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BOND ISSUE

Cyprus' recession-bashed economy is on the mend, but the International Monetary Fund says there is more work to be done, while pin-pointing the steps to a full recovery.

Although Nicosia is due to exit the bailout programme in spring 2016, the IMF's resident representative Vincenzo Guzzo said Cyprus "could and should double its efforts to make the country a better place to do business".

"Initiatives should seek to strengthen the legal system, loosen access to closed professions, remove barriers to competition, reduce red tape and foster innovation," Guzzo told the Cyprus Weekly.

"These are all steps that would catalyse investment, thus helping to support competitiveness and job-rich growth."

A more immediate target is to quicken the pace of restructuring non-performing loans. This includes passing sound legislation allowing third parties to purchase loans from banks while protecting consumer rights and improving the efficiency of civil procedures and limiting court delays, said Guzzo.

He urged the government not to let up on its privatisation agenda.

"The main aim of privatisation is to realise critical long-run benefits to the economy."

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STORMY WEATHER: *Areas of Larnaca experienced flashed flooding yesterday, following torrential rainstorms across the district, which caused havoc on the roads and saw homes flooded. Villages hit by the downpour were Kofinou, Mazotos, Anglisides, Skarinou and Ayios Theodoros where the river Pentaschinos overflowed*

Photo: **Larnaca Press / Takis Antoniades**

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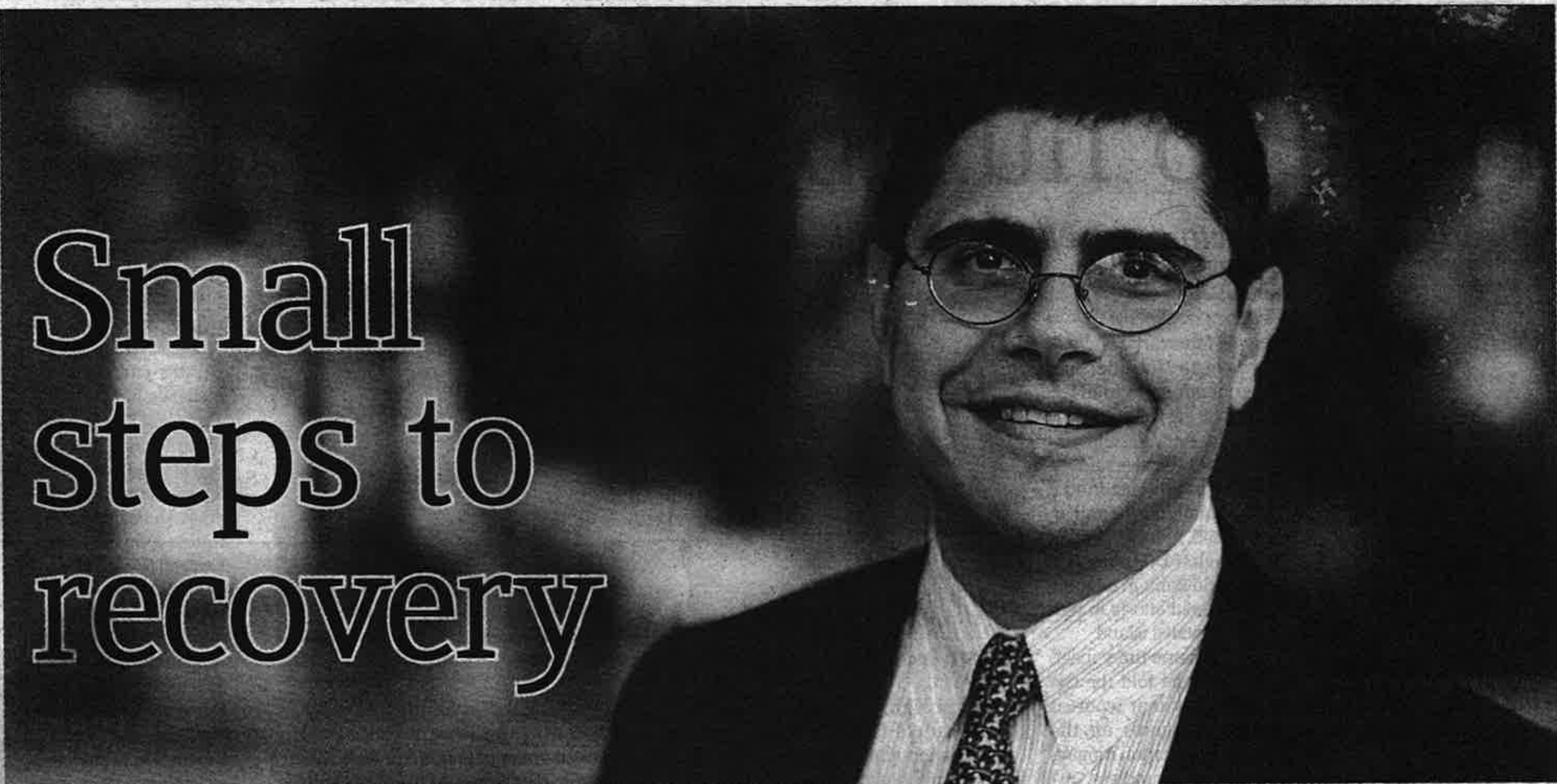

Small steps to recovery

Bad loans are hurting the economy but the IMF sees the tide turning

By **Annie Charalambous**

The pace of restructuring non-performing loans in bailed-out Cyprus has accelerated recently but there is a lot more work to do, IMF's resident representative Vincenzo Guzzo told the Cyprus Weekly in an interview.

And a few targeted steps may bring further good results, added the in-country liaison between the Fund and Cypriot authorities.

"There are encouraging signals. The pace of NPL restructurings has accelerated recently and an increasing number of agreements are now based on long-term sustainable solutions instead of temporary stop-gap measures, like grace periods," Guzzo said.

"The main aim of privatisation is to realise critical long-run benefits to the economy"

"But, despite these efforts, the amount of restructured loans is still a fraction of total NPLs. There is a lot more work to do. A few targeted steps may bring further good results," he added.

One such step would be passing sound legislation allowing third parties to purchase loans from banks while protecting consumer rights.

In addition, there is scope to improve the efficiency of civil procedures and limit the court delays.

Guzzo also said that the new insolvency and foreclosure frameworks are major steps forward but include some provisions that may weaken their own effectiveness.

And they may require a comprehensive review once sufficient evidence about their implementation is gathered, he warned.

Last month, the IMF board endorsed Cyprus' latest review of the bailout program and approved the release of €126 million.

But it also underlined the importance of strengthening bank balance sheets in order to create an environment that can support sustained growth.

"Achieving concrete progress in NPL restructuring is vital to strengthen the balance sheets of banks and borrowers. This will allow banks to create space to extend new credit to families and corporations, and to do so on better terms. In turn, this will support growth and jobs," Guzzo said.

"The good news is that a lot of work has already been done in laying the ground for resolving the problem. A new legal framework for private debt restructuring has been developed and made operational. Banks have put in place internal NPL workout units."

In addition, the Central Bank of Cyprus has set up a system to monitor the performance of the banks against agreed targets.

And temporary tax relief for capital gains on property transactions and reduced transfer fees have increased incentives to find restructuring solutions.

At the same time, Guzzo made clear the IMF is not concerned over the much-publicised clash between Central Bank Governor Chrystalla Georghadji and President Nicos Anastasiades.

"The IMF does not comment on personnel issues, and is confident that the relevant laws and treaties will be transparently applied."

Delayed privatisation

There have been delays but the challenging privatisation agenda aiming to maintain the reform momentum is moving ahead, said Guzzo before raising a misinterpreted key point.

"The privatisation of these enterprises is often portrayed as a way to raise short-term revenue for the state budget. On the contrary, the main aim of privatisation is to realise critical long-run benefits to the economy."

The Council of Ministers has approved the legislation to convert Cyprus Telecommunications Authority into a limited liability company.

And the government has made good progress towards agreeing with the unions the status of Cyta employees following the privatisation.

These discussions took longer than expected and, as a result, the transfer of the company into private hands is now envisaged to happen a few months after the end of the bailout programme.

"But, again, things are moving ahead. As for the commercial activities of the Limassol port, the transaction is expected to be finalised in early 2016."

IMF: *Thumbs up for Cyprus*

People power at work

One more important aspect of Vincenzo Guzzo's position is to maintain an open dialogue with all relevant stakeholders in the country, including trade unions, the private sector, academics, and non-governmental organisations.

"I was part of the team that negotiated the current Fund programme, and I have lived in Cyprus since September 2013. The generosity and kindness of the Cypriot people have made me feel very welcome," Guzzo said.

Guzzo also said the bailout programme is scheduled to end in the spring of 2016 but the reform agenda should not stop then.

"There is more to be accomplished...For instance, Cyprus could and should double its efforts to make the country a better place to do business."

"Initiatives should seek to strengthen the legal system, loosen access to closed professions, remove barriers to competition, reduce red tape and foster innovation," he added.