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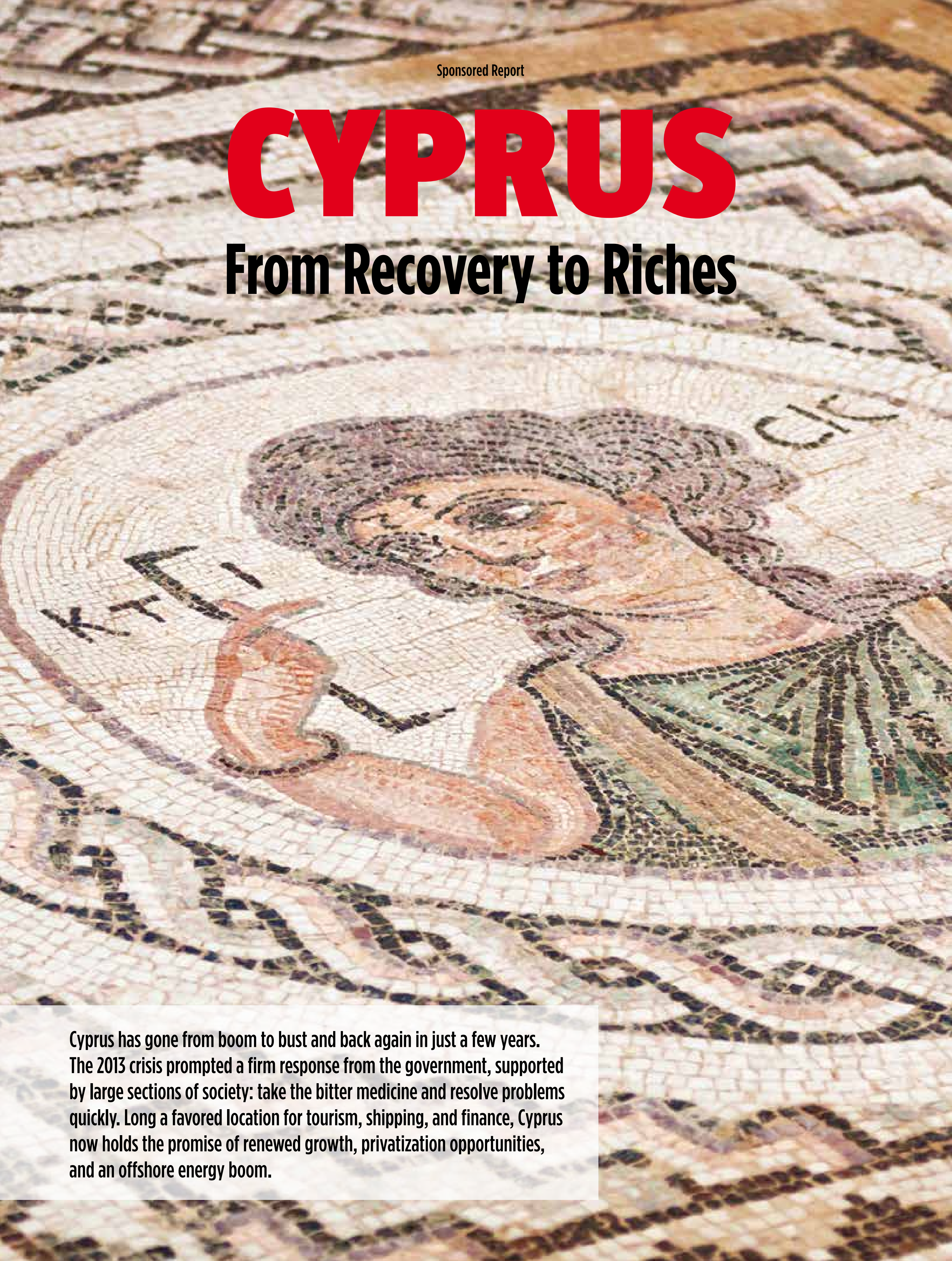
CYPRUS

From Recovery to Riches



Cyprus has gone from boom to bust and back again in just a few years. The 2013 crisis prompted a firm response from the government, supported by large sections of society: take the bitter medicine and resolve problems quickly. Long a favored location for tourism, shipping, and finance, Cyprus now holds the promise of renewed growth, privatization opportunities, and an offshore energy boom.

Bouncing back

Just two years after a major crisis, Cyprus is enjoying the first fruits of a painful and ongoing adjustment. The economy is growing again, albeit slowly, the fiscal deficit is being reined in, and foreign investment is starting to reappear. Now privatization programs and the promise of offshore energy are bringing back the smiles.

"Cyprus's reform program remains a success," International Monetary Fund (IMF) Deputy Managing Director Mitsuhiro Furusawa said in September, after a review of the island's progress. "Economic activity in the first half of the year has been better than expected, and fiscal outturns are running ahead of projections. Liquidity in the core banking system has continued to improve and the prospects for resolving non-performing loans are improving."

Furusawa went on to say that "the strong fiscal performance is impressive." Nevertheless, he cautioned, high public debt, together with sizeable contingent liabilities, warrants continued prudence while ensuring support for growth-enhancing public spending and the safety net. "Reform efforts should focus on advancing public administration, improving the management of government guarantees, and strengthening revenue administration."

Speaking earlier, President Nicos Anastasiades said that after a string of positive reviews, the emphasis was now on "advancing our structural reform agenda, notably on tax administration, the management of fiscal risks and public administration reform. Critical growth-enhancing reforms, including the public administration reform and a privatization road map, have already been initiated."

The finance ministry predicts economic growth of 0.5 percent this year and 1.4 percent in 2016. It's a far cry from the three years from 2012 through 2014 when the economy shrank by a cumulative 9.8 percent. Finance Minister Harris Georgiades called 2015 growth "sufficiently satisfactory" and ruled out additional taxes. On the contrary, he noted, the budget calls for a 5 percent increase in spending with "gradual and careful" steps to ease the tax burden. Unemployment remains high but inflation is low and the fiscal deficit has fallen from 5.8 percent of gross domestic product (GDP) in 2012 to a projected 0.7 percent this year and 0.2 percent next.

Looking ahead, Cyprus hopes to kick-start an energy industry thanks to a sizeable offshore gas discovery. There's a possibility the island could cooperate with neighboring countries and perhaps even involve Turkey. "Our vision is to transform the natural gas that lies in the Mediterranean in the same way that the founding fathers of the European Union have transformed coal and steel into a common factor of stability and peace for countries that were previously enemies," Foreign Affairs Minister Ioannis Kasoulides said.

Reunification of the island is under discussion with support from the United States. Economists speak of a potential "peace dividend" that could almost double the aggregate GDP by 2035. Main drivers would be tourism, construction, financial services, trade, transport, and gas exports via Turkey.

"The main message is that this is the time [to invest in Cyprus]. Next year it might be too late. Prices have started rising already and there are huge opportunities in Cyprus now," said Savvas Kakos, CEO of Quality Developments.

REUNIFICATION COMING TOGETHER?

Cyprus has been inhabited for some eleven thousand years. It was largely settled from Greece but suffered waves of conquerors, including Egyptians, Persians, and Romans, with brief spells under the Knights Templar and the Republic of Venice before falling to the Ottoman Empire in the sixteenth century. Britain took over in Victorian times, then a postwar bid to establish an independent unity government broke down and led to the installation of a United Nations (UN) peacekeeping force in 1964. Turkey occupied the northern part of the island in 1974, leading to division and declaration of the Turkish Republic of Northern Cyprus, recognized only by Ankara.

Several attempts at international mediation have failed, but in April of 2015 pro-reunification candidate Mustafa Akinci was elected president in the north. He expressed that "[his] policy will be focused on reaching a peace settlement. . . . This country cannot tolerate any more wasted time."

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Q&A

"A solution to the Cyprus problem may very well have positive ripple effects on our conflict-ridden neighborhood. Furthermore, the reunification of the island can unleash great economic potential for the local economy."

H.E. Nicos Anastasiades
President

A Man with a Mission

Nicos Anastasiades, president of Cyprus since 2013, is a lawyer with postgraduate studies in shipping law at University College London. Born in 1946 and married with two daughters, he was elected to parliament in 1981 and in recent years has challenged some members of his own broadly center-right Democratic Rally party by working toward reunification of the island.

Addressing the UN General Assembly in September, Anastasiades said: "I strongly believe that reaching a solution on the Cyprus problem can become a paradigm of how diplomacy and the adoption of a reconciliatory stance can contribute to the resolution of even the most difficult international issues, prevailing over mistrust."

What is your assessment of the island's new hydrocarbons discoveries in its offshore exclusive economic zone?

This discovery, and the prospect of further new discoveries, have renewed and strengthened the strategic importance of the Eastern Mediterranean, both economically and politically. Our vision—Cyprus's vision—is that these discoveries will contribute toward the transformation of the Eastern Mediterranean into an area of sustainable economic development, enhancing political stability and improving bilateral relations through synergies emerging from the exploitation of hydrocarbons. Hydrocarbons could serve as a means to strengthen regional energy security, attract foreign investments, and boost the economies of the countries of the region to the benefit and well-being of their people.

And do you see Cyprus becoming an energy center in the Eastern Mediterranean?

Certainly I do. Our strategic location, our stable legal and financial environment, and our traditionally excellent relations with our neighbors all help create the best conditions possible to make our vision a reality. We are in the process of discussing ideas and plans with neighboring countries such as Egypt, Israel, and Jordan, and setting up the necessary legal and political framework for this to work. Our natural resources in hydrocarbons; the investments put or to be put into their exploration, exploitation, development, and commercialization; and the proceeds from the export of natural gas could undoubtedly strengthen the economy of the country and put it on new and sound foundations.

What is your position on the possible reunification of Cyprus?

Given developments in our region, as well as world events, it really is time to do away with the artificial complacency related to the current status quo in Cyprus and to finally negotiate a lasting solution. This would of course be beneficial to all Cypriots, Turkey, our immediate region, and, evidently, the international community. I believe that the time is right, and I believe that we have already gone too long without a solution to the Cyprus problem. I believe that the new negotiating process we started last spring is on the right track. What we aim to achieve as soon as possible is a comprehensive, viable, and fair settlement of the Cyprus problem.

What might this look like?

It would be based on a bicommunal, bizonal federation with political equality, as set out in the relevant Security Council resolutions, the High-Level Agreements, and the Joint Declaration of February 2014, with a single international legal personality, a single sovereignty, and a single citizenship. We also need to safeguard for Cyprus and all Cypriots the principles upon which the European Union is founded. I am totally committed to work tirelessly to this end. Cyprus can become a model for the wider region, and a solution to the Cyprus problem may very well have positive ripple effects on our conflict-ridden neighborhood. Furthermore, the reunification of the island can unleash great economic potential for the local economy.

Q&A

Irena Georgiadou
Chairwoman
Hellenic Bank

What is your assessment of the Cyprus banking sector today?
Restoring the soundness of the financial sector was one of the three pillars of the economic adjustment program. Cyprus had to restructure and downsize its financial sector, capitalize it, and improve its governance and supervision. Today we can say with certainty that we have ticked all the boxes. The best proof of this is the confidence displayed by international investors who are participating in the share capital of the banks and of course the confidence of the depositors who are returning their money to the system. Because we were able to tick all the boxes, the capital controls were completely lifted earlier this year.

How was Hellenic Bank affected?
Our recapitalization came from private international investors so we did not have to resort to any state aid. At the same time, as a bank we made it a priority to raise the quality of governance and had recourse to international advisors for this purpose.

You are one of the most powerful women in Cyprus in a very male-dominated sector. How do you see that?
Well, things have to change in Cyprus. It cannot be just business as usual. I suppose that being a woman at the top of a banking institution helps to send the message that nothing is as we used to know it and that we need drastic and disruptive changes in order to win this battle.

Banking
Climbing Out of a Hole

The crisis left a deficit of trust for many bank customers, but lessons have been learned; deposits and investors are returning.

Ever since the 2012 financial crisis hit Cypriot banks, survival has been the name of the game.

"We have been shrinking the bank to strength," said Bank of Cyprus CEO John Hourican, an award-winning Irish banker drafted in to help save the country's largest financial institution in terms of market capitalization after the system suffered what he called "a massive cardiac arrest."

Cyprus had an overlarge banking sector, with assets valued at six times gross domestic product (GDP) before the crash. Banks were exposed to overleveraged real estate investors and the Greek and Cypriot governments, while European Union (EU) countries, in particular Germany, were reluctant to see their own taxpayers put on the hook to bail out depositors who included many rich Russians stashing their cash in a low-tax haven. The result was Europe's only "bail-in"—accounts over €100,000 took a mandatory haircut of 50 percent, with holders receiving shares now worth a fraction of what they lost. Uninsured depositors in the country's second-largest bank lost everything when it failed.

> **"In order to succeed and be able to become a protagonist again, business cannot be as usual. We all have to change and reinvent our business model, primarily as a country, to make it competitive and sustainable."**
> –Irena Georgiadou,
> Chairwoman of Hellenic Bank

Roundly critical of the EU reaction, Hourican—who led the recovery for two years—says tiny Cyprus was used as an "experiment" that was unfair for many ordinary Cypriots, and cost the sector its most valuable asset: trust.

"We inherited some very angry customers," he recalled. "The majority was a very angry bunch of people who put their money in the bank having earned it over their lifetime and a lot of them lost it or their provident fund was clipped. These were psychologically scarring experiences for those people. It will take a long time for them to get back to trusting the institution and the state."

Curiously, not all Russian depositors have fled; they still represent a sizeable chunk of business. And some international capital is coming back, albeit from investors with an appetite for risk.

Hellenic Bank Chairwoman Irena Georgiadou noted that the smaller, recapitalized sector now has stronger governance: "Supervision was strengthened primarily due to the fact that all the systemic banks of the island, Hellenic Bank being one of them, are supervised directly by the European Central Bank."

Key Players

BANK OF CYPRUS
Origins: establishment and operation of the Nicosia Savings Bank, 1899
Branches: 136 (130 in Cyprus, 1 in Romania, 4 in the United Kingdom, and 1 in the Channel Islands); representative offices in Russia, Ukraine, and China
Products and services: retail and commercial banking, finance, factoring, investment banking, brokerage, fund management, private banking, and general and life insurance
Recent highlight: A €1 billion share capital increase was completed in September 2014, involving high-quality institutional investors such as the European Bank for Reconstruction and Development (EBRD) and Wilbur Ross. This significantly strengthened the bank's capital position; it passed the European Central Bank (ECB) Comprehensive Assessment in October 2014.

HELLENIC BANK
Origins: started operations in 1976
Branches: more than 60 in Cyprus, employing 1,400 people; representative offices in Russia (Moscow and St. Petersburg) Ukraine, and South Africa
Products and services: traditional banking products plus factoring, brokerage services, insurance, portfolio management, investment banking, mutual funds, private banking, and custodial services
Strategy: The bank has adopted a customer-centric structure to enable it to meet the differing requirements of its wide and diverse client base; a number of business divisions have been formed to cater to particular client segments, supported by a number of corporate support units.

COOPERATIVE CENTRAL BANK
Origins: founded in 1937; began operations in 1938
Branches: 295 as of September 30, 2014, compared to 349 as of December 31, 2013; group employees in Cyprus reduced to 2,707 from 2,973 on same dates
Products and services: current and deposit accounts, loans, bank cards, insurance products, foreign exchange, payments, company financing, and international trade
Recent highlight: A restructuring plan was set up in March 2014; the bank was recapitalized with the transfer of a €1.5 billion European Stability Mechanism (ESM) bond and the issue of corresponding shares in favor of Cyprus government. Annual salaries were reduced by more than 15 percent; a voluntary retirement scheme was adopted by 304 employees resulting in a €12.9 million per annum reduction in staff costs.

Echoing a common theme, Georgiadou said that Cyprus had learned a "big lesson" over the past two years: "In order to succeed and be able to become a protagonist again, business cannot be as usual. This applies not only to Hellenic Bank or the banking sector, but the economy as a whole. We all have to change and reinvent our business model, primarily as a country, to make it competitive and sustainable."

The efforts are starting to pay off. This September the Standard & Poor's (S&P) ratings agency raised its Cyprus sovereign risk rating to BB-, with a positive outlook. "While we continue to view the banking sector's asset quality as a key concern," S&P said, "the country's economic and budgetary performance exceed our expectations."

Q&A

Harris Georgiades
Minister of Finance

"A vote of confidence in Cyprus"

Let's start with banking, which has been a major challenge for Cyprus . . .
We have been promoting a very deep reform of the banking sector for the last two years. Essentially, we now have a smaller banking sector but one that is better capitalized, better managed, and better supervised. Public finances were also a problem, burdening the private sector. We also have debt. We are now essentially operating with a balanced budget—no need to burden the private economy with continuous deficits and debt, which eventually lead to taxes.

What other major challenges do you currently face?
Bureaucracy. Red tape. This is something that we as a government consider to be one of the main drawbacks and something that is limiting entrepreneurship and local and foreign investment. We are not shying away from the problem; we are identifying and acknowledging it. We are in the process of unveiling a plan that will simplify procedures, simplify regulation, and see the merging of government services and departments in an effort to deal with what is a real problem.

Some international investors identify Cyprus with Greece. Is this fair? How can Cyprus differentiate itself?
I don't think there is an identification; I think there is a very clear differentiation. I hope that Greece will be able to move toward its own recovery but I think we have clearly demonstrated, and it is perfectly understood, that our economy is a completely different jurisdiction. Of course the traditional ties between Greece and Cyprus exist, but everyone realizes these are not translated into our economy being linked to theirs. For instance, when Greece was regrettably moving toward the imposition of capital controls, we were fully lifting them. As a result, deposits came in instead of leaving, and our economy was returning to positive ainternational capital markets. This is hard evidence that the international investment community is expressing a vote of confidence in Cyprus and its economy and the efforts toward economic recovery. We are even seeing an influx of new business, for instance in shipping and other sectors.

And Cyprus has a very pro-business government . . .
Yes, we are a very pro-business administration, but moving beyond the government of the day, Cyprus is a very business- and investment-friendly jurisdiction. For example, we went through the economic crisis without raising a single tax. No new taxes were imposed during these difficult years and there are no plans to raise new taxes that would burden either households or businesses. We were actually able to offer a series of tax incentives to encourage new investment. So we are a very business- and investment-friendly jurisdiction. At the same time, we openly acknowledge our shortcomings. We do not pretend that everything is perfect. This is a very honest approach.

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ΚΟΙΝΟ ΚΥΠΡΙΩΝ

Bank of Cyprus

Q&A

John Hourican
CEO
Bank of Cyprus

What is your assessment of the Cyprus banking sector today?
It is still in recovery. We have no capital controls in place and we have a stability of mood, albeit with lingering anger from various groups as you might expect in an economy that has suffered so much, and we have the beginnings of economic recovery. The banking system is recapitalized and stable. There is a growing local deposit base and we are seeing slight improvement in the nonperforming statistics, though there is still the issue of nonperforming loans. That is really important—we are going to solve that next.

How was Bank of Cyprus affected?
We reversed a lot of managerial strategies. Company tourism. We had businesses in the Ukraine and Russia. We had businesses in Romania and Serbia. These were not sensible expansions of the bank's base from Cyprus and we reversed all that. The last big one we sold was Russia. We sold Ukraine. We sold off pieces of our Romanian exposure. We will get it all down. We sold off things like hedge funds we should not have been investing in. We got rid of our largest single nonperforming loan exposure in Serbia.

So now you are back in Cyprus . . .
We are fundamentally focusing on the Cypriot economy and our dominant position in it, lending and being here for the Cyprus population, and also for those who come here for what Cyprus offers as a business destination in terms of offshore wealth preservation and so on.

Banking
Building the Future

As they pull out of the crisis, Cypriot banks grapple with the long-standing tradition of not paying debts on time.

One of the biggest challenges facing the Cypriot banking sector is nonperforming loans (NPLs), which stood at 47.8 percent in September, according to the Central Bank. For some banks, the ratio is even higher.

Earlier this year legislators voted to facilitate foreclosures—a requirement of the European Central Bank (ECB) for Cyprus to benefit from the ECB's sovereign bond-buying program. The new law protects mortgages of up to €250,000 on a person's principal home, but beyond that allows for repossession and auction. It is designed to end a system whereby banks could take twenty years to recover bad loans, even from people with ample assets. But many politicians opposed the law, painting it as a mechanism for banks to throw families onto the street.

"I have great sympathy for individuals in distress who come and talk to us because we absolutely want to help," said Bank of Cyprus CEO John Hourican. "We need to start driving up the behavior of our borrowers. . . . Banks will not recover and this country will not recover unless we get back into the habit of meeting our obligations, when we borrow money."

Nicholas Hadjiyiannis, chairman and acting CEO of the Cooperative Central Bank, said his aim was to seek to revive the relationship with debtors. His bank has no foreign exposure but claims the biggest penetration of ordinary accounts among the local population.

"At the Co-op, what we want to do with our NPLs is to restructure and revive the relationship we have, to put these distressed loan owners back into the credit cycle. You cannot foreclose half the population, so you need to give them a viable option, time to recover and re-enter the market."

He said the bank—now 99 percent owned by the Cyprus government—was well capitalized to cover NPLs, and these could represent "a gold mine" if the situation could be resolved positively.

The Co-op bank also does substantial business lending to municipalities, many of which can receive partial EU financing for infrastructure projects. However, he said, the general lack of working capital since 2013 now made it difficult to structure such projects.

"The new regulatory regime is very strict; we have gone from one extreme to the other in terms of bureaucracy, regulatory issues, and compliance," Hadjiyiannis complained. "This is suffocating a small country and a small banking system like ours. As a rule of thumb, we say that of every three euros being repaid, we need to lend at least one euro. This is not happening just now. We need to do it; otherwise we have a creditless recovery."

"We need to start driving up the behavior of our borrowers. . . . Banks will not recover and this country will not recover unless we get back into the habit of meeting our obligations, when we borrow money."
John Hourican,
CEO of Bank of Cyprus

Investment
Haven with great opportunities

A member of the European Union since 2004 and in the eurozone since 2008, Cyprus offers foreign investors significant advantages. Not least are sunshine and favorable taxation.

The government's Cyprus Investment Promotion Agency (CIPA), lists twenty-seven projects ready for foreign investors. Most are in tourism, not surprising given the warm Mediterranean climate with virtually year-round sunshine, sea bathing, and golfing. But there are also residential developments, medical centers, educational institutions, waste-fired and solar power generation, and high-end shops and offices, plus the island's traditional strength in shipping, the upcoming privatizations, and the significant offshore oil and gas discoveries.

"Despite the financial program that contains several tax reforms, Cyprus maintains its position as a tax-efficient jurisdictional hub," lawyer Anastasios Antoniou explained. "That aspect is pivotal and integral in Cyprus's economy."

The country prides itself on having one of Europe's most attractive tax systems, which is nevertheless transparent and fully compliant with EU laws and regulations. CIPA notes that dividend income, most international transactions, profits from overseas permanent establishments, and profits from the sale of securities are all tax-exempt, and there is no withholding tax on dividend, interest, and royalties paid from Cyprus.

As a final sweetener, anyone taking up tax residency in Cyprus and earning over €100,000 a year now gets a ten-year, 50 percent exemption from personal tax.

"Our clients say that Cyprus has an extremely good tax and legal system, with highly qualified people in all sectors, including professional services," CIPA Director General Charis Papacharalambous said, referring to incoming investors. "Everyone speaks English and Cyprus offers great quality of life, with clean air, the cleanest water, and the lowest crime rate in Europe."

>

Q&A

Yiorgos Lakkotrypis
Minister of Energy, Commerce, Industry and Tourism

Cyprus is looking to broaden its traditional "sun-and-sea" tourism offering and wants the international gaming industry to invest in casinos. How is that progressing?
Our ministry launched a tendering process for the Paralimni Marina, set up several golf courses, and approved legislation for an integrated casino resort. The casino would be the first of its kind in Europe. It would operate under a single license, issued for thirty years with exclusivity guaranteed for the first fifteen years. The casino we plan to build will be different from the many smaller casinos that can be found in the rest of Europe. It is going to be significantly larger and feature major attractions. The model we introduced is specifically aimed at improving tourism rather than introducing gambling into our society. Gambling will be but a small part of the entire range of offerings.

Are you looking to the major players in the Las Vegas casino market?
Yes, we are looking at companies from Las Vegas and Asia as potential investors. Macau is also considered. Many of the dominant market players have expressed interest in Cyprus's casino project. Since it is closely related to tourism and the development of strategic infrastructure, the Ministry of Energy and Tourism's best interest is to be in close contact with potential investors. Promoting special-interest tourism like cycling, athletics, and sports is another of our concerns.

Marios Demetriades
Minister of Transport, Communications and Works

What are the plans for information and communications technology (ICT) investment?
Telecommunications and broadband are necessary in an economy that provides services. We are currently studying to implement a large project providing service to the home. This project will be done by the private sector, but we have secured some funding from the European Union. We will also do a study to see what is the best way to proceed with this project. It is our intention to have the fastest possible internet with the lowest possible price.

And there's a real commitment to bringing in the private sector?
The government is trying to complete as many infrastructure projects as possible with public-private participation. We formed a unit to deal with this and we are also promoting a number of projects. The ministry is promoting a project at the marina. We have other projects related to government roads. The second thing is, we are looking for new areas of growth. For example, we are strengthening our relationship with the European Space Agency to help promote a number of Cyprus-based telecommunication companies. The third thing is antiquities.

Antiquities?
They come under this ministry. People visit Cyprus for sand, sea, and history. We are investing a lot in refurbishing museums. We are spending €50 million for a new museum in Nicosia. We need to promote our culture. We need to become more commercial in the way we think about antiquities.

NOT JUST GAS

With so much attention on natural gas and the potential for Cyprus to become a hydrocarbons hub in the Eastern Mediterranean, it's easy to overlook the electricity sector. But privatization of the Electricity Authority of Cyprus (EAC) is moving ahead, with a completion horizon of 2018 established under the EU-IMF bailout agreement. One study has reportedly suggested a partial privatization whereby transmission remains a state function.

There are also plans to open up the power market to incorporate renewable energy sources and independent energy producers. Energy Minister Yiorgos Lakkotrypis described the new model as part of a broader effort that would "improve the market to the benefit of consumers."

A Gas-Fired Chess Board

For centuries, the Eastern Mediterranean was essentially a trade route. But suddenly, it has sprung onto the world stage as a potentially major energy source, with important economic and geopolitical implications for several countries. Today Cyprus lies at the heart of a still-emerging energy chess board. Israel and Egypt are the other players, Turkey claims a stake, and Russia and the European Union have an interest in the outcome.

The first major strike was Israel's Leviathan field in 2010. A year later Cyprus discovered the smaller Aphrodite field, estimated at 129 billion cubic meters (bcm), equal to 4.54 trillion cubic feet of gas. And very recently, Egypt announced a huge strike in the Zohr field, 30 percent larger than Leviathan. Experts describe it as potentially one of the world's larger offshore gas fields.

Problems abound. The fields are fairly close to each other in the Levant Basin, where the three countries' exclusive economic zones (EEZs) converge. This means that additional exploration could lead to cross-border discoveries. More immediately, the fields lie far out in the Mediterranean. Aphrodite is almost 200 km south of Limassol, and while the field was declared commercially viable for production earlier this year, and could, in theory, meet Cypriot needs for a long time, the country currently consumes just one bcm per year. A pipeline serving solely Cyprus would be utterly uneconomic.

Cyprus had hoped to split a pipeline with Israel to bring the gas northward, across the island and hence to Turkey and possibly the European market. This could connect with existing major pipelines from Russia. Economically, everyone could benefit, not least Turkey, which would receive substantial transit fees. But such a solution hits geopolitical snags, especially the partitioning of Cyprus. Turkey does not recognize the Cypriot EEZ.

A Zohr point

Israel reportedly hoped to sell its gas to neighboring Egypt, for domestic consumption and possible export—Egypt has unused gas liquefaction capacity. But the Zohr discovery has changed everything, potentially ruling out Egypt as a market for both Israel and Cyprus. Some analysts suggest a solution could be to ship out the Aphrodite gas in compressed form, which requires much less investment than pipelines.

The Cyprus government remains upbeat. Energy Minister Yiorgos Lakkotrypis told reporters recently that the country might even consider a third round of oil and gas exploration tenders, despite low international oil prices and disappointing results in Cypriot blocks close to Aphrodite, on the basis that the Zohr strike would increase market interest in the region.

The government is also optimistic that Cyprus can become a hydrocarbons industry hub in the region, offering an ideal operations base for exploration and production companies.

Q&A

Christodoulos Angastiniotis
Chairman,
CIPA

Who invests in Cyprus?

If you look at foreign investment into Cyprus over the past few years, you'll see that most sectors have some sort of geographical focus. The Americans are very active in energy and now more recently in leisure—an American company has announced a large wellness-medical-sports tourism venture. A significant number of hotels have changed hands and a lot of money is going into renovations and upgrades. Education is mostly British; shipping is very much German oriented; real estate is to some extent Chinese and to some extent Russian driven these days. Medical tourism is picking up slowly; there's a lot of interest from Israel. In terms of renewable energy, there are two very big projects in the pipeline. And U.S. IT companies and others are based in Cyprus, so this knowledge-based economy will grow in a direction the country should go.

And shipping, which is a traditional Cypriot strength?

Shipping is doing extremely well. Ship owners all over the world should be considering the qualities and the managed-tax system that was approved by the EU and Cyprus Shipping in 2010 (Law 44-I). With all the advantages Cyprus offers it's no surprise that we're the world's second-largest shipping management center. More than 20 percent of the world's fleet is being managed by Cypriot companies. It's a huge sector, and we have seen a number of investments.

CYTA

The Cyprus Telecommunications Authority (CYTA) provides voice and data applications in both fixed and mobile telephony. Founded 1955, CYTA moved into mobile telephony in 1988 and has operated a network partnership agreement with Vodafone since 2004. It has been in digital and interactive TV also since 2004. The company offers broadband Internet and fixed-line services in Greece via a subsidiary called Cytaglobal Hellas SA.

Market reports put the Cyprus mobile telephony sector at 1.1 million subscribers in mid-2014, split roughly between contract and prepaid, with CYTA the leading player on a 66 percent share, followed by South Africa's MTN. However, the reports—citing data from telecoms regulator OCECPR (Office of Electronic Communications and Postal Regulations)—suggested that CYTA was gradually losing share to its private-sector competitors, down from 81 percent in 2009.

Privatization
Telecoms and ports come first

Cyprus is pressing ahead with plans to raise money, pay down debts, and improve economic efficiency.

LIMASSOL PORT

Famagusta was traditionally the island's largest port, but it lies in the northern, Turkish-occupied zone, and the title has shifted to Limassol—also known as Lemesos. Years of expansion have given Limassol 2,070 meters of quays with maximum draft of 16 m. In 2013 Limassol handled 3.2 million tons of cargo—41 percent of the country's total—with 308,000 TEUs (twenty-foot equivalent units) of container traffic and 140,000 passengers.

Back in 2013, when Cyprus received a €10 billion bailout from the European Central Bank and the International Monetary Fund, the money did not come without strings. One condition was a privatization plan. In an analysis published that same year, the EU said privatization would help Cyprus "improve economic efficiency through enhanced competition and encouragement of capital inflows, and to help restore debt sustainability."

The EU estimated the privatization plan would yield €1 billion, plus an additional €400 million through 2018, by focusing on selling state-owned enterprises and "semi-governmental organizations" including telecoms company CYTA, the Electricity Authority of Cyprus (EAC), the Cyprus Ports Authority (CPA), and various real estate and land assets. Bodies of minor concern, such as the Cyprus Stock Exchange, could be added later.

"We can't let CYTA remain the last organization in telecommunications in all of Europe that operates as an extension of the state government," Finance Minister Harris Georgiades said in August after the cabinet finally approved legislation to privatize the sixty-year-old company.

The two-stage strategy sees CYTA initially converted into a private-law company that remains wholly owned by the government, and then offered in whole or part to one or more private-sector investors. Stage one should be completed by the end of 2015; stage two wrapped up through 2017. However, Congress also had to OK the cabinet's bill.

"What it comes down to is that our proposal at this point is not denationalization, but the creation of a private-law company that will be fully state owned, [and] that even under state ownership will be in a position to function much more efficiently than it does today," Georgiades said, apparently seeking to answer fears from workers.

The sell-off was opposed by labor unions and CYTA staff. This led the government to offer exit packages that were taken up by 521 employees and reduced 2014 operating profits by more than €27 million to €42.6 million, CYTA Chairman Christos Patsalides said. Remaining employees will be offered the option of staying on the state payroll in some other branch of government, or moving to an eventual privatized CYTA with some form of shares compensation. Reports also said the government has assured unions it will take over the CYTA pension fund at privatization—the fund has lost a reported €209 million since 2013, mainly because of bad investments and the financial crisis.

At the Port of Limassol, Cyprus Ports Authority Chairman Alecos Michaelides says he prefers to use the term "commercialization": "Privatization is a word that implies the selling of assets. This is going to be a concession. We are not selling any assets from Cyprus Port Authority. We are just giving a twenty-five-year license to some investors to come in and operate the port for this period."

"A prequalification stage in 2015 generated interest from many of the main operators of the world," Michaelides, who is also permanent secretary at the Ministry of Transport, Communications and Works, said. "We have issued tenders and prequalifications for three contracts—a container terminal, a general cargo terminal, and maritime services. The general cargo terminal also includes operation of the passenger terminal." ●

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