Republic of Cyprus's rating reaffirmed at 'CareEdge BBB+/Stable'

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

Rating action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for Republic of Cyprus at **'CareEdge BBB+/Stable'** (Unsolicited).

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 3% of GDP in 2025 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 43% of GDP in 2025 from 41% in 2021. Fiscal surpluses are expected to average around 2% of GDP over the next five years, contributing to a substantial reduction in gross general government debt from about 63% of GDP in 2024 to around 35% by 2030.

Cyprus also benefits from European Union (EU) membership. The banking sector has strengthened considerably since the 2012-13 crisis, supported by improved capital adequacy, enhanced asset quality, and stronger regulatory oversight, although it remains an area of continued monitoring. Furthermore, sustained private sector deleveraging has reduced balance sheet vulnerabilities and reinforced overall 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 imbalance 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. However, much of the debt raised by SPEs is foreign-funded and, hence, poses limited risks to the domestic banking system. 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 3% over the medium term, supported by tourism and services exports. The fiscal profile is also expected to remain resilient, underpinned by sizeable government cash balance at 10% of GDP and continued fiscal surplus. General government debt-to-GDP is expected to decline to 35% by 2030 from 55% 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 also be strengthened if the authorities are able 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 deficit and reliance on foreign direct investment (FDI) 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 Northern Cyprus issue. In addition, any weakening in the banking sector's health could trigger a negative outlook.

Key rating drivers

Economic structure & resilience

Cyprus is among the smallest economies in Europe, with a nominal GDP of around USD 41 billion in 2025. Nevertheless, economic performance has largely outpaced the Euro Area average. Cyprus's strategic location at the crossroads of Europe, Asia, and Africa has historically supported its role as a regional business and financial hub. Over time, episodes of geopolitical instability in neighbouring regions have reinforced its attractiveness as a gateway to the European market.

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, and well-developed maritime infrastructure. Labour market conditions remain relatively tight, with the unemployment rate at around 4% in 2025. 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 West Asia, 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 fourth consecutive fiscal surplus in 2025 and is expected to maintain an average surplus of around 2% 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 55% in 2025, with projections pointing to a further reduction to around 35% by 2030. Revenue mobilisation remains robust, with general government revenue at around 43% of GDP. At the same time, debt affordability is supported by a low interest burden, with interest expenditure amounting to a comfortable 2.6% of general government revenue. Despite the upward revision of the corporate income tax rate from 12.5% to 15%, the tax levels remain competitive.

Despite these improvements, fiscal pressures warrant close monitoring. 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 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 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 Central Bank of Cyprus, the country's NIIP stood at -80% of GDP, including SPEs, compared with -24% of GDP excluding SPEs in 2025.

The current account deficit has widened markedly to an average of 7.7% of GDP over 2021–25, 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 and domestic demand-driven imports. FDI position is also dominated by SPE activity and remains highly volatile.

These external vulnerabilities are partially mitigated by rising FDI in high-value-added sectors such as ICT and professional services. Moreover, despite its elevated level, external debt is on a declining trajectory.

Monetary & financial stability

Banking system soundness has improved substantially post the 2012-13 crisis, reflected in a sharp decline in non-performing loan (NPL) ratios from a peak of nearly 45% in 2015 to around 6% in 2024. Inflation was recorded at 2.6% Y-o-Y in May 2026 owing to high energy prices and is projected to converge to the ECB's 2% target by 2028.

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 held legislative elections in May 2026, resulting in a more fragmented parliamentary landscape. The President's original coalition has weakened, with Democratic Party (DIKO) remaining the only major pro-government parliamentary party, increasing reliance on issue-based legislative alliances. Nevertheless, political stability is expected to be maintained under Nikos Christodoulides, supported by broad cross-party consensus on key policy priorities, including fiscal discipline and prudent economic management.

Cyprus's institutional strength and governance standards are underpinned by its membership in the EU, which provides a robust policy and regulatory framework. However, regulatory quality is 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.

Select indicators									
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027 F**
Economic indicators									
Nominal GDP	USD billion	26	30	31	35	38	41	45	47
GDP per capita (constant-PPP)	USD	44,721	49,160	52,353	53,144	54,250	55,343	56,302	57,351
Real GDP growth	%	-3.2	11.4	8.3	3.6	3.9	3.8	3.0	3.0
GFCF/GDP	%	20.8	19.2	20.4	22.0	20.6	-	-	-
Gross domestic savings/GDP	%	11	14	14	12	12	12	12	12
Exports (G&S)/GDP	%	80	90	104	96	97	98	-	-
Working age (15-64) population (% share in total)	%	70.4	70.2	69.9	69.6	69.3	69.0	68.7	68.5
Old age (65+) population (% share in total)	%	13.6	13.9	14.1	14.3	14.6	14.9	15.3	15.6
Fiscal indicators – general government									
Fiscal balance/GDP	%	-5.6	-1.6	2.7	1.7	4.1	3.0	2.6	2.5
Revenue/GDP	%	40	41	40	42	42	43	43	42
Expenditure/GDP	%	46	43	38	41	38	40	40	39
GG gross debt/GDP	%	113.6	96.5	80.3	71.1	62.8	55.3	50.9	46.6
GG external debt (by creditor)/GG gross debt	%	66.9	58.0	56.1	58.9	56.1	60.4	-	-
Interest/revenue	%	5.2	4.2	3.3	2.9	2.9	2.6	-	-
External indicators									
Current account balance/GDP	%	-9.7	-5.5	-6.9	-9.7	-8.2	-8.1	-9.3	-10.3
FDI, net inflows/GDP	%	-296.2	21.8	0.2	-63.1	-133.9	27.2	-	-
Outstanding FII liabilities/GDP	%	100.4	96.3	67.7	62.5	50.5	56.0	-	-
NIIP/GDP	%	-133.1	-102.9	-98.6	-94.4	-80.7	-80.7	-	-
Foreign exchange reserves	USD billion	1.2	1.6	1.7	1.8	2.1	2.9	-	-
Import cover	Months	0.7	0.7	0.6	0.6	0.7	0.9	-	-
External debt/GDP	%	1113	1002	868	745	674	645	-	-
Monetary and financial indicators									
CPI inflation	%	-1.1	2.3	8.1	3.9	2.3	0.8	2.6	1.6
Exchange rate (average)	LC per USD	0.9	0.9	1.0	0.9	0.9	0.9	-	-
Non-performing loans/total gross loans	%	17.7	11.0	9.5	7.9	6.2	-	-	-
Private debt, loans and debt securities/GDP	%	277	248	213	199	185	-	-	-

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	June 26, 2026
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB+/Stable	January 9, 2026

Criteria applied
[CareEdge Sovereign Rating Methodology]

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