

The EURASIA CENTER

Cyprus: Economic Overview

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Path to EU Accession:

Cyprus has formal ties to the European Union since 1972, after the signing of the Associations Agreement concerning trade. A Customs Union agreement was signed in 1987 as well between Cyprus and the EU. Negotiations for accession to the EU began in 1998, and Cyprus formally entered the Union on May 1, 2004. EU privileges, however, apply to the southern half of the island only, as the northern half of the island has been occupied by Turkish forces since 1974. The economies of the internationally recognized Republic of Cyprus and the area administered by Turkish Cypriots are thus distinct and international rankings refer to the Republic of Cyprus only, except as specified.¹

Economic Indicators²:

- The economy of the area under government control is a prosperous market economy in which the service sector dominates with 76% of GDP.
- The economy relies on tourism, which can fluctuate depending on the political stability on the island as well as economic conditions in Europe, and this is sometimes reflected in erratic growth rates.
- For the past few years, however, the growth rate has been between 3.7% and 3.8%, thus above the EU average. The official 2005 estimated growth rate in the area under governmental control was 3.8% while in the area administered by Turkish Cypriots it was 10.6%.
- The government has also been working on cutting the budget deficit to below 3%.
- Cyprus is expecting to adopt the Euro as its national currency on January 1, 2008.

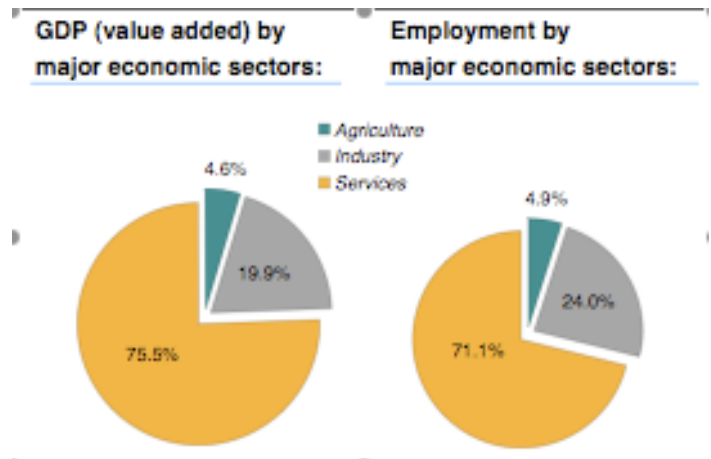
¹ Embassy of the Republic of Cyprus- “Economic Statistics for the Republic of Cyprus”
<http://www.cyprusembassy.net/home/index.php?module=page&pid=9>

² Statistics in this section are all from: CIA World Factbook- “Cyprus”
<https://www.cia.gov/library/publications/the-world-factbook/geos/cy.html>

- The Turkish Cypriot economy is dependent largely on agriculture and government service, and growth in the region tends to be volatile. In 2006, the economy grew about 10.6%, as a result of development in the construction and education sectors. Turkish Cyprus receives significant transfers from the Turkish Government, over \$400 million annually recently.
- The GDP (PPP) of area under government control was \$18.04 billion in 2006, and GDP (PPP) per capita was \$23,000. In the area administered by Turkish Cypriots the GDP (PPP) was \$4.54 billion and GDP (PPP) per capita was \$7,135.
- Imports in the area under government control totaled \$5.8 billion in 2006 while in the area administered by Turkish Cypriots they totaled \$1.2 billion.
- Exports in the area under government control were \$1.34 billion, while in the area administered by Turkish Cypriots they were \$68.1 million
- Estimated 2005 inflation in the area under government control was 2.8%, while estimated 2004 inflation in the area administered by Turkish Cypriots was 9.1%.
- Unemployment in the area under government control was estimated in 2005 at about 5.5%, while in the area administered by Turkish Cypriots it estimated in 2004 at about 5.6%.
- In recent years, the exchange rate in areas under government control has been about 0.46 Cypriot pounds per US dollar (2006) and in areas administered by Turkish Cypriots about 1.45 Turkish lira per US dollar.

Economic Structure:

- Agriculture makes up 3.2% of GDP and employs 4.9% of the workforce; Industry and construction make up 19.9% of the GDP and employ 24.0% of the workforce, while the services sector (including tourism) makes up the bulk of GDP at 75.5% and employs 71.1% of the workforce.³
- In the Turkish Cypriot economy, in 2006 the GDP by sector was about two-thirds in the services sector, about 22.5% in industry and construction, and about 8.4% in agriculture.



³ US Department of State Country Profiles- "Republic of Cyprus"(applies only to area under government control)-- <http://www.state.gov/r/pa/ei/bgn/5376.htm> ; Graph—United Nations Economic Commission for Europe-- www.unece.org/stats/trend/cyp.pdf .

- Cyprus' principle trading partners are the European Union, with more than 68% of its trade in goods with the EU, particularly with Greece, Italy, and the United Kingdom, compared to less than 2% with the United States.⁴
- Turkey is the primary trading partner of the area administered by Turkish Cypriots, by supplying about 65% of imports and absorbing about 50% of exports. The EU is the area's second largest trading partner, absorbing 27% of exports and supplying about 22% of total imports.⁵
- The Republic of Cyprus primarily exports citrus, potatoes, pharmaceuticals, cement, cloth, and cigarettes, while the area administered by Turkish Cypriots primarily exports citrus, dairy, potatoes, and textiles.⁶
- Primary import commodities for the area under governmental control include consumer goods, petroleum and lubricants, intermediate goods, machinery, and transport equipment. Primary import commodities for the area administered by Turkish Cypriots include vehicles, fuel, cigarettes, food, minerals, chemicals, and machinery.⁷
- The economy is expected to continue doing well in 2007, with economic growth projected at 3.6% for 2007 (in area administered by government).⁸

Political Considerations:

The Republic of Cyprus, a member of the EU, has been partitioned into two ethnic communities since 1974. The internationally recognized government is that of the Greek Cypriots, however, Turkish Cypriots de facto control the north area of the Island, though only Turkey recognizes the "Turkish Republic of Northern Cyprus". Consequently the economic affairs of the area under government control and the area administered by Turkish Cypriots are each distinct.⁹ The Republic gained independence in 1960. The government is comprised of three branches: the Executive-- President elected to a five year term, the Legislative--a unicameral House of Representatives with members elected to five-year terms, and the Judicial— a Supreme Court and

⁴ US Department of State Country Profiles- "Republic of Cyprus"(applies only to area under government control)-- <http://www.state.gov/r/pa/ei/bgn/5376.htm>

⁵ Ibid

⁶ CIA World Factbook- "Cyprus" <https://www.cia.gov/library/publications/the-world-factbook/geos/cy.html>

⁷ Ibid

⁸ US Department of State Country Profiles- "Republic of Cyprus"(applies only to area under government control)-- <http://www.state.gov/r/pa/ei/bgn/5376.htm>

⁹ CIA World Factbook- "Cyprus" <https://www.cia.gov/library/publications/the-world-factbook/geos/cy.html>

six district courts. After the 1974 hostilities, the Turkish Cypriots set up separate institutions in the area they administer, comprised of an elected “president” and “prime minister” who are responsible to the National Assembly and exercise joint executive powers.¹⁰

Attractions:

- **Investment Climate:** Cyprus has a liberal investment climate, with good business and financial services, modern telecommunications and transportation, an educated work force, and sound legal system. Cyprus ranks as one of the leading countries per capita in attracting foreign direct investment, according to the United Nations Conference on Trade and Development “World Investment Report 2006”. In October of 2004, the Republic of Cyprus lifted most capital restrictions and limits on foreign equity participation, hence granting foreign investors rights and benefits akin to those of national investors.¹¹
- **Euro zone:** Cyprus’ expected adoption of the Euro in January of 2008 is expected to bring economic benefits such as price stability, lower interest rates, greater price transparency, and reduction of currency conversion costs and exchange rate risk.¹²
- **Strategic Location:** Cyprus’ location in the heart of the Mediterranean and at the crossroads of three continents is a major factor in helping it develop into a center for international business, especially for companies looking to expand operations in the Middle East region as well as Central and Eastern Europe.¹³
- **Possible Oil Exploration:** The government of the Republic of Cyprus is also expected to soon begin licensing of 11 blocks for offshore

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TIFF (LZW) decompressor
are needed to see this picture.

¹⁰ US Department of State Country Profiles- “Republic of Cyprus”(applies only to area under government control)-- <http://www.state.gov/r/pa/ei/bgn/5376.htm>

¹¹ Ibid

¹² Ibid

¹³ Embassy of the Republic of Cyprus- “Economic Statistics for the Republic of Cyprus”
<http://www.cyprusembassy.net/home/index.php?module=page&pid=9>

exploration and exploitation of oil. Although it is too early to determine the extent of the reserves, they are estimated at about \$400 billion.¹⁴

Troubled Spots:

- **Political Instability between Greek and Turkish Cypriots:** The Island is currently divided and direct trade between the two communities is limited. Although there has been partial lifting of travel restrictions and progress, a settlement has still not been reached, and the area administered by Turkish Cypriots is, except for Turkey, not internationally recognized as sovereign.¹⁵
- **Water Crisis:** In both areas of the Island, water shortage and drought are a perennial problem. The shortages are being mitigated by desalination plants, but due to low rainfall in 2005 and 2006, water rationing is likely in 2007.¹⁶
- **Dependence on Transfer Funds:** The area administered by Turkish Cypriots is heavily dependent on aid from the Turkish Government.¹⁷
- **Dependence on Tourism:** Both economies of the Republic and Turkish areas of the Island are dependent on tourism, which is risky and reflected in sometime erratic growth rates. The tourism industry fluctuates with both interior political developments, as well as economic and political developments in Western Europe, where many of Cyprus' tourists come from.¹⁸

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¹⁴ US Department of State Country Profiles- "Republic of Cyprus"(applies only to area under government control)-- <http://www.state.gov/r/pa/ei/bgn/5376.htm>

¹⁵ Ibid

¹⁶ CIA World Factbook- "Cyprus" <https://www.cia.gov/library/publications/the-world-factbook/geos/cy.html>

¹⁷ Ibid

¹⁸ Ibid