PRESS RELEASE

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

16 November 2015

Staff teams from the International Monetary Fund (IMF) and the European Commission (EC), in liaison with the European Central Bank (ECB), visited Nicosia during November 3-13 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 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 policy commitments under the program. Economic activity has continued on a positive trend since early 2015, while the banking system continues to heal. Although there is evidence that the slow pace of debt restructuring is picking up, non-performing loans (NPLs) remain high and the pace of lending is subdued. The fiscal targets for the third quarter of 2015 were met with substantial margins. In addition, the authorities are making progress on their structural reform agenda.

Looking ahead, increasing the pace of reform under the program will be essential to entrench the progress achieved:

- Notably, reducing the excessive level of NPLs remains the number one priority. It is a necessary condition for a sustainable stabilization of the banking system and the resumption of lending. In this context, the teams take note of the recent adoption of a law to facilitate the sale of loans, which is a key program commitment. A preliminary assessment indicates that the law contains a number of favorable elements. The final assessment will be based on the consolidated official version and implementing regulations. Going forward, the authorities should take all necessary actions to effectively implement this legislation, as well as the insolvency and foreclosure frameworks, in order to decisively reduce NPLs.
- Moreover, continued sound public finances are needed to ensure that the public debt ratio returns to an acceptable level while steering public spending toward growth-enhancing activities. Finally, moving decisively ahead with structural reforms—including, first and foremost, the privatization process, electricity sector unbundling and the public administration reforms—is critical to cement the improvements in public finances and support sustained economic growth and job creation.

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 January 2016.