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Changes to the legislative framework

Haviaras & Philippou LLC examines the changes after accession to the Stability Mechanism

In late June 2012, Cyprus, due to a large deficit both in the public and banking sector, applied to the European Stability Mechanism and subsequently entered into a debt restructuring programme under the supervision of the International Monetary Fund (IMF), the European Union and the European Central Bank. In March 2013 the Eurogroup decided on a haircut to two of the deposits in two of the largest banks in Cyprus. The immediate effect was that a relevant law had to be approved by the house of parliament approving the said haircut. The immediate reactions were not at all positive neither from the general public nor the house of representatives. Finally the relevant law was approved by the majority in the house of parliament. In both Cyprus and Europe, a large portion of the population disagreed and disapproved the decision Cyprus made as to the forced haircut imposed by the Eurogroup in order for help from the IMF to continue. In Cyprus even though the general public was under the impression that despite onerous conditions imposed Cyprus would have no other alternative but to overcome the crisis and use the financial assistance, the Europeans believed that Cyprus would hardly manage to overcome the economic problems it was facing due to the unwillingness of Cypriots to accept the necessary sacrifices needed.

Nevertheless the financial support to Cyprus was granted and the country has, for the last 18 months, been following strictly all procedures in the programme so as to achieve economic recovery. The programme agreed for Cyprus aims to restore the stability of the financial sector, strengthen the sustainability of public finances and adopt structural arrangements to support long-term growth, securing at the same time the welfare of citizens and businessmen who choose Cyprus as their favourite jurisdiction.

According to the latest assessment of the Troika, Cyprus has successfully met the provisions of the mechanism provided and it seems that economic recovery is not long away. So what has been proven to date is that as far as Cyprus remains in orbit, macroeconomic and financial results are better than expected. The budgetary targets for 2013 were achieved because of the ongoing, prudent and faithful implementation of the mechanism. Recession, 18 months after the implementation of the consolidation program is less pronounced than was expected, while the contraction of GDP is around 6% in real terms, ie 2% less than that predicted at the previous assessment of the country's programme.

Despite the fact that GDP is expected to shrink further during 2014, growth is foreseen in 2015 with a rate of 1%. This positively affects both the domestic market and foreign companies that are based or have interests in Cyprus.

The financial challenges that Cyprus faces not only have an impact on the country's economy but also the existing legislation. Due to this, in the near future reform of existing, and the implementation of new, legislation are expected to take place so as to achieve the desired results quicker.

A major hassle to our economy is the non-performing loans the banks and co-operative institutions have. In order to facilitate the consolidation of the balance sheets of banks and reduce the debt of the private sector, to restore credit and get the country back to economic growth, a suitable legal framework for restructuring is necessary.

> Cyprus is the first country in the economic recovery programme that has not only achieved its fiscal targets but outgrown them.

The authorities will carry out reform of the legislative framework regarding some of the following matters which will have an immediate and positive effect.

INSOLVENCY

Basically, it is necessary to create a framework to prevent borrowers from being in default of their obligations to financial institutions and at the same time to give viable borrowers the chance of existing debt restructuring. To do this the state will subsequently reform the legal framework of the forced sale and disposal of property to meet an adequate level since the one existing now has proven to be inadequate. Scholars believe that such change will be considered as a 'motive' that will encourage borrowers to meet their obligations.

AUCTIONS ON BOTH IMMOVABLE AND MOVABLE PROPERTY

The legislation regarding auctions for execution of judgments is expected to be amended around June 2014 as well to help banks restore their deficits created due to loans being in default for so long.

BANKING REGULATIONS

The implementation of regulatory and supervisory arrangements in relation to the banking sector is expected to continue, but of course with progressive relaxation. The objective is none other than the normalisation of flows of the economy and the preservation of financial stability. In parallel with the implementation of supervisory and regulatory arrangements the combating of money laundering will be studied and improved.

PRIVATISATION OF STATE-OWNED ORGANISATIONS

The reform of the legal framework regarding privatisation of government-managed organisations is considered to be extremely important. Since this was already agreed upon certain requirements, in numerous discussions the Troika has insisted that this is a prerequisite for the release of the March instalment to Cyprus. The government started moving forward to achieve the goal even though the reaction of the population was not all positive and finally this was achieved through legislation that was passed by a very tight majority. The Troika believes that the alteration of the legal framework in this section will not only assist in improving public finances but it will be an incentive to attract foreign investors in Cyprus, which will help enormously with the stabilisation of the island's economy.

In order to make good management of public finances, which is another reason that led the country to today's stability mechanism, the implementation of legislation on fiscal responsibility and budgeting systems seems obligatory to restore the confidence for the financial system and business development.

The changes and legislative reforms are expected to be for the benefit of the economy, its citizens and businesses in Cyprus. Cyprus is the first country in the economic recovery programme that has not only achieved its fiscal targets but outgrown them.

Furthermore, foreign companies and organisations that are based in Cyprus are expected to remain, as this is the case to date, due to the stability shown through the years as well as the performance of the country from the time it entered into the programme of the stability mechanism. The challenge now is for the country to maintain the momentum so as to restore the country's reputation as a business destination of commercial and business development for all.

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