Annual Report
Public Debt Management

2013

Republic of Cyprus
Ministry of Finance
Public Debt Management Office

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PUBLIC DEBT MANAGEMENT ANNUAL REPORT 2013

Ministry of Finance
Public Debt Management Office
Michael Karaoli & Gregori Afxentiou
1439 Nicosia
Cyprus

Telephone +357 22 601182
www.mof.gov.cy/pdmo
pdm@mof.gov.cy

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CONTENTS

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List of abbreviations

bln	billion
BoC	Bank of Cyprus
CBC	Central Bank of Cyprus
CCB	Cooperative Central Bank
CHF	Swiss franc
CoE	Council of Europe Development Bank
CPB	Cyprus Popular Bank
CSE	Cyprus Stock Exchange
CYPGB	Cyprus Euro Medium Term Note
E	Euribor, Euro Interbank Offered Rate
ECB	European Central Bank
ECP	Euro Commercial Paper
EDP	Excessive Deficit Procedure
EFSF	European Financial Stability Facility
EIB	European Investment Bank
EMTN	Euro Medium Term Note
EUR	Euro
GBP	Sterling
GDP	Gross Domestic Product
GGA	Government General Account
GGD	General Government Debt
GRDS	Government Registered Development Stock
IMF	International Monetary Fund
JPY	Japanese Yen
ISDA	International Swaps and Derivatives Association
MFI	Monetary Financial Institution
mn	million
OMT	Outright Monetary Transactions
PDMO	Public Debt Management Office
SRF	Special Reserve Fund
SSF	Social Security Fund
TB	Treasury Bill
VSFR	Variable-Spread Floating Interest Rate

LEGAL FRAMEWORK OF PUBLIC DEBT

At end 2013 the Public Debt Management Law was amended by expanding the range of risk assessment of government guarantees. Under the Law the Public Debt Management Office assesses the financial risk for the state of not only the new guarantees but also of the existing portfolio of guarantees. The result of the assessment is presented in written form to the Minister of Finance.

Thus, on an annual basis or more frequently a quantification of risk will be produced so that the forecasts of the government financing needs include the potential materialisation of government guarantees.

EUROZONE PUBLIC FINANCES AND DEBT MARKETS

Public finances

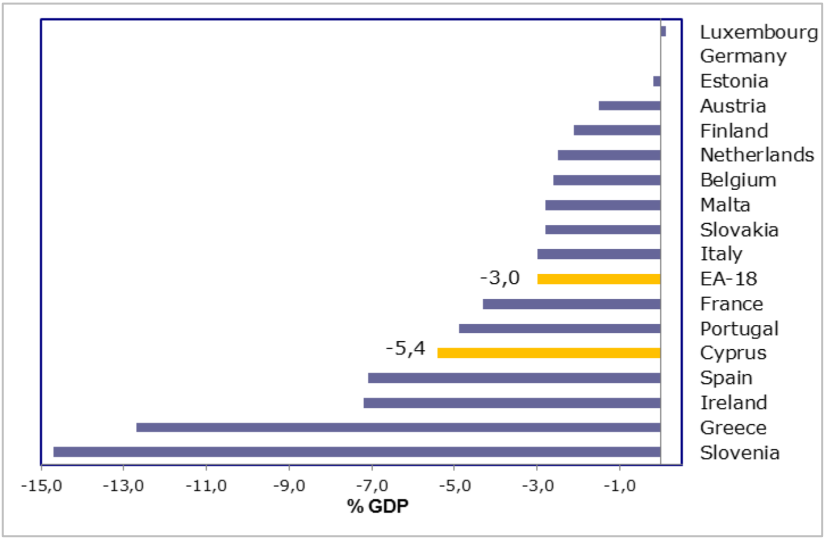
The government deficit in the Eurozone countries over 2013 averaged 3,0% of GDP, a further improvement from the previous year, in a continuation of its downward trend after the abrupt increase of 2009. The average public debt in the Eurozone showed a further increase in 2013 reaching 92,6% of GDP from 90,7% of GDP in 2012.

The growth rate for the year was negative and is calculated at -5,4%. Reduction occurred both in consumption and investment, while the trade deficit although negative was clearly improved compared to previous years due to the decrease in imports.

The public debt increased significantly from 86,6% of GDP in 2012 to 111,7% of GDP in 2013. To about a half the increase is mainly attributed to the state support towards the cooperative sector via ESM bonds of €1,5 billion. Naturally, the fiscal deficit and the sharp decline of the GDP contributed to the increase of the debt relative to GDP.

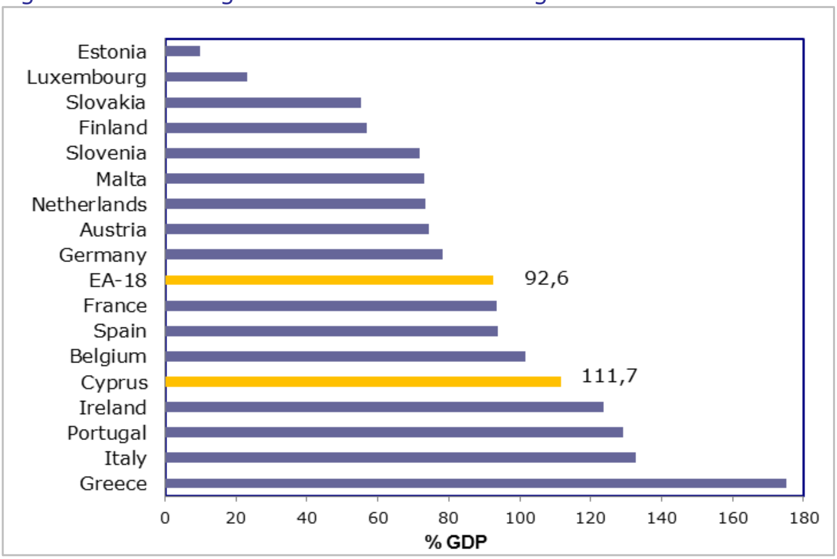
In terms of debt-to-GDP, Cyprus ranks worse than the average of the Eurozone area; during 2013 Cyprus exhibited the highest increase in this variable within the Eurozone.

Figure 1: General government net lending (+) / net borrowing (-) in 2013



Source: Eurostat

Figure 2: General government consolidated gross debt in 2013



Source: Eurostat

Sovereign debt markets

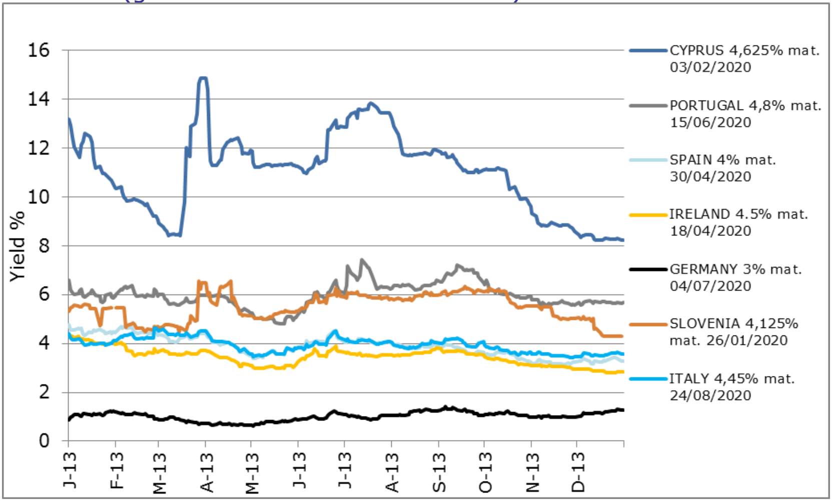
Following a few turbulent years of high yield environment, during 2013, and especially in the second half of the year, Eurozone sovereign bond yields exhibited a gradual and sustained reduction.

The existence of the OMT programme by the European Central Bank for an unlimited amount of purchases of secondary market traded sovereign bonds was vital in this development. Moreover, some investors switched partly their positions from emerging countries to Eurozone peripheral countries. At the same time the undertaken fiscal and structural measures by the Eurozone member states contributed to the regaining of trust and the calming of fears for debt sustainability in certain more vulnerable countries.

Ireland announced its exit from the macroeconomic adjustment programme and the prefinancing of its 2014 needs. At the same time there were encouraging signs for the return of Portugal to the markets via the issuance of new long term bonds and liability management exercises.

For a further year there were many movements in the credit ratings of the Eurozone countries. Following downgrades Cyprus was upgraded twice by Standard & Poor's. Upgrades by the man credit rating agencies were recorded also for Greece and Latvia. Credit downgrades were announced for large Eurozone countries such as France and Italy and for the Netherlands. During 2013 there was no credit rating change of the other countries under a Programme, namely Ireland, Portugal and Spain.

Figure 3: Secondary yield levels of Cyprus and selected Eurozone countries (government bonds due in 2020)



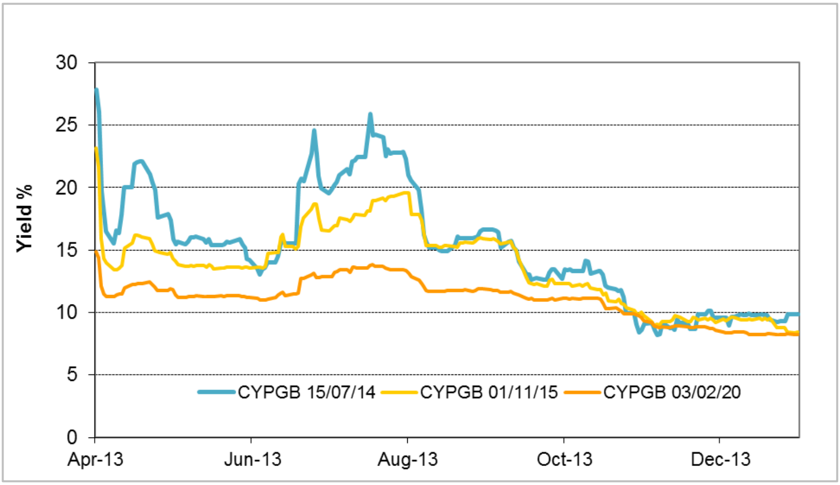
Source: Bloomberg

The small Cyprus debt market in terms of size, liquidity and tradability proved very vulnerable during the crisis. This market dysfunction can be shown by a number of indicators for example by the bid-ask spread, the intraday volatility and small outstanding volume.

At the beginning of the year the Cyprus government secondary bond yields followed a gradual decreasing trend due to the apparent expectation of a soon-to-follow agreement on an economic adjustment programme for Cyprus. However in March 2013 with the final decisions taken on the Cyprus Programme the yields increased to unprecedented record levels (Figure 4). Despite the fact that the particular bonds due until Q1-2016 were clearly indicated to be covered by the financing of the EUR 10 billion facility the market seem to consider the challenges faced by the Cyprus economy as extremely difficult so that a repayment of the bonds even during the Programme was very risky. Yields remained at very high levels for the months to follow.

During the last quarter of the year a tightening rally in the Cyprus sovereign yields was recorded which was related both to the positive assessments of the adjustment programme and to the general positive market developments around peripheral Eurozone countries.

Figure 4: Secondary yield levels for Cyprus international bonds in 2013



Source: Bloomberg

The above diagram shows the transaction on the Republic's three international bonds, all launched under its EMTN Programme, which are listed in the London Stock Exchange and which were outstanding by the year end.

Liquidity for the domestic bonds listed in the Cyprus Stock Exchange remained extremely low with only a few transactions in the secondary market recorded during the year.

The primary market can be a better indicator in the case of Cyprus for the assessment of its domestic cost of funding. The latter is further analysed in the chapter "Financing of the central government in 2013".

FINANCING OF THE CENTRAL GOVERNMENT IN 2013

The public debt exhibited a substantial increase over 2013 of €3,1 billion vis-à-vis the year before. About half of the increase is attributed to the recapitalisation of the cooperative sector for €1,5 billion. The remaining increase was attributed to the covering of fiscal needs and the increase of liquid assets of the government. In terms of GDP the debt ratio increased by 25 percentage points due to the reduction of GDP in the same year.

As far as the borrowing instruments are concerned these were almost entirely loans of the ESM and the IMF. The current chapter focuses on the presentation and analysis of the flows of government financing, that is new issuances and repayments.

(i) Financing of the borrowing needs of 2013

The total borrowing needs for 2013 rose to €14530 million, out of which €5904 million were directed towards the repayment of debt issued and matured within 2013. The remaining debt redemptions as well as the new fiscal needs were financed via new borrowing and the use of cash reserves.

The net annual financing, i.e. excluding short term funding of €5904 million issued and matured within 2013, was €8626 million. Excluding the change in liquid assets during the year, which corresponds to €588 million, the annual financing needs, which include the banking sector needs, were €8038 million (Table 4).

Table 1: Summary of annual borrowing

	€ mn	%
Net annual borrowing	8626	59
Short term borrowing issued and matured within 2013	5904	41
Gross annual borrowing	**14530**	**100**

Table 2: Summary of financing by source

		€ mn	%
Government securities		3747	43
Of which:			
Bond exchange	*1002*		
CPB/BoC recapitalisation bond	*1889*		
Loans by ESM and IMF		4853	56
Loans by the EIB and CEDB		26	0
Total annual financing		**8626**	**100**

Note: The figure of €8626 million does not include debt issued and redeemed within 2013

Table 3: Summary of financing by maturity

	€ mn	%
Short term borrowing (up to 12 months)	757	9
Medium term borrowing (1-5 years)	2990	35
Long term borrowing (over 10 years)	4879	57
Total annual financing	**8626**	**100**

Note: The figure of €8626 million does not include debt issued and redeemed within 2013

Figure 5: Annual financing by source

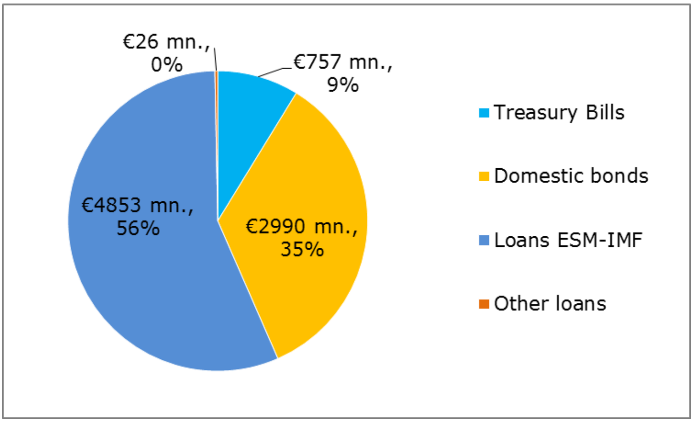


Table 4: Summary of use of annual financing

	€ mn	%
Increase in cash	588	7
Banking sector needs	3487	40
Debt maturities	3348	39
		14
Cash needs	1203	7
Total annual financing	**8626**	**100**

Note: The rollover of the bond issued for the recapitalisation of Cyprus Popular Bank which was then transferred to the balance sheet of Bank of Cyprus is included in the banking sector needs even though it constitutes a debt maturity

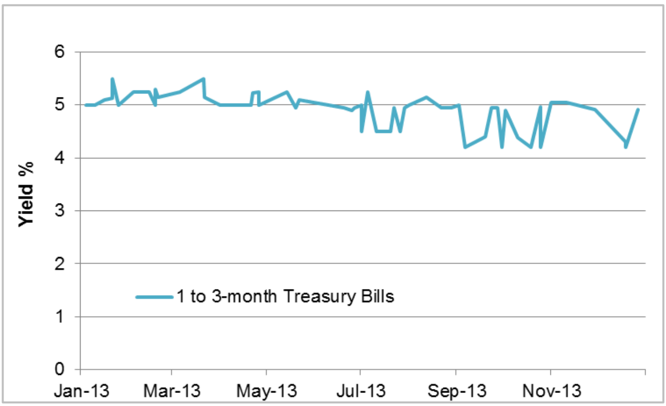
A further breakdown and analysis of the government financing by tenor and instrument is provided below.

Short term borrowing:

Treasury Bills: Treasury Bills constituted the only contact with the primary debt market. Issuances were feasible for tenors up to 3 months.

Similar to the previous year, Treasury Bills represented the greater part of borrowing transactions. Bills amounting to €5336 million were issued out of which €4578 million or 86% matured within the same calendar year. The remaining €795 million will mature within the first three months of 2014.

Figure 6: Development of borrowing cost of Treasury Bills



The cost of short term borrowing continued to be significantly high even though it gradually marked a decrease. The yields ranged between a minimum of 4,30% and a maximum of 5,50% with the volume-weighted yield being 5,00%.

Treasury Bills were issued by private placements only. The investors during the year were banking institutions, public sector legal entities and pension and provident funds, all being Cyprus residents.

Euro Commercial Paper (ECP): ECPs issued during 2013 were of the order of €1582 million, out of which only €52 million were outstanding at year end. ECPs were issued for a 1-month maturity only at a volume-weighted average yield of 5,24%.

<u>Medium and long term borrowing</u>

Due to the very adverse conditions in the domestic economy and the banking sector in particular, which is the traditional investor in government securities, long term debt issuances in the market were not feasible. The only exemption to this situation was the exchange of domestic bonds of €1 billion with the participation of large domestic investors. As stipulated in the Economic Adjustment Programme the largest share of financing stemmed from the concessional loans by the ESM and the IMF.

Government securities:

In late June the Public Debt Management Office announced the intention to exchange outstanding domestic government bonds with other similarly structured bonds of longer maturity. The target was to exchange bonds of €1 billion in size as per the requirements of the Economic Adjustment Programme of €10 billion which did not finance the redemption of these bonds.

The transaction settled on 1st July with the issuance of 5 bonds of tenors between 6 to 10 years in exchange of other outstanding bonds due in the period between July 2013 and March 2016. The new bonds carried the same coupon rates as the respective old ones with the weighted average interest rate at 4,75%, whist the volume of the transaction reached €1002 million.

The bond exchange was assessed by some credit rating agencies as "selective default" or "restrictive default", according to their methodology and technical criteria, mainly because of the fact that the yields of the new bonds did not reflect the market rates. Further analysis of this event is included in the chapter "Credit rating developments".

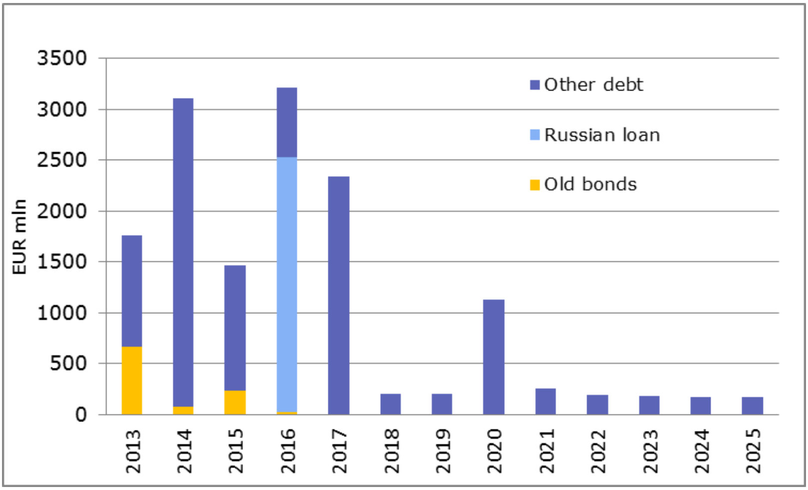
Loans:
The disbursements from the ESM and the IMF totaled €4853 million which resulted from €3086 million of the first tranche in May-June, €1584 million of the second tranche in September and €183 million of the third tranche in December.

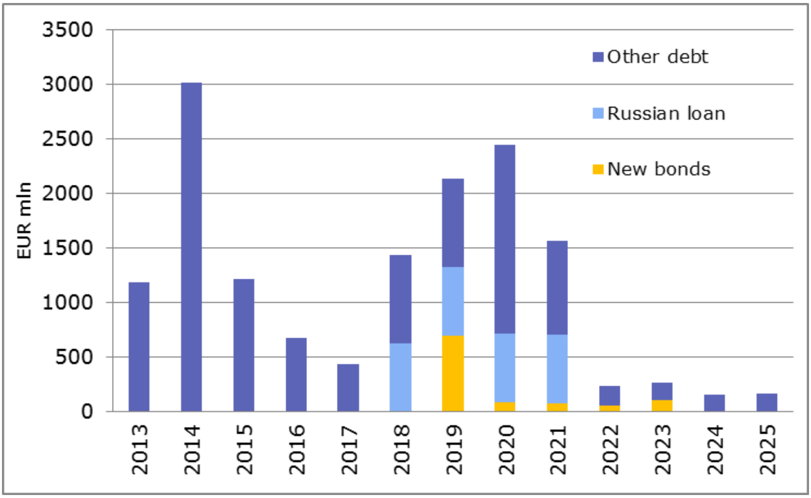
The September tranche by the ESM of €1,5 billion was in the form of a ESM bond for the recapitalisation of the cooperative sector. The bond has an 18-month maturity and can be paid in cash or rolled over at maturity by the ESM. In parallel to this, the disbursement for the government is considered to be part of the €10 billion loan Programme and this particular tranche is due in 2029 and 2030 in equal amounts.

An important development of the year, and a further milestone in the Economic Adjustment Programme, was the successful renegotiation of the terms of the bilateral loan agreed with the Russian Federation in 2011. With the restructured loan the maturity was changed from a bullet redemption in 2016 to a biannual amortisation profile of eight equal installments over 2018 to 2021. Moreover, the annual interest rate was reduced from 4,50% to 2,50% with effect as of March 2013.

Figure 7 shows a section of the debt maturity profile before and after the rescheduling of the domestic bonds and the Russian loan. The complete debt maturity profile as at 31st December 2013 is shown in the chapter "Size and composition of government debt".

Figure 7: Debt maturity profile (extract) before and after rescheduling of debt





Finally, the European Investment Bank and the Council of Europe Development Bank disbursed amounts of €18 million and €8 million respectively for the co-financing of works and projects that are financed by the EU Cohesion and Structural Funds. The loans carry a floating interest rate.

Other debt management operations

In late 2013 a loan of €8,2 million by the state-owned Oncology Centre with a maturity year in 2021 was prepaid at a market-derived discount rate.

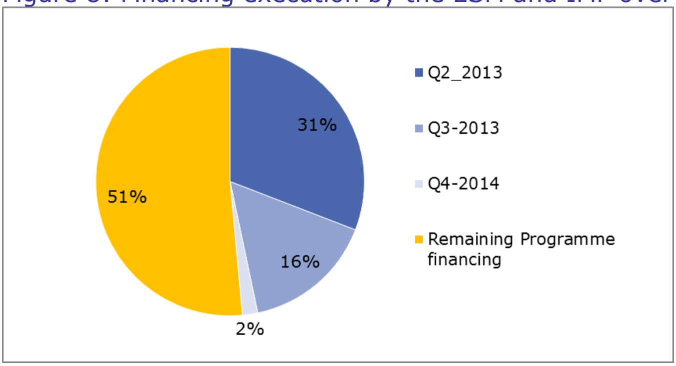
Review of the annual financing profile

The year 2013 marked the start of Cyprus' Economic Adjustment Programme and financing package of up to €10 billion, with the view of exiting by March 2016. As per the Programme requirements the state proceeded with the restructuring of the Russian loan and rescheduling via an exchange of domestic bonds.

The only market financing was short term debt issued to domestic market participants and which was constantly rolled over, since this borrowing never exceeded the 3-month horizon. The volume-weighted marginal borrowing cost is estimated at around 2,7% based on the current level of base rates for the floating-rate debt. However the volume-weighted marginal *market* borrowing cost reached 5% for the very short term tenors indicating the persistence of exclusion of market financing for the Republic.

During 2013 the first three tranches of the official financing by the ESM and the IMF were completed. Disbursements from the ESM totaled €4,6 billion out of which €1,5 billion in the form of an ESM bond for banking recapitalisation needs. The IMF disbursed three equal installments of SDR 74,25 million which amounted in total to about €253 million. Hence during the first 9 months of the Programme €4853 million or 48,53% of the total available funding was disbursed.

Figure 8: Financing execution by the ESM and IMF over 2013



Box: Main characteristics of the loans by the European Stability Mechanism and the International Monetary Fund

Cyprus, like Greece and Ireland, have outstanding financing programmes via the IMF's Extended Fund Facility. The approved mount is SDR 891 million which correspond, at the time of the Facility approval, to €1932 million. This amount is equal to 563% of Cyprus' quota at the IMF.

The Special Drawing Rights (SDR) is an international reserve asset whose value is based on a basket of four currencies. Itself is not a currency but forms the means by which the holders can obtain access to currencies of the IMF members.

The EFF was established to provide assistance to countries: (i) experiencing serious payments imbalances because of structural impediments; or (ii) characterized by slow growth and an inherently weak balance of payments position. Its duration is 3 to 4 years which constituted a longer period than other Facilities of the IMF since the problems confronted require usually a longer adjustment horizon.

Under normal terms, as in the Cyprus case, borrowing under the EFF is subject to the normal limit of up to 200 percent of a country's IMF quota annually and a cumulative limit over the life of the program of 600 percent of quota. In exceptional circumstances these limits may be lifted provided that the recipient satisfies certain special access criteria.

Each tranche by the IMF for Cyprus is repaid in equal installments between 4,5 and 10 years as per the rules of the Extended Fund Facility. The interest rate is floating and stepwise increasing the longer the debt is outstanding and the higher the amount borrowed.

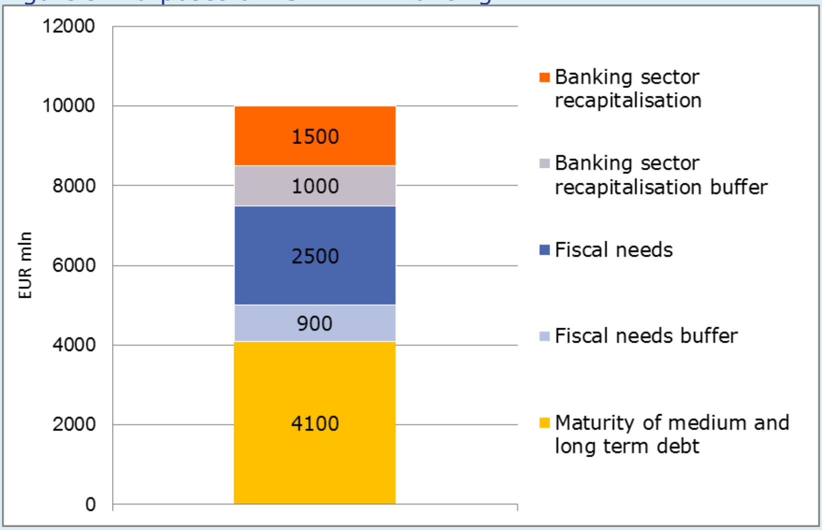
Servicing the IMF loans in interest and principal is in SDRs so that this debt carries foreign exchange risk for the country until its full settlement.

The available financing by the ESM has been set for the remainder of the €10 billion, i.e. at €8968 million. The weighted average maturity of these loans has been agreed at 15 years. The various tranches are actually projected to fall due between 2024 and 2033.

The interest rate results from the borrowing cost of the ESM which can be approximated by the respective rate of the German Bunds plus a margin of 0,10%. Additionally the Republic pays various fees around 0,50%-0,55% of the nominal borrowed amounts.

As for the purpose of financing the funds have been attributed to €4,1 billion for debt redemptions; €3,4 billion for fiscal needs and €2,5 billion for bank recapitalisation needs. These amounts may in reality be executed in lower but in no case higher levels than those approved by the Eurogroup and the IMF Executive Board respectively.

Figure 9: Purposes of ESM-IMF financing



(ii) Debt redemptions

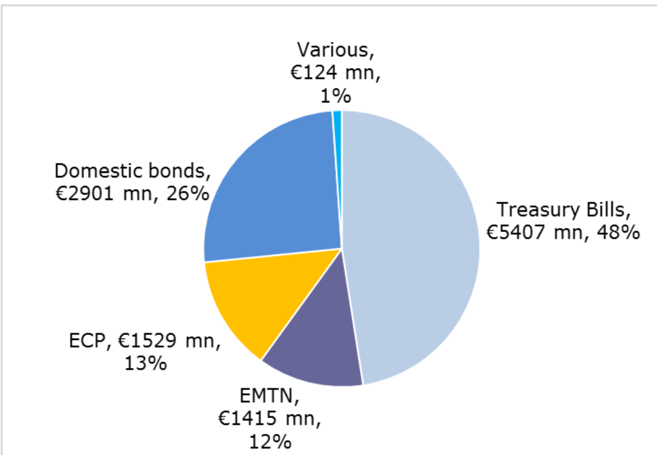
During 2013 a total of €1595 million of medium and long term debt was redeemed.

Nearly the whole amount of maturities was concentrated in the months of June and July with redemptions of €1552 million during this period. The bulk of this formed the EMTN of €1415 million with the rest being attributed mainly to loan amortisations.

The continuous rollover of short term securities of €980 million in tenors of just 1 to 3 months throughout the year caused a surge in the debt maturity figure and increased considerably the refinancing and liquidity risks. A further significant component of debt maturities was the Cyprus Popular Bank/Bank of Cyprus recapitalisation bond of €1,89 billion which matured – and rolled over- in July.

All debt maturities including the exchanged amounts of €1 billion domestic bonds are shown in the following figure. The full list of debt redemptions of the year is shown in Tables 13-15 of the Statistical Appendix.

Figure 10: Debt redemptions in 2013



THE SIZE AND COMPOSITION OF GOVERNMENT DEBT

The Maastricht criterion for public debt is defined as the gross debt of the general government at nominal value, consolidated over the sectors of the general government. In the case of Cyprus the relevant subsectors are the central government, the local authorities and the Social Security Fund. According to this definition, the liabilities accounted as debt are currency and deposits, loans and securities other than shares. The Maastricht debt excludes financial derivatives. Cyprus' debt is composed of loans and securities only, and does not include any obligations in the form of currency and deposits. The latter is the smallest component of debt in all EMU countries.

Sections (i) and (ii) show the size, historical evolution and structure of the consolidated general government debt, whereas section (iii) deals separately with the unconsolidated general government debt. Valuation and methodology is according to the Maastricht definition of public debt ("EDP debt").

(i) Size and evolution of general government debt

Evolution of government debt

The debt to GDP ratio marked a significant increase over 2013 from 86,6% to 111,5%. This increase was the result of the fiscal deficit (which in absolute figures was, in fact, lower than in the previous year), the recapitalisation of the cooperative sector and the reduction of GDP.

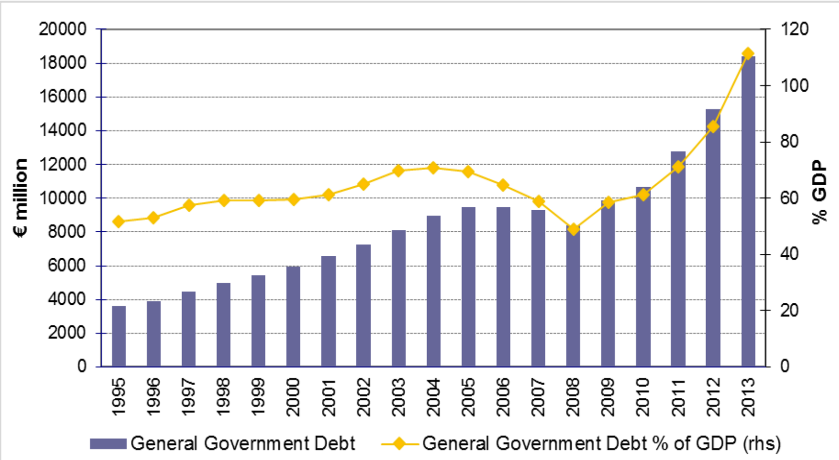
The accumulation of debt over the past few years has increased the need for an assessment of its sustainability. The joint assessment by the IMF and the European Commission concluded that via the €10 billion Economic Adjustment Programme the public debt was sustainable and following a declining path up to the foreseeable horizon of 2020.

In the decade between 1995 and 2004 the general government debt followed an increasing path from 52% of GDP to 71% of GDP. Following years of fiscal consolidation, the debt-to-GDP ratio reached a low of 48,9% of GDP in 2008. Since then, fiscal slippage and low to negative growth rates and, most recently, capital injections into the banking sector, contributed to a considerable increase in the debt relative to GDP.

In 2012 the debt level reached 86,6% of GDP from 71,1% of GDP the year before. Both the fiscal deficit and the negative growth rate contributed to this deterioration but the main contributor to this development was the state support of the Cyprus Popular Bank of the order of 10,6% of GDP.

It is important to mention that €3,4 billion or about 18% of the gross public debt at end 2013 was attributed to the state recapitalisation of Cyprus Popular Bank and the cooperative sector.

Figure 11: Trend in the consolidated general government debt



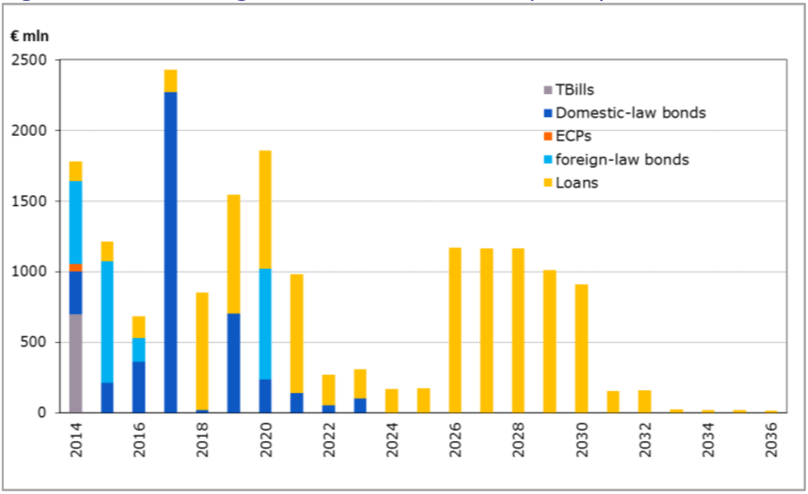
<u>Maturity profile</u>

Similar to the year before, a large share of the immediate debt obligations in 2014 are attributed to short term borrowing. Overall, the year is characterized by considerable redemptions of the order of about €1,8 billion.

The IMF loans disbursed over 2013 are due between 2017 and 2024. The loans by the ESM have an average maturity of 15 years and the currently outstanding disbursements are due between 2026 and 2030. The rescheduling of the Russian loan contributed to the improvement in the debt maturity profile from a bullet redemption in 2016 to an annuarl amortization over 2018 to 2021.

The longest debt redemption point is the year 2039, whilst the weighted average maturity of the general government debt is 7,9 years.

Figure 12: General government debt redemption profile



Note: the government bond for the recapitalization of Cyprus Popular Bank is due in 2013 with the possibility of extension up to 2017. In this figure it is indicatively shown to mature in 2017.

(ii) Composition of the General Government Debt

Short term and long term debt

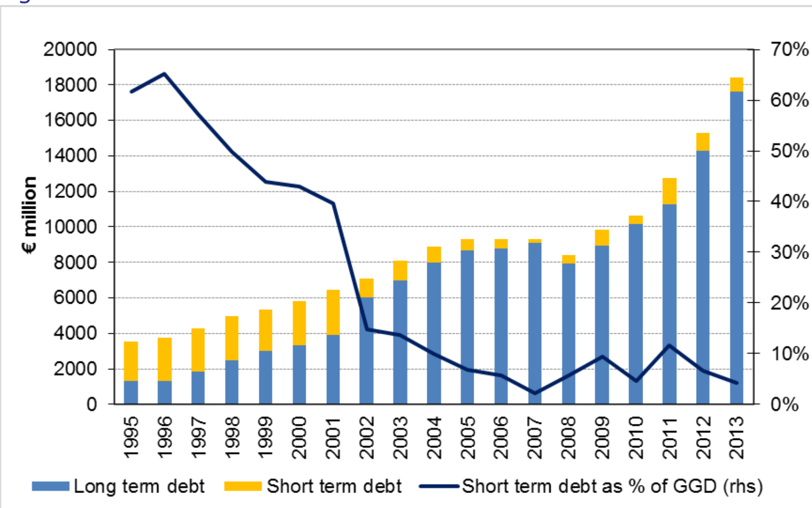
Short term debt, i.e. debt with an original maturity of up to 12 months, has experienced a sharp decline since the mid 1990's. The bulk of this type of borrowing by the government was undertaken from the Central Bank of Cyprus which, in contrary to market-based financing, entailed no refinancing risk. In 2002, with the abandonment of Central Bank financing all pending obligations of the government with the Central Bank of Cyprus were converted into a 30-year loan, thus immediately reducing the short term debt balance from 40% of outstanding debt in 2001 to just 5% in 2002. After 2005 short term debt remained below the threshold of 10%

of outstanding debt. In the last two years the share of short term debt was 6% and 4% of outstanding debt respectively[1].

It is noteworthy that the Cyprus Popular Bank state support was in the form of a one year zero coupon government bond, with an option for the Government to rollover until 2017. Thus, the bond can be considered as a medium-term obligation and is not included in this Report in the short term debt. With the resolution of Cyprus Popular Bank the bond was transferred to the balance sheet of Bank of Cyprus.

The total debt, i.e. both short term and long term, with *remaining* maturity within 12 months, is analysed in the chapter "Risk management".

Figure 13: Evolution of short term debt



<u>Breakdown by financing instrument</u>

According to the type of financial instrument, the Cyprus' debt is composed of loans and securities; there is no debt in the form of currency and deposits (Figure 14).

[1] For indicators an all debt due within 12 months, please refer to Chapter "Risk Management".

During the year the share of loans increased in the total of debt both in absolute and relative terms due to the redemption of securities and their replacement via ESM and IMF loans. In absolute terms, domestic securities remained fairly stable due to the exchange of €1 billion domestic bonds whilst foreign securities decreased.

Short term financing instruments, i.e. Treasury Bills and Euro Commercial Papers, accounted for about 4% of outstanding debt.

Figure 15 shows the breakdown of the category of loans. Foreign loans make up nearly 80% of total loans. They are composed by the loans by the ESM, the bilateral Russian loan and long term loans from the EIB and the Council of Europe Development Bank. Finally, the loans granted via the EFSF to Greece, Ireland and Portugal, attributed to the creditor countries including Cyprus, form the smallest but not negligible component of foreign loans[2].

The long term loan from the Central Bank of Cyprus signed in 2002 with the abandoning of state financing from the Central Bank forms the largest component of domestic loans. Another sizeable loan was concluded with the Cooperative Central Bank from 2007 and relates to school committees, which are part of the central government. A further component is formed by the bank loans of the state owned enterprises categorized within the central government. Finally, there is a large number of outstanding bank loans of local authorities mainly granted for infrastructure projects.

[2] 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 can count towards the reduction of debt are not included in the general government debt, as this is reported on a gross basis.

Figure 14: General government debt by instrument, 31 Dec. 2013

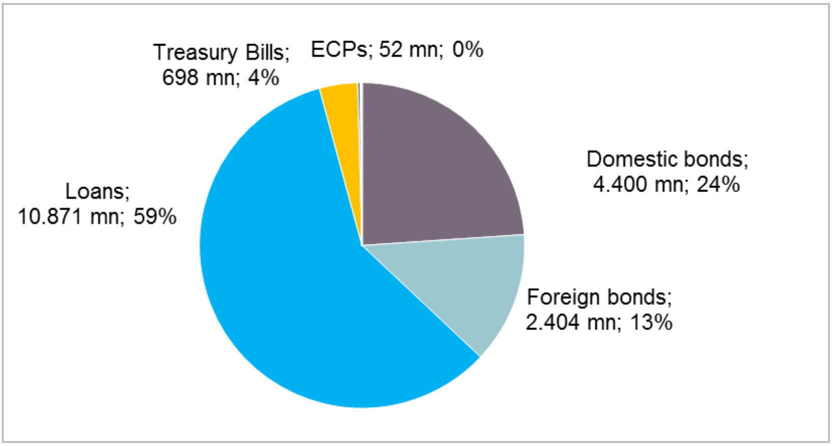
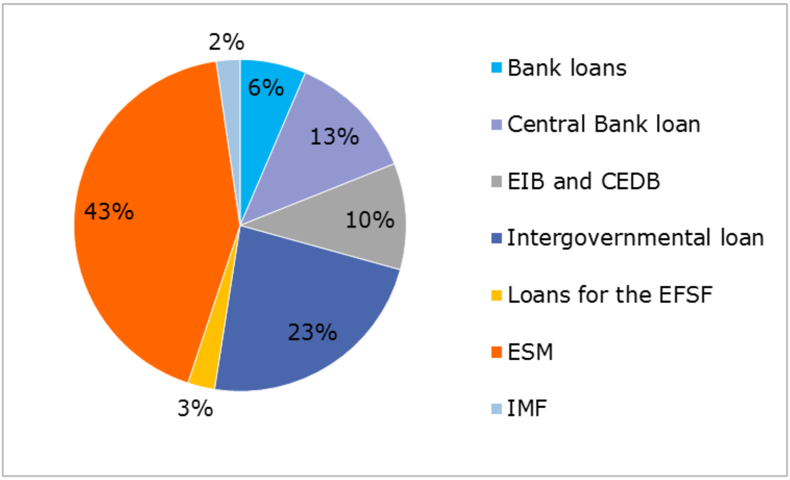


Figure 15: Breakdown of loans by government sector and source, 31 Dec. 2013

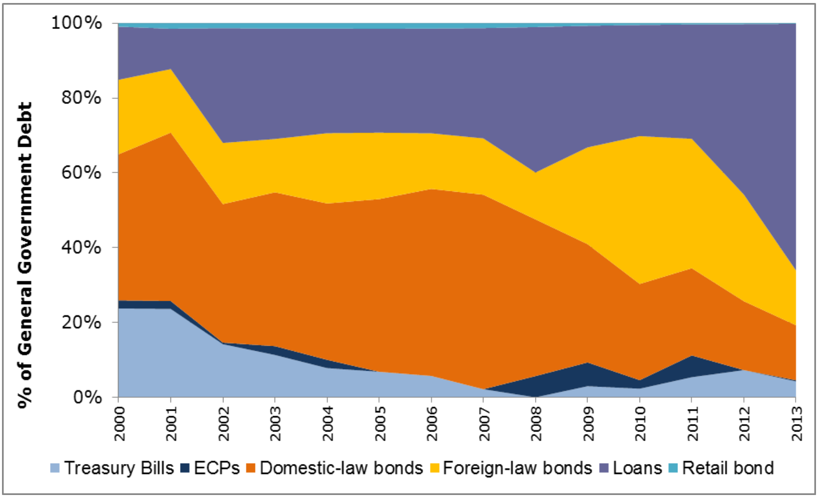


In a historical comparison, Figure 16 shows the breakdown of debt stock by financing instrument.

It is apparent that the contribution of loans to the total of debt has gradually increased over time. The sharp increase of 2002 relates to the conversion of outstanding central bank financing into a long-term loan for the amount of €1,64 billion. In 2012 the proportion of loans increased due to the replacement of debt as securities by the bilateral Russian loan. Similarly the large financing via ESM loans further increased the share of loans in the debt over 2013.

The financing from the Eurozone capital markets during 2009-2010, under the then existing normal market access, is furthermore notable in the historical financing pattern; in fact, during this period the EMTN securities replaced the state traditional borrowing from the domestic market.

Figure 16: Historical breakdown of general government debt by instrument, 31 Dec. 2013



<u>Breakdown by interest type</u>
All debt securities carry fixed interest rate, although bonds issuance at other coupon types is feasible. The variable interest rates in the debt portfolio stem exclusively from loans.

An important change in the debt stock characteristics took place in 2013 again due to the borrowing by the ESM and the IMF whose loans carry floating interest rates. Furthermore, loans by the European Investment Bank and the Council of Europe Development Bank carry typically floating rates with low margins over the Euribor. Moreover, a €439 million loan from a local bank for School Committees is indexed to floating rate. Finally, nearly all loans of the local authorities and state owned enterprises from domestic credit institutions carry floating interest rates.

In total, the proportion of floating interest debt stands at 36% of the general government debt or at €6574 million. Although this is a considerable share a further breakdown of floating-rate debt indicates that most loans are indexed at low margins over the Euribor rate whilst the interest rates of the ESM and the IMF loans are forecast to remain at low levels in the long term (see also Chapter "Risk management").

Breakdown by currency

Cyprus follows a policy of issuing preferably only in euros. However, securities can be issued in foreign currency when opportunities arise. Such issuances are simultaneously fully hedged via swap agreements.

At end 2013 there were no debt securities denominated in foreign currency. However loans by the IMF are denominated in Special Drawing Rights an international reserve asset whose value is determined by a basket of four currencies[3]. Servicing of the IMF loans is thus executed in SDRs which carry a foreign exchange risk. At end 2013 loans of IMF were the only debt in foreign currency and made up 1% of the total debt stock. By the end of the programme period this component is projected to rise to 5% of the outstanding debt.

Breakdown by government sector

The three subsectors of the general government in Cyprus are the central government, which includes all activities under the state Budget and some state-owned enterprises[4], the local authorities and the Social Security Fund.

[3] The euro is one of the four base currencies, a fact that contributes positively to the containment of the volatility of the SDR/EUR exchange rate

[4] The state owned enterprises categorised within the central government and which have an outstanding debt balance are the Cyprus Broadcasting Corporation and the Cyprus Sports Authority.

According to the EDP definition of debt ("Maastricht debt") the public debt is reported in consolidated form, i.e. any obligations among the general government subsectors are not shown explicitly.

The vast majority of the consolidated General Government debt, in gross terms, is made up by the central government debt, which is analysed in detail in the whole of this Report. At 31 December 2013, the outstanding central government debt accounted for 98% of the general government debt. This share has historically remained fairly stable.

In absolute terms, the local authorities' debt increased steadily over the years, albeit at low growth rates, until the year 2011 where a first absolute level reduction took place. In th4 past two years, the local authorities' loans reduced due to continuous amortisation and absence of new borrowing. At end 2013 the stock of the local authorities' debt was €254 million. The borrowing of local authorities relates normally to infrastructure projects and typically the creditors are local credit and cooperative institutions. This debt is thus in the form of long term bank loans with a floating interest rate.

The third subsector of the general government, the Social Security Fund, 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 intragovernmental borrowing. This intragovernmental asset-liability relation is presented in section (iii) of this Chapter.

Breakdown by investor origin

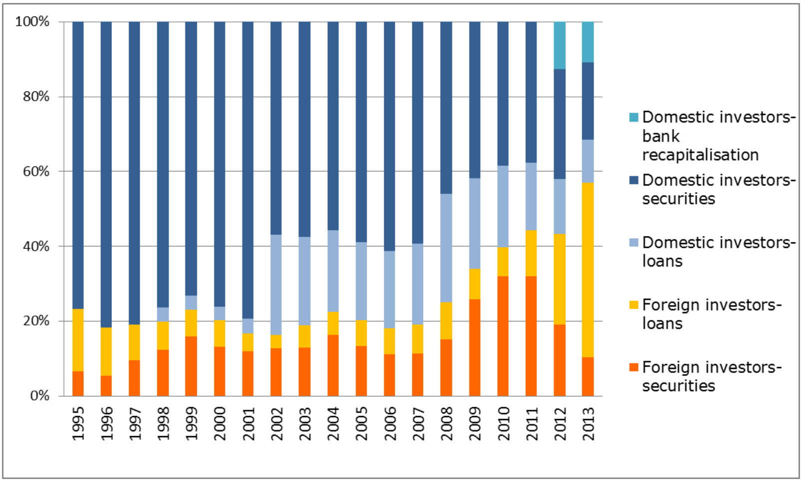
The Public Debt Management Office as the debt issuer has full investor records at the primary market. Given that domestic securities listed in the Cyprus Stock Exchange have extremely low tradability the issuance records can be considered representative of the current investor profile. This conclusion can not be made with safety with regards to the foreign-issued EMTN bonds. Secondary market records are available only to international depositories (Euroclear and Clearstream).

Historically, foreign capital inflows related to debt purchases were recorded either via supranational organisations, such as the EIB, or via the short term ECP securities. Long term securities were issued for the first time in 1997 for €300 million US Dollar. Further issuances followed during 1998-1999 and 2002-2004 in euro as a foreign currency. These issuances naturally increased the share of foreign investors in the total debt.

During 2009 and 2010 foreign issued debt increased considerably with the placement of three securities for €1 – 1,5 billion each. The majority of investors at these issuances were non-residents. Finally, during 2012 foreign creditor share increased further through the Russian loan. The state recapitalization of the Cyprus Popular Bank during the same year affected the resident ownership of debt. Hence in relative terms the foreign and domestic ownership share over the past year remained stable.

In 2013 a large redistribution of debt holdings took place. More specifically, foreign and domestic capital market investors were replaced by foreign official debt holders in the form of loans. This category reached nearly 50% of total debt holdings.

Figure 17: Debt holders at primary issuance (est.)



Note: Excluding debt for EFSF

(iii) Investments of the Social Security Fund and Administered Funds

Investments between the government subsectors, that is between the central government, the local authorities and the Social Security Fund, are not considered public debt according to the methodology followed by the Eurostat.

For Cyprus, the Social Security Fund due to its historical annual surpluses has a very large stock of investments with the central government. Investments of the Social Security Fund in the form of deposits with the government or by ownership of government securities, at the year end 2013, amounted to €8010 million. The Fund, which is reported as a single account is, in fact, composed of 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

- Intragovernmental deposits

The majority of assets of the Social Security Fund are in the form of deposits. Annually, the surplus of the SSF is invested within the government, earning an interest rate of the ECB Marginal Lending Facility Rate minus 0,25%. At the year end, the balance of the SSF in the form of deposits stood at €7586 million which was virtually unchanged from the year before where it stood at €7591 million.

- Intragovernmental investments in government securities

Following the decision of the Council of Ministers for the creation of a reserve, the Fund has invested in government EMTN bonds and domestic bonds of tenors between 3 and 10 years. The Fund also rolled over its 52-week Treasury Bill due in November 2013 for further 12 months for a yield of 4,75% and nominal amount of €53 million. The investments in government paper totals €424 million and is presented in further detail in Table 8 of the Statistical Appendix.

It is noted that the SSF maintains also deposits with credit institutions amounting to a total of €57 million at the end of 2013. These funds do not constitute part of the general government debt.

- Intragovernmental investments of the Administered Funds

There are five Administered Funds of the central government with an outstanding balance at the year end of €133 million. These are:

1. The Government Hourly Employees Provident Fund
2. The Human Resources Development Authority Fund
3. The Turkish Cypriot Properties Fund
4. The Agricultural Insurance Organisation Fund
5. The Hunting Fund

The surpluses of these Funds are invested in 13-week Treasury Bills at an interest rate equal to the ECB Main Refinancing Operations Rate minus 0,50%.

Finally, one loan is the only intragovernmental debt existing between the local authorities and the central government. During 2011, a €10 million loan was granted by the Municipality of Nicosia to the central government at a variable interest rate extending to 2035, with a 5-year grace period.

COST OF PUBLIC DEBT

The cost of the public debt is expressed mainly via the interest payments to service the debt[5]. Since 2012 Cyprus ranks worse than the Eurozone average in terms of interest payments as a share to GDP. In 2013 the difference deteriorated as Eurozone interest payments were on average 2,9% of GDP while in Cyprus the ratio stood at 3,4% of GDP.

Between 2005 and 2010 interest payments followed a declining path as a direct result of the reduction in public debt achieved between 2005 and 2008 and due to the use of available sinking funds, which reduced financing needs. Furthermore, with the entry into the Eurozone new borrowing was possible at lower interest rates while the redemption of high-yield debt continued.

An increase in the interest payments was first marked in 2011 and continued over 2012. The increase in the stock of public debt and the rise in the borrowing cost itself caused an immediate increase of interest expenditure which was offset partly by the low base rates. The negative growth rate of 2012 exacerbated the impact of interest payments in the GDP.

Developments over 2013

Over the year 2013 interest payments as a share to GDP marked a further increase to 3,4%. Even though the interest payments in absolute levels fell marginally, the decline in GDP was larger so that the share of interest payments rose.

The marginal borrowing rate, i.e, the cost of the new borrowing raised over the year weighted by its volume, is estimated at around 2,7% based on the current level of base rates.

The marginal *market* borrowing rate of the year was 5,00% which was feasible only at very short term tenors. This fact was evidence that no access to the markets was possible at sustainable rates.

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[5] The cost of public debt to the society can be analysed from various aspects. For example, to the extent that borrowed funds are directed towards current expenditure instead of infrastructure or sustainable development expenditure, the state borrowing allows for the current generation to benefit on the cost of the next generation.

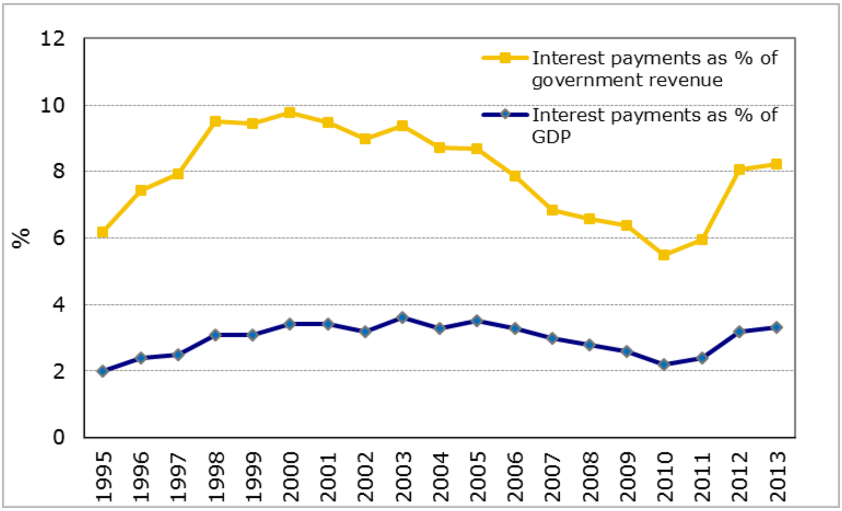
The volume-weighted average interest rate for the whole stock of debt improved considerably over the year. The weighted average interest rate fell from 4,20% at end 2012 to 3,03% at end 2013.

Outlook

As regards future borrowing rates, the marginal cost of borrowing is expected to decline further as the bulk of needs will be covered by the ESM-IMF loans and at the same time the market borrowing rates, which will cover a low share of financing needs, should start a declining trend. Thus the weighted average cost of debt will be following a further decline.

Despite the above, due to the cumulative contraction in the economy and the rise in the public debt, interest payments both in absolute and relative terms will move at higher levels altogether.

Figure 18: Interest payments on public debt



CONTINGENT LIABILITIES

Contingent liabilities are not part of public debt and thus have no direct impact on the government accounts. However, for the assessment of the long term sustainability of public finances and their risks, it is important to examine the contingent or off-balance sheet liabilities, i.e. those liabilities whose realisation depends on future events.

This Chapter describes the main developments as regards existing, new and old guarantee schemes. The full list of guarantees by entity is found in Table 9 of the Statistical Appendix.

Evolution of outstanding guarantees and provision of new schemes

Government Guarantees

Government guarantees are granted to municipalities and community boards, sewerage boards, public and other organisations, and enterprises. Government guarantees at the year end 2013 increased to €3122 million from €3070 million the year before.

Excluding guarantees granted to entities of the general government, i.e. the debt of which is already part of the general government debt, the figure reduces to €2873 million. This net guarantee balance accounts to 17% of the GDP.

The reason behind the increase lies in the provision of new guarantees to the Electricity Authority of Cyprus and to a lesser extent to sewerage boards which overcompensated the reduction of the guarantee stock via the normal amortisation of loans by the same entities. In particular the EAC withdrew tranches of an older loan by the European Investment Bank for the transmission and distribution system and the Vasilikos power station (4th tranche).

During 2012 state guarantees had been provided to the Cyprus Popular Bank for the total amount of €1 billion for issuance of bonds by the institution. With the resolution of Cyprus Popular Bank in 2013 the guarantee was transferred to the balance sheet of Bank of Cyprus. In November 2013 the scheme to Bank of Cyprus was renewed for another year.

The remaining guarantees showed an overall decline due to normal loan amortisations by the debtors. Exceptions to this trend were the loans by a few private entities, the central slaughterhouse and natural persons.

Outlook

The prospects for provision of new guarantees are positive but new schemes will be of limited size. The updated Memorandum of Understanding with the Troika of lenders includes a size for the new guarantees of the order of 2% of the GDP for 2014. New guarantees may be granted to small and medium enterprises, youth entrepreneurship schemes and for loans of the sewerage boards.

CASH MANAGEMENT

The Government General Account, which in the Cyprus' Constitution is called the Consolidated Fund, is the government's main account held with the Central Bank of Cyprus. Credit balances at the account do not earn any interest.

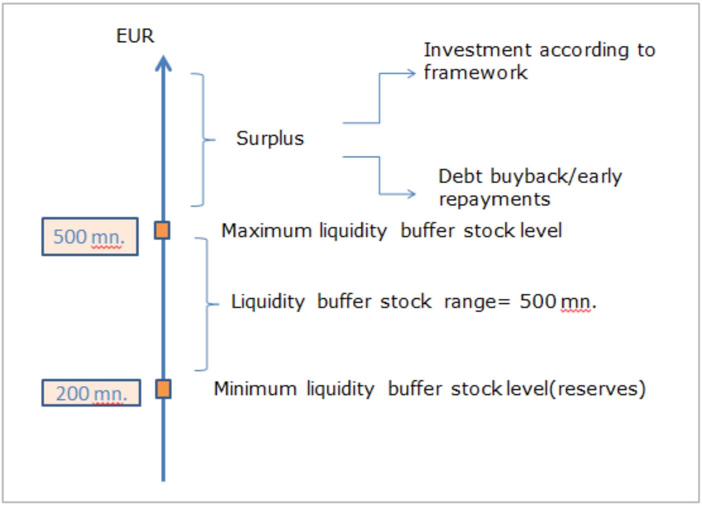
Cash management by the Public Debt Management Office covers the setting of minimum and maximum liquidity amounts within which the state should cover its cash flow needs of a given period as well as the utilisation of any excess liquidity should this arise.

The Law states that the minimum and maximum liquidity range should be decided by the Council of Ministers. The limits are variable and can change at least quarterly. The minimum and maximum liquidity amounts have been set by the Council of Ministers at €200 million and €500 million respectively and are held at different accounts at the Central Bank. This allows a liquidity range of €500 million. If the cash balance moves below the €500 million benchmark point the state has to borrow to cover the difference. If on the other hand liquidity exceeds €500 million the state may, but does not have to, proceed with an investment of the surplus or undertake a debt buyback or prepayment.

In practice during the reported year borrowing to cover the liquidity gap was not feasible at all times given the difficulty in accessing the market. The €200 million of minimum liquidity limit is considered to be a reserve amount not to be used except for extraordinary purposes.

During the year only very few investment activities were undertaken. A portion of the excess liquidity from the ESM first tranches in the 3rd quarter was invested in fixed term deposits in the domestic banking system. Table 16 of the Appendix shows the cash balances at monetary financial institutions during the year.

Figure 19: Institutional structure of cash management



RISK MANAGEMENT

The covering of the government financing needs implies risks for the state which can not be avoided. Risk minimisation however, generally takes priority over cost minimisation.

There are a few categories of risk with the most important being the market risk and the refinancing risk. The developments of 2013 show a mixed picture as to the evolvement of the debt portfolio risks. The official borrowing by the ESM and IMF reduced refinancing and liquidity risks considerably since the large majority of financing needs are covered by the Programme of €10 billion. At the same time however these loans carry a floating interest rate whilst the IMF loans furthermore, are denominated in foreign currency.

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 to macroeconomic indicators, conventionally the GDP. Thus the debt sustainability analysis focuses on macroeconomic factors and prospects and is not the subject of public debt management.

Market risk

Market factors result in risks for the existing or expected debt portfolio, via the fluctuations in the markets of interest and exchange rates.

(i) Interest rate risk

This risk aspect refers to the change or refixing of interest rates at the state of refinancing of outstanding debt and at the fluctuation of interest rates at the specific payment dates for debt carrying floating rate debt.

Hence, low duration[6] debt, i.e. short term and floating rate debt, is considered to be a higher risk obligation.

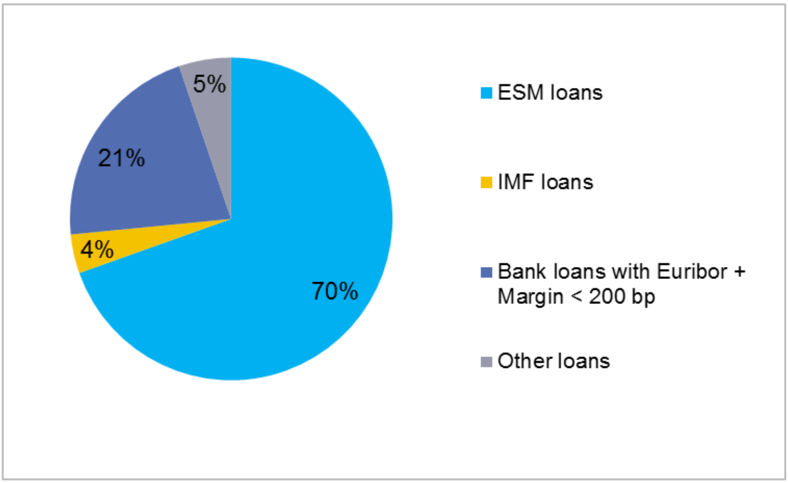
[6] The duration is a method for the measurement of market risk via the observance of the sensitivity of the debt portfolio to a certain change in interest rates. Duration is a different indicator than similar measurements of risk such as maturity and average life of a debt portfolio.

Even though a significant volume of redemptions is due within 12 or 24 months its refinancing is expected to be covered via the ESM-IMF loans at low interest rates so that the interest rate risk stemming from the refixing of debt redemptions is contained at, effectively, the lowest level possible. Moreover the refinancing of the short term debt can be achieved at gradually lower interest rates.

However, the market risk from floating rate debt is on an increasing trend. The ESM-IMF loans are at floating interest rates even though these are at low levels[7]. The ESM-IMF loans form already a quarter of the debt stock and by the Programme end they are projected to reach 50% of the outstanding stock.

Furthermore, bank loans by local authorities and the central government carry floating rate debt. Additionally most loans for project financing are granted by supranational organisations such as the European Investment Bank and are linked to the Euribor with small margins. Overall albeit at an increasing trend, the interest rate risk stemming from floating rate debt is expected to be limited due to its low base rates and low margins.

Figure 20: Composition of floating rate debt



7 Actually the IMF loans have a large predefined fixed component and a smaller floating rate component.

(ii) Foreign exchange risk
Debt dominated or linked to foreign currency increases instability in the servicing of debt or interest.

Since its entry into the Eurozone, borrowing in foreign currency has been kept into a minimum. During the year there no borrowing transactions at foreign currency as was the case the last few years before albeit at short term tenors.

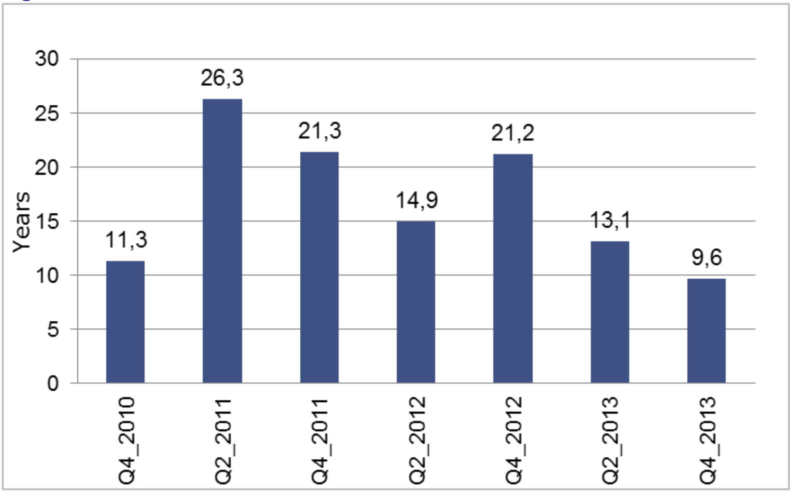
The loans from the IMF are denominated in Special Drawing Rights a specific unit of measurement of the Fund, which is based on a basket of four basic currencies. Therefore amounts vary at withdrawal and servicing of interest and capital according to the value of SDR in terms of euro.

Refinancing and liquidity risk

The main indicator used to capture the refinancing risk is the share of debt due within 12 months, both short term and long term. This figure has improved considerably from the beginning of 2013 where it stood at highly risky levels to the year end where it normalised.

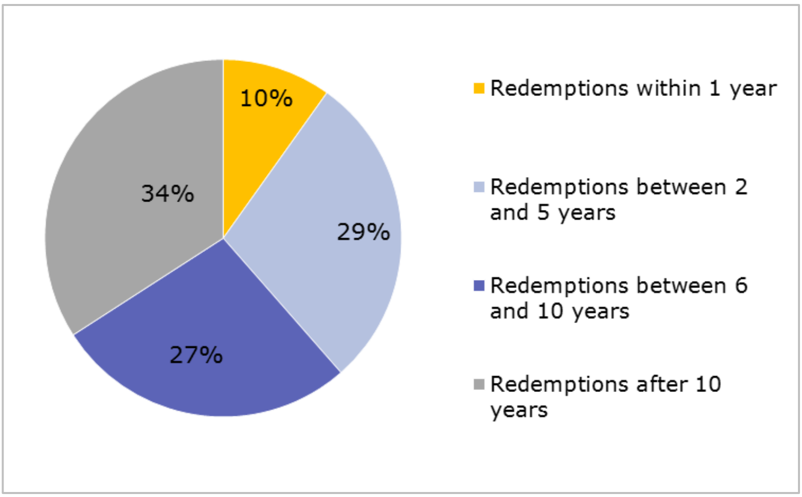
All redemptions due within 12 months at the end of the year 2012 were refinanced by the ESM-IMF loans with the exemption of short term debt which Cyprus refinanced from the market. Thus refinancing risk effectively was reduced to the refinancing risk of short term debt only. However the latter due to difficulties in the domestic banking sector, the main buyer of short term securities, proved to be non negligible.

Figure 21: Share of debt due within 12 months



Even though it is the most direct risk indicator the share of debt due within 12 months is naturally limited by the fact that it does not detect significant debt redemptions beyond the 12-month horizon. Thus a second important indicator is the debt refinancing structure grouped in periods.

Figure 22: Debt refinancing structure (% GGD) at 31st Dec. 2013



As Figure 22 indicates the period distribution of debt maturities is quite balanced. Such a distribution can be considered a satisfactory profile in the sense that debt maturities are not skewed to a particular direction.

Finally the total maturity indicator i.e. the volume-weighted average remaining maturity of debt shows a general overview of the refinancing risk. The weighted average remaining maturity improved considerably during 2013 due to the large redemption volumes that were replaced by long term loans of the IMF and ESM. Thus whilst debt fell due on average 4,7 years at the end of 2012 by the end of 2013 its average maturity increased to 7,9 years.

As regards the liquidity risk, during the first quarter of the year there were difficulties in the state liquidity and the refinancing of short term debt was necessary in order to maintain liquidity levels. With the official borrowing that started in May liquidity increased to very high levels and gradually normalised to very adequate levels by the year end.

Refinancing risk still existed with the continuous rollovers of short term debt. The reduction in short term debt levels was overcompensated by the better than expected fiscal outcome so that liquidity buffers were maintained.

Refinancing risk for 2014 is expected to be at low levels. If Programme assessments are positive all fiscal needs and long term debt redemptions will be covered timely by the available Programme funding. Refinancing risks can realise only at a large loss in short term debt or the realisation of large contingent liabilities. However there are comfortable cash levels and for the second event in particular there is further untapped financing in the Programme adequate to absorb a contingent liability shock.

Finally, interest payments are not expected to evolve at any large deviations from the planned even if the debt stock carrying floating interest rate or denominated in foreign currency is at an increasing trend. Thus servicing of interest is not expected to influence significantly cash management and liquidity indicators.

Credit risk

Credit risk for the government as a borrower results from various counterparties when entering into

(i) derivative transactions such as swaps

(ii) operations for the management of excess liquidity i.e. money market (deposit) operations with market counterparties.

By the year end there were no outstanding derivative exposures. Deposit levels in the money market were very low so that the credit risk had been reduced down to a nearly zero level.

CREDIT RATING DEVELOPMENTS

The main credit rating agencies, with which the Republic maintains a contractual relation, had a mixed review of the credit risk of Cyprus during 2013.

Standard and Poor's downgraded in January to a level of CCC to proceed by November to two upgrades to B-. Fitch on the other hand reduced the credit standing from B to CCC/B- and at the same time differentiated between foreign and domestic debt. Moody's downgraded the Republic in January to Caa3 without proceeding to any other change for the remainder of the year.

Similarly by the year end Standard and Poor's had placed the Republic in a stable outlook whilst the other two agencies regarded the outlook as negative.

As a result of the domestic bond exchange the Republic was rated as "selective default" and "restrictive default" by the Standard and Poor's and Fitch Ratings respectively from the day of announcement of the exchange to the day of settlement, i.e. for about a week. In the agencies' methodology an exchange in terms other than the market rates corresponds to a loss to investors in net present value terms and is thus considered as forced upon rather than a voluntary action by the investors. The overall credit rating of the Republic prior to the bond exchange at low speculative levels contributed to this assessment of the exchange. It is important to mention that the selective/restrictive default rating resulted from the application of technical criteria of the agencies and did not reflect a stop of payments or default in cash terms.

As to the content of the other rating assessments of the year the agencies focused on their forecasted fiscal deficits and cumulative shrinkage of the economy so that the debt-to-GDP ratio was assessed to develop in the long term horizon at unsustainable levels.

Other challenges highlighted by the credit rating agencies is the management of the relaxation of capital control measures and the regaining of confidence in the banking sector.

The Republic was rated furthermore by a number of other agencies registered in the EU via unsolicited assessments. The Republic did not maintain contractual relations with these institutions and did not participate in the rating procedure.

The credit ratings of the Republic of Cyprus at 31st December 2013 are shown below[8]:

Agency	Long term debt	Short term debt	Last change
Fitch	B-/CCC	B	13-11-2013
Moody's	Caa3	Not-Prime	10-01-2013
Standard and Poor's	B-	B	29-11-2013

Whereby:
'B' (Fitch Ratings) indicates that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

'CCC' rating (Fitch Ratings) means that there is substantial credit risk and default is a real possibility.

Obligations rated Caa (Moody's) are judged to be speculative of poor standing and are subject to very high credit risk.

An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

The signs + and – (Moody's: 1 to 3 where 1 ranks higher) indicate the relative standings within each category.

[8] More recent developments in the sovereign credit rating of the Republic of Cyprus have been positive. Please refer to the website of the Public Debt Management Office, www.mof.gov.cy/pdmo

STATISTICAL APPENDIX

Data for 2013 is provisional. Reference date for all data in the Statistical Appendix is the 31st Dec. 2013, unless otherwise stated

Table 1: Historical evolution of government debt

	Consolidated gross general government debt (€ mn)	Consolidated gross general government debt (% GDP)
1990	2217,5	50,8
1991	2583,7	56,5
1992	2974,2	56,1
1993	3277,6	58,6
1994	3345,4	53,6
1995	3589,5	51,8
1996	3896,2	53,1
1997	4478,1	57,4
1998	4981,6	59,2
1999	5416,8	59,3
2000	5930,9	59,6
2001	6567,5	61,2
2002	7246,2	65,1
2003	8093,3	69,7
2004	8963,3	70,9
2005	9490,7	69,4
2006	9445,0	64,7
2007	9307,3	58,8
2008	8388,1	48,9
2009	9864,5	58,8
2010	10676,6	61,3
2011	12777,5	71,1
2012	15301,6	86,6
2013	18407,5	111,7

Table 2: Government debt by instrument and lender (€ mn)

A. DOMESTIC			**7200,14**
I. LONG TERM		**6501,7**	
1. Domestic bonds	**2412,60**		
- Monetary Financial Institutions	1832,57		
- Private Sector	580,04		
2. Domestic bonds	**1987,17**		
Banking sector capitalisation	1987,17		
2. Savings Certificates	**26,67**		
3. Loans	**2075,26**		
- Central Bank of Cyprus	1350,76		
- Local Authorities	254,84		
- Loan for School Committees	439,88		
- Other	29,78		
II. SHORT TERM		**698,4**	
1. Treasury Bills	**698,44**		
- Monetary Financial Institutions	306,99		
- Private Sector	391,45		
B. FOREIGN		**11155,5**	
I. LONG TERM			
1. Long term loans	**8468,59**		
ESM and IMF	4848,89		
Bilateral governments	2500,00		
EIB and CEDB	1119,22		
2. Euro Medium Term Notes	**2403,72**		
3. EFSF loans	**283,14**		
II. SHORT TERM		**51,9**	
Euro Commercial Papers	51,91		
C. GROSS GENERAL GOVERNMENT DEBT			**18407,49**

Note:
Consolidated figures, i.e. obligations among subsectors of the general government are omitted.

Table 3: Outstanding securities in the foreign market

EURO COMMERCIAL PAPERS

Issue	Tenor	Yield %	Maturity	ISIN	€ mn
04-12-2013	1	5,010	07-01-2014	XS1002053863	50
13-12-2013	1	4,860	13-01-2014	XS1006239435	2
Total outstanding ECPs					**52**

EURO MEDIUM TERM NOTES

Issue	Tenor (years)	Coupon %	Maturity	ISIN	€ mn
07-06-2012	2	6,000	07-06-2014	XS0789055810	85
15-07-2004	10	4,375	15-07-2014	XS0196506694	500
01-11-2010	5	3,750	01-11-2015	XS0554655505	863
25-02-2011	5	4,750	25-02-2016	XS0596907104	170
03-02-2010	10	4,625	03-02-2020	XS0483954144	786
Total outstanding EMTNs					2404
Total outstanding securities in the foreign market					**2456**

Note:
The nominal amount of issue of EMTN due in Nov. 2015 and Feb. 2020 is €1.000 million respectively; the balance to the figures shown above relates to the ownership by the Social Security Fund or other government entities.

Table 4: Outstanding securities in the foreign market

TREASURY BILLS

Issue	Yield %	Maturity	ISIN	€ mn
10-10-2014	4,39	09-01-2014	CY0144090814	167
19-10-2013	4,20	25-01-2014	Not listed	5
25-10-2013	4,20	25-01-2014	CY0144110810	20
27-12-2013	4,92	27-01-2014	CY0144320815	110
01-11-2013	5,05	06-02-2014	CY0144150816	100
11-11-2013	5,05	06-02-2014	CY0144190812	100
19-12-2013	4,30	17-02-2014	CY0144310816	101
19-12-2013	4,30	19-03-2014	CY0144300817	101
19-12-2013	4,20	19-03-2014	Not listed	1
Total outstanding Treasury Bills[9]				**705**

DOMESTIC BONDS

Issue	Yield %	Maturity	ISIN	€ mn
09-01-2009	5,00	09-01-2014	CY0140870813	100,0
15-01-2009	5,00	15-01-2014	CY0140890811	140,2
26-02-2004	4,50	26-02-2014	CY0049060813	3,8
24-06-2004	6,00	24-06-2014	CY0049240811	5,0
18-11-2004	6,00	18-11-2014	CY0049360817	34,2
09-12-2004	6,00	09-12-2014	CY0049390814	21,1
03-01-2005	6,00	03-01-2015	CY0049420819	7,1
04-01-2012	6,00	04-01-2015	CY0142270814	62,7
20-01-2005	6,00	20-01-2015	CY0049450816	12,8
28-02-2005	6,00	28-02-2015	CY0049510817	58,5
20-04-2005	6,00	20-04-2015	CY0049560812	28,6
09-06-2005	5,25	09-06-2015	CY0049620814	14,2
30-09-2005	4,75	30-09-2015	CY0049710813	17,6
02-12-2005	4,75	02-12-2015	CY0049770817	8,9
02-01-2006	4,50	02-01-2016	CY0049790815	102,6
30-03-2006	4,50	30-03-2016	CY0049880814	59,8
02-06-2006	4,50	02-06-2016	CY0049930817	14,0
09-06-2011	5,00	09-06-2016	CY0141980819	25,2
11-07-2006	4,50	11-07-2016	CY0049990811	102,5
09-10-2006	4,50	09-10-2016	CY0140090818	49,5
26-10-2001	6,60	26-10-2016	CY0047860818	6,9
04-01-2007	4,50	04-01-2017	CY0140160819	85,4
15-02-2007	4,50	15-02-2017	CY0140190816	82,0
02-04-2007	4,50	02-04-2017	CY0140330818	85,4
15-04-2002	5,60	15-04-2017	CY0048900811	13,3
28-09-2007	4,50	28-09-2017	CY0140500816	17,8

[9] Treasury Bills shown at nominal value

29-01-2003	5,10	29-01-2018	CY0048440818	13,7
23-04-2003	4,60	23-04-2018	CY0048610816	5,1
23-10-2003	4,60	23-10-2018	CY0048870816	0,8
26-02-2004	4,60	26-02-2019	CY0049070812	3,8
24-06-2004	6,10	24-06-2019	CY0049250810	7,2
01-07-2013	4,50	01-07-2019	CY0143820815	692,6
20-04-2005	6,10	20-04-2020	CY0049570811	85,4
09-06-2005	5,35	09-06-2020	CY0049630813	68,3
01-07-2013	4,75	01/07/2020	CY0143830814	82,7
09-06-2011	6,00	09/06/2021	CY0141990818	43,6
01-07-2013	5,00	01/07/2021	CY0143790810	75,0
25-08-2011	6,50	25/08/2021	CY0142120811	23,1
01-07-2013	5,25	01/07/2022	CY0143800817	52,7
01-07-2013	6,00	01/07/2023	CY0143810816	99,4
Banking sector capitalisation				
01-07-2013	0,00	01-07-2014	CY0143840813	1987,2
Total outstanding domestic bonds[10]				**4400**
SAVINGS CERTIFICATES				**26,7**
Total outstanding securities in the domestic market				**5137,1**

[10] Outstanding volumes may differ from listed volumes at the CSE due to debt buybacks

Table 5: Outstanding loans

Creditor	Interest rate %	Currency	Maturity	Balance € mn
Central government				
Foreign Loans				
EIB	3,62	CHF	2014	0,2
EIB	5,95	GBP	2014	0,7
EIB	3,62	EUR	2014	0,7
French Treasury	2	EUR	2015	0
EIB	0	EUR	2016	2,3
French Treasury	2	EUR	2017	0,5
CEDB	E+0,28	EUR	2018	6,1
EIB	5,35	EUR	2019	43,6
Russian Federation	4,5	EUR	2021	2500
EIB	1	EUR	2022	0,3
EIB	1	EUR	2022	1
IMF	VSFR	SDR	2023	248,9
CEDB	E+0,30	EUR	2023	14,
CEDB	E+0,30	EUR	2023	33,3
CEDB	1	EUR	2025	1,6
CEDB	E+0,60	EUR	2025	47,5
EIB	1	EUR	2026	0,6
CEDB	E+0,15	EUR	2026	74,3
CEDB	E+0,09	EUR	2027	15,4
CEDB	3,7	EUR	2028	44
EIB	4,45	EUR	2029	39,3
CEDB	E+0,48	EUR	2029	16,3
CEDB	E+0,48	EUR	2029	10
ESM	VSFR	EUR	2030	4600
CEDB	E+0,55	EUR	2030	6,2
CEDB	E+0,81	EUR	2033	8
EIB	VSFR	EUR	2033	177,3
EIB	VSFR	EUR	2035	76,8
EIB	E+0,01	EUR	2035	90
EIB	VSFR	EUR	2035	55,5
EIB	E+0,31	EUR	2036	40
EIB	E+1,37	EUR	2037	200
EIB	E+0,33	EUR	2038	56
EIB	E+0,44	EUR	2038	57,9
Domestic loans				
Central Bank	3,00	EUR	2032	1350,8
Coop. Central Bank	E+1,50	EUR	2032	439,9

Central government entities		
Cyprus Broadcasting Corporation	EUR	9,5
Cyprus Sports Organisation	EUR	20,3
Total central government outstanding loans		**10.544,7**

Table 6: General government debt maturity profile (€ mn)

	Domestic securities		Foreign securities		Domestic loans	Foreign loans	Total
	TBs	bonds	ECPs	EMTNs			
2014	705	304	52	585	98	46	1790
2015	0	210	0	863	99	46	1218
2016	0	360	0	170	101	53	684
2017	0	2271	0	0	103	63	2437
2018	0	20	0	0	104	730	854
2019	0	704	0	0	106	740	1550
2020	0	236	0	786	108	732	1862
2021	0	142	0	0	110	732	984
2022	0	53	0	0	112	107	272
2023	0	99	0	0	109	100	308
2024	0	0	0	0	111	60	171
2025	0	0	0	0	114	60	174
2026	0	0	0	0	116	1056	1172
2027	0	0	0	0	118	1050	1168
2028	0	0	0	0	121	1048	1169
2029	0	0	0	0	123	890	1013
2030	0	0	0	0	125	787	912
2031	0	0	0	0	128	31	159
2032	0	0	0	0	131	31	162
2033	0	0	0	0	0	26	26
2034	0	0	0	0	0	21	21
2035	0	0	0	0	0	21	21
2036	0	0	0	0	0	16	16
2037	0	0	0	0	0	14	14
2038	0	0	0	0	0	7	7
	705	**4399**	**52**	**2404**	**2137**	**8467**	**18164**

Notes:

1. Consolidated figures on the general government level
2. The bond for the recapitalization of the banking sector is included in the debt redemptions of the year 2017
3. Savings Certificates of €26 mn and loans for the EFSF of €283 mn are 9not included in the table
4. A flat redemption profile for the local authorities loans and the loans of the central government entities is assumed

Table 7: Debt servicing

	2009	2010	2011	2012	2013
Interest payments (€ mn)	432	391	426	563	548
General Government Debt (GGD, € mn)	9865	10677	12777	15302	18407
Tax revenue (TR, € mn)	4452	4606	4711	4623	4323
Total government revenue (GR, € mn)	6764	7116	7139	6974	6674
Interest payments (% GDP)	2,56	2,25	2,38	3,18	3,4
Interest payments (% GGD)	4,38	3,67	3,33	3,68	2,98
Interest payments (% TR)	9,70	8,50	9,04	12,13	12,67
Interest payments (% GR)	6,39	5,50	5,97	8,07	8,21

Note:
Interest payments exclude intragovernmental interest payments to the Social Security Fund

Table 8: Investments of the Social Security Fund with the central government (€)

Deposits with the Central Government	**7.585.680.974**
Social Insurance Fund	6.997.509.699
Unemployment Benefits Account	0
Termination of Employment Fund	368.892.128
Central Holiday Fund	65.290.740
Insolvency Fund	153.988.407
Investment in Cyprus government treasury bill 4.750% mat. 11/11/2014	**53.080.000**
Investment in Cyprus government bond 6.000% mat. 4/1/2015	**20.000.000**
Investment in Cyprus government bond 3.750% mat. 1/11/2015	**137.178.868**
Investment in Cyprus government bond 4.625% mat. 3/2/2020	**204.100.100**
Investment in Cyprus government bond 6.000% mat. 9/6/2021	**10.000.000**
Total	**8.010.039.942**

Note:
Table excludes deposits with credit institutions of €57 mn at 31/12/2013.

Table 9: Government guarantees (€)

Outstanding amount as at	31-12-2013	31-12-2012
Municipalities *	213.029.711	221.449.679
Community Boards*	6.870.912	7.870.212
	219.900.623	**229.319.891**
PUBLIC AND OTHER ORGANISATIONS		
Public Corporate Bodies		
Sewerage Boards	685.188.752	681.498.942
Electricity Authority of Cyprus	542.122.993	426.048.597
Cyprus State Fairs Authority	138.909	167.618
Cyprus Broadcasting Corporation*	9.474.905	12.182.210
Cyprus Sports Organisation *	20.308.827	22.157.426
Central Agency for Equal Distribution of Burdens	223.946.966	239.650.808
Cyprus Olympic Committee	2.314.261	2.752.043
Central Slaughter-house Board	21.486.380	20.441.553
Cyprus Theatrical Organisation*	319.109	363.763
	1.505.301.102	1.405.262.960
Not for Profit Organisations	1.143.365	1.168.721
	1.506.444.467	**1.406.431.681**
ENTERPRISES		
Companies with share capital participation by the Government		
Bank of Cyprus	1.000.000.000	
Cyprus Popular Bank		1.000.000.000
Cyprus Airways	28.407.288	32.084.476
Companies		
ETKO, LOEL, etc.	21.927.295	20.190.316
Cooperative Societies	17.031.513	15.817.072
Sundries	5.123.505	5.347.976
	1.072.489.601	**1.073.439.840**

NATURAL PERSONS	**1.412.609**	**1.405.091**
INTERNATIONAL ORGANISATIONS		
European Financial Stability Facility	321.951.043	360.133.546
TOTAL GUARANTEED LOANS	**3.122.198.343**	**3.070.730.049**

***** These entities are included in the General Government sector, and therefore their loans are part of the General Government Debt.

Table 10: Average yield history of domestic bonds (% at issuance)

	2004	2005	2006	2007	2009	2010	2011	2012	2013
2yr	4,22	3,38	3,40	4,03	-	2,00	4,50	6,00	-
5yr	4,83	5,61	4,25	4,25	5,00	-	5,00	-	-
10yr	5,91	5,51	4,50	4,50	-	4,63	6,63	-	6,00
15yr	5,58	3,06	-	-	-	-	-	-	-

Table 11: Number of issuances of domestic bonds

	2004	2005	2006	2007	2009	2010	2011	2012	2013
2yr	13	4	3	1	-	1	1	1	-
5yr	12	2	1	1	2	-	1	-	-
10yr	4	7	5	5	-	-	2	-	1
15yr	2	2			-	-	-	-	-
	31	**15**	**9**	**7**	**2**	**1**	**4**	**1**	**1**

Table 12: 52-week Treasury Bills

	2004	2005	2006	2007	2009	2010	2011	2012	2013
Yield %	4,43	4,33	2,89	4,12	1,52	1,70	3,07	5,00	4,75
No. of issues	11	8	4	1	1	1	2	1	1

Note: There were no issuances of domestic bonds or Treasury Bills in 2008

Table 13a: Matured securities in the domestic market 1-1-2013 to 31-12-20123

TREASURY BILLS

Issue	Yield %	Maturity	ISIN	€ mn
5/12/2012	5,00	4/1/2013	CY0143270813	240
11/10/2012	5,00	10/1/2013	CY0143000814	152
17/12/2012	5,00	16/1/2013	CY0143360812	20
26/11/2012	5,10	21/1/2013	CY0143220818	33
21/12/2012	5,15	21/1/2013	CY0143400816	100
19/11/2012	5,10	21/1/2013	CY0143200810	17
26/10/2012	5,00	25/1/2013	CY0143050819	24
4/1/2013	5,00	4/2/2013	CY0143420814	240
15/11/2012	5,15	14/2/2013	CY0143170815	100
19/11/2012	5,25	18/2/2013	CY0143180814	45
17/12/2012	5,25	18/2/2013	CY0143370811	50
16/1/2013	5,10	18/2/2013	CY0143440812	20
21/1/2013	5,13	20/2/2013	CY0143450811	150
4/2/2013	5,25	6/3/2013	CY0143490817	240
18/2/2013	5,00	18/3/2013	CY0143530810	10
20/12/2012	5,50	21/3/2012	CY0143390819	204
20/2/2013	5,15	22/3/2012	CY0143550818	150
31/12/2012	5,50	1/4/2013	Not listed	1
6/3/2013	5,25	9/4/2013	CY0143570816	240
10/1/2013	5,00	11/4/2013	CY0143430813	152
18/2/2013	5,25	19/4/2013	CY0143540819	50
21/1/2013	5,50	21/4/2013	Not listed	5
22/3/2013	5,15	22/4/2013	CY0143590814	150
25/1/2013	5,00	26/4/2013	CY0143470819	24
14/2/2013	5,25	14/5/2013	CY0143500813	100
19/4/2013	5,20	20/5/2013	CY0143620819	50
18/2/2013	5,30	20/5/2013	CY0143520811	45
22/4/2013	5,23	22/5/2013	CY0143630818	137
26/4/2013	5,25	27/5/2013	CY0143650816	100
20/5/2013	4,95	20/6/2013	CY0143670814	95
21/3/2013	5,50	20/6/2013	CY0143580815	206
22/5/2013	5,10	27/6/2013	CY0143690812	137
1/4/2013	5,00	1/7/2013	Not listed	1
11/4/2013	5,00	11/7/2013	CY0143610810	153
21/4/2013	5,00	20/7/2013	Not listed	5
20/6/2013	4,95	22/7/2013	CY0143750814	90
26/4/2013	5,00	26/7/2013	CY0143640817	24
27/6/2013	4,95	29/7/2013	CY0143770812	30
1/7/2013	5,00	1/8/2013	CY0143780811	100

5/7/2013	5/8/2013	5,25	CY0143850812	25
14/5/2013	12/8/2013	5,25	CY0143660815	100
22/7/2013	22/8/2013	4,95	CY0143900815	90
29/7/2013	28/8/2013	4,95	CY0143920813	30
1/8/2013	2/9/2013	5,00	CY0143930812	100
25/6/2013	19/9/2013	4,90	CY0143760813	202
22/8/2013	23/9/2013	4,95	CY0143970818	90
28/8/2013	27/9/2013	4,95	CY0143980817	30
1/7/2013	30/9/2013	4,50	Not listed	1
2/9/2013	2/10/2013	5,00	CY0144000813	100
11/7/2013	10/10/2013	4,50	CY0143870810	167
20/7/2013	19/10/2013	4,50	Not listed	5
23/9/2013	25/10/2013	4,95	CY0144030810	90
27/9/2013	25/10/2013	4,95	CY0144040819	30
26/7/2013	25/10/2013	4,50	CY0143910814	24
2/10/2013	1/11/2013	4,90	CY0144070816	100
12/8/2013	11/11/2013	5,15	CY0143960819	100
25/10/2013	29/11/2014	4,97	CY0144100811	110
6/9/2013	6/12/2013	4,20	CY0144010812	10
19/9/2013	19/12/2013	4,40	CY0144020811	202
29/11/2014	27/12/2013	4,92	CY0144260813	110
30/9/2013	30/12/2013	4,20	Not listed	1
				5407

DOMESTIC BONDS

Issue	Coupon %	Maturity	ISIN	€ mn
29/1/2003	5,00	29/1/2013	CY0048450817	7,7
23/4/2003	4,60	23/4/2013	CY0048580811	1,9
29/6/2012	0,00	29/6/2013	CY0142650817	1888,6
4/7/2011	4,50	4/7/2013	CY0142040811	47,6
23/10/2003	4,50	23/10/2013	CY0048880815	1
				1946,7

SAVINGS CERTIFICATES **5,5**

Table 13b: Domestic bonds exchange structure

Exchange		ISIN	Maturity	Coupon	Nominal amount € mn
1	Old bond	CY0142040811	04/07/13	4,50%	667
	Old bond	CY0049880814	30/03/16	4,50%	25,629
	New bond	CY0143820815	01/07/19	4,50%	**692,629**
2	Old bond	CY0049710813	30/09/15	4,75%	67,787
	Old bond	CY0049770817	02/12/15	4,75%	14,872
	New bond	CY0143830814	01/07/20	4,75%	**82,659**
3	Old bond	CY0140870813	09/01/14	5,00%	50
	Old bond	CY0140890811	16/01/14	5,00%	25
	New bond	CY0143790810	01/07/21	5,00%	**75**
4	Old bond	CY0049620814	09/06/15	5,25%	52,7
	New bond	CY0143800817	01/07/22	5,25%	**52,7**
5	Old bond	CY0049420819	03/01/15	6,00%	20,503
	Old bond	CY0049450816	20/01/15	6,00%	38,376
	Old bond	CY0049510817	28/02/15	6,00%	9,816
	Old bond	CY0049560812	20/04/15	6,00%	30,754
	New bond	CY0143810816	01/07/23	6,00%	**99,449**

Table 14: Matured securities in the foreign market
1-1-2013 to 31-12-2013

EURO COMMERCIAL PAPERS

Issue	Yield %	Maturity	ISIN	€ mn
19/3/2013	4,505	19/4/2013	XS0908283632	5
9/4/2013	5,251	16/4/2013	XS0915311780	240
17/4/2013	5,260	17/5/2013	XS0920909651	240
17/5/2013	5,260	5/6/2013	XS0935623487	220
5/6/2013	5,260	5/7/2013	XS0942551390	210
5/7/2013	5,260	5/8/2013	XS0951394427	160
5/8/2013	5,260	5/9/2013	XS0957578981	150
5/9/2013	5,260	3/10/2013	XS0969239291	125
3/10/2012	5,160	4/11/2013	XS0977599876	100
8/10/2013	4,960	8/11/2013	XS0979700928	2,1
4/11/2013	5,160	4/12/2013	XS0990544339	75
11/11/2013	4,860	11/12/2013	XS0994500709	2,3
				1525

EURO MEDIUM TERM NOTES

Issue	Coupon %	Maturity	ISIN	€ mn
03-06-2009	3,750	03-06-2013	XS0432083227	1415
				1415

Table 15: Loan amortisations by creditor
1-1-2013 to 31-12-2013

	€ mn
European Investment Bank	20,8
Council of Europe Development Bank	23,6
French Treasury	0,1
Central Bank of Cyprus	52,2
Cooperative Central Bank	23,15
	119,9

Table 16: Government deposits (€ mn)

		Cash at the Central Bank of Cyprus	Deposits at MFIs	Total
2008	31-Dec.	99,9	0	99,9
2009	31-Dec.	223,1	16,5	239,6
2010	31-Dec.	131,3	1,5	132,8
2011	31-Oct.	653,4	231,5	884,9
	30-Nov.	559,5	116,5	676
	31-Dec.	805,6	16,5	822,1
2012	31-Oct.	223,8	19,5	243,3
	30-Nov.	199,2	19,5	218,7
	31-Dec.	148,7	69,5	218,2
2013	31-Jan.	248,9	19,5	268,4
	28-Feb.	345,8	19,5	365,3
	31-Mar.	468,0	19,5	487,5
	30-Apr.	306,4	6,5	312,9
	31-May	2123,0	81,5	2204,5
	30-Jun.	1487,1	6,5	1493,6
	31-Jul.	1315,2	16,5	1331,7
	31-Aug.	1335,0	71,5	1406,5
	30-Sep.	1343,4	121,5	1464,9
	31-Oct.	1243,0	6,5	1249,5
	30-Nov.	1019,0	6,5	1025,5
	31-Dec.	761,0	6,5	767,4

Table 17: Historical credit ratings

Long term local currency

Fitch		Moody's		S&P	
CCC	05-07-2013	Caa3	10-01-2013	B-	29-11-2013
RD	28-06-2013	B3	08-10-2012	CCC+	03-07-2013
CCC	03-06-2013	Ba3	13-06-2012	SD	28-06-2013
B-	25-01-2013	Ba1	12-03-2012	CCC	21-03-2013
BB-	21-11-2012	Ba3	04-11-2011	CCC+	20-12-2012
BB+	25-06-2012	Baa1	27-07-2011	B	17-10-2012
BBB-	27-01-2012	A2	24-02-2011	BB	01-08-2012
BBB	10-08-2011	Aa3	03-01-2008	BB+	13-01-2012
A-	31-05-2011	A1	10-07-2007	BBB	27-10-2011
AA-	12-07-2007	A2	19-07-1999	BBB+	29-07-2011
AA	04-02-2002			A-	30-03-2011
				A	16-11-2010
				A+	24-04-2008
				A	01-12-2004
				A+	12-08-2003
				AA-	03-12-1999
				AA	09-11-1998
				AA+	16-07-1996

Short term local currency

Fitch		Moody's		S&P	
B	25-06-2012	NP	12-03-2012	B	29-11-2013
F3	10-08-2011	P-3	04-11-2011	C	03-07-2013
F1	31-05-2011	P-2	27-07-2011	SD	28-06-2013
F1+	12-07-2007	P-1	06-11-1989	C	20-12-2012
F1	01-02-2002			B	13-01-2012
				A-3	27-10-2011
				A-2	30-03-2011
				A-1	12-08-2003
				A-1+	16-07-1996

Note: a credit upgrade is indicated in green colour and a downgrade in red

Contact

Ministry of Finance , Public Debt Management Office, Michael Karaoli & Gregory Afxentiou Str., 1439 Nicosia , Cyprus
Tel.: +357 22 601182 | Fax: +357 22 602749 | E-mail: pdm@mof.gov.cy | Website: www.mof.gov.cy/pdmo

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- www.cyprus.gov.cy (Government Web Portal)
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- www.mof.gov.cy/cystat (Cyprus Statistical Service)
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