



Cyprus' economic adjustment programme – latest developments

(as of 18 December 2014)

- The fifth update of the Memorandum of Understanding (MoU), which was signed by Cyprus and the European Commission on 9 December, included two policy actions to be met prior to the disbursement of the sixth tranche of financial assistance: (a) approval by the Council of Ministers of the Insolvency Framework (§1.32) and (b) adoption by the House of Representatives of the Foreclosure Bill (§1.34). Both prior actions concern the legal framework for private debt restructuring and are essential to make progress in addressing the high and growing level of non-performing loans in Cyprus.
- On 6 November, the Eurogroup welcomed the progress that Cyprus has made in putting in place an effective legal framework for private debt restructuring, in compliance with prior actions for the 5th review. On 12 November the EWG confirmed Cyprus' compliance with prior actions and the political agreement in principle, to proceed with the 6th disbursement of €350 million by the ESM. The EWG at the same time noted that if a parliamentary bill were to be successfully voted into legislation, which would reverse this situation (current state of compliance with prior actions), the process towards disbursement would be paused. This was a reaction to the Commission's Prior Action note of 4 November, which pointed to the risk that new hindrances for an effective foreclosure framework could arise before the disbursement.
- On 8 December, the ESM Board of Directors approved the disbursement of the sixth tranche under the Cypriot FFA, which amounts to €350 million and will be used for budget financing and debt servicing needs. The disbursement took place on 15 December on the basis of Cyprus' compliance with the prior actions as the Foreclosure Bill has been in place since 6 September 2014 and no new hindrances for an effective foreclosure framework had arisen since the November EG and EWG meetings.
- On 18 December, the House of Representatives in Cyprus decided to suspend the implementation of the Foreclosure Bill until January 30th 2015. The law suspending the Foreclosure Bill was voted by all main opposition parties (DIKO, AKEL, EDEK) against the governing party (DISY), with 34 votes against 19. The motivation stated by the opposition parties relates to delays in adopting the legislation for a modernised Insolvency Framework.
- The immediate implementation of the Foreclosure Bill, except for primary residences, was set as a prior action for the conclusion of the 5th review both for the euro area Member States (the MoU) and for the IMF (the MEFP). The meeting of the Executive Board of the IMF had been scheduled for 19 December with a view to concluding the review, which would make available SDR 74.25 million (about €86 million) for disbursement in the coming days. To that end, preparatory meetings have taken place and draft statements have been prepared. With the suspension of the Foreclosure Bill, it is expected that the meeting of the Executive Board cannot take place as planned and the conclusion of the review by the IMF would be postponed.