

Investment Opportunities in Cyprus

George Theocharides

Director, MSc Financial Services, CIIM

September 2014

Outline

- ▶ Current & Future State of the Economy
- ▶ Reasons to invest in Cyprus
- ▶ Investment Opportunities

Current & Future State of the Economy

Current Economic Environment

- ▶ Current state of the economy:
 - Rising unemployment (reported at 16.9% for Q1, 2014)
 - Negative GDP growth (at -2.2% during the second quarter of 2014 over the corresponding quarter of 2012)
 - Budget deficits (at -5.4% of GDP for 2013)
 - Increased public debt (at 112% of GDP by the end of 2013)
 - Austerity measures imposed by MoU
 - A banking sector that tries to regain its confidence from depositors/investors, and needs to address the pressing issue of the dramatic increase in their non-performing loans

Current Economic Environment

- ▶ But...it's not ALL that gloomy! Why?
- ▶ The tough, current economic environment is an outcome of the events of March 2013 and the rough transition period that we have to endure under the MoU to get back to growth and increased levels of employment.
- ▶ In fact, in the last year there were a number of positive signs that indicated that we are on the right path to recovery:

Current Economic Environment

1. The **recession** for 2013 was **much milder** than what Troika predicted (at 5.4% compared to 8.7% that was predicted in the original MoU). The same is expected for 2014, while from 2015 onwards the expectation is for positive growth.
2. After sharp increases in the last few years, the **unemployment rate seems to stabilize** at around 17%, and is expected to gradually decline in the coming years.

Current Economic Environment

3. **Public debt**, although it has also sharply increased in the last few years, is **expected to gradually fall** by 2015-16 and is kept at sustainable levels.
4. **Inflation has decreased** drastically in 2013 (a correction of prices), and is now kept at reasonable levels.
5. After many years of budget deficits, the projection is for a **primary surplus by 2016**, after a tough period of fiscal adjustment.

Current Economic Environment

6. The **wage cuts** that have happened recently (for both the public and private sector), although painful, imply an **increase in competitiveness** for our companies.

6. We have gone through **5 successful Troika reviews**, and have surpassed all expectations of our lenders.

Note of caution: The recent fallout from the foreclosure debacle needs to be resolved **as soon as possible** and return back on track to the implementation of our adjustment programme.

7. After many years of painful downgrades by the **credit rating agencies**, we have finally seen **upgrades** this year by all three of them based on better-than-expected performance of the economy and strict adhering to the bailout plan of the Troika (we still have a long way to go though until we become again an investment-grade economy).

Current Economic Environment

8. The yields on our government bonds have been **substantially reduced**:

- From levels of 16% for the 10-year bonds maturing in 2020, right after the haircut of March 2013, to as low as 4.5% recently)
- Furthermore, we managed recently to issue successfully a 5-year bond (with a yield of 4.85%), the first time since 2010!

9. We recently had the **biggest FDI** that ever happened in Cyprus with the **€1 billion that BoC obtained from foreign investors** used to recapitalize the bank prior to the ECB stress tests, boosting confidence towards BoC but also for the overall Cyprus economy.

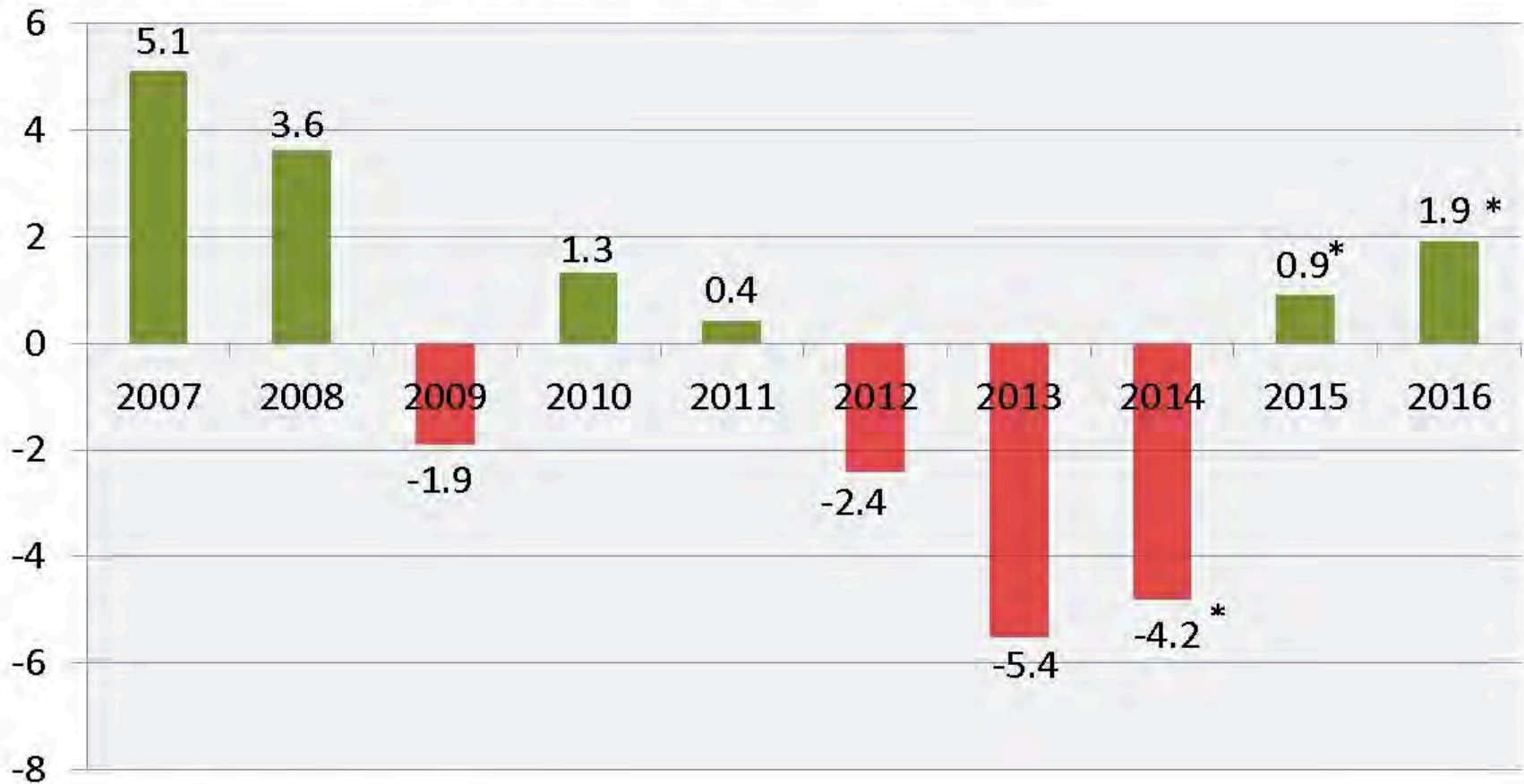
The Cyprus Economy (2012-2016)

	2012	2013	2014	2015	2016
Growth Rate	(2,4%)	(5,4%)* ** *	(4,2%)*	0,9%*	1,9%*
Unemployment	11,9%	17%	19,5%*	18,7%*	17,5%*
Inflation	3,1%	0,4%	1,3%*	1,6%*	1,7%*
Public Debt	86,6%	111,5%	122% *	118,6%*	112,9%*
Primary Surplus / (Deficit)	(3,1%)	(1,4%)	(1,8%)* **	(1,8%)*	1,2%*

- (*) estimated forecast
- (**) In the original MoU % of primary deficit was estimated at -4,25%
- (***) In the original Memorandum of Understanding (MoU) in April 2013 the Economy was estimated to shrink by 8,7%
- In Q2-2016, the Cypriot authorities will present the program partners with a provisional list of measures to attain a primary surplus of 3% of GDP in 2017 and 4% of GDP in 2018.

Economic Indicators (2007-2016)

GDP Growth (% change)



Source : Cyprus Ministry of Finance

* estimated forecast



CYPRUS
INTERNATIONAL
INSTITUTE OF
MANAGEMENT

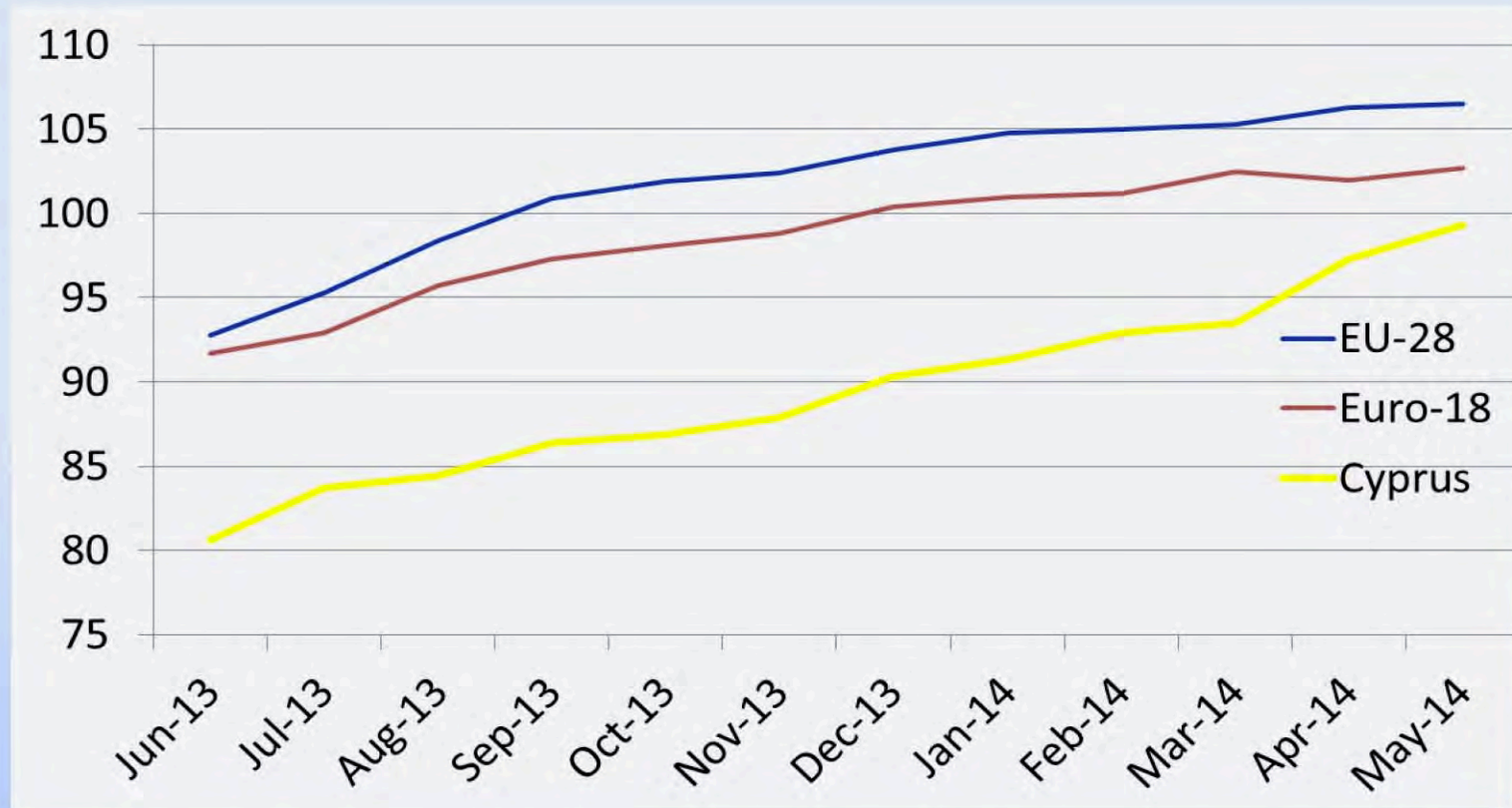
Inves

Cyprus 10- Year Government Bond Yield



Source: *Ministry of Finance*

Economic Sentiment Indicator (ESI)



Source: Eurostat last update: 28/05/2014

Reasons to Invest in Cyprus

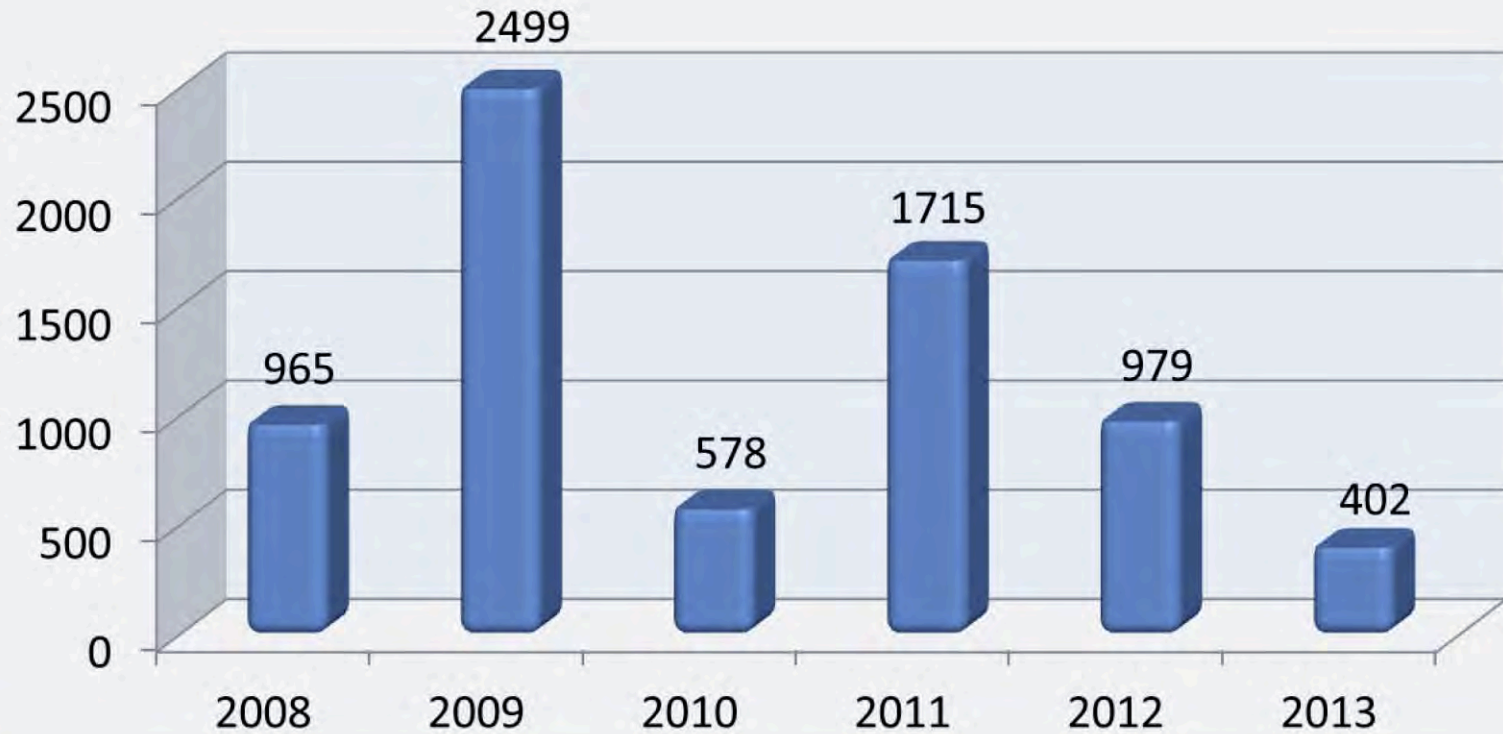
Top Reasons to Invest in Cyprus

- ▶ Member of the EU & Eurozone
- ▶ 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
- ▶ High quality of life

Source: CIPA's website

Track Record in FDI

Cyprus Inward Direct Investment Flows (Euro Millions)



Source: Central Bank of Cyprus

Doing Business Report 2014



THE WORLD BANK
Working for a World Free of Poverty

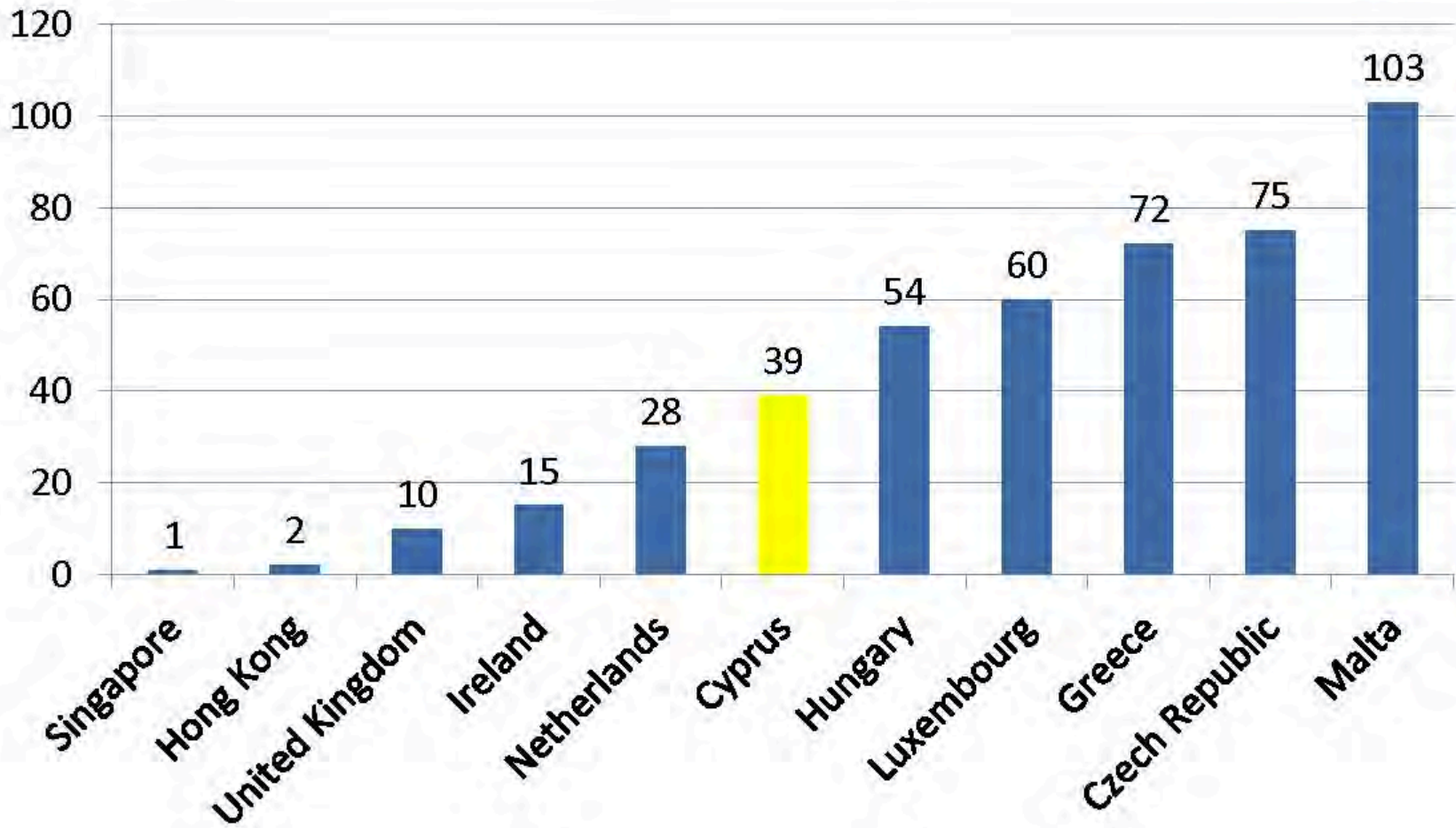
- ✓ **39th out of 189 Economies – Overall Ranking**
- ✓ 24th out of 189 Economies - Resolving Insolvency
- ✓ 27th out of 189 Economies - Trading Across Borders
- ✓ 33rd out of 189 Economies - Paying Taxes
- ✓ 34th out of 189 Economies - Protecting Investors
- ✓ 44th out of 189 Economies - Starting a Business
- ✓ 55th out of 189 Economies - Getting Credit
- ✓ 86th out of 189 Economies - Dealing with Construction Permits
- ✓ 103rd out of 189 Economies - Registering Property
- ✓ 108th out of 189 Economies - Getting Electricity
- ✓ 110th out of 189 Economies - Enforcing Contracts



CYPRUS
INTERNATIONAL
INSTITUTE OF
MANAGEMENT

Invest

Doing Business Report 2014



Global Competitiveness

39th out of **189** countries

Ease of Doing Business



32nd out of **161** countries

Best Countries for Business

BLOOMBERG RANKINGS

31st out of **176** countries

Corruptions Perceptions Index



29th out of **140** countries

*The Travel & Tourism
Competitiveness Report*



27th out of **145** countries

Best Countries for Business

Forbes

27th out of **142** countries

The Global Innovation Index



21st out of **140** countries

*Best Travel & Tourism
Environment & Infrastructure*



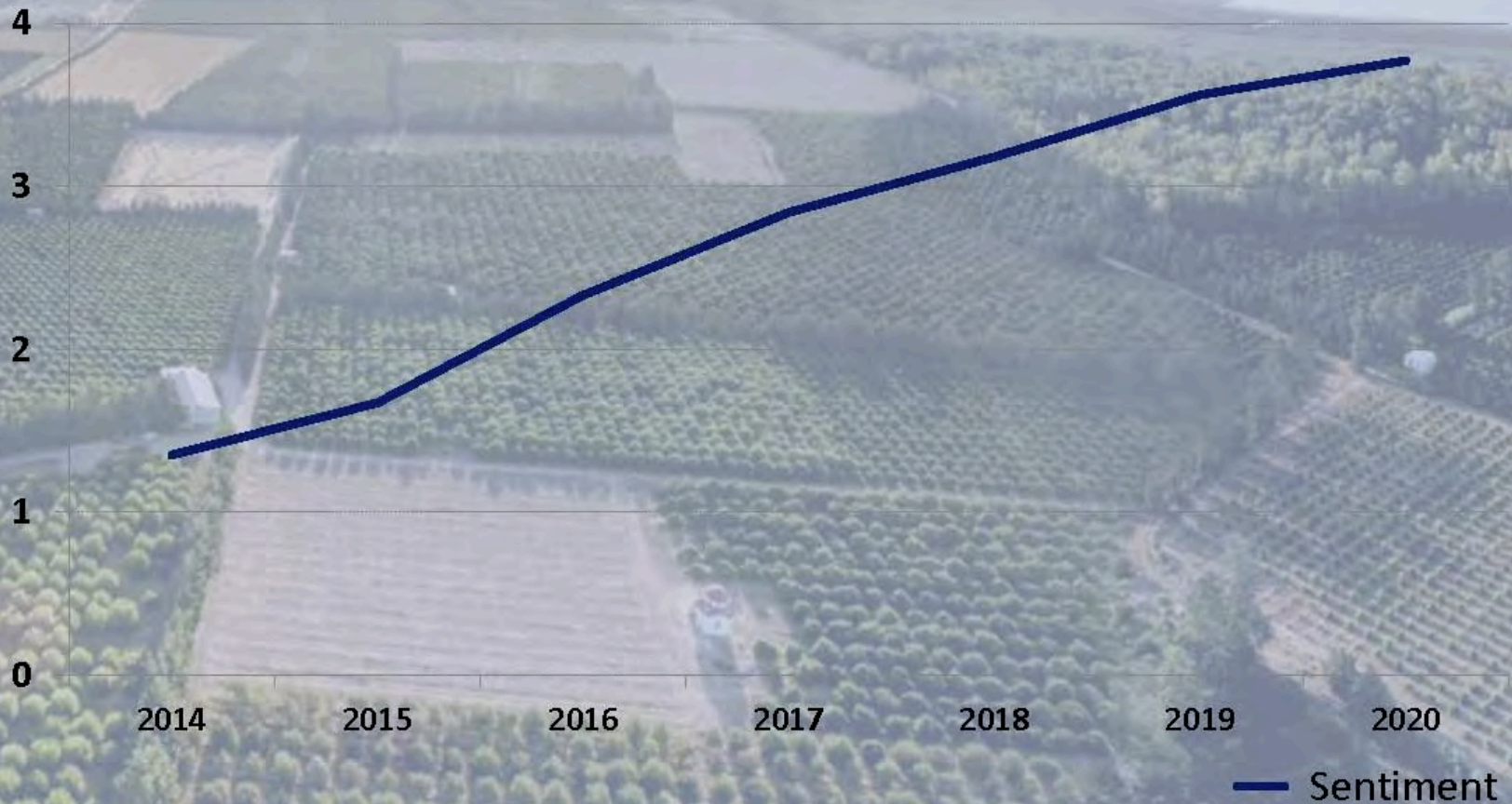
1st out of **EU28**

Bathing Water Quality



Existing Foreign Investor survey by CIPA – Dec. 2013

Confidence Index Outlook on Cyprus' Economy



Registration of Companies

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Until 31/8/2014</u>
Registered companies (Total)	184.13	207.61	221.09	237.37	254.23	269.35	272.16	266.624
New registrations	29.016	24.453	16.101	19.278	19.538	17.999	10.847	6.882

Investment Opportunities

Sectors with Opportunities

- ▶ Financial & Administrative Services
- ▶ Shipping & Trade
- ▶ Medical Tourism
- ▶ Large Scale Development Projects
- ▶ Energy
- ▶ Education Centre
- ▶ Privatization of SOEs
- ▶ Entrepreneurship & Innovation

Financial & Administrative Services

- ▶ Obviously, the **banking sector** has been **negatively affected** and is in the process of restructuring, but the **overall Financial Services** industry has been **remarkably resilient**.

- ▶ Many of the benefits that made Cyprus an **attractive investment destination** are still there and not lost:

Financial & Administrative Services

- strategic location
- an EU-member state and thus fully aligned with the EU legislative framework in regards to financial supervision
- highly-skilled and educated workforce providing financial and professional services
- “benevolent” tax system (despite the recent enforced increase, still the lowest corporate tax rate in the EU at 12.5%, zero capital gains tax, and no withholding tax on dividends and interest distributed, as well as double tax treaties with around 50 countries)

Financial & Administrative Services

- ▶ Cyprus should also become a **fund jurisdiction**:
 - ▶ establishment of the Cyprus Investment Fund Association (CIFA)
 - ▶ laws that passed on UCITS funds, the Alternative Investment Fund Managers (AIFMs) and Alternative Investment Funds (AIFs))
 - ▶ that could also revive the Cyprus Stock Exchange (CSE)
 - ▶ some of these funds could be used for investments solely in Cyprus (e.g. real estate sector, REITS)

Shipping & Trade

- ▶ **Largest** Ship Management Centre in EU
- ▶ **2nd** largest Ship Management Centre globally
- ▶ **3rd** largest merchant fleet in EU
- ▶ **10th** largest fleet worldwide
- ▶ More than 1,000 registered vessels
- ▶ More than 140 ship owning and ship management related companies are operating from Cyprus

Medical Tourism

- ▶ We have excellent doctors, excellent weather, and good tourism facilities
- ▶ Perhaps, we could partner with Israeli medical centers (that have the expertise and technology) to help us set up such medical centers in Cyprus

Large Scale Development Projects

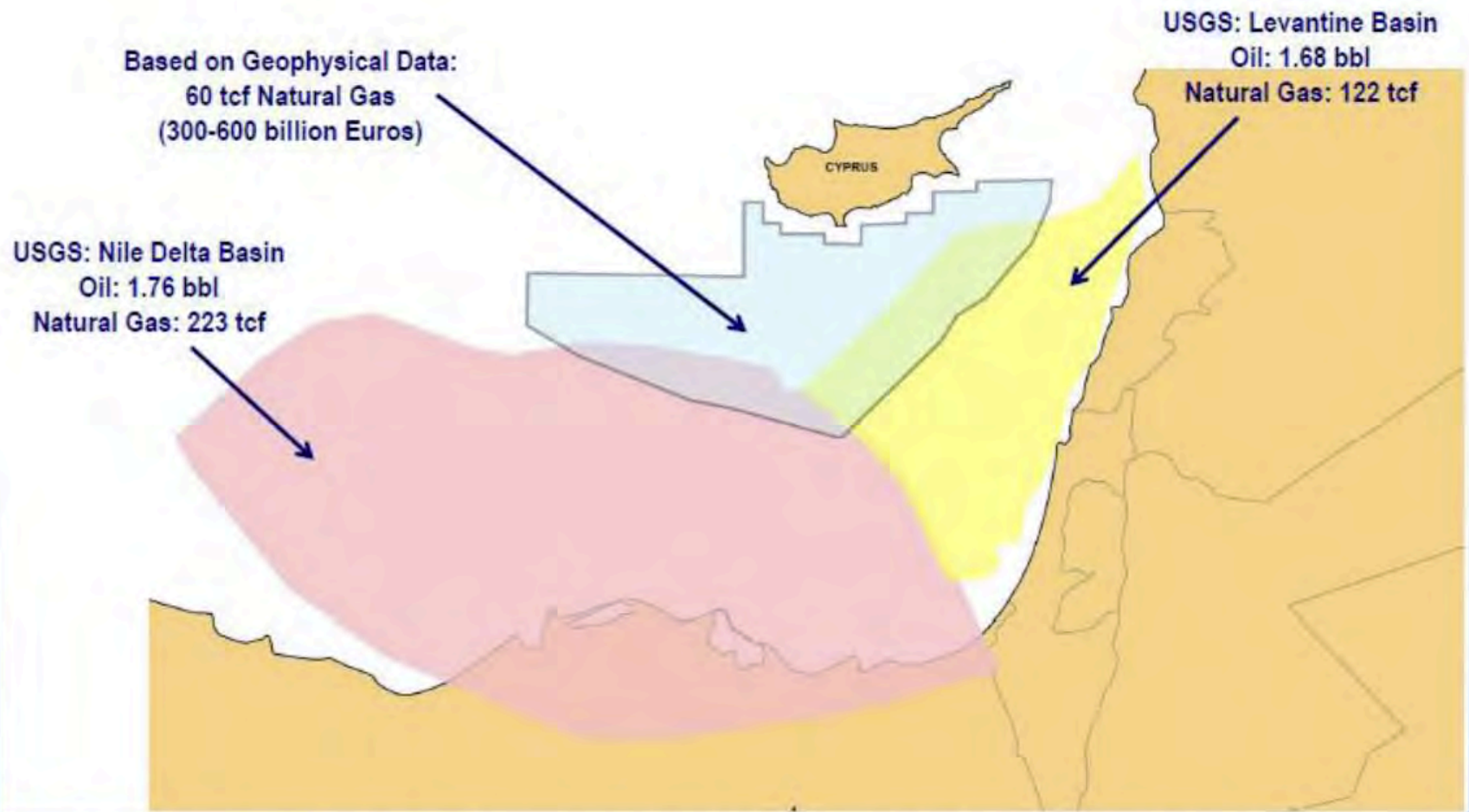
- ▶ Marinas
- ▶ Casino Resort
- ▶ Science Technology Park
- ▶ Luxury Resorts & Golf Courses

Energy

- ▶ Oil and Gas
 - Exploration of gas (and possibly oil) reserves found within Cyprus' Exclusive Economic Zone (EEZ)
 - LNG Plant
 - Oil & Gas Auxiliary Services

- ▶ Renewable Energy Sources (RES)

Hydrocarbons in Cyprus



Note: 60 tcf NG would fully cover Cyprus' domestic energy needs for approximately 6,000 years
- There are also indications for the existence of oil

Education Centre

- ▶ World-class professors
- ▶ Good quality academic programmes
- ▶ Cyprus to become a regional educational center

Privatizations

- ▶ Cyprus Telecommunications Authority (CYTA)
- ▶ Electricity Authority of Cyprus (EAC)
- ▶ Cyprus Ports' Authority

Entrepreneurship & Innovation

- ▶ Newly developed industry of start-up companies
- ▶ A number of SMEs in Cyprus are family-owned businesses and need guidance for future strategy, growth, succession, financing, etc.
- ▶ Innovation in financial services (e.g. “non-bank” financing)

Thank you!