

# Republic of Cyprus

## Rating report

### Rating rationale

**Sustained fiscal surpluses and marked public debt reduction:** Cyprus maintains a robust fiscal consolidation track record, supported by recurring large fiscal surpluses and marked reduction in debt-to-GDP ratio. Steady improvements in public finances, driven by strong revenue growth, are strengthening fiscal buffers and enhancing fiscal flexibility to cope with external headwinds and address demographic and climate-related challenges. Commitment to fiscal discipline, a robust growth outlook, and strong fiscal performance underpin a favourable debt trajectory.

**Robust economic growth outlook:** Strong private demand is expected to drive economic growth, supported by modest inflation, lower interest rates and low unemployment. The strong performance is driven by solid growth prospects in key sectors such as financial, business and tourism services, as well as in the ICT sector, which is helping to increase economic diversification. Downside risks stem from rising international tariffs that could lead to slower economic growth in key EU trading partners.

**Reduction in financial system risks:** The steady decline in private sector debt and non-performing loans (NPLs) reflect the strengthening of the private sector's financial position. Sound profitability and improved loan-loss absorption capacity further reinforces the resilience of the sector.

**Rating challenges include:** i) the small, open and externally dependent economy is relatively more vulnerable to shocks due to the high dependence on foreign workers, oil imports and external demand; ii) an external position characterised by large imbalances reflecting large import needs, moderate savings and high repatriation of profits by foreign-owned companies; and iii) lingering albeit improving vulnerabilities in the banking sector, as reflected in relatively higher NPLs compared with the euro area average.

**Figure 1: Cyprus's sovereign-rating drivers**

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative****	Final rating
		Weight	Indicative rating	Notches	Notches	Notches	
ESG risk	Domestic economic risk	35%	a+	EUR	Cyprus	0	A
	Public finance risk	20%	aaa			2/3	
	External economic risk	10%	c			-1	
	Financial stability risk	10%	aaa			- 2/3	
	Environmental factors	5%	bb			- 1/3	
	Social factors	7.5%	a+			0	
	Governance factors	12.5%	aa-			- 1/3	
	<b>Sovereign Quantitative Model***</b>	<b>aa-</b>				<b>-2</b>	
<b>Additional considerations</b>					<b>0</b>		

\*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

\*\*The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

\*\*\*The Rating Committee approved an indicative rating of 'aa-'.

\*\*\*\*The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### Foreign currency

Long-term issuer rating/Outlook

**A/Stable**

Senior unsecured debt/Outlook

**A/Stable**

Short-term issuer rating

**S-1**

### Local currency

Long-term issuer rating/Outlook

**A/Stable**

Senior unsecured debt/Outlook

**A/Stable**

Short-term issuer rating

**S-1**

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## Credit strengths and challenges

### Credit strengths

- Prudent fiscal management, favourable debt trajectory
- Strong growth potential
- Structural reform momentum

### Credit challenges

- Externally dependent, concentrated economy
- Large external imbalances driven by Special Purpose Entities
- Legacy banking sector vulnerabilities

## Outlook and rating triggers

The Stable Outlook reflects Scope's view that risks to the ratings are balanced.

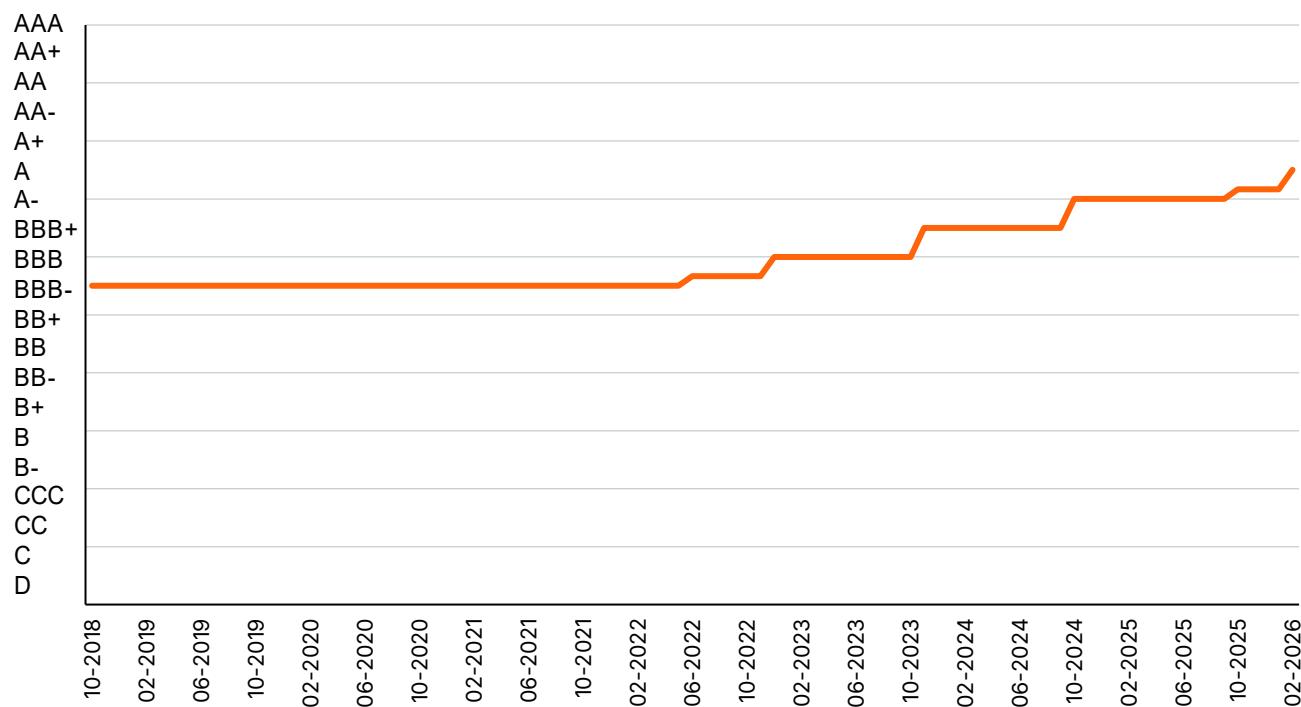
### Positive rating-change drivers

- Significantly stronger macroeconomic stability due to, for example, lower external imbalances, enhances resilience against external shocks
- Robust fiscal dynamics lead to a further material decline in general government debt

### Negative rating-change drivers

- The fiscal outlook materially worsens placing the public debt on an upward trajectory
- Weaker macroeconomic stability, more pronounced external imbalances undermining the shock absorption capacity
- Weaker financial outlook, resurgence of banking sector vulnerabilities

**Figure 2: Rating history**



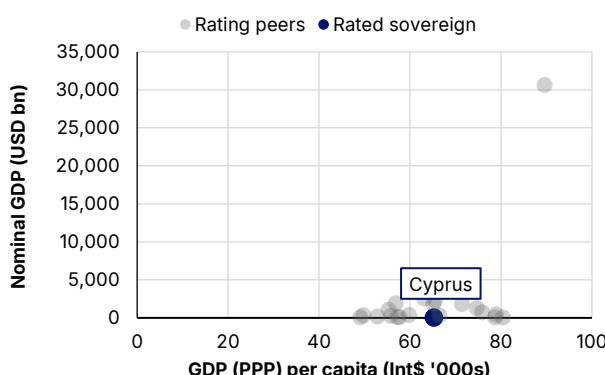
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

## Domestic economic risk

### Overview of Scope's assessments of Cyprus's Domestic Economic Risk

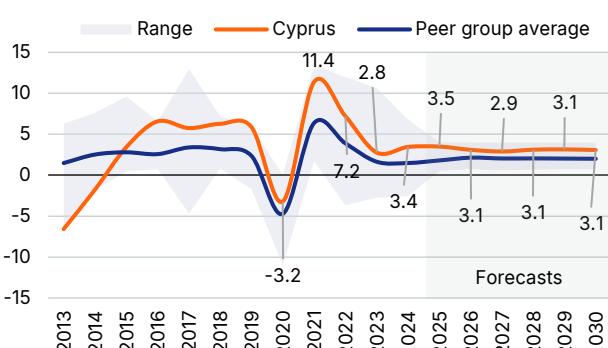
SQM <sup>1</sup> indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
<b>A+</b>	Growth potential and outlook	Strong	1/3	Strong growth potential supported by robust labour markets, foreign investment, and structural reforms
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank with an effective policy framework and transmission over the cycle
	Macroeconomic stability and sustainability	Weak	- 1/3	Small, open economy exposed to volatility; growth reliant on foreign funding and in part on external demand

**Figure 3: Nominal GDP and GDP per capita**



Source: IMF World Economic Outlook (WEO), Scope Ratings

**Figure 4: Real GDP growth, %**



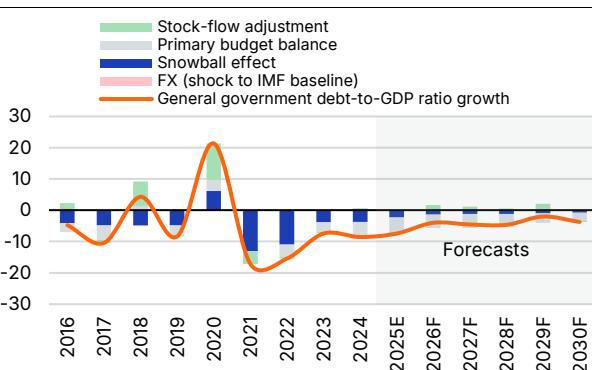
Source: IMF WEO, Scope Ratings forecasts

## Public finance risk

### Overview of Scope's assessments of Cyprus's Public Finance Risk

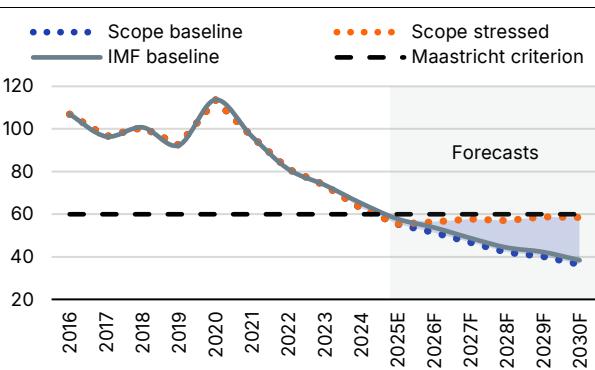
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
<b>AAA</b>	Fiscal policy framework	Strong	1/3	Good record of effective fiscal consolidation and exceeding fiscal targets, strong fiscal outlook
	Long-term debt trajectory	Strong	1/3	Public debt on a firmly decreasing trajectory
	Debt profile and market access	Neutral	0	Low and stable interest payment burden, relatively long average maturity and limited interest rate risk

**Figure 5: Contributions to change in debt levels, pps of GDP**



Source: IMF WEO, Scope Ratings forecasts

**Figure 6: Debt-to-GDP forecasts, % of GDP**



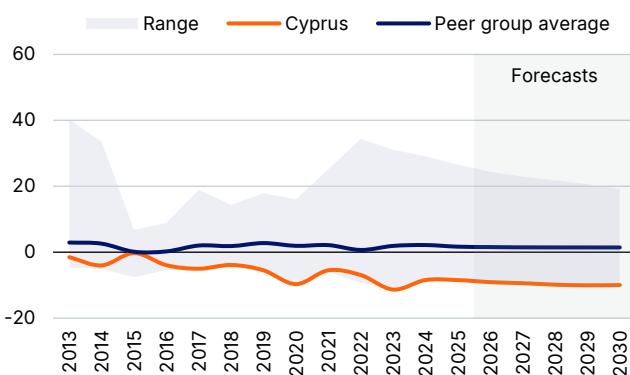
Source: IMF WEO, Scope Ratings forecasts

## External economic risk

### Overview of Scope's assessments of Cyprus's *External Economic Risk*

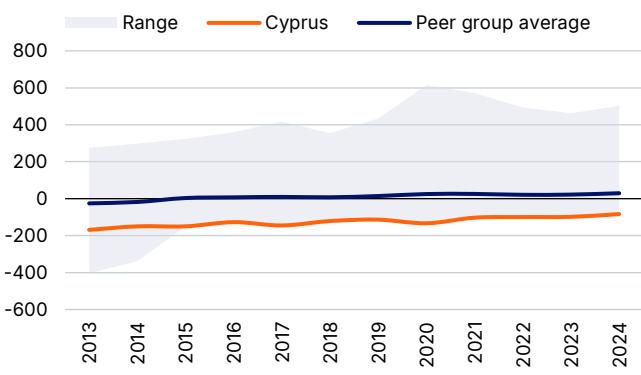
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
C	Current account resilience	Weak	- 1/3	Large current account deficits relative to peers; moderate diversification of exports
	External debt structure	Weak	- 1/3	Large external debtor position and external financing needs; significantly lower imbalances once adjusted from Special Purpose Entities that have a limited link to the real economy
	Resilience to short-term external shocks	Weak	- 1/3	Large external gross financing needs raise liquidity and other risks; euro area membership bolsters resilience to shocks

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



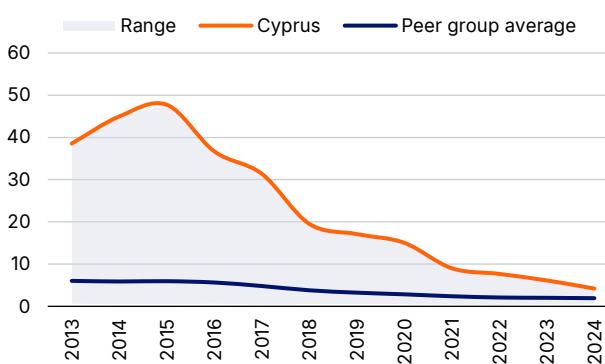
Source: IMF, Scope Ratings

## Financial stability risk

### Overview of Scope's assessments of Cyprus's *Financial Stability Risk*

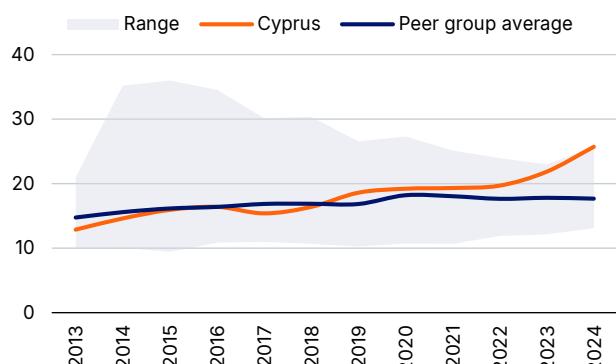
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Weak	- 1/3	Improving metrics, including strengthening asset quality, albeit still high NPL ratio relative to euro area average and credit rating peers
	Financial sector oversight and governance	Neutral	0	Adequate oversight; reinforced NPL resolution frameworks
	Financial imbalances	Weak	- 1/3	Relatively high private indebtedness and financial fragility of households pose risks

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



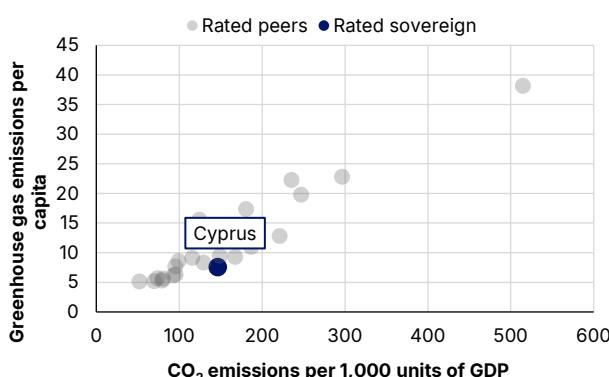
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

### Overview of Scope's assessments of Cyprus's ESG Risk

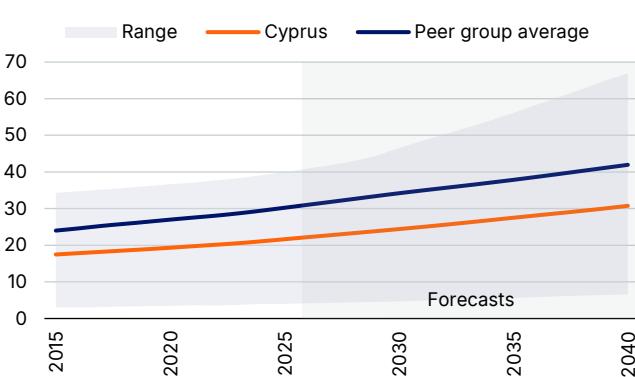
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
<b>a</b>	Environmental factors	Weak	- 1/3	Elevated transition and resource risks; tourism and the agricultural sectors are relatively vulnerable
	Social factors	Neutral	0	Weak youth employment, and education outcomes; good performance on social protection, health, and income equality
	Governance factors	Weak	- 1/3	Lingering geopolitical tensions and limited progress on reunification talks

Figure 11: CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

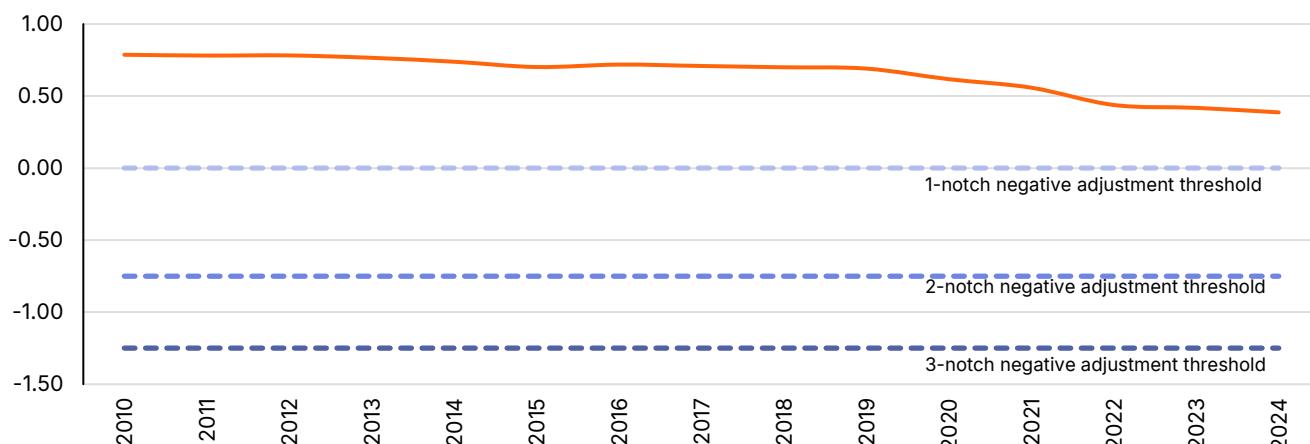
### IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	<b>29.3</b>	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Cyprus, 3-year moving average



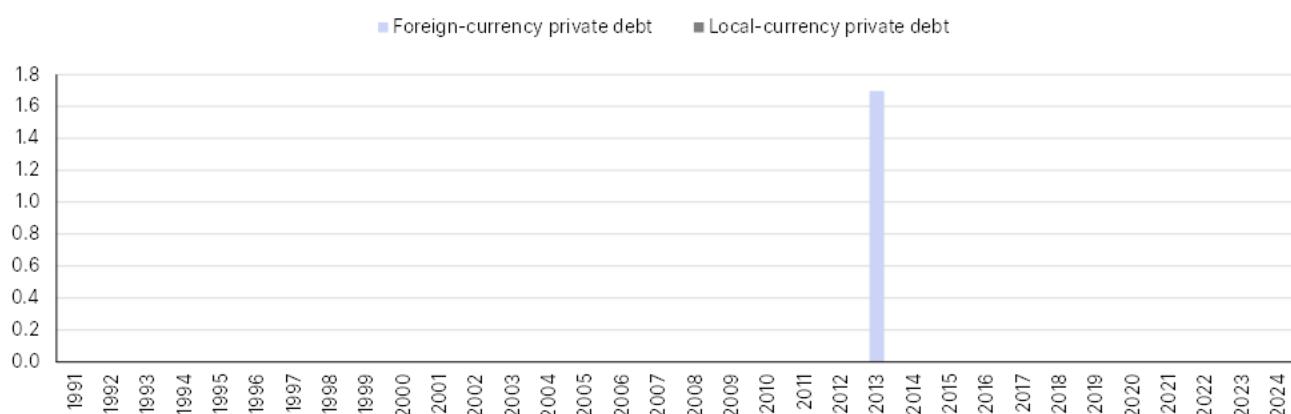
Source: WB, Scope Ratings

## Additional considerations

No adjustment was applied to the rating from additional considerations.

## Sovereign default history

### Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under Scope's credit-rating definitions.

Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

## Appendix 1. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Belgium
Estonia
Malta
Portugal
Poland
Slovenia
Spain

\*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

## Appendix 2. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 2 February 2026	46.705

### Appendix 3. Table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other international statistical series and may not immediately reflect latest national updates.

Pillar	Core variable	Source	2020	2021	2022	2023	2024	2025E
Domestic Economic	<b>GDP per capita (PPP)</b> , Int\$ '000s	IMF	42.9	50.2	57.1	59.4	62.3	65.3
	<b>Nominal GDP</b> , USD bn	IMF	26	30	31	34	36	40
	<b>Real growth</b> , %	IMF	-3.2	11.4	7.2	2.8	3.4	2.9
	<b>CPI inflation</b> , %	IMF	-1.1	2.3	8.1	3.9	2.3	0.7
	<b>Unemployment rate</b> , %	WB	7.8	7.5	6.8	5.8	4.9	-
Public Finance	<b>Public debt</b> , % of GDP	IMF	113.6	96.5	81.1	73.6	65.1	57.7
	<b>Net interest payment</b> , % of government revenue	IMF	5.0	3.9	3.0	2.8	2.7	2.9
	<b>Primary balance</b> , % of GDP	IMF	-3.6	0.0	3.9	2.9	5.5	4.7
External Economic	<b>Current-account balance</b> , % of GDP	IMF	-9.7	-5.5	-6.9	-11.3	-8.4	-8.5
	<b>Total reserves</b> , months of imports	WB	0.2	0.2	0.3	0.3	0.3	-
	<b>NIIP</b> , % of GDP	IMF	-133.1	-102.9	-99.5	-98.4	-83.5	-
Financial Stability	<b>NPL ratio</b> , % of total loans	IMF	15.0	9.0	7.7	6.1	4.2	-
	<b>Tier 1 ratio</b> , % of risk-weighted assets	IMF	18.3	19.0	18.9	19.3	23.4	27.2
	<b>Credit to the private sector</b> , % of GDP	WB	106.5	87.4	70.8	60.6	56.7	-
ESG	<b>CO<sub>2</sub> per EUR 1,000 of GDP</b> , mtCO <sub>2</sub> e	EC	172.5	157.5	153.4	148.9	146.7	-
	<b>Income share of bottom 50%</b> , %	WID	21.7	22.0	22.3	22.7	22.7	-
	<b>Labour-force participation rate</b> , %	WB	76.7	77.6	79.1	79.8	79.9	-
	<b>Old-age dependency ratio</b> , %	UN	19.3	19.7	20.1	20.6	21.1	21.6
	<b>Composite governance indicators*</b>	WB	0.8	0.8	0.8	0.8	0.7	-
	<b>Political stability</b> , index	WB	0.6	0.6	0.4	0.4	0.4	-

\*Average of the following five World Bank Worldwide Governance Indicators: Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.

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## Related research

[Sovereign Outlook 2026: geopolitical tensions, fiscal headwinds outweigh growth, resilience](#), November 2025  
[US actions heighten transatlantic tensions, test Europe's resilience and weigh on US outlook](#), January 2026

## Applied methodologies

[Sovereign Rating Methodology](#), January 2025

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