

# BEST'S COUNTRY RISK REPORT

## Cyprus CRT-3

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Cyprus is a CRT-3 country, which makes it one of the riskier countries in the eurozone, owing primarily to high levels of economic and financial system risk, which is slightly offset by a more moderate level of political risk.
- Cyprus' economy has experienced a turnaround following the banking crisis and the resulting 2012-2014 recession. GDP in 2017 expanded at 3.9%, with 2018 GDP growth forecast at 3.6%. Medium-term economic expansion is expected to range between 2.5% and 3.0%.
- Inflation turned positive in 2017, following three years of deflation. For 2018, prices are expected to increase by 0.4% owing to higher commodity prices and wage increases. Over the next few years, inflation is expected to reach 2.0%.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

## Regional Summary: Western Europe

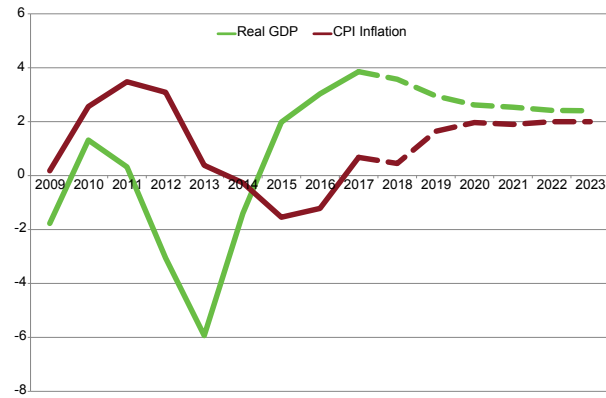
- Western Europe is a highly developed and affluent region. The 28 countries of the EU accounted for approximately 21.9% of the world's domestic product in 2016 and 21.6% in 2017, a figure that is projected to grow to 22.5% in 2018.
- Growth has been driven largely by rising domestic demand due to growing consumer and business confidence, lower unemployment rates, and credit growth.
- The European Central Bank (ECB) has decided to end its three-year EUR2.4 trillion quantitative easing program by the end of 2018, although it did signal that any rise in interest rates before September 2019 was unlikely. The policy rate has been below 1.0% since July 2012 and has been at 0.0% since March 2016.
- Concerns include political instability in certain countries, ongoing uncertainty about Brexit and its potential implications, and below-trend growth and inflation.

Vital Statistics 2017		
Nominal GDP	USD bn	21.31
Population	mil	0.9
GDP Per Capita	USD	24,976
Real GDP Growth	%	3.9
Inflation Rate	%	0.7
United Nations Estimates		
Literacy Rate	%	99.1
Urbanization	%	66.8
Dependency Ratio	%	42.3
Life Expectancy	Years	78.8
Median Age	Years	36.8
Insurance Statistics		
Insurance Regulator	Insurance Companies' Control Service, Ministry of Finance	
Premiums Written (Life)	USD mil	394
Premiums Written (Non-Life)	USD mil	526
Premiums Growth (2016 - 2017)	%	5.7
Regional Comparison		
	Country Risk Tier	
Cyprus	CRT-3	
Israel	CRT-3	
Italy	CRT-2	
Slovenia	CRT-2	
Tunisia	CRT-4	
Turkey	CRT-4	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



### Economic Growth (%)



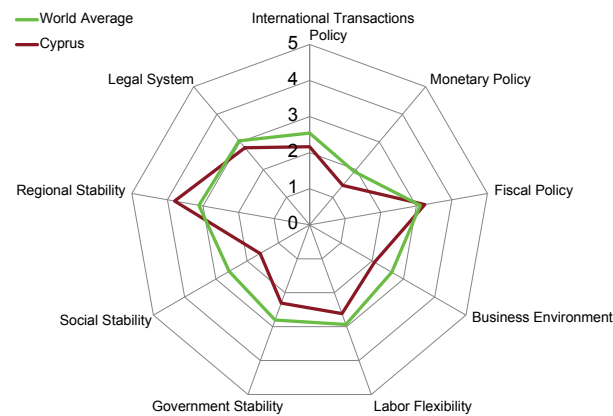
Source: IMF World Economic Outlook and A.M. Best

### Economic Risk: High

- The economy is dominated by the services sector, which accounts for approximately 80% of GDP. The main service sectors include tourism (approximately 33% of GDP) and financial services (20%). Cyprus is a popular offshore banking center, especially for entities in the Commonwealth of Independent States countries.
- The unemployment rate has decreased steadily from its high of 16.7% in September 2013. The unemployment rate in May 2018 was 8.4%.
- Structural reforms implemented under the guidance of the EU, the IMF, and the ECB have allowed the economy to return to growth. Additional reforms, however, are needed to streamline business functions and achieve the country's long-term economic potential.
- Corruption and money laundering are prevalent in Cyprus and need to be addressed to allow for a more attractive business environment.

### Political Risk Summary

Score 1 (best) to 5 (worst)

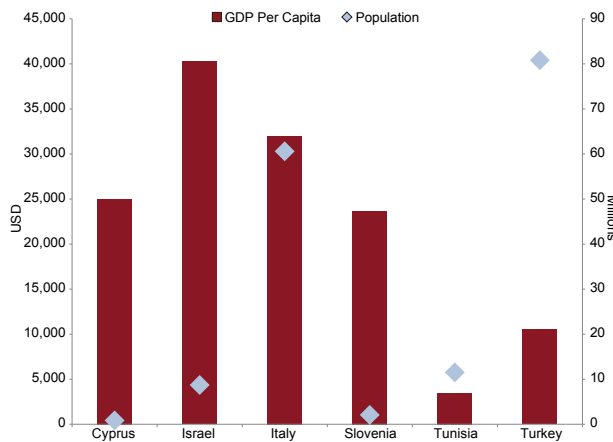


Source: A.M. Best

### Political Risk: Moderate

- The island is divided between the Republic of Cyprus, which is occupied by the Greek Cypriots, and the Turkish Republic of Northern Cyprus, which is formally recognized only by Turkey.
- Incumbent President Nicos Anastasiades was re-elected in February 2018, winning almost 60% of the vote. The current political agenda remains dominated by economic concerns, the prospect of reunification between the Greek and Turkish territories, and lowering government debt levels.
- Public debt has declined in recent years owing to various reform measures, but remains high.
- Maintaining the pace of structural reform has become increasingly more difficult due to the lack of a parliamentary majority. Privatization efforts have stalled owing to a united front of opposition parties amid trade union protests.
- As a member of the EU and part of the eurozone, Cyprus benefits from a strong economic and regulatory framework, making it more attractive to business investment. Regulatory implementation and supervision hurdles, however, remain high.

### GDP Per Capita and Population



Source: IMF and A.M. Best

### Financial System Risk: High

- The Insurance Companies Control Service, a department of the Ministry of Finance, regulates the insurance industry.
- Although significant progress has been made since Cyprus exited the bailout program funded by the IMF, the ECB, and the EU, non-performing loans and private debt levels remain high. The IMF recommends accelerating the resolution of NPLs and the restructuring of debt.
- Credit growth declined for a fifth year in 2017, as corporations and households continue to deleverage. Despite the ongoing deleveraging, private debt remains elevated.