



CYPRUS: An International Business and Services Centre



Geography and Population

Cyprus is strategically located in the Eastern Mediterranean lying at the hub of three continents and close to the busy trade routes linking Western Europe with the Arab World and the Far East. The total area of Cyprus is 9,251 square kms. The island enjoys the best type of Mediterranean climate with about 300 days of sunshine per year. The bulk of the rain falls during the period from November to March. The coldest month is January, with minimum and maximum mean temperatures of 6°C and 13°C respectively, while in August, the hottest month, the corresponding minimum and maximum mean temperatures are 21°C and 36°C.

The estimated population of Cyprus is 952,100 (December 2011) of which 71,5% belongs to the Greek Cypriot community and 9,5% to the Turkish Cypriot community while the remaining 19,0% are foreign residents and workers. Greek and Turkish are the official languages of the Republic and English is widely spoken and regularly used in commerce and government.

The capital of Cyprus is Lefkosia (Nicosia). It is situated roughly in the centre of the island and is the seat of government as well as the main business centre. It has a population of 245,900. The 1974 Turkish invasion and occupation of 36,2% of the sovereign territory of the Republic of Cyprus literally cut the capital in half. The second largest town is Lemesos (Limassol) with a



population of 184,600. It is currently Cyprus' main commercial port and an important tourist resort. Larnaka and Pafos, which are also popular holiday resorts, are the third and fourth largest towns with a population of 86,400 and 63,900 respectively. ■





The Economy

Cyprus has a free market economy with services constituting its main engine power. Although the per capita income is one of the highest in the region, reaching EUR 21,264 in 2011 the global economic crisis has affected the labour market in Cyprus with unemployment in 2011 reaching 7,7% compared to 7,0% in 2010. Moreover, the inflation rate (CPI) for 2011 was 3,3%, while the average annual rate of growth in the past five years (2007-2011) was 0,82%, average inflation rate stood at 2,6% and average unemployment rate

at 5,3%. Additionally, within the framework of the harmonisation of Cyprus with EU laws, wide-ranging structural reforms have been promoted covering the areas of competition, the financial sector and the enterprise sector. Full liberalisation of the foreign direct investment regime in Cyprus has also been implemented, opening new promising business opportunities for foreign investors.

The basic characteristics of the Cyprus economy are the dominant role of the private sector in production,





the small size of the domestic market, the small size of most of the business units, as well as its open nature. The government's role is mainly to support the private sector and regulate the markets so as to maintain conditions of macroeconomic stability and a favourable business climate.

The economy is driven by the strong tourism and services sectors and a stable export-oriented industry. Indicatively, the services sector contributes around 80,5% to the Gross Value Added (GVA). Apart from tourism, finance, insurance and business services are the main contributors followed by social and personal services.

The trade sector contributes considerably to the economic growth of the island. The importance of the trade sector can act as a major consideration in the endeavour of Cyprus to develop further and strengthen its trade relations with third countries. Due to the small size of the domestic market, access to international markets is of utmost importance for Cyprus. With regard to the commodity structure of Cyprus exports, manufactured products account for 60%, agricultural products (raw) for 18% and processed agricultural products for 17%. The European Union is Cyprus' most important trading partner. In 2011, imports from the EU accounted for 68,3% while in the same year domestic exports reached around 50,9%.

Transit cargo enjoys special treatment at the Cyprus ports. Indicative of the position of Cyprus as a main transshipment centre is the substantial amount of products re-exported, which reached EUR 575,4 million in 2010.

The main products re-exported from Cyprus were tobacco, processed foodstuffs, beverages, textiles and textile articles, minerals and chemicals. Improvements in port infrastructure and equipment include advancements in operational methods and information systems used for the handling of vessels and cargo. Furthermore, Cyprus has a thriving ship management system. ■



Financial Services

On 1 January 2008, the Republic of Cyprus joined the eurosystem and in so doing introduced the euro as its official currency, replacing the Cyprus pound as the unit of account. Thus, euro banknotes and coins are the country's legal tender.

The euro is subdivided into 100 cent. There are currently in circulation seven denominations of euro banknotes (€500, €200, €100, €50, €20, €10 and €5) and

eight denominations of coins (€2, €1, 50, 20, 10, 5, 2 and 1 cent). The euro banknotes are exactly the same in all euro area countries. The euro coins have a side which is common for all euro area countries and a national side which shows country-specific designs. As with banknotes, euro coins can circulate in all euro area countries irrespective of the issuing country.

Cyprus has a well-developed and modern banking system which offers a wide range of services catering for the needs of businesses and individuals. Cyprus' banking system comprises the Central Bank of Cyprus and banking institutions which operate as fully-fledged commercial banks. It also encompasses the co-operative credit institutions, the main activities of which are the collection of savings and the extension of loans to their members. The latter are supervised by the Co-operative Societies Supervision and Development Authority.

The banking system in Cyprus is well organised and meets the highest international banking standards. As such it copes completely and efficiently with the diversified needs of the business community. The Central Bank of Cyprus supervises banks which are incorporated in Cyprus, including local subsidiaries of foreign banks, branches of foreign banks as well as representative offices of foreign banks. As at the end of 2011, 14 locally incorporated banks were operating in Cyprus, seven of which were subsidiaries of foreign banks. In addition, there were 26 branches of foreign banks and two representative offices of foreign banks.

Banking arrangements and practices follow the British model. Banks maintain strong correspondent networks around the world and most of them subscribe to SWIFT, Reuters, Telerate and other services, enabling them to have easy access to the world banking network. They offer a wide range of services including insurance, leasing, hire purchase finance, factoring, mutual fund management, investment and consulting as well as custody and asset management services.

Banks are sound and well capitalised. They have responded to the demands of the liberalised financial environment in which they have been operating in

recent years by making efforts to expand their sources of income as well as to streamline their operations and cut costs. Moreover, they have made significant investments in the field of technology and computerised systems, which increase productivity as well as in skilled human resources. Special emphasis has also been given to the strengthening of internal governance and improvement of their risk management systems and policies.

Cypriots and foreigners residing on the island enjoy the benefits of a well developed insurance industry with all types of risk accepted mainly through agents and intermediaries. Currently (2012) there are 26 local insurance companies operating on the island, 6 international insurance undertakings, 5 European insurance undertakings operating in the Republic of Cyprus under the freedom of establishment, 394 insurance undertakings operating in the Republic of Cyprus under the regime of freedom to provide services and 2 foreign insurance undertakings.

The Cyprus Stock Exchange commenced its operations in March 1996. It is a regulated exchange where all transactions concerning corporate and public securities are carried out. Such securities include stocks, bonds and warrants. The main participants in the market are the members of the stock exchange (stock brokerage firms), the listed issuers and the investors. Transactions are electronically displayed and the trading and settlement systems are computerised. ■



Cyprus in the European Union



Since its accession to the European Union on 1 May 2004 Cyprus has undergone significant economic and structural reforms that have transformed its economic landscape. Tariffs and quantitative restrictions have been eliminated for all manufactured goods and agricultural products originating in Cyprus and other EU countries. Trade and interest rates have been liberalised, while price controls and investment restrictions have been lifted. In addition, private financing has been introduced for the construction and operation of infrastructure projects.

Moreover, the Common Customs Tariff (CCT) as well as the relevant legislative framework of the EU for the facilitation of the free movement of goods, capital and services has been adopted.

As a result of the liberalisation and the accession to the EU, new business opportunities arise in various areas such as the energy sector, where projects regarding offshore oil deposits and the importation of natural gas are promoted. In the tourist sector, plans include the construction of new marinas, theme parks and football stadiums and the upgrading of the port of Larnaka. The island's two new international airports at Larnaka and Pafos were completed in November 2009 and November 2008 respectively.

In addition, new investment opportunities arise through Cyprus' high technology investment programme related to the establishment of Business Incubators and

a Technology Park. Through these initiatives, Cyprus facilitates the creation of new ventures especially in high technology sectors.

Furthermore, Cyprus is being transformed into a key outpost in the Eastern Mediterranean, serving as a bridge between the EU and the increasingly important market of the broader Middle East. The geographical proximity of Cyprus to the Middle East represents an important factor in creating partnerships between Europe and the Middle East, two different regions bound by mutual interests. Cyprus aspires to become the region's economic and financial operations centre, a communications and transport hub and a meeting place for peoples and cultures. With its advanced technical infrastructure and skilled human resources it can become a base from where European enterprises launch their regional activities. ■

Transport and Telecommunications

Cyprus is well-served by sea, air and telecommunications connectivity. Its role as a regional commercial and business centre, coupled with the increasing tourist traffic, has led to the development of a wide network of air routes offering excellent connections with the rest of Europe, Africa and Asia. The island's two international airports are situated near Larnaka and Pafos, some 50 and 150 kms respectively from Lefkosia (Nicosia). They include expanded and modern terminals as well as other airport facilities designed to handle a high volume of passengers and cargo. In 2010 they handled 30,931 return flights served by 58 scheduled airlines as well as flights operated by 22 chartered airlines. The island is rapidly becoming a





major international transit station for commercial air transport with excellent connections within the entire region.

The multi-purpose ports of Lemesos (Limassol) and Larnaka are the country's main sea gateways for seaborne cargo and passenger traffic. They handle about 4 million tonnes of seaborne cargo annually. Both ports have been turned into important regional warehouses and distribution centres. Supplementing one another in terms of facilities and traffic, they constitute a major transshipment centre in the Eastern Mediterranean. Transit cargoes enjoy special treatment at the ports. Such treatment includes, in addition to minimal customs formalities, free trade facilities, a very reliable handling and delivery system and special berthing rates for long-term storage. Seaborne traffic is also served by the industrial port of Vassilikko and the three specialised oil terminals of Lamaka, Dhekelia and Moni. 240 lines include Cyprus in their regular schedules to and from 5 continents. 3.607

ships totalling about 23 million net registered tonnes called at the ports in Cyprus in 2010. In a further effort to encourage external trade and international commerce, the Industrial Free Zone was set up near Larnaka airport and offers possibilities for setting up manufacturing and/or assembling units for the production of goods destined for export to Europe and nearby markets.

Cyprus' maritime policy aims at providing attractive and competitive incentives, a continually upgraded infrastructure and appropriate legislation which seeks to respond to the needs of the international maritime community. A significant number of ship management companies have been established in Cyprus and manage a sizable proportion of the Cyprus merchant fleet as well as a large number of vessels under foreign flags. Today, Cyprus has one of the leading merchant fleets in the world with 1.862 ships exceeding 22 million gross tonnage (2011).

The telecommunications infrastructure of Cyprus is one of the most modern in the region. Due to its advanced telecommunications network and the superb regional and global connectivity on offer, the island is considered as one of the most important telecommunications hubs in the Eastern Mediterranean and the Middle East. This is also enhanced by an extensive submarine fibre optic cable network, and access to major satellite systems. With the accession of Cyprus to the EU, the telecommunications sector has been liberalised and offers increased options for the business community. Telecommunications services in Cyprus provide a wide



range of services based on market demand and tried and tested state-of-the-art technology. A rich portfolio of value-for-money, high quality products for both home and business use are offered. Services include fixed and mobile telephony, voice, video and data transmission. Emphasis is also placed on the provision of value added services such as various internet-based multimedia services that promise to be a dominant business activity in the next decade. ■

Cyprus offers a strategic location, favourable tax environment, educated work force, excellent telecommunications, modern banking and legal infrastructure which make the country the perfect business bridge for the European Union and the Middle East.

The Wall Street Journal, 5 May 2004

Fiscal Incentives

Tax reforms came into effect as from 1 January 2003 in order to conform to the European Union and OECD requirements and at the same time to maintain the competitiveness of Cyprus as an international business centre and enhance its attractiveness as a suitable jurisdiction for holding companies.

The general advantages offered by Cyprus are enhanced by the following tax incentives:

- Uniform corporate tax rate of 10% which is the lowest in Europe.
- No withholding of tax on dividend income received from subsidiary companies from abroad, provided the direct holding is at least 1% of the share capital of the overseas company. The exemption does not apply if the subsidiary company engages in more than 50% of its activities in producing investment income and the foreign tax burden on its income is substantially lower than that in Cyprus.
- Double taxation treaties with over 40 countries, enabling lower withholding tax rates on dividend or other income received from the subsidiaries abroad.
- Being an EU member state, holding companies registered in Cyprus may enjoy no withholding of tax on dividends received from EU subsidiaries

as a result of the utilisation of the EU Parent Subsidiary Directive.

- No withholding of tax on capital gains and income on the disposal of either the shares of the subsidiary's share capital or the shares of the Cyprus holding company.
- No tax on capital gains or income on the liquidation of the Cyprus holding company.
- No withholding tax on the distribution of profits.
- Outward dividends by the Cyprus holding company to its non-resident shareholders are exempt from any withholding of taxes.
- Profits earned from a permanent establishment abroad are fully exempt from Cypriot tax, subject to certain conditions.
- A diversified group of Cyprus companies belonging to a Cyprus holding company can set off group relief for the utilisation of tax losses.
- No minimum holding period.
- The establishment of The Larnaka Free Zone to encourage external trade and international trade through the provision of various incentives such as the abolishment of customs duties and taxes in respect of goods imported into the zone. ■

Inward Investment

Attracting foreign investments is among the primary objectives of the Cyprus development policy, since this contributes to the transfer of know-how, the introduction of high technology and facilitates further the expansion of exports. Foreign companies can benefit from the numerous incentives and low tax regime by using Cyprus as a base for their investments.

Cyprus' investment policy is liberal allowing 100% foreign participation in most sectors of the economy, not only for EU citizens but also for investors from third countries. Restrictions concerning maximum allowable percentage of foreign participation, as well as minimum level of foreign investment, have been lifted as of January 2000 for EU citizens and from 1 October 2004 for non-EU citizens.

Cyprus' competitive advantages derive from its strategic geographical location, favourable business climate, fiscal regime, stable macroeconomic environment, high educational level of the labour force in conjunction with the modern legal, banking and financing systems, excellent infrastructure with advanced transport and telecommunications network, as well as the widespread knowledge of English.

In order to foster the infusion of foreign investments, the Foreign Investors Service Centre operates under the auspices of the Ministry of Commerce, Industry and Tourism. The Centre constitutes the central agency of information, support and foreign investors' relations.

Moreover, in its effort to facilitate, accelerate and simplify the process of setting up a business and reduce the level of bureaucratic intervention, the Government has set up a One-Stop Shop under the auspices of the Ministry of Commerce, Industry and Tourism, for both local and foreign based companies which has been upgraded and operates as the Point of Single Contact in accordance with the Services Directive of the European Parliament. The objective of setting up the Point of Single Contact is to have a single service provider for



the necessary administrative procedures, thus reducing considerably the average time for setting up a business. Through the Point of Single Contact all formalities can be carried out electronically. ■

Investors may apply to:

One-Stop Shop, Ministry of Commerce, Industry and Tourism

E-mail: onestopshop@mcit.gov.cy

Website: www.investincyprus.gov.cy

REFERENCES

For further information please consult the following websites:

Republic of Cyprus – www.cyprus.gov.cy
 House of Representatives – www.parliament.cy
 Ministry of Foreign Affairs – www.mfa.gov.cy
 Ministry of Finance – www.mof.gov.cy
 Ministry of Commerce, Industry and Tourism – www.mcit.gov.cy
 Press and Information Office – www.moi.gov.cy/pio
 Planning Bureau – www.planning.gov.cy
 Statistical Service – www.mof.gov.cy/cystat
 Central Bank – www.centralbank.gov.cy
 Cyprus Tourism Organisation – www.visitcyprus.org.cy
 Cyprus News Agency – www.cna.org.cy
 Cyprus University of Technology – www.cut.ac.cy
 Open University of Cyprus – www.ouc.ac.cy
 University of Cyprus – www.ucy.ac.cy

Note: Unless otherwise noted all statistical data refers to the area controlled by the government of Cyprus and does not apply to the area under military occupation by Turkey.

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