Long-Term Foreign Currency Rating of 'CareEdge BBB+/Stable' (Unsolicited) assigned to Republic of Cyprus

Issuer rating (Long-Term Foreign Currency)	CareEdge BBB+/Stable (Unsolicited)

CareEdge Global has assigned a Long-Term Foreign Currency Rating of **'CareEdge BBB+/Stable'** (Unsolicited) to Republic of Cyprus.

Rationale

The rating reflects Cyprus's strong post-pandemic fiscal performance, underpinned by robust economic growth. Fiscal metrics have strengthened markedly, with the general government recording a surplus of 4.3% of GDP in 2024 and a sizeable government cash balance at 10% of GDP, providing significant fiscal buffers. Revenue performance has also improved in recent years, following increases in the corporate tax rate and social contribution rates, which lifted general government revenue to around 44% of GDP in 2024 from 41% in 2021. Fiscal surpluses are expected to average around 3% of GDP over the next five years, contributing to a substantial reduction in general government debt from about 65% of GDP in 2024 to around 38% by 2030.

Cyprus also benefits from European Union (EU) membership The banking sector has improved post its crisis period, although it continues to be a key area of monitoring. Capital adequacy buffers are adequate and broadly in line with EU averages. In addition, ongoing private-sector deleveraging has reduced balance-sheet vulnerabilities and strengthened financial stability.

These strengths are offset by structural constraints, including Cyprus's small economic size, exposure to cyclical sectors such as tourism and real estate, and persistent external imbalances in the form of significant current account deficits and a negative net international investment position due to large debt of the Special Purpose Entities (SPEs) in the shipping sector. In addition, geopolitical risks related to the unresolved division of the country into a Greek Cypriot south (Republic of Cyprus) and a Turkish Cypriot north may pose a potential risk. The rating also reflects constraints arising from limited data availability and information transparency.

Outlook: Stable

The Stable Outlook reflects our expectation that Cyprus will maintain its economic growth while continuing to improve its fiscal profile. Growth is expected to remain around 2% over the medium term, supported by tourism and services exports. The fiscal profile is also expected to remain resilient, underpinned by sizeable government cash balances at 10% of

GDP and continued fiscal surpluses. General government debt-to-GDP is expected to decline to 38% by 2030 from 65% currently.

Upside Scenario

The outlook could be revised to positive if Cyprus sustains strong medium-term growth underpinned by meaningful diversification away from cyclical sectors such as tourism and real estate. The credit profile would be further strengthened by the authorities' capacity to maintain higher-than-expected fiscal surpluses despite rising expenditure pressures, enabling faster debt reduction and the preservation of fiscal buffers. Continued progress in banking sector restructuring, including further reductions in non-performing exposures and stronger capitalisation, would enhance financial stability and mitigate potential contingent liabilities for the sovereign.

Downside Scenario

The outlook could be revised to negative in the event of significant external shocks, given Cyprus's wide current account deficits and reliance on foreign direct investment inflows. The sovereign's credit profile could also come under pressure from a deterioration in the regional security environment, including heightened geopolitical tensions linked to the unresolved Cyprus issue. In addition, any weakening in the banking sector's health could trigger a negative outlook. Such developments could erode investor confidence, dampen economic growth, and heighten financing risks, potentially weakening fiscal and external buffers.

Key Rating Drivers

Economic Structure & Resilience

Cyprus is among the smallest economies in Europe, with a nominal GDP of around USD 36 billion. Nevertheless, economic performance has largely outpaced the Euro Area average. The country benefits from a strategic geographic location. It is often regarded as a gateway to the European market, a position further reinforced by the recent relocation of companies amid heightened geopolitical tensions in the Middle East.

The economy is predominantly services-oriented, with tourism and high-value-added sectors, particularly Information, Communication & Technology (ICT) and financial services, constituting the main growth drivers. Cyprus is also a major global shipping and ship-management hub, supported by a favourable tax regime, a robust legal framework, and well-developed maritime infrastructure. Labour market conditions remain tight, with the unemployment rate at around 4% in 2024. Demographic pressures are partly mitigated by sustained net migration inflows, resulting in a demographic profile that compares favourably with the European average. Over the medium term, LNG exploration and related infrastructure developments could help alleviate energy costs. In addition, inflows from the Recovery and Resilience Facility (RRF), amounting to nearly 4% of GDP, are expected to continue supporting economic activity.

Notwithstanding these strengths, Cyprus's small economic size and limited diversification constrain its resilience to external shocks. The tourism sector remains exposed to developments in the Middle East, although the authorities are taking steps to diversify tourist inflows from European markets. In addition, Cyprus is highly reliant on imported energy, with around 92% of oil consumption sourced from abroad, leaving the economy exposed to global energy price volatility.

Fiscal Strength

Cyprus recorded its third consecutive fiscal surplus in 2024 and is expected to maintain an average surplus of around 3% of GDP over the next five years. General government debt is on a strong consolidation path, declining from peak levels of about 113% of GDP in 2014 and 2020 to 65% in 2024, with projections pointing to a further reduction to around 38% by 2030. Revenue mobilization remains robust, with general government revenue at around 44% of GDP. At the same time, debt affordability is supported by a low interest burden, with interest expenditure amounting to a comfortable 2.9% of government revenue. The upward revision of the corporate income tax rate from 12.5% to 15% is estimated to result in approximately EUR 200 million in additional fiscal revenue.

Despite these improvements, fiscal pressures warrant close monitoring. Public-sector wage dynamics remain a key risk, given the relatively high public-sector wage bill. In 2023, general government spending on compensation of employees stood at around 12% of GDP, exceeding levels observed in many OECD, EU, and other advanced economies. The recently agreed permanent Cost-of-Living Adjustment (CoLA) mechanism, which ensures a gradual return to full inflation-indexed wage growth, could add to medium-term expenditure pressures. In addition, demographic ageing is expected to weigh on public finances over the medium to long term, primarily through higher pension and healthcare-related spending.

External Position & Linkages

Cyprus's external position is heavily influenced by Special Purpose Entities (SPEs), which complicate headline indicators. While SPEs do not contribute to the real economy (around 2% of real GDP and 1% of general government revenues), their large balance sheets significantly inflate external assets and liabilities, thereby worsening external debt metrics. SPEs have a particularly pronounced impact on the Net International Investment Position (NIIP), as ship-owning SPEs carry substantial liabilities to foreign creditors. According to the EU Commission, as of Q1 2025, Cyprus's NIIP stands at –91.3% of GDP, including SPEs, compared with –38% of GDP excluding SPEs.

The current account deficit has widened markedly to an average of 8.4% of GDP over 2020–24, well above the pre-pandemic average of 3.7%. This deterioration is largely driven by a sizable primary income deficit, reflecting profit repatriation by SPEs to non-resident owners. By contrast, the goods and services balance remains in a small surplus.

Foreign direct investment (FDI) positions are also dominated by SPE activity, accounting for roughly 75% of FDI assets and 85% of FDI liabilities. In addition, sanctions on Russian investments, which previously accounted for about one-third of total investment, have pushed net FDI inflows into negative territory in recent years.

These external vulnerabilities are partially mitigated by inflows under the Recovery and Resilience Facility (RRF), rising FDI into high-value-added sectors such as information and communication technology, and non-debt capital injections into corporates. Moreover, despite its elevated level, external debt is on a declining trajectory.

Monetary & Financial Stability

Cyprus implemented significant structural reforms following the 2012–13 banking crisis, leading to a marked strengthening of the financial sector. Banking system soundness has improved substantially, reflected in a sharp decline in non-performing loan (NPL) ratios from a peak of nearly 45% in 2015 to around 6% in 2024. Macroeconomic stability has also improved, with inflation moderating from peak levels of about 8% in 2022 and projected to converge to the ECB's 2% target by 2026. Additionally, the banking system is regulated by the European Central Bank, providing a credible supervisory anchor.

Notwithstanding these improvements, vulnerabilities persist. Private sector indebtedness remains elevated, at around 185% of GDP in 2024, although the ongoing deleveraging process is gradually reducing balance-sheet risks. In addition, the banking sector is highly concentrated, with the five largest banks accounting for nearly 95% of total loans.

Institutions & Quality of Governance

Cyprus has been governed by a minority coalition led by President Nikos Christodoulides since he assumed office in February 2023. Despite the absence of a parliamentary majority, the political environment has remained broadly stable, with the government maintaining a strong focus on fiscal consolidation and on implementing the RRF.

Cyprus's institutional strength and governance standards are underpinned by its membership in the European Union, which provides a robust policy and regulatory framework. However, regulatory quality is somewhat constrained by limited data availability, particularly related to the external sector. While currently stable, the unresolved Northern Cyprus issue constitutes a structural security risk that could heighten geopolitical uncertainty under adverse scenarios.

Cyprus – Select Indicators									
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 F**	**2026 F**
Economic Indicators									
Nominal GDP	USD Billion	26.2	25.5	30.4	31.0	33.9	36.3	39.9	43.2
GDP Per Capita (Constant-PPP)	USD	46,847	44,723	50,173	53,272	53,484	54,733	56,006	57,312
Real GDP Growth	%	5.9	-3.2	11.4	7.2	2.8	3.4	2.9	2.8
GFCF/GDP	%	18.7	20.8	19.2	20.2	21.4	20.6	-	-
Gross Domestic Savings/GDP	%	14.0	11.0	14.2	13.3	9.3	10.5	11.3	11.4
Exports (G&S)/GDP	%	75.8	79.6	90.8	105.6	97.2	96.7	-	-
Working-Age (15-64) Population (% Share in Total)	%	70.7	70.4	70.2	69.9	69.6	69.3	69.0	68.7
Old-Age (65+) Population (% Share in Total)	%	13.4	13.6	13.9	14.1	14.3	14.6	14.9	15.3
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	1.0	-5.6	-1.6	2.7	1.7	4.3	3.4	3.2
Revenue/GDP	%	41	40	41	41	44	44	45	44
Expenditure/GDP	%	40	46	43	38	42	40	41	41
GG Gross Debt/GDP	%	92.3	113.6	96.5	81.1	73.6	65.1	57.7	53.7
GG External Debt (by Creditor)/GG Gross Debt	%	60.6	56.4	54.4	49.0	48.8	49.1	-	-
Interest/Revenue	%	5.4	5.2	4.2	3.3	2.9	-	-	-
External Indicators									
Current Account Balance/GDP	%	-5.5	-9.7	-5.5	-6.9	-11.3	-8.4	-8.5	-9.1
FDI, Net Inflows/GDP	%	431.7	-296.2	21.8	0.2	-65.4	-138.7	-	-
Outstanding FII Liabilities/GDP	%	112.9	100.4	96.3	68.3	64.7	52.4	-	-
NIIP/GDP	%	-113.5	-133.1	-102.9	-99.5	-97.7	-83.6	-	-
Foreign Exchange Reserves	USD Billions	1.1	1.3	1.6	1.8	1.8	2.1	-	-
Import Cover	Months	0.6	0.7	0.7	0.6	0.7	0.7	-	-
External Debt/GDP	%	1242	1197	960	887	788	670	-	-
Monetary and Financial Indicators									
CPI Inflation	%	0.5	-1.1	2.2	8.1	3.9	2.3	2.3	2.0
Exchange Rate (Average)	LC per USD	0.9	0.9	0.9	1.0	0.9	0.9	-	-
Non-Performing Loans/Total Gross Loans	%	28.0	17.7	11.0	9.5	7.9	6.2	-	-
Private debt, loans and debt securities/GDP	%	276.2	277.0	248.5	212.9	198.8	185.0	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2024

Solicitation Status
The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB+/Stable	January 9, 2026

Criteria Applied
CareEdge Sovereign Rating Methodology

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