



# Cyprus



## Did you know...?

**Geography** Cyprus is the third largest island in the Mediterranean after Sicily and Sardinia.

**History** Cyprus has a long and intricate history, full of invasions, liberations, and tensions with powers in the region. Cyprus gained its independence from the United Kingdom in 1960, but the northern part of the island has been occupied by Turkey since 1974.

**Vacant Seats** Cyprus' original constitution reserved 24 seats in the legislative branch for the Turkish minority. Since the division of the island, those seats have remained vacant.

**Culture** According to legend, Cyprus is thought to be the motherland of Aphrodite, the Greek goddess of Love and Beauty.

**Fun Fact** An archaeological site in Cyprus has revealed what is thought to be the earliest known example of feline domestication: A grave revealed an 8-month-old cat lying next to its master.

## An overview of Cyprus' economy

More than a decade of sustained and strong economic expansion in Cyprus came to an end in 2009 as the global economic crisis took its toll.

Beginning in the 1990s, Cyprus undertook a number of fiscal and monetary reforms necessary for joining the European Union. Cyprus' economy grew at a rate well above the EU average from 2000 onward, and Cyprus joined the EU in 2004.

Cyprus adopted the euro as its national currency on January 1, 2008. A program in the preceding years, aimed at paving the way to euro area membership, helped reduce inflation to 4.7% and turn a fiscal deficit into a surplus of 0.9% in 2008.

The Republic of Cyprus is de facto partitioned into two main parts, the area under control of the Republic of Cyprus and the area in the north under Turkish control. Cyprus has modernized its economy and stabilized its political system, allowing it to become one of the major business services hubs of the Eastern Mediterranean.

Tourism, financial services and construction dominated the Cypriot economy, which began to come under pressure in 2009 in the face of reduced foreign demand as countries grappled with the economic fallout of the crisis. For the first time in a number of years, economic activity in Cyprus fell in 2009 by 1.75%.

The economy is grow at a slow, but stable pace through 2011 and continue with growth of 2.4% GDP in 2012. Subdued private

consumption and investment, as well as sluggish demand for Cyprus' main trading partners will weigh on growth.

Public finances have worsened dramatically as a result of the crisis. While the Cypriot government ran a budget surplus in 2007-2008, it moved into a deficit of 6.0% in 2009 and 5.3% in 2010. The debt-to-GDP ratio is predicted to reach 64% of GDP by 2012. The government has recently approved a series of fiscal consolidation measures, like a reduction in public employment that will help put the country on a sustainable growth path. Long-term challenges remain with needed structural reforms of the public sector and labor market.

Cyprus' economic outlook is positive, but its dependency on the economic health of its neighbors and other European nations might mean a bumpy road back to the growth rates of the past.





## Cyprus' Economy – Key Facts

- Since joining the European Union and becoming a euro area member, Cyprus has steadily increased its GDP per capita, approaching the level of Italy and Spain.
- The World Economic Forum's (WEF) Global Competitiveness Report for 2011/2012 ranked Cyprus 47<sup>th</sup> out of 142 countries. The island was positioned in 34<sup>th</sup> place in the 2009/2010 period, and was downgraded because of its uncertain macroeconomic outlook for the next years. Nevertheless, it still ranks positively in terms of financial market development, business sophistication and the competitive size of its market.
- The World Bank's Doing Business Report ranked Cyprus 37<sup>th</sup> out of 183 countries.
- According to the European Commission's Spring 2011 forecast, GDP is forecast to grow by 1.5% for the year and increase to 2.4% growth in 2012. Public finances are expected to improve with Cyprus projected to run a deficit of 8.1% in 2011 and 7.2% in 2012, down from the 8.9% of 2010.
- The government has implemented a number of fiscal austerity measures to reduce the deficit and curtail the increase in public debt. Public sector employment was reduced, government agencies' budgets were curtailed, wage freezes were put in place, and the retirement age for teachers was raised. Further measures will likely be necessary to reduce the deficit and put public finances on a sustainable track.

## References

- <http://www.delicious.com/eurochallenge/Cyprus>
- [http://ec.europa.eu/economy\\_finance/eu/countries/cyprus\\_en.htm](http://ec.europa.eu/economy_finance/eu/countries/cyprus_en.htm)
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- <http://www.imf.org/external/country/cyp>
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**Exports** The island exports a variety of goods, which include citrus products, pharmaceuticals and clothing. Greece is Cyprus' largest trading partner, followed by Germany and the United Kingdom.

**Labor Market** The differential between public and private sector wages is quite large: Public employees earn 28% above the average, with those in education earning more than 52% above the average.

**Inflation** The rise in the price level slowed thanks to the financial crisis. However, inflation is rising again to levels steadily above the European average, due to the strong impact of oil prices on the Cypriot economy.

**Education** The publicly run education sector is one of the most developed in the EU. Cyprus spends nearly 6.5% of its GDP on education. Still, a high number of Cypriots move to other countries for their undergraduate studies.

**Banking** Cyprus' two main banks have a loan portfolio exposure to Greece of 40%, which makes them vulnerable to any negative developments in the troubled Greek economy.