

THE MAIN TRENDS AND CHALLENGES IN THE DEVELOPMENT OF CYPRUS ECONOMY

Основные тенденции и проблемы развития экономики Кипра

The Republic of Cyprus is strategically located at the crossroads of Europe, Asia and Africa and is part of the European Union and the Eurozone. It is a state with one of the largest island economies and an attractive destination for foreign direct investment. Thus, the object of this research is the key sectors of Cypriot economy. The subject of the research is the reasons for its resilience. The main aim of this work is to study the main patterns of the development of Cypriot economy, to identify its problems and the grounds for its success. To achieve the aim of the research, the following tasks are set: to analyze statistics relevant to the research and identify the ways the state attracts foreign investments.

Today, the state has a developed, open and rapidly developing economy, the main sector of which is the service sector. The share of the service sector in gross value added (GVA) in 2021 was 83.7 %, while trade accounted for 11 %, production industry — 7.9 %, construction — 6.3 %, agriculture — 2.3 %. Tourism remains an important sector of the economy, but its contribution to GVA is lagging behind such sectors as communications, financial services and real estate.

The problem of the Cyprus economy in the last decade besides global pandemic of 2020 was the financial crisis of March 2013. However, the island's economy was bailed out by 10 billion euros from the European Commission, the European Central Bank and the International Monetary Fund, and responded with a series of austerity measures. Nevertheless, in three years, the Bank of Cyprus was able to fully repay the €11.5 billion emergency liquidity assistance and withdraw from the memorandum of understanding signed with the European trio. Thanks to structural and fiscal reforms, the banking sector has reduced debt by about 2.7 times, which indicates the recovery of the sector.

Today, Cyprus has regained the status of a sustainable economy and is an attractive center for direct investment with easy access to the EU market. Cyprus has a forward-looking regulatory framework that ensures sound and transparent business practices. The tax system of Cyprus is one of the most favorable for business, the corporate tax is 12.5 %. Cyprus has an extensive list of double tax treaties. In addition, the following are exempt from corporate tax: dividends, income from stock trading, income from affiliates abroad and half of the profits that a resident company receives.

Another important component of the country's economy is the government's policy aimed at attracting foreign investment. In 2016, Cyprus implemented a permanent residence permit programme, which grants residence permits to non-EU citizens who invest in the Republic of Cyprus. The Investment Promotion Strategy has been an important boost to the Cypriot economy. On January 1, 2022, the implementation of the new Strategy of the Government of Cyprus also began, which aims at taxation, immigration and social security for employees of new companies — third-country nationals and their families. It is expected that the creation and expansion of new companies in Cyprus will provide high and sustainable GVA to the country's economy through the creation of new jobs and increased demand for personal services. As a result, new technologies, skilled workers and foreign capital will be attracted to the country, which will lead to the transformation of the state into a center of sustainable business and trade on a European scale.

Thus, by developing key sectors of the economy and focusing on attracting foreign capital, Cyprus has strengthened its competitiveness as an attractive place for investment.

References

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