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INDEPENDENT NEWS FROM RUSSIA

Russia's Economic Crisis Could Keep Cyprus in Recession, Analysts Say

By The Moscow Times

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NICOSIA — Economic woes in Russia are tempering prospects of bailed-out Cyprus returning to growth in 2015 and mean the island nation risks a fifth year of recession, analysts say.

As the ruble takes a tumble on the back of weak oil prices and Western-led sanctions, Moscow's troubles are seeping into the Mediterranean island, where Russian-related business is thought to make up about 10 percent of the Cypriot economy.

"I am not forecasting growth this year, largely due to the Russian crisis and the decline in tourism arrivals," said Fiona Mullen, director at Sapienta Economics, a financial consultancy.

Cyprus has been in recession since mid-2011, and required a 10 billion euro ($11.7 billion) financial lifeline from the European Union and the IMF in 2013 to stave off bankruptcy. Authorities and international lenders had expected tepid growth of 0.4 to 0.5 percent this year

after an estimated 2.8 percent slump in 2014.

"My forecast is for a contraction of 0.7 percent this year," Mullen said.

The most obvious impact of the Russian crisis has been a sharp fall in Russian visitors, who made up roughly 25 percent of all the island's tourists in 2013 —the second largest national grouping after sun-starved Britons.

But with the ruble falling by more than 40 percent against the dollar last year, and already down some 10 percent this year, many Russians have had to drop plans to travel abroad.

Arrivals from Russia plunged 25 percent year-on-year in November, according to the latest available data. "Under the best case scenario, I would expect a 15 to 20 percent drop in arrivals from Russia this year," said Victor Mantovani, former head of the island's travel agents association ACTA.

Tourism accounts for about 11 percent of Cyprus's 18 billion euro economy, and the Russians are vital to its well-being.

"They represent 30 percent of total revenue. They spend more," said Phidias Pilides, president of the Cyprus Chamber of Commerce and Industry. They are starting to spend less.

According to official data, a Russian visitor in Oct. 2014 spent on average 95.2 euros ($112) a day, compared to 122 euros a year earlier. That is still more than the average Briton, who spent just 75.7 euros daily.

Bringing Assets Home

Cyprus and Russia have had close ties since before the collapse of communism. Low taxes, cultural ties through Orthodox Christianity and the weather proved highly attractive to newly rich oligarchs looking to park cash and businesses.

When Cyprus faced its own financial woes in 2013, analysts estimated that more than one-third of all Cyprus bank deposits might have had Russian origin and numerous Russian companies are registered on the island.

Looking to tame the economic turmoil at home, President Vladimir Putin has told Russian businessmen to "de-offshore" their assets and authorities have introduced amendments which subjects offshore income to taxation.

Russia's richest man Alisher Usmanov swiftly complied, announcing last month that he had transferred his holdings in mobile operator Megafon and iron ore producer Metalloinvest to Russian entities from Cyprus..

"Russia's presence in the economy has been a huge supporting factor. Its footprint is everywhere from tourism to real estate, so it is worth monitoring the impact," said Michael Florentiades, chief economist and head of investment research at XM.com, an online financial services company in Limassol.

He predicted the local economy would contract one percent this year. "The impact on the

international business services sector because of the deteriorating situation in Russia is also important to watch."

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