Republic of Cyprus

Rating report

Rating rationale

Sustained fiscal surpluses and marked public debt reduction: Cyprus maintains a robust fiscal consolidation track record, supported by recurring, though declining, fiscal surpluses and a marked reduction in the debt-to-GDP ratio. Strong structural revenue growth has contributed to steady improvements in public finances, reinforcing fiscal buffers and flexibility to respond to external headwinds and to demographic and climate-related challenges. A commitment to fiscal discipline, a robust growth outlook, and strong fiscal performance underpin a favourable debt trajectory.

Robust economic growth outlook: The conflict in the Middle East is expected to soften economic growth in 2026, but strong fundamentals are likely to continue supporting medium-term growth. Private demand is expected to remain resilient, supported by a strong labour market. Moreover, key sectors such as financial and business services, and ICT are set to remain dynamic, while tourism prospects depend partly on the evolution of geopolitical tensions. Downside risks stem from a prolonged conflict or an escalation of tensions in Iran, which could further dampen tourism, alongside slower economic growth in key EU trading partners.

Reduction in financial system risks: The steady decline in private sector debt and non-performing loans (NPLs) reflects the strengthening of the private sector's financial position. Sound profitability and improved loan-loss absorption capacity further reinforce the resilience of the sector.

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

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%	bbb	EUR [+1]	Cyprus [-0]	0	A
Public finance risk		25%	aaa			2/3	
External economic risk		10%	ccc			-1	
Financial stability risk		10%	aaa			-1/3	
ESG risk	Environmental factors	3%	bb+			- 1/3	
	Social factors	3%	aaa			0	
	Governance factors	14%	a+			- 1/3	
Sovereign Quantitative Model*		**a+**				**-1**	
Additional considerations						**0**	

*Scope's Sovereign Quantitative Model (SQM) signals a final indicative credit rating of 'a+' for Cyprus, which was approved by the rating committee.
For details, please see Scope's Sovereign Rating Methodology.

Foreign currency

Long-term issuer rating/Outlook
A/Stable

Senior unsecured debt/Outlook
A/Stable

Short-term issuer rating
S-1

Local currency

Long-term issuer rating/Outlook
A/Stable

Senior unsecured debt/Outlook
A/Stable

Short-term issuer rating
S-1

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Table of contents

Credit strengths and challenges

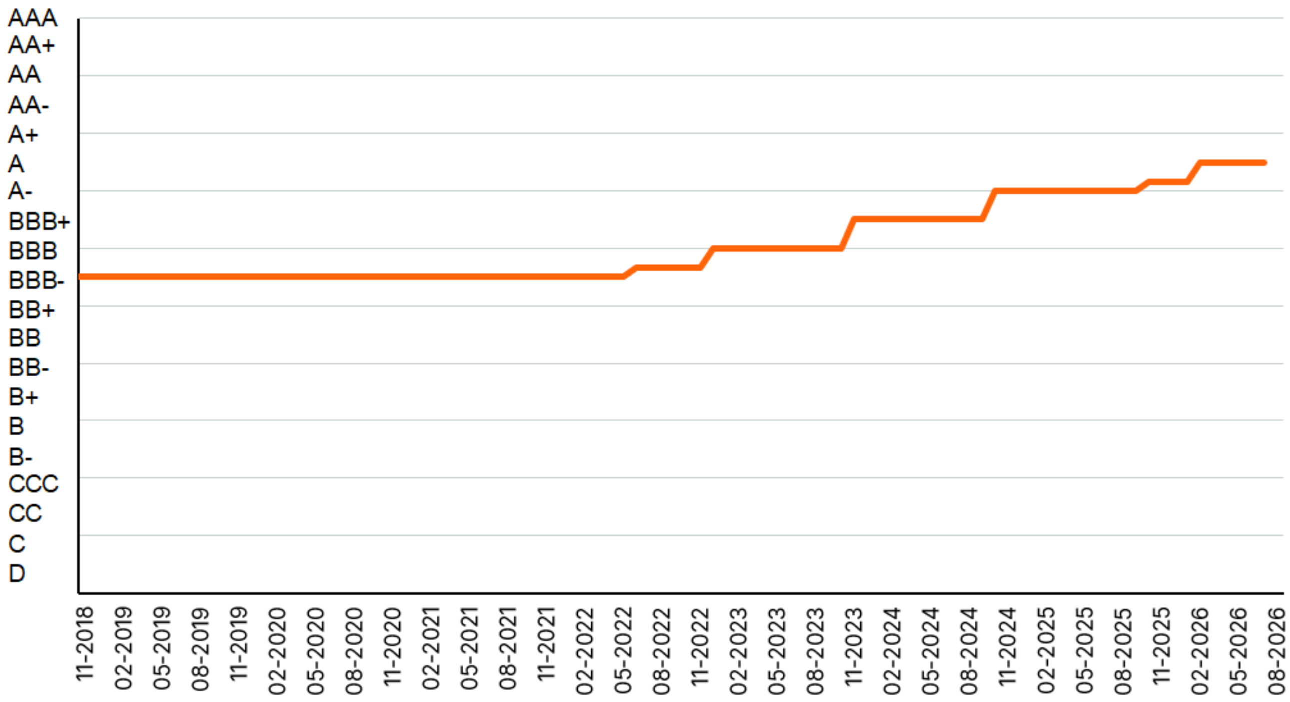
Credit strengths	Credit challenges
• Prudent fiscal management and a favourable debt trajectory • Strong growth potential • Continued structural reform momentum	• Small, open economy externally dependent and exposed to external shocks • Large external imbalances driven by special purpose entities • High levels of legacy NPLs outside the banking sector

Outlook and rating triggers

The **Stable Outlook** reflects the view that risks for the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
• Significantly stronger macroeconomic stability supported by lower external imbalances, enhancing resilience against external shocks • Robust fiscal dynamics lead to a further material decline in general government debt	• Macroeconomic stability weakens significantly following an external shock, leading to pronounced external imbalances and a deterioration in the country's shock-absorption capacity • The fiscal outlook materially worsens, placing the public debt on an upward trajectory • Weaker financial outlook, resurgence of banking sector vulnerabilities

Figure 2: Rating history



Foreign-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.

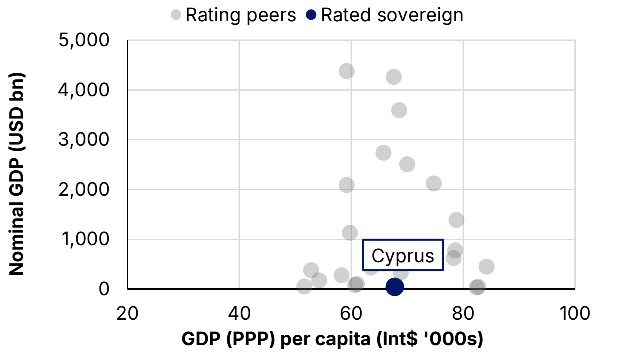
Rating analysis

Domestic economic risk

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

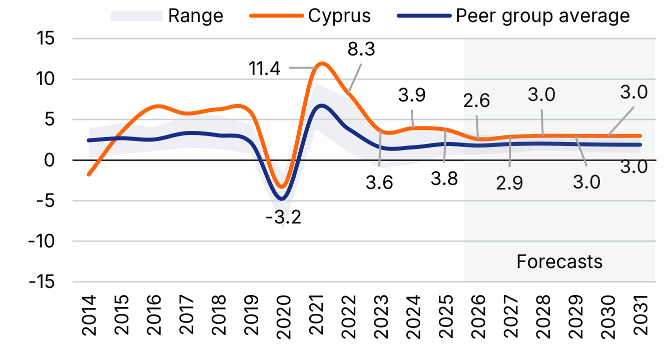
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Growth potential and outlook	Strong	1/3	Strong growth potential supported by robust labour markets, foreign investment, and structural reforms; outlook exposed to risks stemming from proximity to the Middle East and high oil imports
	Monetary policy framework	Neutral	0	The ECB is a highly credible and effective central bank with an effective policy framework and monetary transmission over the cycle
	Macroeconomic stability and sustainability	Weak	- 1/3	Small, open economy exposed to volatility; growth reliant on foreign funding and in part on external demand

Figure 3: Nominal GDP and GDP per capita (2026E)



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

Figure 4: Real GDP growth, %



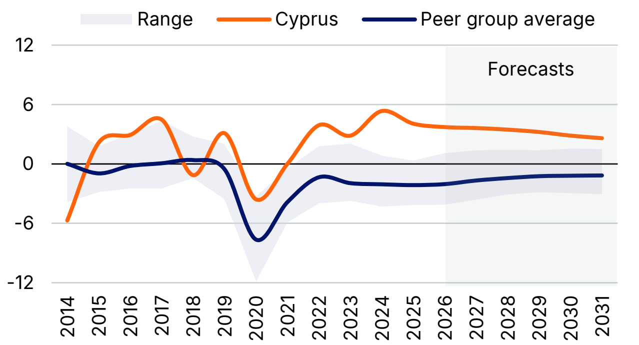
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

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

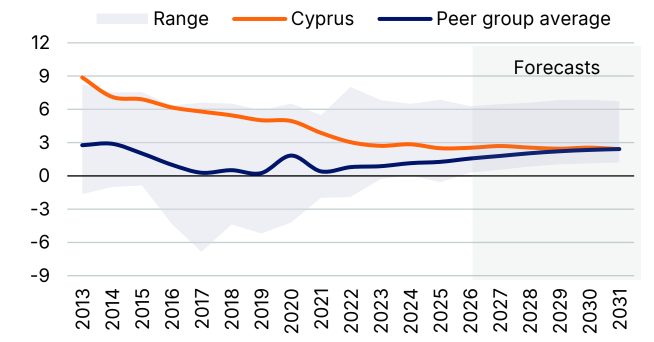
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Strong	1/3	Good record of effective fiscal consolidation and of exceeding fiscal targets, strong fiscal outlook, albeit declining surpluses over the medium term
	Long-term debt trajectory	Strong	1/3	Public debt on a firmly decreasing trajectory
	Debt profile and investor base	Neutral	0	Low interest payment burden, a relatively long average maturity and limited interest rate risk

Figure 5: Primary balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 6: Net interest payments, % of government revenue



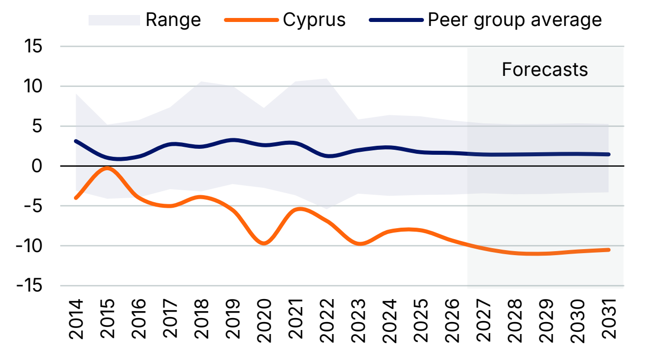
Source: IMF WEO forecasts, Scope Ratings

External economic risk

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

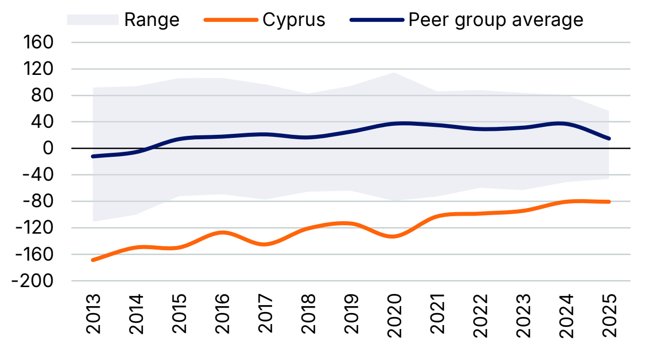
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CCC	Current account resilience	Weak	- 1/3	Large current account deficits relative to peers; moderate diversification of exports
	External debt structure	Weak	- 1/3	Large external debtor position and external financing needs; significantly lower imbalances once adjusted from special purpose entities that have limited links 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), % of GDP



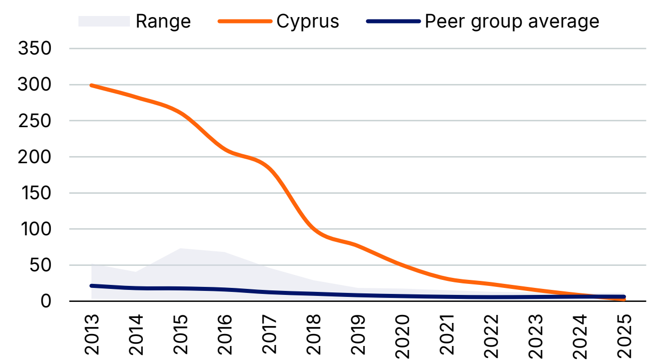
Source: IMF, Scope Ratings

Financial stability risk

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

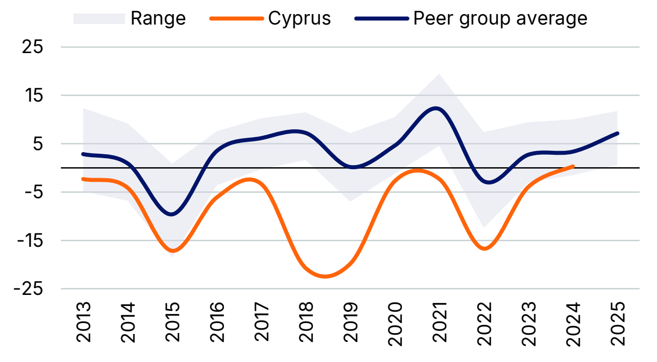
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Improving metrics, including stronger asset quality, but the sector is highly concentrated.
	Financial sector oversight and governance	Neutral	0	Adequate oversight; amendments to the foreclosure framework may erode financial discipline
	Financial imbalances	Weak	- 1/3	Private sector debt is elevated compared with peers; still high levels of legacy NPLs outside the banking sector, constraining credit growth.

Figure 9: Non-performing loans net of provisions, % of capital



Source: IMF, Scope Ratings

Figure 10: Private sector credit growth, %



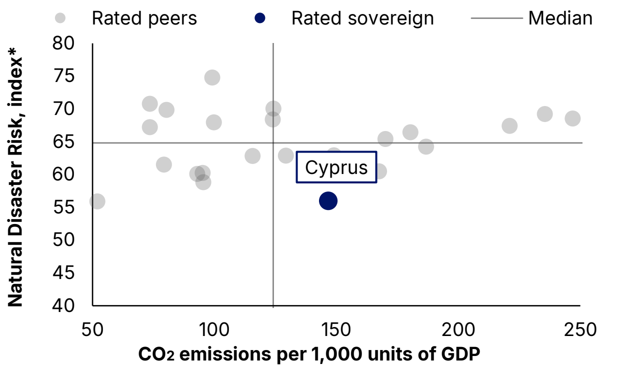
Source: World Bank (WB), Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Cyprus' *ESG Risk*

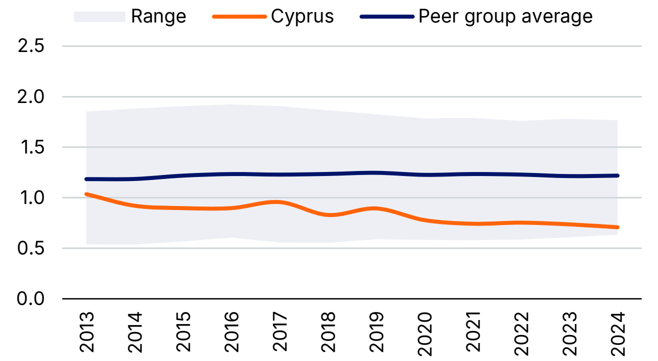
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Environmental factors	Weak	- 1/3	Elevated transition and resource risks; the tourism and the agricultural sectors are relatively vulnerable to climate change risks
	Social factors	Neutral	0	Weak youth employment and education outcomes; good performance in social protection, health and income equality
	Governance factors	Weak	- 1/3	Lingering geopolitical tensions and limited progress on reunification talks

Figure 11: Natural disaster and transition risks



Source: European Commission, Notre Dame Global Adaptation Initiative, Scope Ratings
*Higher scores indicate lower vulnerability to physical risks. Median of SQM peers.

Figure 12: Governance, index score*



Source: World Bank (WB), Scope Ratings
*Mean of the WB estimates for Control of Corruption, Government Effectiveness, Regulatory Quality, and Rule of Law.

Reserve-currency adjustment

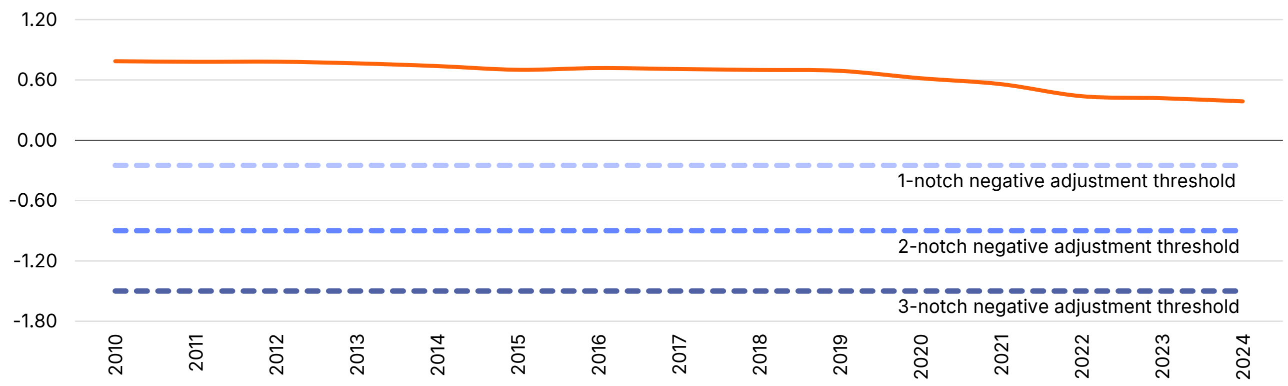
IMF SDR basket and Scope reserve-currency adjustment

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

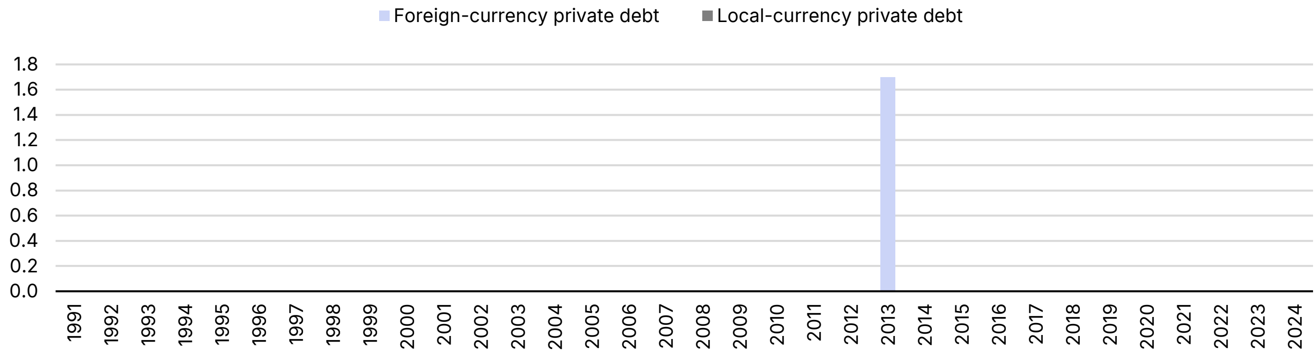
Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Cyprus, three-year moving average



Source: WB, Scope Ratings

Sovereign default history and applicability of the default cap

Figure 14: Sovereign default history, USD bn



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.

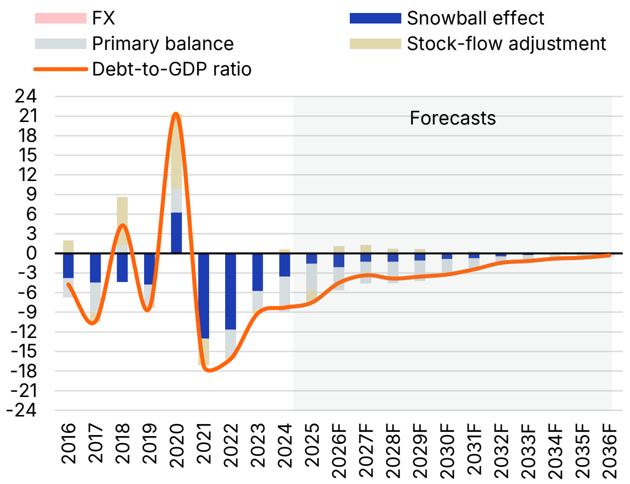
In view of the absence of a recent episode of default, the rating committee did not apply a cap to the indicative SQM rating.

Additional considerations

No adjustment was applied to the rating from additional considerations.

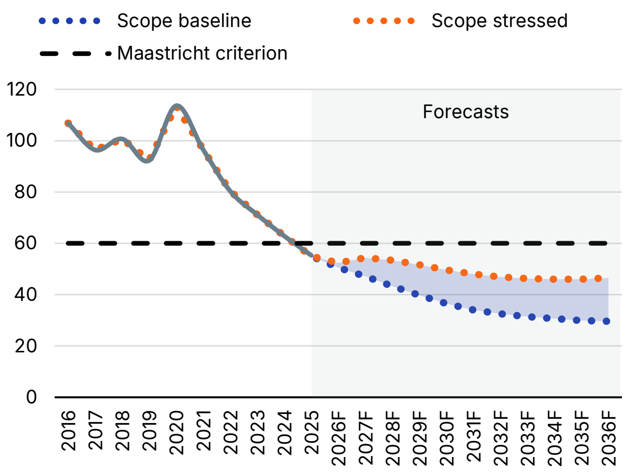
Appendix 1. Debt sustainability analysis

Figure 15: Contributions to change in debt-to-GDP ratio
pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 16: Debt-to-GDP forecasts
% of GDP



Source, IMF WEO, Scope Ratings forecasts

Scope DSA baseline, % of GDP (unless stated otherwise)

	2025E	2026F	2027F	2028F	2029F	2030F	2031F	Avg. 2032F-2036F
Real GDP growth (%)	3.8	2.6	2.9	3.0	3.0	3.0	3.0	**2.8**
Deflator (%)	0.7	3.5	2.4	2.4	2.3	2.2	2.2	**2.2**
Primary balance	4.1	3.5	3.3	3.3	3.1	2.6	2.0	**0.9**
Δ Cost of ageing	0.0	0.0	0.1	0.2	0.1	0.3	0.6	**1.1**
Net interest payments	1.1	1.1	1.2	1.2	1.1	1.1	1.1	**1.4**
General government debt (gross)	55.0	50.5	47.1	43.3	39.7	36.5	34.0	**29.6***

* Figure refers to the end-2036 forecast.
Source: Scope Ratings

Appendix 2. 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 SQM after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Belgium
Estonia
Slovakia
Portugal
Poland
Slovenia
Spain

*Selected publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.
The shaded range in the charts above represents the distribution of sovereign-rating peers between the 10th and 90th percentiles of the full sample.

Appendix 3. Economic development and default indicators

IMF Development Classification	Advanced economy
5-year USD CDS spread (bps) as of 4 August 2026	39.77

Appendix 4. Statistical table for selected SQM indicators

This table presents a selection of the indicators (21 out of 26 – with the governance indicator reflecting a composite of four indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources used ensure comparability across global sovereign peers and may therefore differ from national or other international statistical series; as a result they may not immediately reflect the latest national updates.

Pillar	Core variable	Source	2021	2022	2023	2024	2025	2026E
Domestic Economic	**GDP per capita (PPP)**, Int$ '000s	IMF	49.2	56.1	59.0	61.8	64.8	67.8
	Nominal GDP, USD bn	IMF	30	31	35	38	41	45
	Real growth, %	IMF	11.4	8.3	3.6	3.9	3.8	3.0
	CPI inflation, %	IMF	2.3	8.1	3.9	2.3	0.8	2.6
	Working-age population growth, %	UN	0.8	0.7	0.6	0.5	0.4	0.4
Public Finance	**General government debt**, % of GDP	IMF	96.5	80.3	71.1	62.8	55.3	50.9
	Net interest payments, % of government revenue	IMF	3.9	3.0	2.7	2.8	2.5	2.5
	Primary balance, % of GDP	IMF	0.0	3.9	2.9	5.3	4.1	3.7
External Economic	**Current-account balance**, % of GDP	IMF	-5.5	-6.9	-9.7	-8.2	-8.1	-9.3
	NIIP, % of GDP	IMF	-102.9	-98.6	-94.4	-80.7	-80.7	-
Financial stability	**Non-performing loans net of provisions**, % of capital	IMF	31.1	23.7	15.6	8.5	2.7	-
	Private sector credit growth, (7y av. YoY change, %)	WB	-2.3	-16.7	-3.9	0.3	-	-
ESG	**CO_2 per EUR 1,000 of GDP**, $kgCO_2e$	EC	157.5	153.4	148.9	146.7	-	-
	Income share of bottom 50%, %	WID	20.6	20.8	21.2	21.2	-	-
	Labour-force participation rate, %	WB	77.6	79.1	79.8	79.2	79.3	-
	Unemployment rate, %	WB	7.5	6.8	6.1	5.6	4.9	-
	Composite governance indicators*, index	WB	0.7	0.8	0.7	0.7	-	-
	Political stability, index (3y moving avg.)	WB	0.6	0.4	0.4	0.4	-	-

*Average of the following four World Bank Worldwide Governance Indicators: Control of Corruption, Rule of Law, Government Effectiveness and Regulatory Quality.

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Applied methodology

Sovereign Rating Methodology, March 2026

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