

Public Debt Management and Debt Market Development in Cyprus: Evolution, Current Challenges and Policy Options

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Abstract

The main objectives of this paper are to describe the evolution and current challenges of public debt management and debt market development in Cyprus in order to identify relevant policy options for the authorities. Although significant progress has recently been made in terms of using market-based mechanisms and adopting a more sound public debt composition, there remain important weaknesses that need to be addressed in view of the forthcoming Eurozone entry. Three main (and mutually reinforcing) challenges are identified and analyzed: institutional arrangements for public debt management, modernization of the government debt market, and upgrading investment management skills of domestic institutional investors. The proposed reform agenda is fairly ambitious and calls for an integrated approach given the inter-linkages between reforms. What is important going forward is for the authorities to promptly resolve outstanding issues and prepare the groundwork for the introduction of these reforms via a carefully sequenced roadmap.

Keywords: Cyprus, public debt management, debt market development.