

Republic of Cyprus

Rating report

Rating rationale

Strong fiscal outlook: Cyprus has a strong fiscal consolidation track record based on consistent fiscal surpluses, exceeding fiscal targets, and marked debt reduction. Steady improvements in public finances are strengthening fiscal buffers and enhancing fiscal flexibility to address demographic and climate-related challenges. Commitment to fiscal discipline, a robust growth outlook, and strong fiscal performance underpin the favourable debt trajectory.

Robust economic growth outlook: Strong private demand, supported by the decline in inflation, lower interest rates, and low unemployment is expected to drive economic growth. The strong performance is driven by solid growth prospects in key sectors such as financial and business services, as well as in the ICT sector which is helping to increase economic diversification.

Reduction in financial system risks: The steady decline in private sector debt and non-performing loans (NPLs) reflect the strengthening of the private sector financial position throughout the Covid-19 and cost-of-living crises. A record of structural reforms and the consolidation of the banking sector have also reinforced the financial metrics of Cypriot banks.

Rating challenges include: i) the small, open and externally dependent economy, relatively more vulnerable to shocks due to the high dependence on foreign workers, oil imports and external demand; and ii) an external position characterised by large imbalances reflecting large import needs, moderate savings and high repatriation of profits by foreign-owned companies.

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	A-
Public finance risk	20%	aaa			2/3	
External economic risk	10%	c			-3/3	
Financial stability risk	10%	aaa			-2/3	
ESG risk	Environmental factors	5%	[+1]	[-0]	-1/3	
	Social factors	7.5%			0	
	Governance factors	12.5%	a+			
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.

For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

A-/Stable

Senior unsecured debt

A-/Stable

Short-term issuer rating/Outlook

S-1/Stable

Local currency

Long-term issuer rating/Outlook

A-/Stable

Senior unsecured debt

A-/Stable

Short-term issuer rating/Outlook

S-1/Stable

Lead Analyst

Thomas Gillet
+49 30 278911-25
t.gillet@scoperatings.com

Team Leader

Alvise Lennkh-Yunus
+49 69 6677389-85
a.lennkh@scoperatings.com

Credit strengths and challenges

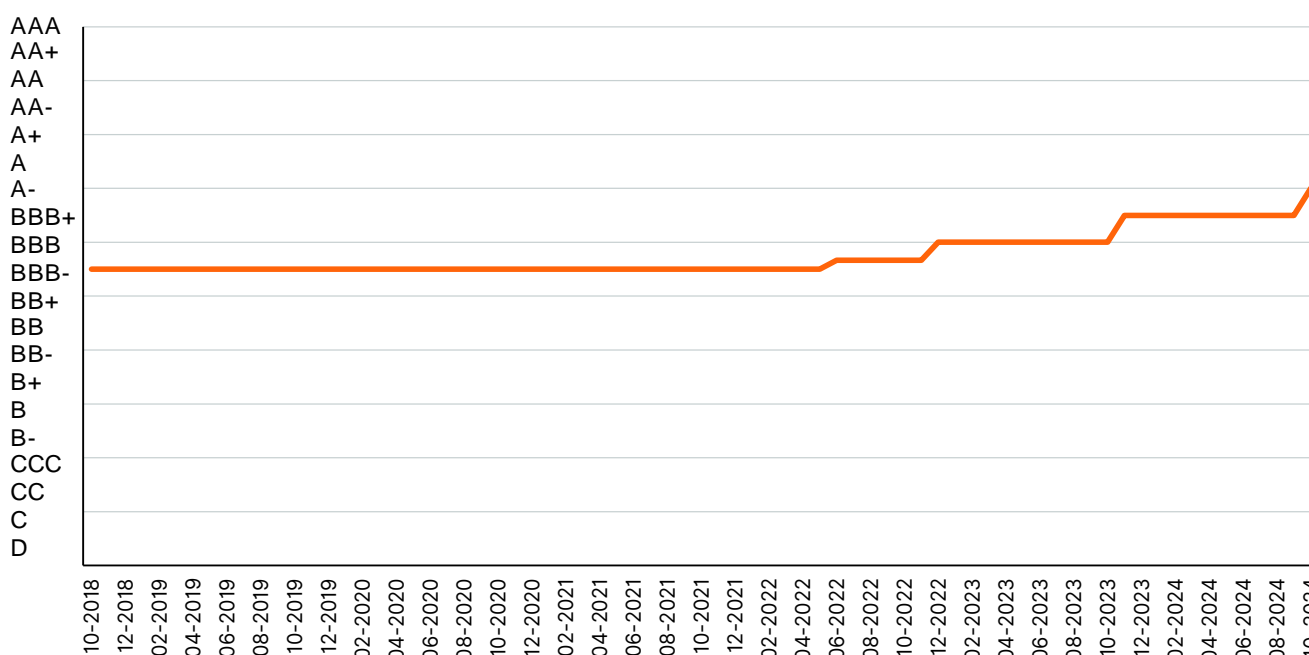
Credit strengths	Credit challenges
<ul style="list-style-type: none"> Prudent fiscal management, favourable debt trajectory Strong growth potential Structural reform momentum 	<ul style="list-style-type: none"> Externally dependent, concentrated economy Large external imbalances driven by Special Purpose Entities Legacy of the financial crisis

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> Significantly stronger macroeconomic stability, driven by economic diversification and lower external imbalances Significantly stronger financial outlook, driven by a reduction of still high levels of non-performing loans Further improvement in fiscal dynamics at a significantly faster rate than presently forecasted 	<ul style="list-style-type: none"> Weaker fiscal outlook, loosening of the fiscal stance challenging the decline in general government debt Weaker macroeconomic stability, more pronounced external imbalances undermining the shock absorption capacity Weaker financial outlook, resurgence of banking sector's vulnerabilities

Figure 2: Rating history¹



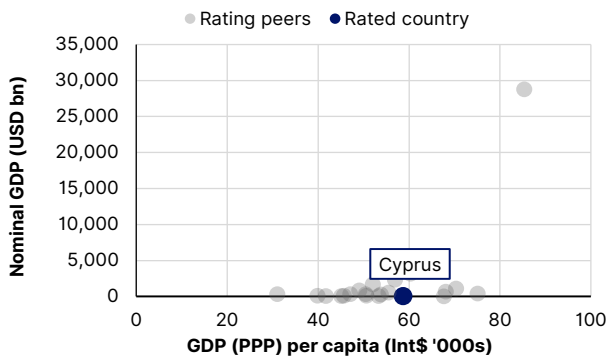
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

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

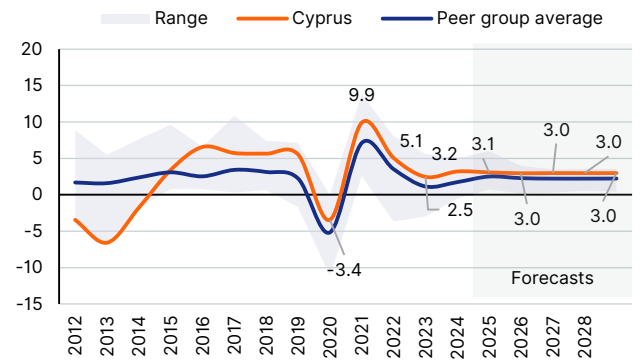
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Growth potential and outlook	Strong	+1/3	Strong growth potential supported by improving labour markets, foreign investment, and structural reforms
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective 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 external demand

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



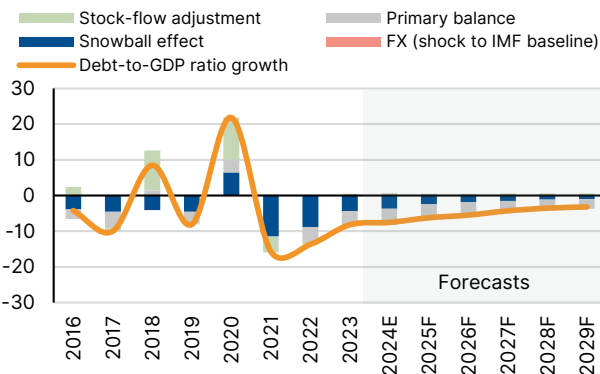
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

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

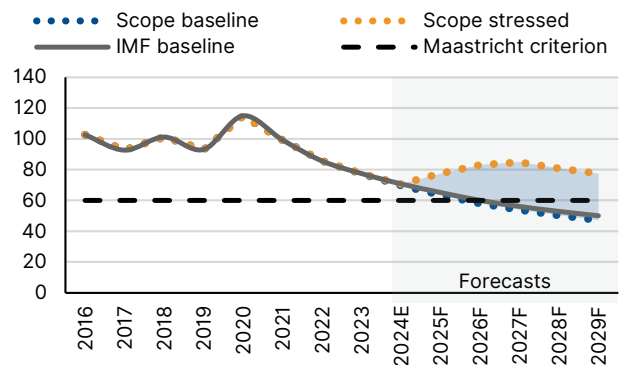
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Strong	+1/3	Good record of effective fiscal consolidation and exceeding fiscal targets, strong fiscal outlook
	Long-term debt trajectory	Strong	+1/3	Public debt on a firmly decreasing trajectory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

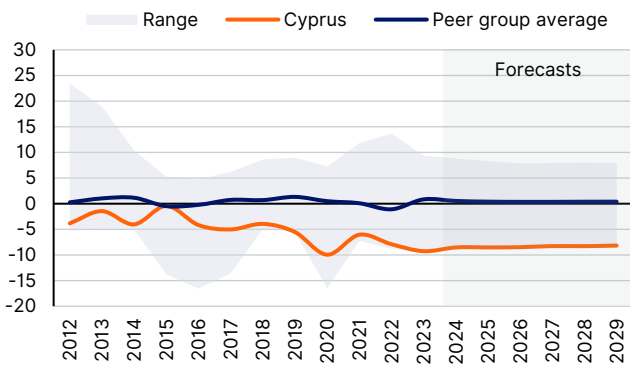
*Sovereign Quantitative Model.

External economic risk

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

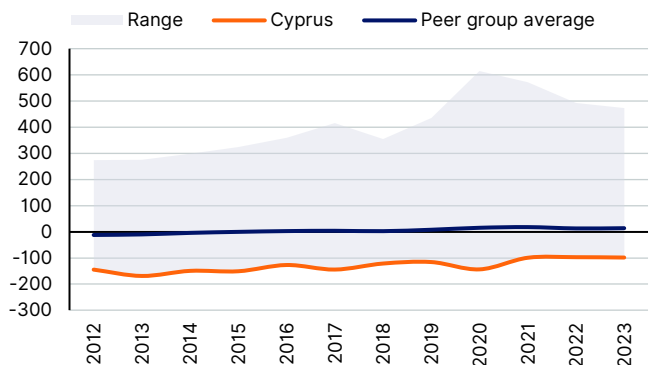
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
C	Current account resilience	Weak	-1/3	Large current account deficits relative to peers; moderate diversification of exports
	External debt structure	Weak	-1/3	Large external debtor position and external financing needs;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



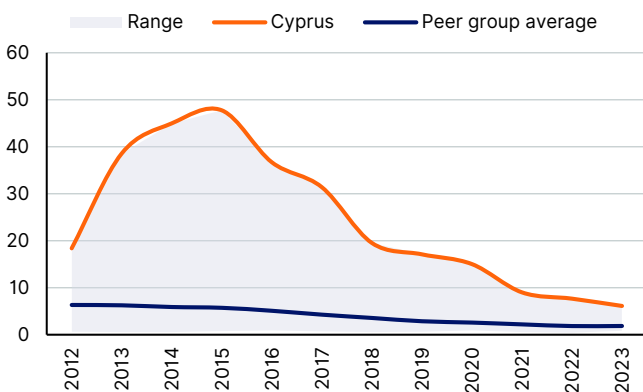
Source: IMF, Scope Ratings

Financial stability risk

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

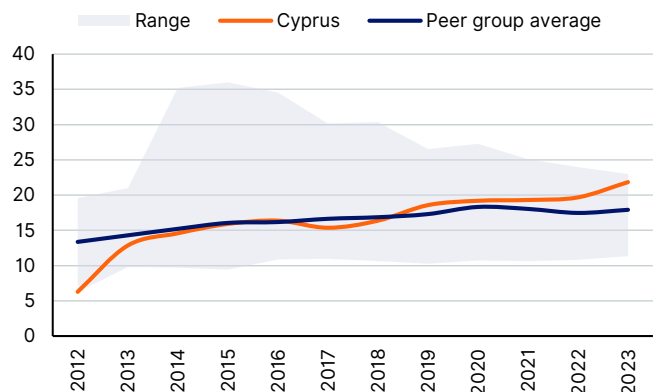
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Weak	-1/3	Improving metrics, including strengthening asset quality albeit still high NPL ratio relative to euro area and credit rating peers
	Financial sector oversight and governance	Neutral	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



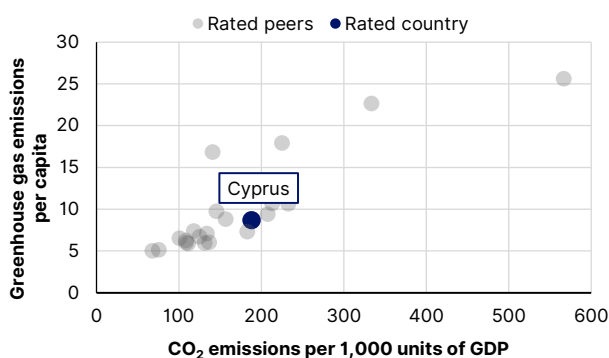
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Cyprus' ESG Risk

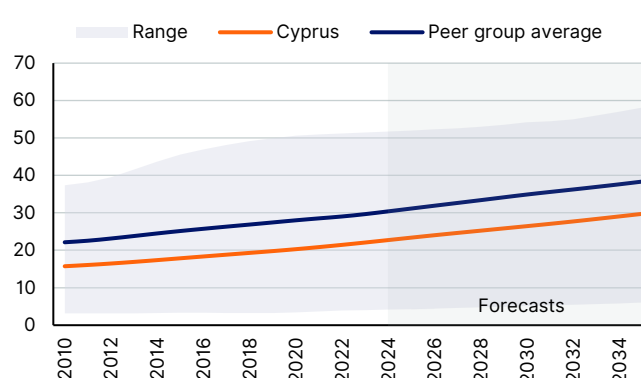
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Environmental factors	Weak	-1/3	Elevated transition and resource risks; high migration costs due to geographical constraints and service-based economy
	Social factors	Neutral	0	Weak youth employment, and education outcomes;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

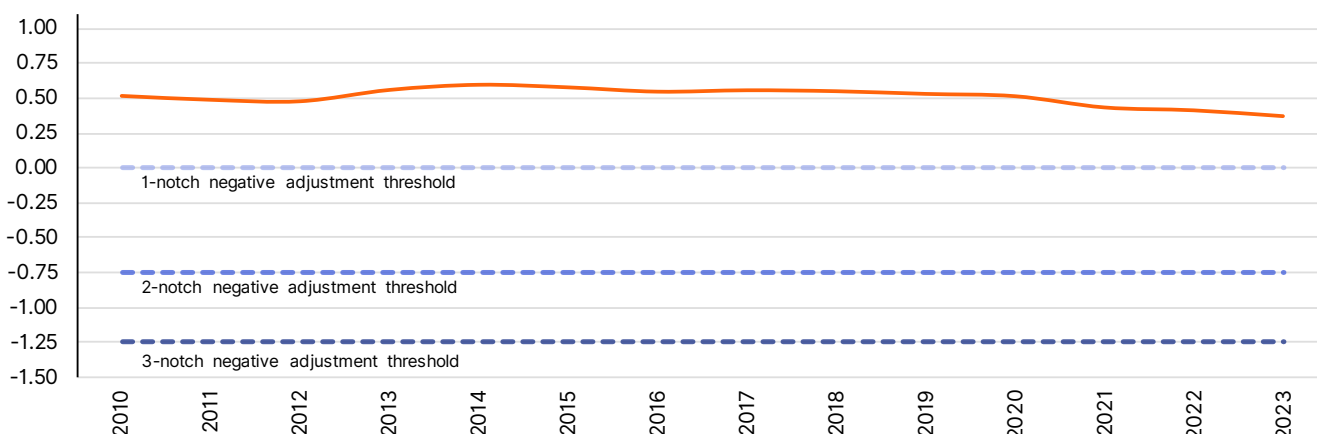
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

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



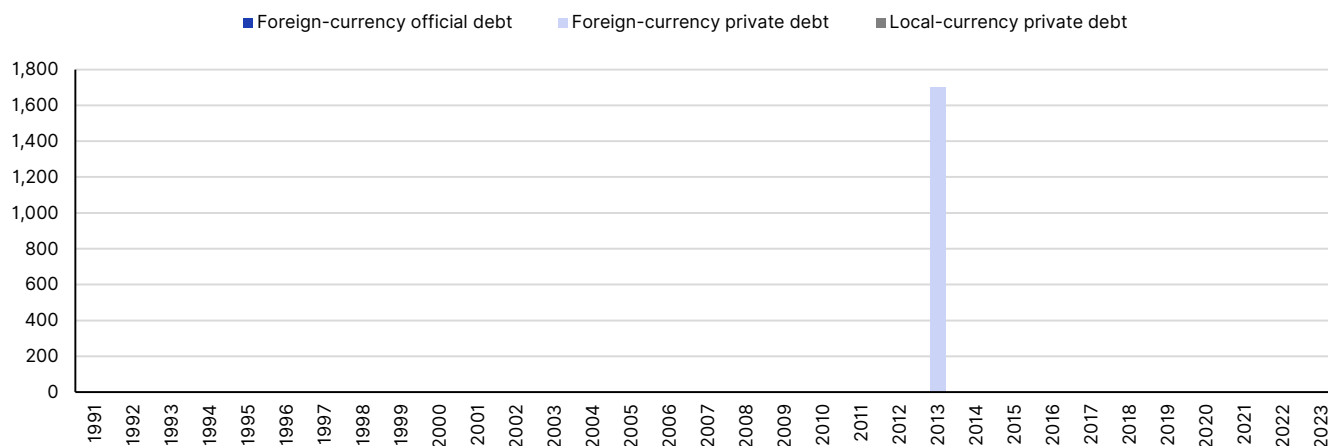
Source: WB, Scope Ratings

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
Slovenia
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 23 October 2024	70.82

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), Int\$ '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
	HICP 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	6.0
Public Finance	Public debt, % of GDP	IMF	101.1	93.0	114.9	99.3	85.6	77.4
	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	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	136.1	107.7	107.9	90.0	75.6	65.9
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	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.

Scope Ratings GmbH

Lennéstraße 5
D-10785 Berlin
[scoperatings.com](https://www.scoperatings.com)

Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

in
Bloomberg: RESP SCOP
[Scope contacts](#)

Disclaimer

© 2024 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope’s ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope’s ratings, rating reports, rating opinions, or related research and credit opinions are provided ‘as is’ without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope’s ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope’s credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.