

Questions on the effects of foreign debt on the full enjoyment of all human rights

Question 1:

In general, lending and borrowing constitute an indispensable tool for promoting economic growth, which in turn, unavoidably increases private debt (household and corporations).

However, when private debt reaches excessive levels, it leads to negative economic and social repercussions, impacting income levels and living standards.

In particular, excessive borrowing might lead to difficulties in repaying in full the debt obligations, with implications for consumption and investment. Moreover, the banking sector might be reluctant to provide liquidity in the real economy even for viable projects, when private debt is excessive and there is a significant level of non-performing loans in the banking sector.

As far as private debt overhang in Cyprus is concerned, even though it is still high, it is on a downward trend. In particular, private debt in Cyprus dropped from 282.6% of GDP in 2018 to 261% in 2019Q2¹.

In the economic analysis, it is important to take into account the fact that considerable percentage of households in Cyprus that do have loans also have a significant amount of deposits, which outweigh their loans. Moreover, one should note that the bulk of household debt relates to the purchase of real assets, which are mainly primary residences.

Furthermore, based on macroeconomic forecasts, it is projected that for 2020-2023 under a conservative scenario, the GDP growth rate in Cyprus is expected to rise by more than 2 p.p. per year, ensuring a steady growth path necessary to reduce private debt as a percentage to GDP.

Question 4:

It is a fact that effective national insolvency laws can positively contribute in tackling high private debt.

In particular, they can:

- safeguard the repayment of viable debt

- contribute to reducing the negative impact of high private debt on economic activity by freeing resources trapped in non-productive activities.

¹ Cyprus hosts a large number of Special Purpose Entities (mainly ship-owning companies), whose assets and liabilities strongly affect the external statistics of the country. Excluding SPEs, private debt is lower by around 66 percentage points in 2019Q2.

-mitigate the costs associated with bankruptcy by providing a transparent and expeditious process of resolving unsustainable debt.

The Insolvency Framework in Cyprus has been recently revised and strengthened, removing impediments to the restructuring process, amending definitions to ensure effective restructurings and removing all protection in case a borrower who receives state subsidy, defaults.