

Republic of Cyprus

Rating Report



Credit strengths

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

Credit challenges

- Externally dependent, concentrated economy
- Banking sector vulnerabilities
- High private and public debt

Rating rationale:

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

Solid fiscal consolidation prospects: Cyprus has a good fiscal consolidation record characterised by 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's has achieved considerable progress in implementing reforms to address imbalances in the economy following the 2012-13 crisis. Good progress on the government's reform agenda and under the long-term economic strategy and Recovery and Resilience plans will address structural challenges and enhance economic resilience.

Rating challenges include: i) a small, externally dependent, and concentrated economy; ii) lingering though improving vulnerabilities in the banking sector; and iii) high public and private debt levels combined with large external imbalances. These factors increase Cyprus's sensitivity to shocks.

Cyprus's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Qualitative**	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	a-	EUR [+1]	0	BBB+	
Public Finance Risk	20%	aaa		+1/3		
External Economic Risk	10%	c		-3/3		
Financial Stability Risk	10%	aa		-2/3		
ESG Risk	Environmental Factors	5%		bbb-		-1/3
	Social Factors	7.5%		a+		0
	Governance Factors	12.5%		bbb		-1/3
Indicative outcome				a	-2	
Additional considerations				0		

Note: *The reserve-currency adjustment applies to currencies in the IMF's SDR basket. **The qualitative-scorecard 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.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced over the next 12-18 months.

Positive rating-change drivers

- Sustained fiscal consolidation
- Further reduction in banking sector vulnerabilities
- Economic resilience is enhanced sustainably

Negative rating-change drivers

- Growth outlook deteriorates
- Fiscal fundamentals weaken
- Banking sector fragility re-emerge
- External finances deteriorate

Ratings and Outlook

Foreign currency

Long-term issuer rating	BBB+/Stable
Senior unsecured debt	BBB+/Stable
Short-term issuer rating	S-2/Stable

Local currency

Long-term issuer rating	BBB+/Stable
Senior unsecured debt	BBB+/Stable
Short-term issuer rating	S-2/Stable

Lead Analyst

Thibault Vasse
+33 1 86 26 24 55
t.vasse@scoperatings.com

Team Leader

Dr Giacomo Barisone
+49 69 6677389-22
g.barisone@scoperatings.com

Scope Ratings GmbH

Neue Mainzer Straße 66-68
60311 Frankfurt am Main

Phone +49 69 6677389-0

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891-0
Fax +49 30 27891-100

info@scoperatings.com
www.scoperatings.com



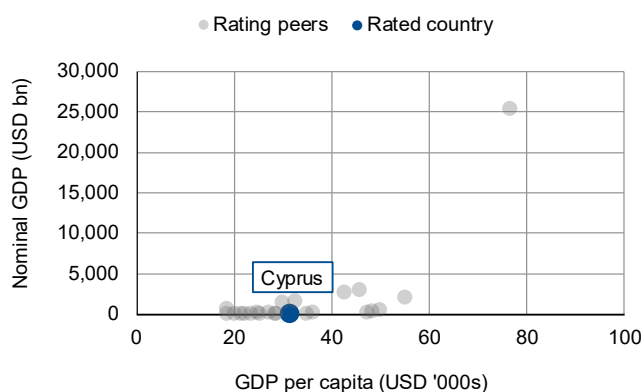
Bloomberg: RESP SCOP

Domestic Economic Risk

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

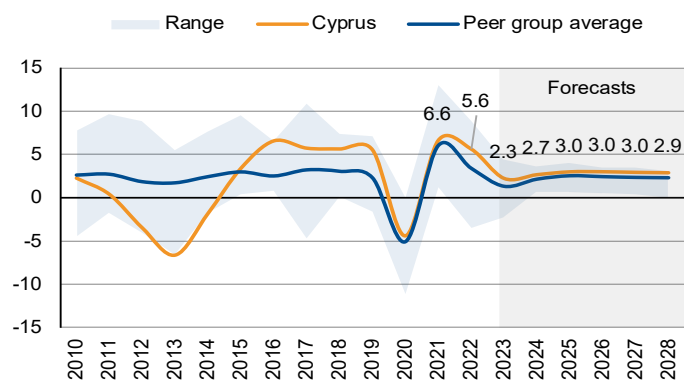
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Growth potential of the economy	Strong	+1/3	Strong growth potential supported by improving labour markets, foreign investment and reform
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank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

Nominal GDP and GDP per capita



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

Real GDP growth, %



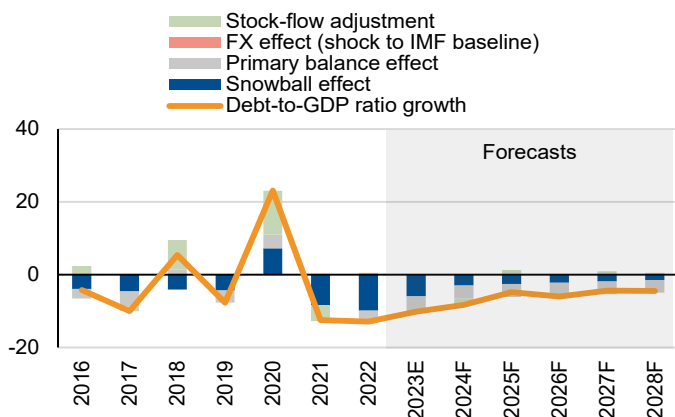
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

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

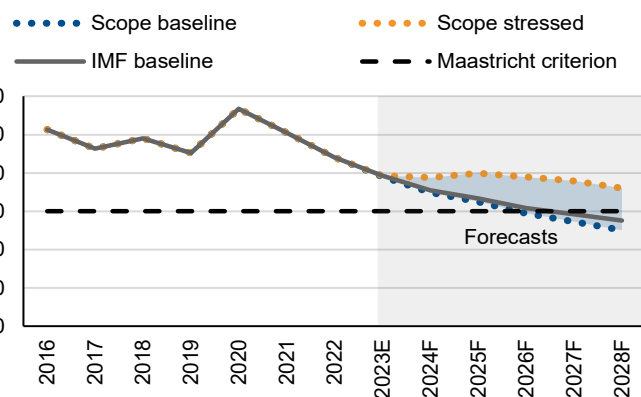
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Strong	+1/3	Good record of effective fiscal consolidation and overperforming fiscal targets, strong fiscal outlook
	Debt sustainability	Neutral	0	Elevated public debt but on a firmly decreasing trajectory
	Debt profile and market access	Neutral	0	Low interest payment burden, long average maturity and limited interest rate risk

Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



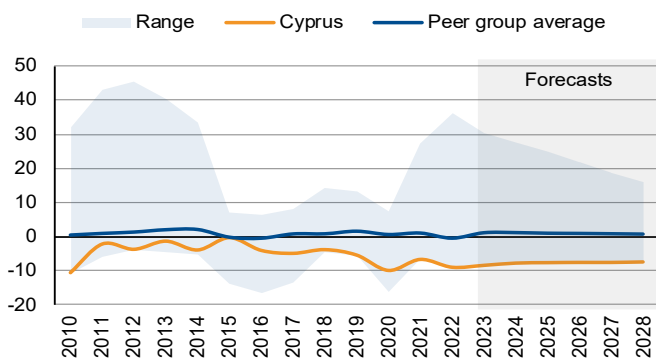
Source: IMF WEO, Scope Ratings forecasts

External Economic Risk

Overview of Scope's qualitative assessments for Cyprus's *External Economic Risk*

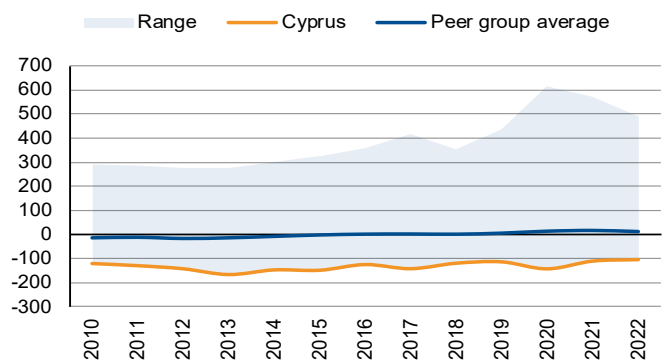
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
c	Current account resilience	Weak	-1/3	Consistent current account deficits with exports concentrated in a few key sectors
	External debt structure	Weak	-1/3	Large external debtor position and high external financing needs exacerbated by current account deficits
	Resilience to short-term external shocks	Weak	-1/3	Large external gross financing needs exposes the country to liquidity and other risks; euro area membership bolsters resilience to shocks

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



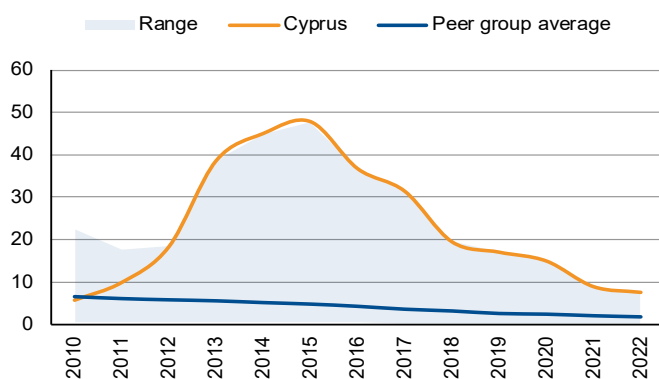
Source: IMF, Scope Ratings

Financial Stability Risk

Overview of Scope's qualitative assessments for Cyprus's *Financial Stability Risk*

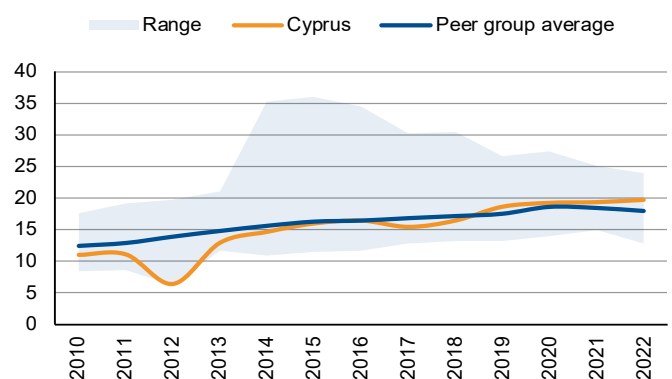
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Banking sector performance	Weak	-1/3	Profitability pressures eased amid higher interest rate environment, although poor asset quality compared to peers continues to weigh on banking sector performance
	Banking sector oversight	Neutral	0	Adequate oversight; reinforced NPL resolution frameworks
	Financial imbalances	Weak	-1/3	Elevated private indebtedness and financial fragility of households pose risks

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



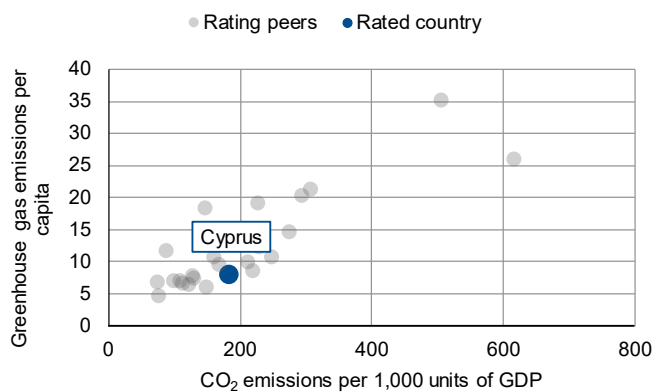
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) Risk

Overview of Scope's qualitative assessments for Cyprus's ESG Risk

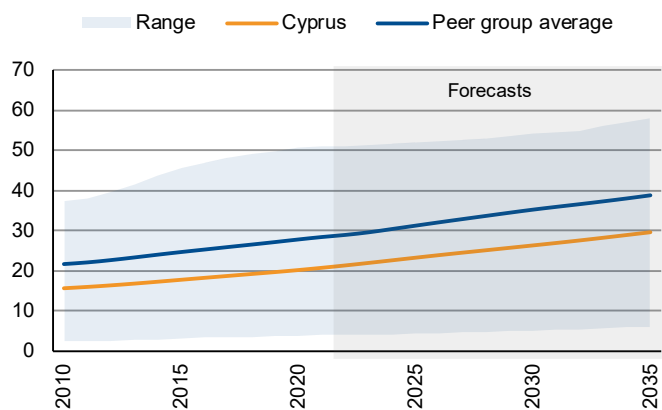
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb+	Environmental factors	Weak	-1/3	Elevated transition and resource risks; high mitigation costs due to geographical constraints and service-based economy
	Social factors	Neutral	0	Weak youth employment, gender equality 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

CO₂ emissions per GDP, mtCO₂e



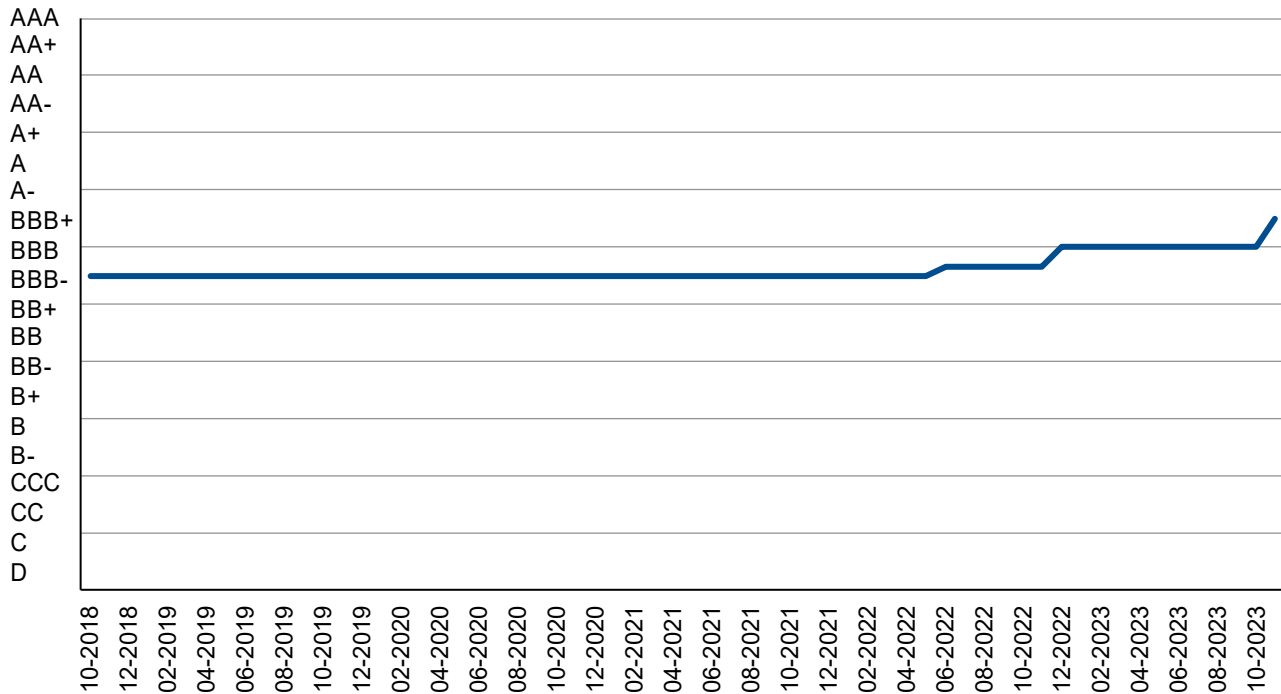
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

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 core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Belgium
Croatia
Czech Republic
Estonia
France
Japan
Latvia
Lithuania
Malta
Poland
Portugal
Slovakia
Slovenia
Spain
United Kingdom
United States

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

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, 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
Domestic Economic	GDP per capita, USD '000s	IMF	29.6	29.6	28.1	31.7	31.5
	Nominal GDP, USD bn	IMF	25.6	25.9	25.0	28.4	28.5
	Real growth, %	IMF	5.6	5.5	-4.4	6.6	5.6
	CPI inflation, %	IMF	0.8	0.6	-1.1	2.2	8.1
	Unemployment rate, %	WB	8.4	7.1	7.6	7.5	7.0
Public Finance	Public debt, % of GDP	IMF	98.1	90.4	113.5	101.1	86.5
	Net interest payment, % of revenue	IMF	5.7	5.3	5.3	4.2	3.4
	Primary balance, % of GDP	IMF	-1.4	3.4	-3.7	-0.3	3.5
External Economic	Current-account balance, % of GDP	IMF	-4.0	-5.6	-10.1	-6.8	-9.1
	Total reserves, months of imports	WB	0.2	0.2	0.3	0.4	0.5
	NIIP, % of GDP	IMF	-121.4	-115.8	-144.6	-112.7	-106.6
Financial Stability	NPL ratio, % of total loans	IMF	19.5	17.1	15.0	9.0	7.7
	Tier 1 ratio, % of risk-weighted assets	IMF	14.6	17.1	18.3	19.0	18.9
	Credit to the private sector, % of GDP	WB	136.1	107.7	108.8	93.4	77.8
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	208.4	198.2	184.9	183.8	-
	Income share of bottom 50%, %	WID	18.9	20.3	20.3	20.3	-
	Labour-force participation rate, %	WB	72.9	73.6	73.7	75.0	-
	Old-age dependency ratio, %	UN	19.3	19.8	20.3	20.8	21.4
	Composite governance indicators*	WB	0.8	0.8	0.7	0.6	0.6

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

5y USD CDS spread (bps) as of 13 November 2023

Advanced economy

79.04



Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 94 91 66 2

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 8295 8254

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

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