

The Economic Adjustment Programme for Cyprus

Following a request by Cyprus on 25 June 2012, the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) finally agreed a 3-year Economic Adjustment Programme (2013-2016) with the Cypriot authorities on 2 April 2013. The Programme was agreed by the euro-area Member States on 24 April 2013 and by the IMF Board on 15 May 2013. The financial package will cover up to EUR 10 billion, including EUR 1 billion from the IMF.

In the last decade, Cyprus was increasingly faced with serious challenges in terms of unsustainable external and internal macroeconomic imbalances such as the erosion of its international competitiveness, the deterioration of public finances, the oversized banking sectors, the accumulation of private sector debt and the significant increases in the property prices. While some imbalances have only emerged following the sharp recession and the collapse of the domestic credit boom, others have been building up over the past decade.

Amidst concerns about the sustainability of its public finances and a weakened financial sector, the Cypriot authorities requested financial assistance from euro area Member States and the IMF on 25 June 2012. In March 2013, the Eurogroup reached a political agreement on the key elements of an Economic Adjustment Programme for Cyprus with a financial envelope of up to EUR 10 billion, including the restructuring and substantial downsizing of the banking sector and the reinforcement of efforts on fiscal consolidation, structural reforms and privatisation.

The Programme aims at restoring financial market confidence, re-establishing sound macroeconomic balances and enabling the economy to return to sustainable growth. To achieve these goals, the Programme builds on three pillars:

- (1) Ambitious measures to address the deep banking crisis, with efforts to address capital and liquidity shortfalls.
- (2) Determined action to continue the ongoing process of fiscal consolidation.
- (3) Ambitious structural reforms to support competitiveness and sustainable and balanced growth,

The report provides a background to the Programme and builds on the documents agreed with the Cypriot authorities.