

ROUNDTABLE

InFocus talks to the leaders of the Cypriot professional services sector to gain insights into their thoughts on the economy, attracting FDI and Cyprus' competitiveness.

EVGENIOS EVGENIOU

CEO, PwC

Evgenios Evgeniou started his career with PwC in 1990 and was admitted to partnership in 2001. He has worked with PwC in London and on secondment in Athens and Moscow.

A graduate from Imperial College London, he is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Institute of Certified Public Accountants of Cyprus.

Evgeniou is the President of the Cyprus-Russia Business Association, a member of the Board of the Cyprus Investment Promotion Agency and a member of the Board of the Nicosia Chamber of Commerce.



CHRISTIS CHRISTOFOROU

CEO, Deloitte

Christis Christoforou has over 30 years' experience and specialises in Audit and International Tax. He is an economics graduate, and a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW). After working with Stoy Hayward in London, he repatriated back to Cyprus to join Arthur Andersen and became a partner in 1990. He joined Deloitte in 2003, becoming CEO in 2005.

He is a regular contributor and presenter at international conferences. He is the VP of the Nicosia Chamber of Commerce and Industry, member of the board of the Cyprus Investment Promotion Agency and former president of the Institute of Certified Public Accountants of Cyprus.



ANDREAS CHRISTOFIDES

Managing Director, KPMG

Andreas Christofides began his career in 1975, then joined KPMG Cyprus in 1980 following his qualification as ACA. He was made Partner in 1983 and Managing Partner in 2000. He specialises in Advisory Services.

Christofides is a Fellow of the Institute of Chartered Accounts in England and Wales and a member of the Corporate Finance Faculty of the same Institute. He is also the President of Cyprus-Egypt Business Association, Member of Rotary Club of Nicosia and a speaker at various Economic Conferences.



STAVROS PANTZARIS

Country Managing Partner, Cyprus

Stavros Pantzaris is the Country Managing Partner and Assurance Leader for EY Cyprus. He has been involved in Assurance Services for over 25 years, focusing on the provision of IFRS audit services to local and multinational groups. He is also leading the services provided to clients engaged in the Energy and Shipping sectors in Cyprus.

Pantzaris has a degree in Engineering with Industrial Management (B.Eng) and is a qualified Chartered Accountant (London). He is a Fellow of the Institute of Chartered Accountants in England & Wales, a member of the Institute of Certified Public Accountants of Cyprus and a member of the Cyprus Institute of Internal Auditors.



MARIOS KLITOU

CEO, Baker Tilly Klitou

Marios Klitou is the Chief Executive Officer at Baker Tilly Klitou. He holds several memberships including Fellow of both the Institute of Chartered Accountants in England & Wales and the Association of Chartered Certified Accountants of the UK; Member of the Institute of Certified Public Accountants Foreign Investments Committee of ICPAC; Member of the Romanian Chamber Auditors and Member of the Body of Expert Accountants and Chartered Accountants in Romania.

Klitou is currently the Honorary Consul of Romania in Cyprus, the Treasurer of the Cyprus Investment Promotion Agency and President of the Cyprus-Spain Business Association.



Cyprus surpassed expectations with a return to growth in the first half of 2015. What are your thoughts on the recovery?

E. EVGENIOU

The Cyprus economy has proved to be resilient and performed better than expected after the climax of the crisis and it has now entered the recovery phase. On the basis of the latest forecasts return to marginal growth is expected in 2015 and stronger growth in 2016.

C. CHRISTOFOROU

On a macro level, I believe Cyprus has surprised its EU partners and the credit agencies. I do not think that people expected Cyprus to rebound as quickly as it did and provided that it continues taking those fiscal measures that it has to take, growth is expected to continue.

M. KLITOU

I think Cyprus is on the right track. The removal of the exchange control restrictions was a big challenge. Certainly, we have seen changes in terms of the international business transactions and Cyprus as a business centre. Though the changes have come from abroad, CFC rules in Russia, the sanctions on Russia which certainly had an impact on Cyprus. Despite this impact, Cyprus has managed to keep all foreign investors in country, and I see Cyprus continuing as one of the most reputable business centres in Europe.

S. PANTZARIS

Looking at the facts, we saw that Cyprus' economy contracted by 2.9% in 2014, and public debt is expected to peak at under 110% of GDP. We are still seeing high levels of unemployment. However, overall our performance has been above that which the Troika expected, with forecasts having now been revised upwards, capital controls were lifted and we have seen the economy return to growth in the first half of 2015. This, combined with the fact that Cyprus was able to return to the markets, shows that the signs of recovery and returning confidence are there.

A. CHRISTOFIDES

Regarding our industry, we have been experiencing high growth over the last 20 odd years. Since 2012, things eased as an account of the European financial crisis, world financial crisis, Russian crisis. Everybody was in crisis even before Cyprus realised that it had problems, so business stopped growing. We did not experience any material setbacks in the business but we have been steady more or less in the last three years or so and I expect to see some marginal improvement in 2015.

High levels of non-performing loans (NPLs) in the financial sector remain a key concern, while the new foreclosure and insolvency frameworks provide the banks with a new set of tools to combat them with. What is your assessment of the situation?

E. EVGENIOU

Both households and firms in Cyprus are highly leveraged, and there is a high level of NPLs. The enactment of the insolvency and foreclosure framework is an important step in resolving this situation, encouraging both borrowers and banks to compromise effectively. This will be a slow process but if implemented properly it can be beneficial for both sides and for the

economy as a whole. The low demand and availability of credit will be a constraint for the economy in the coming years. Attracting and facilitating foreign investments, the further development of Cyprus as a business centre and the development of alternative sources for funding will be necessary to drive growth.

C. CHRISTOFOROU

This hits the nail on the head. The laws that have been passed were long overdue, definitely the sector's organisation needed optimisation. The laws go to a large extent to correct what was missing. Overall, I would say that the new laws are considered a positive development that will help the economy as a whole, however the road to clearing the balance sheets will be long.

M. KLITOU

Firstly I think it is a huge achievement that we have managed to pass the legislation. We have to wait and see how the implementation will proceed. However, there is no way for the banking system, or the economy at large, to revert back to normal business unless this issue of NPLs is resolved. Banks need to supply credit to the market because without credit, there is no domestic investment. It is a vicious cycle.

A. CHRISTOFIDES

The foreclosure law will provide additional tools to enable the banks to solve the problem,

although I am not one of those that believe that the problem of the NPLs will be solved through foreclosures. I believe that if we manage to stimulate the economy and create growth, the problem with NPLs will solve itself, in that people will be in a position to start repaying. We are now running at 16% unemployment. Cyprus had negligible unemployment previously. If that 16% of the population was back at work, the ability to repay will be drastically increased.

S. PANTZARIS

The high level of NPLs remains a risk to the stability of the banking system, and the issue needs to be resolved before we can return to a sustainable recovery. The new legal framework for foreclosures is a positive development, however I believe that local banks should return to their core business and leave the job of managing NPLs to specialists. Cabinet recently approved a draft bill allowing the sale of loans to third parties. The bill is expected to pass parliament in Q3, however it applies strict criteria to loans under 1 million euros, protecting households and SMEs.

Attracting FDI has been highlighted as a priority. In what sectors do you feel there is sufficient confidence and competitiveness to attract new investment in the current climate?

E. EVGENIOU

Confidence to the economy is gradually being restored and this is reflected in the credit ratings, the ability of the state to borrow from the market and of the banks to raise equity privately. Investors seek opportunities for future returns. Therefore any investment that will capitalise on the economic recovery and the increase in consumption is interesting. The privatisation of the state telecommunications operator, of the ports and the liberalisation of the energy market will contribute toward attracting FDI. Likewise, the natural gas and renewable energy sources exploitation are potentially high return sectors as well as tourism infrastructure projects.

C. CHRISTOFOROU

The analogy I use is that Cyprus is like a person who has lost a lot of blood and needs transfusion. This transfusion is foreign investment. For this to happen, we need stability, we need confidence and we need incentives. We have been serious enough to follow the program imposed by our lenders. We can now go to the international markets and attract some investments. On the incentive side, recent legislation passed by parliament aims to encourage investments in real estate, and also encourage high net worth individuals to come and live in Cyprus. It is difficult to tell when these elements will bear fruit, but I believe we are on the right track.

S. PANTZARIS

The successful raising of new capital by local banks, along with the lifting of capital controls, has gone a long way towards restoring confidence in the economy. We have also seen movement in the real estate sector, both in retail and hotel properties which are very positive. The government is also making positive steps in this regard, and it may proceed with disposing of government held prime land, which will create significant opportunities.

M. KLITOU

I believe tourism is one of the areas where we have an edge. With the construction of the casino, the marinas, I think the tourism product in Cyprus has been upgraded sufficiently and will be able to attract a different calibre of tourists. On the other hand, I do not think we have taken advantage of the fact that the summer

season is much longer than many other places. Medical, health and sports are also untapped, and if proper investment is made into these niches I think there are great opportunities.

A. CHRISTOFIDES

In certain sectors, yes. I think the drive to expand the tourism industry is valid, we still have unexploited potential. Investments such as the casino, the marinas, will help, and a solution to the Cyprus problem will give a massive boost. If you think about marine tourism, the opportunities created by having access to the Turkish coast will create enormous opportunities for the island. Moving on, I think there is potential for investments in projects like alternative sources of energy, waste treatment. Building on opportunities stemming from a solution, just the rebuilding of Famagusta City would provide growth for the economy for the next 20 years.

Cyprus currently ranks 58th in the WEFs Competitiveness index and 64th in the World Banks Ease of Doing Business ranking. Reform is crucial to increasing the country's competitiveness and growth potential, however, does the current agenda go far enough?

C. CHRISTOFOROU

Cyprus suffers from an oversized public sector and lack of meritocracy within that, which drives bureaucracy and diminishes competitiveness. Have we taken all the measures that we needed to take? No. I think the government has taken a moderate approach in order not to create more resistance from the labour unions. Utilities, ports and infrastructure, which are currently under the government, present an opportunity for the country for foreign investment inflows and create opportunities to reignite our stock exchange, which currently does not have sufficient activity and volume to be considered as a serious tool for raising capital. If you connect privatisation with efficiency, investment, the stock exchange, we can make serious gains.

E. EVGENIOU

These reforms address issues, such as bureaucracy and ineffective regulation that

for years have undermined the economy's competitiveness and potential for growth. It is critical that they proceed so as to increase the economy's capacity for growth and facilitate investments and business activity. Reform to drive competitiveness is not something you do once. It should be an on-going process to effectively deal with global competition, with social, technological and business trends.

M. KLITOU

I think we have achieved a great deal in the last two and half years and certainly, many more things can be done. The most important thing for me is the complete revamp of the civil service. The civil service has to be restructured completely. Unfortunately, over the last 20 or 30 years, the civil service became less efficient, less effective. Now, all these changes and less involvement of the unions, or the agreement of the unions to make some changes that will

help Cyprus move forward. If we want Cyprus to continue to be a reputable and efficient business centre in Europe, and to compete in equal terms with everybody else, we have to be in a position to deliver a quality product.

A. CHRISTOFIDES

Generally speaking, I think privatisations are a must. I am not a believer in government-owned, public sector utilities. However, I believe that when you are into an economic downturn, it is the wrong to privatise. You will realise less value. We should be preparing the state owned companies and getting their house in order, and waiting until the economy picks up.

How can Cyprus use the discoveries in the energy sector, together with privatisation of the ports to create synergies and capitalise on its enviable location?

E. EVGENIOU

Synergy is indeed the key word when a growth strategy is designed. We are moving in the right direction but we really need a country action plan. Every step in this process is interconnected. For example, attracting FDI in the energy sector and in the sectors where privatisations will occur is feasible, and these resources can be invested in improving our competitiveness in other areas. Similarly, by creating an alternative system for financing green energy, we can attract foreign investments.

C. CHRISTOFOROU

Have we exploited the strategic location of Cyprus? Not to the extent the location would justify. Firstly, political reasons need to be taken into account. As we speak, Turkey has an embargo on Cypriot flagged vessels. Also, we must look at ourselves. Due to state-owned enterprises like Cyprus Airways, and the airports prior to privatisation, as well as the ports, we failed to capture the growth of globalisation. We did not create the infrastructure, telecoms, utilities or connectivity. We could be a transit hub for many things.

S. PANTZARIS

The government has seized the opportunity provided by the crisis to push through an agenda of reforms that are capable of changing the face of the economy. There have been some delays, however it's imperative that these reforms are implemented - not because they were imposed, but because they will allow Cyprus to enter a new era of efficiency and modernisation. At the same time, it has announced some modest measures, including infrastructure spending, aimed at creating new jobs and stimulating domestic demand. The planned civil service reform is also crucial, however we need to see concrete progress on this front.

A. CHRISTOFIDES

There are obvious synergies tying up energy, shipping, ports. I think one other aspect that I found very interesting is looking at what the plans around the Suez Canal. With the widening of the canal, volumes will increase, and we need to benefit from that. I believe that the move that the government is doing to speed up the process of the Larnaca Port and Marina, privatisation of the Limassol Port, and hopefully a solution to the Cyprus problem, is going to make a difference. Of course, with the possibilities in energy, again, the ports will be essential and you get more business even just by providing facilities for exploration activities. We need a master plan on a national, strategic level.

M. KLITOU

Indeed a solution to the Cyprus problem will make a difference to a huge extent. Having said that, we have to live in 2015 and not in 1950, things have changed. Restrictions within the economy of Cyprus, particularly the labour agreements, the unions, the ports and all of these issues that have to be addressed. We have to take advantage of the Middle East. We are so close to the Middle East but we have not penetrated that market to the extent we should have.