

COUNTRY PROFILE:**REPUBLIC OF CYPRUS****DATED:****NOVEMBER 2011****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

Export Department Comment/Opinion	Rating 3C. Cover considered on an open basis. Low exposure and low commitments. Not a claims free market. (Euler Hermes: AA; Atradius: 3/6 ; Coface: A2/A3) Sanctions: none.
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Recent Political Highlights

- The Head of State is President Demetris Christofias and the country is part of the Euro zone.
- Cyprus has taken over the European Union Presidency with Poland for an 18 month period that began in July 2011 and will be joined by Denmark at the start of 2012. The Cyprus presidency wants to promote the idea of a better Europe meaning increased solidarity in these difficult times and greater effectiveness of European policies.

Recent Economic Highlights

- The country has a population of 1.1m people and more than 240,000 live in the capital city, Nicosia. 97.6% of the populace is literate
- The economy is dominated by the services sector which contributes around 81.2% of GDP. Tourism is the leading economic activity followed by financial services and real estate. Industry, mining and construction contribute 16.5% to GDP. The agricultural sector employs 7.4%; industry employs 19.3% while services employ 73.3% of the population.
- Agriculture contributes around 2.3% of GDP and the main agricultural products include citrus fruit, grapes, olives, vegetables and barley.
- Unemployment has increased from 26,483 in September '11 to 26,947 in October and that may be largely attributed to the debt crisis in the Euro zone. Y-o-y the number of unemployment climbed 29.3% in October 2011.
- The country has an open free-market, services-based economy with some light manufacturing. The Cypriots are amongst the most prosperous people in the Mediterranean region, with a per capita income that is approaching 100% of the EU-27 average. The country boasts an educated English-speaking population, good airline connections and modern telecommunications.
- There are risks involved in purchasing property in Cyprus, including misleading advertising, failure to of developers to complete properties that have been purchased off plan, illegal construction, double selling, not receiving title deeds and developers imposing sales fees while high property taxes or services also pose as an inhibiting factor when selling.
- Given the downside economic and financial risks in Greece, Cyprus banks could lose more than 50% on their Greek bonds as agreed upon by the EU and could need a bailout from the government because they will be unable to raise capital from the private sector. This has also caused the downgrading of the country's debt rating by three major credit rating agencies, Moody's downgraded the country's rating by two notches to one notch above a junk rating. In addition, the country's largest banks, Bank of Cyprus and Marfin Popular Bank are estimated to have exposures of \$7.02bn to government bonds issued by Greece as well as substantial retain operations in Greece. The downgrades place Cyprus only marginally above the Euro zone's most troubled countries (Greece, Portugal and Ireland).
- Russia has offered Cyprus a multi-billion dollar loan with low interest because it has become evident that the country may also default on its obligations seeing as it has one of the largest exposures to Greek debt. Although the move may be motivated by the desire by Russian companies to gain a slice of the Cyprian energy market, some analysts strongly believe that loans are preferable to a bailout in order to avoid default.
- The forecasts of Cyprus debt to GDP ratio for 2011 have reached 65% and around 70% in 2012 according to Moody's.
- Cyprus is also facing an energy crisis caused by the destruction of the electricity station on the 11th of July 2011. The total damage to the economy is estimated at more than €3bn. The country is now burdened with huge costs in order to restore the power station which meets 50-60% of the country's energy needs. The electricity shortage has already caused huge economic losses to businesses which drive the Cypriot economy, exacerbating the already weak financial position and increasing unemployment as businesses are forced to shut down. The energy crisis highlights the need for more renewable energy resources and a more efficient exploitation of the country's undersea energy resources.

Latest Trade Developments

- Export commodities include: citrus, potatoes, pharmaceuticals, cement, and clothing.
- Import commodities include: consumer goods, petroleum and lubricants, machinery, transport equipment.
- Main trading partners: Greece, Germany, Italy, UK, Israel, China.
- SA's exports to Cyprus totaled R65m in 2009, R61.5m in 2010 and R53m YTD September 2011. (RSA's 116th largest export destination]
- SA's imports from Cyprus totaled R30.2m in 2009, R10.6m in 2010 and R8.8m YTD September 2011