



**Republic of Cyprus
Ministry of Finance
Public Debt Management Office**

**Annual Report
Public Debt Management**

2016

March 2017

PUBLIC DEBT MANAGEMENT ANNUAL REPORT 2016

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

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

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Mission Statement

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

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

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

The developments relating to the above-mentioned two pillars of debt management for the last financial year are described in this report 2016.

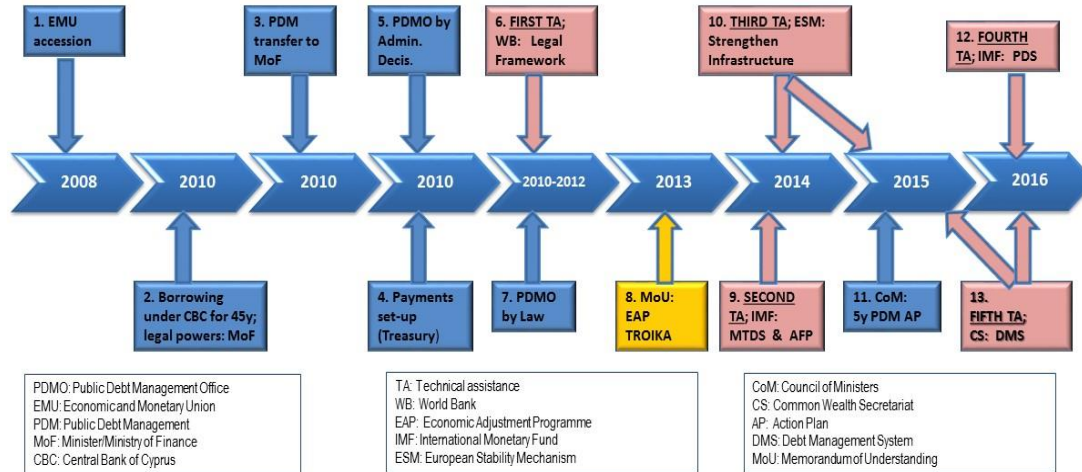
(Phaedon Kalozois), Director of Finance

Head of PDMO

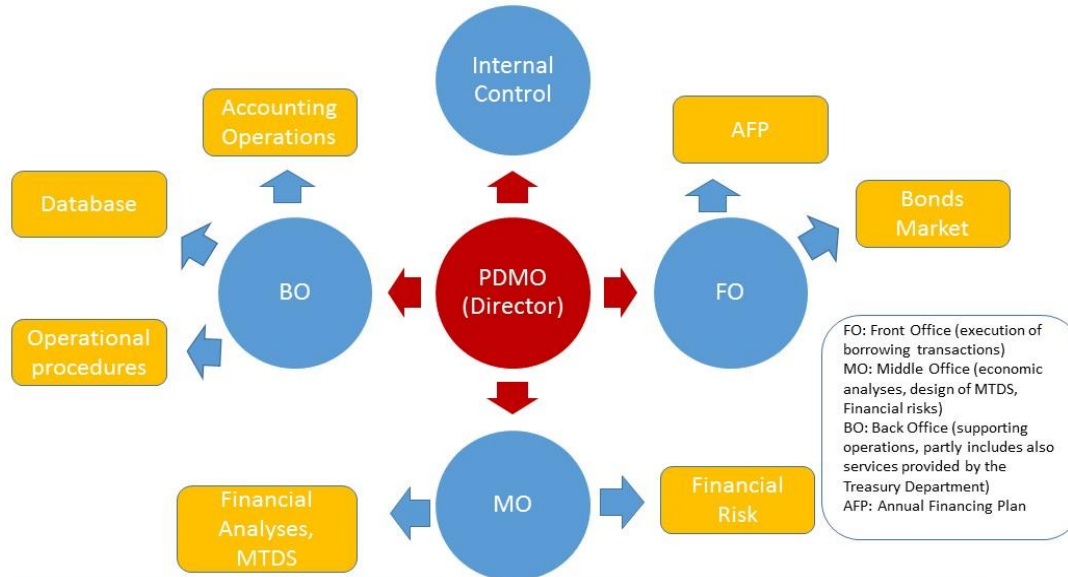
Ministry of Finance

March 2017

The timeline of Public Debt Management in Cyprus



Organisational Structure of the Public Debt Management Office



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

List of abbreviations

AFP	Annual Financing Programme
bn	Billion (one thousand million)
CBC	Central Bank of Cyprus
CEDB	Council of Europe Development Bank
CRAs	Credit Rating Agencies
CS	Commonwealth Secretariat
CYPGB	Cyprus Euro Medium Term Note
DMCs	Debt Management Committees
DRMS	Debt Recording Management System
EAP	Economic Adjustment Programme
EC	European Commission
ECB	European Central Bank
ECP	Euro Commercial Paper
EFSF	European Financial Stability Facility
EIB	European Investment Bank
EMTN	Euro Medium Term Note
ESDM	European Sovereign Debt Markets
ESM	European Stability Mechanism
EUR	Euro
GDP	Gross Domestic Product
GG	Government Guarantees
GGD	General Government Debt
IMF	International Monetary Fund
MFI	Monetary Financial Institution
MTDS	Medium Term Public Debt Management Strategy
mn	Million
PDML	Public Debt Management Law
PDMO	Public Debt Management Office
SDR	Special Drawing Rights
SSF	Social Security Fund
TBs	Treasury Bills
WACD	Weighted Average Cost of Debt

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I. Introduction

The year 2016 marked the conclusion and smooth exit of Cyprus from the three-year European Commission (EC)-European Central Bank (ECB)-International Monetary Fund (IMF) Economic Adjustment Programme (EAP). The Programme is generally regarded as successful recording a sizable correction of public finances and substantial reform of the banking sector. With primary surpluses achieved the debt sustainability is considered to be safeguarded. An important element in confidently exiting the program was the restoration of the sovereign's market access. Indeed, three benchmark bond issuances at various tenors were launched during the Programme period, re-establishing Cyprus sustainable access in the debt capital markets.

Following this trend, the main financing source of the year was the international market supplemented by domestic market sources of both the institutional and retail segments. The international market is in fact strategically intended to be the main source of funding in the years to come due to the possibilities offered by the available large, diversified pool of investors.

The public debt as a share of Gross Domestic Product (GDP) remained broadly stable and recorded a decline in net terms due to prudent fiscal management. The central government's liquid assets were increased in the reference period (2016) to allow full coverage of the next 12-month period financing needs.

All debt portfolio risk indicators are in line with the Medium Term Debt Management Strategy (MTDS) guidelines and on track for the targets set for the year 2020. Efforts in liability management on future years' maturities have contributed to this improvement. The average cost reached an old time low benefiting from official borrowing and the low interest rate environment in the markets.

The sovereign's creditworthiness was either upgraded or set to a positive outlook or both. By year-end the outlook of the credit rating was assessed as positive from the four main credit rating agencies (Standard & Poor's, Moody's, Fitch, DBRS), with the long-term rating ranging between 2 to 5 notches sub-investment grade.

Internally, the Public Debt Management Office (PDMO) as part of its five-year Action Plan 2015 (Dec.) – 2020 (Dec.) continued its infrastructure development with Technical Assistance received from the International Monetary Fund (IMF) on Government Debt Market Development and the Commonwealth Secretariat (CS) on the introduction of its Debt Recording Management System (DRMS). The former has resulted in initiating a Bank Group on Cyprus Sovereign Bonds to be formally established in 2017. As for the latter, training on the CS-DRMS was concluded with the aim of completing the database and initiating the operation of the system within 2017.

The PDMO participated inter alia in the Subcommittee of the EU Economic and Financial Committee on European Sovereign Debt Markets (ESDM), the IMF Spring meetings and the European Stability Mechanism (ESM) activities, specifically related to public debt management matters.

Following this introduction, the strategic objectives on public debt management, the Annual Funding Programme (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 2016 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 2016.

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. According 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.

Any government borrowing aims mainly at: (i) covering the public deficit; (ii) maintaining the desired level of cash reserves; (iii) refinancing the outstanding public debt; and (iv) covering other government policy needs (such as for the urgent protection of the economy).

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 term¹, within the framework of an acceptable² level of risk³.

B. Legal Framework for public debt management

According to article 2 of the PDML, the debt management operations include the preparation of the Medium-term debt management strategy (MTDS) and of the AFP as well as the execution of the necessary borrowing transactions

¹Any 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.

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

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

in order to facilitate the implementation of the AFP and to meet the objectives of the MTDS.

The MTDS is a 3-5 year strategy and is submitted for final approval to the Council of Ministers by the Minister of Finance, after informing the Budget and Finance Committee of the Parliament. According to the Law, the AFP is designed by the PDMO, and approved by the Minister of Finance. The execution of the necessary borrowing and other debt management transactions forms the implementation of the financing plans in order to ultimately meet the guidelines of the Strategy. The current active Strategy covers the period 2016-2020. It was published in early 2016.

The PDMO functions as an integral part of the Ministry of Finance, under the general supervision of the Permanent Secretary.

C. MTDS guidelines and targets

The guidelines of the MTDS for the years 2016-2020 and the actions/quantitative targets under each guideline related to the reference year 2016 were the following:

1. Smoothing of debt maturity profile and extension of the maturity of marketable debt

- *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 EUR 1 bn throughout the year 2016;*
- *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*
- *Buildup of a long-term sovereign yield curve.*

4. Minimisation of marketable debt borrowing cost

- *Improved investor relations and market intelligence;*
- *Expansion of the investor base in terms of geography, type and size.*

D. Annual Funding Programme 2016

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. It is noted that the AFP is based on the MTDS and the annual cash flow forecast of the Republic. The AFP is approved by the Minister of Finance and is updated at least twice a year.

The objectives of the AFP 2016 were the following:

1. Maintain Cyprus presence in the international capital markets and buildup of a long-term sovereign yield curve;
2. Renewal of short-term debt and maintain the smooth functioning of the Treasury Bills market;
3. Mitigate the refinancing risks by setting thresholds on liquid funds, foreign exchange exposure and floating interest rate exposure; and
4. Expansion of the investor base.

E. Evaluation of MTDS guidelines and progress to date

Although it is premature to evaluate to what extent the overall MTDS actions/quantitative targets are being fulfilled especially given that some of them are not quantitative, an attempt is made to evaluate both the quantitative and qualitative targets of the MTDS.

Given the above objectives of the MTDS for the years 2016-2020 and the results in 2016 presented in this Annual Report 2016, the overall MTDS

guidelines have been fulfilled at a very satisfactory level following the projected trajectory.

Regarding the first guideline of the MTDS, there has been an improvement in average maturity and the relevant target is anticipated to be achieved within the strategy period. The average remaining maturity of marketable debt at end 2016 was 4,9 years up from 4,7 years at end 2015. During the year 2016 more than 80% of marketable debt issuances were in tenors exceeding the 5-year threshold.

Furthermore, the share of outstanding short term debt at end 2016 was 2% of the total debt, in line with the target of the strategy. The stock of EUR 300 mn in Treasury Bills is necessary in order to maintain pricing points, enrich funding instruments and reach out to investors interested in this particular segment.

The share of outstanding long term debt at end 2016 was 98%, in line with the pertinent target of the strategy. The outstanding annual maturities comply with the corresponding absolute limits set for the years up to 2020. The maximum maturities are EUR 0,9 bn in 2018 and EUR 1,8 bn in 2019. The comfortable maturity repayments are feasible due to efforts put in proactive liability management on years with peak maturities and new issuance falling outside these years.

Regarding the targets of the second guideline, the size of liquid funds for end 2016 was EUR 0,99 bn, reaching the target set in the strategy. Moreover, the target for the foreign exchange exposure has been achieved to date. The approach, generally followed, is for euro denominated issuances only. There is no marketable debt denominated in foreign currency; the only non-euro debt outstanding are the loans granted by the IMF in Special Drawing Rights (SDR). These form 5% of the outstanding debt.

The debt metrics comply with the target set for floating-fixed rate composition. Securities are generally issued in fixed rate form only. There is no outstanding marketable debt in floating or index type of interest. There is a sizeable share

of total debt in floating interest rates (46%) due to the recent borrowing from European Stability Mechanism (ESM) and the IMF. While high, the variable rate debt is anticipated to decline with its gradual redemption starting with the instalments payable to the IMF as from 2017.

There has been little progress on the third guideline, relating to the improvement in the price discovery mechanism of the domestic market and increase accessibility to international investors. The investigation has concentrated around how clearing and settlement of domestic bonds listed at the Cyprus Stock Exchange can be undertaken indirectly through the international depositories which are easily accessible by international investors. This project is still underway.

The work towards the introduction of a suitable market structure to enable a price discovery mechanism and liquidity provision in the foreign market, is at the initial stage. At end 2016 the PDMO reached out to international banks in order to create a Cyprus Sovereign Bond Bank Group. 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. It is anticipated that, if it succeeds, this arrangement will facilitate a structured set up of accredited dealers in the future.

The target of buildup of a sovereign yield curve, is ongoing and recent actions have born results. The sovereign yield curve has been developed in the past few years and by end 2016 it was comprised of five points in the range between 3 to 9 years. The PDMO aims at centralizing the funding efforts around one or two international bond issuances per year to serve as benchmark bonds, given the natural limitations in funding amounts.

Regarding the objectives of the fourth guideline, it is noted that the outcome is envisaged to materialize gradually through the successful implementation of the other guidelines and the realization of their targets

The PDMO has expanded considerably the contact list of investors. The efforts now need to be placed in the analysis in order to identify stronger and smaller investor names and link marketing efforts to investor behaviour.

With regards to the provision of information to investors, the PDMO has achieved the aim set through the production and dissemination directly to investors of two regular publications. These are the Cyprus Economy Newsletter (bi-monthly basis) and the Public Debt Quarterly Bulletin (quarterly basis). Additionally, the Investor Presentation is updated at intervals and published at the PDMO website.

Market intelligence is a broadly defined goal. The PDMO monitors and analyses the financial markets. Variables such as new issue premiums and new issue performance of peers are monitored and compared to Cyprus. Additionally, through the newly established Bank Group the PDMO will gather information on flows, volumes and investor statistics in the secondary market. It is anticipated that the first results will be visible in 2017.

For the objective of expanding the investor base in terms of geography, type and size, the PDMO has focused on non-deal related roadshows in order to be in a position to react quickly when market conditions are favourable. Marketing activities are conducted well ahead of any intended bond placements. Moreover, the PDMO has expanded its efforts to reach out to investors through more regular roadshows in core and non-core European and, since 2016, the US market.

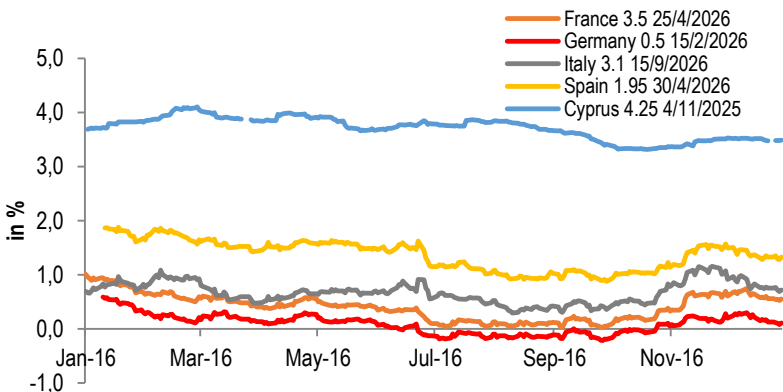
The results of this target are evident through the investors distribution statistics in the benchmark bond issuances and how these have evolved since 2014. By and large, there has been an increase in the strategic rather than speculative share of investors and a richer geographical diversification. The concrete distribution statistics by geography and type of investors are shown in Chapter 6.

III. Sovereign Debt Markets Developments

A. Eurozone sovereign debt market developments

In broad terms sovereign yields followed a declining direction over 2016 on the back of low economic growth and accommodative actions by the Central Bank in the market. The announcement in March by the ECB of an expansion of the asset purchases both in type and volume impacted positively on investors' risk perception and yields. Following the Brexit referendum result, volatility increased temporarily with volumes fleeing into certain government markets including both the German and UK sovereign markets. Activity was calmer over the summer months but in the final quarter yields increased driven by uncertainty surrounding monetary policy by major central banks. Figure 1 illustrates the yield development of 10-year bonds, where available, for selected countries throughout the year 2016.

Figure 1: Secondary market yield levels of Cyprus and selected Eurozone States (10-year government bonds) in 2016



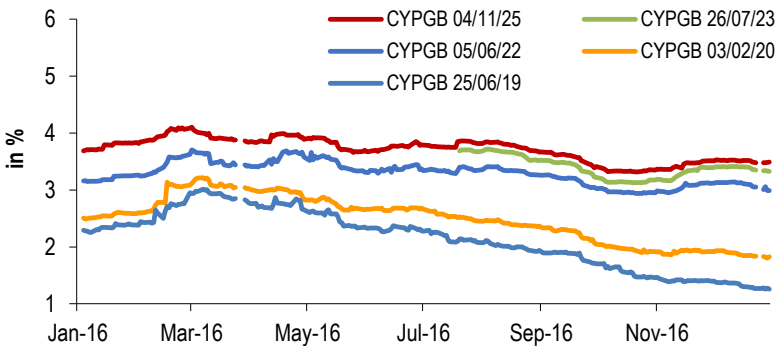
(Source: Bloomberg)

Despite the downwards rally towards the end of 2015 year, the sovereign yields of Cyprus increased in the first quarter of 2016 peaking around the time of the exit from the EAP in March 2016. Afterwards and despite major events internationally, namely the UK referendum and US election results, Cyprus Government bonds demonstrated overall resilience with some short periods of yield steepening. By year end all bonds had tightened in a range between 20 to 103 basis points compared to the beginning of the year.

The market behaviour indicated a disaggregation of the five benchmark bonds of the Republic of Cyprus into two groups. The three longer-dated bonds (2022, 2025 and the newly issued 2023 bond) evolved in a similar pattern whilst the 2019 and 2020 bonds tightened stronger and over-performed vis-a-vis the other three benchmark bonds. This is likely due to market anticipation of liability management operations by the issuer. The new bond issued in July maturing in 2023 performed well in the secondary market with the year closing 36 basis points tighter than its launch.

Figure 2 shows the yield development of the Republic’s international benchmark bonds, launched under the EMTN Programme and listed at the London Stock Exchange.

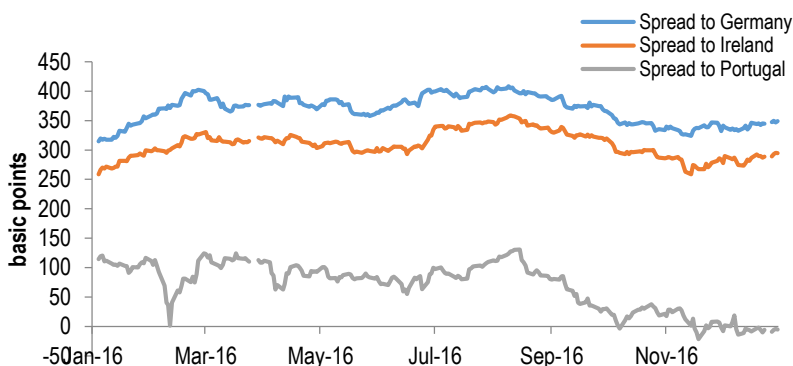
Figure 2: Secondary yield levels for Cyprus international bonds in 2016



(Source: Bloomberg)

With regards to spread developments, the Cyprus sovereign spread of the 2025 bond vs. Germany's DBR 1% maturing in August 15 2025 fluctuated during the year and towards the end had increased by 25 basis points compared to the beginning of the year reaching 349 basis points. The spread to the Irish bond 5,40% maturing 13/3/2025 followed a pattern close to the spread to Germany with the year end spread closing at 295 basis points or 37 basis points higher than the opening spread. The spread to the Portuguese PGB 2,875% maturing in October 15 2025 was more volatile and closed the year in negative territory at minus 5 basis points. Figure 3 below shows the Cyprus sovereign spread to selected euro area countries for bonds due in 2025.

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



(Source: Bloomberg)

Overall, the year 2016 was characterized by broadly ordinary market developments after the turmoil of 2011-2013 and the gradual normalization thereafter. The larger supply of Cyprus sovereign bonds both in terms of volume and curve points was supportive to the normalization of market behaviour.

The cost of funding is reflected in the developments of both the secondary and primary markets. The latter is the focus of the next chapter “Financing of the central government in 2016.”

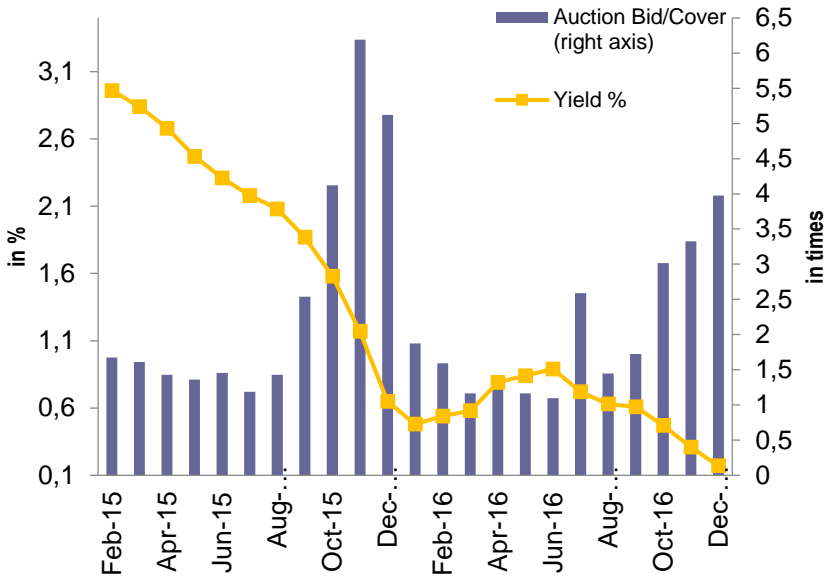
B. Cyprus sovereign debt market developments

Activity in the short term market segment continued throughout the year 2016 with regular monthly TBs auctions. The total stock of TBs at the start of the year was EUR 400 mn for 13-week and 30-day maturities and was reduced gradually by year end to EUR 300 mn for 13-week TBs only, retaining a share of 2% in the total debt stock. The yields followed a declining path and averaged 0.57% throughout the year.

While in the beginning of the year 2016 the auctions were carried out under ordinary market conditions, the auction participation declined around the time of exit from the EAP. Following a short period of uncertainty, investor interest returned by mid-year 2016 and strengthened thereafter with the annual auction bid to cover ratio⁴ in 2016 averaging 1,9 times the auction amount. Figure 4 below illustrates the historical evolution of TBs yields and auction bid to cover ratio.

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

Figure 4: Treasury Bills yields and auction bid/cover ratio in 2015-2016



(Source: PDMO)

IV. Financing of the Central Government in 2016

A. Introduction

The year 2016 marked the conclusion and successful exit of Cyprus from the three-year EU-ECB-IMF EAP. Following market activity in a number of financing instruments and the issuance of 3 benchmark international bonds already during the Programme period, Cyprus Government continued its successful presence in the market shortly after the end of the Programme.

Following the introduction of this Report, the second sub-chapter presents the financing of the borrowing needs in 2016 by source and by maturity. The next sub-chapter focuses on the debt redemptions and liability management transactions during 2016. The chapter concludes with a review of the year's financing profile.

B. Financing actions in 2016

The total borrowed amount of the Republic of Cyprus in 2016 reached EUR 2 bn, excluding rollovers (TBs) during the year. The financing was secured primarily from market sources, mainly the international market supported by domestic investors. Bilateral loans formed a small component of the annual financing.

In terms of volume, about half of the annual funds originated from one international bond issuance. The domestic market provided about a quarter of the annual financing with both legal entities, mainly banks, and natural persons investing in domestic bond auctions and retail bonds respectively. A loan disbursement by the IMF completed the year's financing. Table 1 below shows the financing sources by instrument in 2016.

Table 1: Net annual borrowing by financial instrument in 2016

	EUR mn	%	%
1 Government Securities of which:	1880		94
TBs	300	15	
Domestic bonds	297	15	
Retail bonds	283	14	
Foreign bonds (EMTN)	1000	50	
2 Loans by IMF	126	6	6
Total annual borrowing^{1/}	2006	100	100

1/ =Debt issued and redeemed within the year 2016 is not included.

(Source: PDMO)

As shown in table 2 below, the maturity of assumed debt ranged between 0,25 to 7 years and averaged 5,7 years. In a historical perspective this is largely in line with previous market activity; in the past all international bond issuances ranged in the medium to long-term spectrum of 5 to 10 years.

Table 2: Distribution of total net annual borrowing by maturity in 2016

	EUR mn	%
1 0,25 years	300	15
2 2 years	75	4
3 6 years	283	14
4 7 years	1348	67
Total net annual borrowing	2006	100

(Source: PDMO)

In terms of the use of funds, the majority of funding was used to pay the year's scheduled debt redemptions and to prepay at a premium (bond buybacks) debt which originally fell due in future years. Given that there was a surplus in cash terms some of the borrowed funds were used to enhance the cash balance of the State. Table 3 provides a summary of the use of the annual borrowing.

Table 3: Summary of the use of the annual funding in cash terms in 2016

	EUR mn	EUR mn	%
1 Increase in cash		292	15
2 Debt maturities		1117	55
3 Debt buybacks		597	30
of which price premium	49		
Total net annual borrowing		2006	100

(Source: PDMO)

In January 2016 two bonds were auctioned in the local market to meet demand by domestic investors and to maintain market activity. The EUR 75 mn 2-year bond at a coupon of 2,00% was priced at a yield of 1,83% while the EUR 222 mn 7-year bond carrying a coupon of 3,25% was priced at a yield of 3,23%. The investors were predominantly domestic banks.

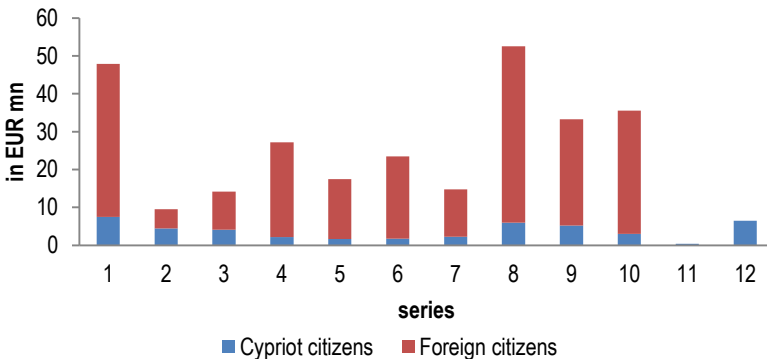
Also in the same month, the 9th tranche for SDR 99 mn or about EUR 126 mn was disbursed by the IMF. This was the final disbursement out of the EU-ECB-IMF 3-year Programme requested as in March, the Cypriot Government informed the EC, the ECB and the IMF about its intention to suspend the respective arrangements of funding which were originally due in the first half of 2016 in view of its exit from the EAP (see further Box 1).

The main financing of the year formed the issuance of a new 7-year Euro Medium Term Note of EUR 1 bn at a coupon of 3,75% p.a. and yield of 3,80%.

The benchmark bond added a further point in the sovereign yield curve of Cyprus after the three issuances of the years 2014-2015 and attracted a larger and diversified pool of investors from Europe and the US (see further Box 2).

In parallel to the above the monthly series of the domestic retail product attracted in total EUR 283 mn throughout the year. The domestic retail bond is issued to natural persons only, has a maturity of 6 years and can be redeemed earlier at a minimum notice of one month without a penalty. The interest rate follows a step-up structure commencing from 2,50% in the first year and progressing to 3,25% if retained until the sixth year. Due to its eligibility for Cypriot citizenship purposes the domestic retail bond attracted demand from foreign investors. In total foreign investors purchased 76% of the monthly bond series since the launch of the product in 2014. Following a change in the citizenship investment criteria in October 2016 the investor pool reduced to Cypriot citizens only. Figure 5 illustrates the monthly evolution of the retail sales by investor origin.

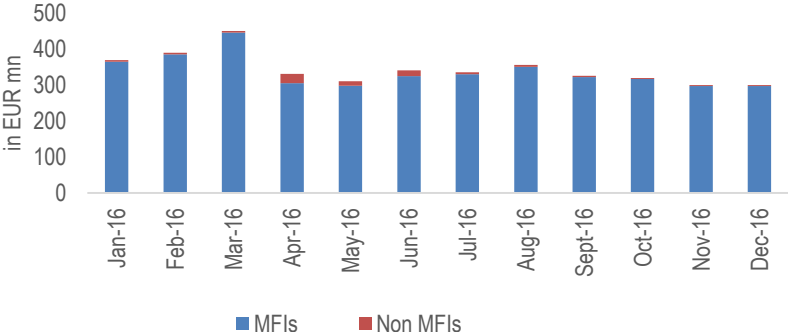
Figure 5: Retail bond sales by citizenship



(Source: PDMO)

Figure 6 below shows the evolution of the stock of TBs by investor distribution in 2016. Domestic banks dominated the Treasury Bill investor base. Non monetary financial institutions (MFI) such as pension funds and state-owned enterprises had exited the market as the government Treasury Bills offered low returns in comparison to alternative investments particularly bank deposits.

Figure 6: Evolution of stock of TBs by investor distribution in 2016



(Source: PDMO)

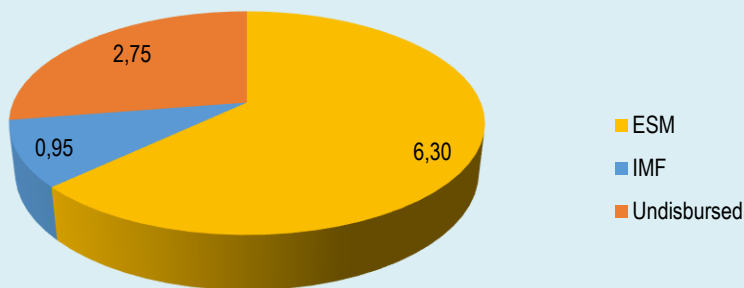
Box 1: The three year EC-ECB-IMF Programme: disbursements and use of funds

Following a request by the Republic of Cyprus on 25 June 2012, the EC, the ECB and the IMF agreed an Economic Adjustment Programme with the Cypriot Authorities on 2 April 2013. The euro area Member States agreed the Programme on 24 April 2013 and the IMF Board on 15 May 2013. Up to EUR 10 bn was earmarked for the Programme, out of which up to EUR 9 bn was to be provided by the ESM and EUR 1 bn by the IMF. The Programme was designed to address short and medium-term fiscal, financial and structural challenges facing Cyprus.

Cyprus received EUR 6,3 bn by the ESM over the Programme period. The weighted average maturity was 14,9 years, with tranches being repaid in single payments (“bullet”). A further EUR 1 bn was available under the IMF Extended Fund Facility of which EUR 950 mn was withdrawn. The Fund’s loans average 7 years in maturity and are repaid equally between 4,5 years and 10 years from the disbursement date. In all 27,5% of the earmarked funds was not used under the Programme, of which EUR 1 bn was originally allocated as a buffer for bank recapitalization needs and the remaining EUR 1,75 bn for the public sector needs.

It is worth-noting that the EUR 10 bn bailout package was not intended to cover certain domestic liabilities of the Government: (i) EUR 1,0 bn by Government bonds which had to be rolled-over in 2013; (ii) Outstanding TBs of approximately EUR 1,0 bn; and (iii) the recap-bond of banks issued by the Government in 2012 of the order of EUR 2,0 bn. Thus, the repayment of these liabilities has been covered from market funding.

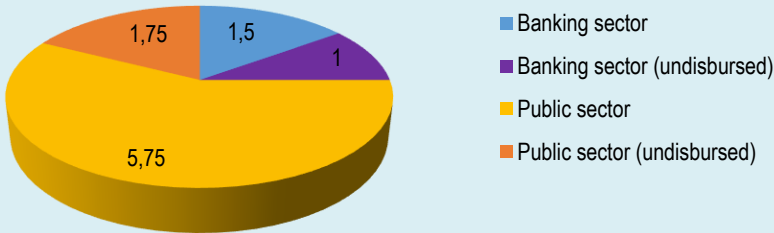
Figure 1: Breakdown of total financial assistance to Cyprus in EUR bn



(Source: PDMO)

Out of the EUR 7,25 bn withdrawn EUR 1,5 bn was used for bank recapitalisation needs, namely the Cooperative Central Bank, with the remainder EUR 5,75 bn used for the public sector needs, which includes debt redemptions, fiscal deficit and increase in the cash reserves. The latter resulted from the fiscal overperformance vis-à-vis the Programme targets.

Figure 2: Use of ESM and IMF funds in EUR bn



(Source: PDMO)

Cyprus, as all Euro Area member States that exit financial assistance, falls under the post-programme surveillance, whereby the EC, the ECB and the IMF with the participation also of the ESM conduct two surveillance missions per annum until 75% of the loans have been repaid. In the case of Cyprus post-programme surveillance is expected to be conducted until the year 2029.

Additionally, the ESM operates its Early Warning System until full repayment of loans, whereby the financial ability of the country to repay its debt is monitored.

Finally, as all EU member States, Cyprus is fully integrated in the macroeconomic surveillance and coordination framework under the European semester and standard surveillance (Article. IV) by the IMF separately.

Box 2: Cyprus EUR 1000 mn, 3,750% 7-year benchmark bond due 26 July 2023

After the exit from the EAP March 2016 and the subsequent exclusion of Cyprus government bonds from the ECB's Public Sector Purchase Program due to Cyprus' sub-investment grade the Republic aimed to continue its presence in the debt capital markets following the successful issuance of three benchmark bonds over 2014-2015. The intention in 2016 was for the proceeds to be used for liability management transactions and enhancement of the cash reserves towards the year-end target of EUR 1 bn which represented 100% prefunding of the following year.

The mandate for lead management was extended to Barclays, JP Morgan, Morgan Stanley, Societe Generale CIB and VTB Bank with an announcement made on 18th July. On 19th July Initial Pricing Thoughts were released for a 7-year benchmark bond at 4% yield area due in 2023. The 7-year tenor was chosen given the availability in the debt maturity profile and in line with the strategic target of increasing the average maturity of marketable debt.

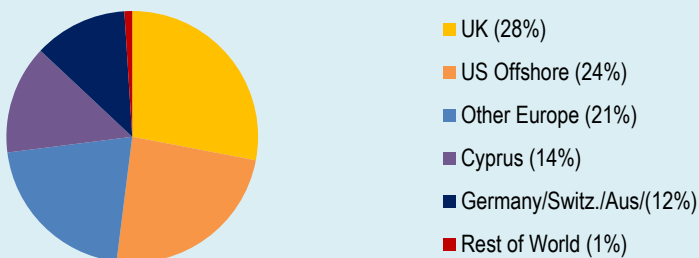
By the closing of the order book on 19th July midday EUR 2,5 bn of orders from 180 investors had been attracted. Given the low interest rate era and the improving sovereign rating trend the bond was priced at a 3,75% coupon and a 3,80% yield rate being the lowest ever achieved at such tenor by the Republic. For reference, the Cyprus 2022 and 2025 bonds were trading in the secondary market at the time at 3,43% and 3,85% respectively.

Geographically, the placement achieved a broad distribution attracting in particular a significantly higher number of investors from US offshore than previous issuances with 24% of the final distribution, while the UK market continued to be the largest single origin market of investors with 28% share in the final participation. The remaining investors came from various European countries, excluding Cyprus, with total European accounts reaching 33% of the final distribution of which about a third from German, Austrian and Swiss investors. Cypriot investors participated with 14% share of the issuance.

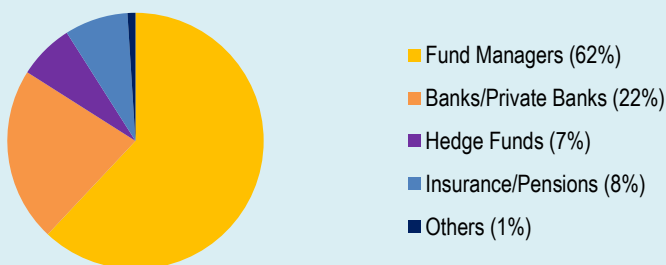
With regards to the investor type the largest pool of investors were asset/fund managers (62%) followed by banks at 22% of the final distribution. Hedge funds were involved to a lower extent than previous issuances at 7%, whilst a first participation was recorded by the insurance and pension fund segment (8%).

Republic of Cyprus: EUR 1000 mn, 3,750% 7-year benchmark bond due 26 July 2023

Distribution by region



Distribution by type



Summary of terms and conditions

Issuer	The Republic of Cyprus
Format/Law	RegS Registered only, CACs / English Law
Pricing	19 July 2026
Settlement	26 July 2016
Maturity	26 July 2023
Size	EUR 1.000.000.000
Coupon	3,750%
Re-offer Yield	3,800%
Spread	376,5 bps vs. DBR 2% Aug-2023
Listing/Law	London Stock Exchange/English Law
ISIN	XS1457553367
Lead Managers	Barclays, JP Morgan (B&D), Morgan Stanley, Societe Generale CIB, VTB Capital

C. Debt redemptions and buybacks in 2016

One of the strategic objectives of the period 2016-2020 is the smoothening of the public debt maturity profile in years where peaks are evident and in particular 2019-2020. Consequently, one of the priorities of 2016 was to build on the operations of 2015 which resulted in about EUR 0,5 bn or 12% of the debt maturities of these two years to be switched to future years.

Operations to smoothen out the maturity profile in 2016 involved buybacks of domestic bonds. The total debt buybacks in nominal terms amounted to EUR 548 mn and were executed on domestic bonds due in 2019-2020 (85% of the nominal amount) and 2021-2023 (15% of the nominal amount). The transactions were conducted in March (EUR 14 mn), September (EUR 234 mn) and December (EUR 300 mn) with investors being invited to sell at pre-announced market prices to the Republic of Cyprus. The weighted average coupon of repurchased bonds was 4,91%. As the bonds were trading above par the repurchase amount in cash terms, excluding accrued interest, was EUR 597 mn or EUR 49 mn above their nominal value.

The details of the buyback operations as well as the debt redemptions in the domestic/foreign market and loan amortisations by creditor in 2016 are shown in the Appendix.

The scheduled long term redemptions of the year amounted to EUR 717 mn and related to domestic bonds, a privately-placed EMTN and installments for various loans. Table 4 shows all long-term debt redemptions and buybacks of the year.

Additionally, a EUR 400 mn stock of Treasury Bills which was rolled over from 2015 was reduced to EUR 300 mn by the end of 2016.

Table 4: Long term debt redemptions and buybacks in nominal terms in 2016

	EUR mn	%
1 Domestic Bonds <i>of which: buybacks (EUR 548 mn)</i>	904	71,4
2 EMTN	170	13,4
3 Loans	186	14,7
4 Retail securities	6	0,5
Total	1266	100

(Source: PDMO)

D. Review of the annual financing profile

The change in the debt structure followed the trend of the previous years, whereby the domestic bonds declined in stock being replaced by international bonds issued under the EMTN programme. However, a noticeable increase in the stock of retail securities was recorded. Table 5 below, illustrates the change in the debt structure over 2016.

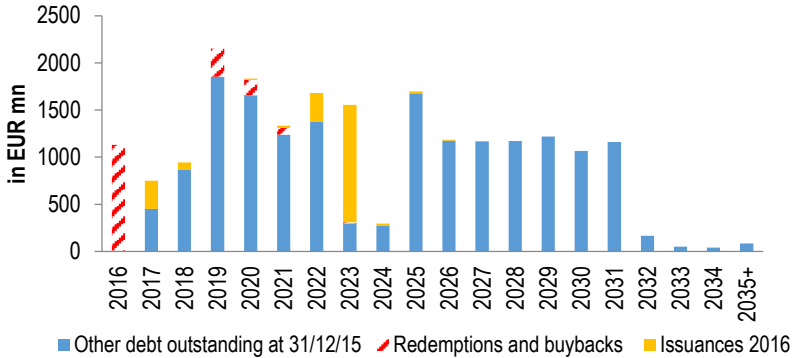
Table 5: Change in the debt structure over 2016

	in EUR mn
1 Domestic Bonds	(607)
2 EMTN	830
3 Treasury Bills	(100)
4 Loans	(60)
5 Retail securities	242
Total	305

(Source: PDMO)

The change of debt maturity profile through 2016 actions is presented in Figure 7 below.

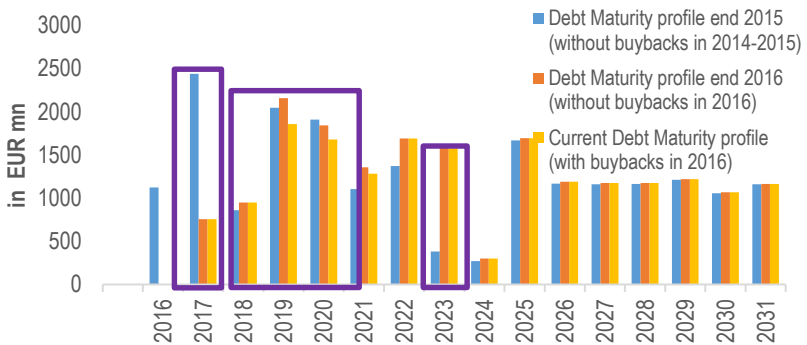
Figure 7: Change of debt maturity profile through 2016 actions



(Source: PDMO)

Figure 8 indicates how the debt maturity profile has changed since end 2015 due to liability management transactions implemented by the PDMO (See also Figure 1 in Appendix for more details)

Figure 8: Impact of Liability management transactions on debt maturity profile



(Source:PDMO)

V. The Size and Composition of Government Debt

A. Introduction

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

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

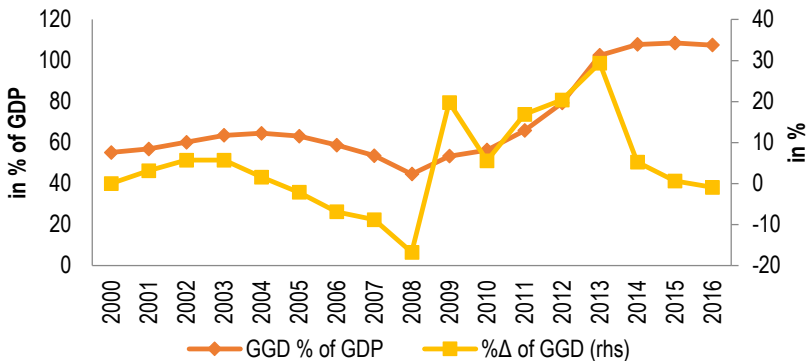
B. Statistical description

B.1: Size and evolution of General Government Debt

The general government debt remained at a relevant stable level close to EUR 19 bn during the last four years reaching EUR 19,3 bn at end 2016, which is higher than the relevant debt of EUR 18,9 bn at end 2015. This is mainly due to the additional accumulation of liquid assets as cash buffer of the Government. The debt to GDP ratio marked a minor increase over 2016 from 107 percent to 108 percent, as presented in Figure 9 below. Although debt to GDP ratio marked a minor increase, the percentage change of debt as a ratio of GDP followed a downward pattern from 29 percent in year 2013 to -0.94 percent in year 2016.

Excluding accumulation of cash reserves, the net debt to GDP ratio at end 2016 declined to 102 percent compared to 105 percent at end 2015. According to the MTDS, the level of cash reserves should satisfy the total financing needs of the forthcoming 12-month period. On the other hand, and taking into consideration that there is an opportunity cost of maintaining high cash reserves since the funding cost of the Republic is higher than the return of the buffer stock, the PDMO deposited a proportion of government cash with the banking system through auctions. More details about cash management are presented in Chapter 7.

Figure 9: Debt to GDP ratio evolution in 2000-2016



(Source: PDMO and Ministry of Finance)

Figure 10 below, shows the debt evolution over the years 1995 to 2016. During the period 1995-2004, the general government debt followed an increasing path from 47 percent of GDP in 1995 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 45 percent of GDP in 2008. Since then, fiscal slippage and low to negative growth rates and, most recently, capital

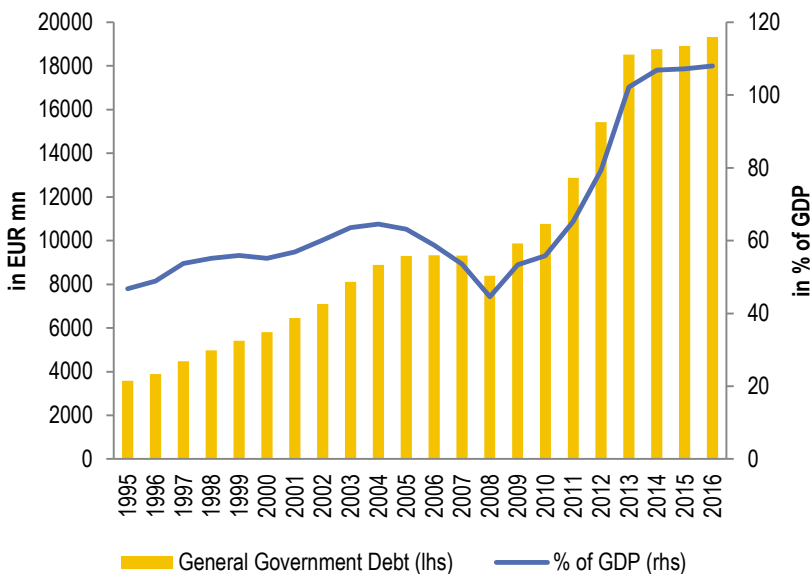
injections into the banking sector, contributed to a considerable increase in the debt to GDP ratio.

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

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. 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 positive primary balances of 2015 and 2016, as well as, the positive real GDP growth of 1,6% and 2,7% in 2015 and 2016 respectively, indicate that debt is stabilising earlier and at lower levels than originally anticipated. The historical evolution of gross general government debt in values and as a percent of GDP for the period 1995-2016 is presented in table 5 in statistical Appendix.

Figure 10: Trend in the consolidated general government debt 1995-2016



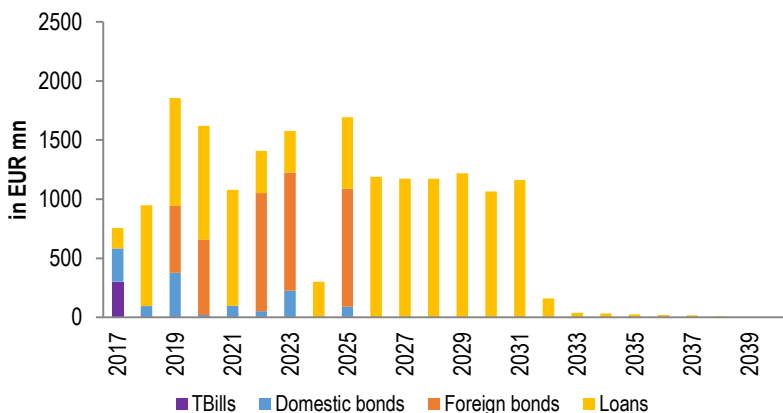
(Source: PDMO and the Ministry of Finance)

B.2: Composition of the General Government Debt

The maturity structure of the general government debt (GGD) gives a clear picture of the distribution profile among different outstanding liabilities. Figure 11 illustrates the size of the sums maturing in each individual year given the outstanding general government debt (excluding debt for EFSF loans) as at the end of 2016. The said maturity profile shows moderate maturity sizes during the years 2017 to 2018 and reduced maturities during the years 2019 to 2021, due to liability management transactions implemented in years 2014-2016. Although the maturity concentration for the years 2019 to 2021 has been alleviated, the years 2019 – 2020 still have a high concentration of maturities amounting to EUR 3475 mn or about 18 percent of the general government debt. During the said period, an amount of EUR 1250 mn or about 36 percent of the total debt due in 2019 and 2020 concerns the bilateral loan

from the Russian Federation while an amount of EUR 1202 mn relates to redemptions of EMTN.

Figure 11: General government debt redemption profile as at end 2016



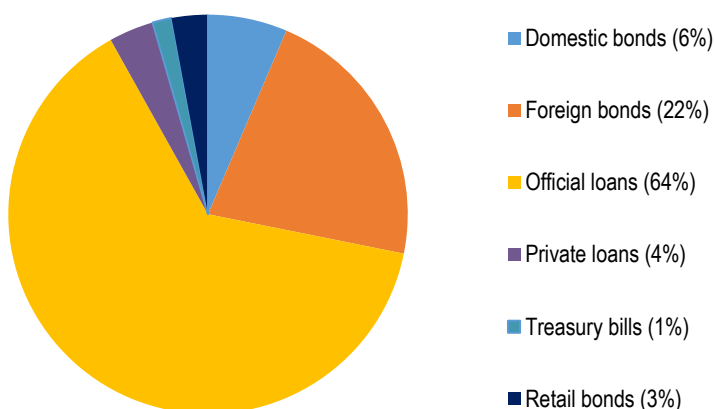
(Source: PDMO)

The share of the government debt by financial instrument, as at end December 2016, is presented in Figure 12 below. The vast majority of the government debt in 2016 comprised official loans disbursed to the Republic of Cyprus. An amount of EUR 7,3 bn or about 59 percent of the official debt related to loans disbursed by the ESM and IMF during the years 2013-2016, whilst the remaining 41 percent concerned other loans which were mainly disbursed by the Russian Federation, EIB and the Council of Europe Development Bank (CEDB).

The second largest category of the government debt concerned foreign-law securities amounting to EUR 4,2 bn of which an amount of EUR 3,0 bn or about 71 percent of the total outstanding value of the said securities concerns the issue of EMTN securities in the international markets during the years 2015 -2016.

Domestic bonds have continued to reduce in 2016 by about 4 percentage points compared to the previous year, reaching 6 percent of GGD. The outstanding central government debt as at end 2016 is presented in tables 6 and 7 in statistical Appendix.

Figure 12: Share of general government debt by financing instrument in 2016



(Source: PDMO)

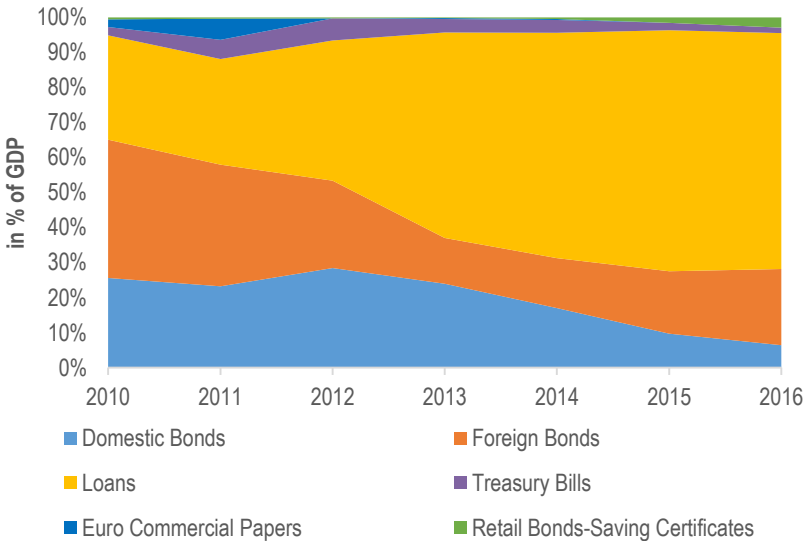
The historical breakdown of general government debt by financial instrument during the years 2010-2016 is presented in Figure 13 below.

During the said period, it is obvious that the vast majority of government debt concerned loans which increased abruptly in 2013 by 19 percentage points compared to 2012 and followed an upward trend until the end of 2015 reaching 69% mainly due to the official loans from ESM and IMF. In 2016 the level of loans was stabilized at 67% of public debt. While in the past, domestic bonds were one of the main financing instruments, since 2013 the contribution of domestic bonds to the general government debt has marked a significant reduction reaching 6 percent in 2016 compared to 29 percent in 2012.

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 9 percentage points since 2013 reflecting the intention of the Republic to maintain its presence in international capital markets and build up a pertinent sovereign yield curve.

Figure 13: Historical breakdown of GGD by financing instrument in 2010-2016



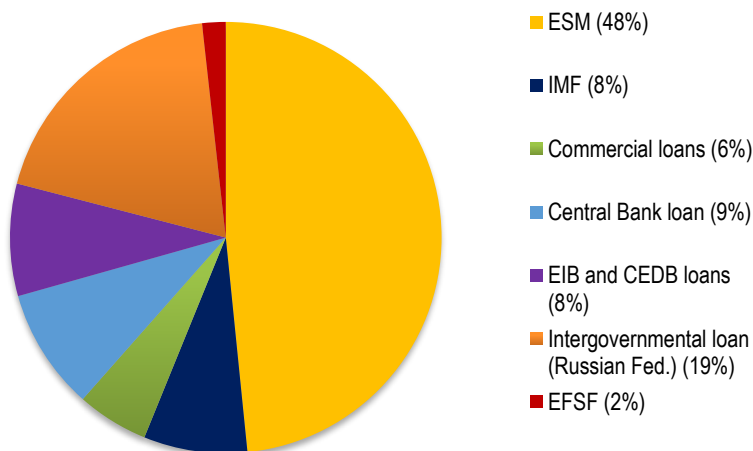
(Source: PDMO)

The distribution of outstanding loans as at end 2016 is presented in Figure 14 below. As mentioned above, the majority of the stock of outstanding loans as at end 2016 concerned the programme loans by ESM and IMF and the intergovernmental loan by the Russian Federation. The total value of Cyprus' loans from domestic sources is estimated at 14 percent of the outstanding stock of loans. About 63 percent of the total value of the said loans concerned long term credit facilities by the Central Bank of Cyprus accumulated until

2002. About 20 percent of the total value of the said loans concerned a loan disbursed by the Co-operative Central Bank in 2007 related to school committees. Another important funding source are loans disbursed by the EIB and the CEDB for project financing. These loans constitute 8% of GGD as at end 2016.

Finally, about 2 percent of the outstanding loans granted via the European Financial Stability Facility (EFSF) to Greece, Ireland and Portugal, as attributed to the creditor countries including Cyprus, are included in the debt statistics⁵. The government debt by instrument and lender as at end 2016 is presented in Table 8 in statistical Appendix.

Figure 14: Distribution of loans by source as at end 2016



⁵The 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.

(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 some State-Owned Enterprises⁶. 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 vast majority of the consolidated General Government Debt, in gross terms, is made up of the central government debt. As at end 2016, the share of outstanding central government debt accounted for 98 percent of the general government debt on a consolidated basis. This level has historically been fairly constant.

Since 2015 the stock of local authorities' loans has been declining due to continuous amortisation and absence of new borrowing reaching EUR 256 mn at the end of 2016. The borrowing of local authorities is related 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 stock of State-Owned Enterprises loans has also been declining due to continuous amortisation and absence of new borrowing reaching EUR 58 mn at the end of 2016 compared to EUR 67 mn at the end of 2015.

⁶The State Owned Enterprises categorized within the central government and which have an outstanding debt balance are the Cyprus Sports Organisation and Cyprus Theatrical Organisation.

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 2016, amounted to EUR 7663 mn. 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 2016, the balance of the SSF in the form of deposits stood at EUR 7663 mn remaining stable in relation to the previous year balance of EUR 7669 mn.

Intra-governmental investments in government securities

In addition, the SSF in an effort to increase its revenue, has invested in Government EMTN bonds and Government domestic bonds. The total outstanding amount of investments in government paper was EUR 214 mn as

at end 2016 and is presented in further detail in Table 9 in the Statistical Appendix.

It is noted that the SSF maintains also deposits with local credit institutions amounting to a total of EUR 72 mn at the end of 2016.

Intra-governmental investments by Administered Funds

Further to the SSF, intragovernmental loans are done through other five Administered Funds. There are five Administered Funds of the central government with an outstanding balance at year end 2016 of EUR 123 mn of which EUR 62 mn concerned investments of the Turkish Cypriot Properties Fund and EUR 57 mn of the Government Hourly Employees Provident Fund. The other three administered Funds are:

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

It is noted that the outstanding balance of the Agricultural Insurance Organisation Fund at year end 2016 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 2011⁷ 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 2016 was EUR 9,8 mn.

⁷ That was before the enactment of the Public Debt Management Law (2012) and of the Fiscal Responsibility and Budgetary System Law (2014).

VI. Cost and risks

A. Introduction

The analysis of cost and risk was incorporated in the MTDS for the years 2016-2020. The cost-risk trade off was examined using the MTDS Analytical tool, which captures scenario analyses on various borrowing strategies.

This chapter is organized into two sub-chapters. The first one provides the cost of the public debt in terms of interest payments and average interest rate. The second one discusses a number of risks of public debt.

B. Cost of the public debt

In this sub-chapter, the cost of the public debt is presented mainly on the basis of the interest payments to service the debt as well as by the weighted average cost of public debt.

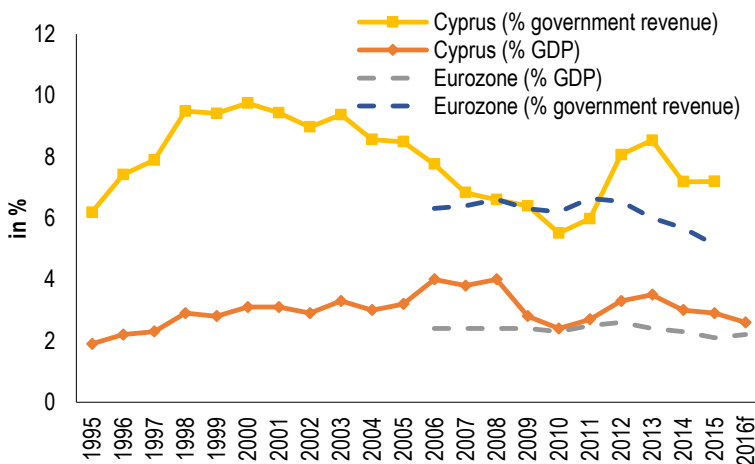
Historically, during the years 1995-2006 the average share of government revenue spent on the servicing of the public debt was 9 percent, with the highest share reaching 10 percent in 2000. The decrease of the public debt by 10 percent in 2008 contributed to the reduction in interest payments towards 6 percent of the government revenue and remained constant until the end of 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 increased reaching 8 percent at the end of 2013. It then followed a downward direction reaching 7 percent at the end of 2015, as presented in Figure 15 below. It is noted that the increase of interest expenditure 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 2000-2005 and then remained stable at 4 percent until the end of 2008. Since 2009, the interest payments of Cyprus as a percentage of GDP have started to reduce 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 2016, interest payments as a share of GDP were estimated at 2,6 percent compared to 2,9 percent of the previous year. This is explained by lower amounts of interest payments and higher GDP. As presented in the following Figure, the gap of interest payments as a share of GDP between the Republic of Cyprus and the Eurozone has started to reduce reaching 0,4 percent in 2016. The historical debt servicing in 2010-2016 is presented in Table 10 in statistical Appendix.

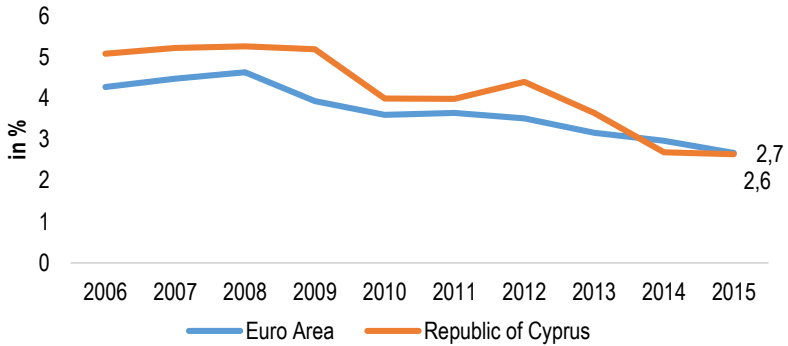
Figure 15: Distribution of interest payments on public debt during 1995-2016



(Source: PDMO, Eurostat and European Commission)

Figure 16 illustrates the distribution of interest payable over debt for the Republic of Cyprus compared to Euro area countries in 2006-2015. The gap has reduced significantly and there is a convergence.

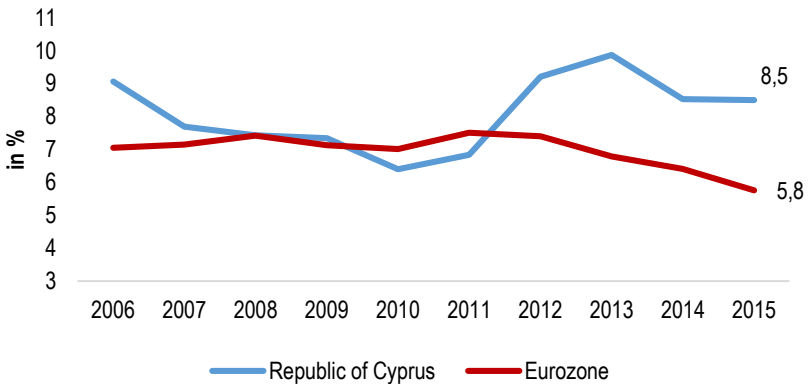
Figure 16: Distribution of Interest payable_(t) to Debt_(t-1) in 2006-2015



(Source: PDMO, Eurostat)

Figure 17 presents the interest payable over tax revenue for the Republic of Cyprus compared to Euro area countries in 2006-2015. Although there is a significant difference, the gap has started to stabilise and we expect an improvement in years to come.

Figure 17: Distribution of interest payable to tax revenue in 2006-2015

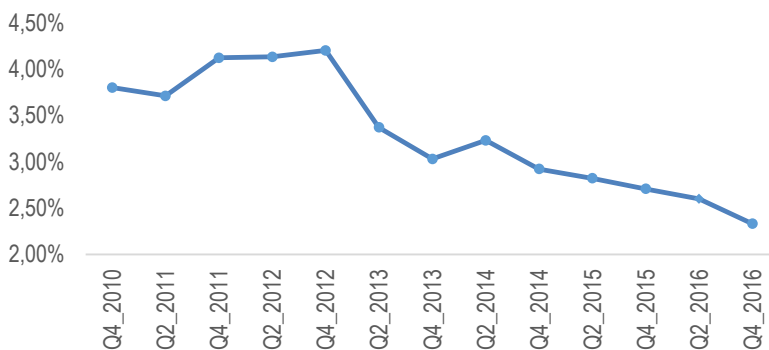


(Source: PDMO, Eurostat)

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

During the years 2010-2012, the WACD followed an upward trend reaching 4,2 percent at the end of 2012. One year later the WACD marked a significant reduction by 1,2 percentage points in relation to 2012 mainly due to the official funding by ESM and IMF at low interest rates. During 2013-2016 the WACD followed a downward trend reaching 2,3 percent at year end 2016 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 2010-2016

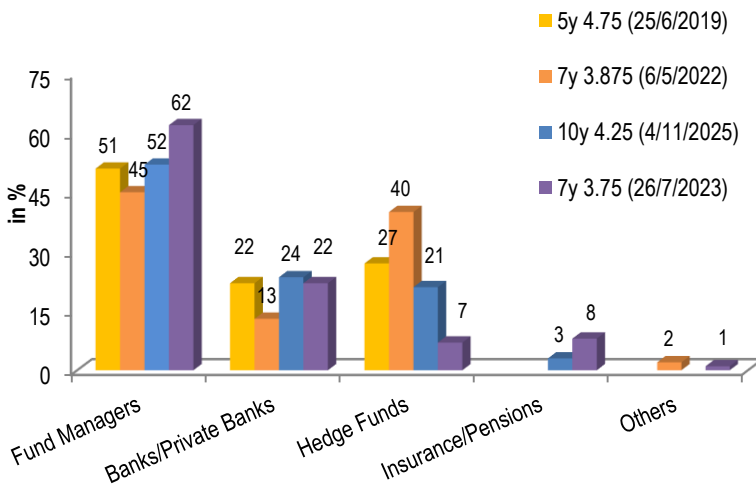


(Source: PDMO)

Furthermore, it is important to highlight that the refinancing of the short term debt was achieved at gradually lower interest rates throughout the year 2016 reaching 0,17 percent at the end of 2016 from 0,48 percent and 2,96 percent which was at the beginning of the said year and at the beginning of the year 2015 respectively.

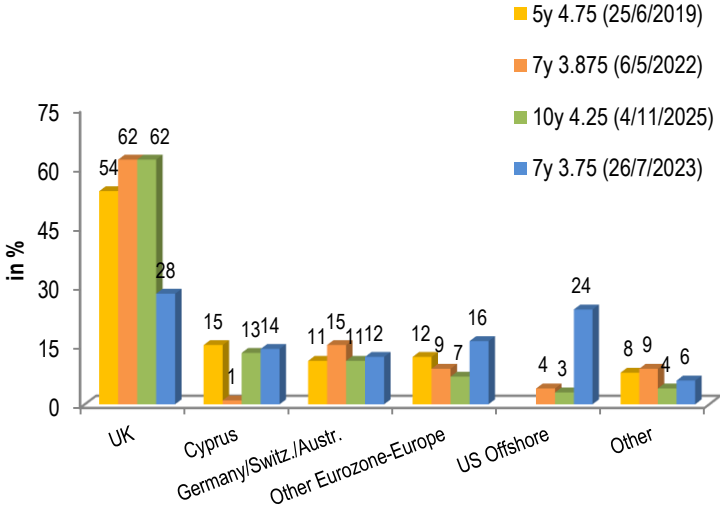
As mentioned in chapter 2, in order to minimise the marketable debt borrowing cost, the PDMO increased its efforts to further expand the investor base for EMTN issuances. The evolution of investor distribution by geography and type is presented in the Figure 19 and 20 respectively.

Figure 19: Evolution of investor distribution for EMTN by type during 2014-2016



(Source: PDMO)

Figure 20: Evolution of investor distribution for EMTN by geography during 2014-2016



(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 risk⁸. In general, the developments of 2016 on the debt portfolio risks were positive. The liability management transactions during 2016 have certainly led to an improvement in the debt maturity profile, thereby mitigating refinancing and liquidity risks. The floating rate debt provided by ESM and IMF recorded a minor decrease, albeit still high, taking into consideration that these loans carry low interest rates and low base rates the risk is limited.

Although debt maturity profile marked an improvement, the high concentration of maturities in the years 2019-2020 poses some refinancing risks. The said risks can be mitigated through liability management transactions and the maintaining of an adequate level of cash reserves.

It is important to highlight that risk management of public debt does not, in the ordinary application, cover the debt sustainability assessment since the latter is related mostly to fiscal and macroeconomic indicators, conventionally the GDP and the fiscal balance. Thus, the debt sustainability analysis focuses on macroeconomic factors and prospects and is not the subject of public debt

⁸ There are additional risks, such as the counterparty risk.

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 covers the analysis of the most important financial risks associated with the debt management operations as well as a discussion about the operational risks.

C.2.1 Financial risks

Refinancing risk

Refinancing risk for the Government is the probability (risk) that it will have when 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, can not 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.

Historically, the share of debt due within 1 year followed an increasing path until the end of 2012 reaching the highest level of 21,8 percent and then a declining path, as presented in Figure 21 below. The share of debt due within 1 year marked a significant improvement of almost 2 percentage points reaching 4,0 percent at the end of 2016 compared to 6,1 percent in the previous year. This improvement is mainly attributed to the long term official loans with the average maturity of the ESM loans close to 15 years and to a lesser extent to the liability management transactions implemented during 2014-2016.

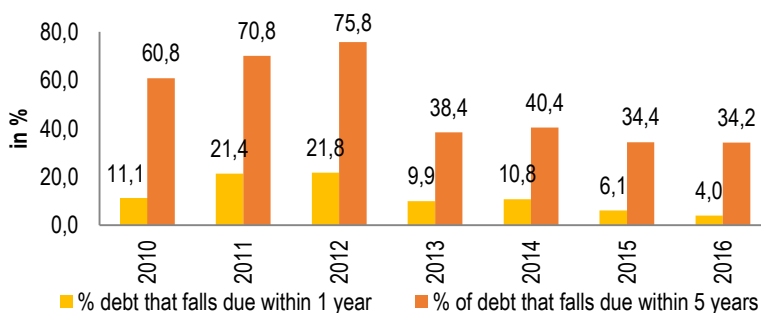
The debt redemptions due within 1 year at the end of the year 2015, which are the redemptions during 2016, were refinanced mainly by the issuance of a 7-year bond issued in the international market under the EMTN Programme.

Regarding the redemptions of short term debt, these were rolled over in the domestic market. Taking into consideration that the share of debt due within 1 year decreased significantly reaching comfortable levels, the refinancing risks exposure is at an acceptable level of risk. Maintaining the other parameters constant, the share of debt due within 15 months, is covered by the liquidity buffer stock.

Regarding the share of debt due within 5 years, there has been also an improvement since the said share was reduced by more than 40 percentage points in only 3 years reaching 34,2 percent at the end of 2016 compared to 75,8 percent in 2012.

Although the share of debt due within 5 years exhibited a significant improvement, taking into consideration that the years 2019-2020 still present a high concentration of maturities of EUR 3,5 bn or about 18 percent of the GGD, the refinancing risk exposure need to be further contained. In order to mitigate the refinancing risk exposure, the Republic of Cyprus has adopted the MTDS for the years 2016-2020 setting specific guidelines which allow the PDMO to achieve through liability management transactions further improvement of debt maturity profile.

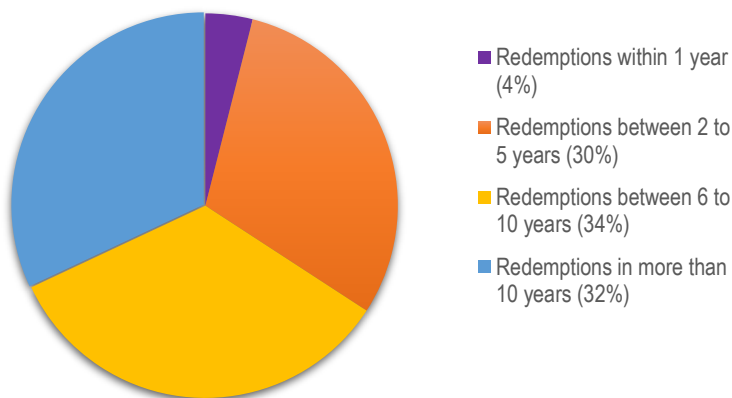
Figure 21: Share of debt refinancing due within 1 year and 5 years in 2010-2016



(Source: PDMO)

Figure 22 below, shows the debt refinancing distribution of the total debt of the Republic of Cyprus in four categories as at the end of 2016. The majority of the debt redemptions fall due in the segment between 6 to 10 years since ESM loans will start to be repaid as from 2025. An amount of EUR 5,8 bn or about 30 percent of the total debt falls due between short to medium term. This might constitute an indicator which justifies the adoption of additional MTDS operations in order to mitigate further the refinancing risk exposure.

Figure 22: Total Debt refinancing distribution as a percent of GGD at end 2016, excluding loans to EFSF



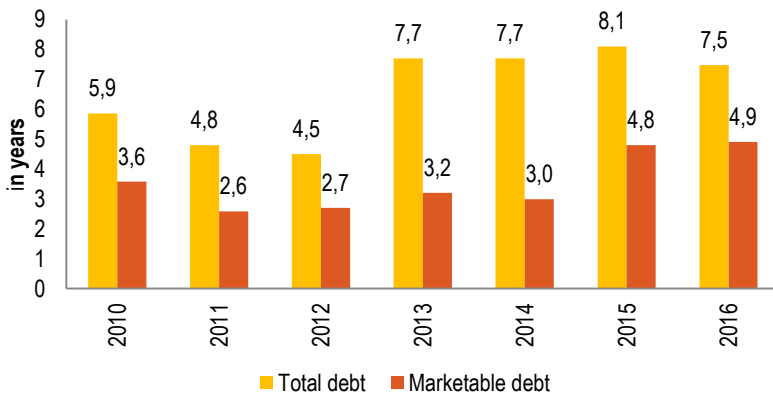
(Source: PDMO)

The following Figure shows the weighted average maturity of debt, which gives a picture of the refinancing risk. At the end of 2016 the outstanding average maturity was 7,5 years for the total debt and 4,9 years for the marketable debt. Comparing these sizes with the corresponding sizes at the end of 2012, the picture has improved significantly showing the positive

contribution of both long term official loans by ESM and IMF and other bilateral loans such as by EIB, CEDB and Russian loan as well as of liability management transactions implemented by the PDMO

Thus, the outstanding loans were spread over a long maturity and this reduces the share of debt that has to be refinanced every year indicating a reduction of the refinancing risk.

Figure 23: Weighted Average Maturity of debt (in years) in 2010-2016 as at end 2016

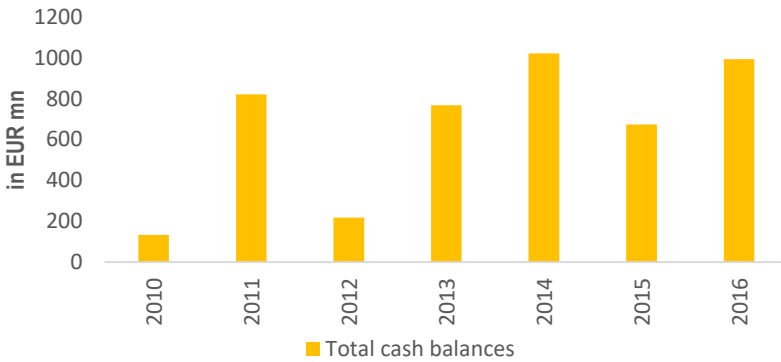


(Source: PDMO)

Liquidity risk

The annual cash balances in years 2010-2016 are presented in Figure 24 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 during the Programme period, allowing the enhancement of the cash reserves. It is noted that, the target of maintaining total liquid funds to EUR 1 bn at the end of 2016 was achieved.

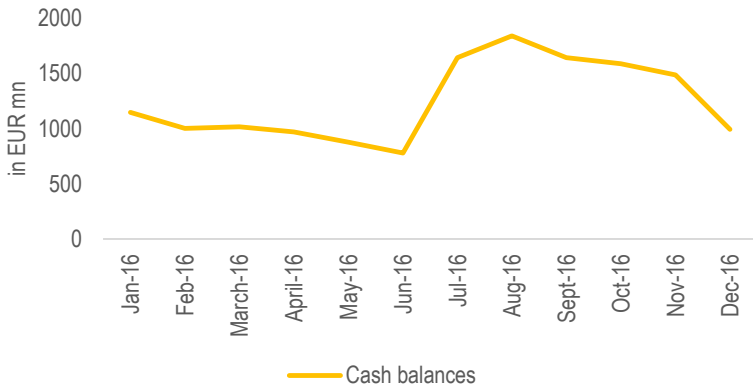
Figure 24: Cash liquidity levels in 2010-2016



(Source: CBC)

The next Figure, illustrates the liquidity levels of the Government on a monthly basis during the year 2016. The total cash balances reached EUR 994 mn at the end of 2016. The financing needs cover ratio is presented in Figure 32.

Figure 25: Cash liquidity levels on a monthly basis in 2016



(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.

Historically, the picture of interest rate distribution of debt was more or less the same during the years 2010-2012 as presented in the Figure 26 below. The floating rate debt was close to 13 percent on average during the said period.

Following the Memorandum of Understanding in March 2013 on EAP, the interest rate distribution has changed significantly mainly due to the borrowing by the ESM and IMF⁹ 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 the fixed rate 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.

As presented in Figure 26 below, the floating interest debt has reduced by 1 percentage points at the end of 2016 or about 46 percent of the general government debt compared to 47 percent at the end of 2015 and 12 percent at the end of 2012, prior to the loan agreement of EAP.

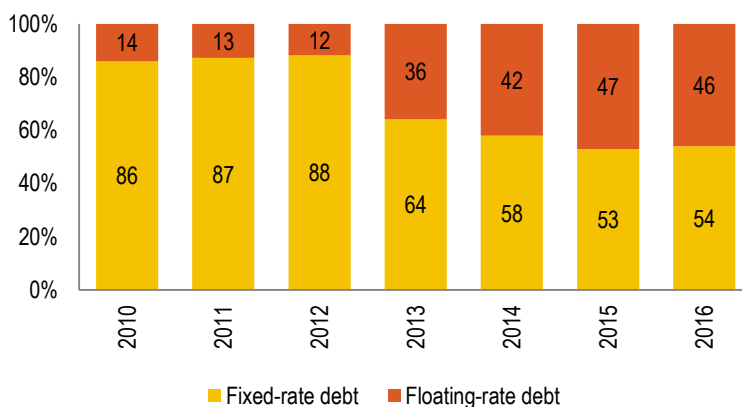
Although the proportion of debt at floating rate followed an upward path since 2012, the expected interest rate risk is limited. This is due to the fact that the vast majority of floating rate debt is indexed either at low base rates or at narrow margins over the Euribor rate, as presented in Figure 27 below.

⁹Actually the IMF loans have a large predefined fixed component and a smaller floating rate component.

Specifically, loans by ESM and IMF¹⁰ of EUR 7,3 bn or about 82 percent of total floating rate debt are indexed at low rates whilst an amount of EUR 1,3 bn or about 14 percent of the total floating rate debt by EIB, CEDB and Cooperative Central Bank are indexed at low margins over the Euribor rate. Also, other loans to local authorities as well as to State-Owned Enterprises carry floating rate interest.

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

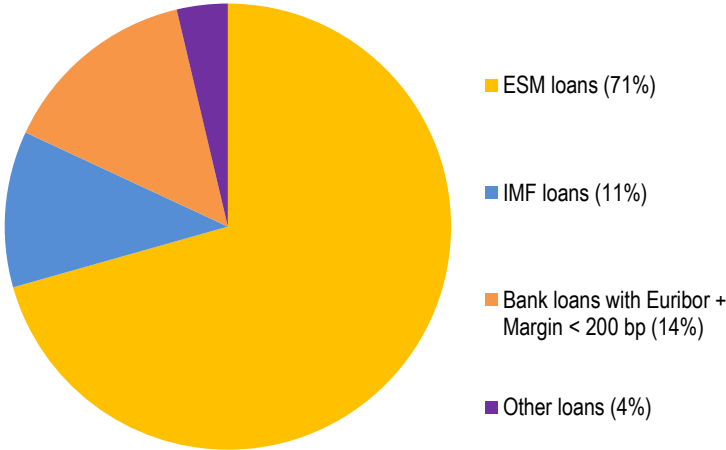
Figure 26: Evolution of interest rate distribution of debt in 2010-2016



(Source: PDMO)

¹⁰ IMF loan was estimated according to the exchange rate of Euro/SDR as at 30 December 2016.

Figure 27: Interest rate composition of floating-rate debt as at end 2016



(Source: PDMO)

Foreign exchange risk

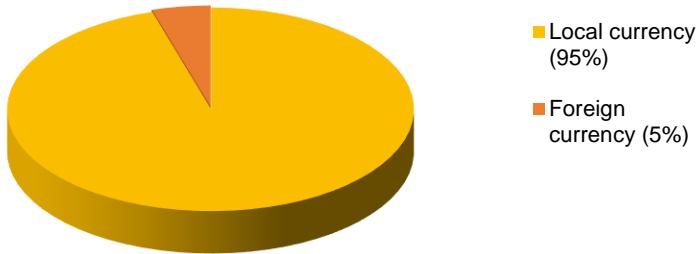
Although foreign currency debt has many benefits such as access to a large investor base and the geographical independence with possible interest rates benefits, foreign currency financing has substantial risks. Some of the risks are the increase of the country's external vulnerability to exchange rates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

Figure 28 shows the currency composition of debt as at end 2016. The majority of the public debt is denominated in domestic currency whilst only EUR 1010 mn or about 5 percent of the outstanding general government debt is denominated in foreign currency. This percentage refers to the loans from the IMF which, are denominated in SDR¹¹.

Taking into account that capital payments for the IMF loan will start by the end of 2017 and the fact that SDR includes also the euro, the foreign exchange risk is limited. The exchange rate of EUR/SDR increased by almost 0,2 percent reaching to EUR 1,27534 per SDR at the end of 2016 from EUR 1,27283 per SDR at the end of 2015 indicating a negligible appreciation of foreign debt denominated in SDRs.

¹¹The 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, euro, Japanese yen, and pound sterling (Source: IMF).

Figure 28: Currency composition of debt as at end 2016



(Source: PDMO)

Credit risk

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

During 2016, there were no outstanding derivative exposures for the Republic of Cyprus. Regarding the deposit levels in the money market, there was an amount of EUR 430 mn since August 2016, which was deposited in Monetary Financial Institutions or about 43 percent of the total cash balances at the end of 2016. The deposits are overcollateralised. More information is presented in Chapter 7.

In conclusion, the credit risk for the government in the examining period is high, but taking into consideration that the said deposits are under collateral, the credit risk is limited.

C.2.2: Non Financial risks

Operational risks

Operational risk arises mainly from the difficulties of implementing effective internal procedures, the lack of human resources, the internal control systems and the 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.

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

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

C.3: Contingent liabilities

C.3.1: Introduction

Granting government guarantees (GG) to financial institutions is a common feature of government policy all over the world. GG are a policy tool for governments to, for example, enhance the infrastructure of certain sectors (e.g. transport and electricity) or to facilitate the activities of small businesses or to improve the standard of living of vulnerable groups by making housing more affordable or to overcome financial market inefficiencies. 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 government guarantees was assigned to the Treasury of the Republic of Cyprus. For this purpose, an amendment of the PDML was enacted.

C.4: Statistical description of Government Guarantees

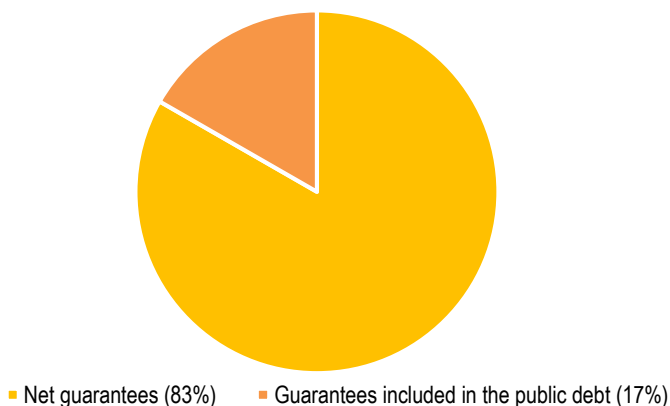
Taking into consideration the above amendment of the PDML, this section describes only the main developments¹² regarding the GG.

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

The Republic of Cyprus had outstanding government guarantees for loans as at end 2016 of EUR 1,97 bn or about 11 percent of GDP, which is well below the relevant stock of EUR 3,02 bn at the end of 2015. It is noted that the said reduction is attributed to the cancellation of guarantee provided to the Bank of Cyprus of an amount of EUR 1 bn. Excluding the government guarantees 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 government guarantees was EUR 1,64 bn or about 9 percent of GDP as at end 2016. It is noted that the government guarantees portfolio is denominated fully in euro. Analysis of the outstanding stock of government guarantees as at end 2016 is presented in table 11 in statistical Appendix.

Figure 29 shows that an amount of EUR 329 mn or about 17 percent of the total value of outstanding guarantees is also included in the public debt as at end 2016.

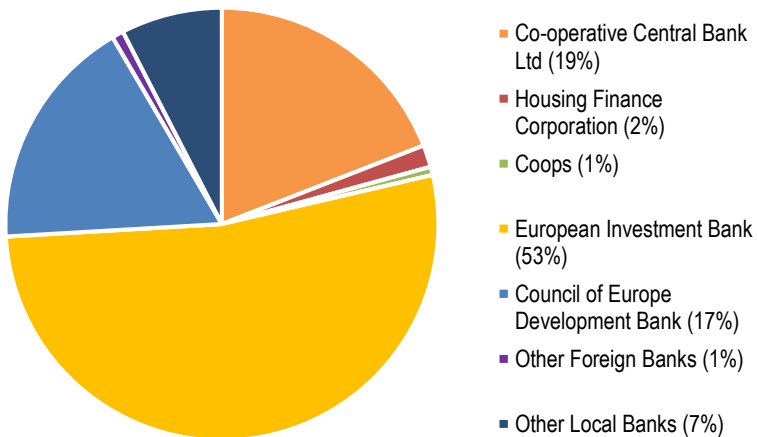
Figure 29: Outstanding GGs in percent as at end 2016



(Source: Treasury)

The stock of outstanding government guarantees by group of lenders, excluding the guarantees provided to the EFSF at end 2016 is presented in Figure 30 below. The majority of the stock of outstanding guarantees for loans concerns the EIB and comprises loans mainly granted to public corporate bodies, specifically to the Electricity Authority of Cyprus and Sewerage Boards. The second largest category concerns guaranteed loans granted by the Co-operative Central Bank mainly to local authorities and natural persons. The third largest group refers to guaranteed loans granted by the CEDB to public corporate bodies and specifically to Sewerage Boards.

Figure 30: Stock of outstanding GG by group of lenders as at end 2016



(Source: Treasury)

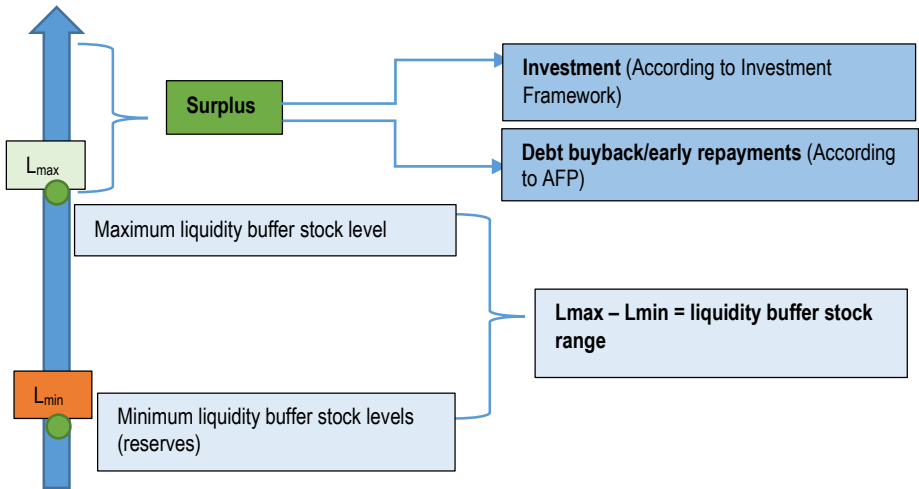
VII. Cash Management

An effective government cash management framework is very important for debt managers in order to ensure that the Government has the liquidity to execute its payments in a timely manner and at the same time to avoid the accumulation of idle cash balances to minimise the cost of such cash and to contain associated risks. By ensuring an efficient cash management, debt management can benefit from the reduced refinancing and market risk.

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

Figure 31 shows 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 following proposals made by the PDMO. According to the said structure, a minimum and a maximum liquidity buffer stock are set in the General Government Account. In the case where the liquidity exceeds the maximum level, the said liquidity can be invested according to an Investment Policy Framework approved by the Minister of Finance or it can either be used to buyback outstanding securities of the Republic or for the early repayment of loans according to the AFP.

Figure 31: Institutional structure of the government cash management

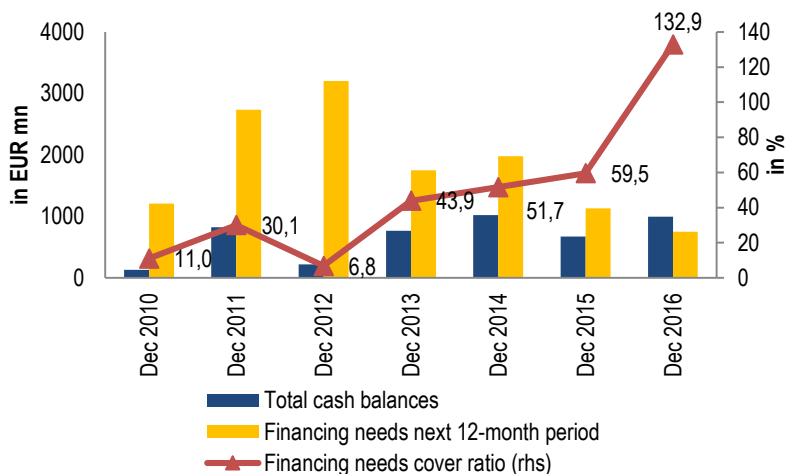


(Source: PDMO)

Figure 32 below, shows the historical distribution of total cash balances in relation to the amount of debt which falls due within next year based on the statistical information at the end of the current year. The amount of debt that falls due within one year followed an upward trend until the end of 2012 whilst the total cash balances followed a downward trend for the same period. The gap between the said variables has started to reduce after 2012 due to the implementation of an active cash management, on the one hand, and liability management transactions in conjunction with the borrowing from the ESM and IMF, on the other hand.

The indicator in the same Figure is the share of debt that falls due within one year covered by cash balances. By the end of 2012, the percentage of cash over the said debt was only 7 percent. As of this year, the share of said debt covered by cash balances has started to improve reaching 133 percent at the end of 2016 compared to 60% at the end of 2015, reducing the refinancing risk to a comfortable level.

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



(Source: PDMO and CBC)

Note: The year 2011 includes the disbursement from the bilateral loan provided by the Russian Federation at the end of December 2011.

The historical distribution of total cash balances held with the CBC and cash deposited with monetary financial institutions (MFIs) is presented in Table 12 in Appendix.

Taking into consideration that during 2016 the liquidity buffer stock exceeded the maximum liquidity buffer stock level, the PDMO, pursuant to article 21 of the PDML, proceeded with an auction for government deposits within the banking sector according to the cash investment policy. A total amount of EUR 530 mn were submitted by local financial institutions, out of which, EUR 430 mn total value have been accepted.

VIII. Sovereign credit Ratings of the Republic of Cyprus

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

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

Table 6, illustrates the solicited credit ratings of the Republic of Cyprus as at end December 2016 compared to the corresponding ratings in 2013.

The successful path of the Cyprus' economy continued during the year 2016 which was reflected in the upgrade of Cyprus' government bond rating and the change of the outlook to positive by all CRAs.

Fitch and Standard & Poor's upgraded Cyprus' government bond by 1 notch to BB- and B1 in October and September 2016 respectively and confirmed the positive outlook of the economy.

Moody's and DBRS affirmed Cyprus' government bond rating to B1 and B in November and December 2016 respectively. The outlook was changed to positive from stable increasing the likelihood of an upgrade within the next 12 months.

Table 6: Solicited sovereign credit ratings as at end of December 2016¹³

Long-term debt						
CRAs	Rating as at 31/12/2016			Rating as at 30/6/2013		
	Rating	Outlook	Notches below investment grade	Rating	Outlook	Notches below investment grade
DBRS	B (Dec. 2016)	Positive	5	CCC ^{1/}	Negative	7
Fitch	BB- (Oct.2016)	Positive	3	RD	Negative	10
Moody's	B1 (Nov.2016)	Positive	4	Caa3	Negative	9
Standard & Poor's	BB (Sept.2016)	Positive	2	SD	Negative	12

Source: PDMO

1/ = The first rating of the CRA for the Republic of Cyprus done in 12/7/2013

Regarding the rationale of the rating and outlook developments, the upgrade of the Republic by Standard & Poor's was attributed to the country's stronger than expected economic and budgetary performance and its further net general government debt reduction as a percent of GDP as well as to the steady improvement in the banking sector's asset quality.

The upgrade of the Republic by Fitch was due to the fact that Cyprus has established a strong track record of fiscal consolidation and over performance on its fiscal and economic programme targets. Furthermore, it reflects the steps taken to restructure the banking sector and the favorable financing position and outlook. The CRA made references to the fundamental weak of banks as a risk to economic stability and the sizeable current account deficit.

DBRS made a reference to the solid fiscal performance achieved under the EAP, Cyprus attractiveness as a business services centre and a tourist

¹³ More recent developments in the sovereign credit rating of the Republic of Cyprus are available at the website of the PDMO.

destination as well as its favorable public debt maturity profile. The two key drivers for the outlook change to positive from stable were the improvements in the fiscal management and policy and economic structure and performance. Despite this, the rating underscores the depth of Cyprus challenges such as the high levels of public and private sector debt, the sizable non-performing loans, the external imbalances as well as the small size of its service-driven economy.

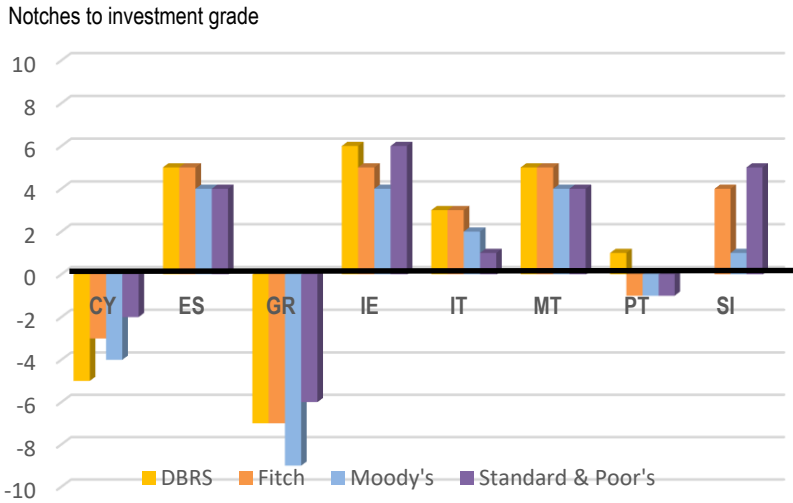
In the case of Moody's rating, the two key drivers for the outlook change to positive from stable were the improvements in economic resilience observed during the past year and the consistent outperformance on fiscal targets together with the favorable outlook. Moody's underlines as the main credit challenges for the Republic, the high percentage of non-performing loans in the banking sector, the high public sector debt levels relative both to GDP as well as to general government revenue.

According to CRAs, the key drivers for the upgrade of Cyprus' government bond rating in the near future could result from further fiscal progress and sustainability of the fiscal adjustment, a more rapid reversal in the upward trend for non-performing loans, an improvement in asset quality of the financial institutions, stronger progress on the privatisation plan and a reduction of net government debt. Historical credit ratings for the Republic of Cyprus are presented in Table 13 while the sovereign rating review calendar for 2017 by CRAs is presented in Table 14 in Appendix.

Further to the above analysis, it is important to show where the government bond rating of the Republic of Cyprus stands compared to selected Eurozone States.

Figure 33 below, illustrates the government bond rating in local currency of the Republic of Cyprus compared to selected Eurozone States as at end 2016. The horizontal axis of zero represents the investment grade line.

Figure 33: Government Bond rating in local currency of the Republic of Cyprus and selected Eurozone States¹⁴ as at end 2016



Source: Bloomberg

¹⁴ The abbreviations in the Figure are interpreted as following: CY=Cyprus, ES=Spain, GR=Greece, IE=Ireland, IT=Italy, MT=Malta, PT=Portugal and SI=Slovenia. SI is not rated by DBRS.

IX. Public Debt Management Office action plan

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

The main actions implemented by the PDMO during 2016 are the following:

- i. Re-organisation of the PDMO: A Target Operating Model has been adopted by the PDMO allowing the PDMO to outsource non-core functions.
- ii. Establishment of the Debt Management Committee: In 2015, the said Committee was established with a narrow and larger composition to ensure that all stakeholders of the Ministry of Finance are appropriately involved and informed in order to better coordinate the implementation of the debt management strategy;
- iii. Establishing an appropriate risk & control environment: Since 2015, the PDMO has started to implement stricter procedures to follow throughout the transactions. Audit checklists have been designed and adopted for transactions as well as segregation of duties was adopted in an effort to minimise the operational risks for each function. This action is ongoing and it is updated, reviewed and strengthened when needed;
- iv. Risk management –operational risk: During 2015, the PDMO has created a database of operational risk incidents other than the one related to execution of transactions. This is ongoing and it is updated and reviewed on a regular basis;
- v. Forming of a market group of international investment banks: The PDMO has already formed a market group consisting of supporting

banks which is expected to increase the efficiency of secondary market and enhance market intelligence on investor behavior;

- vi. Investors' Relations Function: This action has been implemented since the beginning of 2016. In order to keep investors apprised on a timely basis, the PDMO has undertaken a number of interrelated activities such as organisation of road shows¹⁵ in foreign financial centres, teleconferences, production and distribution of marketing information, maintenance of an investors database and investor list with contact details;
- vii. IT Strategy: The PDMO has already adopted the CS-DRMS software on public debt management with implementation process having started in October 2016. The action is in progress and is projected to be fully functional within the next 12-15 months. It is noted that the software is the latest version of the DRMS and its provider is the Commonwealth Secretariat. The relevant database is being built in cooperation with the Treasury Department which is responsible for the servicing of the public debt. The PDMO, the Treasury of the Republic and the Department of Information Technology Services participate in the Steering Committee and the project team established for the implementation of the project.

During 2016 the officers of the PDMO participated in a number of seminars, conferences, Economic and Financial Committee Sub-Committee on EU sovereign debt markets (ESDM) and other events in Cyprus and abroad. These are presented analytically in Table 15 in Appendix.

¹⁵ Since 2016 the roadshows team has split into two (2) main groups so that more international financial centres are covered at the same time.

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Table 1: Liability management transactions: Domestic Bond buybacks details in 2016

	Matur ity date	Buyback Nominal amount	Buyback price	Buyback Nominal amount	Buyback price	Buyback Nominal amount	Buyback price	Outstanding after buybacks
		March 2016		September 2016		December 2016		
		EUR	Per 100	EUR	Per 100	EUR	Per 100	EUR
CY0049070812 (4.60%)	26/2/2019	127000	104,87					1640000
CY0049570811 (6.10%)	20/4/2020			74282257	112,66			11148000
CY0049630813 (5.35%)	9/6/2020			50405472	110,22			8438000
CY0143830814 (4.75%)	1/7/2020	3831000	106,16	35236000	108,01			100000
CY0143790810 (5.00%)	1/7/2021			73924000	109,20			1076000
CY0143810816 (6.00%)	1/7/2023	10146000	114,02					3221000
CY0143820815 (4.50%)	1/7/2019					300000000	107,84	367705000
		14104000		233847729		300000000		

(Source: PDMO)

Table 2: Matured securities (1/1/2016 to 31/12/2016)**Domestic market****Treasury Bills**

Issue date	Yield (%)	Maturity date	ISIN	Nominal amount in EUR mn
8/7/2015	2,40	8/1/2016	CY0145860819	50
8/10/2015	1,58	8/1/2016	CY0145990814	100
14/12/2015	0,25	13/1/2016	CY0146100819	50
6/11/2015	1,17	5/2/2016	CY0146040817	100
13/1/2016	0,31	12/2/2016	CY0146230814	50
4/12/2015	0,65	4/3/2016	CY0146080813	100
12/2/2016	0,36	15/3/2016	CY0146300815	50
8/1/2016	0,48	8/4/2016	CY0146200817	120
15/3/2016	0,38	14/4/2016	CY0146350810	22
5/2/2016	0,54	6/5/2016	CY0146270810	120
4/3/2016	0,58	3/6/2016	CY0146340811	100
8/4/2016	0,79	8/7/2016	CY0146400813	100
14/4/2016	0,79	8/7/2016	Not listed	11
6/5/2016	0,84	5/8/2016	CY0146480815	100
3/6/2016	0,89	2/9/2016	CY0146530817	131
8/7/2016	0,72	7/10/2016	CY0146570813	105
5/8/2016	0,63	4/11/2016	CY0146620816	120
2/9/2016	0,61	2/12/2016	CY0146680810	100
				1529

Domestic Bonds^{1/}

Issue date	Yield (%)	Maturity date	ISIN	Nominal amount in EUR mn
2/1/2006	4,50	2/1/2016	CY0049790815	103
30/3/2006	4,50	30/3/2016	CY0049880814	60
2/6/2006	4,50	2/6/2016	CY0049930817	14
9/6/2011	5,00	9/6/2016	CY0141980819	20
11/7/2006	4,50	11/7/2016	CY0049990811	102
9/10/2006	4,50	9/10/2016	CY0140090818	50
26/10/2001	6,60	26/10/2016	CY0047860818	7
				356

1/ = Redemptions due to buyback transactions are not included.

Repayments of Saving Certificates/Retail Bonds

	Nominal amount in EUR mn
	<u>6</u>

Foreign market

Euro Commercial Papers

Issuedate	Yield (%)	Maturitydate	ISIN	Nominal amount in EUR mn
				<u>0</u>

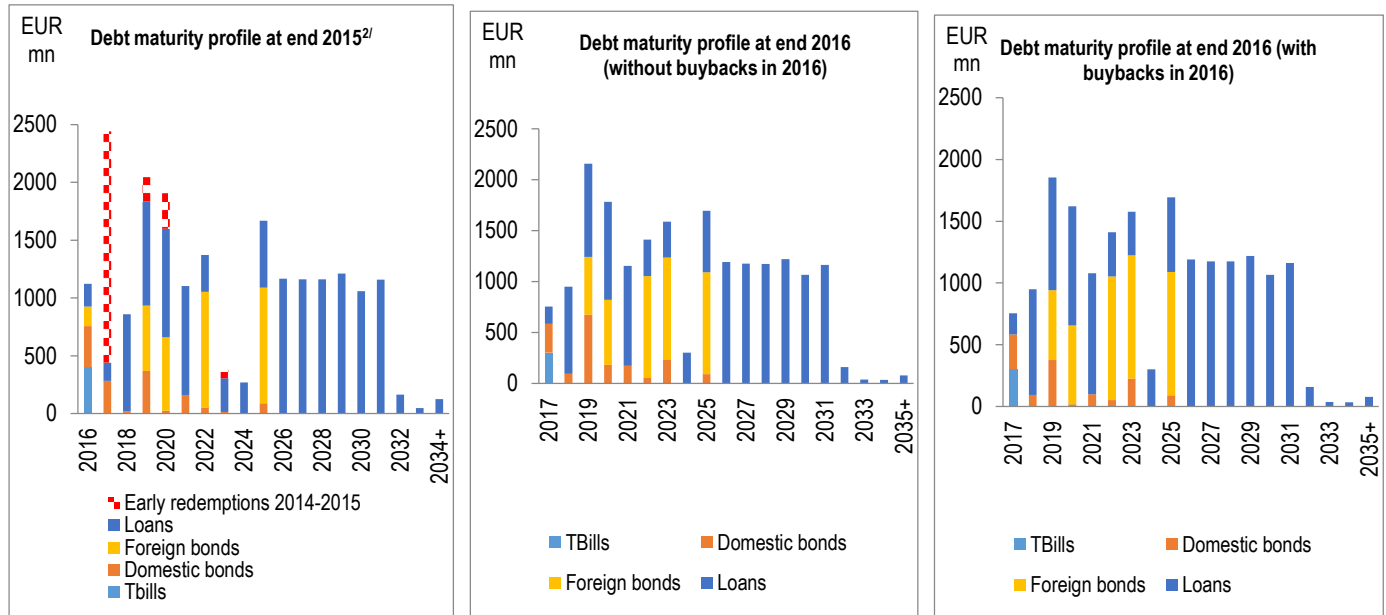
Euro Medium Term Notes

Issue date	Yield (%)	Maturity date	ISIN	Nominal amount in EUR mn
25/2/2011	4.75	25/2/2016	XS0596907104	<u>170</u>

Table 3: Loan amortisations by creditor (1/1/2016 to 31/12/2016)

	Amount in EUR mn
European Investment Bank	30,9
Council of Europe Development Bank	22,5
Government of France	0,1
KA Finanz	52,4
Central Bank of Cyprus	57,1
Co-operative Central Bank	<u>23,1</u>
	<u>186,1</u>

Figure 1: Impact of liability management (LM) transactions on debt^{1/} maturity profile



(Source: PDMO)

1/ =As at 31-12-2016 ; Excludes debt for EFSF loans.

2/ = This debt maturity profile shows how the profile would be without LM transactions done in the period 2014-2015.

Table 4: Numerical presentation of Liability management transactions on debt maturity profile

Year	Debt maturity profile at end 2015 (without buybacks)	Debt Maturity Profile at end 2016(without buybacks in 2016)	Debt Maturity Profile at end 2016 (with buybacks in 2016)
2016	1122		
2017	2440	757	757
2018	860	949	949
2019	2044	2157	1857
2020	1907	1842	1678
2021	1103	1356	1282
2022	1371	1690	1690
2023	380	1586	1576
2024+	9130	9306	9306

(Source: PDMO)

Table 5: Historical evolution of gross general government debt 1995-2016

	Consolidated gross general government debt (EUR mn)	Consolidated gross general government debt (% of GDP)
1995	3589,5	46,8
1996	3896,2	48,9
1997	4478,1	53,7
1998	4981,6	55,2
1999	5416,8	56,0
2000	5813,6	55,1
2001	6452,7	56,9
2002	7096,3	60,1
2003	8108,5	63,5
2004	8882,6	64,5
2005	9299,8	63,1
2006	9330,9	58,8
2007	9307,3	53,6
2008	8388,1	44,6
2009	9864,5	53,4
2010	10769,7	55,8
2011	12869,3	65,2
2012	15430,9	79,3
2013	18518,8	102,2
2014	18764,2	106,8
2015	18910,2	107,2
2016	19326,5	108,0

Table 6: Outstanding Central government^{1/} debt as at end 2016

A. TREASURY BILLS

Issue date	Maturity (in weeks)	Weighted average yield (in %)	Maturity date	Currency of issue	ISIN code	Discount value in EUR mn
7/10/2016	13	0,47	9/1/2017	EUR	CY0146800814	100,0
4/11/2016	13	0,31	3/2/2017	EUR	CY0146870817	99,9
2/12/2016	13	0,17	3/3/2017	EUR	CY0146950817	100,0
						299,9

B. DOMESTIC BONDS

Issue date	Maturity (in years)	Coupon rate (in %)	Maturity date	Currency of issue	ISIN code	Nominal value in EUR mn
4/1/2007	10	4,50	4/1/2017	EUR	CY0140160819	85,4
15/2/2007	10	4,50	15/2/2017	EUR	CY0140190816	82,0
2/4/2007	10	4,50	2/4/2017	EUR	CY0140330818	85,0
15/4/2002	15	5,60	15/4/2017	EUR	CY0048900811	13,3
28/9/2007	10	4,50	28/9/2017	EUR	CY0140500816	17,8
18/1/2016	2	2,00	18/1/2018	EUR	CY0146220815	75,0
29/1/2003	15	5,10	29/1/2018	EUR	CY0048440818	13,7
23/4/2003	15	4,60	23/4/2018	EUR	CY0048610816	5,1
23/10/2003	15	4,60	23/10/2018	EUR	CY0048870816	0,8
26/2/2004	15	4,60	26/2/2019	EUR	CY0049070812	1,6
24/6/2004	15	6,10	24/6/2019	EUR	CY0049250810	7,2
1/7/2013	6	4,50	1/7/2019	EUR	CY0143820815	367,7
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
9/6/2011	10	6,00	9/6/2021	EUR	CY0141990818	43,6
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
30/11/2015	5	2,00	29/1/2021	EUR	CY0146070814	31,4
1/7/2013	9	5,25	1/7/2022	EUR	CY0143800817	52,7
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
18/12/2015	10	4,00	18/12/2025	EUR	CY0146120817	90,0
						1241,1

C. 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	59,2
Retail Bonds	2,50-5,50	2021	EUR	148,9
Retail Bonds	2,50-3,25	2021	EUR	54,2
Retail Bonds	2,50-3,25	2022	EUR	279,5
Saving Certificates	3,85	perpetual	EUR	24,6
				566,3

TOTAL DOMESTIC SECURITIES AS AT 31/12/2016 [EUR MN]

2107,2

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

E. EURO MEDIUM TERM NOTES (EMTN)

Issue date	Maturity (in years)	Coupon rate (in %)	Maturity date	Currency of issue	ISIN code	Nominal amount in EUR mn
25/6/2014	5	4,750	25/6/2019	EUR	XS1081101807	566
3/2/2010	10	4,625	3/2/2020	EUR	XS0483954144	556
2/5/2014	6	6,500	2/5/2020	EUR	XS1064662890	80
6/5/2015	7	3,875	6/5/2022	EUR	XS1227247191	1000
26/7/2016	7	3,750	26/7/2023	EUR	XS1457553367	1000
4/11/2015	10	4,250	4/11/2025	EUR	XS1314321941	1000
						4202,0

TOTAL FOREIGN SECURITIES AS AT 31/12/2016 [EUR MN]

4202,0

F. DOMESTIC LOANS

Creditor	Interest rate (in %) ⁽²⁾	Maturity	Currency of issue	Balance (in EUR mn)
Central Bank of Cyprus	3,00	2032	EUR	1184,5
Cooperative Central Bank	6mE+1,50	2032	EUR	370,4
				1554,9

G. FOREIGN LOANS

Creditor	Interest rate ² (in %)	Maturity year	Currency of issue/reserve asset	Balance (in EUR mn)
French Treasury	2	2017	EUR	0,1
Council of Europe Development Bank	6mE+0,28	2018	EUR	2,4
European Investment Bank	5,35	2019	EUR	23,3
Government of the Russian Federation	2,50	2021	EUR	2500,0
European Investment Bank	1	2022	EUR	0,2
European Investment Bank	1	2022	EUR	0,7
Council of Europe Development Bank	6mE+0,30	2023	EUR	10,2
Council of Europe Development Bank	6mE+0,30	2023	EUR	23,3
European Investment Bank	1	2025	EUR	1,2
Council of Europe Development Bank	3mE+0,60	2025	EUR	42,8
International Monetary Fund ⁽³⁾	BLR+2,00-3,00	2026	SDR	1010,1
European Investment Bank	1	2026	EUR	0,4
Council of Europe Development Bank	6mE+0,15	2026	EUR	57,1
European Investment Bank	3mE+0,70	2026	EUR	20,0
Council of Europe Development Bank	6mE+0,09	2027	EUR	12,1
Council of Europe Development Bank	3,7	2028	EUR	35,2
European Investment Bank	4,45	2029	EUR	33,2
Council of Europe Development Bank	3mE+0,48	2029	EUR	13,2
Council of Europe Development Bank	3mE+0,48	2029	EUR	8,1
Council of Europe Development Bank	1,46	2029	EUR	25,0
Council of Europe Development Bank	3mE+0,55	2030	EUR	5,1
European Stability Mechanism	BLR+0,10	2031	EUR	6300,0
Council of Europe Development Bank	6mE+0,81	2033	EUR	8,0
European Investment Bank	VSFR	2033	EUR	148,8
European Investment Bank	VSFR	2035	EUR	68,9
European Investment Bank	6mE+0,06	2035	EUR	78,9
European Investment Bank	VSFR	2035	EUR	47,6
European Investment Bank	12mE+1,37	2037	EUR	200,0

European Investment Bank	12mE+0,33	2038	EUR	56,0
European Investment Bank	6mE+0,44	2038	EUR	55,9
European Investment Bank	12mE+0,50	2039	EUR	55,0
European Investment Bank	1,77	2040	EUR	40,0
European Investment Bank	1,78	2040	EUR	22,2
European Financial Stability Facility (EFSF) ⁽⁴⁾			EUR	229,0
				11134,0

TOTAL LOANS AS AT 31/12/2016 [EUR MN]

12688,9

TOTAL DEBT OF CENTRAL GOVERNMENT AS AT 31/12/2016 [EUR MN]

18998,1

Notes:

(1) Definition: Debt of the budgetary central government (BCG) excluding debt of state-owned enterprises categorised within the central government and the debt of local authorities. BCG is approximately 98% of the general government debt (as at 31/12/2016)

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

(3) Loan balance in EUR using the relevant exchange rate as at 30/12/2016

(4) Debt issued by the EFSF for Greece. Ireland and Portugal

Table 7: Outstanding Central government debt as at end 2016

	Foreign-law securities		Domestic-law securities		IMF - ESM loans		Other loans		Total
2017	0		588		8		164		761
2018	0		98		55		799		952
2019	566		380		103		810		1858
2020	636		80		158		806		1680
2021	0		303		168		812		1284
2022	1000		333		168		189		1691
2023	1000		226		160		191		1578
2024	0		1		113		188		302
2025	1000		91		416		189		1695
2026	0		1		1011		180		1191
2027	0		1		1000		174		1175
2028	0		1		1000		174		1175
2029	0		1		1050		168		1219
2030	0		1		900		166		1067
2031	0		1		1000		162		1163
2032	0		0		0		159		159
2033	0		0		0		37		37
2034	0		0		0		33		33
2035+	0		0		0		78		78
TOTAL	4202		2107		7310		5479		19098

Notes

1/ = Preliminary data

2/= Excluding debt for EFSF Loans

3/= Foreign currency debt valued according to exchange rate as at 30/12/2016

4/ = Excluding debt to Social Security Fund

5/ = A flat redemption profile is assumed for loans granted to local authorities and State-Owned Enterprises.

Table 8: Government debt by instrument and lender (EUR mn)

A. Domestic Debt			3976,1
I. Long-term debt		3676,3	
1. Domestic bonds	1241,1		
- Monetary Financial Institutions	939,1		
- Private Sector	302,0		
2. Retail securities	566,3		
3. Loans	1868,9		
- Central Bank of Cyprus	1184,5		
- Local Authorities loans	256,4		
- School Committees loan	370,4		
- Semi-government organisations loans	57,6		
II. Short-term debt		299,8	
1. Treasury Bills	299,8		
- Monetary Financial Institutions	295,9		
- Private Sector	3,9		
B. Foreign debt		15350,8	15380,8
I. Long-term debt			
1. Long term loans	10882		
-ESM and IMF ^{1/}	7182		
-Bilateral governments	2500		
-EIB and CEDB	1148		
-other	52		
2. Euro Medium Term Notes	4202,0		
3. EFSF loans	229,0		
II. Short-term debt		0,0	
Euro Commercial Papers	0,0		
C. Gross General Government Debt^{2/}			<u>19326,9</u>

Note:

1/ = Foreign currency debt valued according to exchange rates as at 30/12/2016.

2/ = Debt is reported in consolidated form and therefore any obligations among subsectors of the general government are omitted.

Table 9: Investments^{1/} of the Social Security Fund with the central government as at end 2016

	EUR mn
Deposits with the Central Government	7662,7
Social Insurance Fund	7048,3
Unemployment Benefits Account	12,6
Termination of Employment Fund	349,0
Central Holiday Fund	61,4
Insolvency Fund	191,5
Investment in Cyprus EMTN bond 4.625% mat. 3/2/2020	204,1
Investment in Cyprus Domestic bond 6.000% mat. 9/6/2021	9,8
Total	7876,7

Note

1/ = Investments in the form of deposits in financial institutions of EUR 72 mn are not included.

Table 10: Historical debt servicing in 2010-2016

	2010	2011	2012	2013	2014	2015	2016e
	EUR mn						
Interest payments (IP)	395	430	566	563	497	495	465
General Government Debt (GGD)	10770	12869	15431	18519	18764	18910	19327
Tax revenue (TR)	4574	4686	4607	4328	4368	4320	4726
Total government revenue (TGR)	7160	7188	7019	6596	6924	6883	6668
	%						
Interest payments to GDP	2,0	2,2	2,9	3,1	2,8	2,8	2,6
Interest payments to GGD	3,7	3,3	3,7	3,0	2,7	2,6	2,4
Interest payments to TR	8,6	9,2	12,3	13,0	11,4	11,5	9,8
Interest payments to TGR	5,5	6,0	8,1	8,5	7,2	7,2	7,0

Note:

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

Table 11: Stock of outstanding Government Guarantees (GGs) as at end 2016

Principal debtors		Loan contracts	Stock of outstanding guarantees
		in number	in EUR
1	Corporate	20	183592049
	Other Companies	1	9453
	SMEs	8	3886016
	Banks and Other Credit Institutions	11	179696580
2	Entities with Public Interest	77	1094305797
	Other Entities with Public Interest	1	30667
	Public Organizations ^{1/}	15	433311705
	Sewerage Boards	61	660963425
3	Local Authorities ^{2/}	157	314379539
	Municipalities	102	306114707
	Community Boards	55	8264832
4	Individuals / Retail	3937	154387232
	Agricultural	1	29259
	Small Business	1161	41146407
	Housing	2754	112122866
	Individuals / retail	21	1088700
5	Total outstanding GG for loans excluding the issue of debt instruments (1+2+3+4)	4191	1746664617
6	Issues of debt instruments	1	224093885
	i. Bank of Cyprus	0	0
	ii. European Financial Stability Facility	1	224093885
7	Grand Total outstanding GG (5+6)	4192	1970758502

Source: Treasury
(PDMO calculations)

1/ = An amount of EUR 15 mn concerns loans granted to Cyprus Theatrical Organisation and Cyprus Sport Organisation which are included in the public debt

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

Table 12: Central government liquid assets (EUR mn) and cash/debt ratios in 2012-2016

Date	Cash at the CBC	Cash at MFIs	Total	Debt that falls due within 1 year	Cash/debt ¹
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

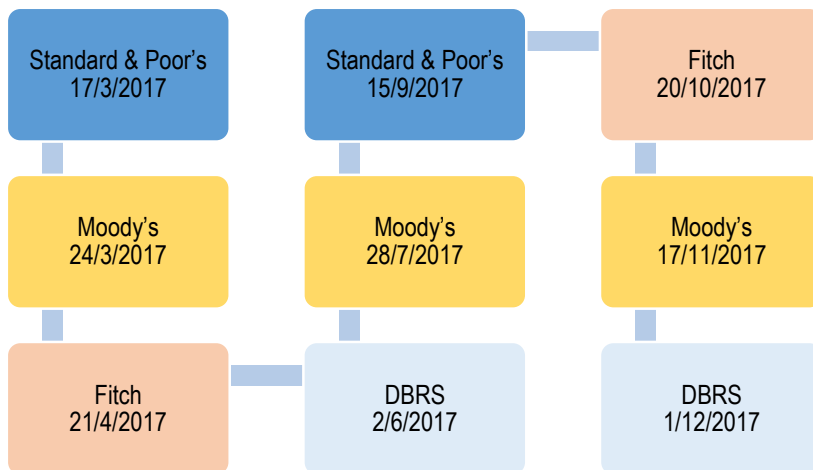
1/= % of cash over debt that falls due within one year

Table 13: Historical credit ratings^{1/} 1989 – 2016 (Long term-short term rating)

Fitch		Moody's		S&P		DBRS	
BB-	21/10/2016	B1	11/11/2016	BB	16/9/2016	B	2/12/2016
B+	23/10/2015	B1	13/11/2015	BB-	25/9/2015	B	4/12/2015
B-	25/4/2014	B3	14/11/2014	B+	24/10/2014	BL	27/6/2014
CCC	5/7/2013	Caa3	10/1/2013	B	25/4/2014	CCC	12/7/2013
RD	28/6/2013	B3	8/10/2012	B-	29/11/2013		
CCC	3/6/2013	Ba3	13/6/2012	CCC+	3/7/2013		
B	25/1/2013	Ba1	12/3/2012	SD	28/6/2013		
BB-	21/11/2012	Ba3	4/11/2011	CCC	21/3/2013		
BB+	25/6/2012	Baa1	27/7/2011	CCC+	20/12/2012		
BBB-	27/1/2012	A2	24/2/2011	B	17/10/2012		
BBB	10/8/2011	Aa3	3/1/2008	BB	1/8/2012		
A-	31/5/2011	A1	10/7/2007	BB+	13/1/2012		
AA-	12/7/2007	A2	19/7/1999	BBB	27/10/2011		
AA	4/2/2002			BBB+	29/7/2011		
				A-	30/3/2011		
				A	16/11/2010		
				A+	24/4/2008		
				A	1/12/2004		
				A+	12/8/2003		
				AA-	3/12/1999		
				AA	9/11/1998		
				AA+	16/7/1996		
Short term rating							
B	3/6/2013	NP	13/3/2012	B	29/11/2013		
B	26/3/2013	P-3	4/11/2011	C	20/12/2012	R-4	12/4/2015
B	25/6/2012	P-2	27/7/2011	B	13/1/2012	R-5	12/7/2013
F3	27/1/2012	P-1	16/5/2011	A-3	5/12/2011		
F3	16/12/2011	P-1	6/11/1989	A-3	27/10/2011		
F3	10/8/2011			A-2	12/8/2011		
F1	31/5/2011			A-2	30/3/2011		
F1+	12/7/2007			A-1	12/8/2003		
F1	4/2/2002			A-1+	16/7/1996		

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

Table 14: Sovereign Rating Review Calendar for the Republic of Cyprus in 2017



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 15: Participation of PDMO officers to seminars, EU committees and other events in 2016

Description	March	April	May	June	July	August	Sept.	October	Nov.	Dec.
EFS Sub-Committee on ESDM	Brussels (9/3)			Brussels (13/6)					Brussels (9/11)	
IMF technical assistance on primary dealers	Cyprus (8/3)									
Road shows* and meetings at the IMF and World Bank * Only for April		New York/Bo ston/Wa shington (9-17/4)						Washing ton (4- 11/10)		
Public procurements				Cyprus (23/6)						
Road show Note: The Director of the PDMO together with other Directors of the MoF participated in an another road show at London. Paris and Germany)				Milano/ Oslo/Elsi nki/Gen eva/Vien na (6- 9/6)						
ESDM Sub-Committee for sovereign exposures										
ESM: Debt management matters					Luxemb ourg (13/7)		Brussels (22/9)		Brussels (24/11)	

Description	March	April	May	June	July	August	Sept.	October	Nov.	Dec.
ESM: Activities specifically related to public debt management matters							Luxembourg (20-21/9)			
Training on CS-DRMS for managing debt. recording and data validation									Cyprus (14-30/11)	Cyprus (1-9/12)

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