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# Cyprus

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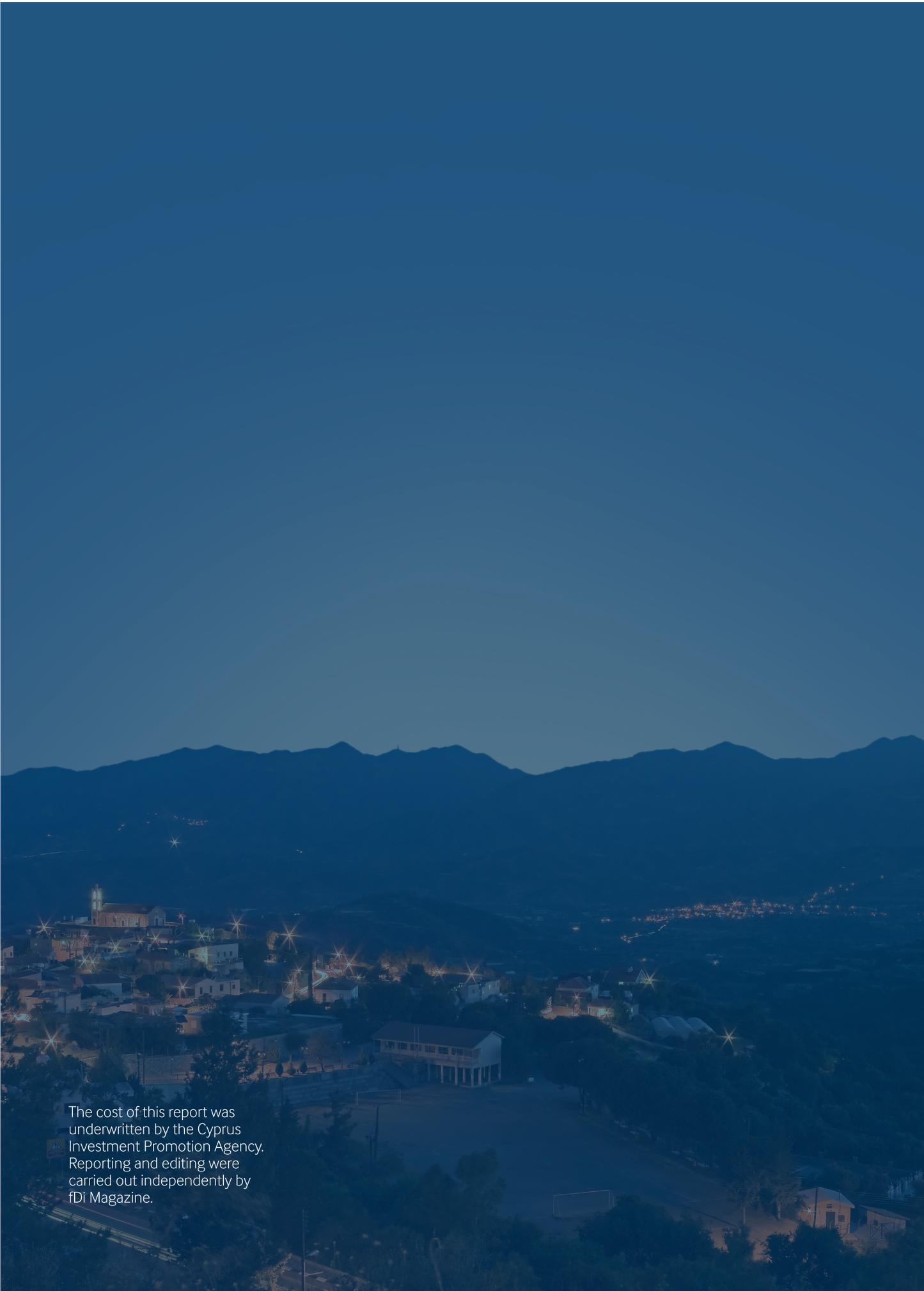


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## OVERVIEW

**02** A banking crisis and the negative headlines that came with it shook Cyprus earlier in 2013. However, the country has displayed impressive resilience, with its business environment remaining stable and its inward investment record actually improving.

## ENERGY

**05** With its deep-water natural gas resources and potential to be a major provider of solar power, Cyprus is positioning itself as an energy hub within the eastern Mediterranean.

## PROFESSIONAL SERVICES

**07** Cyprus remains rightly proud of the global reputation of its professional services as it continues to be one of the leading jurisdictions for structuring investments into Europe at a competitive cost.

## FINANCE

**08** After its recent banking crisis, Cyprus has turned a corner, with confidence gradually returning to the finance sector.

## SHIPPING

**09** Cyprus has a global reputation for being a high-quality hub for the shipping industry, with its commitment to training its workforce and providing a stable and business-friendly tax regime.

## TOURISM

**10** Cyprus, already well known as a tourist destination, is now branching out in terms of the services it can offer travellers, from a casino and golf courses to medical tourism.

## DEVELOPMENT PROJECTS

**11** While neighbouring countries descend into turmoil, Cyprus is busy moving on from its downturn, finding alternative markets for its real-estate sector and incentivising investment.

## OTHER PROJECTS

**12** When it comes to development ambitions, Cyprus is thinking big with plans for a casino resort, a science and technology park and hotels, plus the redevelopment of terminals at Larnaca and Paphos airports.

# Cyprus bounces back stronger

A BANKING CRISIS AND THE NEGATIVE HEADLINES THAT CAME WITH IT SHOOK CYPRUS EARLIER IN 2013. HOWEVER, THE COUNTRY HAS DISPLAYED IMPRESSIVE RESILIENCE, WITH ITS BUSINESS ENVIRONMENT REMAINING STABLE AND ITS INWARD INVESTMENT RECORD ACTUALLY IMPROVING, AS COURTNEY FINGAR DISCOVERS

**W**hen a country goes through a crisis – be it economic, political or otherwise – often one of the hardest things to overcome post-recovery is the reputational damage. Headlines have the power to wound, and they linger for a long time; the words hovering over the afflicted country like a dark cloud.

In perennially sunny Cyprus, those words were ‘tax haven’ and ‘money laundering’. The banking crisis that struck the country in the spring of 2013 and precipitated a bail-out by a group of international lenders referred to as the ‘Troika’ – the EU, the European Central Bank and the International Monetary Fund – hurt the economy, and the Cypriot people. But the labels that the country was tarred with in the international media continue to cast a dark shadow.

“Cyprus has unfortunately been hit with a lot of bad publicity during the past 18 months or so. In most cases it was actually proved afterwards that it was totally unsubstantiated and unfair – I’m referring of course to allegations like money laundering,” says Charis Papacharalambous, director-general of the Cyprus Investment Promotion Agency (CIPA). “As part of the Troika deal two very in-depth reviews were carried out, the findings of which are proof

that Cyprus was at least as good as its European partners and probably in many cases even better. It has to be said that such in-depth reviews haven’t been done in any other country.”

## **On the offensive**

After keeping a deliberately low profile in the aftermath of the crisis, Cyprus is now going on the offense to counter some of the more unflattering claims and to deliver the message that, despite the upheavals in its banking sector, the country’s business environment remains stable – and attractive. The message is that the fundamentals that made Cyprus a draw for inward investment pre-crisis still exist and in some respects have even been improved upon.

“It is important to emphasise that Cyprus, despite its current economic difficulties, still remains an attractive investment destination and a highly competitive centre for international businesses, offering them a platform for their operations and preferential access to markets such as Europe, Russia, the Middle East, India and Asia,” says the president of Cyprus, Nicos Anastasiades.

He cites as these advantages: a strategic location at the crossroads of Europe, Asia and Africa; well-developed infrastructure; almost 50 double-taxation treaties in place; a highly qualified and professional workforce, especially in the financial services field; ease of doing busi-



## CYPRUS REMAINS AN ATTRACTIVE INVESTMENT DESTINATION





Middle ground: Cyprus's competitive advantages remain, offering investors preferential access to markets in Europe, Russia, the Middle East, India and Asia

ness; a fully internationally harmonised tax and legal system; and, of course, one of the lowest and most competitive corporate tax rates in Europe at 12.5%.

“One of the main strategic pillars of economic policy of this government is to maintain those advantages and further improve the competitiveness of the economy, in order to ensure that it will not only retain the substantial comparative advantages it offers to foreign investors, but will further develop this conducive environment,” says Mr Anastasiades says.

“This can only be achieved by boosting innovation and enhancing the efforts of the business community to operate in a more effective, business-friendly – and ultimately more competitive – environment in collaboration with Cypriot and foreign companies.”

#### **Investors return**

Mr Papacharalambous says CIPA has witnessed an uptick in interest from foreign investors into Cyprus over the past 12 months. He puts this down to trust returning to the country as Cyprus has been doing what was required to stabilise the economy and has worked hard to meet its obligations. “It is clear what needs to be done to a very large extent is being done and the results are quite positive, as also indicated in both reviews conducted up to now by the Troika team. This will certainly continue and clearly things will start to move forward positively and confidence in the economy, as well as its banking system, will continue to grow,” he says.

“The return of trust can also be seen from

a recent example where foreign investors [a US fund in this case] were part of the recapitalisation of the second largest Cypriot bank, thereby making them a key shareholder. Furthermore, the structural measures introduced at the moment assist in improving the country’s competitiveness while also improving transparency and credibility, which are very important credentials to have for the investment environment.”

Speaking at an Economist conference on Cyprus in late November, IMF mission chief for Cyprus, Delia Velculescu, praised Cyprus’s crisis-recovery efforts and said the economy is displaying signs of resilience.

“The [Cypriot] authorities have a full agenda ahead. The difficulty of their task should not be underestimated, as the recession continues and large risks remain. Nevertheless, one should not forget that the most difficult decisions have been taken to address the root of the problems in Cyprus. The authorities have now a unique opportunity to use this momentum and turn their economy around,” she said.

#### **Crisis response**

Cyprus came to the brink of financial collapse earlier in 2013 after the country’s exposure to Greek sovereign debt sparked a banking crisis. The Troika’s controversial €10bn rescue package warded off bankruptcy at the expense of uninsured depositors who saw some of their deposits of more than €100,000 converted into equity in the Bank of Cyprus, now at the centre of a major restructuring programme as part ▶

**IN FOCUS**  
**INVESTOR INCENTIVES**

The Cyprus government has announced a number of new measures geared towards attracting investors, including:

- provision for an increased 25% discount in taxable income on payroll when employing an additional person;
- provision of 100% tax deduction until 2016 on expenditure for the acquisition of fixed assets related to innovation, research, information, communications and renewable energy sources;
- extension of the increased tax deduction with a minimum amount of 20% for the acquisition of other assets until 2016;
- incentives for the repatriation of capital;
- tax relief for those affected by the implementation of the Resolution Law;
- exemption of corporate profits from deemed dividends that are reinvested in the business; and
- for all VAT declarations within the year 2013 the government is reducing the additional VAT charge from 10% to 5%.

In addition, the following incentives are already in place:

- The Human Resource Development Authority of Cyprus provides funding in the form of grants to support a range of training needs for any-sized company registered in Cyprus.
- The Research Promotion Foundation (RPF) aims to promote the development of scientific and technological research. One of its main activities is the development of a national framework for financing research and development and innovation (R&D&I) projects. A large number of projects are financed through the RPF's programmes in five areas: strategic and multi-thematic R&D; growth of national scientific and research human capital; applied research development and enterprise innovation; research infrastructure development and large-scale investments; and international networking and collaboration in the field of R&D&I.

of the Troika deal. The deal also includes conditions on government fiscal policy and capital controls on the banking sector, which are gradually being eased.

Cyprus's finance minister, Harris Georgiades, has been quick to point out that while the economic contraction has been painful – particularly with regards to rising unemployment – it has been less severe than was expected. He forecasts a 7% drop in output for 2013, roughly 2% less than lenders' predictions.

The next year will be a difficult one, with a forecasted 3.9% contraction, but modest growth is expected from 2015. Recently discovered reserves of offshore natural gas have caused excitement, meanwhile.

The government has announced a number of measures aimed at alleviating the jobs problem, such as the provision of national grants and incentives for flexible employment as well as for hiring unemployed people in the tourism industry.

In the financial sector, the two biggest short-term challenges are the restoration of lending to the economy and the relatively high interest rates. "The private sector constitutes the main engine for economic growth but the existence of limited funds at high cost is very detrimental for the economic recovery," says Mr Anastasiades.

The board of the European Investment Fund recently approved a €150m trade finance facility for Cyprus that will re-activate credit lines with international banks and support short-term trade-related instruments. The board also approved a loan of €150m for the establishment of a Cyprus Entrepreneurship Scheme to finance small and medium-sized enterprises. In the banking sector, some banks have already announced a reduction in lending interest rates, which many interpret as an encouraging sign.

**Cutting red tape**

Another priority for Cyprus is the reform of public administration and reduction in governmental bureaucracy, which, the president says, also includes the attitude towards foreign investors, both existing and prospective.

To this end, additional tax incentives are being offered for existing or new companies doing business in Cyprus, and friendlier regulations for residency and citizenship are hoped to entice investors from outside the EU, including the provision of residency to non-EU citizens for investments greater than €300,000.

The IMF's Ms Velculescu says Cyprus's business model will need to move away from financial services and towards other services where the country has a comparative advantage. "Tourism and business services [legal, consulting, accounting] are expected to support the recovery and medium-term growth. These sectors benefit from a low corporate tax regime, educated labour force, strong institutions, and low structural barriers to growth. Prospects

DESPITE THE PROBLEMS THERE IS A COMMITMENT TO REBUILD THE ECONOMY

from the exploitation of gas reserves provide an upside for long-term potential growth," she says.

**Changing tack**

Cypriots for the most part accept the island's role as a financial centre will change, perhaps for good; but that does not mean it cannot continue to be a centre for international business.

"If by the term 'financial centre' we mean global activity within the banks and a lot of foreign money coming to Cyprus to stay there for long periods of time, then yes, for the foreseeable future that is the end of Cyprus playing that role. However, businesses using Cyprus as headquarters for their business operations, holding companies and marketing activities, etcetera, have not left Cyprus, or at least not any more than they would have done in normal circumstances," says Phidias Pilides, president of the Cyprus Chamber of Commerce.

Evgenios Evgeniou, chief executive of PwC Cyprus, agrees with Mr Pilides about Cyprus's continuing competitiveness as a business hub, and also makes the case that the crisis has demonstrated something valuable about the character of the country.

"Considering what happened to Cyprus and the fact that it went through what was potentially the worst crisis in the eurozone, there has been social peace throughout," he says. "From the perspective of a foreign investor it is useful to see that only a few months after the crisis you can go about your business normally. This demonstrates the resilience of the people of Cyprus, but also shows that despite the problems there is a commitment to rebuild the economy on a stronger footing and come out of the situation stronger." ■



Fuelling the economy: the VTT Vasiliko petrol storage and distribution terminal represents €300m of foreign investment in Cyprus

# A new energy

WITH ITS DEEP-WATER NATURAL GAS RESOURCES AND POTENTIAL TO BE A MAJOR PROVIDER OF SOLAR POWER, CYPRUS IS POSITIONING ITSELF AS AN ENERGY HUB WITHIN THE EASTERN MEDITERRANEAN, FINDS WENDY ATKINS

Investors in Cyprus are becoming increasingly upbeat about the opportunities that its energy sector offers in both the oil and gas and renewable markets, not to mention developments that could drive down the price of the island's notoriously expensive electricity supply.

There have been a number of recent multilateral agreements, including the signing of a deal to connect Israel, Cyprus and Greece with an underwater electricity supply. "This will also enable us to connect to the European grid and not be isolated any more," says Yiorgos Lakkotrypīs, Cyprus's minister of energy, commerce, industry and tourism. "Another possibility is connecting to a natural gas pipeline with the eastern Mediterranean and Greece."

Cyprus's total electricity capacity from renewable energy sources reached 181 megawatts (MW) in May

2013. The renewable energy mix includes wind farms, photovoltaic systems, solar thermal plants, and biomass and biogas utilisation plants. "Solar is a top priority as it is more predictable than wind, so gives us more stability," says Mr Lakkotrypīs.

Georgios Shammas, chairman of the Cyprus Energy Regulatory Authority, agrees: "We have regular meetings with potential investors. We've seen very good progress in investing in solar, wind and biomass. Our main target now is to achieve integration of renewable sources in the electricity market with the minimum cost and without jeopardising the operational security of the system."

Over the past couple of years the authorities have stepped up the pace of tender projects for photovoltaic parks. At the end of 2012, they announced 18 photovoltaic park licences, and earlier this year they licensed 23 projects of varying sizes producing a total of 50MW following an online tender. The government has also targeted 5000 disadvantaged families for a photovoltaic power installation programme, which ends in December 2013.

The Ministry of Energy, Industry, Commerce and Tourism's goal is to reach a minimum generating capacity from renewables of 584MW by 2020, which will account for 16% of the country's total electricity production and will be 3% higher than the EU target. This all means that there are opportunities for significant investment.

"Renewables are changing system operational decisions significantly," says Mr Shammas. "As they make up an increasing part of the system, it makes the electricity system as a whole more difficult to operate and forecasting is not easy. But we're gradually improving our knowledge and have currently better forecasting for wind parks, which is the renewable source whose generating capacity is the most difficult to predict."

## Oil and gas

The presence of deepwater natural gas reserves in the Cyprus Exclusive Economic Zone is attracting interest from global investors. The Cyprus Investment Promotion Agency believes that with energy developments in neighbouring countries, there could be an opportunity for ▶



## CYPRUS OFFERED A FAVOURABLE TAX ENVIRONMENT AND BONDED WAREHOUSE. IT ALSO HAS DEEP SEAWATER CLOSE TO THE SHORE



Cyprus to become an energy hub in the eastern Mediterranean. Additionally, the government hopes to create a knowledge-based economy around oil and gas and export that expertise.

Noble Energy, Delek Drilling and Avner Oil Exploration have signed a memorandum of understanding with Cyprus for a liquefied natural gas (LNG) terminal in June 2013. Initial construction is expected to take four years to complete, and additional production lines will also be constructed for major energy companies currently exploring offshore. Building work is expected to last for 15 years and investment in the production of LNG will run into billions of euros. "We have opportunities upstream, midstream and in the LNG plant that we are planning to develop to monetise our reserves," says Mr Lakkotrypis. "We also have opportunities in downstream with buyers of gas."

Energy has the potential to make an increasingly important contribution to the island's GDP. "In the mid-term, the effects of energy on GDP will be indirect," says Mr Lakkotrypis. "We see companies using Cyprus as a base to serve the whole of the eastern Mediterranean. There will also be prospects for logistics and offshore rig servicing. In the longer term, the revenue

from the natural gas itself will have a positive impact. It looks very promising. However, we are not depending on those revenues to turn the country around. We must do what we need to do to turn things around and then the revenues from the reserves will be like the cherry on the cake."

### **Distribution hub**

An 858,000-cubic-metre private petrol storage and distribution terminal is being constructed by VTT Vasiliko (VTTV) Cyprus, in the port of Vasilikos. According to VTTV general manager George Papanastasiou, this €300m foreign investment project is equal to 1.7% of Cyprus's GDP. Phase one of the project, with a capacity of 357,000 cubic metres, is scheduled for completion in 2014. Phase two will add a further 186,000 cubic metres, and a third phase will bring it up to its full planned capacity. A marine jetty capable of handling all oil products is being constructed as part of the project. Extending 1200 metres offshore, it will have two berths with a draft of 18.1 metres and two with a draft of 13.2 metres.

"This will make ship-to-ship operations safer, and will help to dramatically increase trans-shipments of fuel in Cyprus," says Mr Papanastasiou. "In addition the pro-

ject can serve the local market and act as an option for the storage of Cyprus's compulsory stocks of fuel.

"Cyprus is very well located for transporting fuel oil from the Black Sea to Asia, gasoline from Europe to the eastern Mediterranean and the Red Sea, and middle distillates from the East to the West. Our parent company evaluated other locations, but some have a less stable political environment, while others were a no-go for security reasons. Cyprus offered a favourable tax environment and bonded warehouse. It also has deep seawater close to the shore to accommodate large ships."

The government says it is putting together a mechanism that will fast-track large projects. "All ministers who are involved issuing permits are working together to try to get it done," says Mr Lakkotrypis. "We need to put together structures that are able to handle large projects and this is something that we're working on right now. Having said that, we are handling a few very large projects which we are trying to expedite with the relevant government agencies and ministries. So we're not waiting for this mechanism – it is just going to put it on a more solid legal footing and make it part of the regulatory environment." ■

# A professional job

CYPRUS REMAINS RIGHTLY PROUD OF THE GLOBAL REPUTATION OF ITS PROFESSIONAL SERVICES AS IT CONTINUES TO BE ONE OF THE LEADING JURISDICTIONS FOR STRUCTURING INVESTMENTS INTO EUROPE AND EMERGING MARKETS AT A COMPETITIVE COST, SAYS WENDY ATKINS

**A**lthough the Cypriot financial sector took a bashing during the crisis, this did not extend to the professional services market, which proved more than able to weather the storm. The sector's resilience means Cyprus remains rightly proud of its reputation for accounting and legal services.

"The events in March had an adverse impact on the credibility of Cyprus," says Evgenios Evgeniou, chief executive of PwC Cyprus. "But companies that use Cyprus as a base are still intact and the fact that we've had two positive reviews from the Troika [the EU, the European Central Bank and the International Monetary Fund, which are supervising the country's adjustment programme] is helping confidence to gradually return. Professional services firms did a good job of keeping clients abreast of developments as the events were unfolding."

As the backbone supporting foreign investors in Cyprus, the country's professional services firms report frustration at the scale of the inaccurate and negative reports that have surfaced in the international

media over the past year. "We've been accused of money laundering or facilitating it. In my opinion, this is a joke," says Christos Mavrellis, senior partner and head of the company and commercial department at law firm Chrysses Demetriades. "Despite the fact that all the investigations by EU institutions have demonstrated the opposite, nothing has been published to counter this negative publicity."

## **Common law connection**

According to the Cyprus Investment Promotion Agency, the island continues to be one of the leading jurisdictions used by blue-chip companies and corporate planners for structuring investments into Europe and the world's leading emerging markets.

"One of the main contributors to our success story is that Cyprus is a common law country," says Mr Mavrellis. "Our Company Law is almost a copy of the [UK's] 1948 Companies Act, so it is easily understood in many other parts of the world. Some international organisations investing in former [Soviet] countries structure their investment via Cyprus because they can get better securitisation structures. They know where they stand and they're entering a legislative regime that is understood by Western lawyers."

The Cypriot legal sector now has more than 2500 registered advocates and 160 limited liability law firms. Most of its practising lawyers studied or qualified in the UK.

Accountancy on the island also enjoys a good global reputation, with more than 120 limited accounting firms and 40 partnerships, plus more than 3500 active English-

speaking registered accountants. It also follows International Financial Reporting Standards.

What is more, Cyprus is the first country in the world to be selected by the Institute of Chartered Accountants in England and Wales and the Chartered Institute of Management Accountants to train UK chartered and certified management accountants outside the UK, as well as to organise the training of UK-certified accountants.

"In terms of quality and value for money, we have an advantage over other European jurisdictions," says Mr Evgeniou. "Our cost base and pricing are still competitive compared to other EU countries."

## **Cost considerations**

Cyprus's professional services sector looks likely to benefit from activities in both the film industry, where the island's sun, scenery and local talent could prove big attractions, as well as the energy sector. As Mr Mavrellis says: "The energy sector is attracting people to Cyprus. As time goes by there will be more companies establishing here needing professional services."

Mr Evgeniou is also upbeat: "My advice is to come to Cyprus to see for themselves. After what happened in March, it is essential that investors gain an understanding of the situation on the ground."

Mr Mavrellis adds: "Cyprus has managed to retain its clientele. Clients have done their investigations and they say the best place after the Cyprus of today is the Cyprus of yesterday. They realise they get better services at lower prices and they have learned they can trust our people." ■



CLIENTS SAY THE BEST PLACE AFTER THE  
CYPRUS OF TODAY IS THE CYPRUS OF YESTERDAY



# The comeback trail

CYPRUS HAS TURNED A CORNER AFTER ITS RECENT BANKING CRISIS, WITH CONFIDENCE GRADUALLY RETURNING TO THE FINANCE SECTOR. AND THE COUNTRY'S EMERGING FUND INDUSTRY AND FOREIGN EXCHANGE TRADING ARE A POTENTIAL DRAW FOR FOREIGN INVESTORS. WENDY ATKINS REPORTS

**A**s Cyprus works to rebuild its shell-shocked financial sector, one might expect a big dose of negativity from those working in the market. But they are having none of it. Conservative optimism is perhaps the best description of the mood of those working in the finance industry's offices in Nicosia and Limassol.

Insiders in the sector express their frustration that when it found itself in the global spotlight in the first quarter of 2013, accusations of money laundering and poor regulatory compliance dominated media coverage. But as Tassos Yiasemides, principal of audit and advisory services at KPMG Cyprus, says: "A Moneyval [anti-money laundering] auditor report appointed by the Troika [the EU, the European Central Bank and the International Monetary Fund] stated that the assessors did not come across any examples to suggest lack of understanding or weak compliance."

"A couple of months after the banking collapse it was apparent that we still had significant strengths," says Christis M Christoforou, chief executive of consultancy Deloitte Cyprus. "We're not the first country to experience a banking crisis and what made Cyprus what it is today is still here."

## Turning a corner

Things are looking up across the island's financial sector. "The Bank of Cyprus has exited from the resolution status and has acquired a core Tier 1 capital ratio of approximately 12%, well above the threshold of 9%," says the country's president, Nicos Anastasiades. "There is also a new and permanent board of directors, which, among other things, will have to implement a



The way back: Bank of Cyprus's newly appointed board of directors is implementing a restructuring plan

restructuring plan for the bank."

Mr Yiasemides agrees that the sector has turned a corner. He says: "The recent recapitalisation of Hellenic Bank has made investors more confident and this will help gradually stabilise the banking sector."

The country's emerging fund industry and foreign exchange trading are key areas of opportunity for foreign investors. There are also opportunities for foreign banks to set up shop in Cyprus with the current restructuring of the local banking sector following the financial crisis. Additional opportunities include asset management, ship financing, custodian services, mergers and acquisitions, private equity and venture capital schemes, as well as large infrastructure project financing.

Cyprus has seen its foreign exchange industry flourish. ForexTime (FXTM) was founded in Cyprus in 2012 and has already grown its workforce to 70 people. "Foreign exchange regulation in Cyprus is seasoned and mature, and in line with other European countries," says Andrey Dashin, a shareholder of FXTM. "What differentiates it with regulators in other countries is the fact that we have a much closer collaboration with the authorities, which helps us feel more secure because we understand what the authorities request from the industry. Certainty brings

predictability and predictability brings safety for our funds."

## Investment funds

Cyprus is also emerging as an attractive jurisdiction for investment funds, providing solutions such as alternative investment funds and schemes under the EU's Undertakings for Collective Investment in Transferable Securities Directives (Ucits) for the establishment of private and public investment funds.

According to the Cyprus Securities and Exchange Commission, the country offers competitive incentives for Ucits, including no capital gains tax on foreign profits from the sale of financial instruments; dividend income being exempt from tax; interest income being taxed at 10% corporate tax, but exempt from defence tax; the liquidation of Ucits not being taxable for non-tax-resident investors; and no tax on deemed dividend distribution for non-tax resident investors.

So, does Mr Dashin have any advice for financial firms considering a move to Cyprus? "I recommend that they come here and start having open discussions with the authorities," he says. "There are many experienced people working for the regulators; they've worked in the industry, so they're not just bureaucrats. They understand the industry and they understand your needs." ■

# Shipping them in

**CYPRUS HAS A GLOBAL REPUTATION FOR BEING A HIGH-QUALITY HUB FOR THE SHIPPING INDUSTRY. AND ITS COMMITMENT TO TRAINING ITS WORKFORCE IN THIS SECTOR AND PROVIDING A STABLE AND BUSINESS-FRIENDLY TAX REGIME MEAN THAT IT IS UNLIKELY TO LOSE ITS COMPETITIVE EDGE ANY TIME SOON, SAYS WENDY ATKINS**

Cyprus's enviable position at the crossroads of Europe, Asia and north Africa means it has long been a popular hub for the shipping industry. Its advanced infrastructure and services combined with a competitive tax regime and other strategic advantages make it an attractive location for a full range of shipping and ancillary shipping-related services.

The industry is an important element of the island's economy, contributing about 7% of its GDP. And this global centre for international shipping has the third largest merchant fleet among the EU's 27 member countries, and one of the 10 largest in the world. More than 1022 vessels with a 21 million gross tonnage are registered under the flag of Cyprus, while more than 140 ship-owning and ship management-related companies control a fleet of 2400 from the country with a 48 million gross tonnage.

Cyprus's Merchant Shipping Law, which was introduced in 2010, deliv-

ers the only EU-approved tonnage tax system (TTS), providing benefits for ship owners, ship managers and crew. Thomas A Kazakos, director-general of the Cyprus Shipping Chamber, says: "This is a fixed-rate tax based on the carrying capacity of a vessel. You have the security with this tax that doesn't increase over the years, so you can plan your tax liabilities for the working life of a ship. There is no tax on shipping activities other than this tonnage tax; no levy on shipping profits or dividends.

"We are also the only EU-approved open registry regime that can host foreign ship-owning interests from around the world under its jurisdiction."

The country has little trouble attracting investors in shipping. "They're not here because of the nice weather – although it's a plus," says Mr Kazakos. "They're here because they need to have a stable, legally transparent and approved taxation and operational framework. The good operators want proper tax planning, not tax evasion or tax havens."

## The right environment

Captain Eugen-Henning Adami, managing director of Mastermind Shipmanagement, has been involved in Cyprus since 1989. "This is a good place to be based," he says. "In Germany, we were losing our competitive edge because the government didn't open up concessions to the shipping industry. We have found ways to run our ships substantially more competitively from Cyprus."

"Membership of the EU has



Supporting role: Cyprus's shipping industry is an important element of the island's economy

boosted the image of the Cyprus flag as well as our shipping infrastructure, and we remain pro-European," says Mr Kazakos. "Before we joined the EU there were innuendos that we weren't a proper registry. Now we're up there with the very best in terms of quality, safety, security and environmental protection. And we have a zero-tolerance approach to substandard shipping as we're keen to protect the reputation of the Cypriot flag."

The industry in Cyprus is committed to creating a stable workforce that draws on the skills of the island's population, according to Mr Adami. "Expats have a tendency to return to their country. We wanted a more stable workforce to make shipping a cluster and make it more sustainable," he says.

"The industry addressed this by creating a proper education scheme in partnership with the [Institute of Chartered Shipbrokers]. Through this one-year 'Understanding of Shipping' scheme – which has been in operation for about 12 years – the shipping companies have trained close to 1000 students. The total workforce is 4500, so we've managed to train [almost one-quarter], and that's translated into Cypriots taking up technical, safety, quality and crewing positions. We have a Cypriot workforce that goes all the way up to management." ■



WE'RE UP THERE WITH THE BEST IN TERMS OF QUALITY, SAFETY AND SECURITY



# Healthy potential

CYPRUS, ALREADY WELL KNOWN AS A TOURIST DESTINATION, IS NOW BRANCHING OUT IN TERMS OF THE SERVICES IT CAN OFFER TRAVELLERS, FROM A CASINO AND GOLF COURSES TO MEDICAL TOURISM.  
**WENDY ATKINS REPORTS**

**T**he tourist industry in Cyprus has been quick to recover following the economic shock of early 2013. Today the sector is very much open for business, with opportunities in such special interest areas as medical, sports, nautical and agro tourism, conferences, theme parks and managed attractions.

“We saw a dramatic decrease in the flow of reservations during the early days of the crisis,” says Yiorgos Lakkotrypīs, the country’s minister of energy, commerce, industry and tourism. “But we’ve managed to reverse it, so we’re expecting a very similar year to 2012 in terms of arrivals, but with higher revenue for the country because the mix of tourism means that there is more per capita spending.”

The World Economic Forum’s 2013 Travel and Tourism Competitiveness Report reveals that Cyprus is still near the top of the sector’s key index, ranking 29th overall out of 140 countries. The country is ranked 22nd for its travel and tourism regulatory framework and 21st for its business environment and infrastructure.

## Season extension

The government is now focusing its efforts on extending the tourism season beyond the summer months with the aim of adding to the 2.4 million holidaymakers who currently visit the island every year. In November 2013, it agreed an Open Skies deal with the Russian authori-



Sun soaked: Cyprus hopes the health benefits of its pleasant climate will make it a year-round holiday destination

ties, which lifts flight and landing restrictions between the two countries. “This will help us extend the tourism season from six or seven months to eight or nine months,” says Mr Lakkotrypīs.

Marinas, golf courses and an integrated resort casino are being created to meet the year-round needs of this new wave of overseas visitors. Developments include major luxury marina projects in the coastal cities of Limassol, Ayia Napa and Larnaca, plus there are plans to award permits to expand the number of 18-hole golf courses in the country from four to 11.

## Medical tourism

Cyprus is well positioned to capitalise on growing international demand for medical and wellness treatments. A Cyprus Tourism Organisation study estimated that 60,000 health travellers had visited the island in 2010 alone.

This sector could also benefit from the EU directive on cross-border healthcare, which came into effect in October 2013. This extends freedom of choice in healthcare to Europeans looking for alternative solutions and treatments abroad.

The country’s strategic location, mild Mediterranean climate, network of high-standard hospitals and clinics staffed by internationally educated doctors, not to mention luxury hotels and a multilingual population, make it an ideal place for healthcare tourists to visit for stress-free treatment.

Cyprus has six state general hospitals and about 80 private hospitals and clinics. Its wellness offerings are enhanced by numerous thermal springs, spas and therapy centres. And thanks to the exceptional properties of its waters, both thermal and sea, the island’s thalassotherapy services look set to expand.

“Medical and wellness are something we want to promote, particularly to northern countries that lack sunshine in the winter,” says Mr Lakkotrypīs. “With just a three-hour flight, you can go from minus 20 to plus 20 degrees. We’ve been working closely with the Ministry of Health to put together the case for medical tourism and to show the benefits of the sun. This could be very attractive for health insurance funds and what we offer could help patients who suffer from psychological problems caused by lack of sun.” ■

# The feel-good factor

**WHILE NEIGHBOURING COUNTRIES DESCEND INTO TURMOIL, WENDY ATKINS FINDS THAT CYPRUS IS BUSY MOVING ON FROM ITS DOWNTURN, FINDING ALTERNATIVE MARKETS FOR ITS REAL-ESTATE SECTOR AND INCENTIVISING INVESTMENT**

**A**ttracting people to Cyprus has never been difficult. With its enviable climate, relaxed way of life, great food and beautiful beaches, it is an attractive place to do business and live. And it is this enviable lifestyle that has helped drive the country's real-estate sector.

But the fortunes of real estate in Cyprus have been mixed in recent years, especially in the wake of the country's financial crisis, due in part to bank overexposure to overleveraged property companies. "Prices have dropped by 20% to 30% in some cases, but in others – where they are very expensive assets – they've actually increased," says Pantelis M Leptos, president of the Cyprus Land and Building Developers Association.

The market is broadly divided into two sectors: domestic and international. "The domestic market was hindered by the Troika's demands," says Mr Leptos of the austerity measures laid out by the EU, the International Monetary Fund and the European Central Bank. "But it's a completely different ballgame in the international market. Yes, we had a downturn. Most foreign buyers were British and this stopped in 2009. We've found alternative markets since then in South Africa, the Gulf, China, north Africa, Russia and Ukraine. And that's because the basic advantages of Cyprus that you had before the crisis are still here."

## Still got it

Basking in the 28-degree temperature of mid-November, it is easy to see that Cyprus has lost none of its attractiveness. "What we need back in the market is client finance," says Mr Leptos. "Prices are quite keen and people are taking advantage of this. Once this stock has been absorbed, I expect



Sweet life: demand for high-end real-estate in Cyprus is driving new developments

prices of likeable projects to rise."

There are a number of large-scale developments in the pipeline, including residential projects and commercial schemes such as marinas, golf courses and theme parks. This local market is adapting itself to global market needs. "We're seeing more green buildings, more smart buildings, projects that offer more than just a house and a swimming pool," says Mr Leptos. "We're seeing concierge services, gated communities, communities with club houses and health spas. This is what people want and this is what is easier to sell."

The Cypriot government has introduced a raft of residency and citizenship schemes to encourage non-EU citizens to invest in property. These include giving them the opportunity to acquire a permanent residency permit when they buy a private home worth at least €300,000 and deposit a minimum of €30,000 in a local bank for three years.

To acquire Cypriot nationality, non-EU residents can invest a minimum of €2m in National Investment Company shares and/or bonds and €500,000 in the country's Research and Technology Fund; or make a direct investment of €5m; or deposit €5m in a local bank for three years; or pay corporate or value-added tax of at least €500,000 annually for three years before making an application.

"Cyprus is stable but the countries around it are in turmoil and this is increasing its attractiveness," says Mr Leptos. "We represent a good investment and a good plan B for

people from these countries and their families."

Mr Leptos sees considerable opportunities for construction in the hotel industry. "There's a shortage of beds, especially for tourists who are looking for alternative bases as a result of the Arab Spring and Cyprus is a good place for them. New resorts are being built for tour operators and the holiday home market for Europeans is sure to return."

This market should also be boosted by the recent Open Skies deal with Russia, which frees flight restrictions between the two countries. With more tourists coming to Cyprus, so too will potential holiday homeowners. President Nicos Anastasiades says the Open Skies deal should extend the tourist season and bring an extra 300,000 visitors to its shores in the winter months.

Yiorgos Lakkotrypīs, Cyprus's minister of energy, commerce, industry and tourism, agrees: "The fact that we're opening up to Russia all year round has focused a lot of attention on other infrastructure projects because it means there is a bigger potential market for them."

Recent developments in the energy sector will also feed the real-estate market. "There is going to be more demand for office blocks to deal with this, as well as storage facilities and accommodation for gas company staff," says Mr Leptos.

So, what is Cyprus's message for would-be investors? Mr Leptos is confident: "Come now because prices are going to go up." ■

# Thinking big

WHEN IT COMES TO DEVELOPMENT AMBITIONS, WENDY ATKINS FINDS CYPRUS IS THINKING BIG WITH PLANS FOR A CASINO RESORT, A SCIENCE AND TECHNOLOGY PARK, HOTELS, SHOPPING CENTRES AND NEW OFFICE SPACE, PLUS THE REDEVELOPMENT OF TERMINALS AT LARNACA AND PAPHOS AIRPORTS

**T**he Cypriot government is working hard to kick-start the country's economy and encourage investment on the island with a number of major development initiatives that are now being fast-tracked.

The government has been taking steps to incentivise investors across a range of sectors by introducing measures such as cutting the amount of time required to get planning permission. This has now been reduced to a maximum of one month for small projects and three months for larger ones.

Building coefficients – the permitted ground area for construction – have also been increased. The building coefficient for large commercial developments in residential areas is up by 30%; large commercial or office developments on the outskirts of residential areas by 25%; and large properties in certain tourist zones by 20%. And the amount of land available for golf courses will increase by 10% to 15%.

## Headline news

One of the major headline-grabbing announcements is the green light the government has given to the casino industry to operate an integrated casino resort on the island. According to insiders, this should deliver substantial revenues from gaming and ancillary activities including meetings, incentives, conferences and exhibitions. In addition, this could attract a number of auxiliary services, including theme parks, restaurants,



On the verge of take-off: plans are being made to develop a former terminal at Larnaca Airport (pictured)

shops and shopping centres, and could pull in investment worth between €600m and €800m.

“We’ll grant one licence to enable the investor to grow big and provide top-class entertainment,” says Yiorgos Lakkotrypīs, Cyprus’s minister of energy, commerce, industry and tourism.

“Currently, the government is in the process of selecting a consulting firm to advise it and to take it from now to the end of 2014 when the licence for the new resort project will be issued,” says Christis M Christoforou, chief executive of Deloitte Cyprus consultancy. “There’s lots of legislation to be drafted; the gaming commission has to be set up and processes need to be initiated, including [requests for proposals]. The consultancy will start work on January 1, 2014 and the plan is for the first licence to be issued within 12 months.”

## Science park

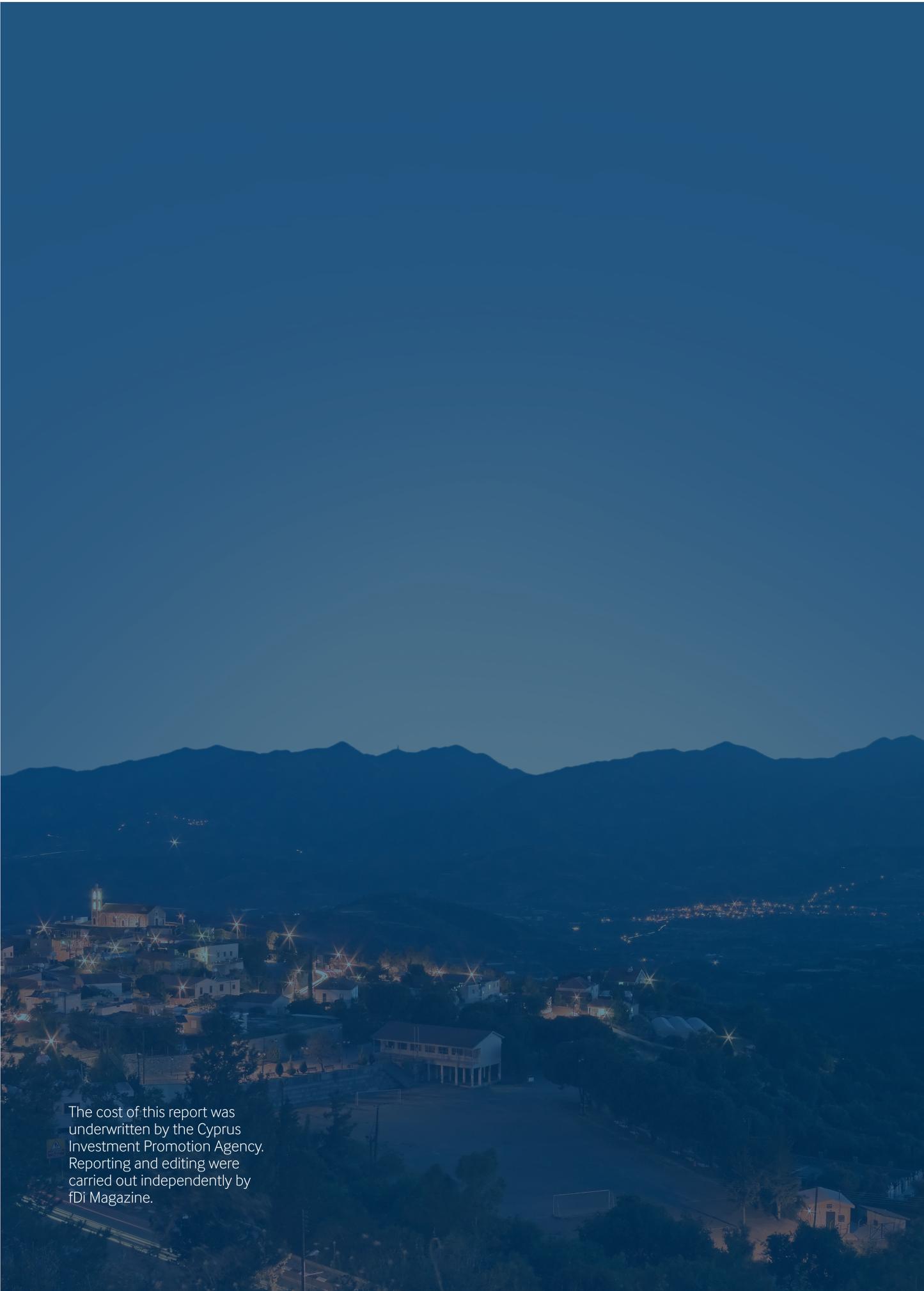
There are also plans to promote the establishment of a new large science and technology park. This high-impact project will host research centres, business incubators, spin-off innovative enterprises and other local and international knowledge-based companies.

The government has big plans

for the development of premium land next to the existing Hilton Hotel in the centre of Nicosia and has already issued requests for proposals. The pocket of land is suitable for a variety of mixed-use developments including hotels, residential buildings, shops, office space, schools and cultural facilities.

Progress is also being made with plans to repurpose former terminals at Larnaca and Paphos International Airports, which are currently disused. The government and airport operator Hermes Airports have made a request for proposals for the project, which has a December 2013 deadline for submissions. It gives developers the chance to repurpose and develop the terminals, which include buildings and land, at both airports. They should be able to capitalise on the strategic location of the sites by developing high-quality schemes that complement airport activities. According to the tender documents, any development should be sustainable, maximise the dwelling yield of the land and capitalise on the sites’ major features.

Hermes will lease the land to the successful bidder for a concession period up until 2031. The government will then enter into a separate land leasing agreement for up to 99 years. ■



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# Cyprus, an international business hub since antiquity. That's a fact.

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*Cyprus' copper talanton, 1600-1100 BC,  
representing one of the most ancient  
forms of a common currency.  
Dimensions: 72cm x 35cm, weight: approx. 39kg*

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Cyprus has been an important center for trade and commerce since antiquity. A European Union member state since 2004, it still asserts its role as a major investment destination for good reason:

- Strategic location between Europe, Asia and Africa
- Highly developed infrastructure
- Highly qualified and multilingual workforce
  - Business friendly tax and legal system
- Sophisticated, high quality professional services and support
  - Untapped potential for investments
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