PUBLIC DEBT MANAGEMENT STRATEGY 2020-2022

REPUBLIC OF CYPRUS

PUBLIC DEBT MANAGEMENT OFFICE | MINISTRY OF FINANCE

PUBLIC DEBT MANAGEMENT STRATEGY 2020-2022

Public Debt Management Office
Ministry of Finance
1439 Nicosia
CYPRUS

Tel. +35722601182
www.mof.gov.cy/pdmo

This document has been prepared based on data available up to 31 August 2019.

Contents

1. Executive summary

A sound public debt management strategy is a key element of strong macroeconomic fundamentals. The preceding strategy, the Medium-Term Debt Management Strategy 2016-2020, has resulted in a more resilient debt portfolio and an increase in the visibility of the Cypriot government securities. At the backdrop of the objective of a low risk portfolio at reasonable cost, the strategy followed hitherto will continue during the period 2020-2022 and aim at advancing on the milestones achieved.

Under the selected strategy the long-term fixed-rate international bonds remain the most realistic option and are considered to be the tool to achieve the best possible cost-risk outcome. Under the assumption of normal market conditions, three guidelines form the framework under which financing actions must be carried out:

(i) As refinancing risk is highlighted as the most important of the financial risks of the existing portfolio, a fairly balanced debt maturity profile with manageable gross financing needs shall be maintained. At the same time, the overwhelming majority of new debt will be in euro, fixed interest rate format in order to contain foreign exchange interest rate and risks (Section 6.2.1).

(ii) Through the issuance of international bonds, the stock of government securities in the market will increase over the coming years as these will replace other types of debt, despite the overall public debt deleveraging. Thus, the development of the government securities market will continue to be a priority in the next three-year period with twofold aspects. In the *primary* market, regular, benchmark-sized, issuance under the same instrument, the EMTN Programme, with consistency in issuance characteristics will be pursued. In the *secondary* market a group of market-making banks will be maintained initially on a best effort basis with underlying operational infrastructure in place to increase price discovery, transparency and liquidity of the market (Section 6.2.2).

(iii) The PDMO will continue efforts to maintain contact with existing and new investors, tracking investor behaviour and evaluating the results of marketing activities. The overall aim is the further expansion of demand of Cyprus government bonds to more and less correlated investors (Section 6.2.3).

The above guidelines are interdependent so that an action can contribute to multiple guidelines simultaneously. Notably, the above strategy pillars are expected to contribute positively to cost containment of the debt portfolio.

Beyond the broader guidelines, quantitative benchmark targets are set to concretise the cost-risk appetite. Space is allowed for flexibility to enable reaction to market conditions.

2. Introduction

The Medium-Term Public Debt Management Strategy (MTDS) 2020-2022 is a policy statement outlining the direction and actions of public debt management during this period. It is designed as successor and continuation of the previous medium-term strategy in place since 2016.

The purpose of the strategy is twofold:

- The strategic guidelines for government financing actions and the development of the Cypriot government securities market are set and explained
- A framework for quantitative and qualitative targets is put in place

The starting cost-risk position of the portfolio, the anticipated market conditions and the macroeconomic framework are used as underlying inputs in the design of the strategy.

2.1. Legal framework and institutional set-up

Public debt management in Cyprus is regulated under the Public Debt Management Laws 2012-2016. As per the Law, the medium-term debt management strategy covers a horizon of 3 to 5 years and is prepared and updated at least once a year or a rolling basis by the Public Debt Management Office (PDMO). The MTDS is submitted for approval to the Council of Ministers by the Minister of Finance after informing the Budget and Finance Committee of the parliament. The approval by the Council of Ministers is made by end October of the year preceding the first year of the strategy. Following the final approval, the borrowing and other debt management operations are subject to and enforced on the basis of the strategy. This is formalized in the Annual Financing Programme for each calendar year.

The PDMO has been established under the same Law in 2012 within the Ministry of Finance, with the main tasks of (i) conducting all borrowing and other debt management operations including liability management and transactions in derivatives; and (ii) maintaining sufficient liquid funds and investing the excess liquidity of the central government.

2.2. Public debt management objective and scope

Objective of debt management

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

Scope of the strategy

The analysis covers the debt of budgetary central government, which forms close to 100% of the general government debt. In terms of the scope of the financing needs analysed, sources of risk such as potential called guarantees, or windfall revenues are included in the strategy only to the extent that these have been incorporated in the fiscal forecasts.

3. Baseline macroeconomic assumptions and key risks

Continuing on the trend of recent years, real growth is forecast to remain positive and above the eurozone average, but decelerate from 3,2% in 2019 to 2,9% in 2020, to 2,7% in 2022 owing to deterioration in the external environment outlook. Indeed, the more immediate risks for the macroeconomic prospect are exogenous factors namely international growth slowdown and consequences from Brexit. The former may likely impact the foreign-financed investments, and the latter mainly the tourism sector through the exchange rate channel.

The largest drivers to growth are expected to remain the retail and tourism sectors, professional services, mainly financial services, ship management and ICT, and construction. The longer-term growth prospects of Cyprus remain positive, considering the structural reforms currently in progress, the ongoing infrastructure investments and the highly educated workforce.

Inflation is expected to remain subdued due to a number of reasons such as energy prices and a competitive domestic retail environment but gradually pick up from 0,5% in 2019 to 1,5% in 2022. Unemployment reached 6,5% in June 2019, the lowest level in years, and is expected to decline further towards 5% by 2022.

The public finances are firmly on a positive path. The fiscal balance is expected to remain positive in the next three years with the fiscal surplus ranging from 2,7% in 2020 to 2,3% in 2022. After a one-off increase in 2018, the debt to GDP ratio is projected to continue its downward trend as underlying debt dynamics are positive. The debt/GDP ratio is forecast at 97% in 2019 to decline steadily to 81% by 2022. Realisation of risks to the fiscal outlook may put downward pressure on the public finances. However, given the fiscal space, they are unlikely to derail the reduction of the public debt.

The systemic domestic banking institutions have improved their resiliency and loss absorption capacity with CET1 capital ratios comparing well with the European average. There has been a significant improvement in their asset quality with non-performing exposures falling by 50% over 2018 and 63% the last four years. However, with the non performing exposures level still high at 31%, the improvement in asset quality will remain a top priority. Over the strategy period banks will also face the additional capital requirements in the form of Minimum Requirement for Own Funds and Eligible Liabilities, to be achieved over a few-year adjustment period. Banks have ample liquidity and have boosted demand for Cyprus sovereign bonds. However, potential regulatory changes with regards to the treatment of sovereign exposures in banks' balance sheets will likely hamper demand, particularly if the treatment relates to the credit quality of the underlying sovereign.

Cyprus is net of Special Purpose Entities in a negative external position, although the net international liability has been narrowing down in recent years reaching 37% of GDP in 2018 from 72% in 2014. This trend is expected to continue over the Strategy period. Nonetheless, the government foreign debt forms one important contributor of the negative external balance.

4. Financing needs and financing sources

Financing needs

The strategy period 2020-2022 has low to moderate financing needs, resulting from a contained debt redemption burden supported by the anticipated fiscal surpluses during this period. Relative to the size of the economy, the gross financing needs will range between 3% and 7% of GDP over the three-year period.

Table 1: Central government gross financing needs

In EUR bn	2020	2021	2022
Long term debt redemptions	1,6	1,1	2,2
Fiscal (deficit)/surplus	0,5	0,5	0,5
Gross financing needs	**1,1**	**0,6**	**1,7**

Borrowing instruments

The international bonds constitute the main borrowing instrument as it attracts both the international investors as well as the domestic financing institutions. More concretely these are bonds issued under the Euro Medium Term Note Programme, governed by English law, currently listed at the London Stock Exchange and cleared at Euroclear/Clearstream depositories.

Domestic bonds are more attractive to smaller institutional domestic investors; hence the issuance capacity is normally low. The domestic retail bond product, issued to natural persons only since 2014, is an established albeit small source of funding.

On the short-term spectrum, Treasury Bills remain the main funding instrument and are particularly utilised in order to minimize funding costs and manage short-term liquidity needs. The Euro Commercial Paper Programme has been inactive in the past years but may be used as alternative short-term financing and for reaching out to non-domestic investors.

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

An overview of the currently available borrowing instruments of the Republic of Cyprus is presented in Table 2.

Table 2: Characteristics of borrowing instruments

Market instruments				
Security	**Maturity**	**Interest rate type**	**Governing Law**	**Investors**
Treasury Bills	Up to 12 months	Zero coupon	Domestic	Domestic banks
Euro Commercial Papers	Up to 12 months	Zero coupon	English	International, institutional
Domestic Retail Bonds	6 years	Step-up structure	Domestic	Domestic natural persons
Domestic Bonds	More than 12 months	Any type possible Outstanding bonds: fixed only	Domestic	Mainly domestic banks, small domestic institutional investors
Euro Medium Term Notes	More than 12 months	Any type possible Outstanding bonds: fixed only	English	International, institutional
Non-market instruments				
Type	**Maturity**	**Interest rate type**	**Governing Law**	**Creditors**
Loans	Typically more than 10 years	Fixed or variable	English	European Investment Bank and the Council of Europe Development Bank

5. Review of the implementation of MTDS 2016-2020

The previously applied strategy had been approved by the Council of Ministers and published in February 2016, then endorsed annually for the years 2017 and 2018. This section provides an overview of the main events and cost-risk outcome of the strategy up to the end of year 2019.

5.1. Review of debt management operations

The efforts to return to the market and improve the debt maturity profile had started before the implementation of the MTDS 2016-2020. After an almost four-year absence the first post-crisis international issuance back in the market was in 2014, still at a low-grade credit rating and while still under implementation of the EU-IMF macroeconomic adjustment programme. Two benchmark bonds followed in 2015, while the average term to maturity of marketable debt increased to 4,7 years in 2015 from only 2,7 years in 2012.

During the years that followed, under the MTDS 2016-2020, there was an evolving but focused debt management strategy that resulted in: (i) international bond issuances being more frequent and at gradually longer tenors; (ii) attraction of a growing number of investors both in absolute size and in diversity; (iii) gradual compression of spreads vs. benchmark interest rates, primarily driven by the rapid improvement of the credit rating.

Debt management operations extended beyond debt issuances with considerable liability management transactions on both market and non-market outstanding debt. Indeed, total bond switches/buybacks and loan prepayments reached €0,8 bn and €3,3 bn respectively in nominal terms, contributing to a large extent to the strategy aims.

The third important element that marked the debt characteristics in this period was a sizeable domestic bond issuance in 2018 to facilitate the sale of the then second largest bank of Cyprus the Cooperative Bank to Hellenic Bank, another main domestic bank. These issuances, being outside the normal debt management operations and strategy framework, had a short to medium maturity and carried above market coupon rates. This event influenced the debt cost and risk indicators negatively but did not permanently derail the primary trend which bounced back in 2019.

5.2. Cost Outcome

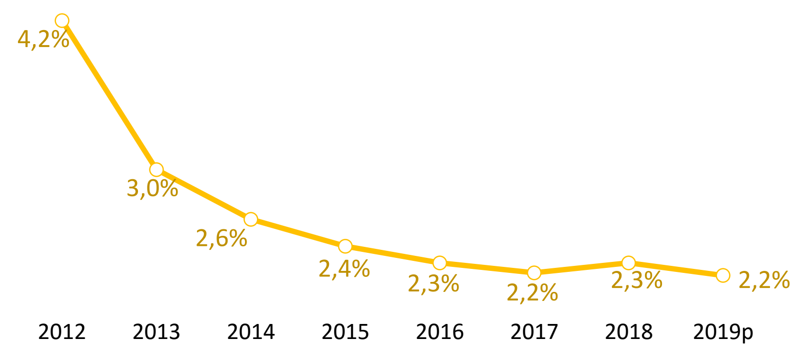
In the period 2016-2019 interest payments in absolute terms have been fairly stable in the region of €500 million. This has been the result of market and credit developments. The environment of very low to negative base rates, affected directly all floating rate debt, as well as the newly issued debt. At the same time the rapid improvement of the sovereign rating led to a compression of the credit spread of Cyprus to the benchmark rates. Indeed, the 9-year spread to the German Bund declined from an average of 368 bps in 2016 to an average of 147 bps in the first 8 months of 2019.

The weighted average cost of the debt portfolio as well as the debt affordability in terms of government revenue and GDP has been, over the past years, continuously improving.

5.2.1. Cost of the debt portfolio

The low interest environment prevalent throughout the strategy period contributed to the containment of the interest rate cost, both through the servicing of debt as well as for new issuances. The latter, were additionally helped by the improvement in the credit rating and the reduction of credit spreads, so that despite the gradual increase in new bonds' tenor there was no material impact on the newly assumed cost.

Figure 1: Weighted average cost of public debt



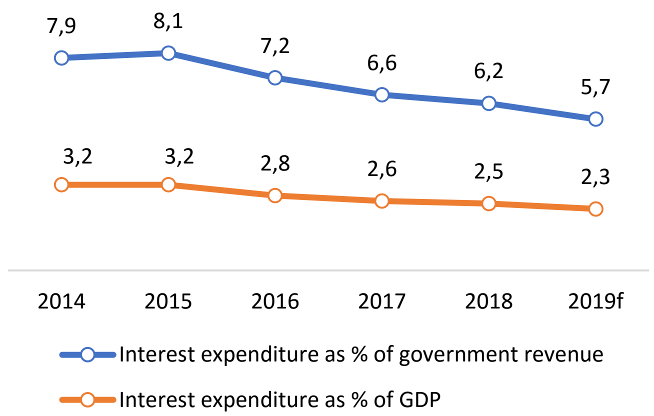
5.2.2. Debt affordability

The debt affordability, that is the cost of the public debt in terms of interest payments, has been in recent years on a downward trend.

Interest payments as a share of government revenue declined from 8,1% in 2015 to an estimated 5,7% in 2019. This is the result of a twofold development: while the interest rate bill remained fairly stable over this period, the government revenues increased on the back of economic recovery and growth.

Interest as a share of GDP – a predictor of debt sustainability - has declined over the same period from 3,2% to 2,3%. Again, this decline is attributed partly also to the denominator effect.

Figure 2: Debt affordability



5.3. Risk Outcome

5.3.1. Refinancing risk

The smoothening of maturity profile and lengthening the average maturity of the portfolio were at the focus of debt management actions. The results were evident in all indicators depicting refinancing risk. Figures 3 and 4 are shown to reflect the changes in the maturity profile between 2015 and 2019.

At end 2019 the maturity profile is more loaded in the years 2023-2024 and 2028 as a result of the international bonds issued in the previous three-year period. While the peak of maturities in 2016 was in 3 years, the peak was pushed to 9 years by end 2019. Additionally, the maturity profile reached a maximum maturity in the year 2049, instead of 2035 at the start of the strategy.

Figure 3: Public debt maturity profile, end 2015

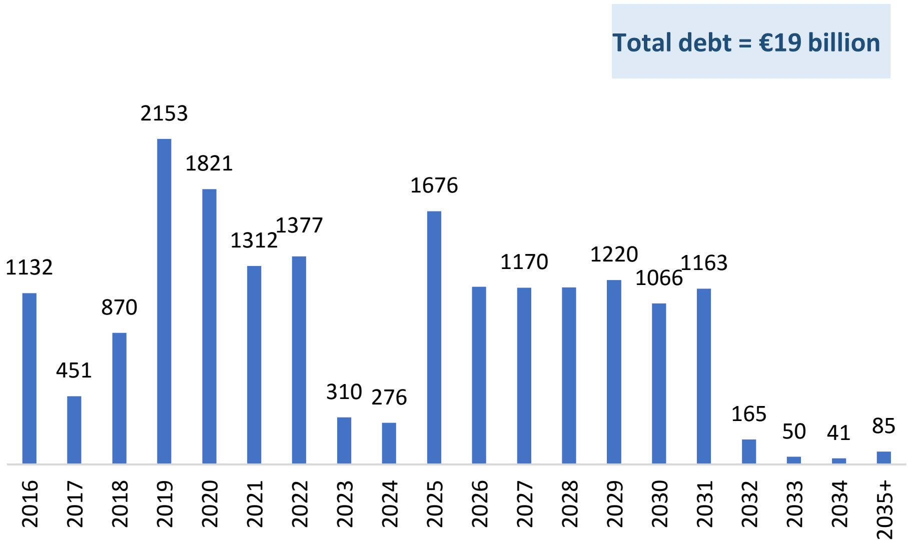
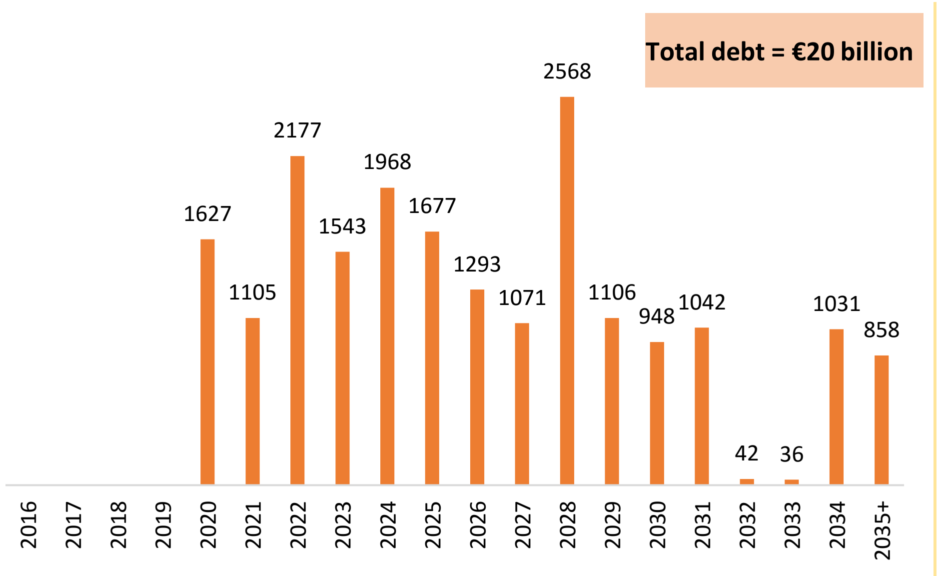


Figure 4: Public debt maturity profile, projected for end 2019



Other commonly used indicators for refinancing risk are the average remaining maturity of debt, as well as the debt due within 1 and 5 years. These are shown in Figures 5 and 6 respectively, and show mixed results. While the average maturity of both marketable and total debt has been lengthened, the debt due within a period of 1 and 5 years has increased. This development relates to the debt issued to facilitate the sale process of the Cooperative Bank, that is debt outside the normal operations. These bonds originally maturing within a few months to about 4 years form at end 2019 about 9% of the stock of debt and constitute the main driver for the concentration of redemptions in the coming years.

Figure 5: Average maturity of debt

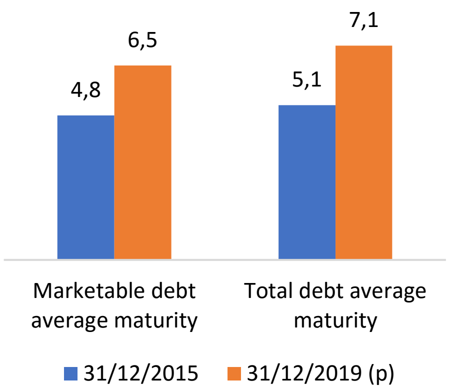
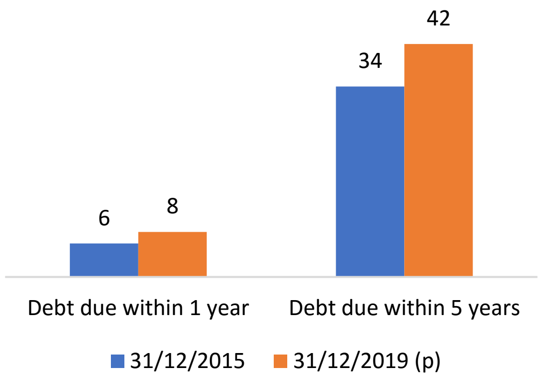


Figure 6: One and five-year redemption concentration

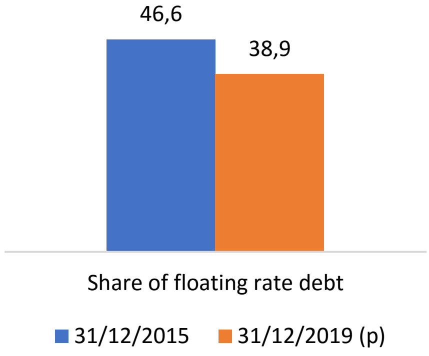


5.3.2. Interest rate risk

Between 2016-2019 a very small share of less than 1% of newly assumed debt was in floating interest rates, and related only to long-term project loans from supranational organisations.

The share of total debt in floating interest declined after the issuance of bonds to facilitate the sale of CCB. From a share of 47% of debt at the end of 2015 the expected share of floating rate debt at the end of 2019 will drop below 40% (Figure 7).

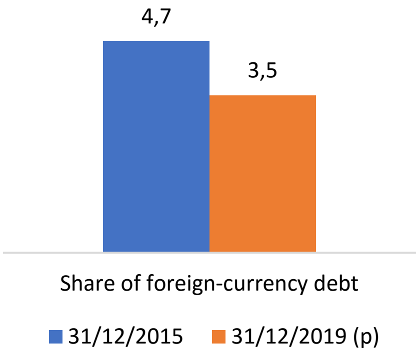
Figure 7: Floating-rate debt



5.3.3. Currency risk

At the beginning of the strategy period, the non-euro denominated debt neared 5% of the total due to the borrowing from the IMF in Special Drawing Rights. By end 2019 this share is estimated at 3,5%. There were no new issuances in foreign currency debt during the strategy period and the reduction in its share relates to the prepayment of part of the loan during 2017.

Figure 8: Foreign-currency debt



5.3.4. Liquidity risk

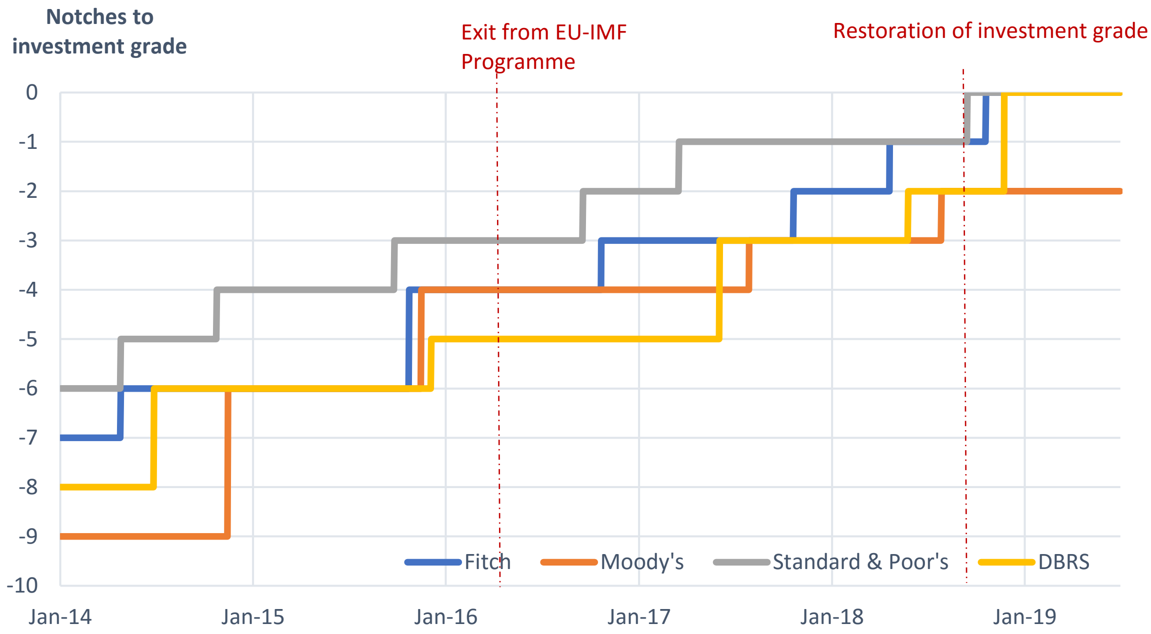
To reflect the gradually greater ease of market access and considering the cost of carry the pre-funding requirement was reduced from 12 months at the start of the period to 9 months as of January 2018. The target on minimum liquid funds was met throughout the period.

5.4. Evolution of credit rating, credit spreads and investor base

After the sharp deterioration before and during the crisis years the sovereign credit rating recovered steadily and at a fast pace, being only one of few sovereigns to regain investment grade category status after being rated as very high credit risk, within the "C" category rating (7 to 10 notches from investment grade). At the start of the strategy period in January 2016 the rating was still at the single B level progressing gradually to the triple B level in autumn 2018.

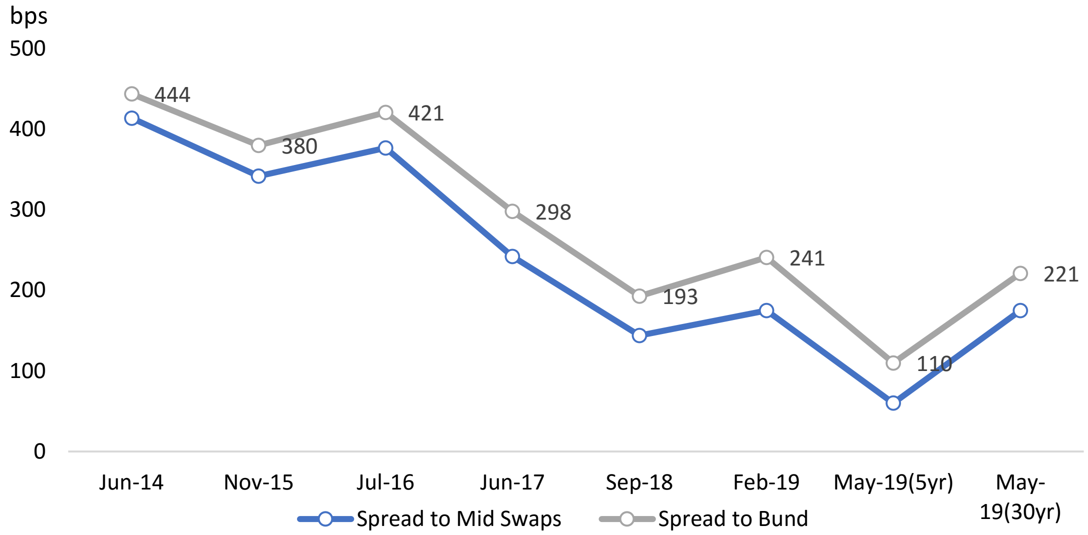
Figure 9 shows the evolution of the sovereign rating since the return in the international markets in 2014 in terms of distance from the lowest Investment Grade.

Figure 9: Cyprus Sovereign Rating 2014-2019



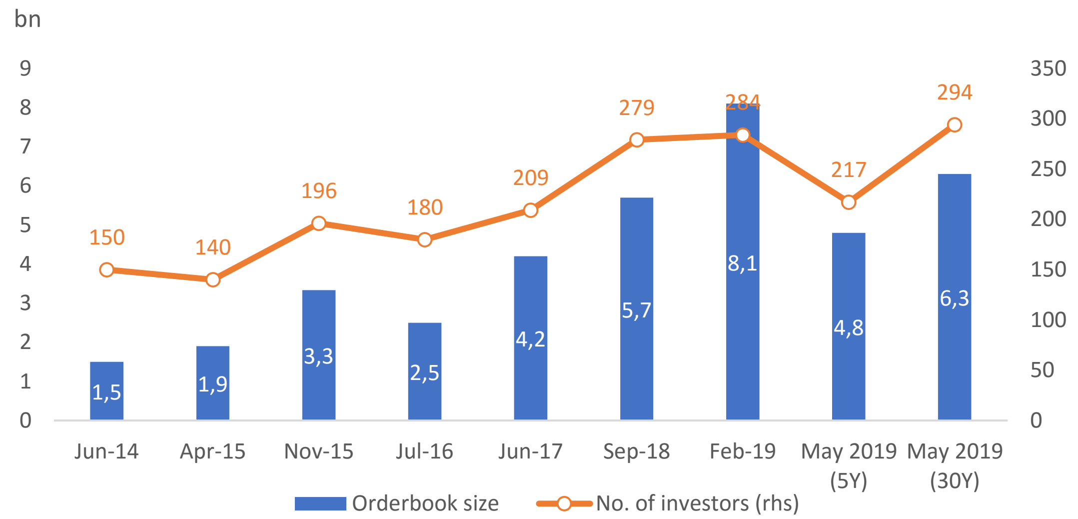
The credit rating improvement was a strong supporter for the placement of bonds in the primary market and their secondary market performance. Indeed, spreads at bond placements declined in line with the respective improvement in the credit rating (Figure 10).

Figure 10: Evolution of credit spreads at primary issuance



Investor demand has been continuously increasing and orderbooks have been growing. Although order inflation is ever more symptomatic at syndicated issuances the overall trend is evident, as indicated also by the number of unique investors (Figure 11).

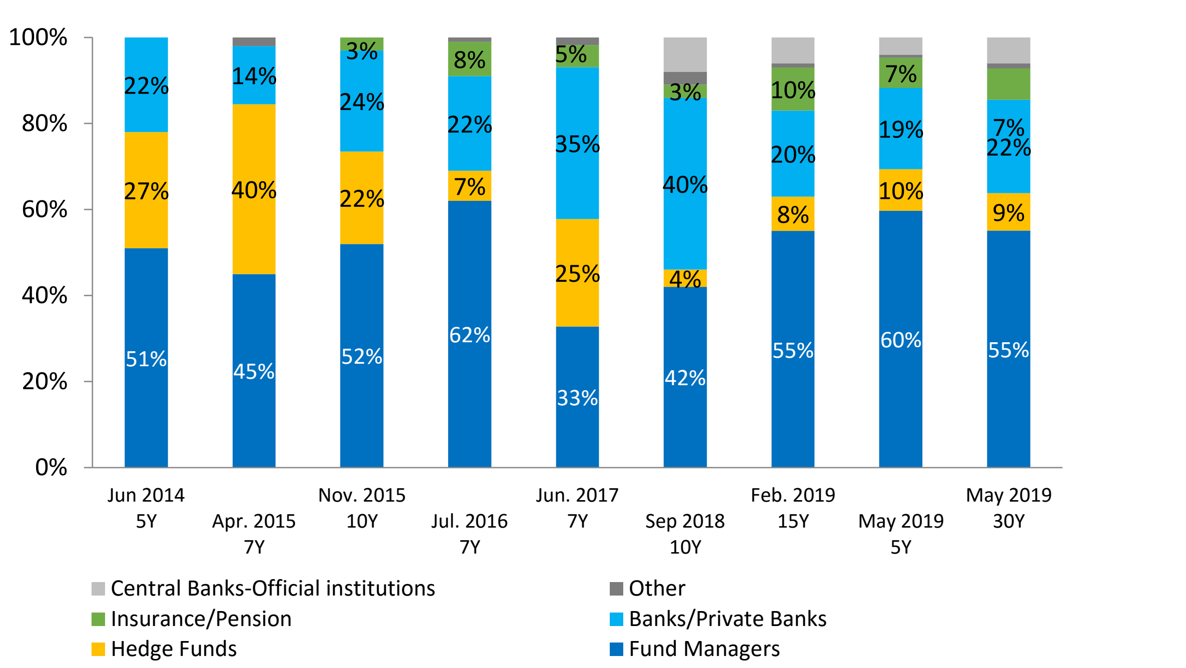
Figure 11: Orderbook size



Investor demand by type has generally evolved along the development in the credit rating. Initial issuances attracted a larger share by hedge funds and a minority by banks and asset managers. This distribution was reversed with the improvement in the credit rating.

Since the re-establishment within the investment grade category in September 2018 some participation by central banks and sovereign wealth funds has been observed. Figure 12 shows the allocation in the primary market since the return in the international markets in 2014.

Figure 12: Investor allocation in the primary market



6. Strategic framework 2020-2022

6.1. Selected issuance strategy

The main financing tool in the strategy period will be the international bond issuances, due to the depth of the market and to enable continuation of the previous milestones achieved in the past years.

These bonds are under English Law and listing may occur in more than one stock exchange. The method of issuance will be through syndication.

All other available instruments will complement the international bond issuances. Domestic bonds, issued under local law and listed at the Cyprus Stock Exchange will be used more sporadically if opportunities arise. Additionally, the retail segment of the domestic market will be tapped regularly through retail bonds. In the short-term spectrum, Treasury Bills and Commercial Papers will be used, with Treasury Bills, issued through auctions, generally being prioritised. Finally, non-market financing will be assumed from supranational institutions for long-term financing.

The specific characteristics of the newly assumed debt will be chosen in line the guidelines on risk management, development and expansion of the market and investor base, and under the condition that risk mitigation generally precedes cost minimisation.

6.2. Guidelines and strategic targets

6.2.1. Risk mitigation

Refinancing risk

Background: Smoothening of the maturity profile was the focus of the MTDS 2016-20, with positive results. Efforts in this direction are to continue in order to maintain a fairly balanced redemption schedule. Nonetheless, the international bonds issued at a minimum benchmark size according to market convention, cause rather bulky redemption points for small issuers.

(i) **Target:** The maturity of issuances will be chosen so that the annual gross financing needs do not exceed 10% of the respective GDP for the years up to 2030, and 9% of the GDP for the years beyond 2030.

Rationale: The target aims to ensure financing needs that can be met comfortably under normal market conditions. Under the IMF risk assessment framework countries with gross financing needs between 15-20% of GDP are assessed as 'low scrutiny'. In the case of Cyprus, a more prudent limit is set, to account for the lower liquidity in the market which can exacerbate investor behaviour in times of market stress. While there is a growing investor base and recent issuance has shown that an issuance volume of more than 10% of the GDP is feasible, this cannot be reliably ensured in case unfavourable market conditions prevail.

Principles/Actions: Liability management transactions may be applied in order to comply with the strategy target.

(ii) **Target:** The outstanding short-term debt, with initial issuance maturity up to 12 months, will be no more than 2% of total general government debt between 2020 to 2022.

Rationale: This is to maintain an adequate short-term market size which serves as pricing point, capture the demand by a particular investor segment and allow for potential liquidity management for the state. At the same time, sufficient size for long term issuances should be left so that the long-term yield curve is liquid and densely populated.

Principles/Actions: Regular auctions will be pursued, preceded by the publication of an auction calendar.

(iii) **Target:** Maintenance of liquid funds to cover financing needs of the following 9-month period during 2020. The level of prudential liquidity will be re-examined for the years 2021-2022. A minimum level of cash reserves will be introduced for those periods where the financing needs balance is negative, i.e. there is a projected cash surplus.

Rationale: Solid prudential liquidity allows more room for execution of main financing operations in case unfavourable conditions disrupt or delay market access.

Principles/Actions: Cash management may be utilised to minimise the cost of carry.

Interest rate risk

Background: As a result of the official loans under the EU-IMF Adjustment Programme in the period 2013-2016 the share of debt carrying floating interest rates increased abruptly and remains relatively high to date, at about 39% at year end 2019. While total debt is following a declining path the floating rate debt will only decline materially from 2025 onwards through the redemption of ESM loans. The share of floating rate debt is in fact expected to grow initially until 2025 through a combination of the nominator and denominator effects by the assumption of long-term project loans in parallel with the decline of the total outstanding debt.

Target: Debt carrying floating interest rates should not exceed 40% of outstanding debt.

Rationale: While this target actually sets a higher limit than the share of floating rate debt at the start of the strategy period, it allows for only small amounts of new floating-rate debt.

Principles/Actions: The use of derivatives will be assessed and may be applied to ensure compliance of the debt structure with the strategy.

Foreign exchange risk

Background: Cyprus has not issued long term marketable trend in foreign currency to date, due to the euro market being sufficiently large and diverse to cover Cyprus' financing needs. Outstanding debt denominated in currency other than the euro relates only to the IMF loan from 2013-2016 in Special Drawing Rights.

Target: Debt denominated in foreign currency should not exceed 5% of outstanding debt.

Rationale: While opportunities in foreign currencies may arise from time to time these have to be weighed against the goal of the government securities market development and the objective of cost minimisation.

Principles/Actions: The use of derivatives will be assessed and may be applied to ensure compliance of the debt structure with the strategy.

The strategic targets serve as benchmarks and are a management tool for the government to steer its risk tolerance with respect to refinancing and market risk. An overview of the key risk benchmarks is shown in Table 3.

Table 3: Key risk benchmarks for debt management 2020-2022

Risk exposure	Debt component/driver	Annual limits
Refinancing risk	Gross financing needs	Max. 10% of GDP
	Short-term debt	Max. 2% of outstanding debt
	Prudential liquidity (2021)	9-month financing needs
Interest rate risk	Floating-rate debt	Max. 40% of outstanding debt
Foreign exchange risk	Foreign currency debt	Max. 5% of outstanding debt

It is noted that the PDMO, after going through the pilot phase, will proceed with the adoption of the newly-released software of the Commonwealth Secretariat on public debt management ("Meridian"). The increased functionalities on pro-active management of the system will enhance the risk management capacity and assist in decision-making.

6.2.2. Development of government securities market

Primary market

Background: The Cypriot sovereign debt market is naturally constrained by its small size and therefore primary market activity is vital in maintaining the functioning of the market. However, fragmentation of the market has been reduced post-crisis with the concentration of financing needs in single benchmark international bonds and absence from domestic bond issuances.

Target: The population and extension of sovereign yield curve with international benchmark bonds.

Rationale: The sovereign yield curve still has a number of years with no outstanding bond, particularly for tenors beyond 5 years. Pricing anchors to continue the development of the yield curve are offered by the outstanding yield points in years 2028, 2034 and 2049.

Principles/Actions: Communication of general financing plans to the market, transparency, predictability and consistency of actions to the extent permitted by market conditions and major economic developments. Regular, benchmark-sized, issuance under the same instrument, the EMTN Programme. To this extent, consistency of issuance characteristics in terms of currency and interest rate type shall be maintained.

Secondary market

Background: Despite the general reduction in public debt over the strategy horizon, the overall supply (inflow) and consequently the absolute size (stock) of the sovereign bond market of Cyprus is expected to grow due to the replacement of maturing domestic and non-market debt with international bonds. This development will constitute the proper functioning of the market a growingly important matter[1].

The financial institutions relationship management has become more formal after the introduction of a bank group for the Cyprus government bond market, in September 2017. The PDMO also has regular contacts and evaluates relations with financial institutions with whom the PDMO could potentially cooperate.

Target: A more liquid and transparent secondary market.

Rationale: A functioning secondary market, within the limitations of a small issuer, will strengthen demand in the primary market.

Principles/Actions:

i. In the *secondary* market a group of market-making banks will be maintained initially on a best effort basis with underlying operational infrastructure in place. The performance of banks will be evaluated and communicated. Assessment of whether the conditions for moving to a full primary dealership system are mature towards the end of the strategy period.
ii. The investor support of secondary market trading will constitute one driver for primary market allocation.
iii. Transparency in processes and decisions, clear communication of privileges and obligations of banks. Timely communication of appraisal of banks' activity.

6.2.3. Investor relations

Background: There is a need to counterbalance the small and relatively infrequent debt issuance, relative to the rest of the eurozone, with actions that enhance visibility and presence in the market. In the last few years, efforts to increase visibility have intensified with regular roadshows in core and peripheral European financial centres, as well as the US east coast. The PDMO has expanded its list of investor entities to a multiple of the contacts a few years ago. A separate website is maintained with regular information on public debt management and economic developments in Cyprus.

Target: A larger, more diversified and less correlated pool of investors

Principles/Actions:

(i) Contact with existing investors will be maintained and activity to track supporting names will be carried out. A swift response to opportunities with new investors who may appear as a result of credit rating or market changes will be aimed. Overall, a broader investor base as possible will be strived.

(ii) Communication with investors through
- Frequent publication of reports and statistics on the Cypriot economy and on debt management developments with the aim of facilitating the information spread on a regular basis (Box)
- Roadshows and meetings with investors on a regular basis
- Participation of the PDMO in main international conferences and fora

[1] Additionally, the sovereign yield curve can have a benchmark role in corporate capital market financing since issuance activity in the wholesale capital markets is likely to grow in the coming years due to regulatory requirements for banks, namely the Minimum Requirement for Own Funds and Eligible Liabilities.

- Maintenance of the stand-alone website and of mailing list which investors can subscribe to.

Box: Disclosure of information to market participants

All publications are prepared by the Public Debt Management Office with the aim of maintaining information flow towards the investor community and international financial institutions. All publications are posted on the PDMO website.

Medium Term Public Debt Management Strategy
Designed on a three to five-year basis, provides the outline of government policy for financing and public debt related matters, projected gross financing needs and the desired cost-risk outcome of the debt portfolio. It is approved by the Council of Ministers through submission by the Minister of Finance.

Annual Public Debt Management Report
Communicated by the Minister of Finance to the Budget and Finance Committee of the Parliament, it includes the following:

- Developments in Cypriot and eurozone capital markets
- Debt structure
- Debt operations of the year in review
- Risk management and risk indicators
- Review of annual actions and operations towards MTDS targets

Auction Calendar
Published twice annually, it is the calendar of monthly Treasury Bill auctions

Quarterly debt bulletin
Presents a review of the quarterly debt management operations, auction results, secondary market yield developments and main statistics, compared to previous quarter and respective quarter of previous year.

Quarterly statistics
These comprise a full list of the central government debt by instrument and the maturity profile

Bi-annual risk indicators
Timeseries of main indicators for refinancing, currency and interest rate risk.

Newsletter on economic developments
Main events and data on all recent developments in macroeconomy, banking, fiscal and public debt management of Cyprus. Published at least quarterly.

Investor Presentation
Published at least quarterly, it includes latest information and forecasts on macroeconomy, public finances, financial sector and public debt management.

6.3. Relation to MTDS 2016-2020

The main pillars for the MTDS 2020-2022 remain the same as in the previous strategy period, as their consistent implementation has evidently led towards the overall public debt management objective. The chosen strategy for 2020-2022 corresponds and builds upon the benchmarks reached in the previous period.

The main quantitative target for refinancing risk is changed from the Average Term to Maturity to the gross financing needs due in relation to GDP, as the latter has been in practice a stronger driver of decision making. The share of short-term debt in the total debt outstanding, as well as a prudential liquidity requirement were both elements found in the previous strategy as well. Similarly, quantitative targets for the interest rate and foreign exchange risk were also components of the risk mitigation guideline in the previous strategy.

The guideline on government debt market development has been broken down into the primary and secondary market components, to direct focus on both areas. The targets set for the primary market, while found in the previous strategy in a more vague form, are more formalised in the current strategy. Moreover, with the set-up and evaluation of the bank group secondary market activity, the secondary market objective is more concrete and demanding.

The guidelines on investor relations remain broadly the same. Compared to 2016, there number of publications available to investors is streamlined and the presence of the PDMO in investor fora and roadshows has been established.

6.4. Risks to the strategy implementation

While the current rating outlook of the Republic of Cyprus is assessed by major credit agencies as stable, the rating of BBB-/BBB(L) is the lowest grade in the investment grade category. Any serious events which will cause the rating outlook to deteriorate or the rating to be changed downwards to non-investment grade category will inevitably cause an increase in the borrowing cost as the investor pool would change and Cyprus would fall out of any supporting measures of the European Central Bank.

Moreover, any unexpected increase in financing needs to levels beyond the attainable issuance capacity in the international market will shift borrowing towards the domestic market, likely at higher cost. Notwithstanding this, given the continuing improvement in the fundamentals of the banking sector any sizeable sudden increase of expected financing needs is progressively less likely to happen.

Regulatory changes in the treatment of sovereign exposures in the banks' balance sheets will likely reduce demand for sovereign bonds, particularly if the exposure limit is related to credit rating of the underlying sovereign.

The likelihood of interest rate reduction or other means of quantitative easing is expected to cause stronger demand for those sovereign bonds which still bear positive yield rates and constitutes an upside risk.

7. Final provisions

The PDMO may deviate from the Strategy if important market or economic circumstances constitute it a necessary or appropriate action after approval of the Minister of Finance. While the strategy allows for some flexibility, accountability and transparency of actions and decision-making will be simultaneously strived.

With the adoption of the Strategy 2020-2022 the MTDS 2016-2020 becomes void.