

Research Update:

# Cyprus Outlook Revised To Positive On Continued Macroeconomic Normalization; Affirmed At 'BBB/A-2'

September 1, 2023

## Overview

- The Cypriot economy is normalizing a decade on from its financial crisis.
- The government is back to achieving fiscal surpluses, nonperforming loans have fallen significantly from their crisis-era peak, and the economy's external sector deleveraging continues.
- While vulnerabilities still exist on the economic, fiscal, and external front, the current trends support Cyprus' creditworthiness.
- We therefore revised our outlook on Cyprus to positive from stable and affirmed the ratings at 'BBB/A-2'.

## Rating Action

On Sept. 1, 2023, S&P Global Ratings revised its outlook on Cyprus to positive from stable. At the same time, we affirmed the long- and short-term local and foreign currency sovereign credit ratings on Cyprus at 'BBB/A-2'.

## Outlook

The positive outlook reflects ongoing macroeconomic normalization in Cyprus since the country's financial crisis in 2012-2013. We consider the prospect that--notwithstanding increasing political pressure to step up expenditure--the government appears on track to sustaining steady fiscal surpluses over the coming years. The positive outlook also reflects the pronounced progress made since the 2012-2013 financial crisis in cleaning up banking sector nonperforming loans (NPLs), despite the still-high stock relative to that of euro area peers.

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## Upside scenario

We could raise the sovereign rating on Cyprus within the next 12-24 months if debt reduction were to continue on its current path, supported by tight expenditure control and consistent fiscal surpluses. A similar action could also occur if the currently very elevated current account deficit were to shrink, easing our concerns about Cypriot residents' external leverage. Lastly, we could raise the rating if we were to observe improved stability in the financial system. Further declines in NPLs on the banking sector's balance sheet would signal such an improvement, and this could reduce the banking sector's contingent liability risk to the government, reinforce the effectiveness of monetary policy transmission, and strengthen banks' access to debt capital markets.

## Downside scenario

We could revise the outlook to stable if, within the next 12-24 months, external short-term debt levels began rising again, reversing the current encouraging trend of deleveraging in the economy. Rating pressure could also materialize if structural reform progress were to stall, creating meaningful delays to Cyprus' NextGenEU funding.

## Rationale

The Cypriot economy continues to show resilience. Last year's real GDP growth (5.6% year on year) marked the sixth time expansion surpassed 5% in the past seven years. Despite material exposure to Russia as well as the winding-down of the Cyprus Investment Programme (that is, the citizenship by investment scheme), growth should settle at just below 3% over 2023-2026, on the back of effective relocation of foreign business into Cyprus, and a steady improvement in tourism.

Authorities' aim to make Cyprus a digital hub is likely to further increase the dominance of services in an already a very open economy. Exports of services during 2022 were 5.7x merchandise sales abroad. Last year's total external trade came to 159.3% of GDP from 124.2% in 2019 (and just 93.6% in 2012). We see the focus on creating a digital hub tailored to fintech and gaming as a critical component of the recent improvements. These could gradually usher in important diversification from Cyprus's bread-and-butter industry of tourism, which still makes up roughly 20% of GDP.

That said, one potential economic vulnerability is Cyprus' high reliance on imported oil and petroleum products. These made up just under 86% of gross energy supply in 2021, the highest of all EU member states. The recent discovery of significant offshore gas should help to reduce this dependency, as will the general trend in declining energy intensity of Cypriot GDP (defined as the kilograms of oil and oil equivalents required to produce 1,000 units of chain-linked GDP). Nevertheless, although energy intensity is decreasing, the decline between 2021 and 2010 was less than the EU average; this was somewhat surprising considering the services sector's rising share of GDP. One explanation could be the prominence of shipping in Cyprus' economy, which has complicated the calculation of national accounts, as well as external data.

Inflation levels are normalizing despite collective wage increases. The latest HICP inflation numbers show inflation fell to 2.4% in July, the third lowest in the euro area and within touching distance of the ECB's 2.0% target. Nonetheless, the increase of the Cost-of-Living Adjustment (CoLA), which will see public sector pay and professions with collective wage agreements rise by 66.7% of the prior year's inflation rate (from 50.0% earlier), could expose Cyprus to wage-price spiral dynamics, and we expect this will lead to higher near-term inflation following the June

implementation.

Fiscal surpluses will likely endure even amid expenditure pressures. The government balance returned to positive territory last year, improving by 4.1 percentage points to reach a surplus of 2.1% of GDP. Although the public sector wage hike, increased defense spending, and green and digital transformation costs are likely to weigh on spending in the coming years, we still expect the surplus to hold at 1.6% on average over 2023-2026.

We project net debt will fall to 52% of GDP by 2026. Such consolidation would bring Cyprus significantly more in line with peers across the EU, where we estimate the median net debt will be 51% of GDP in the same year. Our estimate of Cyprus' net debt reflects sizable cash buffers of about €3 billion, which we assume will likely be maintained in the near term. Notably, Cyprus' debt costs remain affordable, with interest payments projected to occupy only 4.1% of government revenue on average over 2023-2026.

Cypriot banks are effectively cleaning up their balance sheets, affording them continued capital market access. NPLs stood at 9% of total loans as of April 2023. This marks a significant improvement from their peak of 49% in May 2016, with most progress seen in the larger systemic banks. This has allowed systemic banks to tap capital markets in 2023, with several issuances compliant with additional tier 1 norms and the single resolution mechanism. Still, progress in balance sheet clean-up efforts has slowed in recent months as smaller banks face difficulties with transaction sizes. Further NPL reductions would support banks' and households' resilience to future shocks and limit contingent sovereign risks, in our view.

### **Institutional and economic profile: Tourism is booming again, while economic diversification efforts continue**

- Growth will cool to a projected 2.4% in 2023, as sanctions take effect in earnest, financial conditions tighten, and household balance sheets erode from inflationary pressures.
- We expect medium-term growth to settle just under 3%, supported by further expansion in tourism and efforts to diversify into the tech sector.
- Successful implementation of structural reforms under the Recovery and Resilience Plan are likely to be key to unlocking further growth.

Despite the rollout of sanctions, the Cypriot economy expanded by 5.6% in 2022. This marks the sixth time in the past seven years that annual real GDP growth has exceeded 5%. Private consumption has been strong, tourism activity normalized further, and the tech sector expanded. Financial and professional service exports have contracted due to their exposure to sanctioned activity. However, given that key EU sanctions were only implemented in the latter part of 2022, this contraction is only likely to become fully apparent in 2023 data. Additionally, some activity in these sectors was temporarily propped up in 2022 due to the one-off business of supporting the winding-up of Russian companies.

Tourism and technology will support Cyprus' economic prospects in 2023 amid constraints from the halting of Russian activity. Overall, we project growth of 2.4% this year, although a more protracted impact of sanctions on the professional service sector presents a downside risk. Somewhat offsetting this, however, is the very strong showing in tourism. Despite the mixed economic picture in source countries and thanks to pent-up demand for leisure travel, high frequency data suggest that 2023 is on track to match, or potentially beat, the record numbers of 2019.

Tech sector diversification and eventual gas production are likely to power medium- and

long-term growth. We expect tourism, which still comprises about 20% of GDP, to face more moderate levels of expansion in future years, as inflation is likely to start biting into household balance sheets in northern Europe. Instead, efforts to turn Cyprus into a tech hub (with particular focus on fintech and gaming) are likely to become more important drivers for growth. This potential has been boosted by the relocation to the island of various business since 2020, notably from Russia, Ukraine, and Israel. Lastly, meaningful gas discoveries made in 2022 by ENI and Total could further transform the Cypriot economy, even though production in the most advanced field, Aphrodite, is not expected until at least 2027.

Enactment of reforms under NextGenEU would unlock grants and further support medium-term growth. Cyprus is set to receive up to €1.21 billion (4.5% of GDP) between 2021–2026, including €1.06 billion in grants, if it implements agreed-upon reforms. Cyprus plans to use these funds to support a green and digital transition. The recovery plan includes measures to reinforce the health care system, increase the efficiency of public services and the judicial system, develop a modernized tax system, and support education. Nonetheless, implementation has so far been somewhat slow, with delays to disbursement. Although the funds hold limited fiscal importance, in our view, the associated reforms are likely to be key in yielding growth and fiscal efficiencies.

The victory of independent candidate Mr. Nikos Christodoulides in the February 2023 elections signals electoral support for policy continuity. Mr. Christodoulides was the minister of foreign affairs in the outgoing administration from 2018 to early 2022. He then broke away to run as an independent, but we expect a large degree of policy continuity. In particular, we expect the government to remain focused on the reduction of public debt, support for the labor market, governance improvement, cost of living, and the cleaning up of the financial sector balance sheet. The new president will again have to work with a divided political landscape through consensus building, although this has not been a significant roadblock in the past.

### **Flexibility and performance profile: Fiscal surpluses are rebuilding buffers**

- The general government balance swung into surplus in 2022, and we project surpluses will be maintained in the coming few years despite expenditure pressure.
- We expect government net debt to fall to 52% of GDP by 2026, underpinned by solid nominal GDP growth.
- Although Cypriot banks are in a much healthier position than at the peak of the country's financial crisis, they continue to have the highest NPL levels among EU peers.

Cyprus' budgetary position beat expectations last year with a reported surplus of 2.1% of GDP, strengthening by 4.1 percentage points from 2021. Revenue performed particularly well, recording a 14% increase, with inflation boosting earnings from the value-added tax and income taxes, alongside positive impacts from broader economic expansion. Expenditure also stayed broadly in check, rising only 3% over the same period as COVID-19-related support measures were phased out.

Some loosening of expenditure constraint is likely. The new government, elected in February 2023, has made addressing cost-of-living concerns a priority. As result, the CoLA adjustment was raised from 50.0% of the prior year's inflation rate to 66.7%, which will dampen this year's fiscal outturn. Additionally, some cost-cutting measures that depressed public sector benefits have started to be phased out, and the government headcount is anticipated to increase. Both developments will add to expenditure outlays in a cumulative fashion and with a likely limited fiscal multiplier on the broader economy.

Despite the brewing fiscal pressure, however, surpluses do not appear to be in jeopardy at this time. We forecast average surpluses of 1.6% of GDP over 2023–2026. We see the key risks to this emanating from a potential revenue setback from lower outcomes on either growth or inflation. The latter remains important, given the strong correlation with VAT and income receipts, albeit with some partially offsetting dynamics on the expenditure side, notably from the CoLA adjustment.

Net government debt has been on a rapidly declining trend. We estimate net general government debt to GDP will reach about 66% at end-2023, a notable improvement from the peak of 93% in 2020. Since we expect budgetary performance to remain strong and nominal GDP growth to be healthy, albeit easing, we anticipate this downward trend to continue. We project net general government debt will fall to 52% of GDP by end-2026. Weighing in these improving fiscal trends and despite rising interest rates, we expect Cyprus' interest bill to stay in check, at about 4% of general government revenue over the coming three years. This very low interest burden also reflects that around 34% of Cyprus' debt stock is owed to official lenders, mainly the European Stability Mechanism (ESM), at favorable interest rates and long tenors.

Cyprus' current account deficit has been worsening, although this partly reflects the strength of the recovery. In 2022, we estimate the current account deficit rose to 10.4%, after taking out the distortionary impact of special purpose entities (SPEs), as we historically have always done due to the only transient relationship this sector has with Cyprus. Although SPEs have historically contributed negatively to the current account, since 2019 this has reversed, meaning our estimate of the current account deficit is now higher than headline figures. Nonetheless, the worsening relative to 2021 only partially reflects rising energy imports, as service exports were broadly able to pass on price rises, meaning the terms of trade shock was relatively limited. Instead, this worsening appears to reflect an increase in domestic demand, including for intermediate and capital goods. With the completion of large projects such as a casino and marina development, both import demand should be expected to ease while tourism exports should continue to advance. Overall, we forecast the adjusted current account deficit to fall to 8.5% by 2026, though this remains high when compared with peers. Concurrently, we expect gross external financing needs to remain elevated, and we forecast they will average 186% of current account receipts over 2023–2026, reflecting still high external debt and import levels.

External deleveraging is underway across all sectors. Excluding SPEs, we estimate the narrow net external debt position of Cyprus residents as a whole fell to 75% of current account receipts in 2022, a 53 percentage point improvement from a year earlier. Partially this reflects favorable exchange rate movements, but it also reflects deleveraging in each of government debt, banking sector nonresident deposit obligations, and private sector indebtedness. Together, this reflects a positive trend of external buffers being rebuilt, and we forecast the ratio could fall to 43% by end-2026.

Cyprus' external data is challenging to analyze. This is due to widespread dual residency, and the enormous stock of external assets and liabilities in relation to GDP, which are subject to exchange rate, and valuation effects that often exceed the reported size of the country's external deficits. Complicating the data further, the Cypriot flagged shipping fleet is the 11th largest worldwide, and the third largest in the EU, with Cyprus being Europe's biggest ship management center.

Cypriot HICP inflation dropped to 2.4% year-on-year in July 2023, despite the CoLA wage hikes. The fall in inflation, from a peak of 10.6% in July 2022, reflects easing shipping costs and falling energy prices. However, food prices continue to climb. Moreover, the CoLA adjustment implemented in July could reverse the improving inflation trend in later months, and potentially exposes Cyprus to future wage-price spirals.

The operating environment for Cypriot banks is improving, with reducing funding risks. Cypriot

banks have made significant progress in rebalancing their funding profiles over recent years, aided by strong deposit gathering and sharp balance sheet deleveraging. Deposits more than fully cover loans, with the estimated loan-to-deposit ratio at 52% as of end-2022. Also, wholesale funding needs are limited, while banks benefit from ample liquidity. The Cypriot financial system still shows relative reliance on nondomestic depositors, which might be less stable than traditional retail funding in a stress scenario. That said, nonresident deposits have continued declining, standing at an estimated 16% of total deposits at end-2022, versus more than 30% in 2012. In addition, despite the impacts from Western sanctions on some Russian entities and individuals and from recently heightened capital market volatility, deposits in Cyprus proved sticky and haven't shown any obvious signs of instability. We therefore see a positive trend in the industry risk component of Cyprus' Banking Industry Country Risk Assessment (see "Banking Industry Country Risk Assessment: Cyprus," published May 22, 2023, on RatingsDirect).

NPLs fell dramatically from their highs in 2015, but more recent progress has been limited. NPLs peaked at 49% of total loans in May 2016, and have since fallen to 9.0% as of April 2023. Still, this remains higher than peers' and is the highest in the EU. Moreover, further progress has stalled in recent months, ostensibly because most of the exposures have been concentrated among smaller banks that have struggled to sell portfolios due to size-related constraints. Given that lending rates in Cyprus are tied to deposit rates--which have not moved as aggressively as the ECB base rate owing to excess liquidity in the system--the risks of rising default rates so far appear contained.

## Key Statistics

Table 1

### Cyprus--Selected Indicators

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Economic indicators (%)</b>										
Nominal GDP (bil. LC)	20.3	21.7	23.2	21.9	24.0	27.0	28.6	30.2	31.8	33.4
Nominal GDP (bil. \$)	22.9	25.6	25.9	25.0	28.4	28.4	30.8	33.4	36.8	39.1
GDP per capita (000s \$)	26.8	29.6	29.6	28.2	31.7	31.4	33.7	36.3	39.5	41.6
Real GDP growth	5.7	5.6	5.5	(4.4)	6.6	5.6	2.4	2.8	2.9	2.9
Real GDP per capita growth	4.9	4.5	4.1	(5.7)	5.7	4.6	1.4	1.8	1.9	1.9
Real investment growth	21.2	(4.9)	6.9	4.5	(4.2)	6.6	7.8	6.0	6.0	9.0
Investment/GDP	20.6	19.3	19.8	20.1	17.8	20.2	20.5	20.8	21.2	22.3
Savings/GDP	19.2	16.2	13.8	10.7	9.7	9.8	10.3	11.4	12.7	13.8
Exports/GDP	73.8	75.0	76.5	81.4	86.6	91.5	89.6	88.9	88.5	88.6
Real exports growth	11.0	7.2	8.7	2.2	13.6	13.7	3.0	3.0	3.2	3.2
Unemployment rate	11.1	8.4	7.1	7.6	7.5	6.8	4.8	4.6	4.4	4.2
<b>External indicators (%)</b>										
Current account balance/GDP	(1.4)	(3.1)	(6.0)	(9.4)	(8.1)	(10.4)	(10.2)	(9.5)	(8.5)	(8.5)
Current account balance/CARs	(2.0)	(4.3)	(8.2)	(11.8)	(9.9)	(11.7)	(11.7)	(11.0)	(10.0)	(10.1)
CARs/GDP	72.7	71.2	73.4	80.1	81.5	89.4	87.4	86.0	84.9	84.5

Table 1

**Cyprus--Selected Indicators (cont.)**

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Trade balance/GDP	(19.0)	(18.3)	(18.8)	(16.9)	(17.7)	(21.7)	(21.5)	(21.2)	(20.9)	(21.1)
Net FDI/GDP	2.2	25.5	3.5	34.0	18.2	30.2	13.1	11.0	9.3	8.3
Net portfolio equity inflow/GDP	(11.0)	25.9	(4.4)	2.4	(3.3)	2.4	0.0	0.0	0.0	0.0
Gross external financing needs/CARs plus usable reserves	313.9	317.8	277.3	250.5	236.9	233.5	198.4	189.9	180.5	174.9
Narrow net external debt/CARs	206.1	145.9	124.9	148.0	128.7	74.6	64.9	56.5	48.8	43.1
Narrow net external debt/CAPs	202.1	139.9	115.4	132.4	117.1	66.8	58.1	50.9	44.3	39.2
Net external liabilities/CARs	71.0	58.2	55.4	71.7	50.1	15.9	24.3	31.4	36.6	41.5
Net external liabilities/CAPs	69.7	55.8	51.2	64.1	45.5	14.3	21.8	28.3	33.3	37.7
Short-term external debt by remaining maturity/CARs	227.2	229.0	182.5	151.6	139.6	136.6	99.4	90.3	80.4	74.0
Usable reserves/CAPs (months)	0.6	0.6	0.5	0.6	0.6	0.7	0.7	0.6	0.6	0.6
Usable reserves (mil. \$)	891	925	1,031	1,241	1,615	1,728	1,730	1,730	1,730	1,730
<b>Fiscal indicators (general government; %)</b>										
Balance/GDP	1.9	(3.6)	1.3	(5.8)	(2.0)	2.1	1.5	1.7	1.6	1.5
Change in net debt/GDP	0.1	11.1	(3.6)	5.8	0.5	(4.5)	(1.5)	(1.7)	(1.6)	(1.5)
Primary balance/GDP	4.4	(1.3)	3.5	(3.7)	(0.2)	3.6	3.1	3.4	3.4	3.1
Revenue/GDP	38.3	39.0	39.4	38.8	41.5	41.9	41.3	41.3	41.3	41.3
Expenditures/GDP	36.4	42.6	38.1	44.6	43.5	39.8	39.8	39.6	39.7	39.8
Interest/revenues	6.4	6.0	5.6	5.4	4.4	3.6	4.0	4.1	4.3	4.0
Debt/GDP	92.5	98.1	90.4	113.5	101.0	86.4	80.1	74.3	68.8	64.1
Debt/revenues	241.5	251.6	229.7	292.9	243.6	206.2	193.9	179.9	166.7	155.2
Net debt/GDP	86.5	92.1	82.6	93.2	85.5	71.5	65.9	60.9	56.1	52.0
Liquid assets/GDP	6.0	6.0	7.9	20.3	15.5	15.0	14.1	13.4	12.7	12.1
<b>Monetary indicators (%)</b>										
CPI growth	0.5	1.4	0.2	(0.6)	2.4	8.4	3.3	2.5	2.0	2.0
GDP deflator growth	1.0	1.0	1.3	(1.2)	2.9	6.4	3.5	2.5	2.5	2.0
Exchange rate, year-end (LC/\$)	0.83	0.87	0.89	0.81	0.88	0.94	0.93	0.89	0.86	0.85
Banks' claims on resident non-gov't sector growth	(5.5)	(24.2)	(15.4)	(4.5)	(5.8)	(6.4)	1.0	1.0	1.0	1.0
Banks' claims on resident non-gov't sector/GDP	191.0	135.7	107.4	108.5	93.2	77.6	73.9	70.9	67.9	65.3
Foreign currency share of claims by banks on residents	7.0	6.1	8.0	7.7	6.2	14.0	14.0	14.0	14.0	14.0

Table 1

**Cyprus--Selected Indicators (cont.)**

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Foreign currency share of residents' bank deposits	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Real effective exchange rate growth	0.1	1.9	(1.9)	0.1	0.1	(1.3)	N/A	N/A	N/A	N/A

Sources: Eurostat and Statistical Service of Cyprus (economic indicators), Central Bank of Cyprus (external indicators), Eurostat (fiscal indicators), Eurostat and International Financial Statistics (debt indicators), International Financial Statistics and Central Bank of Cyprus (monetary indicators).

Adjustments: We adjust government debt by excluding guarantees on debt issued by the European Financial Stability Facility.

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

**Ratings Score Snapshot**

Table 2

**Cyprus--Ratings Score Snapshot**

Key rating factors	Score	Explanation
Institutional assessment	3	Generally effective policymaking in recent years, promoting sustainable public finances and economic growth. There is generally unbiased enforcement of contracts and respect for the rule of law with the free flow of information across society.
Economic assessment	2	Based on GDP per capita (\$) as per the Selected Indicators table above.
External assessment	5	Based on narrow net external debt as per the Selected Indicators table. Although the euro is a reserve currency, individual members of the union are treated as if the currency was only actively traded.  Cyprus has an elevated current account deficit which is forecast to be consistently more than 10% of CAR, as per Selected Indicators table.  The sovereign enjoys good market access but, despite recent progress, banks' access to commercial debt markets still appears to be less secure and at higher rates.  External data lacks consistency because of consistently high errors and emissions, making external analysis more difficult, and potentially understating our understanding of external risks.
Fiscal assessment: flexibility and performance	1	Based on the change in net general government debt (% of GDP) as per the Selected Indicators table.
Fiscal assessment: debt burden	4	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenue) as per the Selected Indicators table.  Nonresidents hold over 60% of government commercial debt.  We consider contingent liabilities from banks moderate.
Monetary assessment	4	The euro is a reserve currency.



Table 2

**Cyprus--Ratings Score Snapshot (cont.)**

Key rating factors	Score	Explanation
		The European Central Bank (ECB) has an established track record in monetary authority independence, with clear objectives and a wide array of policy instruments, including nonconventional tools.
		Monetary policy transmission mechanisms remain weak, notably due to a still-large stock of nonperforming exposures in the banking system.
		Cyprus is a member of the Economic and Monetary Union, resulting in less individual monetary flexibility.
		The ECB's monetary policy stance may not always be in sync with the cycle in Cyprus, given the size of its economy relative to the rest of the eurozone.
Indicative rating	bbb+	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	-1	Gross external financing needs are significantly weaker than the weakest level in Table 4 of the "Sovereign Rating Methodology," as per the Selected Indicators table.
Foreign currency	BBB	
Notches of uplift	0	We do not believe that default risks apply differently to foreign- and localcurrency.
Local currency	BBB	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

**Related Criteria**

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

**Related Research**

- Sovereign Ratings History, Aug. 16, 2023
- Sovereign Ratings List, Aug. 16, 2023
- Sovereign Ratings Score Snapshot, Aug. 8, 2023
- Sovereign Risk Indicators, July 10, 2023. An interactive version is also available at [www.spratings.com/sri](http://www.spratings.com/sri).

- Global Sovereign Rating Trends Midyear 2023: Fragile Stability, July 5, 2023
- Banking Industry Country Risk Assessment: Cyprus, May 22, 2023
- Various Positive Rating Actions Taken On Greek And Cypriot Banks, April 25, 2023,

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

## Ratings List

### Outlook Action; Ratings Affirmed

	To	From
<b>Cyprus</b>		
Sovereign Credit Rating	BBB/Positive/A-2	BBB/Stable/A-2
Transfer & Convertibility Assessment	AAA	AAA
Senior Unsecured	BBB	BBB
Short-Term Debt	A-2	A-2
Commercial Paper	A-2	A-2

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