Republic of Cyprus

Ministry of Finance

Public Debt Management Office

Annual Report

Public Debt Management

2019

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PUBLIC DEBT MANAGEMENT ANNUAL REPORT 2019

Republic of Cyprus
Ministry of Finance
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‘As a very important source of strength and security, cherish public credit’

George Washington, Farewell address, Saturday, September 17, 1796

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Mission Statement

The main mission of the Public Debt Management Office (PDMO) is the design and implementation of the appropriate government policy in the field of public debt management, depending on the domestic and international economic conditions and prospects.

The above mission is accomplished on the basis of two different but interrelated pillars: first, through the exercise of the medium-term debt management strategy of the Government, and second, through the implementation of the approved by the Council of Ministers action plan for further development and strengthening of the infrastructure of PDMO.

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

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

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

Therefore, it would not be an exaggeration to say that managing the economic aspect of the current crisis requires such a degree of diligence and attention, proportional to the corresponding degree that has been demonstrated for the management of the epidemiological aspect of the crisis. In both the first and second aspects, the ultimate objective is to maintain and improve the well-being of the citizens and to protect social cohesion, which aims to safeguard the economic viability and strength of the country.

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

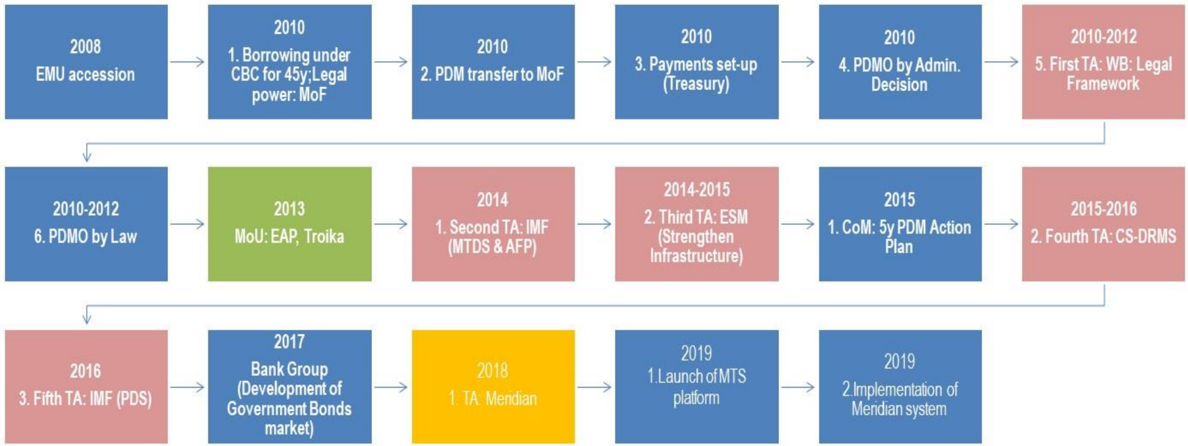
In the same context, and given the prevailing economic uncertainty internationally, the PDMO is constantly working on strengthening the liquidity buffer of the State, as required by Articles 20 and 21 of the Public Debt Management Law. In this context, during the period from January to April 2020, a total gross funding of approximately €5.0 billion was obtained, which was added to the existing cash buffer of the Government.

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

The developments made on the public debt management policy for the financial year 2019, as per article 25 of the Public Debt Management, are presented in the following Report which has been drafted by the end of March 2020.

Phaedon Kalozois, Finance Director - Head of PDMO
Public Debt Management Office
Ministry of Finance
Nicosia - Cyprus
April 2020

The timeline of Public Debt Management in Cyprus (2008-2019)



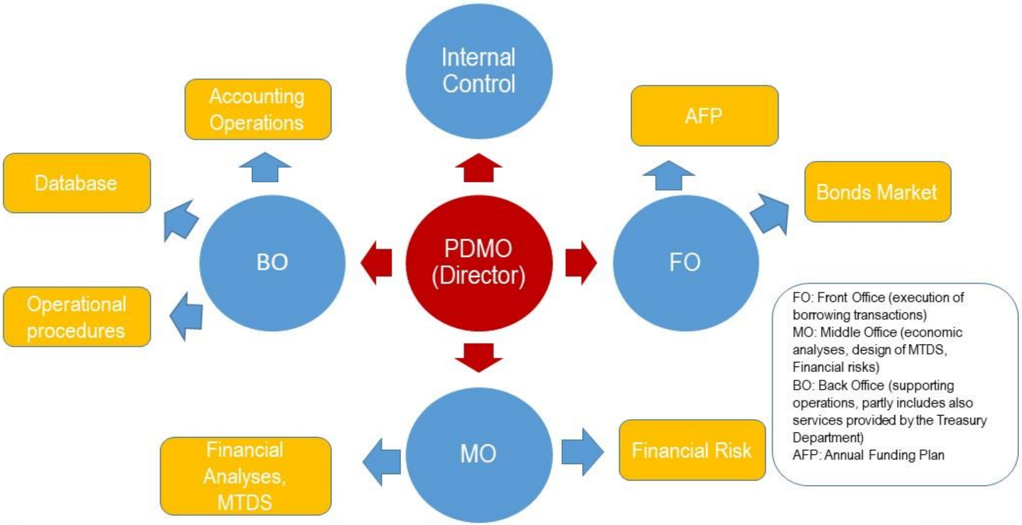
AFP: Annual Funding Plan
CBC: Central Bank of Cyprus
CoM: Council of Ministers
CS: CommonWealth Secretariat
DRMS: Debt recording management system
EMU: Economic and Monetary Union

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
MTS: Electronic fixed income trading platform
PDM: Public Debt Management
PDS: Primary Dealer System

PDMO: Public Debt Management Office
TA: Technical assistance
WB: World Bank

Organisational Structure of the Public Debt Management Office



- The Minister of Finance has the exclusive power to borrow funds on behalf of the Republic of Cyprus
- The PDMO of the Ministry of Finance is the responsible office for the above borrowing
- PDMO is under the supervision of the Permanent Secretary of the Ministry of Finance.

List of abbreviations

AFP	Annual Financing Programme: "Annual Funding Plan''
bn	Billion (one thousand million)
CBC	Central Bank of Cyprus
CCB	Cyprus Cooperative Bank
CEB	Council of Europe Development Bank
CRAs	Credit Rating Agencies
CS	Commonwealth Secretariat
CYPGB	Cyprus Euro Medium Term Note (EMTN)
EFC	Economic and Financial Committee of the EU
EFSF	European Financial Stability Facility
ECPs	Euro Commercial papers
EIB	European Investment Bank
EMTNs	Euro Medium Term Notes
ESDM	European Sovereign Debt Markets (EFC Sub-Committee)
ESM	European Stability Mechanism
EUR	Euro
GDP	Gross Domestic Product
GG	Government Guarantees
GGD	General Government Debt
IMF	International Monetary Fund
MFIs	Monetary Financial Institutions
MTDS	Medium Term Public Debt Management Strategy
mn	Million
NPEs	Non-performing exposures
PDML	Public Debt Management Law
PDMO	Public Debt Management Office
SDR	Special Drawing Rights
SSF	Social Security Fund
TBs	Treasury Bills
WACD	Weighted Average Cost of Debt

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I. Introduction

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

Public finances have returned to nominal surpluses in 2019, after recording a temporary fiscal deficit of 4,4 percent in 2018 due to the one-off banking sector measures related to the sale of the ex-Cyprus Cooperative Bank (CCB). Cyprus recorded a fiscal surplus of about 2,7 percent and a primary balance of about 5,2 percent in 2019. The continuation of these outcomes constitutes a prerequisite to safeguard the debt sustainability of the Republic of Cyprus in the future. Another important element in 2019 was the increased confidence of international investors for Cyprus which was highlighted in the benchmark EMTN (Euro Medium Term Note) issuances in 2019.

The secondary market yields of the Cypriot EMTN have recorded a downward trend for the whole year 2019. The Cyprus sovereign spreads of the 2028 bond over selected bonds of euro area countries, have continued to tighten since the beginning of the year. During the period July – October 2019, that trend reversed and spreads widened slightly but maintained at a stable level and then, continued to narrow towards the end of the year.

The main funding source for the Republic of Cyprus in 2019 was the international market supplemented by domestic market sources from both 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 capacity offered by the available large, diversified pool of investors. In 2019, the share of foreign bonds has marked a significant increase as opposed to the share of official loans that has recorded a decrease. The distribution of instrument composition is in line with our debt management strategy for the international market to be the main source of funding in the following years.

The public debt as a ratio of Gross Domestic Product (GDP) exhibited a material reduction in 2019 following the one-off increase in 2018 due to the bank support measures related to the ex-CCB. The Central Government's liquid assets were maintained at a sufficient level in the reference period (2019) allowing full coverage both for the subsequent 9-month period refinancing needs in 2020 as well as for the majority of the refinancing needs of the year 2021.

The debt portfolio risk indicators were affected positively by the public debt management transactions mainly in the international markets. The weighted average maturity of marketable debt exhibited an increase, surpassing the target set in the Medium-Term Debt Management Strategy (MTDS) 2016-2020, reaching a very satisfactory level compared to other European countries. It is noted that the weighted average maturity of the debt issued in 2019 has marked a substantial increase compared to the corresponding indicator the year before. The average cost of servicing the public debt, reached an all-time low, benefiting, liability management transactions, the low interest rate environment in the European capital markets and the improved credit rating profile of the Republic of Cyprus.

The sovereign's creditworthiness was maintained at the same level as was in the previous year by all Credit Rating Agencies (CRAs), however three of them changed the outlook from stable to positive. CRAs underlying, among others, the continuation of a strong fiscal performance and the significant progress made in consolidating Cypriot banking sector and reducing, at a slower pace, non-performing loans. 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 set under the MTDS 2016-2020 as well as the revised MTDS 2020-2022, 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 2019 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 2019.

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 which is revised at least once a year and is submitted for final approval to the Council of Ministers by the Minister of Finance, after informing the Budget and Finance Committee of the Parliament. According to the Law, the AFP is designed by the PDMO, and approved by the Minister of Finance. The execution of the necessary borrowing and other debt management transactions form the implementation of the financing plans in order to ultimately meet the guidelines of the Strategy. The current active Strategy covers the period 2016-2020. It was published in early 2016. The said strategy was updated through the MTDS 2020-2022.

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 2019 are presented below.

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

   - *Gradually increase and maintain average maturity of marketable debt, not less than 5 years;*
   - *Maintain short term debt equal or less than 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.*

It is noted that in September 2019, the new MTDS 2020-2022 was approved by the Council of Ministers. The said strategy is a continuation of the existing debt management strategy 2016-2020. The main pillars of the new strategy remain the same.

D. Annual Funding Programme 2019

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 2019 were the following:

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

4. Further development of the bonds market, and

5. Renewal of short-term debt and maintain the swift functioning of the Treasury Bills (TBs) market;

More details for the AFP 2019 are presented in chapter four.

Taking into consideration the projected annual cash flows and the successful market access of Cyprus, the PDMO submitted an updated AFP to the Minister of Finance for the next year. The AFP 2020 was approved by the Minister of Finance by the end of the year 2019.

E. Evaluation of MTDS guidelines and progress to date

The fourth year of the implementation of the MTDS, allows us to have a good overview as to where we stand today in relation to the targets set 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 2019, the overall MTDS guidelines have been fulfilled at a very 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 change has been marked on the debt maturity profile during the year 2019 which was attributed both to the EMTNs transactions executed in February and May 2019, as well as to the early prepayment of the Russian loan due in 2021 which was replaced by longer debt maturities. The share of outstanding short-term debt stood at 1 percent of the total outstanding debt at the end of 2019, in line with the target set (4 percent) in the strategy reducing the refinancing risk. It is noted that TBs issuances are necessary to maintain pricing points, enrich funding instruments and reach out to investors interested in this particular segment.

The share of outstanding long-term debt as at the end of 2019 stood at 99 percent, in line with the strategy. The outstanding annual maturities profile comply with the corresponding minimum limits set in the strategy regarding the length of debt maturity. The annual debt maturities for the period 2021 to 2027 range between EUR 1,0 bn to EUR 2,1 bn and are within manageable levels. The execution of the early prepayment of the loan granted by the Russian Federation in September 2019 has contributed to the further smoothening of the debt maturity profile. For the following years, the PDMO's intention is to issue at least one benchmark EMTN per year in order to cover the financing needs of the Government. In order to smooth out further the debt maturity profile, the focus is on longer-term debt issuances provided that the market conditions are favourable. The size of the issuance will depend on the performance of fiscal policy as well as of the progress of economic activity in the real economy.

The average remaining maturity of marketable debt has recorded an increase reaching 7,0 years at the end of 2019 compared to 4,3 years at the end of 2018 which was attributed to the government bond issuances in the international markets with the longest term debt due in 2049.The value of the said indicator is above the relevant MTDS target i.e. to be not less than 5 years as a result of the 15-year EMTN issued in February 2019 and the 30-year EMTN issued in May 2019. The continuation of longer-term benchmark EMTN issuances is anticipated to maintain the maturity of marketable debt above 5 years.

Risk mitigation

The size of the liquid funds throughout the year of 2019 was in line with the relevant target set in the strategy, to cover the financing needs of the next 9-month period in any time. Throughout the year 2019, the total liquid funds maintained well above the said threshold, covering the financing needs of more than the next 9-month period and providing the flexibility to the Government to decide the appropriate timing to access the market as well as to cope with unexpected events.

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 debt issuances only. The only non-euro debt outstanding which is denominated in Special Drawing Rights (SDR), is the IMF loan. By the end of 2019, the said loan stood at around 3 percent of the total debt. It was estimated, that through the early prepayment of the IMF loan which is expected to be executed early next year[4] many benefits will be arisen. such as (a) reduction of the foreign exchange risk to zero, (b) substitution of the floating rate debt with fixed rate debt, (c) the average maturity of the public debt will be lengthened and (d) the complete elimination of the IMF loan is expected to be received very positively by market participants providing a positive signal for the sustainability of the Republic of Cyprus.

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

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[4] A notice for early prepayment of the IMF loan was sent by the Minister of Finance on the 8th of October 2019 to the Managing Director of the IMF.

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 (CEB). The total of the said debt with floating interest rates formed 38 percent of the outstanding public debt at the end of 2019. The variable rate debt is anticipated to decline with the gradual redemption of the instalments payable to loans as well as to the scheduled early prepayment of the IMF loan early next year.

Developments of the government securities market

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

A significant improvement has been marked in the development of a suitable market structure to improve the price discovery mechanism and liquidity provision in the foreign market. A market group with seven international investment banks has been formed and has continued to work towards this goal during the year 2019. The initial mandate of banks is to post indicative prices of the Cypriot international bonds on a voluntary basis in a platform jointly decided by the issuer and the banks. By the end of November 2019, the MTS (electronic trading platform) has started the first transactions of secondary markets for Cypriot Government Bonds. From the said date, primary dealers are able to electronically trade through MTS Cypriot debt offering a liquid, transparent and efficient European bond marketplace. It is expected that MTS will help the PDMO to increase the liquidity of Cypriot bonds and optimise the cost of funding in the long term.

The target of build-up of a sovereign yield curve, has achieved at a very satisfactory level. Three new points were added in the sovereign yield curve in 2019 contributing to the extension of the bond yield curve up to 30 year. According to the existing debt maturity profile, the PDMO aims at centralizing the funding efforts of at least one international bond issuance per year for the following years to serve as benchmark bonds.

Minimisation of marketable debt borrowing cost

The outcome for the said guideline is envisaged to materialize gradually through the successful implementation of the other guidelines and the realisation of their targets. The contact list of investors has been expanded considerably throughout the years. As the secondary yields of the Cypriot international bonds continue to follow a downward trend and the sovereign credit ratings tend to improve further, the composition of investors will continue to change over time. The improvement of investor base with more quality investors has continued in 2019 through the EMTN issuances. The efforts now need to be placed in the analysis of investors in order to approach more investors with longer investment horizon and link marketing efforts to this type of investors.

The target of the provision of information to investors has been achieved by the PDMO through the production and dissemination directly to investors of two regular newsletter publications, namely Cyprus economy newsletter (bi-monthly) and public debt quarterly bulletin. Furthermore, an investor presentation is updated at intervals and published at the PDMO website informing the investors about the main developments of the Cypriot economy.

With regards to market intelligence, the PDMO continues to monitor and analyse the financial markets observing the new debt issue premiums and new debt issue performance of peers compared to the Republic of Cyprus. It is expected that more information on flows, volumes and investor statistics will be gathered by the newly established Bank group.

For the expansion of the investor base in terms of geography, type and size, the PDMO has focused on marketing activities which are conducted well ahead of any intended bond placements. A number of non-deal related roadshows were executed well ahead the benchmark EMTN issuances throughout the year both in core and non-core EU market. The investor base has improved both in terms of geography and type in the 2019 EMTN issuances.

The results of this target are evident through the investors distribution statistics by geography and type in the benchmark bond issuances in 2019 which are shown in Chapter 6.

III. Sovereign Debt Markets Developments

A. Eurozone sovereign debt market developments

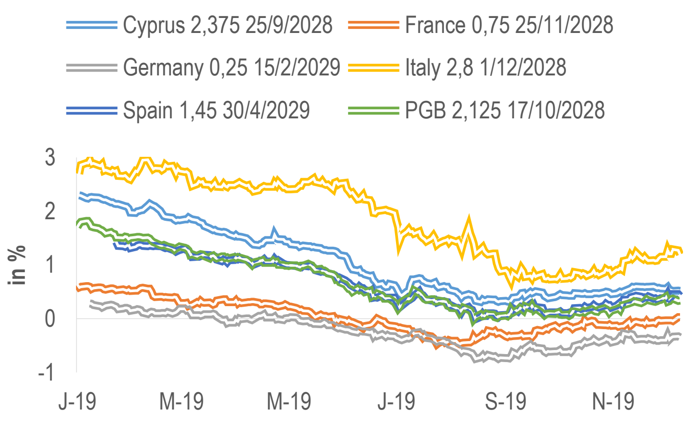
According to the notes issued by Directorate General Financial Stability, Financial Services and Capital markets Union, since the beginning of the year 2019, developments in bond markets sovereign bond yields have declined or remained broadly unchanged in most euro area Member States. These developments could be contributed to market expectations that the European Central Bank (ECB) will not increase the rates before summer 2020. January and February 2019 were marked by strong euro denominated bond issuances, including the first bond issuance of the Republic of Cyprus for this year.

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 with the exception of Italy which was subject to heightened volatility. Over the period March to May 2019, the main benchmark sovereign bond yield curves in the euro area have marked a downward trend and flattened across the board. That downward movements were attributed to concerns about slowing growth and the escalation in international trade tensions (in particular vis-à-vis China and US). The yield spreads of the long-term government bonds over German Bunds for the above period exhibited a heterogeneous output whilst there was a continuation of a strong euro-denominated bond issuances, including the second dual bond transaction of the Republic of Cyprus for 2019.

Since mid-June to October 2019, the benchmark sovereign bond yield curves in the euro area moved further down and flattened across the board, amid sustained volatility. With regards to the yield spreads of the long-term government bonds over German Bunds, further reduction was marked in the euro-area.

The yield developments of 10-year bonds, where available, for selected Eurozone States throughout the year 2019 are illustrated in Figure 1. The 10-year Cyprus government bond yield followed a downward trend for the whole year 2019 and decreased by 176 basis points at the end of the year compared to the beginning of the year. As a result, the gap between Cyprus government bond and other selected bonds presented in the figure below, narrowed and particularly Cyprus, Spain and Portuguese yields moved very closed throughout the year.

Figure 1: Secondary market yield curve levels of Cyprus and selected Eurozone States (10-year government bonds) in 2019



(Source: Bloomberg)

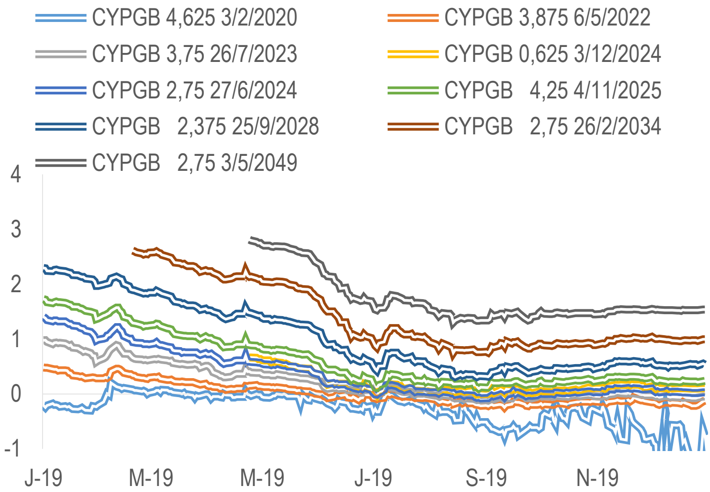
Regarding the implementation of the AFP, three new benchmark bonds (EMTNs) with a tenor of 5 years, 15 years and 30 years were issued during the year 2019, adding three further points in the sovereign yield curve of Cyprus. Since the beginning of the year 2019, all Cyprus government bond yields followed a downward trend 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 nine benchmark (EMTNs) bonds of the Republic of Cyprus into two main groups. The four longer-dated bonds due in 2023, 2024, 2025, 2028 as well as the newly issued benchmark bonds due in 2025, 2034 and 2049 moved in a similar pattern, tightened stronger and over-performed vis-à-vis the other two bonds. Specifically, the longer-term bonds performed very well in the secondary market with the year closing on average around 142 basis points tighter than the beginning of the year with the exception of the newly issued bond due in 2025, where yield narrowed by 56 basis points by the end of the year than its launch.

The second group of bonds due in 2020 and 2022 performed also well in the secondary market with the year closing 55 and 60 basis points tighter than the beginning of the year, respectively.

Figure 2 below, illustrates the yield development of Cyprus' benchmark bonds in 2019, launched under the EMTN Programme and listed on the London Stock Exchange.

Figure 2: Secondary yield levels for Cyprus EMTN in 2019

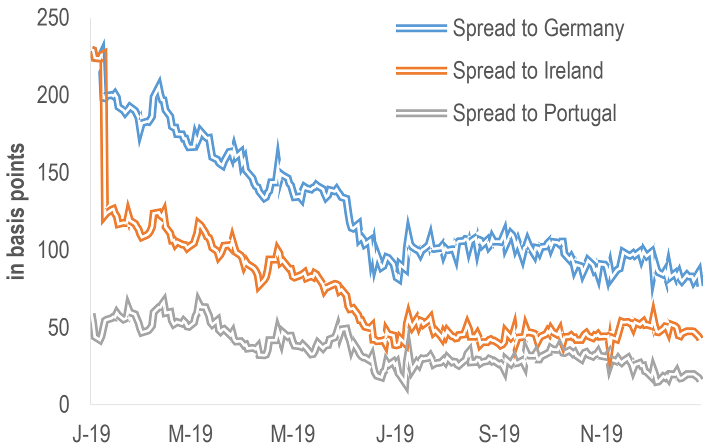


(Source: Bloomberg)

With regards to yield spreads developments, the Cyprus sovereign spreads of the 2028 bond over selected bonds of euro area countries has continued to tighten since the beginning of the year. During the period July – October 2019, that trend reversed and spreads widened slightly but maintaining at a stable level and then, the yield spreads continued to narrow, as presented in Figure 3 below.

The Cyprus sovereign yield spread of the 2028 bond (2,375 percent) over German Bund (0,25 percent) maturing on 15th of February 2029 decreased between January-July 2019 and then marked a minor increase maintaining around 100 basis points and towards the end of year had reduced by 153 basis points compared to the beginning of the year reaching 76 basis points. The spread to the Irish bond (1,1 percent) maturing on 15th of May 2029 moved in a similar pattern closed to the spread over German Bund and towards the end of year was reduced by 187 basis points compared to the beginning of the year reaching 42 basis points. Regarding the yield spread over Portuguese bond (2,125 percent) maturing on 17th of October 2028 moved in a similar pattern throughout the year but at lower spread levels and towards the end of year had reduced by 43 basis points compared to the beginning of the year reaching 16 basis points.

Figure 3: Cyprus sovereign yield spread to selected euro area countries in 2019 (bonds maturing 2028, where available)



(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 2019 is presented in the next chapter.

B. Cyprus sovereign debt market developments

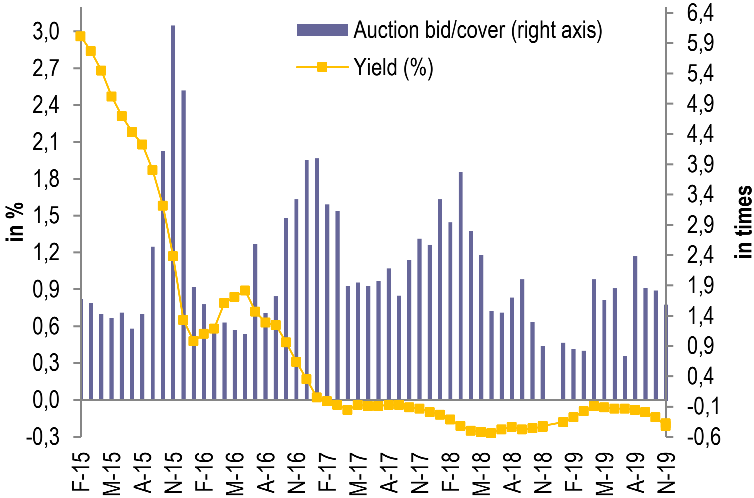
The activity of the domestic government bond market has continued throughout the year 2019 with regular monthly 13-week TBs auctions. TBs issuances are euro-denominated and the PDMO does have regular announced auctions of TBs. The indicative auction schedule for TBs for the first half of the year 2020 is presented in the Appendix. Although the annual outstanding amount of TBs is on a downward pattern since 2013 which is in line with the MTDS, the TBs programme remains the short-term funding vehicle for Cyprus. In 2019, the total cumulative amount of TBs auctions was EUR 993 mn compared to EUR 1152 mn in 2018. The total net stock of TBs at the end of the year has marked an increase of EUR 48 mn reaching EUR 300 mn or 1 percent of the total public debt compared to EUR 252 mn at the beginning of the year.

Figure 4 below, illustrates the historical evolution of TBs yields and auction bid to cover ratios[5] during the years 2015-2019. With regards to yields developments, the Cyprus TBs yields maintained at a negative territory but at higher levels with the weighted average yield reaching -0,12 percent in 2019 compared to -0,22 percent in 2018. It is noted that, TBs yields is on a negative territory since February 2017 reaching -0,19 percent in the last auction in 2019. Regarding the bid to cover ratios, it seems that the auction participation followed a downward path taking into consideration the material reduction of interest rates and given that yields are on a negative territory. The annual average auction bid to cover ratio in 2018 was 2,1 times the auction amount whilst in 2019 the said ratio has reduced by 0,6 times reaching 1,5 times the auction amount. The outcome of the TBs

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

auctions in 2019 given that interest rates are on a negative territory can be regarded as a positive signal for the creditworthiness of the Republic of Cyprus.

Figure 4: Treasury Bills yields and auction bid/cover ratio in 2015-2019



(Source: PDMO)

Financing of the Central Government in 2019: AFP 2019

A. Introduction

The financing of the Central Government during 2019 was achieved through a number of financing instruments. The financing of the Central Government was mainly done through the issuance of EMTN indicating the continuation of the successful presence of the Republic of Cyprus in the international market.

Following the introduction of this Report, the second sub-chapter illustrates the financing of the borrowing needs in 2019 by source and by maturity based on the AFP 2019. The next sub-chapter focuses on the debt redemptions and liability management transactions executed in 2019. The chapter concludes with a review of the year's financing profile.

B. Financing actions in 2019

The Central Government annual borrowing by financing instrument based on the AFP 2019 is illustrated in Table 1 below. The total borrowed amount of the Republic of Cyprus in 2019 reached EUR 3,3 bn, excluding debt issued and redeemed within the year.

The main component of the annual financing, was done through the issuance of three EMTNs underpinned by strong participation of international investors, with the majority originated between Germany/Austria/Switzerland and UK and by high quality of investors. In general, about 76 percent of the annual funds originated by foreign investors mainly in foreign bonds. The remaining share of the annual fund originated by domestic investors with both legal entities, mainly Monetary Financial Institutions (MFIs) investing in foreign bond and TBs issuances as well as natural persons investing in retail bonds. An amount of EUR 250 mn or about 8 percent of the total annual financing was formed by domestic loan whilst an amount of EUR 77 mn or about 2 percent of the total annual financing was formed by foreign loans granted by EIB and the CEB throughout the year for ongoing infrastructure projects.

Table 1: Annual borrowing by financing instrument in 2019

		EUR mn		%	%
1	**Government Securities**		**2982**		**90**
	of which:				
	TBs	300		9	
	Retail bonds	82		2	
	Foreign bonds (EMTN)	2600		79	
2	**Loans**		**327**		**10**
	of which:				
	EIB – CEB loans	77		2	
	Other bilateral Loan	250		8	
	Total annual borrowing[1/]		**3309**	**100**	**100**

1/= Debt issued and redeemed within the year 2019 is not included.

(Source: PDMO)

Table 2 below, shows the distribution of total annual borrowing by maturity in 2019. The maturity of the annual borrowing in 2019 ranged between 0,25 years to 30 years with the majority of the debt ranged in the spectrum of over 10 years. The said debt was composed of the two EMTN with a 15-year tenor and with a 30-year tenor. The second largest amount of debt ranged in the spectrum of 1-5 years which was composed of one EMTN with a 5-year tenor. The remaining amount was originated from retail bonds issuances throughout the year and loans provided by EIB, CEB for ongoing infrastructure projects and other MFI as well as from monthly TBs issuances.

The weighted average maturity of new issued debt during 2019 was increased significantly by 10,9 years compared to the respective debt during 2018, reaching 15,7 years, affecting by the foreign bonds issuances due in the year 2034 and 2049.

Table 2: Distribution of total annual borrowing by maturity in 2019

		EUR mn	%
1	0,25 – 1 year	300	9
2	1 – 5 years	500	15
3	6 -10 years	409	12
4	Over 10 years	2100	64
	Total net annual borrowing	**3309**	**100**

(Source: PDMO)

As presented in Table 3 below, in terms of the utilization of borrowed funds, about 60 percent of the annual funding was used by the Government to pay the scheduled debt redemptions in 2019 and about 40 percent to make an early repayment of the Russian loan and a small amount granted by EIB and CEB for the implementation of infrastructure projects.

Table 3: Summary of the use of the annual funding in cash terms in 2019

		EUR mn	%
1	Debt maturities	1982	60
2	Early repayment of the Russian loan[1/]	1250	38
3	Infrastructure projects	77	2
	Total net annual borrowing	**3309**	**100**

(Source: PDMO)

1/= Excluding accrued interest payments paid to the Russian Federation

The overview of financing actions implemented during 2019 are presented in more details below.

The main financing of 2019 took place in February and May 2019 through the issuance of three foreign bonds of the order of EUR 2600 mn which were issued for the early repayment of the Russian loan and debt redemptions within the year.

In February 2019, a 15-year EMTN was issued of the order of EUR 1000 mn at a coupon rate of 2,75 percent and yield of 2,758 percent. The new benchmark bond represents the first transaction in terms of tenor for the sovereign adding a further point in the sovereign bond yield curve of Cyprus. The transaction was very successful and recorded a strong and diversified international participation by investors. (see further Box 1).

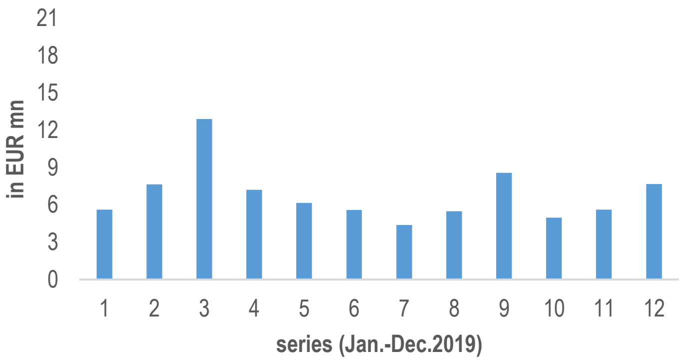
In May 2019, a 5-year EMTN of the order of EUR 500 mn at a coupon rate of 0,625 percent and yield 0,673 percent as well as a 30-year EMTN of the order of EUR 750 mn at a coupon rate of 2,750 percent and yield 2,835 percent were issued. Both transactions attracted a notably high quality and diverse set of international investors with the majority of investors originated between Germany/Austria/Switzerland and United Kingdom (see further Box 2).

In October 2019, the Government proceeded with two tap bond issues of a total nominal value of EUR 350 mn, from two existing EMTNs due in 2034 and 2049 in order to enhance cash balances by the end of the year 2019. Through the above two tap bond issues, the Government had a significant benefit due to lower reoffer yields compared to the relative yields of the corresponding existing EMTNs due in 2034 and 2049.

In addition, monthly series of the domestic retail bonds amounted to EUR 82 mn were issued throughout the year. The domestic retail bonds are designed to meet the characteristics of natural persons as investors have a 6 years' maturity and can be redeemed by the holder pursuant to the specific terms of issuance. The interest rate follows a step-up structure and has a positive correlation with the time of holding, motivating the investors to hold the bond until to maturity.

Figure 5 below, illustrates the monthly series of retail bond sales in 2019.

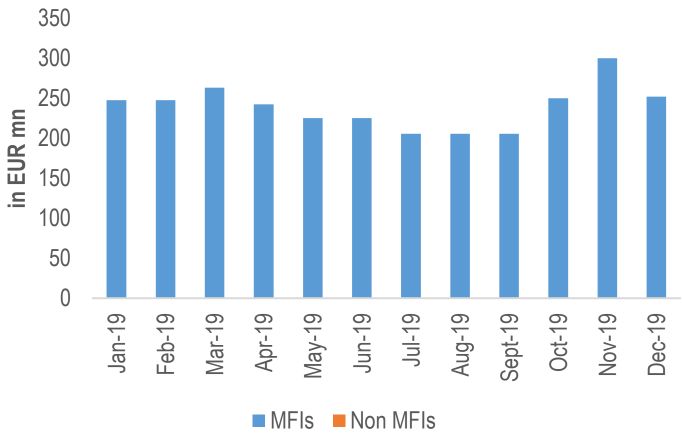
Figure 5: Monthly series of Retail bond sales in 2019 (Jan.-Dec.)



(Source: PDMO)

The annual funding in 2019 has been completed through monthly auctions of quarterly TBs of the total order of EUR 300 mn, two loans totalling EUR 77 mn granted by EIB and CEB for ongoing infrastructure projects as well as one loan by other MFI of the order of EUR 250 mn to enhance cash buffer towards the end of the year 2019. As presented in Figure 6 below, domestic MFIs dominated the Treasury Bill investor base. Regarding the participation of Non-MFIs in monthly TBs auctions such as pension funds and state-owned enterprises, this is on a downward path since January 2016 as the TBs offered low (negative) returns compared to alternative investments particularly bank deposits. In year 2019, the participation on TB auctions of Non-MFIs was zero.

Figure 6: Evolution of stock of TBs by investor distribution in 2019



(Source: PDMO)

Box 1: Republic of Cyprus EUR 1000 mn, 2,75% 15-year benchmark bond due 26 February 2034

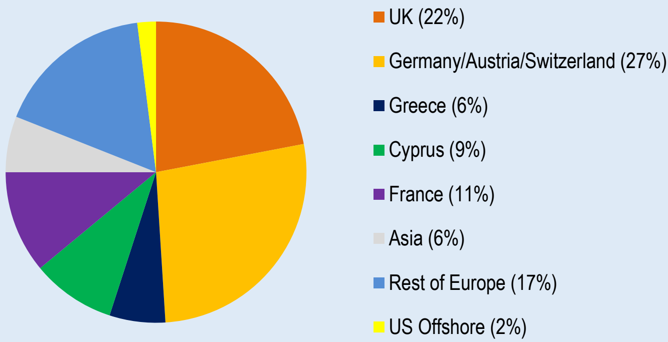
Given the strategic objectives under the MTDS to continue building out an international bond yield curve, manage refinancing risk by smoothening out and lengthening the debt maturity profile enhance investor relations and expand the existing investor base, the Republic of Cyprus launched a new 15-year benchmark transaction.

The mandate for lead management was extended by the PDMO to Citi, Goldman Sachs International and HSBC with an announcement made on 18th February 2019. Prior to the launch of the transaction, the PDMO had conducted extensive marketing efforts, targeting in London, Paris, Milan, Munich and Frankfurt. Based on positive feedback from these meetings, the mandate for a new 15-year benchmark was officially announced to the market on Monday 18th February at 12:43 CET. On 19th February Initial Price Thoughts of MS+200bps were released for a 15-year benchmark bond.

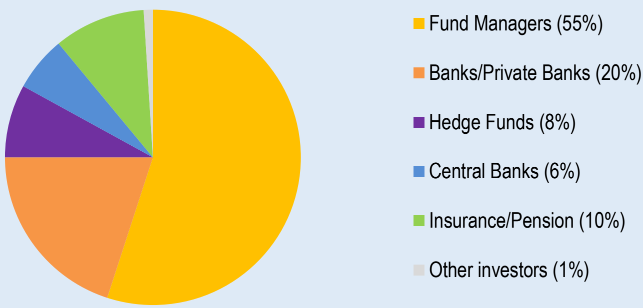
The order book was officially opened on 19th February at 10:46 CET with a revised price guidance of MS+185bps area on the back of the strong investor demand with interest reaching in excess of EUR 6bn. While the demand continued to grow allowing the issuer to set the size at EUR 1 bn and further tighten the spread by 10bps and set at MS+175bps. By the closing of the order book on 19th February at 12:30 CET, the final demand reached EUR 8,1 bn representing the largest order book generated for the Republic of Cyprus benchmark transaction since its return to markets in June 2014.

The transaction saw a strong and diversified international participation with investors from Germany/Austria/Switzerland and UK being the largest region with 27% and 22% share in the final participation, respectively. The remaining increased participation of investors came from various European countries, excluding Cyprus, with total European accounts reaching 23% of the final distribution. There was also a significant participation from French and Cypriot investors with 11% and 9% share in the final participation. With regards to the investor type the largest pool of investors were Fund Managers (55%), followed by Banks/Private banks at 20% and Insurance/Pension Funds at 10% of the final distribution. Hedge funds participation was maintained at the same level as was in the previous issuance last year at 8%.

Distribution by region



Distribution by type



Summary of terms and conditions

Issuer	The Republic of Cyprus (through the PDMO)
Format	Reg S Registered
Pricing	19 February 2019
Settlement	26 February 2019 (T+5)
Maturity	26 February 2034
Size	EUR 1,000,000,000
Coupon	2,75% annual, ACT/ACT (ICMA)
Re-offer Yield	2,758%
Spread vs MS	+175 bps
Denominations	EUR 1K+1K
Listing/Law	London Stock Exchange/English Law
ISIN	XS1956050923
Lead Managers	Citi, Goldman Sachs International, HSBC

Box 2: Republic of Cyprus EUR 500 mn, 0,625% 5-year benchmark bond due 3 December 2024 and EUR 750 mn, 2,75% 30-year benchmark due 3 May 2049

Taking into consideration the favourable conditions in the primary market and given the strategic objectives under the MTDS to continue building out an international bond yield curve, among others, the Republic of Cyprus launched a new 5-year and 30-year benchmarks transactions for general financing purposes of the Republic of Cyprus.

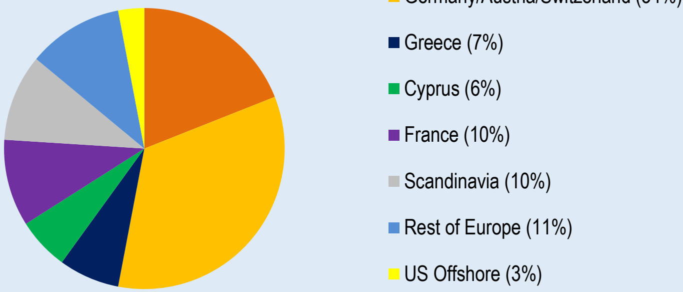
The mandate for lead management was extended by the PDMO to Barclays, Deutsche Bank, Goldman Sachs International, J.P. Morgan, Morgan Stanley and SG CIB with an announcement made on 23rd April. On 24th April 2019 at 8:10 LDN Initial Price Thoughts were announced for the new 5-year tranche at MS+80bp area and for the new 30-year tranche at MS+200bp area.

The order book was officially opened on 24th April at 9:05 LDN with a revised price guidance of MS+65bp area for the 5-year tranche and of MS+185bp area on the back of the strong investor demand with indication of interest reaching in excess of EUR 4,6 bn. While the demand continued to grow (with orders totalling in excess of EUR 4,9 bn for the 5-year tranche and EUR 5.9 bn for the 30-year tranche) allowing the issuer to set the size at EUR 500 mn and EUR 750 mn respectively and further tighten the spread by 5-10bps and set at MS+60bps for the 5-year tranche and at MS+175bps for the 30-year tranche. By the closing of the order book on 24th April at 10:45 LDN, the final demand reached EUR 4,8 bn for the 5-year tranche from more than 183 individual orders and EUR 6,3 bn for the 30-year tranche from more than 270 individual orders representing the largest combined order book generated for the Republic of Cyprus benchmark transaction since its return to markets in June 2014.

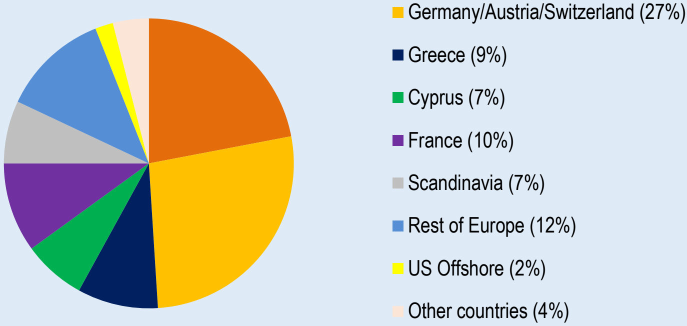
The transaction saw a strong and diversified international participation with investors from Germany/Austria/Switzerland and UK being the largest region in the final participation for both transactions. The remaining increased participation of investors came from various European countries. With regards to the investor type the largest pool of investors were Fund Managers, followed by Banks/Private banks and Insurance/Pension Funds. Hedge funds participation was maintained below 9%.

Distribution by region

5-year EMTN

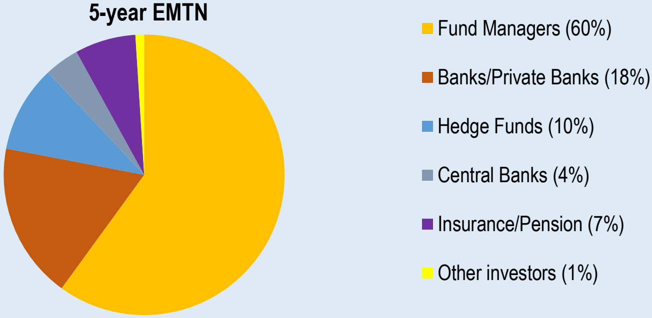


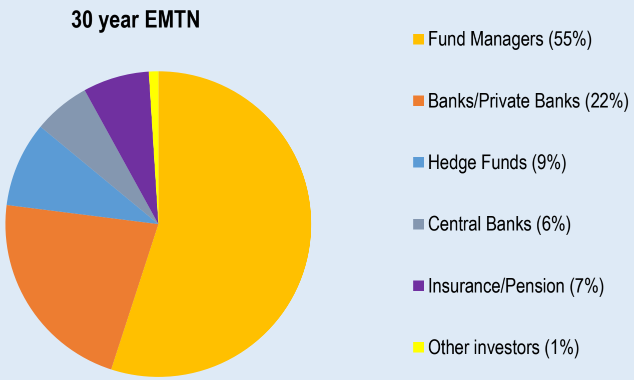
30-year EMTN



Distribution by type

5-year EMTN





Summary of terms and conditions

Issuer	The Republic of Cyprus (through the PDMO)	
Format	Reg S Registered only CACs	
Pricing	24 April 2019	
Settlement	3 May 2019	
Maturity	3 December 2024	3 May 2049
Size	EUR 500,000,000	EUR 750,000,000
Coupon	0,625% annual, ACT/ACT	2,75%, annual, ACT/ACT
Re-offer Yield	0,673% p.a	2,835% p.a
Spread vs MS	+60 bps	+175 bps
Denominations	EUR 1K+1K	
Listing/Law	London Stock Exchange/English Law	
ISIN	XS1989405425	XS1989383788
Lead Managers	BARC/DB/GS(B&D)/JPM/MS/SG CIB	

C. Liability management transactions and Debt redemptions in 2019

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 2019, the main attention with regards to the debt maturity profile was given to an early repayment of the Russian loan through market financing in an attempt to reduce the total interest payment in the future and the weighted average cost of debt. With regards to the extension of the maturity of marketable debt, the Republic of Cyprus achieved to extend the Cyprus bond yield curve from 10 years to 15 years in February 2019 and later on the year to 30 years. As a result, a significant improvement has marked on the weighted average of marketable debt.

The early repayment of the Russian loan was made on 2nd of September 2019 and concerned the outstanding amount of credit provided by the Russian Federation. The total amount was EUR 1562,5 mn of which of EUR 1250 mn considered as an early repayment, carrying interest rate of 2,50 percent.

The details of liability management operations as well as the debt redemptions in the domestic/foreign market and loan amortisations by creditor in 2019 are shown in the Appendix.

Table 4 below shows all long-term debt redemptions and liability management transactions in 2019. The scheduled long term redemptions of the year, excluding early repayments, amounted to EUR 1837 mn and related to domestic securities and instalments for domestic and foreign loans.

With regards to short term debt, an amount of EUR 300 mn was rolled over throughout the year maintained at EUR 300 mn up to the year end of 2019.

Table 4: Long term debt redemptions and liability management transactions in nominal terms in 2019

		EUR mn	%
1	Domestic Bonds	1126	35
2	Loans of which: early repayments (EUR 1250 mn)	1960	62
3	Retail securities of which: early repayments (EUR 83 mn)	84	3
	Total	**3170**	**100**

(Source: PDMO)

D. Review of the annual financing plan 2019

This section illustrates how the annual financing plan changed the debt structure of the year 2019. The debt structure has changed significantly in 2019 compared to the previous years. This change was mainly attributed to government bonds issuances in the foreign market adding new debt of the order of EUR 2,6 bn in years 2024, 2034 and 2049 as well as to the repayments of domestic bonds of the order of EUR 1,1 bn. During 2019, the stock of loans was reduced by EUR 1,6 bn of which an amount of EUR 1250 mn concerned an early prepayment of the Russian loan.

The stock of retail securities has marked a small reduction in 2019 as opposed to the TBs that recorded an increase of the order of EUR 48 mn.

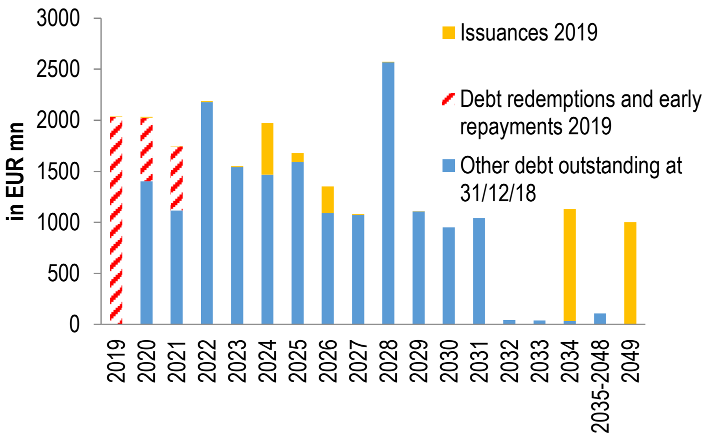
Table 5: Change in the public debt structure in 2019

		in EUR mn
1	Domestic Bonds	-1126
2	EMTN	2401
3	Treasury Bills	48
4	Loans	-1633
5	Retail securities	-3
	Total	**-313**

(Source: PDMO)

Figure 7 below, shows how the public debt maturity profile changed due to funding and liability management transactions in 2019. A total amount of new issuances of around EUR 3,3 bn was added to the public debt maturity profile. An amount of EUR 2600 mn of the new debt issuances which is related to foreign bonds falls in the year 2024, 2034 and 2049. The second largest amount of debt of the order of EUR 250 mn due in 2026 and is related to the loan granted by a MFI and an amount of EUR 300 mn (which was rolled over throughout the year) concerns TBs. The remaining amount spreads between 2019-2029 and refers to retail bonds and loans granted by EIB and CEB for ongoing project financing.

Figure 7: Change of public debt maturity profile through 2019 actions



(Source: PDMO)

Following the liability management transactions executed in the year 2019 combined with the EMTN issuances, the concentration of debt maturities within the next two years has reduced significantly. In addition, the maturity profile at the end of 2019 remained within comfortable/manageable levels and within the targets set in the MTDS. The impact of liability management transactions in 2019 on debt maturity profile at the end of 2019 is presented in Appendix.

IV. 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

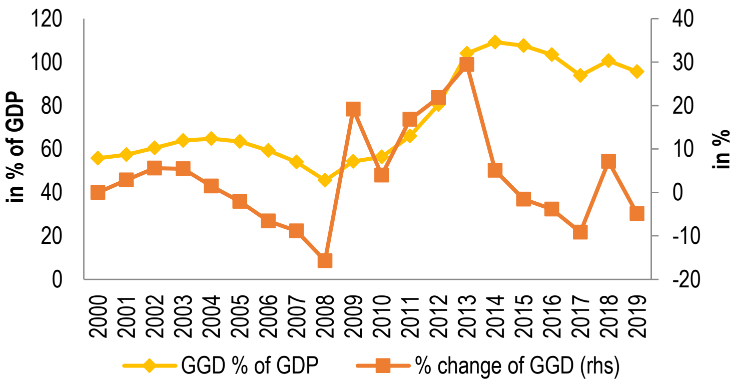
B.1 Size and evolution of General Government Debt

The General Government Debt (GGD) as a percent of GDP was on an upward path until the end of 2014 and thereafter, it has marked an average reduction of around 5 percent for the next three consecutive years. In 2018 the outstanding amount of government debt has increased by 6,7 pp reaching EUR 21,3 bn due to the government intervention of the order of EUR 3,5 bn to facilitate the sale of ex-CCB.

The debt to GDP ratio marked a significant decrease of 5 percentage points (pp) from 101 percent in 2018 to 96 percent in 2019, 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 2014, excluding the year 2018 which recorded an increase of about 7 pp.

The net debt to GDP ratio which excludes accumulation of cash reserves of the order of EUR 947 mn reached 91 percent at the end of 2019.

Figure 8: Debt to GDP ratio evolution in 2000-2019



(Source: PDMO, Ministry of Finance and Eurostat)

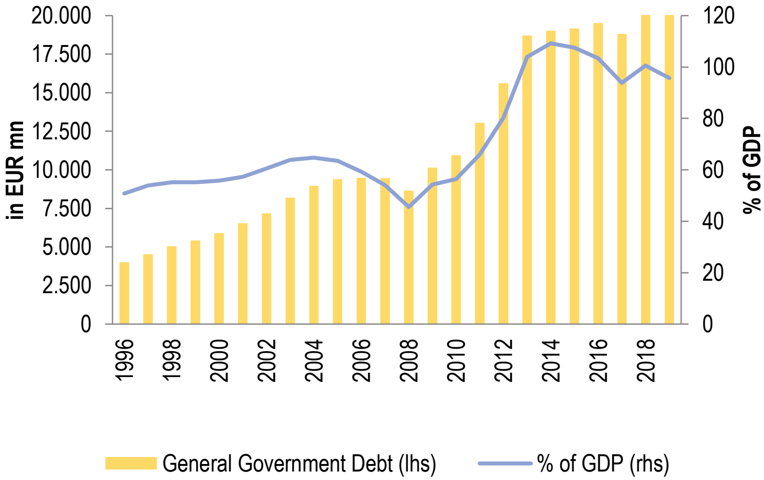
The historical debt evolution over the years 1996 to 2019 is presented in Figure 9 below. During the period 1996-2004, the GGD followed an increasing path from 51 percent of GDP in 1996 to 65 percent of GDP in 2004. Following years of fiscal consolidation, and due to the use of available sinking funds, the debt-to-GDP ratio reached a low of 46 percent of GDP in 2008. Since then, fiscal slippage and low to negative growth rates as well as capital injection into the banking sector, measures under the Memorandum of Understanding and other emergency loans, contributed to a considerable increase in the debt to GDP ratio.

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

The banking crisis resulted in state support to the domestic financial sector of currently EUR 3,6 bn or about 20 percent of the gross public debt by end 2014, excluding interest payments. These funds were related to the state recapitalisation of Cyprus Popular Bank and the cooperative sector via debt securities. In late 2015, the Government provided an 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 strong real GDP growth of 3,4 percent and 6,7 percent in 2015 and 2016 respectively, indicate that debt is stabilising earlier and at lower levels than originally anticipated. The years 2017 and 2018 were years of strong fiscal outcome with positive real GDP growth of 4,4 percent and 4,1 percent respectively whilst in 2019 the growth rate has slowed down towards 3,2 percent, albeit at above Eurozone levels. The historical evolution of gross general government debt in values and as a percent of GDP for the period 1995-2019 is presented in table 4 in Appendix.

Figure 9: Trend in the consolidated general government debt in 1996-2019

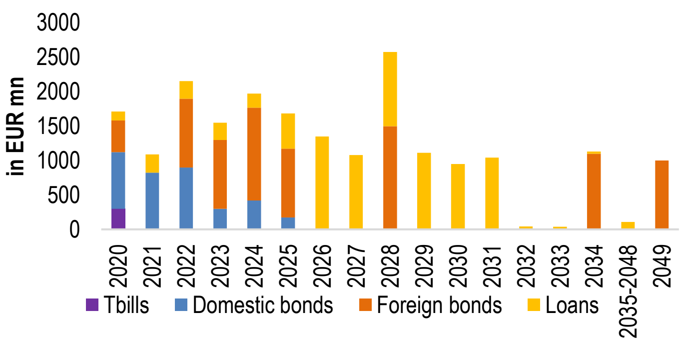


(Source: PDMO and Ministry of Finance)

B.2: Composition of the General Government Debt

This section presents the composition of the GGD at the end of 2019. The maturity structure of the GGD gives a clear picture of the distribution profile among different outstanding liabilities. Figure 10, illustrates the debt maturity profile, on other words, the size of the debt sums maturing in each individual year given the outstanding GGD, excluding debt for European Financial Stability Facility (EFSF) loans amounting to EUR 225 mn as at the end of 2019. Despite the relatively large amount of public debt and the need for significant reduction, the debt maturity profile is smooth and the annual debt maturities are within comfortable levels and within the objectives set in the MTDS 2016-2020. During the period 2020-2025, an amount of EUR 4808 mn or about 47 percent of the total debt due in the said period concerns the repayments of the EMTNs and an amount of EUR 3432 or about 34 percent refers to the repayments of the domestic bonds. The year 2028 shows the highest concentration of maturities of EUR 2575 mn of which an amount of EUR 1000 mn or about 39 percent is related to an instalment of the ESM loan.

Figure 10: General government debt redemption profile as at the end of 2019

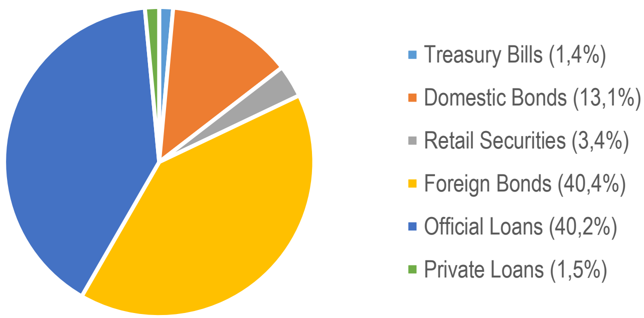


(Source: PDMO)

The share of the government debt by financing instrument, as at the end of December 2019, is illustrated in Figure 11 below. The two largest categories of the outstanding debt concerned official loans and foreign bonds. About 40 percent of the outstanding public debt in 2019 comprised loans disbursed to the Republic of Cyprus of which the vast majority, about 84 percent of the official loans related to loans disbursed by the ESM and IMF during the years 2013-2016, whilst the remaining comprised other bilateral loans which were mainly disbursed by the EIB and the CEB.

The remaining share of the outstanding public debt (around 18,5 percent) concerned bonds issued in the domestic market which is expected to reduce the following years but it will continue to serve as a complimentary financing source. The outstanding Central Government debt as at the end of 2019 is presented in Tables 5, 6 and 7 in Appendix.

Figure 11: Share of general government debt by financing instrument in 2019



(Source: PDMO)

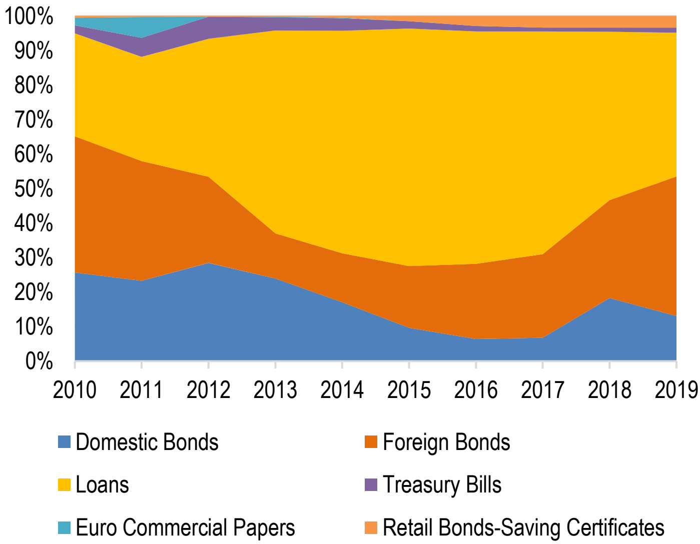
Figure 12 below, illustrates the historical breakdown of GGD by financing instrument during the years 2010-2019.

During the said period, it is obvious that the vast majority of government debt concerned loans which increased abruptly in 2013 by 19 pp compared to 2012 and followed an upward trend until the end of 2015 reaching 69 percent mainly due to the official loans provided by ESM and IMF. In 2016 the level of loans was stabilized at 67 percent of public debt and then followed a downward trend reaching 49 percent by the end of 2018. By the end of 2019, the outstanding amount of loans marked a significant reduction of about 7 pp reaching 42 percent mainly due to the early prepayment of the bilateral loan granted by the Russian Federation.

While in the past, domestic bonds were one of the main financing instruments with an average contribution of around 25 percent in years 2010-2013, since 2014 the contribution of domestic bonds to the GGD has marked a significant reduction reaching 7 percent in 2017 compared to the peak of 29 percent in 2012. In 2018, the share of domestic bonds has increased by 12 pp compared to the previous year reaching 18 percent of public debt. This is attributed to the domestic bond issuances of the order of EUR 3,19 bn to facilitate the sale of the ex-CCB. In 2019 the contribution of domestic bonds to the GGD marked a reduction by 5 pp and the said share is expected to reduce further in the following years combining the redemptions of the domestic bonds and the fact that the main financing will be through the international capital markets. Nevertheless, domestic debt market is expected to continue to serve as an important complimentary financing source, due to its strategic importance.

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

Figure 12: Historical breakdown of GGD by financing instrument in 2010-2019

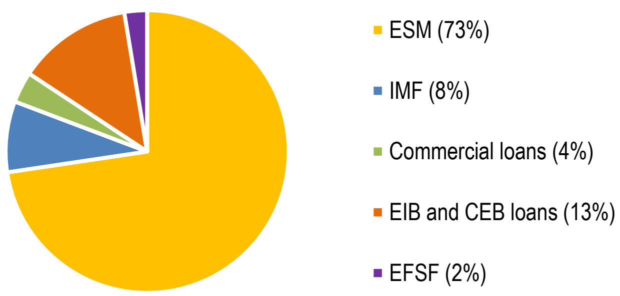


(Source: PDMO)

The distribution of outstanding loans by source as at the end of 2019 is presented in Figure 13 below. As mentioned above, the majority of the stock of outstanding loans as at the end of 2019 concerned the programme loans provided by ESM and the IMF. Another important funding source was the loans disbursed by the EIB and the CEB for the implementation of ongoing infrastructure projects. These loans constitute 13 percent of GGD as at the end of 2019. 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. As already mentioned, the intergovernmental loan granted by the Russian Federation was fully repaid in September 2019. The total value of Cyprus' loans from domestic sources reached at 4 percent towards the end of the year 2019.

Finally, about 3 percent of the outstanding loans granted via the EFSF to Greece, Ireland and Portugal, as attributed to the creditor countries including Cyprus, are included in the debt statistics[6]. The government debt by instrument and lender as at the end of 2019 is presented in Table 7 in Appendix.

Figure 13: Distribution of loans by source as at the end of 2019

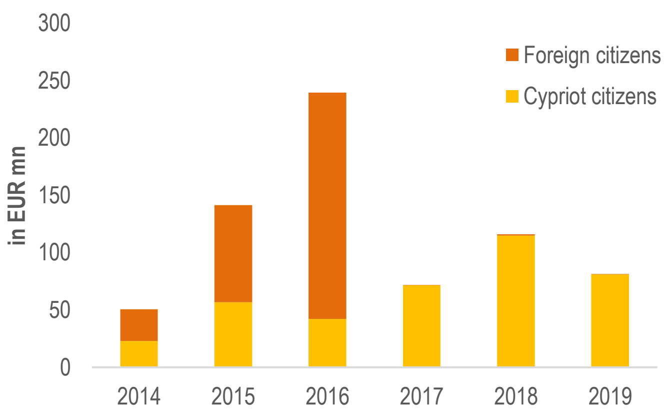


(Source: PDMO)

[6]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 14 below, shows the outstanding amount of retail bond sales by citizenship during the years 2014-2019. The majority of the value of retail bonds during the period 2014-2016 was held by foreign investors due to the criteria for the obtainment of the Cypriot citizenship, as a measure to further encourage foreign investment and to attract high net worth individuals into doing business in the Republic of Cyprus. Since the launch of the scheme in 2014 and before the amendment of the criteria for the exceptional obtainment of the Cypriot citizenship in October 2016, foreign investors acquired about 76 percent of the total value of retail bond sales during the period 2014-2016. Following this amendment, the retail bond sales have been directed mainly to Cypriot citizens whilst since 2018, a small interest came back from foreign investors. At the end of 2019, about 56 percent of the total outstanding amount of retail bonds were held by Cypriot citizens and about 44 percent by foreign citizens.

Figure 14: Distribution of retail bond sales by citizenship in 2014-2019



(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[7]. 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 2019, the share of outstanding Central Government debt, excluding debt to SSF, accounted for around 99 percent of the general government debt on a consolidated basis. This share has historically been fairly constant.

Regarding the local authorities' loans, it is noted that the said loans were EUR 31 mn at the end of 2019. The borrowing of local authorities is related normally to infrastructure projects and typically the creditors are mainly local credit and ex-cooperative institutions[8]. 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 17 mn at the end of 2019 compared to EUR 28 mn at the end of 2018.

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

[8] The said loans were transfered to state-owned Cyprus Asset Management Company (KEDIPES)

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.

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 2019, amounted to EUR 8435 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 2019, the balance of the SSF in the form of deposits stood at EUR 8435 mn exhibiting an increase of around 5,0% in relation to the previous year balance of EUR 8037 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 the end of 2019 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 104 mn at the end of 2019.

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 2019 of EUR 123 mn of which EUR 62 mn concerned investments of the Turkish Cypriot Properties Fund, EUR 57 mn of the Government Hourly Employees Provident Fund and EUR 4 mn of the Hunting Fund. The other two administered Funds are:

1. The Human Resources Development Authority Fund; and
2. The Agricultural Insurance Organisation Fund.

It is noted that the outstanding balance of the above two Funds since the year 2018 was equal to zero. The surpluses of these Funds are invested in Government Promissory Notes.

Finally, the only intragovernmental debt existing between the local authorities and the Central Government are two loans which were granted in 2011[9] 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 2019 was around EUR 7,5 mn.

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

It is worth noting that the intra-governmental relationship between government - SSF and other Administered Funds, as mentioned above, on a consolidated basis, is merely a statistical and accounting methodology.

VI. Cost and risks

A. Introduction

The analysis of cost and risk was incorporated in the MTDS for the years 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.

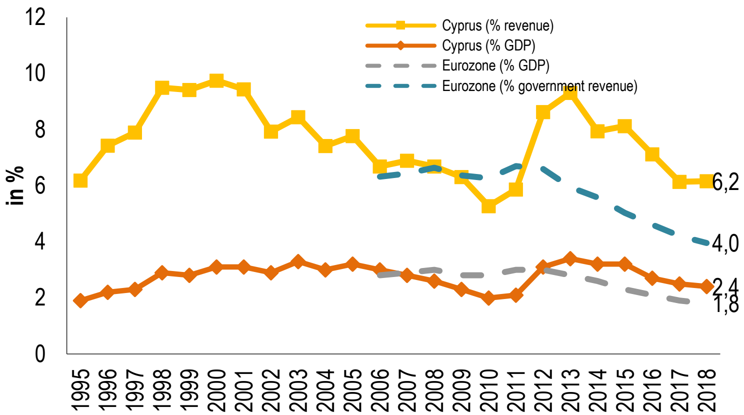
Historically, during the years 1995-2006 the average share of government revenue spent on the interest payments to service the public debt was 9 percent, with the highest share reaching 10 percent in 2000. The decrease of the public debt as a percent of GDP by around 8 pp in 2008 compared to 2007, contributed to the reduction in interest payments towards 7 percent of the government revenue and remained on average at 6 percent in 2009-2011.

Then, due to the sharp increase of public debt in the next years as well as the rise in the borrowing cost itself, the share of government revenue for interest payments followed an upward path reaching 9 percent at the end of 2013. It then followed a downward direction reaching around 6 percent at the end of 2018, as presented in Figure 15 below. It is noted that the increase of interest payable was partially offset by the low base rates.

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

By the end of 2018, interest payments to GDP ratio was estimated at 2,4 percent compared to 2,5 percent of the previous year, despite the increase of the public debt in 2018.This is explained by lower amounts of interest payments due to lower borrowing cost because of low interest rate environment in the Eurozone and improvements in the sovereign credit ratings and outturn for the Cypriot economy as well as higher GDP. In addition, the first interest repayments for the increased debt of 2018 fall due during the next year 2019. 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 reaching 0,6 percent in 2018. The historical debt servicing in 2010-2018 is presented in Table 9 in Appendix.

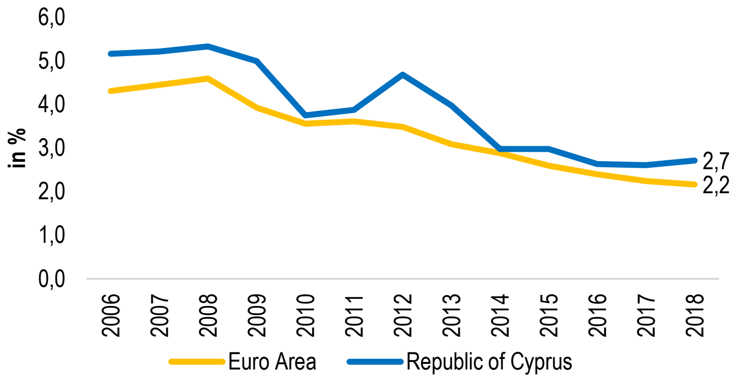
Figure 15: Distribution of interest payable on public debt during 1995-2018



Source: PDMO and Eurostat)
Note: The interest payable as a percent of GDP in 2019 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 2006-2018. 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 0,5 percent at the end of 2018 compared to 0,8 percent in 2013.

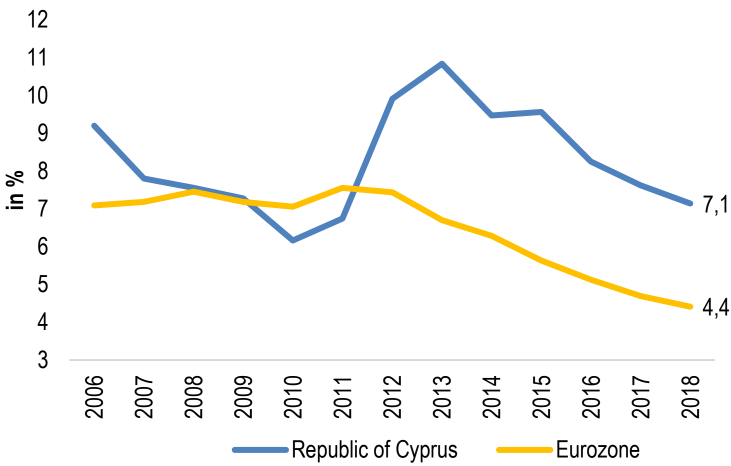
Figure 16: Distribution of Interest payable$_{(t)}$ to Debt $_{(t-1)}$ in 2006-2018



(Source: PDMO and Eurostat)
Note: The interest payable to Debt $_{(t-1)}$ was estimated at 2,6 percent in 2019 due to the increase 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 2006-2018. Since 2013, the gap is on a downward path reaching 2,7 percent at the end of 2018 compared to 2,7 percent and 4 percent at the end of 2017 and 2013, respectively, however this gap remains excessive.

Figure 17: Distribution of interest payable to tax revenue in 2006-2018

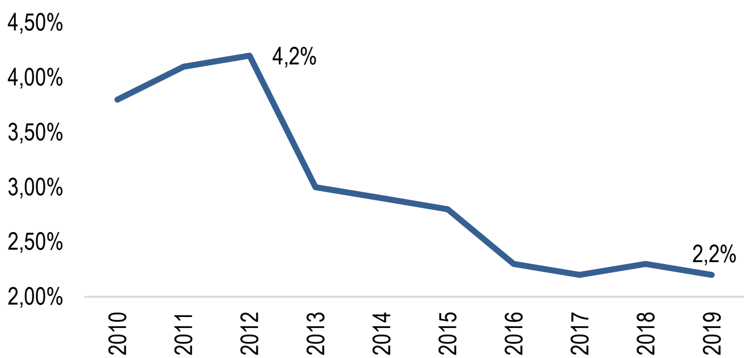


(Source: PDMO and Eurostat)

Another measure reflecting the overall rate being paid by the State on public debt financing is the weighted average cost of debt (WACD), although this alone does not indicate its burden on the economy as a whole. This indicator provides to investors information concerning the creditworthiness or the riskiness of the State implying that riskier States generally have a higher WACD. Within this framework, this indicator is very important for the sustainability of the public debt.

As presented in Figure 18 below, during the years 2010-2012, the WACD followed an upward trend reaching 4,2 percent at the end of 2012. One year later the WACD marked a significant reduction by 1,2 pp in relation to 2012 mainly due to the official funding provided by ESM and IMF at low interest rates. During 2013-2019 the WACD followed a downward trend reaching 2,2 percent at year end of 2019 compared to 2,3 percent at the 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 2010-2019



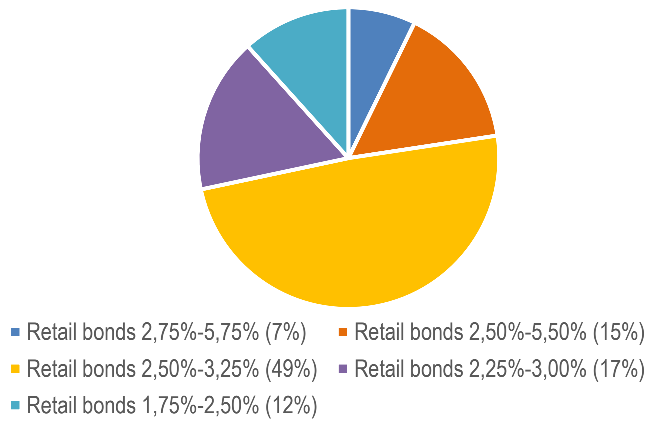
(Source: PDMO)

Furthermore, it is important to highlight that the refinancing of the short-term debt has continued to be achieved at negative interest rates since February 2017 reaching -0,19 percent at the end of 2019. The weighted average yield of short-term debt in 2019 maintained within negative spectrum reaching -0,12 percent from -0,22 percent which was in 2018.

Regarding the interest rates of retail bonds, it is noted that the current 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.

Figure 19 below, shows the distribution of the outstanding amount of retail bonds by interest rate structure at the end of December 2019. About 1/2 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 3,00 percent, followed by the retail bonds ranged in the spectrum between 2,50 percent to 5,50 percent. It is important to note that in 2019, a new category of interest class of retail bonds was added with interest rates between 1,75 percent to 2,50 percent. Based on the current conditions, it is expected that the interest rates of retail bonds are expected to reduce further in the coming years.

Figure 19: Distribution of retail bonds by interest rate structure



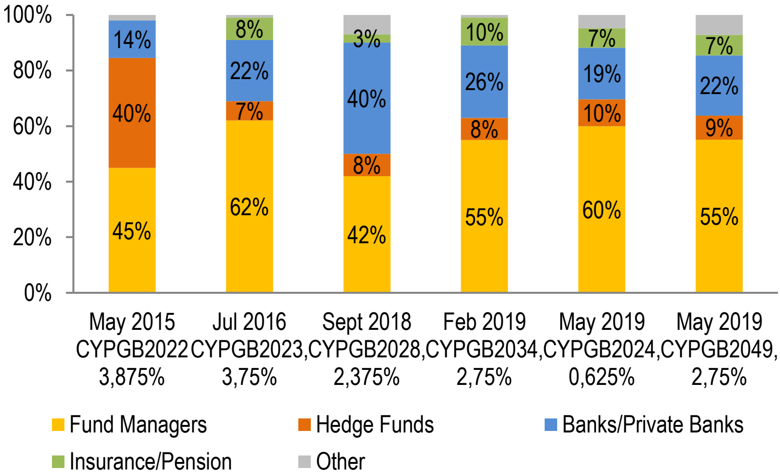
(Source: PDMO)

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 20 and 21 respectively.

In the year 2019, there was a significant improvement in the quality of the order book in all EMO (EMTN) publications. This is mainly due to the improved credit rating profile, the positive outlook for the economy as well as the strong support of the Republic of Cyprus by the international investment community. In all debt issuances, the largest category of investors was Fund Managers (at 57% on average) and then banks (at 22% on average). The participation from Hedge Funds recorded a large decrease, approaching 9% on average compared to previous issuances. The participation from Insurance / Pension Funds and Central Banks / Public Organizations was maintained at 7% on average.

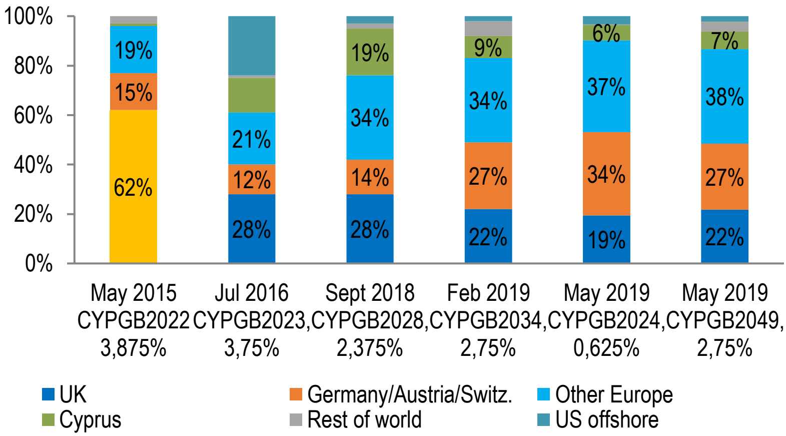
With regards to investor distribution for EMTNs by geography, it is worth-noting that since 2016, a more balanced distribution was achieved between UK investors and investors from other countries, however UK investors continue to maintain a significant share on our issuances. At the issuances executed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

Figure 20: Evolution of investor distribution for EMTNs by type during 2015-2019



(Source: PDMO)

Figure 21: Evolution of investor distribution for EMTNs by geography during 2015-2019



(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 2019 on the debt portfolio risks were affected positively both by longer term debt issuances and liability management transactions executed over the year. The EMTN issuances in 2019 with 15-year and 30-year tenor has certainly led to a significant improvement of the debt maturity profile, thereby increasing the weighted average maturity of debt. The share of debt due within one year and five years exhibited a reduction due to the early prepayment of the Russian loan and as a result the refinancing risk has declined substantially as well as the credit risk. The floating rate debt provided mainly by ESM and IMF maintained at the same level, albeit still high, taking into consideration that these loans are indexed at low interest rates, the interest rate risk is limited.

As mentioned earlier, the execution of longer-term transactions combined with the early prepayment of the Russian loan reduced significantly the concentration of maturities in the following years maintaining the debt maturity profile at manageable levels and within the targets set in the MTDS 2016-2020. The current MTDS 2020-2022 is focusing on longer-term issuances in order to avoid the need to mitigate portfolio risks through liability management transactions, which are costly.

It is important to highlight that risk management of public debt does not, in the ordinary application, cover the debt sustainability assessment since the latter is related mostly to fiscal and macroeconomic indicators, conventionally the GDP and the fiscal balance. Thus, the debt sustainability analysis focuses on macroeconomic factors and prospects and is not the primary subject of public debt management. However, the evolution of these parameters in conjunction with the WACD is closely monitored by the PDMO.

C.2: Financial and non-financial risks

This section has twofold objectives, of which the first one is to cover the analysis of the most important financial risks associated with the debt management operations whilst the second one is focusing on a discussion about the operational risks.

C.2.1: Financial risks

Refinancing risk

Refinancing risk is the probability (risk) for the Government to face a situation where a share of debt reaching maturity can only be replaced with the issuance of new loans at very high cost or, in the extreme case, cannot be refinanced at all.

In order to capture the refinancing risk of the Government, two indicators were used. The first one is the share of debt due within 1 year and the second one is the share of debt due within 5 years.

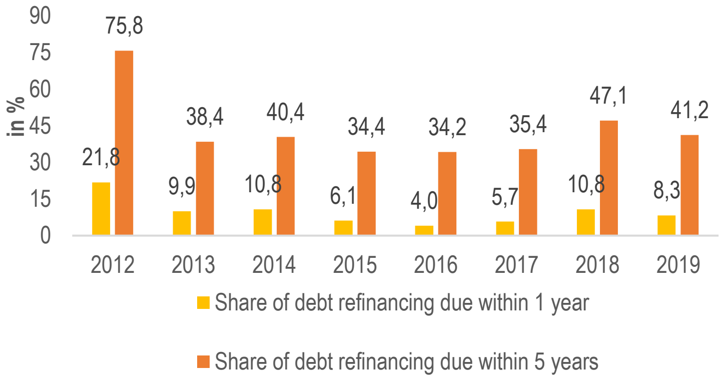
As presented in Figure 22 below, the share of debt due within 1 year followed a decreasing path since 2012. The large reduction of share of debt due within 1 year from 22 percent in 2012 to 10 percent in 2013 was attributed to the long term official funding granted by ESM and IMF. In the following years,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

In 2018, the debt redemptions due within 1 year 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. One year later, in 2019, the share of debt due within 1 year exhibited a reduction by 2,5 pp due to the early prepayment of the Russian loan. In conclusion, the refinancing risks exposure is at an acceptable level of risk given the level of current cash balances and comfortable market access.

Regarding the share of debt due within 5 years, after a significant reduction by more than 40 pp during the period 2012-2017, in 2018 marked an increase reaching 47 percent compared to 35 percent a year before mainly due to the government bonds issued to ex-CCB due in the period 2019-2022 as well as due to the EMTNs due in the said period. In 2019, the said indicator recorded a reduction of around 6 pp due to the early prepayment of the Russian loan.

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

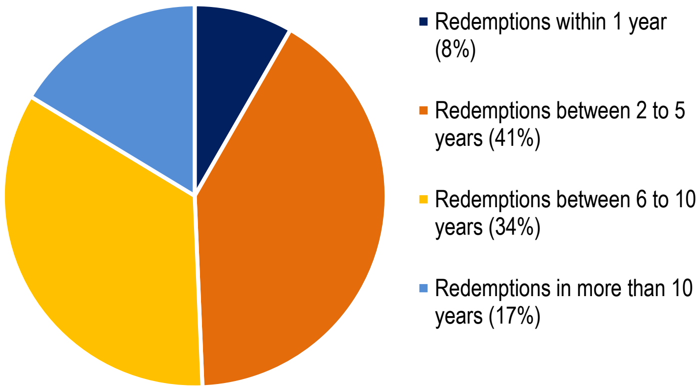
Figure 22: Share of debt refinancing due within 1 year and 5 years in 2012-2019



(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 2019. The majority of the debt redemptions of the order of EUR 8,5 bn fall due in the segment between 2 to 5 years. The said amount is mainly attributed to the EMTN due within the above period (about 51 percent) and to a lesser extend to redemptions related to domestic bonds (about 23 percent) and loans (about 18 percent). The second largest category of redemptions of the order of EUR 7,1 bn fall in the segment between 6 to 10 years. About 78 percent of the debt due in the said segment concerns instalment repayments to the ESM whilst the remaining amount is attributed to EMTN redemptions.

Figure 23: Total debt[1/] refinancing distribution as a percent of GGD at the end of 2019

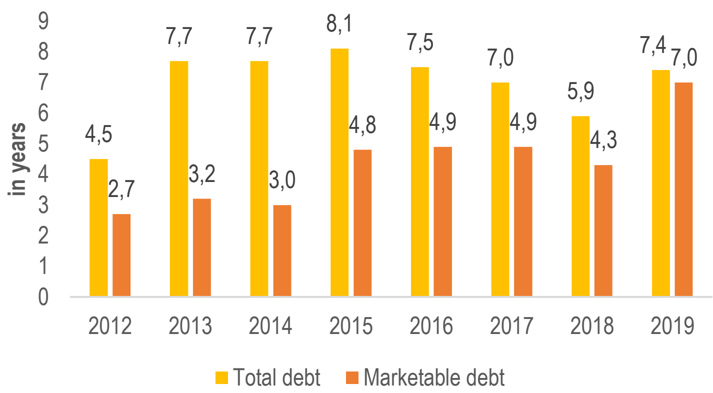


(Source: PDMO)
1/ = Loans to EFSF are excluded

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 at the end of 2019 was 7,4 years for the total debt and 7,0 years for the marketable debt. Comparing these sizes in 2017 with the corresponding sizes at the end of 2012, the situation has improved significantly showing the positive contribution of both long-term official loans by ESM and IMF and other bilateral loans such as by EIB, CEB and Russian loan as well as of liability management transactions implemented by the PDMO. In 2018 the figures marked a reduction compared to the corresponding figures in 2017 due to the government bonds issued to CCB. In 2019, due to the

15-year benchmark transaction in February 2019 and to the 30-year transaction in May 2019, the weighted average maturity of marketable debt followed an upward trend reaching at very satisfactory levels compared to the EU levels, thereby reducing the refinancing risk.

Figure 24: Weighted average maturity of debt (in years) in 2012-2019 as at the end of 2019



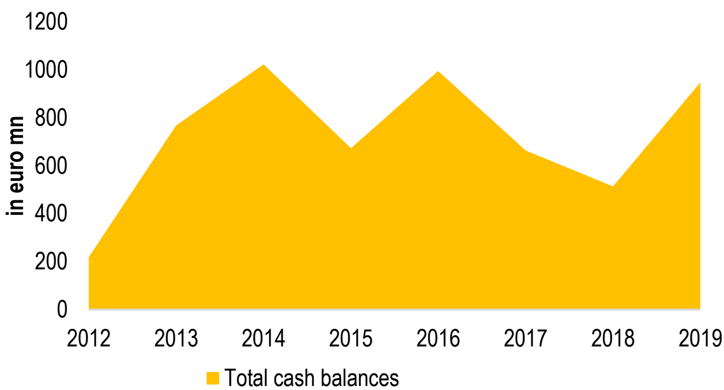
(Source: PDMO)

Liquidity risk

The annual cash balances in years 2012-2019 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 947 mn at the end of 2019.

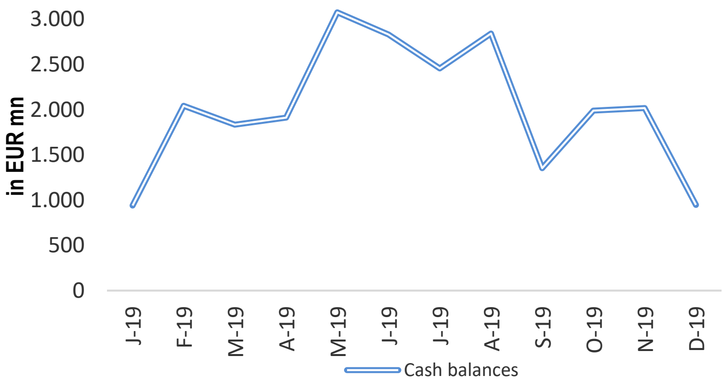
As presented in Figure 26 below, the total liquid funds followed an upward trend during the period January – May 2019 which was mainly attributed to the three EMTN issuances in February and May 2019, then exhibited a reduction reaching EUR 1,3 bn in September 2019 mainly due to the repayment of the Russian loan of the order of EUR 1,5 bn and toward the end of the year reached EUR 947 mn. The reduction of the cash buffer by the end of the year was attributed to the repayment of a domestic bond of the order of EUR 750 mn issued to ex-CCB. The financing needs cover ratio of 2019 is illustrated in Figure 32 under the Chapter "Cash management".

Figure 25: Cash liquidity levels in 2012-2019



(Source: CBC)

Figure 26: Cash liquidity levels on a monthly basis in 2019



(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[10] 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

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

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

As the loan disbursements by ESM and IMF were released, the proportion of debt at floating rate followed an upward path reaching 46 percent at the end of 2016 which was the last year of the financial assistance programme. In 2017, the debt of floating rate remained at the same level whilst in 2018 a large reduction of floating rate debt was marked. The reason for the said change was the issuance of government bonds to CCB of the order of EUR 3,19 bn at fixed interest rates, therefore affecting the level of the debt of fixed rate. In 2019, the interest rate distribution of debt maintained at the same levels as was in 2018 despite the early prepayment of the Russian loan. In fact, a large amount of fixed rate debt related to the Russian loan was paid through the utilisation of funds received by EMTN issuances at fixed interest rate.

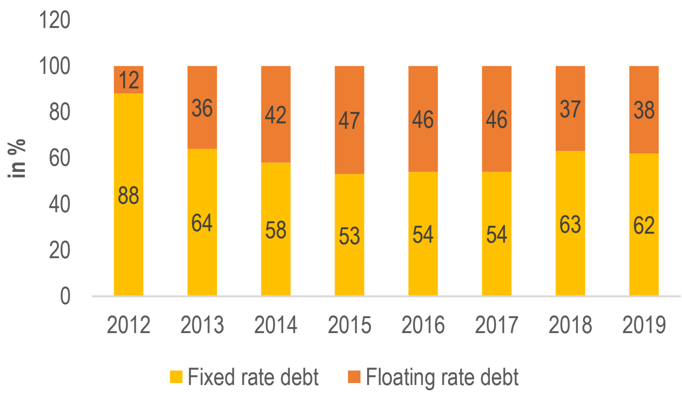
Although, the debt of floating rate stood at 38 percent at the end of 2019, taking into consideration that the vast majority of floating rate debt is indexed at low interest rates, as presented in Figure 28 below, the interest rate risk is expected to be limited. Specifically, loans by ESM and IMF[11] of EUR 7,0 bn or about 89 percent of total floating rate

[11] IMF loan was estimated according to the exchange rate of Euro/SDR as at 30 December 2019.

debt are indexed at low rates whilst an amount of EUR 0,8 bn or about 10 percent of the total floating rate debt by EIB and CEB are indexed at low margins over the Euribor rate. It is expected that the floating rate debt will follow a downward trajectory in the following years taking into consideration the intention of the Cyprus Government to repay earlier the IMF loan in 2020.

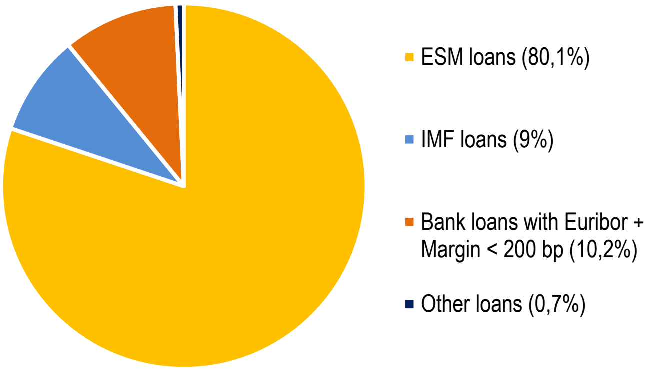
Given, however, the historically current low interest rate period, interest rates in general are expected to gradually rise in the following years.

Figure 27: Evolution of interest rate distribution of debt in 2012-2019



(Source: PDMO)

Figure 28: Composition of floating-rate debt as at the end of 2019



(Source: PDMO)

Foreign exchange risk

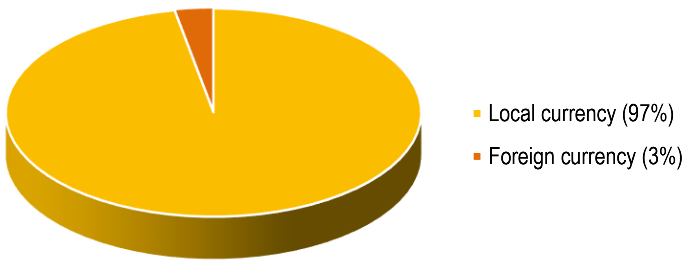
Although foreign currency debt has many benefits such as access to a large investor base and the geographical independence with possible interest rates benefits, foreign currency financing has substantial risks. Some of the risks are the increase of the country's external vulnerability to exchange rates in case of large-scale foreign issuance (new borrowing) which may lead to the increase of outstanding debt servicing and debt burden in case of a significant depreciation of the domestic currency. In case of hedging of the foreign exchange risk, additional debt management costs arise.

Figure 29 shows the currency composition of debt as at the end of 2019. The majority of the public debt is denominated in domestic currency whilst only EUR 704 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[12].

Taking into account that SDR includes also the euro, we conclude that the foreign exchange risk is rather limited but not insignificant. The exchange rate of EUR/SDR increased by almost 1,8 percent reaching to EUR 1,23588 per SDR at the end of 2019 from EUR 1,21424 per SDR at the end of 2018 indicating an appreciation of foreign debt denominated in SDRs.

Figure 29: Currency composition of debt as at the end of 2019



(Source: PDMO)

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[12]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).

Credit risk

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

During 2019, there were no outstanding derivative exposures for the Republic of Cyprus. Regarding the deposit levels in the money market, there were no deposits in the MFIs. More information is presented in Chapter 7.

In conclusion, the credit risk for the government in the reference period could be ignored.

C.2.2: Non Financial risks

Operational risks

Operational risk may arise mainly from the potential difficulties of implementing effective internal procedures, the lack of human resources, the internal control systems and the possible lack of appropriate software and computer systems. In order to enhance the above infrastructure, at the request of Cyprus, technical assistance was received by the ESM. The technical assistance provided by the ESM covered both an evaluation of internal organisation and IT infrastructure of the PDMO as well as proposals for the creation of a pool of information and knowledge about capital markets and further enhance relationships with investors. Appropriate technical assistance was also provided by the IMF for issues concerning MTDS as well as by the Commonwealth Secretariat (CS) for the appropriate software.

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

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

C.3: Contingent liabilities

C.3.1: Introduction

Overall, contingent liabilities can be distinguished into (a) Direct (explicit) such as e.g. government guarantees and (b) Indirect, such as e.g. various risks arising from unforeseen developments, legal disputes, etc. A relevant report on contingent liabilities is submitted each year by the Minister of Finance.

Granting government guarantees (GG) to financial institutions is a common feature of government policy all over the world. In some cases, the cost for certain borrowers is too high due to asymmetry of information and therefore, the provision of GG may help to overcome the said issue. GG enhance the scope of financial intermediation within the financial system.

On the other hand, GG legally and explicitly bind the government to make loan repayments on behalf of a borrower that defaults. Therefore, they constitute a contingent liability that might impose fiscal costs on the government, which adversely affect the public finances and the public debt sustainability.

C.3.2: Government guarantees framework

Pursuant to a decision of the Council of Ministers in June 2015, the responsibility of management and coordination of procedures relating to guarantees was assigned to the Treasury of the Republic of Cyprus. For this purpose, an amendment of the PDML was enacted, in a way that the monitoring of the GG was removed from the PDMO's competencies.

C.3.3: Statistical description of Government Guarantees

Taking into consideration the above amendment of the PDML, this section describes only the main developments[13] regarding GG.

The Republic of Cyprus had outstanding GG[14] for loans as at the end of 2019 of EUR 1,86 bn or about 8 percent of GDP, which is slightly lower than the relevant stock of EUR 1,90 bn at the end of 2018. 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 1,59 bn or about 7,0 percent of GDP as at the end of 2019. It is noted that the GG portfolio is denominated fully in euro. Analysis of the outstanding stock of government guarantees as at the end of 2019 is presented in table 10 in Appendix.

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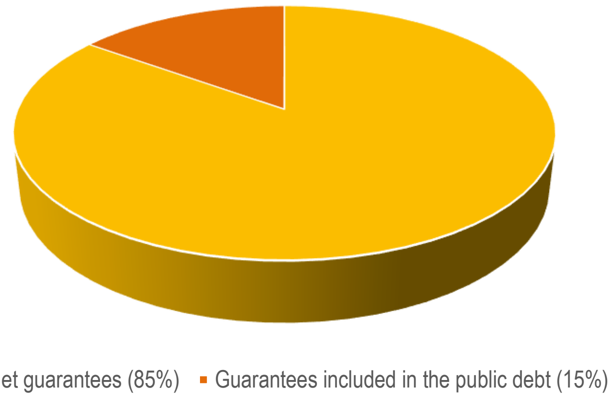
[13] Detailed analysis of explicit contingent liabilities is presented in the website of the Treasury of the Republic

[14] 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 269 mn or about 15 percent of the total value of outstanding guarantees is also included in the public debt as at end of 2019.

Figure 30: Outstanding GGs in percent as at the end of 2019



(Source: Treasury)

Regarding the called guarantees, an amount of EUR 42 mn or about 2 percent of the outstanding amount of government guarantees at the end of 2019 was called. The majority of the called guarantees concerned guaranteed loans granted to natural persons. More information is presented in the website of the Treasury of the Republic of Cyprus.

VII. Cash Management

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

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

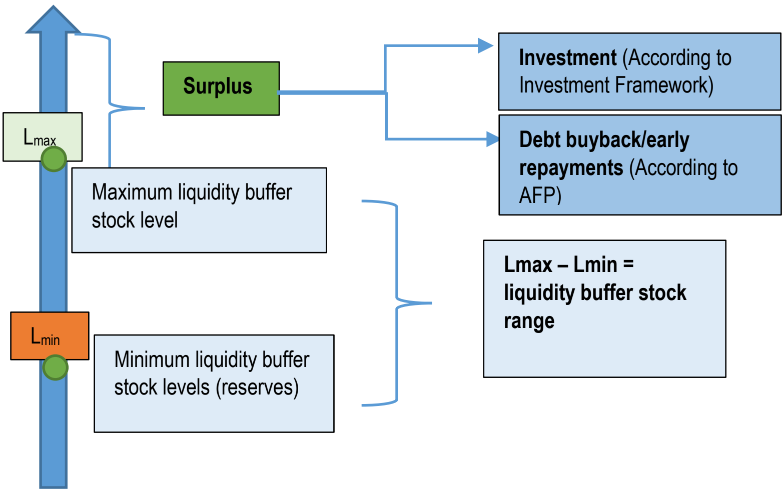
The institutional structure of the government cash management pursuant to articles 20 and 21 of the PDML, that has been set, via a decision of the Council of Ministers {ΠΧ (restricted circulation) 84.568, 28/3/2018)} is presented in Figure 31. A maximum and a minimum liquidity buffer stock level are 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 2019 and taking into consideration that the government liquidity was above the maximum liquidity buffer stock level by the mid of the year, the PDMO pursuant to article 21 of the PDML, proceeded with an early repayment of the Russian loan of the order of EUR 1250 mn. 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

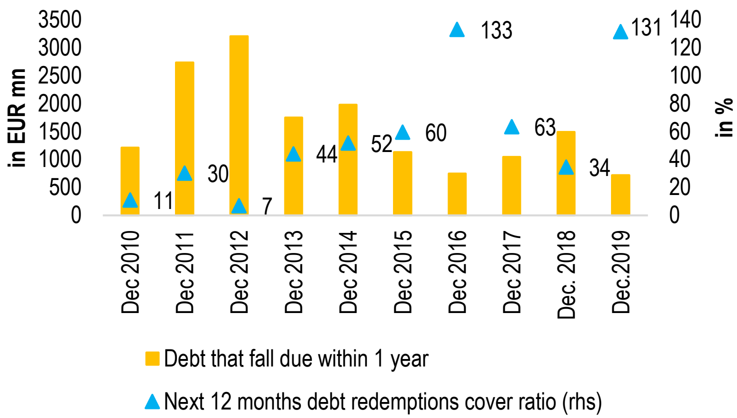


(Source: PDMO)

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 Council of Ministers 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 2019 and taking into consideration both the early repayment of the Russian loan which reduced the debt redemptions of the next year as well as the execution of the two tap of issuances, cash balances has increased and towards the end of the year covered about 131 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 2010-2019



(Source: PDMO and CBC)

Notes:

(1) The financing needs (only debt redemptions) in December 2018 and December 2019 concern the 9-month period of the next year and not 12 month-period as the previous years.

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

VIII. Sovereign Credit Ratings of the Republic of Cyprus

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

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

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

Following a period of a strong growth over the past four years, Cyprus's economic growth remained strong in 2019, albeit at lower levels, and despite the external slowdown affecting the European economy. After a material reduction of Cypriot banks' non-performing exposures (NPEs) in 2018, the stock of NPEs has continued to decline in 2019 but at a slower pace. Fiscal performance remained strong in 2019 contributing to the reduction of public debt whilst the prudent debt management strategy has resulted in a favourable debt profile reducing refinancing risks and significant improvement of debt portfolio cost-risk indicators. In 2019, the sovereign credit rating of Cyprus was confirmed to investment grade by three CRAs whilst the outlook was changed from stable to positive by three CRAs, indicating a likelihood of an upgrade within the next 12 months if specific conditions are met.

Standard & Poor's affirmed its 'BBB-' long-term foreign currency sovereign credit rating on Cyprus in March 2019 and in September 2019 maintained the outlook to stable.

In April 2019, Fitch has affirmed Cyprus' long-term Issuer Default Rating (IDR) at 'BBB-' with a stable outlook and in October 2019 it has affirmed the IDR at 'BBB-' revising the outlook from stable to positive. The change of the outlook is indicating a likelihood of an upgrade within the next 12 months if specific conditions are met.

In May 2019 DBRS confirmed Cyprus' long-term Issuer Default Rating to 'BBB (low)' with stable outlook. In November 2019, DBRS confirmed Cyprus's long-term issuer default rating to 'BBB (low)' and changed the outlook to positive from stable indicating a likelihood of an upgrade within the next 12 months if specific conditions are met.

In September 2019, Moody's affirmed Cyprus' long-term Issuer Default Rating at 'Ba2' and changed the outlook to positive from stable indicating a likelihood of an upgrade within the next 12 months if specific conditions are met.

Table 6 below, illustrates where the Republic of Cyprus stood at the end of 2019 in terms of credit ratings and the rating developments during the year. In 2019, the credit rating profile was maintained by all CRAs as it was in 2018 whilst the outlook was revised from stable to positive by three CRAs during the year.

Table 6: Solicited sovereign credit ratings developments in 2019[15]

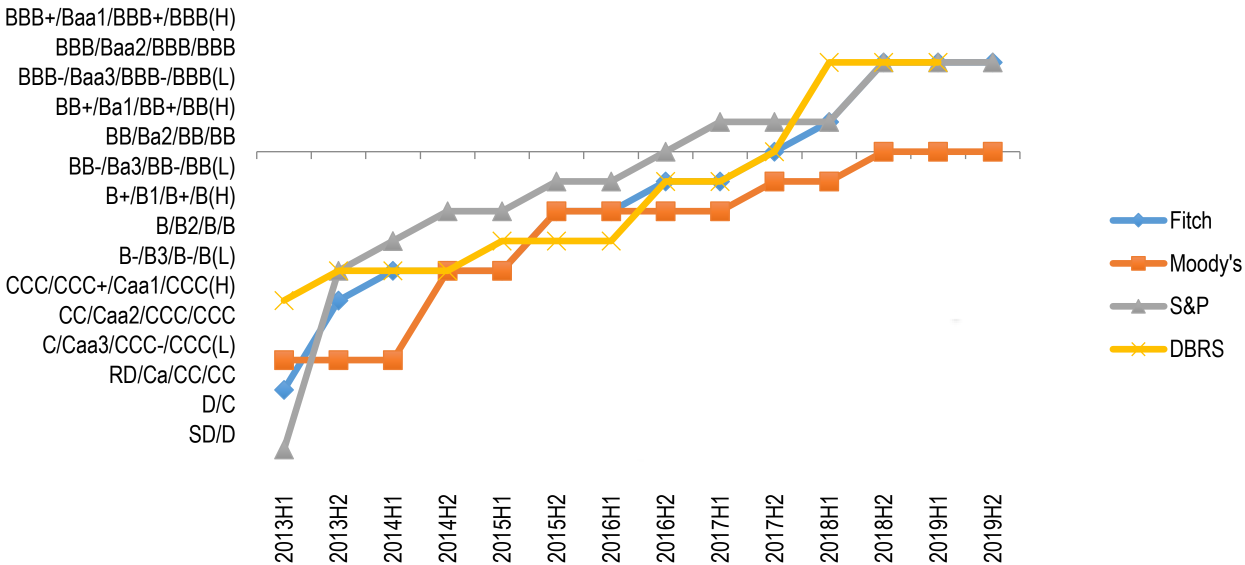
	Long-term debt					
	Latest rating			**Previous rating**		
CRAs	**Rating**	**Outlook**	**Notches to investment grade**	Rating	Outlook	Notches to investment grade
DBRS	**BBB (low) (Nov. 2019)**	**Positive**	**IG**	BBB (low) (May 2019)	Stable	IG
Fitch	**BBB- (Oct.2019)**	**Positive**	**IG**	BBB- (April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

Source: PDMO
IG = Investment grade

The historical credit ratings of the long-term issuer rating of the Republic of Cyprus during the years 2011-2019 are illustrated in Figure 33 below. The Republic of Cyprus is on an upgrading path since 2013 which reflects the economy's turnaround whilst since 2018 the restoration of investment grade status was achieved. At the end of 2019, as mentioned earlier, the outlook changed from stable to positive by three CRAs.

[15] More recent developments on 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 2013-2019



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

(Source: PDMO)

Regarding the rationale of the rating developments of the Cypriot economy in 2019, the rating of the Republic of Cyprus by Standard & Poor's[16], based on the CRA, was supported by Cyprus' income levels and policymakers' efforts to consolidate public finances and restore the banking sector's health. The stable outlook balances, based on the CRA, the Cyprus' strong growth prospects against its still highly leveraged public and private balance sheets. Standard & Poor's underlined as the main challenges for the rating of the Republic of Cyprus, the high indebtedness-reflected both in its public and private balance sheet, the high proportion of non-performing loans in the banking sector as well as the small size of Cyprus relative to other Eurozone member states.

In the case of Fitch's rating[17], the long-term sovereign credit rating of the Republic of Cyprus in April 2019, based on the CRA, was supported by strong 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 despite it is expected to decline. The change to outlook from stable to positive in October 2019, reflects the prudent fiscal policy, the downward trend of public debt benefiting from persistent budget surpluses and solid economic growth as well as the structural strength of the Cyprus economy. The CRA made references to the court rulings on public sector wage cuts that could lead to lower budget surpluses, to the weaknesses of the banking sector due to weak asset quality and high NPE ratios as well as to the high private sector debt.

The long-term sovereign credit rating of Cyprus at 'Ba2' by Moody's[18] is supported by improvements in the economic resilience of Cyprus as well as the consistent outperformance on fiscal targets despite a number of

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[16] Standard & Poor's Rating Action Report on 8th of March and on 6th of September 2019.
[17] Fitch Rating Action Commentary on 12th of April and on 11th of October 2019.
[18] Moody's Press Release on 20th of September 2019.

constraints such as a lack of economic diversification, high debt of the economy and still-high NPEs in the banking sector. It is noted that based on Moody's Press release for Cyprus issued in September 2019, the decision to change the outlook to positive is attributed to the declining path of Cyprus's exposure to event risks and to the outperformance on fiscal targets. The key rating challenges of the Republic by Moody's are the small and relatively undiversified economy of Cyprus, the high level of government, non-financial and household debt as well as the high level of non-performing exposures of the financial sector and the increasing spending pressures that could affect the fiscal prospects.

The long-term sovereign credit rating of Cyprus by DBRS[19] in May 2019, based on CRA, was supported mainly by strong performance of Cypriot economy, reduction of risks to financial stability, the declining trend of public debt ratio and the continuation of sound fiscal performance. The positive trend in November 2019, based on the CRA, was driven by the improvement on the downward trajectory in the public debt and on the fiscal position with the fiscal surplus reaching sizable levels. The BBB (low) rating is supported by Cyprus's solid budget position, its prudent public debt management framework, its Eurozone membership and its openness to investment encouraging a favourable business environment. However, the rating agency underlined the depth of Cyprus challenges such as the sizeable non-performing loans in the banking sector, high private and public sector debt, external imbalances as well as the small size of its service-driven economy.

The key drivers for the upgrade of Cyprus' government bond in the near future, based on CRAs latest rating review in 2019, could result from continued ability of the Government to sustain the expectations of growth and maintain a sound fiscal policy, from further reduction in the debt-to-GDP ratio and the stock of

[19] DBRS Press Release on 17th of May and on 15th of November 2019.

bank non-performing loans and from continued deleveraging of the private sector.

The historical credit ratings of the Republic of Cyprus during the period 1989-2019 are presented in Table 12 while the sovereign rating review calendar by CRAs for 2020 is presented in Figure 2 in the Appendix.

Table 7 below, illustrates where Cyprus stood in the long-term rating scale compared to selected Eurozone States at the end of 2019. The horizontal blue line illustrates the investment grade line while the vertical column under each CRA shows the ratings of the long-term debt.

Table 7:Government Bond rating in long-term local currency of Eurozone States[20] as at the end of 2019

Fitch		**Moody's**		**S&P**		**DBRS**	
AAA	DE,LU,NL	Aaa	DE,LU,NL	AAA	DE,LU,NL	AAA	DE,LU,NL
AA+	AT,FI	Aa1	AT,FI	AA+	AT,FI	AA high	AT,FR
AA	FR	Aa2	FR	AA	BE,FR	AA	
AA-	BE,EE	Aa3	BE	AA-	IE,EE,SI	AA low	EE
A+	MT,IE,SK	A1	EE	A+	SK	A high	IE,MT,SK
A	SI	A2	IE,MT,SK	A	ES,LV,LT	A	SI, ES,LT
A-	ES,LV,LT	A3	LV,LT	A-	MT	A low	LV
BBB+		Baa1	SI, ES	BBB+		BBB high	IT, PT
BBB	PT,IT	Baa2		BBB	IT, PT	BBB	
BBB-	**CY**	Baa3	IT, PT	BBB-	**CY**	BBB low	**CY**
BB+		Ba1		BB+		BB high	
BB		Ba2	**CY**	BB		BB	
BB-	EL	Ba3		BB-	EL	BB low	EL
B+		B1	EL	B+		B high	
B		B2		B		B	
B-		B3		B-		B low	
CCC		Caa1		CCC+		CCC high	
CC		Caa2		CCC		CCC	
C		Caa3		CCC-		CCC low	
RD		Ca		CC		CC	
D		C		SD/D		C	
						D	

(Source: Bloomberg)

[20] The abbreviations in the Table are interpreted as following: CY=Cyprus, ES=Spain, EL=Greece, IE=Ireland, IT=Italy, MT=Malta, PT=Portugal and SI=Slovenia, DE=Germany, LU=Luxembourg, NL=Netherland, AT=Austria, FI=Finland, FR=France, BE=Belgium, EE=Estonia, MT=Malta, SK=Slovakia,LV=Latvia, LT=Lithuania. Green/black/red color for countries abbreviations indicates Positive/Stable/Negative outlook.

IX. Public Debt Management Office Action Plan

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

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

The main actions implemented/continued or updated by the PDMO during 2019 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 2019 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; The main purpose is the exchange of information between the various sectors of the Ministry of Finance.

ii. Continuation of an appropriate risk & control environment: The PDMO has 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 2019 a number of meetings between the Internal Audit Service 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. By the end of November 2019, the MTS has launched first electronic trading platform for Cypriot Government Bonds. From the said date, primary dealers are able to electronically trade Cypriot debt (EMTN) offering a liquid, transparent and efficient secondary market for European bonds. It is expected that MTS will help us increase liquidity of EMTN of the Republic of Cyprus and optimise our cost of funding in the long term.

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 2019, 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 July 2019, the new software system of the CS, namely ‘Meridian’ has become operational. It is worth-noting, that the parallel run of the Commonwealth Secretariat (CS) Debt Recording Management System software and the Meridian was completed by the end of October 2019. The purpose of the new system is the stronger management of public debt, including the formulation of the MTDS as well as the maintaining all the information in one database. The new system due to advanced and improved functionalities, is expected to address debt management requirements in a better way. Furthermore, in 2019 the PDMO has developed a new website containing statistics and useful information for investors in an attempt to improve further the transparency.

Further to the above actions, it is important to underline that during 2019 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 1a: Auction schedule for Treasury Bills in 2019

No	Auction day	Auction date	Value date	Tenor of TB	Maturity date
1	Monday	7/1/2019	11/1/2019	13 weeks	12/4/2019
2	Monday	28/1/2019	1/2/2019	13 weeks	3/5/2019
3	Monday	25/2/2019	1/3/2019	13 weeks	31/5/2019
4	Monday	8/4/2019	12/4/2019	13 weeks	12/7/2019
5	Monday	24/4/2019	3/5/2019	13 weeks	2/8/2019
6	Monday	27/5/2019	31/5/2019	13 weeks	30/8/2019
7	Monday	8/7/2019	12/7/2019	13 weeks	11/10/2019
8	Monday	29/7/2019	2/8/2019	13 weeks	1/11/2019
9	Monday	26/8/2019	30/08/2019	13 weeks	29/11/2019
10	Monday	7/10/2019	11/10/2019	12 weeks	03/01/2020
11	Monday	25/10/2019	1/11/2019	13 weeks	31/1/2020
12	Monday	25/11/2019	29/11/2019	13 weeks	28/2/2020

(Source: PDMO)

Table 1b: Indicative auction schedule for Treasury Bills in January – June 2020

No.	Auction day	Auction date	Value date	Tenor of TBs	Maturity date
1	Monday	23/12/2019	3/1/2020	12 weeks	27/3/2020
2	Monday	27/1/2020	31/1/2020	13 weeks	30/4/2020
3	Monday	24/2/2020	28/2/2020	13 weeks	29/5/2020
4	Monday	23/3/2020	27/3/2020	13 weeks	26/6/2020
5	Monday	27/4/2020	30/4/2020	13 weeks	31/7/2020
6	Monday	25/5/2020	29/5/2020	13 weeks	28/8/2020
7	Monday	22/6/2020	26/6/2020	13 weeks	25/9/2020

(Source: PDMO)

Table 2: Liability management transactions: Early repayments of loan details in 2019

Creditor	Interest rate	Maturity date	Principal payment amount	Remaining amount	Interest payments
	in %		in EUR mn	in EUR mn	in EUR mn
Russian Federation	2,50	1/9/2021	1250,0	0,0	20,1
			1250,0	**0,0**	**20,1**

(Source: PDMO)

Table 3a: Matured securities (1/1/2019 to 31/12/2019)

I. Domestic market
A. Treasury Bills

Issue date	Maturity (in weeks)	Weighted average yield (in %)	Maturity date	ISIN	Nominal amount in EUR mn
12/10/2018	13	-0,23	11/1/2019	CY0148180819	100,0
2/11/2018	13	-0,22	1/2/2019	CY0148220813	85,0
30/11/2018	13	-0,21	1/3/2019	CY0148240811	66,8
11/1/2019	13	-0,18	12/4/2019	CY0148300813	95,6
1/2/2019	13	-0,14	3/5/2019	CY0148350818	85,0
1/3/2019	13	-0,09	31/5/2019	CY0148380815	82,4
12/4/2019	13	-0,05	12/7/2019	CY0148420819	75,0
3/5/2019	13	-0,06	2/8/2019	CY0148440817	75,0
31/5/2019	13	-0,07	30/8/2019	CY0148490812	75,0
12/7/2019	13	-0,07	11/10/2019	CY0148550813	55,5
2/8/2019	13	-0,06	1/11/2019	CY0148590819	75,0
30/8/2019	13	-0,09	29/11/2019	CY0148640812	75,0
					945,3

B. Domestic Bonds

Issue date	Maturity (in years)	Coupon rate (in %)	Maturity date	ISIN	Nominal amount in EUR mn
26/2/2004	15	4,6	26/2/2019	CY0049070812	1,6
24/6/2004	15	6,1	24/6/2019	CY0049250810	7,2
1/7/2013	6	4,5	1/7/2019	CY0143820815	367,7
13/7/2018	1,4	2,5	16/12/2019	CY0147980813	750,0
					1126,5

C. Repayments of Saving Certificates/Retail Bonds

	Nominal amount in EUR mn
Saving certificates	1,1
Retail bonds	82,6
	83,7

II. Foreign market
A. Euro Commercial Papers

	Nominal amount in EUR mn
	0

B. Euro Medium Term Notes

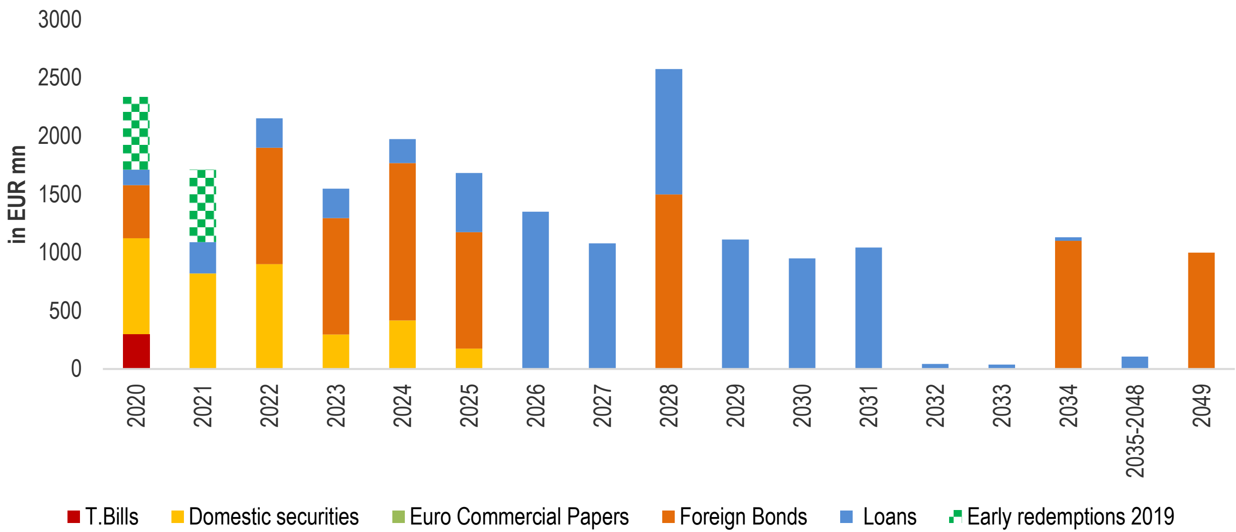
Issue date	Maturity (in years)	Coupon rate (in %)	Maturity date	ISIN	Nominal amount in EUR mn
25/6/2014	5	4,75	25/6/2019	XS1081101807	198,9
					198,9

Table 3b: Loan amortisations[1/] by creditor (1/1/2019 to 31/12/2019)

	Remaining amount in EUR mn	Principal payments in EUR mn
Government of the Russian Federation	0,0	1875,0
European Investment Bank	932,1	61,8
Council of Europe Development Bank	204,1	22,9
		1959,7

1/= Early repayments transactions are included

Figure 1: Impact of liability management (LM) transactions on debt[1/] maturity profile at the end of 2019



(Source: PDMO)

1/ = Excludes debt for EFSF loans

Table 4: Historical evolution of gross general government debt[1/] in 1995-2019

Year	Consolidated gross general government debt (in EUR mn)	Consolidated gross general government debt (% of GDP)
1995	3765,7	46,8
1996	4012,6	50,9
1997	4531,8	53,9
1998	5043,6	55,1
1999	5428,9	55,2
2000	5905,2	55,7
2001	6544,4	57,3
2002	7187,9	60,5
2003	8200,1	63,8
2004	8974,3	64,8
2005	9402,8	63,4
2006	9481,7	59,3
2007	9461,8	54,0
2008	8658,6	45,6
2009	10139,0	54,3
2010	10953,7	56,4
2011	13057,9	65,9
2012	15618,4	80,3
2013	18706,4	104,0
2014	19013,8	109,2
2015	19164,0	107,5
2016	19509,2	103,4
2017	18814,1	93,9
2018	21256,3	100,6
2019	20957,8	95,7

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 2019

A. TREASURY BILLS

Issue date	Maturity (in weeks)	Weighted average yield (in %)	Maturity date	Currency of issue	ISIN code	Discount value in EUR mn
11/10/2019	13	-0,12	3/1/2020	EUR	CY0148730811	100,0
1/11/2019	13	-0,18	31/1/2020	EUR	CY0148740810	100,0
29/11/2019	13	-0,19	28/2/2020	EUR	CY0148790815	100,0
						300,0

B. DOMESTIC BONDS

Issue date	Maturity (in years)	Coupon rate (in%)	Maturity date	Currency of issue	ISIN code	Nominal value in EUR mn
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	43,6
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
						2728,5

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	50,6
Retail Bonds	2,50-5,50	2021	EUR	107,4
Retail Bonds	2,50-3,25	2021	EUR	34,2
Retail Bonds	2,50-3,25	2022	EUR	236,9
Retail Bonds	2,50-3,25	2023	EUR	71,9
Retail Bonds	2,25-3,00	2024	EUR	116,5
Retail Bonds	1,75-2,25	2025	EUR	81,5
Special Bonds	0,75	2024	EUR	0,8
Special Bonds	0,75	2025	EUR	1,0
Saving certificates	0,00	Perpetual	EUR	2,99
				703,7

TOTAL DOMESTIC SECURITIES AS AT 31/12/2019 [EUR MN] ***3732,2***

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
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
3/5/2019	5	0,625	3/12/2024	EUR	XS1989405425	500
27/6/2017	7	2,750	27/6/2024	EUR	XS1637276848	850
4/11/2015	10	4,250	4/11/2025	EUR	XS1314321941	1000
25/9/2018	10	2,375	25/9/2028	EUR	XS1883942648	1500
26/2/2019	15	2,750	26/2/2034	EUR	XS1956050923	1100
3/5/2019	30	2,750	3/5/2049	EUR	XS1989383788	1000
						8407,5

TOTAL FOREIGN SECURITIES AS AT 31/12/2019 [EUR MN] **8407,5**

F. DOMESTIC LOANS

Issue year	Interest rate (in %) /2	Maturity year	Currency of issue	Remaining maturity (in years)	Balance (in EUR mn)
2019	0,98	2026	EUR	6,6	250,0
					250,0

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	1	2022	EUR	2,9	0,1
EIB	2004	1	2022	EUR	2,9	0,3
CEB	2004	6mE+0,30	2023	EUR	4,0	5,8
CEB	2003	6mE+0,30	2023	EUR	4,0	13,3
EIB	2004	1	2025	EUR	5,5	0,8
CEB	2010	3mE+0,60	2025	EUR	5,9	28,5
IMF/4	2013	BLR+1,00	2026	SDR	6,1	704,0
EIB	2004	1	2026	EUR	6,6	0,3
EIB	2006	3mE+0,70	2026	EUR	6,8	15,6
CEB	2014	6mE+0,15	2026	EUR	7,0	40,0
CEB	2007	6mE+0,09	2027	EUR	7,5	8,8
EIB	2018	E+0,181	2028	EUR	8,2	10,5
CEB	2018	1,06	2028	EUR	8,9	14,5

CEB	2008	3,7	2028	EUR	9,0	26,4
EIB	2019	E+0,413	2029	EUR	9,0	16,2
EIB	2004	4,45	2029	EUR	9,5	26,3
EIB	2019	0,438	2029	EUR	9,5	40,0
EIB	2017	6mE+0,217	2029	EUR	9,6	17,7
EIB	2019	0,269	2029	EUR	9,9	20,0
CEB	2009	3mE+0,48	2029	EUR	10,0	10,1
CEB	2009	3mE+0,48	2029	EUR	10,0	6,3
CEB	2014	1,46	2029	EUR	10,0	25,0
CEB	2010	3mE+0,55	2030	EUR	10,6	4,0
ESM	2013	BRL+0,10	2031	EUR	12,0	6300,0
CEB	2017	1,08	2032	EUR	12,5	13,9
CEB	2013	6mE+0,81	2033	EUR	14,0	7,5
EIB	2004	VSFR	2033	EUR	14,0	118,3
EIB	2011	12mE+0,27	2034	EUR	15,0	32,0
EIB	2005	VSFR	2035	EUR	16,0	57,7
EIB	2004	VSFR	2035	EUR	16,0	37,7
EIB	2007	6mE+0,06	2035	EUR	16,0	65,7
EIB	2017	1,514	2037	EUR	17,5	36,0
EIB	2017	1,634	2037	EUR	17,6	27,0
EIB	2012	12mE+1,37	2037	EUR	17,6	189,5
EIB	2017	1,563	2037	EUR	17,7	12,6
EIB	2010	6mE +0,28	2038	EUR	18,5	50,7
EIB	2011	12mE+0,83	2038	EUR	19,0	16,2
EIB	2011	12mE+0,50	2039	EUR	19,9	49,0
EIB	2011	1,766	2040	EUR	21,0	40,0

EIB	2011	1,782	2040	EUR	21,0	22,2
EIB	2018	1,828	2043	EUR	23,5	30,0
EFSF /5	2011			EUR		224,8
						8365,0
TOTAL LOANS AS AT 31/12/2019 [EUR MN]						**8615,0**
TOTAL DEBT OF CENTRAL GOVERNMENT AS AT 31/12/2019 [EUR MN]						**20754,7**

Notes:
1/ = Definition: Debt of the budgetary Central Government (BGG) excluding debt of Social Security Investments, state-owed enterprises categorized within the Central Government and the debt of local authorities. BCG is approximately 99% of the general government debt (as at 31/12/2019)
2/= E= Euribor rate; BLR=Basic Lending Rate; VSFR = other variable interest rate; m=months
3/= EIB=European Investment Bank, CEB= Council of Europe Development Bank, EFSF=European Financial Stability Facility, IMF=International Monetary Fund, ESM=European Stability Mechanism
4/= *Loan balance in EUR using the relevant exchange rate as at 30/12/2019*
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 2019

Year	Foreign-law securities	Domestic-law securities	IMF - ESM loans	Other loans	Total
2020	457,6	1122,3	38,7	93,2	1711,8
2021	0,0	821,6	170,8	97,2	1089,6
2022	1000,0	899,6	155,5	97,4	2152,5
2023	1000,0	297,0	155,5	98,1	1550,6
2024	1350,0	417,2	109,6	97,1	1973,9
2025	1000,0	174,5	413,7	95,3	1683,5
2026	0,0	0,0	1010,2	340,6	1350,8
2027	0,0	0,0	1000,0	78,3	1078,3
2028	1500,0	0,0	1000,0	74,9	2574,9
2029	0,0	0,0	1050,0	62,5	1112,5
2030	0,0	0,0	900,0	48,8	948,8
2031	0,0	0,0	1000,0	42,5	1042,5
2032	0,0	0,0	0,0	42,5	42,5
2033	0,0	0,0	0,0	36,7	36,7
2034	1100,0	0,0	0,0	32,1	1132,1
2035-2048	0,0	0,0	0,0	107,2	107,2
2049	1000,0	0,0	0,0	0,0	1000,0
Total	**8407,6**	**3732,3**	**7004,0**	**1444,3**	**20588,1**

Notes
1/ = Preliminary data
2/= Excluding debt for EFSF Loans
3/= Foreign currency debt valued according to exchange rate as at 30/12/2019
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 2019 (in EUR mn)

A. Domestic Debt			**4176,1**
I. Long-term debt		**3876,1**	
1. Domestic bonds	**2728,5**		
- Monetary Financial Institutions	2560,8		
- Private Sector	167,7		
2. Retail securities	**703,7**		
3. Loans	**298,2**		
- Other loan	250,0		
- Local Authorities loans	31,5		
- Semi-government organisations loans	16,7		
4. Liabilities to issuance of euro coins	**145,7**		
II. Short-term debt		**300,0**	
1. Treasury Bills	**300,0**		
- Monetary Financial Institutions	300,0		
- Private Sector	0,0		
B. Foreign debt			**16781,7**
I. Long-term debt		**16781,7**	
1. Long term loans	**8149,4**		
-ESM and IMF[2/]	7004,0		
-EIB and CEB	1136,2		
-Other loans	9,2		
2. Euro Medium Term Notes	**8407,5**		
3. EFSF loans	**224,8**		
II. Short-term debt		**0,0**	
Euro Commercial Papers	0,0		
C. Gross General Government Debt[3/]			**20957,8**

Note:
1/ = Preliminary data
2/ = Foreign currency debt valued according to exchange rates as at 30/12/2019.
3/ = 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 2019

		Amount in EUR mn
1	**Deposits with the Central Government**	**8438,8**
	Social Insurance Fund	7563,4
	Unemployment Benefits Account	34,3
	Termination of Employment Fund	507,3
	Central Holiday Fund	92,7
	Insolvency Fund	237,1
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**
		8648,9

Note

1/ = Investments in the form of deposits in financial institutions of EUR 104 mn are not included.

Table 9: Historical debt servicing in 2010-2018

	2010	2011	2012	2013	2014	2015	2016	2017	2018
					in EUR mn				
Interest payments (IP)	380	424	611	621	557	566	510	504	510
General Government Debt (GGD)	10954	13058	15618	18706	19014	19164	19509	18814	21256
Tax revenue (TR)	4574	4686	4627	4349	4412	4369	4493	4892	4516
Total government revenue (TGR)	7203	7233	7085	6664	7014	6976	7086	7688	8278
					in %				
Interest payments to GDP	2,0	2,1	3,1	3,4	3,2	3,2	2,8	2,6	2,4
Interest payments to GGD	3,5	3,2	3,9	3,3	2,9	3,0	2,6	2,7	2,4
Interest payments to TR	8,3	9,0	13,2	14,3	12,6	13,0	11,3	10,3	11,3
Interest payments to TGR	5,3	5,9	8,6	9,3	7,9	8,1	7,2	6,6	6,2

Note:

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

Table 10: Stock of outstanding government guarantees[1/] as at the end of 2019

No	Principal debtors	Loan contracts	Stock of outstanding guarantees
		in number	EUR mn
1	**Corporate**	72	**528.503.829**
	Other Companies	1	12.681
	SMEs	8	3.995.457
	Banks and Other Credit Institutions	63	524.495.691
2	**Entities with Public Interest**	61	**848.497.074**
	Other Entities with Public Interest	1	26.362.847
	Public Organizations[2/]	9	271.913.513
	Sewerage Boards	51	550.220.714
3	**Local Authorities[3/]**	100	**268.821.126**
	Municipalities	85	264.917.903
	Community Boards	15	3.903.223
4	**Individuals / Retail**	3341	**109.496.494**
	Agricultural	1	36.785
	Small Business	976	29.464.942
	Housing	2344	78.933.558
	Individuals / retail	20	1.061.209
5	**Total outstanding GG for loans excluding the issue of debt instruments (1+2+3+4)**	**3574**	**1.755.318.523**
6	**Issues of debt instruments**	**1**	**101.681.214**
	European Financial Stability Facility (EFSF)	1	101.681.214
7	**Grand Total outstanding GG (5+6)**	**3782**	**1.856.999.737**

Source: Treasury

(PDMO calculations)

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

2/ = An amount of EUR 9 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 2012-2019

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	0,0	513,22	1491	34,4
31.12.2019	947,24	0,0	947,24	721,7	131,2

1/ = An amount of EUR 3471 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 and 2019 refer to the total amount of debt redemptions within the next 9-month period.

3/= % of cash over debt that falls due within one year. The ratio at the end of 2018 and 2019 refer to the % of cash over debt that falls due within 9-month period due to the amendment of the target set in the MTDS 2016-2020.

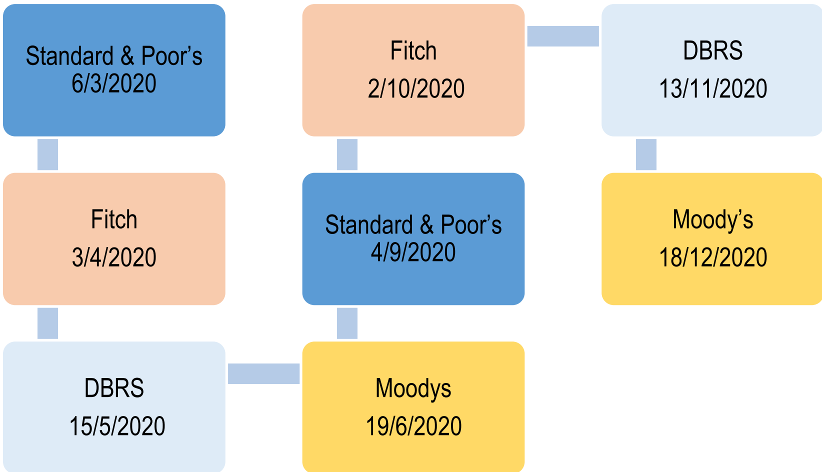
Table 12: Historical credit ratings[1/] 1989 – 2019 (Long term-short term rating)

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

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

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

Figure 2: Sovereign Rating Review Calendar for the Republic of Cyprus in 2020



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 2019

Description	Jan.	Feb.	March	April	May	June	Sept.	Oct.	Nov.
Debt sustainability seminar	Brussels (24/1)								
EU investors roadshow		Milan, Paris, Frankfurt (11-13/2)						Madrid, Amsterdam (23-26/10)	London, Paris, Frankfurt (5-8/11)
EFS Sub-Committee on EU Sovereign debt markets			Brussels (7/3)		Brussels (14/5)	Brussels (13/6)	Brussels (23/9)		Brussels (12/11)
IMF meetings				Washington (9-14/4)				Washington (15-21/10)	
Task Force on Coordinated Action-EU 28 on DSA					Brussels (21/5)			Brussels (2/10)	
Commonwealth Secretariat Debt Forum						London (5-6/6)			

Description	Jan.	Feb.	March	April	May	June	Sept.	Oct.	Nov.
European Gov. Bond markets conference						Brussels (14/6)			
Working group on European Deposit Insurance Scheme (Regulatory treatment of sovereign exposures)							Brussels (25/9)	Brussels (23/10)	Brussels (8/11)
Public Debt Management Conference (OECD)							Paris (4-5/9)		
11^{th} International Forum of Sovereign Wealth Fund							Alaska (10-13/9)		
12^{th} UNCTAD Debt Management Conference									Geneva (18-20/11)

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