

Statement by the European Commission, the ECB and the IMF on Cyprus

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Staff teams from the International Monetary Fund (IMF) and the European Commission (EC), in liaison with the European Central Bank (ECB), visited Nicosia during July 14-24 to review Cyprus's economic reform program. Cyprus's program, which is supported by financial assistance from the European Stability Mechanism (ESM) and the IMF, aims to promote economic recovery and job creation by restoring financial sector stability, strengthening the public finances, and implementing reforms to increase long-run growth.

The teams have reached staff-level agreement on policies that could serve as a basis for completion of the review, reflecting the progress and policies under the program. The financial situation of the banks is gradually improving, and there is tentative evidence that the slow pace of debt restructuring is picking up. The fiscal targets in the first half of 2015 were met with substantial margins. In addition, the authorities are making progress on their structural reform agenda.

The authorities' commitment to the program is bearing results in several areas, with the economic recovery starting in early 2015 and unemployment starting to decline from still-high levels. Looking ahead, increasing the pace of reform will be essential. Notably, addressing the excessive level of non-performing loans in the banking system remains the number one priority. It is a necessary condition for a sustainable stabilization of the banking system and will require further steps as a matter of priority. To this end, legislation to expedite the transfer of title deeds and to facilitate the sale of loans should be adopted as soon as possible. The authorities should also make all necessary efforts to effectively implement the new insolvency and foreclosure legal frameworks. Continued sound public finances are needed to ensure that public debt returns to an acceptable level while steering public spending toward growth-enhancing activities. Finally, firmly moving ahead with structural reforms—including the privatization process and the public administration reforms—is critical to cement the improvements in public finances and restore sustained economic growth.

Conclusion of the reviews is subject to the approval processes of both the European Union and the IMF, which is expected to be initiated in September/October.