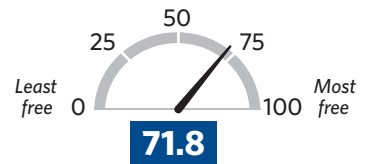


CYPRUS

Economic Freedom Score



World Rank: **20** Regional Rank: **9**

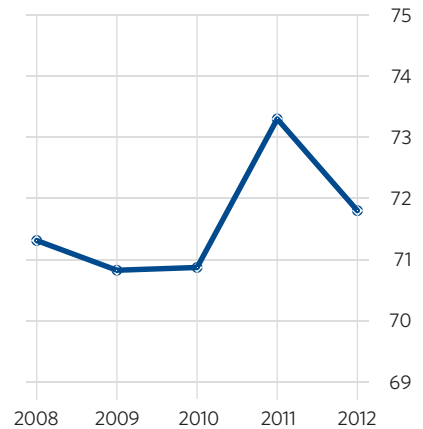
Cyprus's economic freedom score is 71.8, making its economy the 20th freest in the 2012 *Index*. Its overall score is down by 1.5 points from last year, with significant declines in property rights, freedom from corruption, and public finance management. Cyprus is ranked 9th out of 43 countries in the Europe region.

Cyprus has preserved its status as one of the "mostly free" economies in the *Index*, and the island economy maintains the four pillars of economic freedom relatively well. Particularly compared to other developing economies, Cyprus maintains sound foundations of economic freedom that are sustained by a generally well-functioning judicial system. Although public debt is moderate compared to other European economies, an increasing level of public spending is eroding respect for the principle of limited government and holding down Cyprus's overall economic freedom.

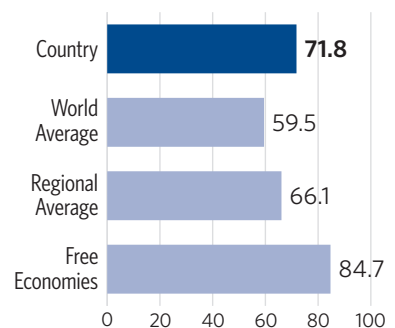
The government is pursuing policies that are intended to favor private-sector development. The regulatory framework is transparent and efficient, facilitating entrepreneurship and growth, and policies preserving open markets encourage productivity gains. The financial sector remains relatively sound, although stress has increased due to the ongoing euro-zone debt crisis.

BACKGROUND: A U.N. buffer zone divides the Greek Cypriot Republic of Cyprus and the Turkish Republic of Northern Cyprus. The Republic of Cyprus is a member of the European Union and acts as the island's internationally recognized administration. Despite deep hostility between the two sides, Greek and Turkish leaders continue to negotiate on possible reunification through U.N.-brokered talks. Political and legal uncertainty has undermined the Turkish Cypriot economy, and Turkish Cypriots remain heavily dependent on trade and aid from Turkey. Tourism and financial services drive the Greek Cypriot economy, and restrictions on foreign investment have been lifted. EU membership has enhanced economic liberalization for Greek Cypriots, but utilities and telecommunications are still not privatized or deregulated. Cyprus joined the euro zone in 2008.

Freedom Trend



Country Comparisons



Quick Facts

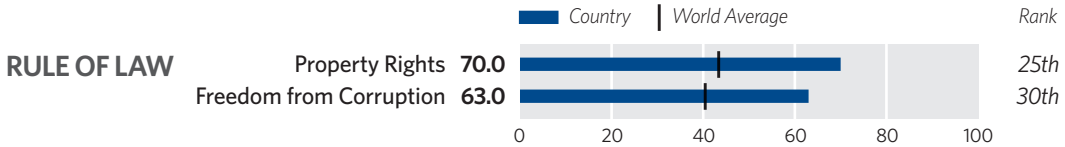
- Population:** 0.8 million
- GDP (PPP):** \$23.2 billion
- 1.0% growth in 2010
- 5-year compound annual growth 2.4%
- \$28,256 per capita
- Unemployment:** 5.6%
- Inflation (CPI):** 2.6%
- FDI Inflow:** \$4.8 billion
- Public Debt:** 60.8% of GDP

How Do We Measure Economic Freedom?

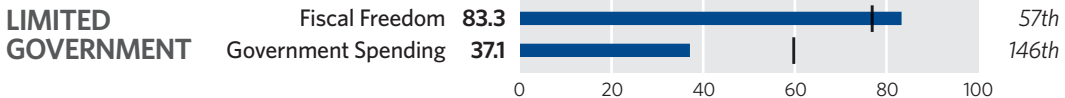
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
Data compiled as of September 2011.

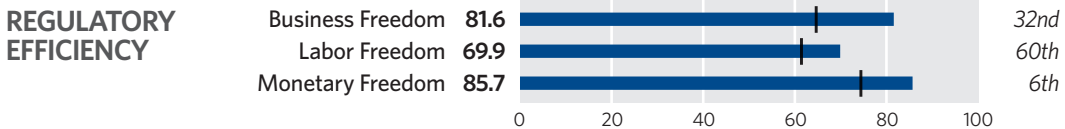
THE TEN ECONOMIC FREEDOMS



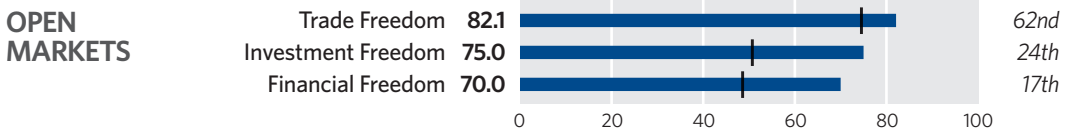
Contracts and property rights are generally enforced. The civil judiciary is independent constitutionally but not always in practice. Cypriot law imposes significant restrictions on the foreign ownership of real estate by non-EU residents. Corruption, patronage, and lack of transparency appear to continue in the area administered by Turkish Cypriots. The absence of a political settlement poses inherent risks for foreign investors.



The top income tax rate is 30 percent, and the top corporate tax rate is 10 percent. Other taxes include a value-added tax (VAT) and a real estate tax, with the overall tax burden amounting to 25.8 percent of total domestic income. Government spending has increased to 45.8 percent of total domestic output, with the deficit widening to around 5 percent of GDP and public debt reaching over 60 percent of GDP.



The overall freedom to start, operate, and close a business is relatively well maintained within the regulatory framework. With no minimum capital requirement, it takes only seven days to launch a company. Relatively flexible labor regulations facilitate employment and productivity growth, although union power is quite strong. The government mandates a minimum wage and controls prices of some agricultural products. Inflation is under control.



Cyprus's trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate standing at 1.4 percent. The financial sector is diverse and relatively sound. With assets greater than seven times the island's GDP, the banking sector plays a large role in the economy. Banks hold a large amount of Greek debt but have nonetheless weathered the euro-zone turmoil relatively well.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-10.0	Fiscal Freedom	+8.7	Business Freedom	+1.5	Trade Freedom	-0.5
Freedom from Corruption	-3.0	Government Spending	-8.5	Labor Freedom	-1.5	Investment Freedom	0
				Monetary Freedom	-1.9	Financial Freedom	0