

SUPPLEMENTARY OFFERING CIRCULAR DATED 19 January 2010



Republic of Cyprus

acting through the Central Bank of Cyprus

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Euro Medium Term Note Programme

This Supplement (the “**Supplement**”) to the Offering Circular dated 11 January 2010 (the “**Offering Circular**”), is prepared in connection with the Euro Medium Term Note Programme (the “**Programme**”) established by the Republic of Cyprus acting through the Central Bank of Cyprus as issuer (the “**Republic**”). This Supplement is supplemental to, and should be read in conjunction with, the Offering Circular and any other supplements to the Offering Circular issued by the Republic.

The Republic accepts responsibility for the information contained in this Supplement. The Republic, having made all reasonable enquiries, confirms that the Offering Circular, as supplemented by this Supplement, contains all information with respect to the Republic, the Programme and the Notes to be issued under the Programme which is material in the context of the issue and offering of the Notes, there are no untrue statements of material fact contained in the Offering Circular, as supplemented, in relation to the Republic, there is no omission to state a material fact which is necessary in order to make the statements made in the Offering Circular, as supplemented, in relation to the Republic or the Programme or the Notes in light of the circumstances under which they were made not misleading, the opinions and intentions expressed in the Offering Circular, as supplemented, with regard to the Republic are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions and all reasonable enquiries have been made by the Republic to ascertain such facts and to verify the accuracy of all such information and statements.

This Supplement has been prepared for the purposes of amending certain sections of the Offering Circular entitled “*The Economy*” and “*Public Finances*”.

Capitalised terms used in this Supplement shall have the meanings attributed to them in the Offering Circular, save as the context otherwise requires.

1 The Economy

The section of the Offering Circular entitled “*The Economy*” appearing on pages 39 to 41 (inclusive) shall be deleted and replaced with the following:

“The Economy

BACKGROUND AND CHARACTERISTICS

The basic characteristics of the Cypriot economy are the small size of its domestic market and business units, its open character and its significant reliance on international trade. Imports and exports of goods and services accounted for approximately 104 per cent. of nominal gross domestic product (“GDP”) in 2008.

The structure of the economy of Cyprus is characterised by the importance of tourism and other private services. Cyprus has moved from being an exporter of minerals and agricultural products in the 1960-74 period and an exporter of manufactured consumer goods in the second half of the 1970s, into an international tourist centre and a regional services centre during the 1980s and the 1990s. From the 1990s and extending into the current decade there has been a rapid expansion of transit trade, shipping, telecommunications, financial and business services and the activities of international companies.

Indeed, the fast growth of the export of services other than tourism has constituted one of the main driving forces of the Cypriot economy. With EU accession in May 2003 Cyprus became the EU's eastern-most frontier, at the crossroads of three continents, Europe, Africa and Asia.

On a sectoral basis, the primary sector has declined from 4 per cent. in 2000 to under 2.5 per cent. in 2008. The secondary sector, including manufacturing, basic utilities and construction, has kept its share in GDP in the 18 to 19 per cent. range during the current decade with the decline in the importance of manufacturing being offset by the expansion of construction activity. In contrast, the tertiary sector's share in GDP has risen from 77 per cent. in 2000 to around 79 per cent. in 2008.

SATISFACTORY PRODUCTION AND EMPLOYMENT GROWTH

Over the last decade Cyprus has experienced a relatively high rate of economic growth accompanied by stable macroeconomic conditions and full employment. Over the last five years, from 2003 to 2008, real GDP rose at an annual average rate of 3.8 per cent. propelled by buoyant investment and private consumption growth. Consumption was supported by annual employment growth averaging nearly 2.7 per cent. over this period, attributable importantly to large inflows of migrant labour, particularly from other EU countries. During this period per capita income in Cyprus converged rapidly with the EU-27, with GDP in euro per capita terms reaching almost €22,000 in 2008, or some 95.8 per cent. of the EU average in purchasing power parity terms.

The unfolding international economic crisis, which has deepened appreciably since September 2008, has had a major impact on world growth and the EU. Cyprus was affected indirectly after a period of time, mainly through lower external demand. Indeed, while growth in the EU and elsewhere declined significantly in the second half of 2008 and first half of 2009, it remained positive in Cyprus. This can be partly explained by the healthy banking system of Cyprus, which had limited exposure to toxic products and hence has exhibited strong capital adequacy and liquidity ratios.

The significant decline of external demand affected Cyprus mainly as of the third quarter of 2009. Exports of goods fell by some 18 per cent. in the first ten months of 2009. Similarly, export of

services, mainly due to lower tourist revenue, declined by some 8 per cent. in the first six months of the year. Investment was also affected by lower external demand for investment in housing by foreigners (mainly UK and Russian citizens), and more broadly by declines in investment in machinery and equipment. Consumption growth decelerated, while public consumption remained buoyant. The falling external demand was compensated by two fiscal stimulus packages introduced by the Government, in line with the European Economic Recovery Plan, and mainly targeting the tourism and construction sectors. Based on currently available data, GDP is forecast to decline by some 1 per cent. in 2009.

The following table shows details of GDP at constant 2005 prices and certain other key economic indicators:

	2003	2004	2005	2006	2007	2008 ¹	2009 (projections)	Average growth rate or level, 2003 to 2009 (%)
(€ million)								
Gross Domestic Product (GDP)	12,430	12,955	13,462	14,018	14,737	15,270	15,120	3.1
Primary sector.....	398	392	381	346	339	336	332	(3.4)
Secondary sector.....	2,205	2,271	2,313	2,339	2,452	2,550	2,370	1.8
- Manufacturing	1,069	1,075	1,069	1,016	1,037	1,071	996	(0.6)
- Construction	903	951	992	1,059	1,141	1,192	1,078	3.7
Tertiary sector.....	8,584	8,989	9,412	9,920	10,460	10,845	10,894	3.7
Domestic Demand								
Private consumption	7,842	8,351	8,699	9,104	9,956	10,794	10,735	5.0
Fixed investment.....	2,239	2,498	2,599	2,865	3,250	3,529	3,235	6.0
Exports of goods and services	5,881	6,203	6,505	6,735	7,145	6,998	6,057	(0.6)
Imports of goods and services	5,992	6,607	6,851	7,312	8,284	8,943	7,188	3.2
Memorandum Items								
Per capita GDP at current prices (€).....	16,102	16,890	17,566	18,538	20,118	21,644	21,385	5.7
Per capita GDP at PPS ² (EU27 = 100)	88.9	90.3	90.9	90.2	93.6	95.8	-	n.a.
Unemployment rate (%).....	4.1	4.7	5.3	4.5	3.9	3.7	5.5	4.5
Employment growth (%)	2.4	3.2	2.2	2.3	3.1	2.8	(0.7)	2.2

Notes:

¹ Preliminary estimate.

² "PPS" means "Purchasing Power Standards".

Source: Ministry of Finance

MODEST INFLATION RATE

Prudent fiscal and monetary policies contributed to bringing the rate of inflation (based on the Harmonised Consumer Price Index ("HCPI") definition Eurostat) from just over 4 per cent. in 2003 to around 2 per cent. in the following years through to 2007. However, under the impact of rising energy and other commodity prices as well as rapid credit expansion domestic prices surged in the first part of 2008 with headline inflation reaching 5.3 per cent. in July 2008. But in line with sharply falling oil prices, headline inflation decelerated to 1.8 per cent. by December 2008, with increase in the HCPI averaging 4.4 per cent. in 2008. In 2009 inflation has fallen significantly, mainly owing to lower oil prices, and is expected to average below 0.5 per cent. for 2009.

LABOUR MARKET PRESSURES

The rapid growth of the Cypriot economy has produced conditions of virtual full employment and placed pressures on the labour market in the period from 2003 to 2008. Despite the alleviation of the pressures by large increases in the import of foreign labour and increased employment of Turkish Cypriots, the unemployment rate has been contained at around 4 per cent. Also, while the employment of foreign workers has raised flexibility in labour markets and moderated the growth in wages in the private sector, generous wage settlements particularly in the public and banking sectors have kept real wage increases in excess of labour productivity gains for the overall economy.

Some slackening in the growth of real economic activity and the edging up of unemployment in recent months and lower inflationary expectations is likely to lead to a moderation in overall wage increases in 2009 and 2010.

The impact of the crisis on the Cypriot economy is mainly attributed to the deteriorating export demand, which mainly affects the sectors of manufacturing, construction, real estate and tourism. The deceleration of these sectors has had repercussions in the employment of workers, in these areas of the economy. The unemployment rate has consequently edged up from 3.7 per cent. of the labour force in 2008 to an estimated 5.2 per cent. in 2009.

The following table shows labour market and rate of inflation changes, for the periods indicated:

	2003	2004	2005	2006	2007	2008	2009 (projections)	Average growth rate or level 2003-2009 (%)
Population (000s, mid-year)	730.4	749.2	766.4	778.7	789.3	796.9	807.3	2.0
Labour Force (000s, mid-year)	341.2	354.7	367.5	374.3	393.4	397.4	402.5	3.6
Gainfully employed, (Labour Force Survey) (000s, mid-year)	327.1	338.0	348.0	357.3	377.9	382.9	380.3	3.2
Unemployment rate (Labour Force Survey) (%)	4.1	4.7	5.3	4.5	3.9	3.7	5.2	4.4
Productivity gains (%)	(0.4)	1.0	1.7	1.8	2.0	0.8	(0.3)	0.9
Nominal earnings growth (%)	6.3	4.3	3.9	4.8	3.7	7.4	4.9	5.0
Real Earnings growth (%)	2.0	1.9	2.7	2.3	1.3	2.7	4.6	2.5
Unit labour cost changes (%)	6.8	3.3	2.1	3.0	1.7	6.6	5.2	4.1
Rate of inflation, HCPI (%)	4.0	1.9	2.0	2.2	2.2	4.4	0.2	2.4

Source: Ministry of Finance"

2 Public Finances

The section of the Offering Circular entitled “*Public Finances*” appearing on pages 44 to 48 (inclusive) shall be deleted and replaced with the following:

“Public Finances

GENERAL - POLICY STRATEGY

The general government nominal budget surplus exhibited a decline in 2008 and is currently estimated to have recorded a surplus of 0.9 per cent. of GDP compared with a surplus of 3.4 per cent. in 2007. The decline of the budget surplus is primarily attributed to the deteriorating external environment and the resulting marked slowdown in the activity of the real estate sector. Expenditure developments were also unfavourable, mainly due to higher social transfers, as well as, the severe drought conditions that prevailed on the island, which led to extraordinary expenditures for maintaining water supply.

At a time of intense financial market turbulence and the growth slowdown internationally, fiscal policy must remain flexible to respond, if needed, to a more marked deterioration in the macroeconomic outlook. Notwithstanding the challenging external environment, the overall strategy for fiscal policy is to maintain a sound budgetary position, with a view to reducing further public debt and, thus, addressing the long-term sustainability of public finances. Particular emphasis is placed on the need to curtail current public consumption expenditure and restructure public spending, in favour of capital expenditure, research and education, which can boost the economy's growth potential. Emphasis is also attached to targeted social spending. Redirecting resources towards infrastructure is particularly important at this point due to the expected weakness of the construction sector.

Overall policy strategy is based on six key pillars:

- The implementation of a Medium-Term Budgetary Framework (“MTBF”), which will institutionalise expenditure and programme-based rules, give more independence to spending ministries and, at the same time, increase their accountability for achieving programmes and quantifiable targets;
- Strengthening social cohesion, with particular emphasis on raising the standard of living of pensioners. Priority will be attached to households with at least one pensioner living below the relative poverty measure, as well as, to the reform of the social welfare system in general;
- Implementation of structural reforms as outlined in the National Reform Programme of Cyprus;
- The modernisation of the public sector, which will result in leaner and more productive public services. Such a policy will limit expenditure growth and raise overall productivity. Particular attention will be placed on the wage policy for public sector employees, given its significant impact on overall wage developments;
- Enhancement of public debt and cash management systems; and
- Further improvement of tax collection by addressing tax evasion and strengthening tax administration.

In spite of the unfolding economic crisis and prospective slowdown of economic activity in the EU and Euro area, and conscious of the need to safeguard the important achievements thus far, the

Medium-Term Objective ("MTO") of a balanced budget is retained. This represents a cautious approach taking into account the uncertain economic period, which is now being faced.

The prudent fiscal policies followed during "good times", when cyclical conditions were favourable and unemployment low, provide the fiscal room necessary for manoeuvre, especially given the external environment anticipating a severe global downturn.

In view of the challenging economic environment, the implementation of sound macroeconomic policies, especially in the area of public finances and incomes policies, becomes even more important. The responsibility of Cyprus as a euro area member state is to make the right strategic choices and take advantage of the merits of monetary union. The impressive results in the area of public finances, in recent years, has placed Cyprus in a better position to adjust to the rapidly deteriorating external environment and achieving progress with institutional and structural reforms.

Medium-Term Objective

The country-specific MTO, that is, the cyclically-adjusted balance net of one-off and other temporary measures, of a balanced budget, has been respected over the period between 2006 and 2008. The final outturn for 2007 indicates that the country-specific MTO, of a balanced budget, has been achieved during that year, following a structural improvement of the order of 3.4 percentage points of GDP with the structural balance reaching a surplus of 2.9 per cent. of GDP in 2007, compared with a deficit of 0.5 per cent. the year before.

In line with the spirit of the revised Stability and Growth Pact, pro-cyclical fiscal policies were avoided. The structural position in 2008 was moderate and exhibited a surplus of 0.2 per cent. of GDP, mainly due to a slowdown in the activity of the real estate sector.

Actual Balances in 2008

The considerable improvement in public finances of 2007 has been followed by a partial turnaround in 2008, especially during the second half of the year. For the year as a whole, the budget balance receded to a surplus of 0.9 per cent. of GDP from a surplus of 3.4 per cent. in 2007 and a deficit of 1.2 per cent. in 2006.

On account of a primary surplus for a fourth consecutive year and the use of accumulated financial assets to repay maturing debt, the general government gross debt has been reduced to 48.4 per cent. of GDP by the end of 2008, compared with 58.3 per cent. in 2007.

The fiscal performance in 2008 reflects significant changes in both expenditures and revenues. Total expenditure increased by 0.3 percentage points, to 43.2 per cent. of GDP while revenue contracted by 2.3 percentage points, to 44.1 per cent. of GDP.

On the expenditure side, the severe drought conditions that prevailed on the island, led to the introduction of a compensation scheme for farmers as well as to the import of potable water from Greece at a total cost of some 0.7 per cent. of GDP. Concurrently, social transfers are anticipated to rise by around 0.75 per cent. of GDP owing to implementation of social measures introduced in late 2007, as well as, the gradual impact of population ageing.

The negative performance on the revenue side is, mainly, attributed to a decline in the activity of the real estate sector and the contained growth of corporate profits in the financial sector, following the exceptionally buoyant activity of 2007. In particular, depressed real estate activity led to significantly lower receipts from capital gains taxes and land and survey fees of around 2.1 per cent. of GDP.

In contrast, taxes on production and imports remained buoyant during the first three quarters of 2008, owing to strong private consumption and high commodity prices. During the last quarter of the year, taxes on production and imports exhibited a marked deceleration.

Following an estimated decline of revenues by 2.3 percentage points of GDP in 2008, owing to a decline in current taxes on income and wealth (mainly lower revenues related to the real estate sector), revenue will fall by a further 4 per cent. of GDP in 2009 and then gain on average approximately 0.3 per cent. of GDP annually over the period from 2010 to 2012.

Developments in 2009

Developments in 2009 were adversely affected by the global economic downturn. In 2009 in line with the European Economic Recovery Plan of the EU, the Cypriot government had adopted an expansionary fiscal policy stance, at a time when the economy was slowing down and direct and indirect tax revenues were decreasing, as a result of declining domestic demand and a slowdown in the property sector.

The general government balance is estimated to turn into deficit of 6.0 per cent. of GDP in 2009 compared with an estimated surplus of 0.9 per cent. in 2008.

The growth of total revenues is forecast to decline by approximately 10 per cent., and thus falling as a percentage to GDP to 39.4 per cent. compared with 44.1 per cent. the year before. The negative rate of growth is mainly attributed to a fall in tax revenues brought about by a decline in current taxes on income and wealth, as well as, taxes on production and imports. More specifically, land and survey fees and capital gains taxes on the one hand and VAT receipts on the other are forecast to continue to exhibit a negative growth, having a cumulative loss of around 3.75 percentage points of GDP.

Total government expenditure is estimated to increase by 5.3 per cent., and in conjunction with a negative nominal GDP growth, increase, as percentage to GDP, to 45.5 per cent. compared with 43.2 per cent. the year before. This rise is partly mitigated by an anticipated fall, in absolute terms and as a percentage to GDP in interest payments and costs associated with the importation of potable water and subsidies.

The following table indicates the basic fiscal values in percent of GDP for the period from 2004 to 2009:

	Year ended 31 December					2009 (pre-final)
	2004	2005	2006	2007	2008	
	(% of GDP)					
Total Receipts	38.7	41.1	42.2	45.5	44.1	39.4
Total Expenditure	41.7	42.6	43.4	42.2	43.2	45.5
Interest Expenditure	3.3	3.5	3.3	3.0	2.8	2.0
Primary Balance	(0.8)	1.1	2.1	6.4	3.7	(4.1)
Overall Balance	(4.1)	(2.4)	(1.2)	3.4	0.9	(6.0)

Source: Ministry of Finance

The Government, acknowledging the paramount importance of restoring the current fiscal stance of public finances and duly complying with the Stability and Growth Pact, is preparing a Fiscal Consolidation Programme 2010-2012, which incorporates effective measures targeting at enhancing revenues and constraining expenditure.

PUBLIC DEBT AND GOVERNMENT GUARANTEED DEBT

Public debt

Public debt consists of the domestic and external debt of the Government excluding public corporations and Government agencies borrowing in their own name (see "External Debt"). Public debt, excluding intragovernmental debt comprising mainly treasury bills held by the Social Security Funds, decreased by 9.9 per cent. of GDP in 2008 compared with a decline of 6.3 per cent. the year before.

As a percentage of GDP, total Government debt declined from 58.3 per cent. to 48.4 per cent. in 2008, with foreign debt marginally rising to 13.7 per cent. of GDP compared with 13.4 per cent. in the previous year. Long-term domestic debt declined from 43.6 per cent. of GDP in 2007 to 34.8 per cent. in 2008 and is composed primarily of development stocks held by the private and financial sector which in 2008 formed 42 per cent. of the total long term domestic debt.

Out of a total foreign public debt of €2,354.2 million outstanding at the end of 2008, €476.4 million was in the form of short-term Euro Commercial Paper, €1,050 million in European Medium Term Notes and €827.7 million was in the form of long-term loans, principally issued by the Council of Europe Development Bank and the European Investment Bank.

The following tables show a breakdown of Government debt as at the dates indicated:

	As at 31 December					2009
	2004	2005	2006	2007	2008	(pre-final)
			<i>(€ millions)</i>			
Domestic Debt	6,468.1	7,012.8	7,289.9	7,129.2	5,992.6	5,542.7
Foreign Debt	2,422.6	2,295.1	2,049.2	2,132.3	2,354.2	3,984.5
Total Debt	8,882.6	9,299.8	9,330.9	9,261.5	8,346.7	9,526.3

	As at 31 December					2009
	2004	2005	2006	2007	2008	(pre-final)
			<i>(% of GDP)</i>			
Total Debt	70.2	69.1	64.6	58.3	48.4	55.2
of which foreign	19.2	17.1	14.2	13.4	13.7	23.1

Source: Ministry of Finance

Debt record

The Government has always effected the prompt payment of principal and interest on its internal and external debt when due.

EXTERNAL LONG-TERM PUBLIC DEBT SERVICE

Total external public long-term debt service decreased from €157.9 million in 2008 to €124.0 million in 2009. The following table sets out details of external long-term public debt service payments during the periods indicated:

	Year ended 31 December						
	2003	2004	2005	2006	2007	2008	2009
	(€ millions)						
Principal Repayments ¹	22.4	19.5	27.5	62.7	36.6	37.6	49.7
Interest Repayments	73.3	77.4	102.7	109.4	99.4	120.3	74.3
Total Debt Service	95.7	96.9	130.2	172.1	136.0	157.9	124.0

Note:

¹ Excluding repayments of Notes issued under the Programme.

The following table sets out details (in percentage terms) of external long-term public debt and debt service payments as against other economic indicators during the periods indicated:

	Year ended 31 December					
	2003	2004	2005	2006	2007	2008 ¹
	(€ millions)					
External long-term public debt service:						
Export of Goods and Services and income	1.5	1.4	1.7	5.3	1.4	5.0
External long-term public debt:						
GDP	0.8	0.8	1.0	3.1	0.9	2.9
External long-term public debt:						
Exports of Goods and Services	29.8	37.3	35.8	30.0	28.5	24.8
External long-term public debt:						
GDP	14.0	17.5	17.0	14.1	13.4	10.9
Official Reserves:						
Total External Debt (long term)	50.9	40.3	38.5	51.3	42.0	6.6

Note:

¹ Prefinal

Source: Central Bank of Cyprus

RESERVES

The Central Bank of Cyprus holds and administers the official reserves of the Republic. Official reserves held by the Central Bank of Cyprus comprise gold, foreign currency deposits with foreign banks and marketable securities issued by OECD governments. These amounted to €844.9 million as at 30 November 2009.

The policy of the Government is that the currency in which deposits and marketable securities are held should broadly correspond to the currency structure of foreign exchange flows and the composition of the Government's external debt.

The following table sets out details of Cyprus' official reserves as at the dates indicated:

Year ended 31 December						
	2003	2004	2005	2006	2007	2008
						2009 (30.11)
			(€ millions)			
Monetary gold	156.0	148.2	197.0	221.9	264.1	277.7
Special drawing rights	2.4	2.9	3.4	3.1	2.4	1.9
Reserve position in the Fund.....	79.1	53.3	25.7	15.9	10.2	15.8
Foreign exchange	2,524.6	2,785.3	3,441.2	4,210.7	4,145.6	420.7
Other claims	1.2	1.2	1.2	1.2	1.2	1.2
Total.....	2,763.3	2,990.9	3,668.6	4,452.7	4,423.4	717.3
						844.9

Notes:

- 1 For the conversion of Cyprus pounds into euro, the irrevocable exchange rate €1 = £0.585274 was used.
- 2 Following Cyprus' accession into the eurozone as from 1 January 2008, all reserves denominated in euro and all foreign exchange held with euro area countries are excluded from reserves."

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Offering Circular by this Supplement and (b) any other statement in or incorporated by reference in the Offering Circular, the statements in (a) above will prevail.