

Republic of Cyprus

This annex refers to the release of monitoring note of 22 January 2021

 Annex I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard¹

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

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

	2017	2018	2019	2020E	2021F	2022F
GDP per capita (USD, '000s)	26.5	28.9	28.0	26.2	29.7	31.1
Real GDP, % change	4.4	4.1	3.2	-6.4	4.7	3.6
CPI, % change	0.7	0.8	0.6	-0.6	1.0	1.0
General government balance, % of GDP	1.7	-4.2	1.7	-5.6	-2.0	-0.3
General government debt, % of GDP	93.9	100.6	95.5	118.4	112.4	105.1
Current account balance, % of GDP	-5.1	-4.4	-6.7	-10.6	-9.1	-7.1
Gross external debt, % of GDP	1004.4	897.8	844.5	-	-	-

Annex III: Economic development and default indicators

IMF Development Classification ²	AE
5y USD CDS spread (bps) as of 21 January 2021	109

¹ The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on www.scooperatings.com
² AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

Cyprus	January 2021	Assessment	Analytical rationale
Peers*	China, Hungary, Italy, Romania, Portugal, Spain		
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	Prudent fiscal policies; track record of robust fiscal surpluses pre-crisis
	Debt sustainability	Neutral	Elevated public debt levels; long-term trajectory supported by declining cost of debt service
	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	Euro area membership mitigates vulnerability to short-term shocks
Financial stability risk	Banking sector performance	Weak	High NPL levels 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.