



## **\*\*Coronavirus Covid-19 Update\*\***

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

# Country Insight Snapshot

## Cyprus

July 2020





## OVERVIEW

### OVERALL COUNTRY RISK RATING: DB5a

**High risk:** Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.



**Rating Outlook:** Improving

## CORE OUTLOOK

- + Underlying growth in the economy is strong.
- + Labour market conditions are improving over the long term.
- + Cyprus is a popular tourist destination.
- The small population constrains market potential.
- Credit conditions remain tight.
- The banking sector is weak.

## KEY DEVELOPMENT

Dun & Bradstreet upgrades Cyprus' overall risk rating from DB5b to DB5a as the country emerges from the coronavirus crisis, although the viability of the public finances is uncertain.

## CREDIT ENVIRONMENT OUTLOOK



**Trend:** Deteriorating

Key Development has had a positive impact on the outlook.

## SUPPLY ENVIRONMENT OUTLOOK



**Trend:** Improving

Key Development has had a positive impact on the outlook.

## MARKET ENVIRONMENT OUTLOOK



**Trend:** Improving

Key Development has had a positive impact on the outlook.

## POLITICAL ENVIRONMENT OUTLOOK



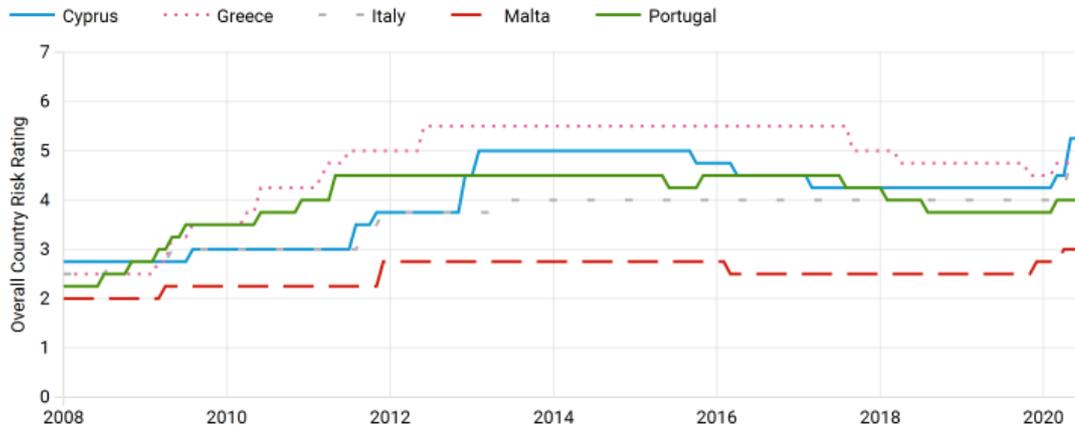
**Trend:** Deteriorating

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## KEY INDICATORS

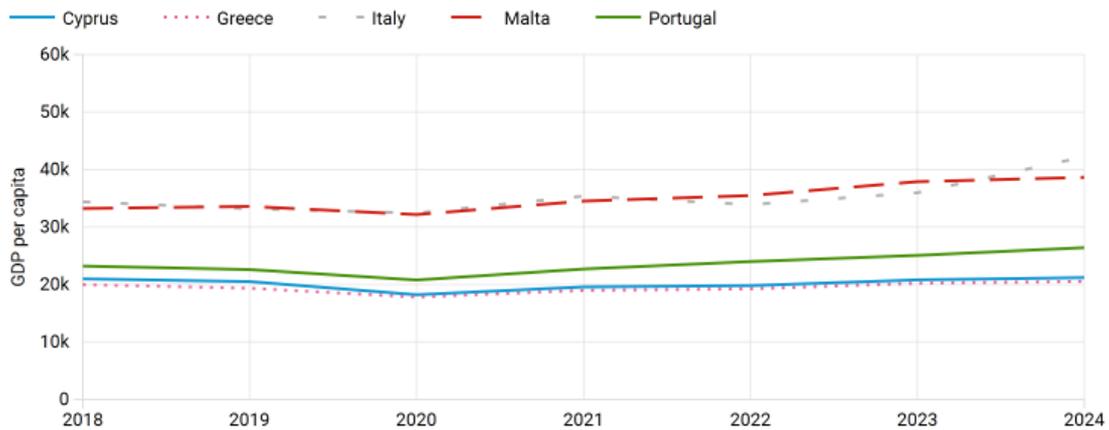
### Rating History and Comparison



Source: Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

### Industrial Production (Index)



Source: Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2017	2018	2019	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	-5.0	-4.3	-6.7	-10.1	-5.8	-4.1	-3.1	-2.1
Govt balance, % GDP	2.0	-3.7	1.7	-5.5	-3.5	-2.0	-0.5	-0.2
Inflation, annual avge %	0.7	0.8	0.6	-0.3	1.5	2.1	2.3	2.3
Real GDP Growth, %	4.4	4.1	3.2	-9.5	5.5	2.0	2.2	2.5
Unemployment, %	11.1	8.4	7.0	15.0	11.5	9.0	7.5	7.0

Source: Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

The World Economic Forum's 2019 *Global Competitiveness Report* ranks Cyprus 44th out of 141 countries in the world. Among the country's strengths are the high quality of its human capital, its strong institutions, its skilled labour market and its efficient product markets, particularly the extent of competition in services. Its infrastructure and innovation capacity are also reasonably good. Where Cyprus falls short is the small size of its domestic market (a consequence of its population of just 650,000), the poor state of the country's financial system, which has not yet recovered from the economic crisis at the end of the last decade, and Cyprus' relatively low adoption of ICT (with fibre-internet almost unavailable). The country's performance remained steady in relative terms compared to 2018, when Cyprus was also ranked 44th. However, over the long term, under a liberal reformist government, the country is becoming more competitive internationally: as recently as 2015, the World Economic Forum ranked Cyprus 21 places lower than today, at just 65th in the world.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: SD

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: SD

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-180 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 0-2 months

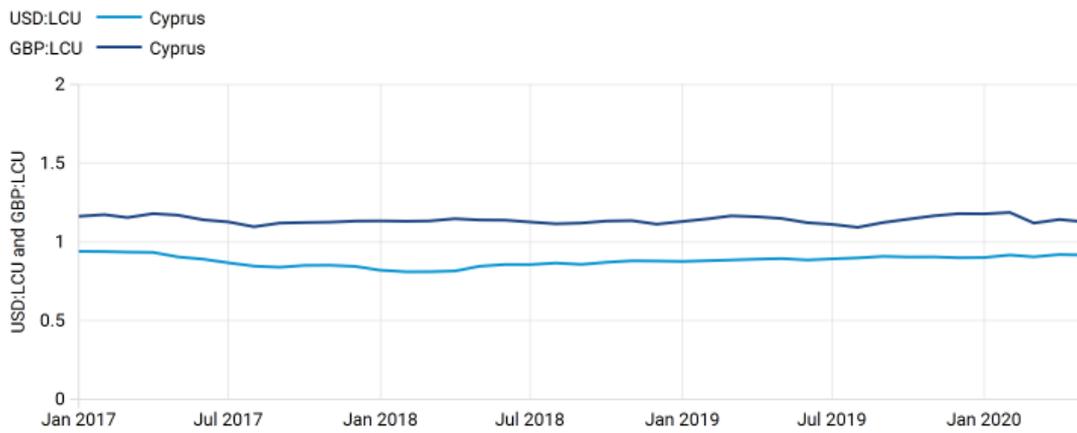
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: No delays reported

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



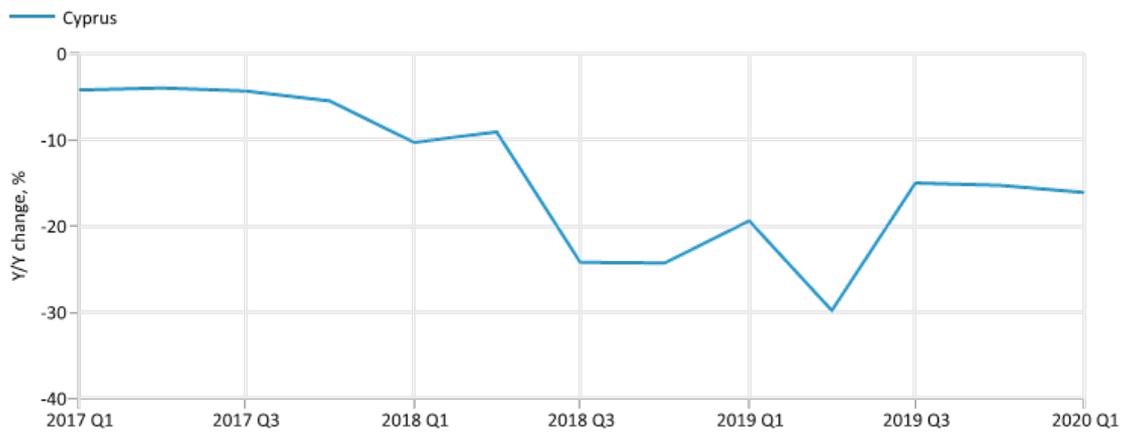
## Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = euro*

## Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### *Risk rating upgraded*

Dun & Bradstreet has upgraded Cyprus' overall risk rating from DB5b to DB5a as the government reopens the economy after three months of lockdown. This follows our initial downgrade of the country from DB4b after coronavirus took hold. In June, the government lifted most of the remaining restrictions on business activity and movement within Cyprus, opened all but one of the official crossings with Northern Cyprus, and authorised a resumption of international flights. Only a few remaining regulations still apply, mainly protocols on social distancing, the use of face masks in some closed spaces, requirements for additional disinfecting, and checks on passengers arriving at airports.

To boost the post-lockdown economy, the government is issuing EUR430m in direct grants to business and EUR1.7bn in loan guarantees and subsidies on interest rates for new business loans, while the ECB is injecting another EUR600m of additional liquidity into the euro-zone economy. In this context, economic sentiment has started to improve, suggesting a moderate economic recovery in the third quarter. Business confidence rose for a second month in June on hopes of a partial recovery in the tourist sector this year, although confidence remains at its lowest since the crisis of 2013. Consumer confidence is also rising, albeit while remaining at its lowest since 2014 amid fears about corporate insolvency and permanent unemployment in the most exposed sectors such as tourism and hospitality.

### Long-Term Economic Potential

#### *Public finances stretched*

In the meantime, the government is trying to manage the cost of the coronavirus crisis. In January, it raised EUR1.75bn (6.7% of GDP) on the international bond market, most of which was then spent on financing the lockdown (in the form of payments to furloughed workers, additional spending on health and a moratorium on tax payments). This was followed by the announcement of another round of borrowing on the international bond markets in April, provisionally of EUR500m, plus another EUR1.25bn in new domestic 12-month Treasury bills. Meanwhile, the government is expecting EUR1.4bn from the EU's EUR750bn emergency fund, comprising a mixture of grants and loans. On this basis, the government should be able to maintain its solvency in the short term, but at the price of public debt rising to well over 100% of GDP (from 95.5% in 2019), a dangerously high ratio for a small, emerging economy without an independent central bank.

### Political/Insecurity Risk

#### *Cyprus appeals for help against Turkey*

Cyprus is trying to galvanise support among its European peers for help in countering the threat in the eastern Mediterranean from Turkey, which is growing politically more assertive. Turkey is pressuring Cyprus in two main ways. One is drilling for oil and gas in waters which Cyprus claims as its own and, to substantiate Ankara's claim, some Turkish officials hint at incorporating Northern Cyprus into the Turkish state. Turkey is also allowing illegal migrants to pass through Northern Cyprus to the Greek side of the island, in sufficient numbers that migration is becoming a destabilising political problem. Potentially, the EU may sanction Turkey politically or economically, but this will not necessarily deter Turkey from persisting with its actions in Cyprus.



## COUNTRY PROFILE AND STATISTICS

### Overview

The third-largest island in the Mediterranean, Cyprus became independent in 1960. Post-independence, the Cypriot economy gradually shifted from agriculture to services and light manufacturing.

The successful transformation of Cyprus into an advanced economy can be attributed, among other things, to the adoption of a market-oriented economic system, the pursuance of sound macroeconomic policies, and the existence of dynamic and flexible entrepreneurs alongside a highly-educated labour force. Moreover, the economy has benefitted from close co-operation between the public sector and social partners, and has undergone significant economic and structural reforms in the lead-up to - and following accession to - the EU. At present, the tertiary (services) sector makes up the largest area of the economy.

Cyprus is dependent on tourism, making it vulnerable to swings in the number of tourist arrivals caused by political instability on the island, currency variability (many tourists come from Russia and the UK), and fluctuations in economic and political conditions in Western Europe and the Middle East. However, it has also developed an important financial and business services sector, which is gaining in importance for driving economic growth.

### Key Facts

Key Fact	Detail
Head of state	President Nicos ANASTASIADES
Capital	Nicosia
Timezone	GMT +02-00
Official languages	Greek, Turkish
Population (millions)	1.2
GDP (USD billions)	24.6
GDP per capita (USD)	20,505
Life expectancy (years)	80.6
Literacy (% of adult pop.)	99.1
Surface area (sq km)	9,251

Source: Various sources/Dun & Bradstreet

### Historical Data

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	3.4	6.7	4.4	4.1	3.2
Nominal GDP in USDbn	20	21	23	25	25
Nominal GDP in local currency (bn)	18	19	20	21	22
GDP per Capita in USD	17,036	17,842	19,148	20,983	20,505
Population (year-end, m)	1.2	1.2	1.2	1.2	1.2
Exchange rate (yr avge, USD-LCU)	0.9	0.9	0.9	0.8	0.9
Current Account in USDbn	-0.1	-0.9	-1.1	-1.1	-1.7
Current Account (% of GDP)	-0.4	-4.1	-5.0	-4.3	-6.7
FX reserves (year-end, USDbn)	333.9	344.4	353.2	378.4	386.6
Import Cover (months)	1.4	1.5	1.4	1.3	1.4
Inflation (annual avge, %)	-1.5	-1.2	0.7	0.8	0.6
Govt Balance (% GDP)	-1.0	0.3	2.0	-3.7	1.7

Source: Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	-9.5	5.5	2.0	2.2	2.5
Nominal GDP in USDbn	22	24	24	26	26
Nominal GDP in local currency (bn)	20	21	22	23	24
GDP per Capita in USD	18,215	19,576	19,804	20,799	21,201
Population (year-end, m)	1.2	1.2	1.2	1.2	1.2
Exchange rate (yr avge, USD-LCU)	0.9	0.9	0.9	0.9	0.9
Current Account in USDbn	-2.2	-1.4	-1.0	-0.8	-0.5
Current Account (% of GDP)	-10.1	-5.8	-4.1	-3.1	-2.1
FX reserves (year-end, USDbn)	407.1	423.6	440.8	463.3	542.0
Import Cover (months)	1.4	1.3	1.3	1.3	1.5
Inflation (annual avge, %)	-0.3	1.5	2.1	2.3	2.3
Govt Balance (% GDP)	-5.5	-3.5	-2.0	-0.5	-0.2

Source: Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Cyprus	Greece	Italy	Malta	Portugal
Income per Capita (USD)	18,215	17,797	32,429	32,168	20,775
Country Population (m)	1.2	10.8	60.5	0.4	10.2
Internet users (% of population)	75.9	69.1	61.3	77.3	70.4
Real GDP Growth (% p.a., 2020 - 2029)	0.5 - 3.5	1.0 - 2.6	0.1 - 3.3	1.5 - 3.0	1.0 - 2.5

Source: Various sources/Dun & Bradstreet



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