

## Republic of Cyprus

This annex refers to the release of monitoring note of 16 July 2021

Annex I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard<sup>1</sup>

Implied rating of core variable scorecard (CVS)		bbb
Reserve currency adjustment		1
Weight	Qualitative scorecard (QS) for long-term issuer ratings	
20%	Growth potential of the economy	Strong
	Monetary policy framework	Neutral
	Macro-economic stability and sustainability	Weak
20%	Fiscal policy framework	Neutral
	Debt sustainability	Neutral
	Debt profile and market access	Neutral
20%	Current account resilience	Weak
	External debt structure	Weak
	Resilience to short-term shocks	Neutral
20%	Banking sector performance	Weak
	Banking sector oversight	Neutral
	Financial imbalances	Weak
20%	Environmental risks	Weak
	Social risks	Neutral
	Institutional and political risks	Neutral
QS adjustment (notches)		-2
Additional considerations (notches)		0
Final rating		BBB- STA

### Annex II: Selected indicators

Selected macroeconomic indicators	2016	2017	2018	2019	2020	2021F	2022F
GDP per capita (USD)	24,693	26,580	29,300	28,488	27,054	29,551	31,223
Real GDP, % change	6.4	5.2	5.2	3.1	-5.1	3.2	3.8
Unemployment rate, %	13.0	11.1	8.4	7.1	7.6	7.5	7.0
CPI, % change	-1.2	0.7	0.8	0.6	-1.1	0.5	0.8
Policy rate, % (EOP)	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5
General government balance, % of GDP	0.2	2.0	-3.5	1.5	-5.0	-5.1	-1.4
General government debt, % of GDP	103.1	93.5	99.2	94.0	118.2	115.1	108.1
Current account balance, % of GDP	-4.2	-5.3	-3.9	-6.3	-11.9	-8.5	-6.1

Source: Macrobond, IMF, Central Bank of Cyprus, Scope Ratings GmbH

### Annex III: Economic development and default indicators

IMF Development Classification<sup>2</sup>

AE

5y USD CDS spread (bps) as of 12 July 2021

32

<sup>1</sup> The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on [www.scooperatings.com](http://www.scooperatings.com)

<sup>2</sup> AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

Cyprus	July 2021	Assessment	Analytical rationale	
Peers*	Italy, Spain, Croatia			
	Domestic economic risk	Growth potential	Strong	Strong growth potential supported by improving labour markets, rising income levels and robust FDI inflows
	Monetary policy framework	Neutral	ECB is a credible and effective central bank; accommodative policies adequately support the economy.	
	Macro-economic stability & sustainability	Weak	Economic structure exposed to volatility; long-term sustainability of growth reliant on foreign funding or external demand	
Public finance risk	Fiscal policy framework	Neutral	Track record of effective fiscal consolidation and overperforming fiscal targets	
	Debt sustainability	Neutral	Debt levels are elevated and rising short-term due to Covid-19 crisis	
	Debt profile & market access	Neutral	Declining interest payment burden, rising average maturity and improving investor base	
External economic risk	Current account resilience	Weak	Consistent current account deficits with exports concentrated in a few key sectors	
	External debt structure	Weak	Large external debtor position and high external financing needs exacerbated by sustained current account deficits	
	Resilience to short-term shocks	Neutral	External imbalances are mitigated by euro area membership	
Financial stability risk	Banking sector performance	Weak	Poor asset quality and profitability pressures weigh on banking sector performance	
	Banking sector oversight	Neutral	Effective oversight; recently reinforced AML/CFT and NPL resolution frameworks	
	Financial imbalances	Weak	Elevated private indebtedness and financial fragility of households pose risks	
ESG risks	Environmental risks	Weak	Elevated transition and resource risks; high mitigation costs due to geographical constraints and service-based economy	
	Social risks	Neutral	Weak youth employment dynamics and gender equality; improving poverty and income inequality	
	Institutional and political risks	Neutral	Stable, reform-oriented political landscape; lingering geopolitical tensions and limited progress on reunification talks	

\* Peers relate to selected sovereigns with a similar indicative rating per Scope's Core Variable Scorecard.