

COUNTRY PROFILE:**REPUBLIC OF CYPRUS****DATED:****JUNE 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	No Restrictions

Recent Political Highlights

- ❑ Chief of state since February 2008 has been President Dimitris Christofias. The president is elected by popular vote for a five-year term. The next election is scheduled for 2013.
- ❑ The Government is the internationally recognised Government of the island but its writ does not run in the north which since 1974 has been occupied by Turkish troops.
- ❑ Greek and Turkish Cypriots have reopened a major crossing in the divided Cypriot capital of Nicosia during which time both parties agreed to resume talks on reunifying the island.
- ❑ Recent progress in relations between the Greek and Turkish Cypriots took a step back after a meeting between President Christofias and British Prime Minister Gordon Brown. Turkish Cypriot leader Mehmet Ali Talat (who is unrecognised internationally) was not happy with a memo that made reference to the basis of a future settlement: a bizonal, bicomunal federation with political equality, reflecting single sovereignty, citizenship and international status.

Recent Economic Highlights

- ❑ Cyprus has a population of 793.000 with an expected growth rate of 0.5% in 2008.
- ❑ The Economist expects solid economic growth of 4% in 2008 and 3.5% in 2009 from 4.4% in 2007. The slowing GDP growth reflects the effects of weaker global demand and an appreciating euro against the US dollar. Finance Minister Charilaos Stavarakis warned that 2009 would be a difficult year for the economy. He referred to a number of issues including relations between Russia and Cyprus, the cost of living allowance and Cyprus' gold reserves held by the Central Bank that would weigh heavily on the economy. Its current growth rate of between 3.5% - 3.7% is still faring better than some euro states.
- ❑ The finance minister attributed high inflation to the island's dependence on oil. Inflation accelerated on the back of high food and energy prices but is expected to ease later in the year. The Economist forecasts inflation at 4.1% in 2008 and 3% in 2009 from an expected 2.4% in 2007. Inflation rose to 4.6% in May 2008 from 4.3% in April 2008.
- ❑ Tourist arrivals increased by 4.4% during the first quarter of 2008, which was largely due to Cypriots returning for the presidential election in February and an early Easter.
- ❑ The current account deficit of 9.7% of GDP in 2007 was extremely high owing to high oil prices and strong consumer demand especially of imported cars.
- ❑ Construction investment should decelerate throughout the forecast period, compared to the exceptionally high levels of previous years. Investment in equipment, the bulk of which takes in the construction sector, is projected to follow suit. The main reasons for the deceleration are the softening of demand for dwellings by non-residents and policy measures aiming at cooling the housing market, such as the Central Bank directive concerning the reduction of the value-to-loan ratio.

Latest Trade Developments

- ❑ Major exports: citrus, potatoes, pharmaceuticals, cement and clothing.
- ❑ Major imports: consumer goods, petroleum and lubricants, intermediate goods, machinery and transport equipment.
- ❑ Main trading partners: UK, Greece, France, Germany, UAE, Italy, Israel, Netherlands and China.
- ❑ Main industries: tourism, food and beverage processing, cement and gypsum production, ship repair and refurbishment, textiles, light chemicals, metal products, wood, paper, stone and clay products.
- ❑ Main agricultural products: citrus, vegetables, barley, grapes, olives, poultry, pork, lamb, dairy and cheese.
- ❑ Exports of services should remain dynamic on the back of positive prospects for tourism. Exports of goods, consisting mainly of re-exports, are projected to post positive growth after the adoption of measures to boost the sector such as the agreement with a global shipping corporation to use Cyprus as a regional hub, as well as the deepening of the port so as to serve larger vessels. Imports are projected to moderate, following developments in private consumption and investment activity, but will remain buoyant. Imports are likely to accelerate in 2008 but decelerate during the following year in line with oil prices. As a result, the terms of trade would deteriorate in 2008 but level out in 2009. Consequently, the current account deficit would be around 8.5% of GDP in 2008, and improve slightly in the following year.
- ❑ President Christofias is set to visit Russia during September and the Russian and Cypriot Foreign Ministers have agreed that preparations for the visit should begin immediately with a meeting of the intergovernmental committee on commercial and economic cooperation before the presidential visit. Additional measures which allow even more favourable conditions for local business relations, for the communication of citizens and for increased growth in tourism were also in place.
- ❑ South African exports to Cyprus totaled R65m in 2007 from R107m in 2006 and R3.7m in January 2008.

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