision of regular and accurate information to investors to the enhancement of confidence, predictability and stability in the PDMO actions and Cyprus as a sovereign borrower.

Due to the particular importance of investor relations work further analysis and specific action outline is provided in Section 6.

#### **5.5. Stylized quantitative analysis**

For the achievement of the medium term goals a borrowing strategy following and adhering to the general guidelines is necessary. In order to understand the mechanics of various borrowing options

and for the expansion and deepening of analysis the IMF-World Bank jointly developed MTDS tool was used. Under the tool four alternative strategies were constructed with the purpose of examining stylized situations to help reach general meaningful conclusions. It is important to stretch that these are only few of the many possible strategies but these four were selected to highlight the major alternative options among the strategies.

The baseline strategy of maturity extension is retested against the background of lower funding costs, both due to the reduction of credit risk as well as the lower base rates, and the change in the EUR-USD exchange rate. The alternative strategies remain also the same as the possible main paths to follow in debt management remain open and realistic. The four strategies under examination are the following:

**Strategy 1 (baseline): maturity extension.** Under this strategy the market financing is undertaken in long term foreign-law bonds, whilst in the domestic market the share of Treasury Bills diminishes and a shift to domestic bonds takes place.

**Strategy 2: investor base diversification.** This strategy is similar in its parameters to Strategy 1, except for the share of debt issued in foreign currency: Half of the external market financing is undertaken in foreign rather than domestic currency and in a slightly shorter maturity due to the new investors involved. The foreign currency chosen is the USD.

**Strategy 3: cost reduction.** This implies market financing in the form of short term debt or government bonds of maximum 3 year tenor. The mix external-domestic is equal with financing being in the form of bonds and bills respectively.

**Strategy 4: domestic debt market development.** This option presumes a stronger presence in the domestic rather than the external market, which was stipulated in all three previous strategies. Hence, issuances lie in domestic securities, moving composition from Treasury Bills to 3-year and then to 5-year domestic bonds. No external market financing is undertaken.

The strategies were subject to interest rate and exchange rate shocks under four scenarios.

- *Scenario 1: interest rate shock.* Short term interest rates rise by 1%, long term rates by 2,00% whilst ESM and IMF loans interest rate by 0,5% and 0,25% respectively, given their semi-variable nature. Euribor rates for other floating interest debt increase by 1%. This is a permanent shock applied to the whole 5-year period.
- *Scenario 2: severe interest rate shock.* Under this scenario interest rates increase by a double magnitude as under Scenario 1. This is a permanent shock applied to the whole 5-year period.
- *Scenario 3: depreciation of domestic currency.* An exchange rate depreciation of 10% of the EUR against the USD as well as to the other currencies composing the SDR basket is applied in the final year 2020. In order to arrive to the shock magnitude of 10%, the standard deviation of historical exchange rate EUR-USD was calculated. The shock was then computed as twice as large as the historic standard deviation.
- *Scenario 4: combination shock.* This is a shock to both the interest and exchange rate parameters, combining Scenario 1 and Scenario 3.

### 5.6. Cost-risk analysis under different strategies

The cost-risk analysis is particularly insightful examined using the MTDS tool output. It is important to highlight however, that the tool captures a broad analysis but its purpose is not the full borrowing modeling, not that the latter is, in fact, possible. The results are to be interpreted with cautiousness since the analysis is made on an indicative basis and it should not be understood that the illustrated results will be the actual cost and risk outcome.

In the stylised analysis the average cost remains either stable or increases under. The alternative strategies' cost impact ranges between 2,7% and 3,0% at the end of the programming period from 2,7% at the start of the programming period. At the same time the maturity indicators worsen by end 2020, with the average maturity falling from 8,4 years to a range between 4,7 and 6,4 years. The trend in the cost and maturity indicators is inevitable given the return to full market financing and the approaching of the official loans' maturity period.

The indicators of interest rate refixing of total debt (ATR: Average Time to Refix and debt refixing within 1 yr) are largely skewed by the floating rate loans of ESM-IMF. Hence the indicators on marketable debt refixing are more indicative of the outcome under each strategy. Similarly while the Average Time to Maturity (ATM) indicator of the whole portfolio is a core risk statistic, the consideration of ATM of marketable debt is at least equally important in the strategy choice. The range of the interest rate risk is quite large among the alternative strategies. Under Strategies 1 and 2 there is a considerable improvement of the interest rate risk over the existing one. As anticipated Strategy 3 performs worst in terms of interest rate risk, while Strategy 4 results in mostly a worse outcome vis-à-vis the current risk level.

A characteristic which performs very similarly across all strategies is the composition of fixed-rate and floating-rate debt. The floating rate debt results from official long loans of the ESM, IMF and EIB/CEDB and with low margins over base rates or even in a semi-variable format. This is expectable given that the strategies, within the framework of the guidelines, do not involve any floating rate market instruments.

The foreign exchange risk is stable across all strategies with the exception of Strategy 2 (investor diversification) which captures the broadening of the investor base at the expense of higher foreign exchange risk.

An overview of cost-risk indicators under the alternative strategies is presented in the following table.

Table 4: Cost-risk indicators under alternative strategies

Risk Indicators		2015	As at end FY2020			
		Current	S1	S2	S3	S4
Implied interest rate (%)		2,7	3,0	3,0	2,7	2,8
Refinancing risk	ATM Total Portfolio (years)	8,4	6,4	6,0	4,7	5,1
	ATM marketable debt (years)	5,0	6,0	5,2	2,1	2,9
Interest rate risk	ATR (years)	3,0	3,5	3,1	1,7	2,0
	ATR Marketable Debt (years)	4,7	5,8	5,0	1,9	2,7
	Debt refixing in 1yr (% of total)	52,0	54,3	54,3	59,3	58,5
	Marketable Debt refixing in 1yr (% of total)	7,2	3,7	3,7	8,3	6,2
	Fixed rate debt (% of total)	53,4	53,3	53,3	53,0	51,7
FX risk	FX debt as % of total	4,7	3,8	15,5	3,8	4,3

**Strategy 1** presents a more favourable combination of the cost-risk outcome. The cost lies at the upper level within the strategy outcomes. At the same time the risk indicators are the most favourable among all strategies, with no particular risk indicator lagging behind that of any other strategy.

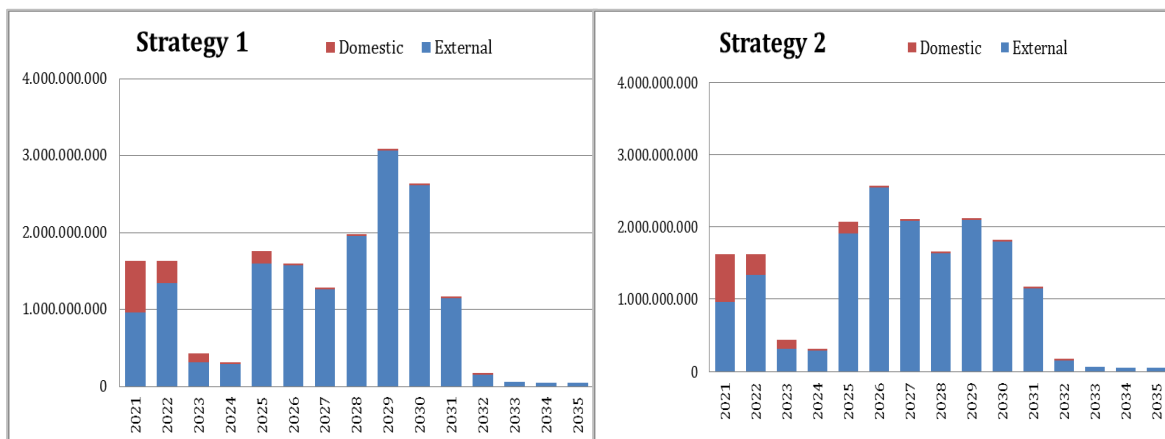
**Strategy 2** is found to be costlier than other strategies and involving a considerable increase in the FX risk. The other risk parameters which concern average maturity and interest rate risk are worse than the baseline S1 and better than S3 and S4.

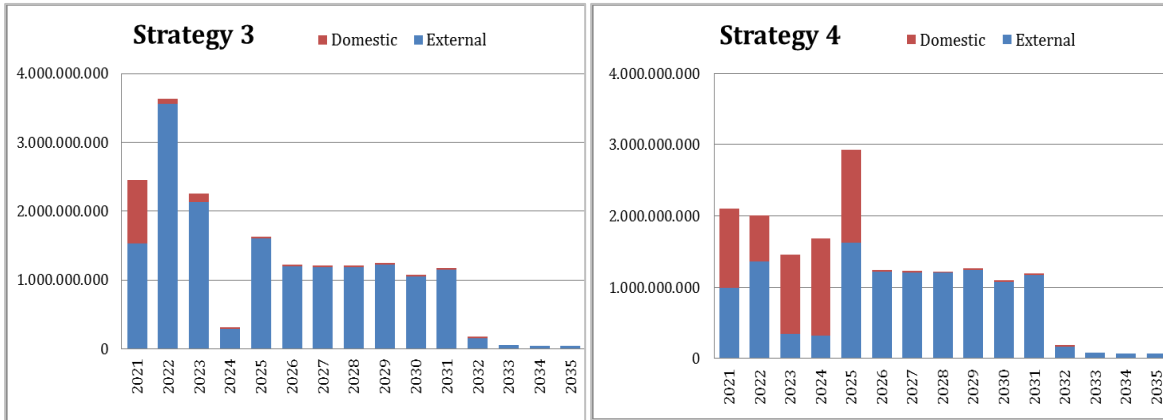
**Strategy 3** is, together with S4, the most beneficial in terms of cost but ranks worst as regards maturity and interest rate risk. While the cost benefit is about 0,3% over the other strategies and thus non-negligible its risk indicators are considerably poorer.

**Strategy 4** performs well in terms of cost, but its risk indicators rank average among the four strategies. In particular whilst cost is contained low the newly issued marketable debt has generally shorter tenors as it is issued in the still developing domestic bond market.

The maturity profile under each strategy provides particularly important information given that refinancing risk being the main source of vulnerability in the debt portfolio. Strategy 3 results in an extremely risky refinancing profile which cannot be confidently considered viable even under favourable market conditions. Strategy 1 and 2 perform well in this respect with maturities in the 5-year period after the end of the strategy (2021-2025) contained within manageable levels. Strategy 4 initially results in a concentration of maturities albeit following a more equally distributed maturity afterwards.

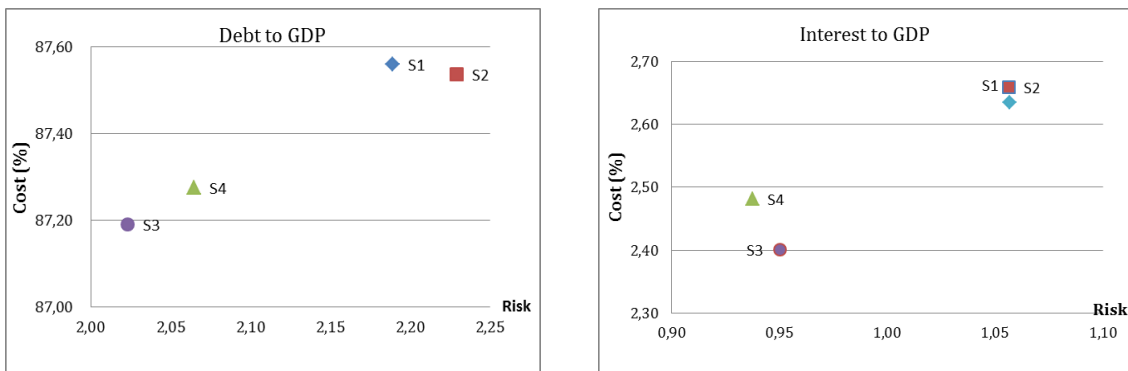
Figure 8: Projected maturity profile at end 2020 (EUR)





The performance of strategies under shock scenarios is shown in Figure 9. The graphs show the risk defined as the maximum change in each of the cost indicators of the baseline scenario under the four shock scenarios. The X-axis shows the highest nominal cost outcome under the shock scenarios.

Figure 9: Strategy performance under shock scenarios



As regards Debt to GDP Strategies 1 and 2 perform worst under a shock as this indicator increases quite sharply when stressed. This is natural to expect since S2 involves borrowing in a foreign currency and S1 comprises a larger share of borrowing under long term debt hence absorbing more cost. For the Debt to GDP ratio S3 and S4 perform very similarly. In terms of interest to GDP S1 and S2 result in a higher cost and rank rather poorly on shock resiliency. S4 reacts equally risky as S3 but with a higher cost outcome in absolute terms. S3 results in a combined “better” outcome with milder cost and risk reactions over all other strategies.

**5.7. Selection of strategy**

The performance of the four strategies was assessed in both risk and cost aspects with risk implications generally outweighing against cost advantages. Considering the overall cost-risk trade off Strategy 1 was selected to be pursued in the medium term.

Strategy 1 follows the principles and leads to the goals set out in the Guidelines 2016-2020. The debt profile is smoothed as there is little concentration of future repayments following the end of the strategy period. This strategy, a component of which is the extension of the liquidity cushion in its early stage, seems to be contributing to the management of refinancing risk most effectively among the stylized examined options.

Moreover, Strategy 1 does not lead to any accumulation in the exposure to market risks, in the form of either foreign exchange or floating interest rate risks. This complies with the generally conservative

stance of the Guidelines as regards those risk aspects which have a volatile cost on the government debt servicing.

At the same time Strategy 1 promotes the development of domestic primary and secondary market by moving gradually from Treasury Bills to a higher share of domestic bonds while allowing enough scope for actions in the foreign market and thus the promotion and expansion of work with investors and the international markets. A broader investor base can be reached without the need of issuing in a foreign currency.

In sum, this strategy is consistent with the overall aim of reducing the existing debt portfolio refinancing risk since it leads to a more favourable debt maturity profile than the current one and that of any other strategy. Its cost impact in terms of the implied interest rate, is within the framework outlined in the Guidelines and it does not indicate a severe impact on debt sustainability. Importantly, the interest rate risk indicators perform robustly among the four strategies and the foreign exchange exposure is kept at a very low level. The marketable debt risk indicators, which effectively represent that section of debt that the strategy can control over the period, improve considerably as regards the average maturity, the average time to refix and the redemptions within 12 months, highlighting the merits of this strategy.

For the selection of a strategy it was deemed more pragmatic to place a higher weight on the baseline cost-risk indicators and less on the shock scenarios. This is due to the fact that this deterministic scenario analysis does not account for the *probability* of a shock scenario occurring, although it can not be suggested either that any of the examined shocks have a low probability of realisation. Despite the limitations in the shock analysis the sensitivity of the borrowing strategy under alternative scenarios for market rates is relevant and can not be neglected in the choice of an appropriate strategy.

With that in consideration, the stress results show that Strategy 1 does not react excessively under market shocks. The stress impact is deemed acceptable within the desired cost-risk framework both as regards debt to GDP and interest to GDP indicators. In fact, in absolute numbers the cost-risk outcome under the stress situation is not even excessively high compared to the other strategies under examination.

It is important to highlight that the MTDS tool is only part of the motivation for the strategy and not an exclusive means of decision making. While its outcome is highly useful, the stylised results have been critically examined and adjusted with judgement to reach the final conclusion as to which direction to follow.

## **6. Institutional Arrangements and Implementation Issues**

The status, duties and responsibilities of the PDMO are defined in the Public Debt Management Law. The PDMO undertakes all front office and middle office tasks and certain back office tasks. The core back office tasks of payment instructions, debt settlements, and debt service reconciliation are undertaken by the Government Treasury.

In particular the PDMO is responsible for designing the strategy and annual funding plans, their implementation and execution of all debt management transactions. It additionally sets the size of the liquidity buffer and may undertake the investment of excess liquidity, if any. All the above are subject to the approval either directly or of a relevant framework by the Minister of Finance and/or the Council of Ministers.

A Debt Management Committee in a large composition involving fiscal and financial stability authorities has been established to ensure that all instances having an impact or being impacted by public debt management are appropriately involved and informed. To avoid conflicts of interest it

does not take decisions in public debt management but serves for information exchange. A narrow Debt Management Committee involving the PDMO only has also been established. The overall objective of the Debt Management Committee in both compositions is to ensure an efficient, effective and professional management of public debt.

The PDMO furthermore reports to the Parliament in an Annual Report of all debt management actions of the preceding year as well as the degree of compliance with and achievement of the strategy in force.

### **Infrastructure**

Being a relatively new establishment the PDMO is in a continuous evolvement and enhancement of its organization and capacity.

Based on the recommendations by the IMF and the ESM a 5-year action plan has been adopted by the Council of Ministers on the steps and timeline to follow as regards the governance and internal organization, the internal control and the operational risk management and IT infrastructure of the PDMO.

A target operating model with the relating organization structure will be developed to best manage the resources of the PDMO as a small organization, and to gain from synergies within the Ministry of Finance. The internal control and internal audit framework will be strengthened with the cooperation of the Internal Control Service and the Audit Service of the Republic. While initial steps have been undertaken, a further refinement of the risk/control assessment, policies and procedures will be of additional value. Furthermore, the purpose, responsibility and authority of internal audit will be formally set in an Internal Audit Charter. With regards to the IT infrastructure a specific solution has been identified suitable to the needs of the PDMO.

### **Investor relations and market intelligence**

The PDMO recognizes the need to further develop and improve its market intelligence and cultivate investor relations activities. This will help the PDMO to have a better understanding of the environment it operates in and allow it to respond better and faster to changes to market conditions while it will also facilitate the development of a more proactive rather than reactive approach to investors.

The objectives of the investor relations function would be to create visibility and promote the Cyprus “credit story”, create direct relationships and essentially reach out to more investors.

Investor relations will be implemented by providing:

- Consistent and accurate information on the Cyprus economy in a timely and frequent manner
- Communication of a clear, long-term focused funding strategy

The activities of the investor relations function will include:

- Organisation of roadshows, reverse roadshows and investor calls
- Participation in industry and peer conferences
- Production and distribution of marketing information
- Maintenance of an Investors Database and linkage of investor behavior with marketing efforts
- In conjunction with the Investors Database maintenance of a Market Contact List comprising of investors, banks and the press.

Market intelligence is fundamentally based on efficient investor relations but its scope is broader. Market intelligence comprises a good grasp and analytical capacity to generate own intelligence from market data, research, the press and peer information. To this extent, the PDMO will continuously monitor and analyse the financial markets. Variables such as new issue premiums and new issue



performances will be monitored and compared to Cyprus. Additionally, in the context of investor contacts market demand and expectations will be assessed. Building onto these, the PDMO could serve as a source of market information for other government entities.

The priorities, as well as detailed activities and timeline will be defined in an Annual Investors Relations Plan to be devised for each of the strategy years.

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16 February 2016

**Appendix: Public debt stock**

	Dec. 2014	Dec. 2015 (Preliminary data)
<b><u>A. DOMESTIC</u></b>	<b>5.956</b>	<b>4.427</b>
<b>I. LONG-TERM</b>	<b>4.180</b>	<b>4.028</b>
1. Domestic Government Bonds	<b>2.108</b>	<b>1.844</b>
- Monetary Financial Institutions	1.604	1.383
- Non-Monetary Financial Institutions	504	461
3. Retail Securities	<b>87</b>	<b>289</b>
- Private Sector	87	289
4. Loans	<b>1.985</b>	<b>1.895</b>
- Central Bank of Cyprus	1.297	1.241
- Loan No.6362 (School Committees)	417	394
- Loans by Local Authorities	201	190
- Loans by State-owned enterprises	70	70
<b>II. SHORT-TERM</b>	<b>1.776</b>	<b>399</b>
1. Treasury Bills	<b>685</b>	<b>399</b>
- Monetary Financial Institutions	327	311
- Non-Monetary Financial Institutions	358	88
2. Financial Sector's Recapitalisation	<b>1.091</b>	<b>0</b>
<b><u>B. FOREIGN</u></b>	<b>12.861</b>	<b>14.500</b>
1. Long-term Loans	<b>9.900</b>	<b>10.899</b>
- Loans by Budgetary Central Government	9.882	10.884
of which IMF Loans	443	882
ESM Loans	5.700	6.300
of which financial sector recapitalisation	1.500	1.500
Other	105	52
- Loans by State-owned enterprises	18	15
2. Euro Medium Term Notes	<b>2.669</b>	<b>3.372</b>
3. Euro Commercial Papers	<b>40</b>	<b>0</b>
4. EFSF loans	<b>252</b>	<b>229</b>
<b><u>C. CONSOLIDATED GENERAL GOVERNMENT DEBT</u></b>	<b>18.818</b>	<b>18.927</b>

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