

Republic of Cyprus

Rating report

Rating rationale

Solid economic fundamentals: Cyprus benefits from a strong medium-term growth potential, which underpins one of the highest growth rates in the euro area. Growth is supported by sound macro-economic policies, robust labour market conditions, and foreign-financed investment in important, high growth sectors.

Solid fiscal consolidation prospects: Cyprus has a good fiscal consolidation record based on consistent fiscal surpluses pre-Covid-19 crisis, overachieving fiscal targets, and marked debt reduction. Commitment to fiscal discipline, a robust growth outlook, and sound fiscal performance underpin a very favourable debt trajectory.

Sound structural reform momentum: Cyprus has achieved considerable progress in implementing reforms to address macro-economic and financial imbalances following the 2012-13 crisis. Good progress on the government’s reform agenda and under the long-term economic strategy, alongside the EU Recovery and Resilience, will continue to address structural challenges and enhance economic resilience.

Rating challenges include: i) a small, open, and externally dependent economy; ii) lingering albeit improving vulnerabilities in the banking sector, as reflected in still elevated non-performing exposures; and iii) high sensitivity to shocks due to large macro-economic imbalances, reflected in high levels of private and public debt, combined with a weak external position.

Figure 1: Cyprus’ sovereign-rating drivers

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

*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 qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer.

****Movements between indicative ratings are only determined after the analyst’s review of quantitative results and are documented and approved by a rating committee during review of the rating. The rating committee approved an indicative rating of ‘a’. For details, please see Scope’s [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

BBB+/Stable

Senior unsecured debt

BBB+/Stable

Short-term issuer rating/Outlook

S-2/Stable

Local currency

Long-term issuer rating/Outlook

BBB+/Stable

Senior unsecured debt

BBB+/Stable

Short-term issuer rating/Outlook

S-2/Stable

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Credit strengths and challenges

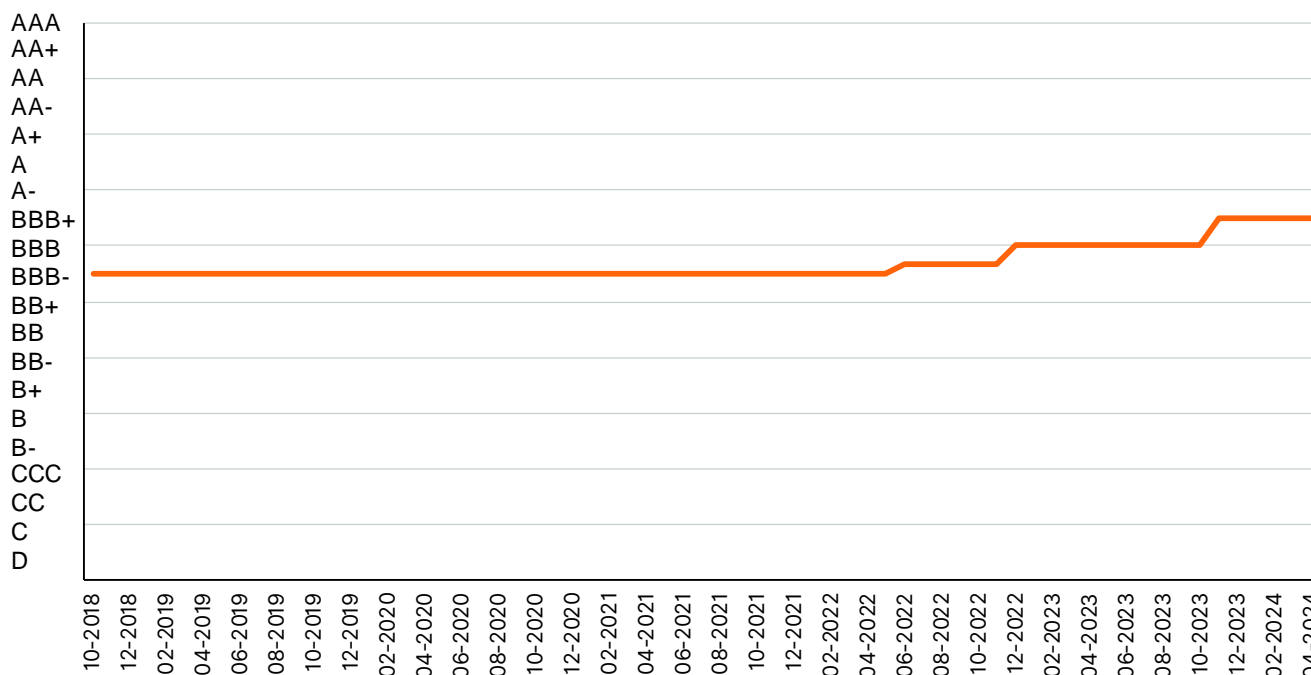
Credit strengths	Credit challenges
<ul style="list-style-type: none"> • Strong growth potential • Prudent fiscal management and favourable debt trajectory • Structural reform momentum 	<ul style="list-style-type: none"> • Externally dependent, concentrated economy • Banking sector vulnerabilities • High private and public debt

Outlook and rating triggers

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

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> • Structural reduction in banking sector, financial vulnerabilities • External economic resilience is enhanced • Fiscal discipline is maintained 	<ul style="list-style-type: none"> • Fiscal fundamentals weaken • Growth outlook deteriorates • Banking sector fragilities re-emerge • External finances deteriorate

Figure 2: Rating history¹



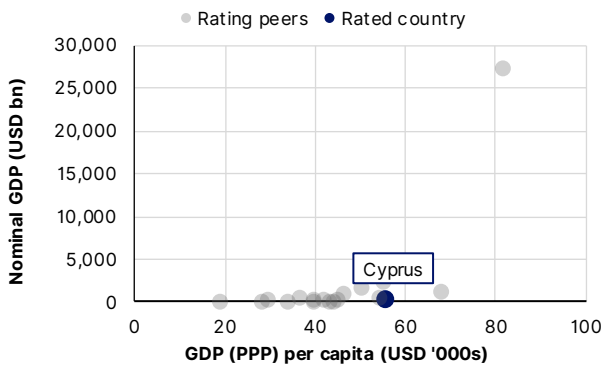
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

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

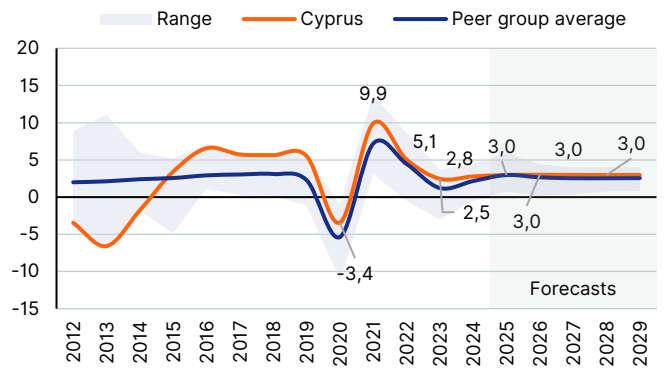
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Growth potential and outlook	Strong	+1/3	Strong growth potential supported by improving labour markets, foreign investment, and structural reforms
	Monetary policy framework	Neutral	0	ECB is a credible and effective central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

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



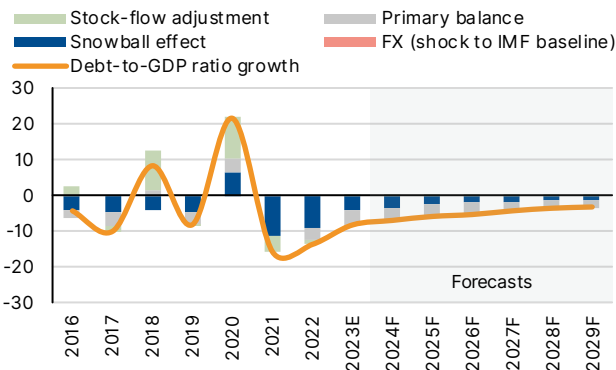
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

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

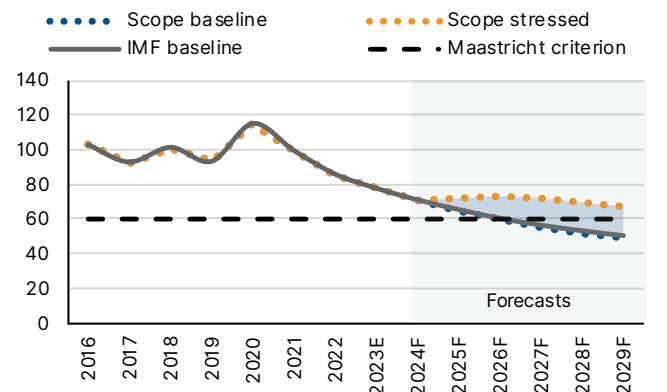
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Strong	+1/3	Good record of effective fiscal consolidation and overperforming fiscal targets, strong fiscal outlook
	Long-term debt trajectory	Strong	+1/3	Public debt on a firmly decreasing trajectory
	Debt profile and market access	Neutral	0	Low and stable interest payment burden, 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

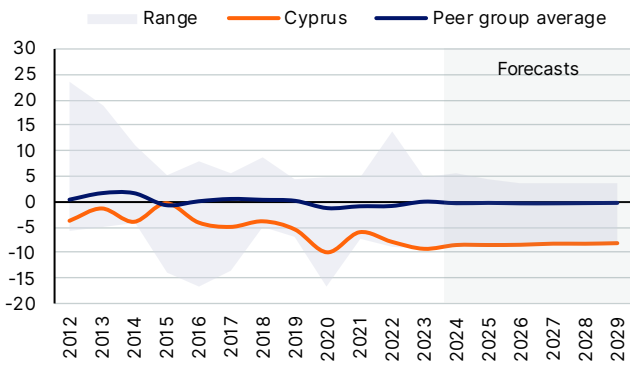
*Sovereign Quantitative Model.

External economic risk

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

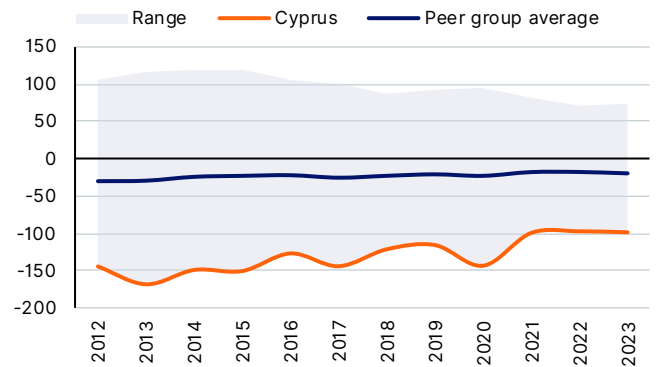
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
C	Current account resilience	Weak	-1/3	Large current account deficits relative to peers; moderate diversification of exports
	External debt structure	Weak	-1/3	Large external debtor position and external financing needs; somewhat 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



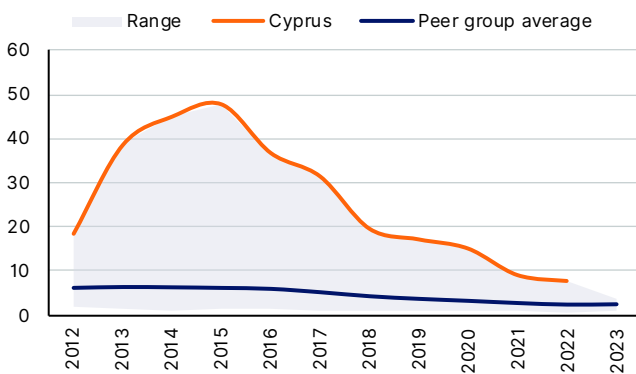
Source: IMF, Scope Ratings

Financial stability risk

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

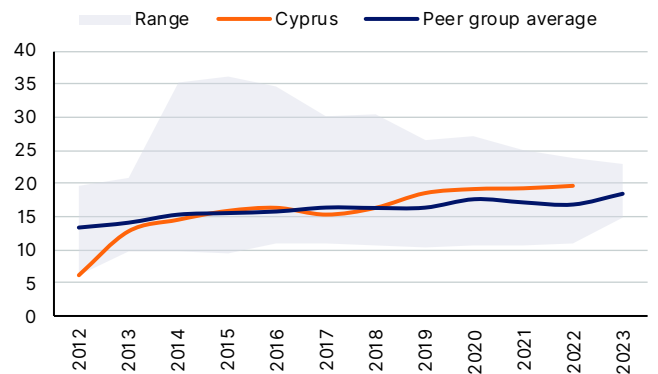
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Weak	-1/3	Improving asset quality albeit still high NPL ratio that weighs on the banking sector performance
	Financial sector oversight and governance	Neutral	0	Adequate oversight; reinforced NPL resolution frameworks
	Financial imbalances	Weak	-1/3	Elevated 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



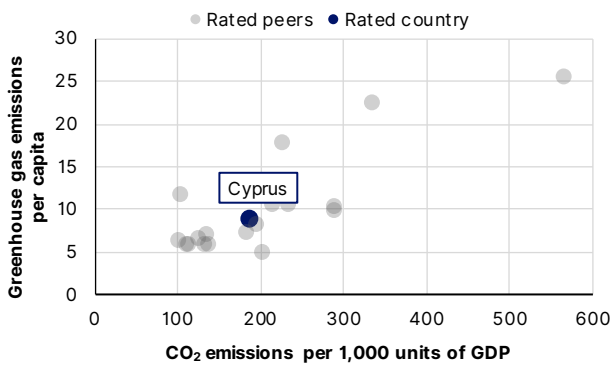
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Cyprus' ESG Risk

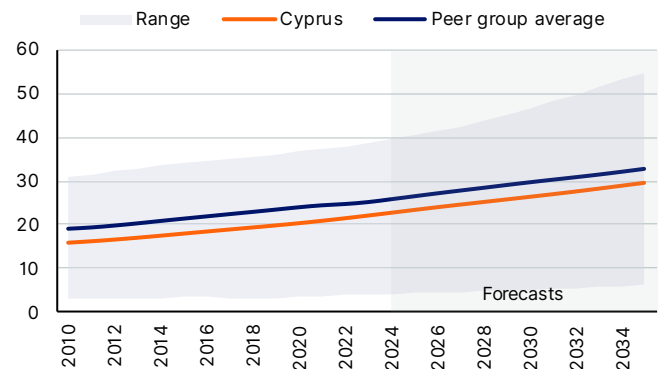
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Environmental factors	Weak	-1/3	Elevated transition and resource risks; high migration costs due to geographical constraints and service-based economy
	Social factors	Neutral	0	Weak youth employment, and education outcomes; 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: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

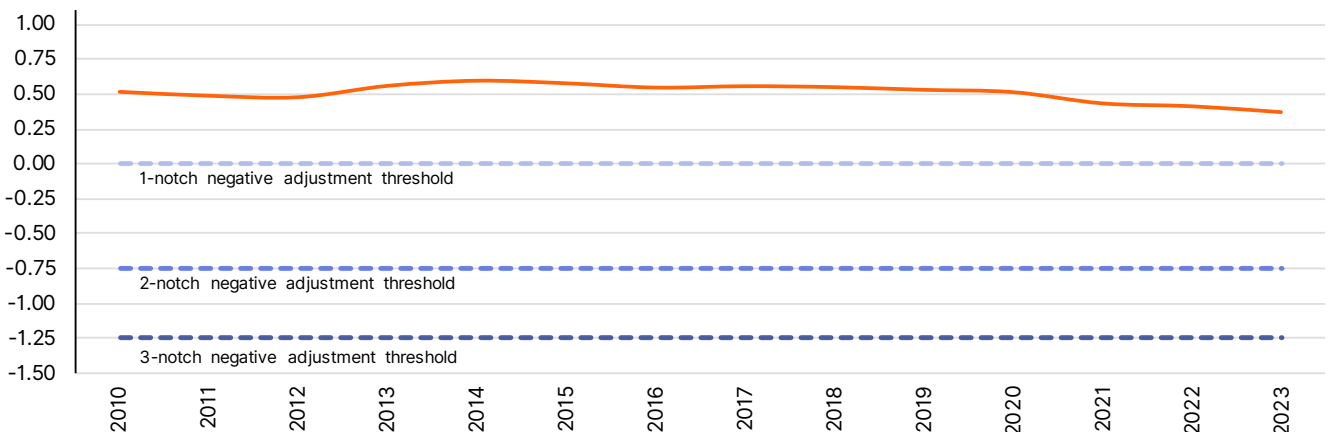
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	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 14: WB Political Stability & Absence of Violence/Terrorism index, Cyprus, 3-year moving average



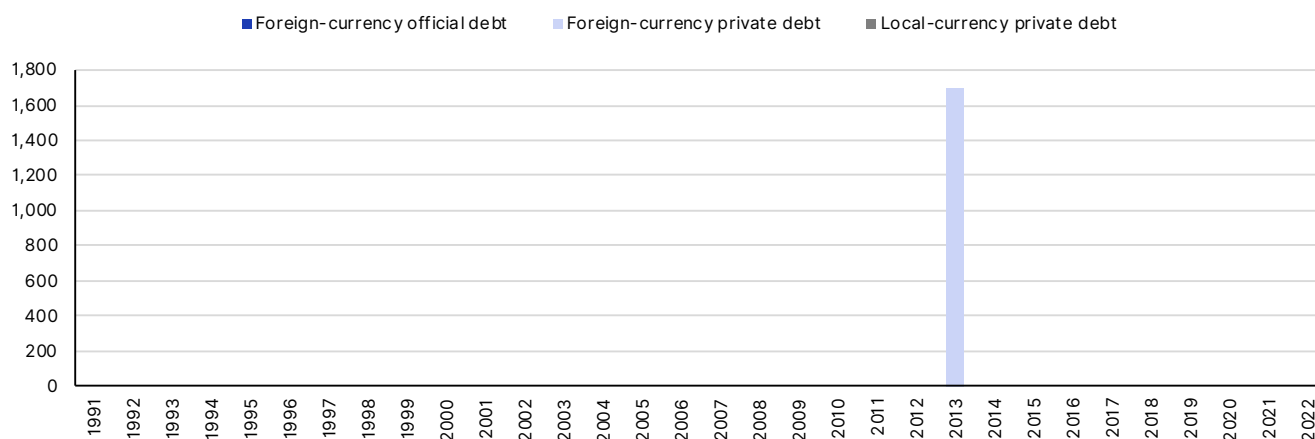
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: 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 II. 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*
Croatia
Estonia
Italy
Latvia
Portugal
Slovakia
Spain

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

Appendix III. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 10 May 2024	58.64

Appendix IV. Statistical 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 select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	41.3	43.7	42.2	48.1	53.5	55.9
	Nominal GDP, USD bn	IMF	25.6	26.0	25.2	29.5	29.3	32.2
	Real growth, %	IMF	5.6	5.5	-3.4	9.9	5.1	2.5
	CPI inflation, %	IMF	0.8	0.5	-1.1	2.2	8.1	3.9
	Unemployment rate, %	WB	8.5	7.2	7.8	7.5	6.8	6.4
Public Finance	Public debt, % of GDP	IMF	101.1	93.0	114.9	99.3	85.6	77.3
	Net interest payment, % of government revenue	IMF	5.7	5.3	5.3	4.2	3.4	3.2
	Primary balance, % of GDP	IMF	-1.4	3.3	-3.7	-0.3	3.8	4.3
External Economic	Current-account balance, % of GDP	IMF	-4.0	-5.6	-10.0	-6.1	-7.9	-9.3
	Total reserves, months of imports	WB	0.2	0.2	0.3	0.3	0.4	-
	NIIP, % of GDP	IMF	-121.4	-115.8	-143.4	-99.5	-97.3	-
Financial Stability	NPL ratio, % of total loans	IMF	19.5	17.1	15.0	9.0	7.7	6.1
	Tier 1 ratio, % of risk-weighted assets	IMF	14.6	17.1	18.3	19.0	18.9	19.3
	Credit to the private sector, % of GDP	WB	136.5	107.7	107.9	90.0	75.6	-
ESG	CO₂ per EUR 1,000 of GDP, mtCO₂e	EC	206.8	196.0	193.2	198.1	188.1	-
	Income share of bottom 50%, %	WID	19.2	20.6	20.7	20.7	20.7	-
	Labour-force participation rate, %	WB	73.0	73.7	73.8	75.0	76.8	-
	Old-age dependency ratio, %	UN	19.3	19.8	20.3	20.8	21.4	22.0
	Composite governance indicators*	WB	0.8	0.9	0.7	0.7	0.7	-
	Political stability, index	WB	0.5	0.5	0.3	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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