Cyprus Franchise Sector Report

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Doing Business in Cyprus in a nutshell…:

Cyprus is an ideal base for international and regional operations due to its highly developed infrastructure and its strategic location at the crossroads of Europe, Asia, and Africa. A European Union (EU) member since May 2004 and a member of the euro-zone since January 2008, Cyprus is seeking to capitalize on its geographic position by expanding its business relations and flight connections. It has a liberal investment regime with 55 double taxation treaties (including with the United States), a low corporate tax at 12.5 percent, and a British Common Law legal system. Cyprus has no withholding tax imposed on dividend income, interest, or royalty payments effected to non-Cypriot beneficiaries. Profits from overseas permanent establishments are tax exempt. Cyprus offers high quality accounting, legal, financial, and other professional services with a largely multilingual and university educated labor force. A services-oriented economy, it is extremely dependent on imports but has high regard for American products, technology, and brands.

Cyprus has an advanced telecommunications network and infrastructure, a wide network of air-routes offering inexpensive connections on several low cost carriers with connections in the region, modern ports, and first-rate sea connectivity. It is one of the leading maritime nations in the world, with a low tonnage tax and the tenth-largest fleet in the world (third-largest in the EU), comprising nearly 2,000 vessels. It is also one of the largest ship-management centers in the world with around 150 ship-management companies and marine-related foreign enterprises that conduct their international activities in the country. Cyprus offers the option of fast-tracking investments (soon to be enhanced through dedicated legislation) and obtaining Cypriot citizenship through strategic investment. Recently, Cyprus harmonized and enhanced its regulations regarding investment funds, becoming a more attractive jurisdiction for managing and home-basing investment funds.

Despite the economic crisis in 2013, estimated per capita GDP still remained at an estimated $27,265 in 2014. The economy is expected to return to mild growth in 2015, after three years of recession. As part of a bailout package, Cyprus agreed to far-reaching reforms that included reducing government spending, privatizing several state-owned entities, and restructuring and consolidating the financial services sector. Cyprus’ bailout program is already considered successful, largely because of the significant level of ownership that Cypriot authorities have demonstrated. It is officially scheduled to end in March 2016.

Market Potential:
U.S. franchises, particularly in the food and beverage sector, continue to be highly sought after and successful in Cyprus. American franchise companies present in Cyprus include McDonalds, Starbucks, Coffee Beanery, Pizza Hut, Papa John's Pizza, Domino’s Pizza, KFC, Bennigan’s, TGI Friday’s, Orkin, Cinnabon, GAP, Cold Stone Creamery, and
Taco Bell. Recently, Carlson Rezidor signed an agreement with Quality Group in Cyprus for the construction of a Radisson Blu 105-room hotel in the city of Larnaca. Besides the U.S. franchises on the island, there are many international franchise brands including Folli Follie, Accessorize, Costa Coffee, Akakiko, Second Cup, Ocean Basket, and Wagamama. Cypriots are brand-conscious shoppers; however, the 2013 economic crisis prompted a dampening effect on consumer spending for the near-term, a trend that seems to have been overcome as the market conditions improve. Although the domestic market may be considered small, companies must also account for the tourism inflow, which ranges between two to three million people per year. Cyprus is currently in the process of restructuring its tourism sector and upgrading its infrastructure in an effort to increase its tourism inflow.

**Legal Environment:**
Cyprus follows Common Law practices and abides by EU directives as an EU member. Cyprus' legal system is one of the strongest points of the economy.

**Forms of Franchising:**
There are no restrictions for entry from any foreign franchisor. All forms of franchising can be applied in Cyprus whether direct or master franchising, regional development, joint venture, or affiliates establishment. Registering a company is relatively streamlined, following recent reforms and can take as little as one week to complete. Local lawyers and accounting firms can provide a full range of services to assist with the process.

**Market Challenges - Political Stability:**
Cyprus has been a divided island since 1974. The southern two-thirds of the island are under the control of the internationally-recognized Government of the Republic of Cyprus (ROC), while the northern third is administered by a Turkish Cypriot administration. In 1983, the Turkish Cypriot administration proclaimed itself the "Turkish Republic of Northern Cyprus" ("TRNC"), an entity only recognized by Turkey. The two areas are separated by a buffer zone patrolled by United Nations forces. The partial lifting of travel restrictions between the two sides of the island in April 2003 has eased transit for travelers.

In August 2004, new EU policies allowed goods produced in the north to be sold in the south provided they met EU rules of origin and sanitary/phyto-sanitary requirements. In May 2005, the Turkish Cypriot "authorities" adopted a new regulation "mirroring" the EU rules and allowing certain goods produced in the south to be sold in the north. Trade between the two communities remains sporadic. Suppliers of imported products on both sides cannot directly serve the other’s market. EU authorities have suspended implementation of the EU acquis communautaire in the area administered by Turkish Cypriots until political conditions permit the reunification of the island. There are ongoing negotiations between the two communities to resolve the island’s political division.

**Other challenges include:**
- High administrative burden and bureaucracy. The ROC is currently in the process of government restructuring to improve these issues through its recently formed Unit of Administrative Reform and following its New Growth Model;
- A small market that is moderately cushioned by the relatively high standard of living;
- Confidence in the financial system remains fragile following the 2013 “haircut” of uninsured deposits, despite the recapitalization of banks and lifting of capital controls;
- Lending remains constrained due to weak demand for loans and stricter lending criteria, with non-performing loans close to 50 percent.

**Investment Climate:**

For the first time in about four years, Cyprus’s economy is growing –maybe up to 1.5 percent this year, more than experts had anticipated. Following the 2013 financial crisis, Cyprus agreed to a bail-in of depositors, converting deposits to equity. Republic of Cyprus officials engaged the Troika comprised of the European Commission, International Monetary Fund, and European Central Bank, for financial assistance that was contingent on several important policy reforms, including the restructuring of the banking sector and cutting down on government spending. Cyprus is expected to graduate from the bailout program on March 31, 2016. Cyprus' sovereign credit ranking has improved since the crisis, although it is still below investment grade. In early 2015, the ROC unveiled a new growth action plan to reform the economy and address investment climate challenges. The plan focuses on public administration reform which will simplify procedures, promote entrepreneurship, reduce bureaucracy, and stimulate investment, while seeking to open key sectors like tourism, shipping, green energy, and generic pharmaceuticals.

The [World Bank’s 2016 Doing Business Report](https://www.worldbank.org/en/research/reports/range/doing-business-2016) reflects the recent improvement in Cyprus' business climate, noting that over the past year the island moved up 13 places to become one of the top ten most improved countries in terms of economic and business reforms and potential to attract more investment.

For additional information on doing business in Cyprus, please contact the U.S. Embassy Nicosia, visit [our website](https://www.state.gov), or review [our Country Commercial Guide](https://www.state.gov).