

How can Cyprus
enhance its investment
attractiveness now
to build a sustainable
future?

EY Attractiveness Survey

Cyprus

October 2020



The better the question. The better the answer.
The better the world works.



Building a better
working world

Contents

| | |
|--|----|
| Foreword | 03 |
| Executive Summary | 06 |
| 1 FDI in Europe: EY European Attractiveness Survey 2020 | 12 |
| 2 Cyprus Economy and FDI | 20 |
| 3 Survey Findings: EY Cyprus Attractiveness Survey 2020 | 40 |
| 4 Conclusions and Recommendations | 62 |
| Methodology | 76 |
| About the Attractiveness Program | 77 |

We would like to extend our gratitude to ...

Constantinos Petrides, Minister of Finance, **Kyriacos Kokkinos**, Deputy Minister of Research, Innovation and Digital Policy, **Savvas Perdios**, Deputy Minister of Tourism, **Nicos Trypatsas**, Acting General Manager at the Cyprus Stock Exchange, **George Campanellas**, CEO of Invest Cyprus, **Christodoulos Angastiniotis**, President of the Cyprus Chamber of Commerce and Industry, **Nawaf Abdulla**, CEO of DP World Limassol, **Grant Johnson**, Property General Manager of City of Dreams Mediterranean & Cyprus Casinos "C2" at Melco Resorts & Entertainment Ltd, **Petros Sofianos**, CFO of Eurogate Container Terminal Limassol Limited, **Eljay Lee**, Senior Project Development Manager of Samsung C&T Corporation.

Furthermore, we would like to thank the business leaders and EY professionals who have taken the time to share their thoughts and insights with us about the possibilities that await us in Cyprus in the coming years.

Foreword

Foreign direct investment is of paramount importance for the development of any economy, even more so for a relatively small economy with limited natural resources and capital, like that of Cyprus. Especially during the current recession brought about by the COVID-19 pandemic, FDI may spark economic recovery and help transform the Cypriot economy.

In this context, we are proud to present the first Attractiveness Survey for Cyprus, which is part of EY's broader FDI Attractiveness program. Our survey seeks to explore what drives businesses to invest in particular countries, how investors perceive Cyprus's comparative strengths and weaknesses as an investment destination and what the government can do to influence their decisions. The survey also examines how the pandemic may influence investors' priorities and new trends it has set in motion.

We intend to repeat this survey at regular intervals in the coming years as a way to monitor changes in perceptions, and in order to identify policy changes and areas of improvement, allowing us to keep pace with the rapidly evolving business environment.

Cyprus has successfully attracted FDI in the past. This greatly contributed to the rapid development of its economy over the years. The local economy has been largely dependent on three key sectors, namely tourism, real estate and professional services. While participants in this survey acknowledge the predominance of these sectors, which have also traditionally driven FDI interest, they are also indicating alternative investment opportunities. It is indeed clear that Cyprus needs to diversify its economy and attract investment in new sectors that are today driving growth globally, including among others digital economy, clean tech, renewables, supply chain and logistics.

To do so, businesses and the Government must consider our attractiveness scoreboard and analyse the messages sent by investors.

The majority of respondents to our survey are optimistic about the further improvement of Cyprus's attractiveness in the coming years. They identify the main elements of the country's attractiveness, most notably the quality of life, infrastructure, a stable political and social environment and a stable and favourable tax regime. They also draw attention to areas where more work is needed to improve the country's attractiveness. These include supporting high-tech industries and innovation, further developing infrastructure, supporting SMEs and start-ups and developing vocational training and skills.

Probably the most revealing and somewhat comforting finding of our survey is the fact that investors already established in Cyprus have a much more favourable perception of the country's strengths and opportunities, whereas companies with no first-hand experience of the country are more negative. Cyprus needs to build on this vote of confidence and undertake a well-targeted information campaign. Using established investors as ambassadors, Cyprus must raise awareness about conditions and investment opportunities, promote success stories and clear up possible misconceptions or prejudices.

The pandemic and the economic crisis it has triggered will inevitably lead to increased competition among countries and regions to attract FDI. We hope this survey will provide useful insights to help the Cypriot economy adapt to, retain and improve attractiveness in the post-COVID-19 era.



Stelios Demetriou
Partner and Head of Strategy
and Transactions Services,
EY Cyprus

Foreword

We are happy to participate for the first time in EY’s Country Attractiveness survey, the results of which are presented in this report. In challenging times like these, the importance of FDI for local economies becomes even higher and governments are seeking ways to attract and facilitate such investments. Based on the results from the Attractiveness Survey, EY Cyprus has come up with a series of recommendations, which we hope will spark a constructive debate on the changes we need to implement to improve the country’s attractiveness.

One thing that emerges clearly from EY’s Attractiveness Survey for Europe, is that investment decisions in the coming years will be driven by a number of mega-trends set in motion by the pandemic. Such trends include a move to reshore and nearshore supply chains, an acceleration of technology adoption and a renewed focus on sustainability. These could create substantial opportunities for Cyprus to attract Foreign Direct Investment, provided we decipher investors’ messages correctly, build on our strengths and think creatively.

To mention only one characteristic example, services outsourced to developing countries hit by the pandemic have been severely disrupted, as employees had to vacate offices and go into quarantine very abruptly. This may present an opportunity for Cyprus to provide outsourcing services, such as call centres or IT/data centres, utilising the country’s proficiency in English, EU membership and GDPR compliance.

The need to diversify the country’s economy and opening-up to new sectors is already widely acknowledged. This means focusing on sectors that capitalise on the education and skillset of the local human capital, primarily, though not exclusively, digital technology. To do this, Cyprus must strengthen its research and innovation ecosystem but also work harder to support start-ups through tax and other incentives. More importantly, it must further support vocational training, reskilling and lifelong learning programs, focusing on skills which are currently in short supply.

Investment in infrastructure, both physical and digital, is also a key priority. Cyprus is ideally placed to develop into a regional logistics hub. Its strategic position, at the crossroads of three continents, also allows companies investing in Cyprus to serve regional clients in a number of important neighbouring markets from a close proximity within a safe business environment. This strategic advantage will, of course, be greatly enhanced if the island is eventually reunited, easing geopolitical tensions and opening up new possibilities.

Cyprus also needs to focus more on sustainable development and the transition to a circular economy, taking advantage of the substantial funds that will be earmarked for such investment through the European Recovery Fund. The liberalisation of the energy market and a green energy taxation system will be key steps in this direction.

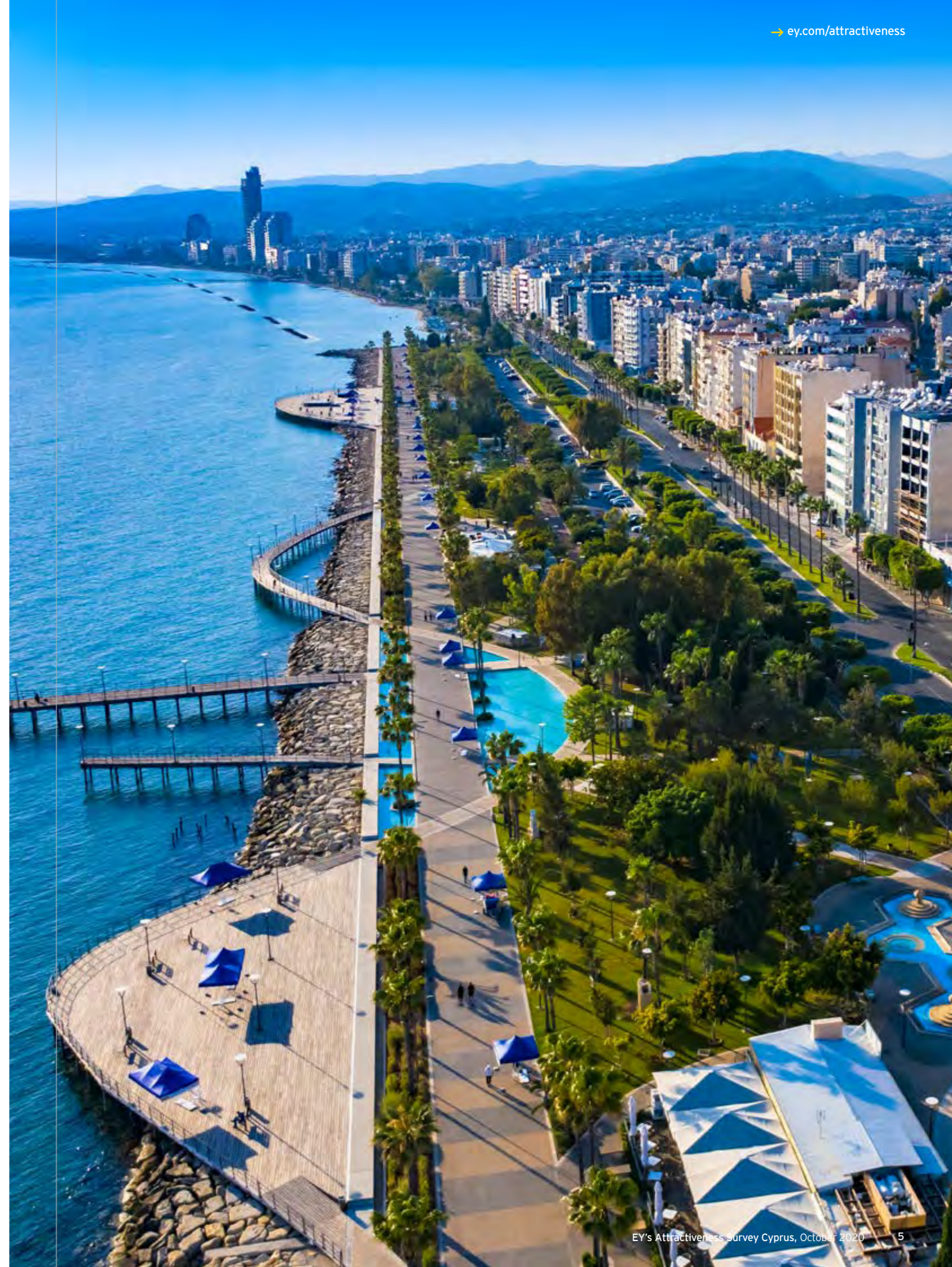
No doubt, steps to limit bureaucracy and red tape, digitalisation of government processes and speeding up the judicial system proceedings will also be critical.

Finally, dealing with the challenges facing the banking system is imperative. Given the legacy of the local banking system, Cyprus needs to strike a fine balance between securing compliance and transparency to reassure investors and avoiding overregulation, which may raise obstacles to doing business. The Cypriot banking system is currently going through a consolidation and reform phase, which may also create room for attracting international banking institutions to the island.

Against a background of global economic pessimism, our survey paints an overall positive picture about Cyprus’s investment attractiveness. If we build on our strengths, act decisively to deal with the obstacles identified by investors and adapt swiftly to the new normal, the investment climate can only improve.



David Barker
Country Managing Partner, EY Cyprus,
CESA Corporate Finance Leader for
Strategy and Transaction Services



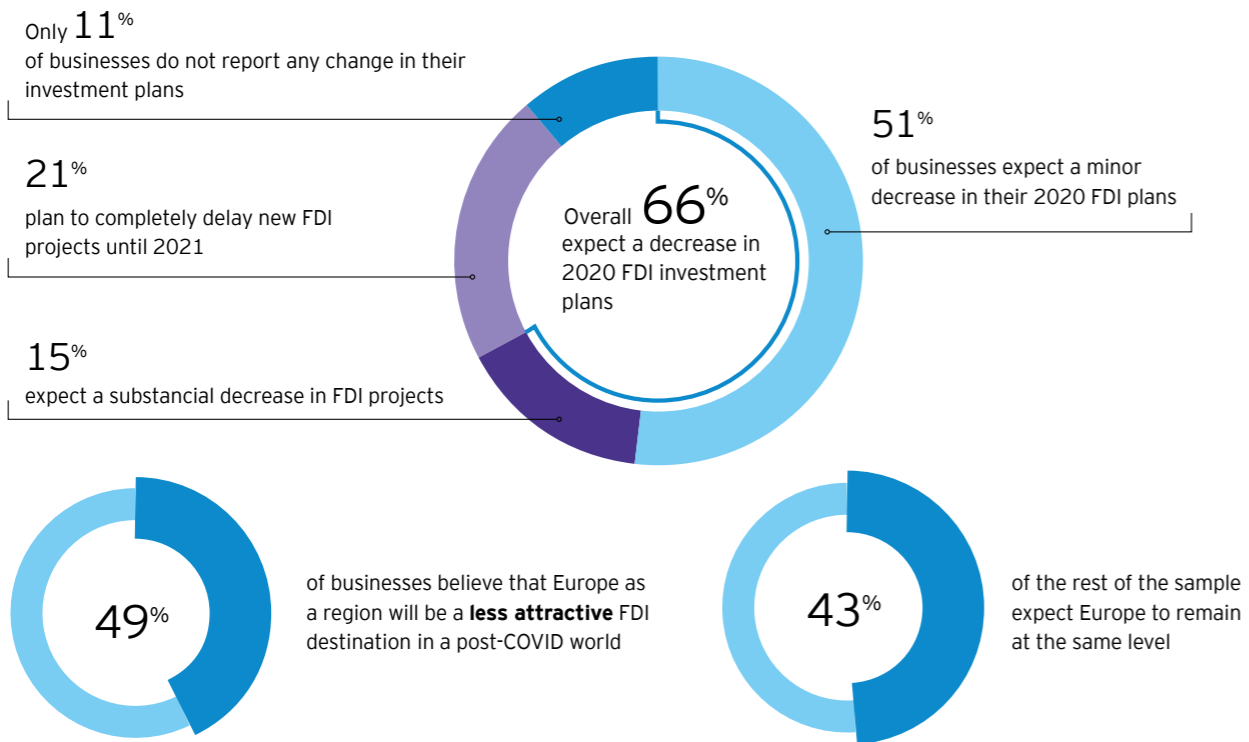
Executive summary

This is the first EY Attractiveness Survey for Cyprus. It aims to measure the FDI attractiveness of the country as a combination of image, investor confidence and the country's ability to provide competitive benefits for FDI. Our sources for this report include the EY EIM database and the EY Attractiveness Surveys.

The survey for Cyprus was conducted by CSA Research between June 5th and June 26th 2020 by means of telephone interviews with more than 100 decision-makers from foreign companies in 16 countries.

1 FDI in Europe: COVID-19 triggered a sharp decline in FDI across Europe, but not a complete cutback

In 2019, Europe had one of its strongest years ever in terms of FDI, attracting 6,417 projects in 47 countries. The pandemic on the other hand, led to a sharp decline in the number of planned FDI projects, with 66% of companies reporting a decrease in their investment plans for 2020. Furthermore, one in two businesses participating, view Europe as less attractive in the coming years.



The negative climate gave rise to three megatrends that are expected to shape investment decisions in a post-COVID world:

- 1 A reconfiguration of supply chains, with a new mix of reshoring, nearshoring and offshoring
- 2 The acceleration of technology for customer access and cost reduction
- 3 A sharper focus on climate change and sustainability in investment decisions

2 FDI in Cyprus: Healthy FDI inflows prior to the pandemic

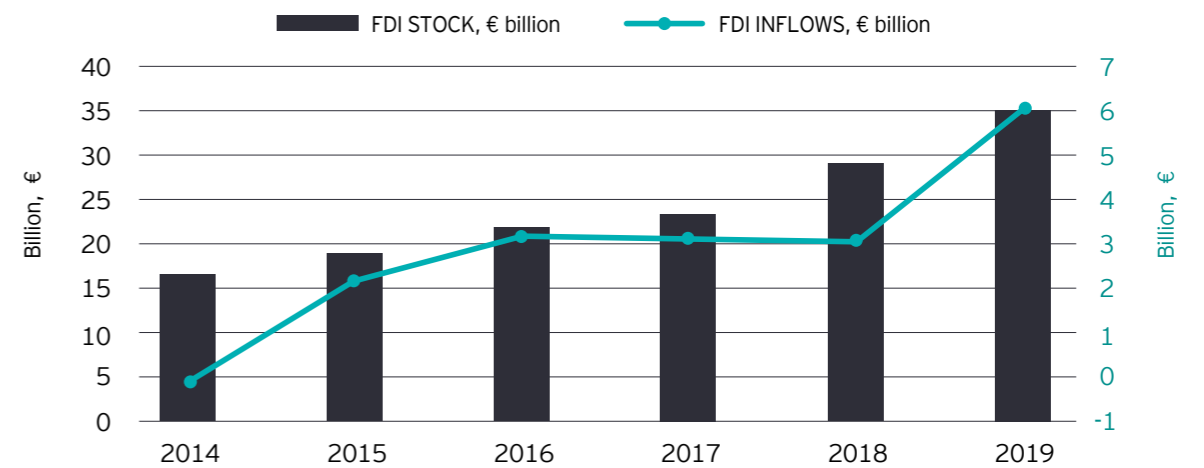
FDI neared 29% of the country's GDP in 2019 as FDI inflows amounted to €6 billion.

The figure almost doubled from 2018 as a result of the improvement in the country's macroeconomic outlook and a (pre-pandemic) projected GDP growth of 2.8% for 2020.

Key source countries for these investments included Russia and the wider Commonwealth of Independent States, Middle East and the Gulf, China, Greece, other European countries and, recently, the US.

The sectors that have attracted international investor interest in recent years range from hospitality/ tourism to real estate, infrastructure and shipping, energy, telecommunications and, more recently, financial services and higher education.

Annual net FDI inflows and stock levels for Cyprus



Source: Central Bank of Cyprus



The findings from the EY Survey on Cyprus FDI are presented below:

3 EY Cyprus Survey Results

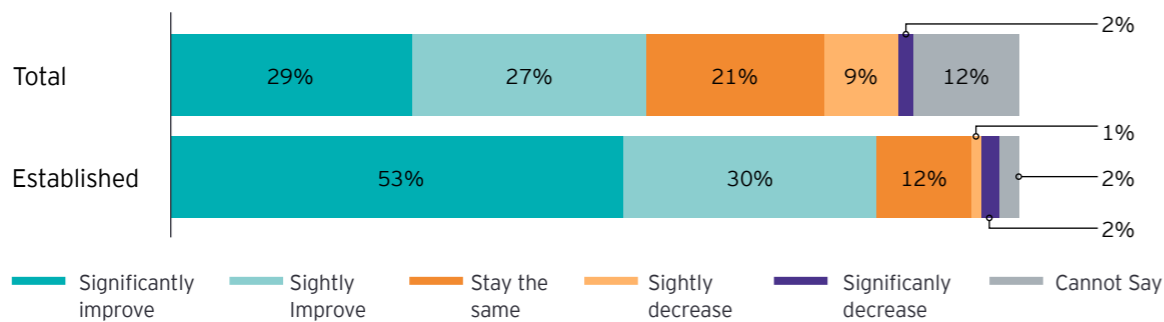
Lack of awareness among non-established investors

One of the most striking findings of the survey is the persistent differentiation in the responses between established and non-established companies¹; with the former having a significantly more positive view of Cyprus as an investment destination. By contrast, companies with no prior activities locally were more negative about their views of Cyprus. A possible explanation is that established investors are de facto more aware of the local environment and its conduciveness to FDI.



Despite the pandemic, Cyprus remains an attractive investment destination, especially for established investors

When asked to give their opinion on how Cyprus's FDI attractiveness will evolve over the next three years/ after the COVID-19 pandemic has passed, participants responded:



More than one half of the total sample of investors are optimistic about the next three years. These findings compare favourably with those of the overall European market, where positive sentiment stands at 39%.

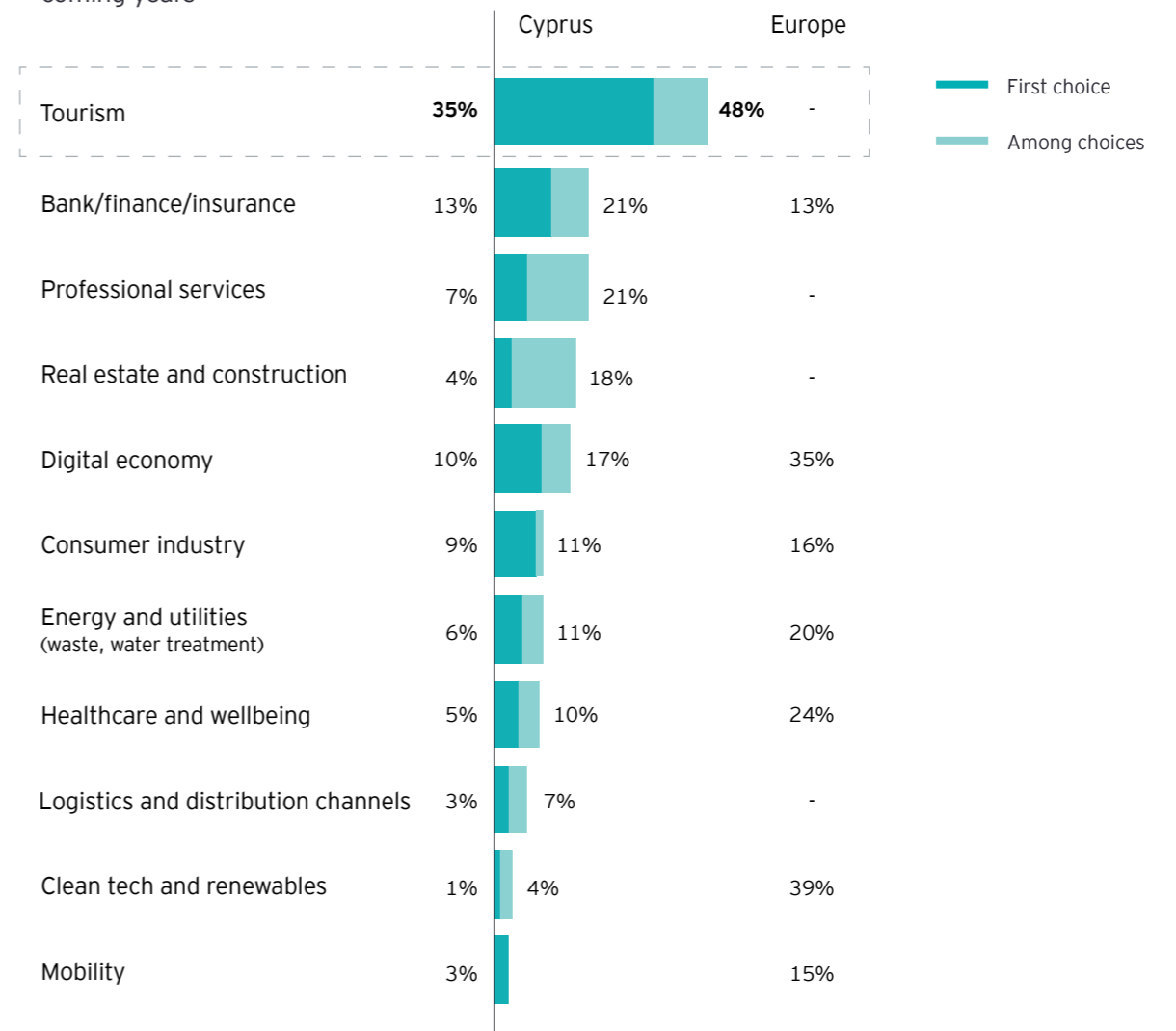
It is worth noting that the sample of established investors appear even more optimistic.

83% ↑
of established investors expect an improvement

1. Established investors refer to investors with a presence in Cyprus; either through setting up their own operations or by means of an acquisition. Non-established investors refer to investors with no presence or ties with Cyprus, as a consequence of which they appear to have no (extensive) knowledge of the local environment.

EY Survey: The investor interest spreads over a range of economic activities, defying disproportionate reliance of the economy on a few sectors

Participants were asked to identify which business sectors they think will drive growth in the coming years



The investors recognise the high reliance of the country on a small number of sectors, especially tourism.

There is a pressing need for the Cypriot economy to diversify its traditional dependence on sectors beyond tourism, real estate and professional services.

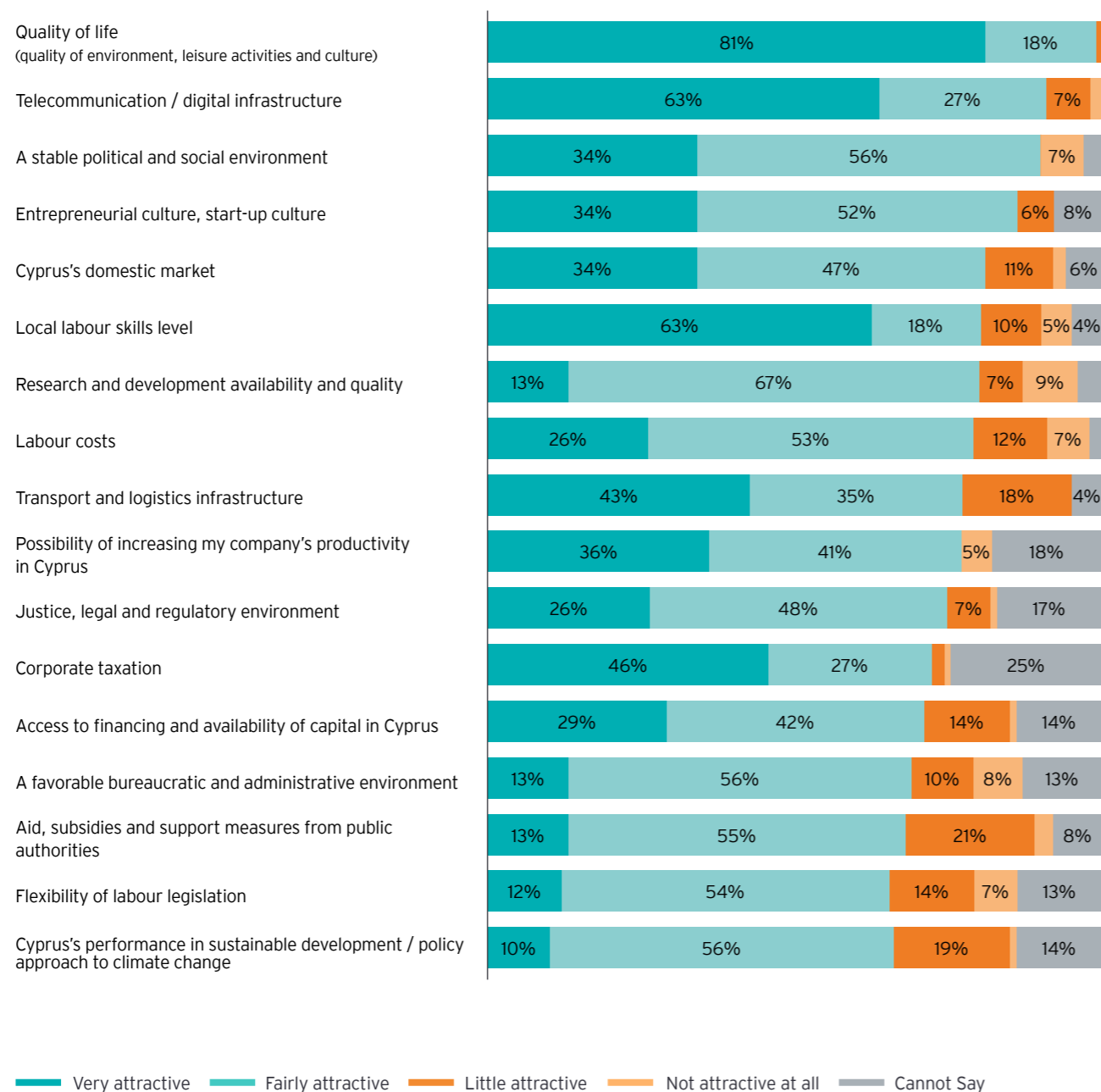
Following the lead of other European countries, potential expansion into evolving sectors such as the digital economy, energy and logistics may provide the answer.

Identifying Cyprus's key strengths and weaknesses

According to *established* investors, quality of life tops the list of strengths, closely followed by the telecommunication/digital infrastructure and stable political/social environment.

The lowest results are observed in the area of flexibility of labour legislation, aid/subsidies/support measures from public authorities and favourable bureaucratic/administrative environment; indicating potential areas of improvement for the attraction of new investments.

Cyprus's attractiveness with regards to different investor criteria



4 Conclusions & Recommendations

Based on the survey findings we reach the following conclusions and recommendations:

- ▶ **Lack of awareness** as evident by the huge divergence between the perceptions of *established* and *non-established* investors. Cyprus needs to undertake an **aggressive and well-targeted information campaign** to raise awareness about conditions and investment opportunities, promote success stories and clear up possible misconceptions or prejudices.
- ▶ Gearing for **sustainable development** and transition to a **circular economy** has proved challenging for Cyprus. The liberalisation of the energy market and a well-designed green energy taxation system may help the transition to a **green economy**.
- ▶ High educational attainment of the **local workforce** has resulted in overqualification and shortage of technical skills. The provision of **professional orientation** to young people, **reskilling** of existing workforce and the encouragement of **vocational training** will help to acquire technical skills that are currently in shortage.
- ▶ Cyprus has been traditionally **heavily dependent on a small number of sectors**. It needs to revisit its strategy and **diversify its economic model** by opening-up and encouraging investment in new sectors, including those where the well-educated and skilful local human capital can be put to use.
- ▶ Cyprus lags behind its European counterparts on the **adoption of digital technologies and innovation**. The set up of the Deputy Ministry of Research, Innovation and Digital Policy in March 2020 is the first step towards a well-tuned research & innovation ecosystem and digital technology exploitation.
- ▶ **Enhancement of SMEs ecosystem and support to start-ups** should be high on the agenda, with initiatives including tax and other incentives as well as support to grow and prosper.
- ▶ The country's continuous **investment in infrastructure** (airports, ports, telecommunication networks, etc) combined with its strategic position at the crossroads of three continents can support Cyprus becoming a regional logistics hub.
- ▶ Steps to **dilute bureaucracy** with regards to approvals and processing by different government departments as well as **eliminate delays in legal proceedings**. These include the **digitalisation** of government processes and an **e-justice** platform.
- ▶ Fortification of the **banking system** and increased liquidity through an **active stock exchange** can facilitate the funding of FDI activities as well as support the exit strategies for foreign investors.



1

FDI in Europe: EY European Attractiveness Survey 2020

Ernst & Young (EY) monitors and evaluates FDI in Europe through the EY European Investment Monitor (EIM). This is a proprietary database produced in collaboration with OCO Global², tracking FDI projects that have created new facilities and jobs. The database aims at capturing the reality of investment activity across the continent³ and to facilitate conclusions on emerging trends, sectors, activities, countries and geographical areas.

EIM analysis is further combined with EY's Attractiveness Surveys. These Surveys capture both the reality and perception of FDI in a country. By examining the investment attractiveness of a particular country, the EY Attractiveness surveys aim to help businesses make investment decisions and governments remove barriers to growth. The surveys are carried out both at country-specific level and European level.

This year's EY Europe Attractiveness Survey was conducted in two phases⁴; with the bulk of the interviews carried out in January and February 2020, followed by a second perception survey conducted in April in order to capture the COVID-19 pandemic effect and emerging trends.

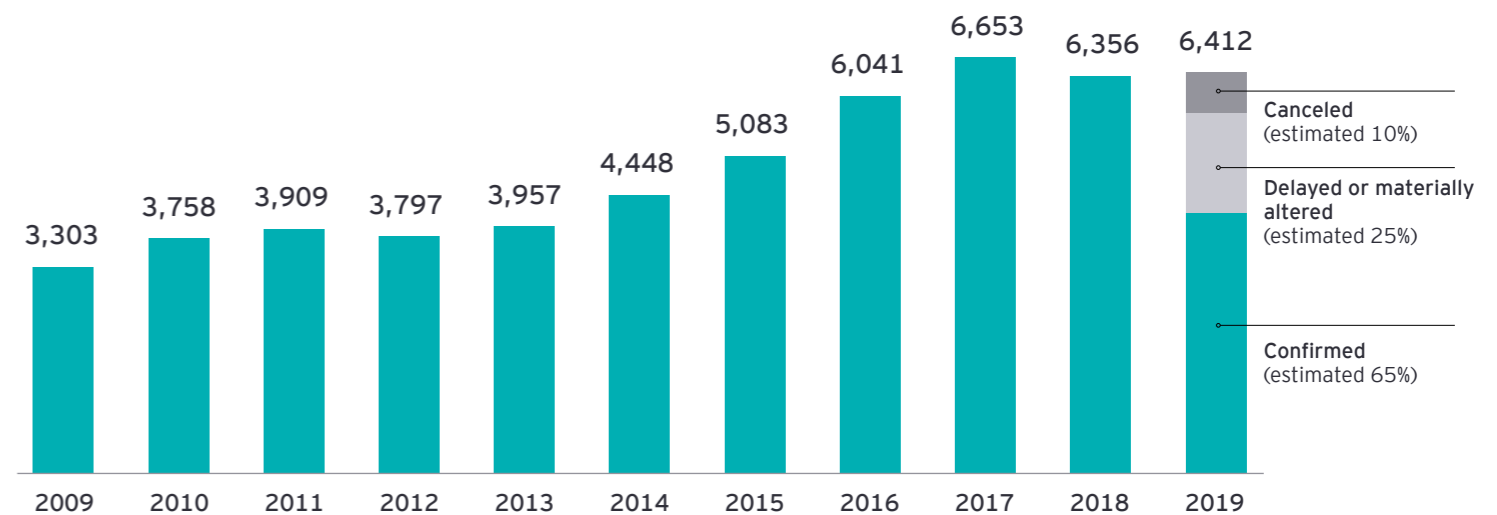
The immediate effects of the pandemic

According to data from the 2020 EIM, 6,412 foreign investment projects were announced in Europe in 2019, constituting the second all-time high absolute figure and a marginal increase of 0.9% compared to 2018.

Even though historically the great majority of announced investment plans were actually implemented, the uncertainty caused by the COVID-19 pandemic appears to have overturned this rule.

Based on the survey conducted last April, 10% of investment plans have already been or will be cancelled, 25% are being significantly delayed or altered and only 65% appear to be moving forward.

Number of foreign investment projects announced in Europe prior to the pandemic and the COVID-19 impact on investments announced in 2019



Source: EY European Investment Monitor (EIM) 2020.

2. <https://oungwww.ocoglobal.com/>

3. It is further noted that the methodology also excludes investments in retail and leisure facilities, hotels, real estate and extraction activities, except when the investment involves the establishment of a headquarters facility or a distribution centre. It is further noted that merger and acquisition activities are also excluded.

4. The field research was conducted by the CSA Institute in January and February 2020 via telephone interviews, based on a representative panel of 504 international decision-makers. A second perception survey was conducted from 15 April to 29 April to reflect decision-makers' perception changes due to the COVID-19 crisis. This online survey was led by Euromoney, based on a representative panel of 113 international decision-makers.

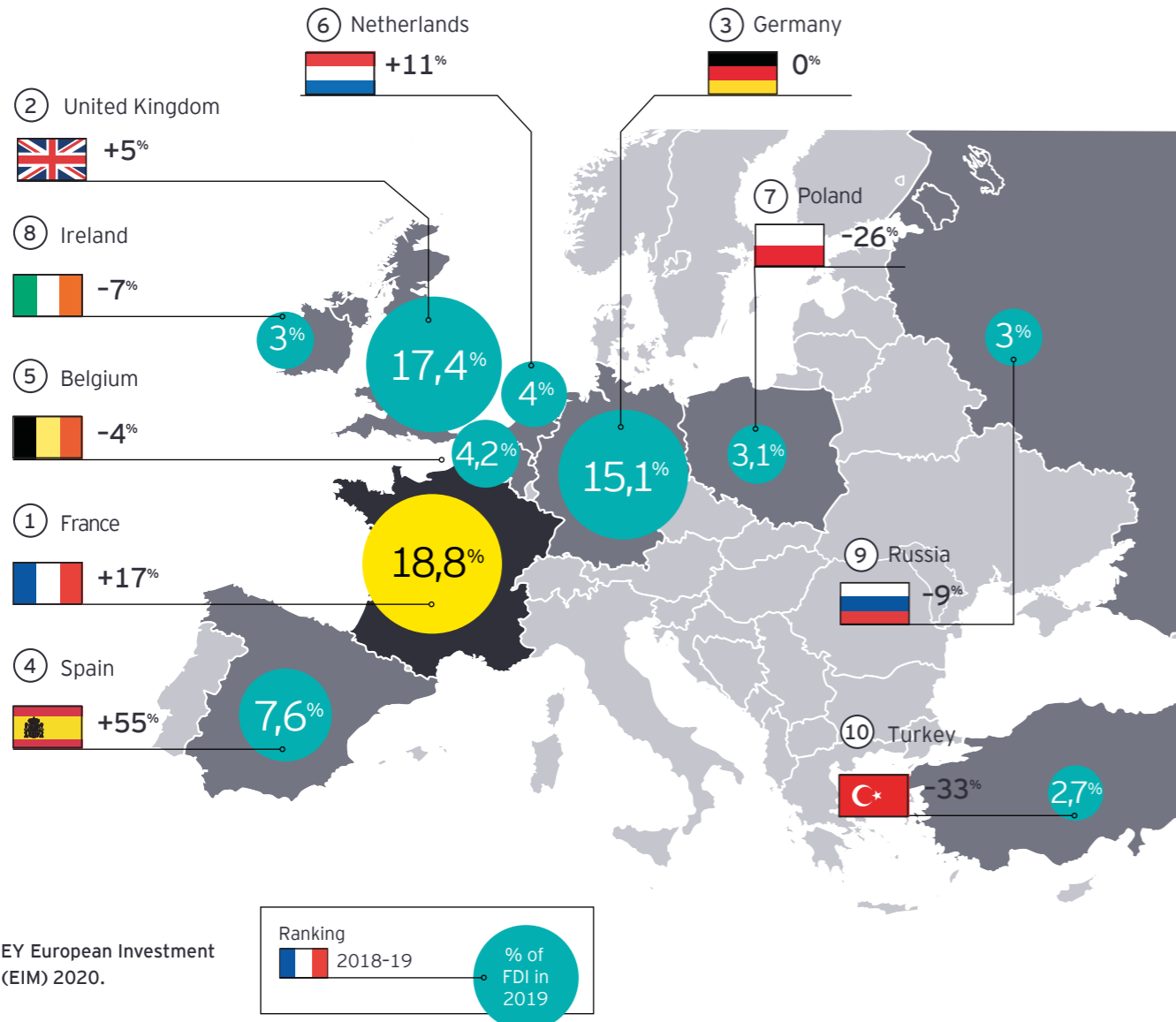
Historically, projects announced in the previous year were considered as a fair indicator for the existing year's activity. On this premise and the adjustments outlined above, the findings suggest that FDI activity in 2020 was reduced to the levels of the beginning of the decade. This reflects a significant but not dramatic decline.

Understandably, the impact of the pandemic on project realisation varies considerably by industry and country. Countries where a large proportion of FDI is service-orientated (shared service centres, software development, R&D, etc.) are projected to retain up to 80% of their inward FDI despite the crisis, while countries dominated by investments in other sectors (manufacturing, tourism, etc.) are expected to suffer more.

France takes the lead

In 2019, France topped the list in terms of the number of FDI projects (1,197) for the first time, recording a 17% year-on-year increase and taking the lead from the United Kingdom. The uncertainty caused by Brexit only partly explains this shift, since FDI in the UK also increased by 5%. FDI in France has seen a strong rise since 2017, following labour law and corporate taxation reforms introduced by the government. A significant increase was also recorded in Portugal (+114%), Spain (+55%) and the Netherlands (+11%), while a number of countries exhibited downward trends (Turkey: -33%, Poland: -26%, Russia: -9%, Ireland: -7%).

Figure 2: Top 10 FDI countries in 2019 - share of project numbers and 2018-19 trends



Top 20 FDI European destination countries by number of FDI projects

| Rank 2019 | Country | Number of FDI projects | | Change 2018/19 | Market share 2019 |
|-----------|-----------------|------------------------|--------------|----------------|-------------------|
| | | 2018 | 2019 | | |
| 1 | France | 1,027 | 1,197 | 17% | 19% |
| 2 | United Kingdom | 1,054 | 1,109 | 5% | 17% |
| 3 | Germany | 973 | 971 | -0.2% | 15% |
| 4 | Spain | 314 | 486 | 55% | 8% |
| 5 | Belgium | 278 | 267 | -4% | 4% |
| 6 | Netherlands | 229 | 255 | 11% | 4% |
| 7 | Poland | 272 | 200 | -26% | 3% |
| 8 | Ireland | 205 | 191 | -7% | 3% |
| 9 | Russia | 211 | 191 | -9% | 3% |
| 10 | Turkey | 261 | 176 | -33% | 3% |
| 11 | Portugal | 74 | 158 | 114% | 2% |
| 12 | Italy | 103 | 108 | 5% | 2% |
| 13 | Hungary | 101 | 105 | 4% | 2% |
| 14 | Serbia | 119 | 103 | -13% | 2% |
| 15 | Romania | 109 | 78 | -28% | 1% |
| 16 | Finland | 194 | 75 | -61% | 1% |
| 17 | Switzerland | 61 | 73 | 20% | 1% |
| 18 | Austria | 40 | 69 | 73% | 1% |
| 19 | Slovakia | 31 | 65 | 110% | 1% |
| 20 | Sweden | 73 | 63 | -14% | 1% |
| | Other countries | 627 | 472 | -25% | 7% |
| | Total | 6,356 | 6,412 | | 100% |

Source: EY European Investment Monitor (EIM) 2020.



Digital technology and business services continue to dominate interest

As in previous years, digital technology and business services⁵ rank first and second respectively in terms of the number of investments in Europe; attracting almost one in three FDIs and creating one in four new jobs.

At the same time, historically strong sectors attracted lower interest. The ‘transportation manufacturers and suppliers’ category (automotive, aeronautical for example), responsible for creating more than 60,000 jobs or 23% of the total, accounted for only 7% of the announced FDI projects in 2019. The specific industry is expected to be hit further by the pandemic, due to supply chain disruptions, lockdowns and declining demand. The table below summarises the sectors that attracted the highest interest⁶.



Top 15 FDI sectors in 2019 - projects and job creation

| Top 15 sectors | Number of FDI projects 2019 | Market Share (number of projects 2019) | Job creation 2019 | Market Share (number of jobs 2019) |
|--|-----------------------------|--|-------------------|------------------------------------|
| Digital | 1.219 | 19% | 41.025 | 15% |
| Business services | 774 | 12% | 25.601 | 9% |
| Transportation manufacturers and suppliers | 472 | 7% | 64.460 | 23% |
| Machinery and equipment | 535 | 8% | 16.512 | 6% |
| Finance | 367 | 6% | 6.125 | 2% |
| Agri-food business | 377 | 6% | 11.392 | 4% |
| Transportation and logistics | 414 | 6% | 22.183 | 8% |
| Chemicals and plastics | 283 | 4% | 6.955 | 3% |
| Electronics and IT | 274 | 4% | 16.741 | 6% |
| Utility supply | 130 | 2% | 2.964 | 1% |
| Metals | 108 | 2% | 4.834 | 2% |
| Pharmaceuticals | 164 | 3% | 3.921 | 1% |
| Raw materials | 153 | 2% | 2.788 | 1% |
| Textile, clothing and leather | 111 | 2% | 9.027 | 3% |
| Research and scientific instruments | 184 | 3% | 6.249 | 2% |
| Other | 847 | 13% | 34.157 | 12% |
| Total | 6.412 | 100% | 274.935 | 100% |

Source: EY European Investment Monitor (EIM) 2020.

5. The business services sector encompasses a wide range of professional services such as consulting, accounting, audit, legal services and training.
6. These are projects that were announced in 2019, of which 65% were executed, 25% delayed and 10% cancelled.

Changes in the countries of origin

Although the United States remains at the forefront of inward FDI in Europe (21%), intra-European investment is still dominant in the first place, with more than half of the FDI in Europe originating from other European countries. Germany ranks first at 11% of total intra-European investment as a source market, followed by the United Kingdom (8%) and France (6%).

Top 10 countries investing in Europe

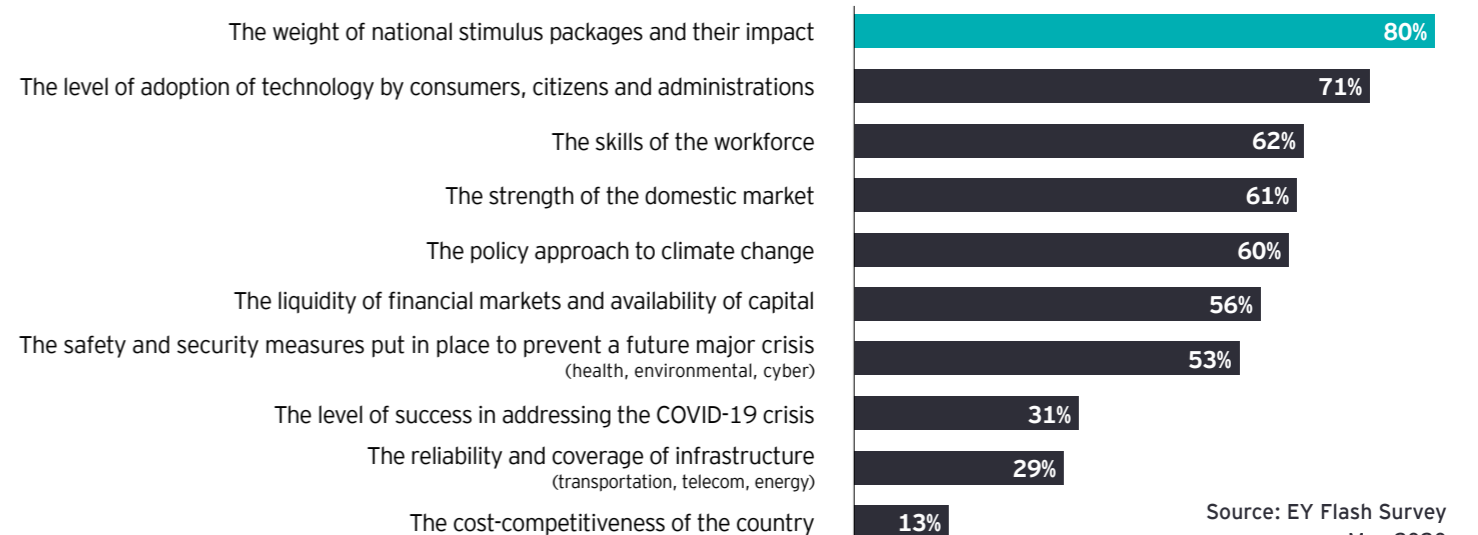
| Country | Number of FDI projects | | Change 2018/19 | Market share 2019 |
|-----------------|------------------------|--------------|----------------|-------------------|
| | 2018 | 2019 | | |
| United States | 1,419 | 1,483 | 5% | 21% |
| Germany | 695 | 675 | -3% | 11% |
| United Kingdom | 479 | 493 | 3% | 8% |
| France | 341 | 362 | 6% | 6% |
| Switzerland | 293 | 258 | -12% | 4% |
| Japan | 271 | 248 | -8% | 4% |
| China | 254 | 312 | 23% | 5% |
| Netherlands | 248 | 203 | -18% | 3% |
| Sweden | 211 | 145 | -31% | 2% |
| Italy | 181 | 200 | 10% | 3% |
| Other countries | 1,964 | 2,033 | 4% | 32% |
| Total | 6,356 | 6,412 | | 100% |

Source: EY European Investment Monitor (EIM) 2020.

How will the COVID-19 pandemic affect FDI decisions in Europe?

The perception survey conducted in April also sought to explore factors that could influence FDI decisions following the COVID-19 pandemic. Decision factors that had emerged in recent years, such as the level of adoption of technology by different countries, the skill of the workforce and the volume of the domestic market, continue to dominate as drivers. Nonetheless, new criteria are emerging, compared to previous years' surveys, including policies for climate change, and, to a lesser extent, the level of success of each country in dealing with the COVID-19 crisis.

Factors influencing the decision to select a particular country for investment

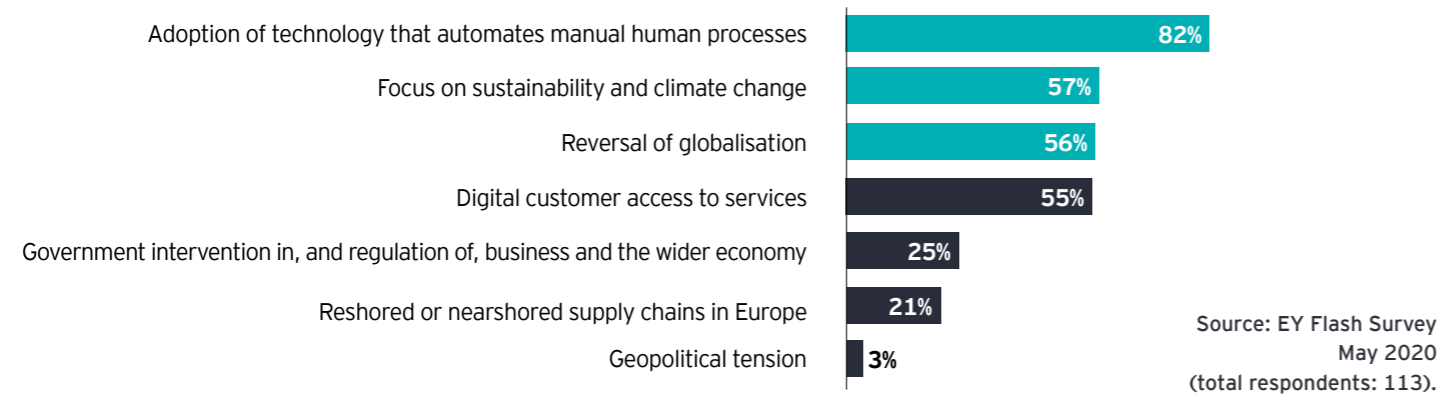


Source: EY Flash Survey May 2020 (total respondents: 113).

The COVID-19 pandemic could accelerate three mega-trends

Investment decisions in the coming years are expected to be significantly affected by three mega-trends which, according to our survey findings, are likely to gain momentum due to the pandemic.

Trends expected to accelerate in the next three years as a result of COVID-19



1 Acceleration of digital technology use

The experience of COVID-19 has, within a few weeks, drastically changed the relationship between businesses/employees/consumers and digital technology. The great majority of the participants (82%) expect that the adoption of technology will be accelerated in the next three years as a result of COVID-19, while 55% plan to improve the digital access of their customers to different services. At the same time, companies are planning to accelerate investment in intelligent automation and robotisation of manufacturing.

As already noted, the digital competitiveness of an economy has emerged in recent years as the most important element of a country's FDI attractiveness at European level; including digital infrastructure, digital skillsets, and a dynamic ecosystem of technology companies. This trend is expected to continue gaining more ground in the coming years.

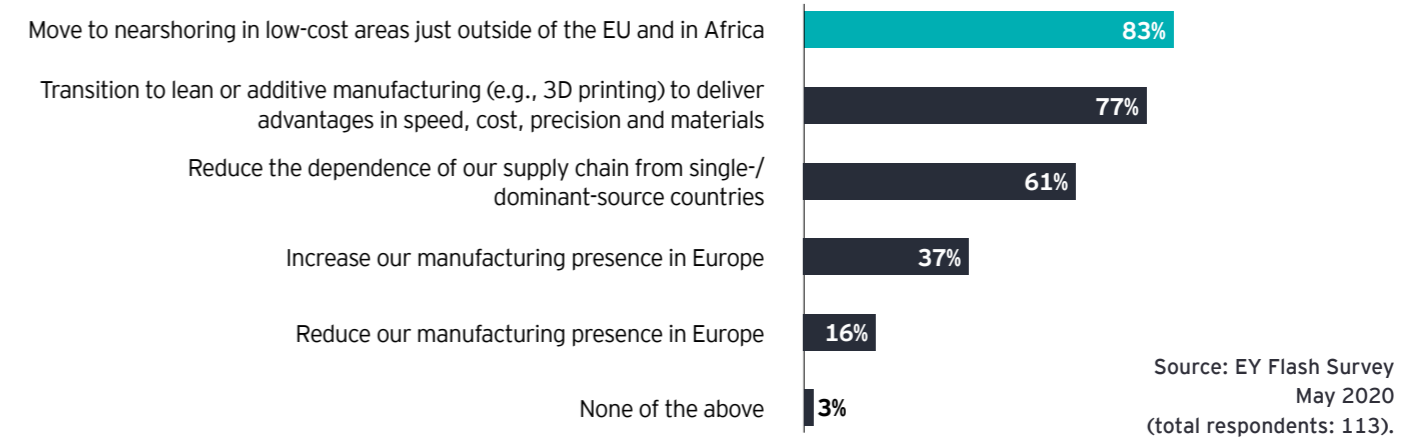
2 Greater focus on sustainability and climate change

During the lockdown, citizens had the opportunity to live in cities with clear atmosphere and water resources. At the same time, the crisis, combined with racial incidents around the globe, has increased focus on economic inequalities and deficiencies of the welfare state. In the first months of 2020, sentiment was linked to an increase in society's consciousness on climate change and social inequalities, which is in turn reflected in business decisions and is likely to also lead to legislative initiatives by European governments. Businesses that already have sustainability on their agenda may see the European regulatory and social environment coming more in line with their own visions and philosophy. On the other hand, a stricter regulatory framework and higher taxes to fund such policies may also adversely affect the region's attractiveness.

3 The reversal of Globalisation: Necessity for flexibility and resilience in supply chains

The pandemic, combined with growing geopolitical tensions, has also alerted all businesses to the necessity of establishing more flexible, diversified, and resilient supply chains. At the same time, many governments are focusing on reducing the dependence of their economies on remote and politically unstable countries; especially in sectors such as pharmaceuticals and health equipment. According to our survey, three main trends with regards to supply chain are emerging at European level: shifting of supply sources to low-cost countries just outside the EU (83%); the transition to lean structures of additive manufacturing such as 3D printing (77%); and the reduction in the degree of dependence on a single-source country (61%).

How will companies change their supply chain model in response to COVID-19?

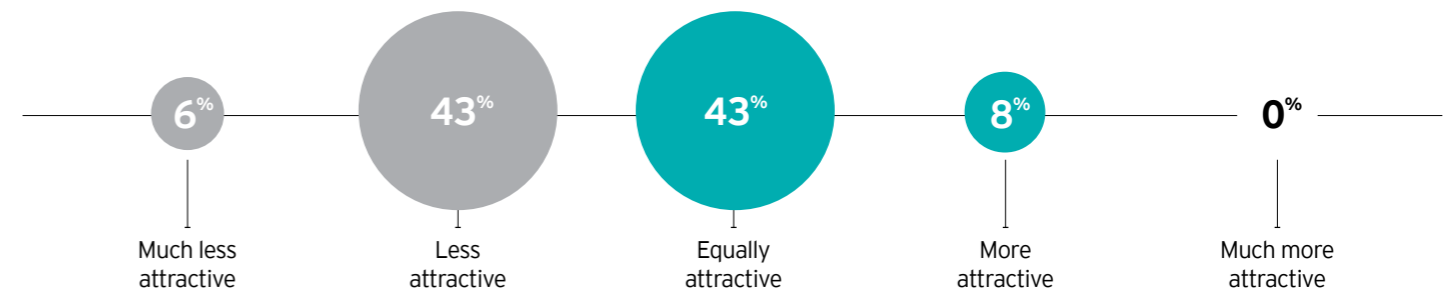


Europe's post-COVID FDI attractiveness

On the crucial question of whether Europe's overall attractiveness as an investment destination in the post-COVID-19 era will be affected, the survey participants' verdict was rather pessimistic. While 43% of the investors feel that Europe's attractiveness will remain constant, the majority (49%) expect that Europe is now 'less' or 'much less' attractive. Only 8% of the participants believe that Europe's attractiveness has been enhanced following the pandemic. The pessimistic results are attributed to the observed deceleration of future FDI plans following the outbreak of the COVID pandemic (66% of companies anticipate a decrease in 2020 plans). For the majority of participants (80%), the pace of recovery in FDI is tied to the nature and weight of the economic stimulus packages, which is location-based and uncertain. Participants also feel that to rebuild its attractiveness Europe must:

- ▶ exploit globalisation in a way that works for Europe and strengthens the European marketplace
- ▶ invest in boosting its technology, healthcare and environmental industries
- ▶ fund the "new normal" with a careful balance between public support and economic competitiveness and
- ▶ be better prepared for the next shock.

Will Europe be considered more or less attractive for investment in a post-COVID world?



2

Cyprus economy and FDI

This section provides a brief overview of the Cypriot economy and its key sectors, together with some examples of relevant foreign direct investments that took place over recent years in each case.

Figure 10: Cyprus - Key facts & figures



2004
EU Member State

2008
Eurozone Member

Gross domestic product (GDP) per capita 2019

€24K
Ranked #20
in Europe

Political system:

Presidential
Democratic Republic
with a written constitution

Legal and judicial system:

Based on UK system due to country's ex-colonial status and
aligned with EU Directives

Tax regime

Corporation tax rate:
12.5%

Wide range of
Double Tax Treaties
with more than 60 countries

No withholding taxes
on dividend and interest payments to non-Cyprus tax residents

Favourable Intellectual Property and Tonnage Tax regime

Leading industries

01
Hospitality/
Tourism

02
Real estate/
Construction

03
Professional
Services

Indices

World Bank
Ease of Doing
Business 2020
#54

Forbes
Best Countries
for Business
#28

IMD World
Competitiveness
2020
#30



Economic trends

Recent history

The Cyprus economy bounced back to growth in 2015, showing remarkable resilience after having endured a challenging economic climate earlier in the decade. In the period 2015-2019, the real GDP rate grew by 4.4% on average per year.

In 2019, growth was recorded at 3.2% and, up to the onset of the COVID-19 crisis, the macroeconomic outlook for 2020 was positive with a projected annual growth of 2.8%⁷.

Factors contributing to this trend included privatisation/liberalisation initiatives (Cyprus ports, country's first

Integrated Casino Resort license, marina licenses, etc.), structural reforms, investor incentives (e.g. tax and planning incentives) and the discovery of material natural gas deposits in the country's Exclusive Economic Zone.

A key role in the economic turnaround was also played by FDI, facilitated by:

- ▶ the country's open economy
- ▶ European status
- ▶ liberalised FDI Policy
- ▶ the country's skilled talent
- ▶ relatively low cost of doing business
- ▶ top-tier supporting professional services, and
- ▶ the country's high quality of life.

Key macroeconomic indicators

| Key economic indicators ⁸ | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------|-------|-------|-------|-------|
| GDP (annual change at volume measures, %) | 3.4 | 6.7 | 4.4 | 4.1 | 3.2 |
| GDP (EUR billion) | 17.84 | 19.04 | 19.87 | 20.68 | 21.35 |
| GDP/ capita (EU-28 = 100) | 87 | 90 | 95 | 101 | 84 |
| Private consumption (annual change, %) | 0.8 | 2.8 | 5.4 | 5 | 3.3 |
| Government consumption (annual change, %) | 0 | -1.3 | 4 | 4.9 | 17.5 |
| Gross fixed capital formation (annual change, %) | 0.9 | 38.1 | 24.1 | 1.3 | 1.2 |
| Exports (annual change, %) | 8.9 | 6.5 | 9.5 | 5.6 | 1.1 |
| Imports (annual change, %) | 6.4 | 8 | 12.9 | 3.9 | 2.7 |
| Public debt (as % of GDP) | 107.5 | 103.4 | 93.9 | 100.6 | 95.5 |
| Inflation (annual change, %) | -2.1 | -1.4 | 0.5 | 1.4 | 0.25 |
| Unemployment (%) | 14.9 | 12.9 | 11.1 | 8.4 | 7.1 |

7. Ministry of Finance, Stability Programme 2020-2023; European Economic Forecast report issued by the European Commission, Feb 2020
 8. Data from Cyprus Statistical Service

COVID-19 impact

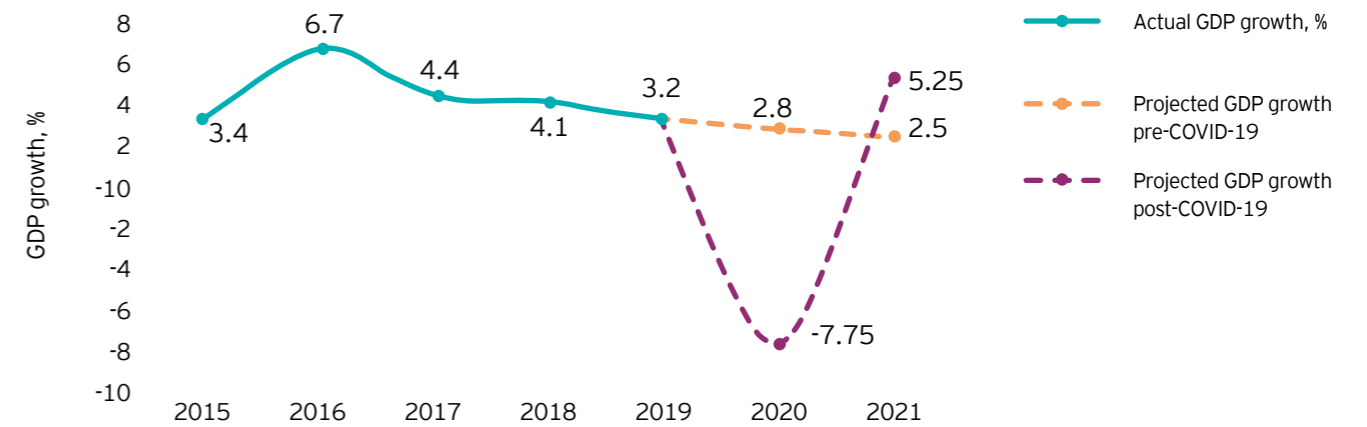
The Cypriot Government took swift action to protect public health, implementing social distancing and border control measures early on, followed by lockdowns and travel bans. The moves, together with high testing rates (ranking 5th in Europe in tests per head⁹), helped to maintain the virus spread.

To mitigate the effects of the pandemic and the impact on the local economy, the Government adopted a stimulus package of budgetary measures supporting businesses and employees through subsidies, tax reliefs and other means. Over 60 economic support measures were introduced with a budgeted cost at circa € 1.2 billion (c.5.4% of 2019 GDP)¹⁰.

Despite these measures, and in line with the global trend, the country's positive economic outlook was reversed, with key sectors of the economy (such as tourism, construction and retail trade) severely hit.

The Cypriot economy is projected by the European Central Bank (ECB) to only return to 2019 levels in 2 years' time, with real GDP forecasted to contract by 7.75% in 2020 and only partially recover in 2021 by 5.25%¹¹. The blow to the economy is depicted in the graph below showing the ECB projections prior to¹², and after, the COVID-19 crisis.

GDP projections pre- and post-pandemic hit



The pandemic has challenged and disrupted the Cypriot society and economy. Despite the severe adverse economic impact, it has also acted as a catalyst for digitalisation and created pressures for diversification and further structural reforms in order to protect and strengthen the country's attractiveness. The crisis has brought to the surface the need to reshape the country's economic model and reduce high dependency on specific sectors of the economy and markets. The role of FDI has been key in the turnaround from crises in the past and is expected to also be key in the effort to recover from this pandemic and achieve a sustainable growth of the local economy.

9. <https://www.ecdc.europa.eu/sites/default/files/documents/COVID-19-rapid-risk-assessment-20200810.pdf>
 10. https://www.pio.gov.cy/coronavirus/press/18052020_9.pdf
 11. European Economic Forecast report issued by the European Commission, July 2020
 12. European Economic Forecast report issued by the European Commission, February 2020

Cyprus Employment Market

The local workforce is the backbone of the Cypriot economy. Labour force in Cyprus is about 437,500 or 51.9% of the total household population¹³.

The country's economic growth of recent years has been closely linked with a material decrease in unemployment, from 14.9% in 2015 to 7.1% in 2019 (EU average at 6.7%¹⁴). The rate jumped up in May 2020 to 10.2%¹⁵ following the pandemic-induced economic downturn (led by the tourism-related segment), despite the government's employment protection schemes.

The average monthly salary in 2020 was €1,992, placing Cyprus 14th among the EU-28 in terms of average salary levels¹⁶. By comparison, Denmark ranks first at €5,179 followed by Luxemburg and Germany at €5,143 and €4,035 respectively. As far as minimum salaries, in the absence of a general minimum wage threshold, the rate is set by the government for specific occupations. For instance, shop assistants, nurses, clerks and hairdressers are entitled to a minimum monthly wage rate of €870¹⁷. By comparison, minimum wages in the EU Member States in January 2020 ranged from €312 in Bulgaria to €2,142 in Luxemburg¹⁸.

As far as the education level, Cyprus ranks 4th in Europe in educational attainment of its young population, and 1st in terms of university graduates per capita¹⁹. Also, around 58% of Cypriots aged 30 to 34 have tertiary education, well above the EU average of 46%. Nonetheless, Cyprus ranks low in participation in lifelong learning (21st among the EU countries for 2020).

The high educational background of the Cypriot workforce, combined with the relatively low cost compared to its European counterparts, offer Cyprus a competitive tool in improving its investment attractiveness.



Viewpoint



Constantinos Petrides
Minister of Finance

Maintaining a macroeconomic environment characterised by stability, combined with a favorable investment framework, is a key priority of the Government. In today's challenging economic environment, it is evident that, foreign investments are more important for the revamping of the economy. For this reason, the Government aims to create, mostly through structural reform, an attractive environment conducive to investments. For example, through specific actions, such as electronic government, we aim to significantly reduce red tape, which is a major deterrent for foreign investments. Furthermore, we aim to provide a stable tax framework and a number of targeted incentives to attract FDI. At the same time, the Government's broader strategy for economic recovery includes the implementation of specific structural reforms for the development of key sectors with high value added. With this approach, we envisage that the Cyprus economy will adopt a new growth model, to become even more competitive and at the same time more attractive to foreign investors.

In my view, the key sectors for attracting FDI are essentially those which can add high value to the economy and in which Cyprus possesses significant comparative advantages. These areas include the financial services sector (e.g. investment funds), the shipping sector, higher education, health, research and innovation and the energy sector. Even though we have already experienced significant investments in these sectors, our goal is to attract even more investments by ensuring an attractive environment for investors, who are seeking a high return from their investment decisions.

Moreover, the agricultural sector as well as pharmaceuticals are also of significance. Tourism, which has traditionally been a strong performance sector, is further encouraged through the introduction of specialised forms of tourism.

Cypriot companies are generally very well positioned to attract FDI in the future, mainly because of the comparative advantages Cyprus possesses as an investment destination. For instance, the transparent and modern legal system based on UK Common Law with a highly trained workforce of lawyers, accountants and corporate service providers.

Moreover, there are excellent telecommunications, transport and logistics infrastructure. Cyprus is an EU member state with a strategic geographical location at the crossroad of three continents, which is ideal for expansion in new markets. There is also a stable and pleasant business environment, accompanied by simple administrative procedures, with low set up and operating costs.

All these factors combined together create a favorable investment environment for foreign investors, adding significant value to any investments in Cypriot companies.



13. CyStat_Publication_2019
 14. https://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics_and_beyond
 15. <https://ec.europa.eu/eurostat/documents/2995521/11054062/3-02072020-AP-EN.pdf/ce573d1a-04a5-6762-5b56-cb322cbdc5ac>
 16. <https://www.reinistischer.com/average-monthly-salary-european-union-2020>
 17. <https://www.minimum-wage.org/international/cyprus>
 18. https://ec.europa.eu/eurostat/statistics-explained/index.php/Minimum_wage_statistics
 19. Ministry of Finance data (link: Cyprus in the EU-scale)



Foreign Direct Investments in Cyprus

- ▶ The Financial Times FDI Intelligence Division ranked Cyprus #1 out of 31 islands in its 2019/20 Island Economies of the Future ranking.
- ▶ Global Finance magazine's FDI Superstars 2018 ranked Cyprus #8 out of the top 20 countries globally for FDI performance and appeal

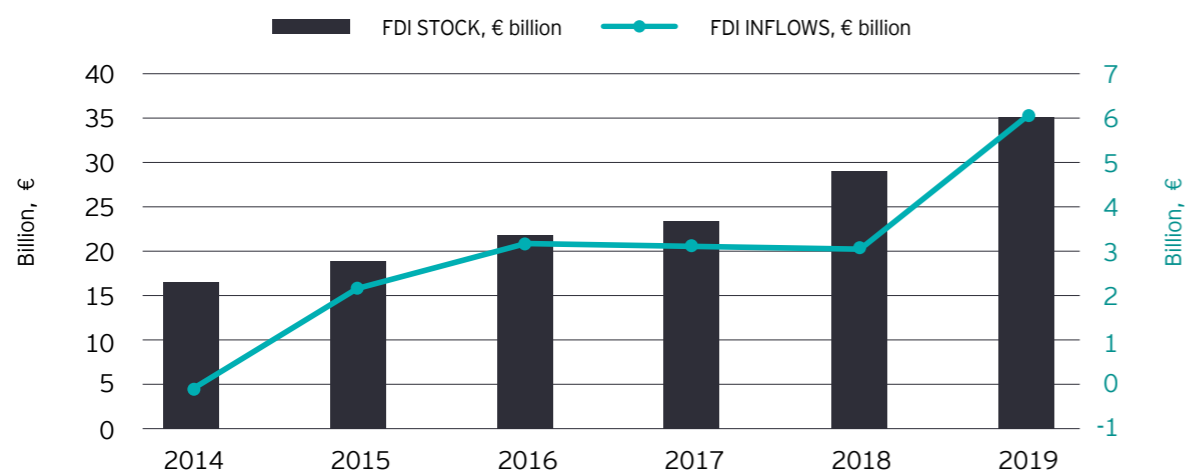
FDI inflows to Cyprus for 2019, as measured through Direct Investment Liabilities published by the Central Bank of Cyprus as a proxy for FDI²⁰, amounted to **€6 billion**. This is the highest amount since 2014 when the relevant statistic data started being available.

The respective FDI stock at the same time was valued in 2019 at **€34.7 billion**. The material growth in FDI inflows, as demonstrated in the graph below, is attributed to the improvement in the country's macroeconomic outlook. This is reflected in healthy growth rates and consecutive upgrades of the country's creditworthiness by all major rating agencies.

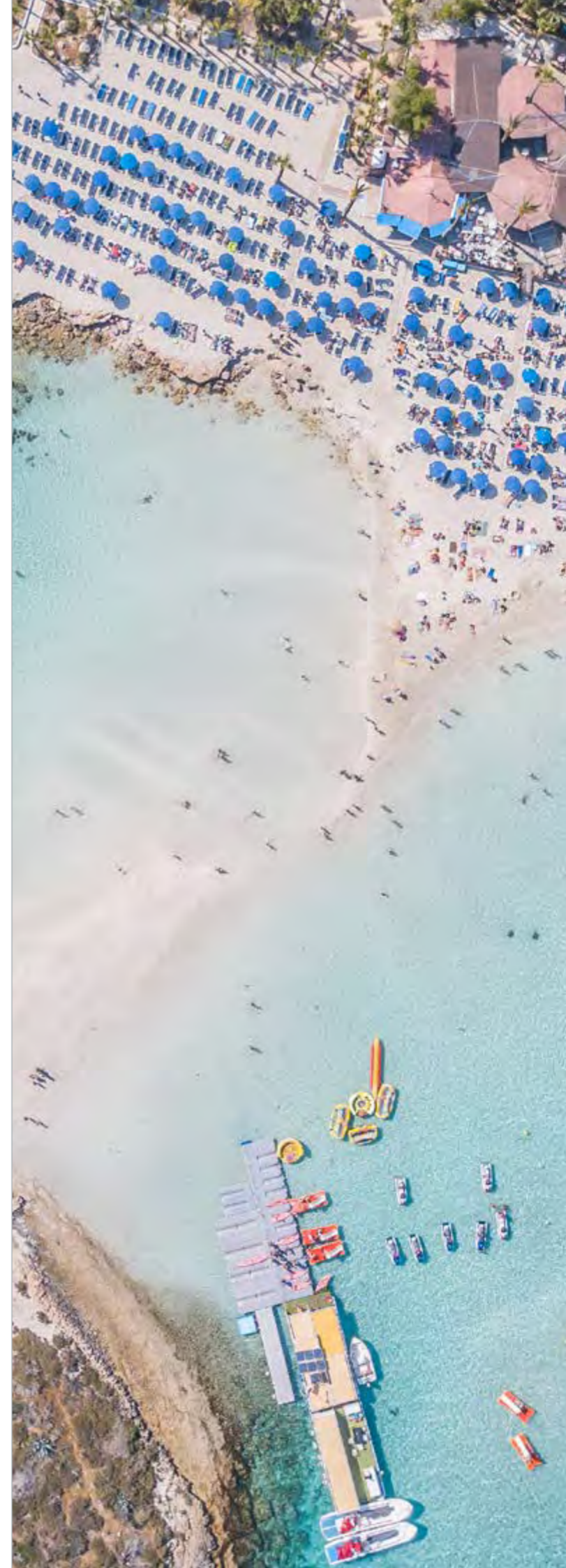
Key source countries for these investments include Russia and the wider Commonwealth of Independent States ('CIS'); Middle East and the Gulf, China, Greece, other European countries and recently the US (in the financial services sector).

Annual net FDI inflows and stock levels in Cyprus

Source: Central Bank of Cyprus



20. The data used relates to Direct Investment Liabilities, a statistic which CBC is publishing as additional supplementary FDI information, adjusting the statistics for the impact of Special Purpose Entities (SPEs). It is important to isolate the impact of SPEs from FDI data, since these companies although registered /incorporated in Cyprus they mainly deal with investments activities outside the country. The investments through these SPEs never reach the local real economy and should be excluded from the FDI data. CBC acknowledges this issue and is taking steps to gradually remedy. The data used for Direct Investment Liabilities proxies FDI inflows removes the impact from SPEs and allows for a more representative picture.



Investment by sector

International investor interest in recent years has focused, in different degrees, on a range of sectors of the Cypriot economy.

The sectors that have attracted the most FDI interest over the period include hospitality/ tourism, real estate, infrastructure and shipping, and, more recently, financial services and higher education.

The following paragraphs present key sectors that have attracted international investor interest together with notable investments in each case.

20. CyStat
21. European Economic Forecast report, July 2020

► Hospitality & Tourism

Record year-on-year tourist arrivals during the last five years, coupled with sizeable investments in tourism infrastructure, contributed to the sector's upwards trajectory and its re-establishment as a key pillar of the local economy. The sector directly employed around 30,000 people during the peak season in 2019 (c.6% of total workforce). Direct revenue from the 4 million tourist arrivals in 2019 reached €2.7 billion, accounting for the equivalent of 12.2% of nominal GDP²¹.

The World Tourism Organisation estimated tourism's total contribution (i.e. direct and indirect) in 2019 at c.22% of the country's GDP. The vast majority of tourist arrivals relates to tour operators/ packages, with direct bookings constituting a very small percentage of the total.

The sector's attractiveness and growth have fuelled a surge in upgraded tourism infrastructure; such as new hotels, mixed-use marina developments, golf courses and the largest integrated casino resort in Europe set to open its doors in 2021.

Key challenges/developments

- The sector currently faces a number of challenges. The measures taken by the Government to control the spread of COVID-19 with strict border controls and travel bans since March, while effective in controlling the pandemic, resulted in a 52% decrease in tourist arrivals for the first quarter of 2020 (year-on-year)²² and a projected overall decrease for the year in excess of 85%. The adverse effect was amplified by the high dependency of the sector on two specific markets (UK and Russia, which together represent more than 50% of the total). Another challenge for the sector is seasonality, with the great majority of arrivals concentrating in the period April-October. The historic promotion of the island primarily as a sea and sun destination is also a challenge to address.
- In an effort to overcome the challenges and increase year-round demand, the Government in recent years has offered a number of incentives to expand the relevant infrastructure (golf resorts, marinas, etc.). It has also recently completed a study covering a new strategic plan for the period to 2030. Finally, in 2019, it set-up a separate Deputy Ministry of Tourism.

Notable overseas investments in the sector:

- *Hong Kong-based Melco Resorts (one of the largest casino operators in the world) secured the country's first Integrated Casino Resort licence and is currently developing the City of Dreams Mediterranean in Limassol; expected to be Europe's largest integrated casino resort when it opens in 2021, with total investment exceeding €550 million.*
- *Marina developments (see Real Estate section).*
- *Development and opening of the first Radisson Blu hotel in Larnaca in 2018 by a local developer partnering with a pool of international investors.*
- *Development and opening of the Parklane Hotel (managed by Marriot) in Limassol in 2019 led by a Russian investor; an investment in excess of €70 million.*
- *Greece-based Prodea Investments acquiring a number of local hotels (including the prestigious former Cyprus Hilton in 2019).*
- *Fattal Group (Israel's largest hotel operator) together with ISSA (Israel's largest tour operator), invested in 2017 in the acquisition of three hotels in the Paphos district, with the overall investment value exceeding €80 million. The Group is also currently developing a new boutique hotel in Nicosia.*
- *NCH Balkan Fund, a hedge fund of American origin, recently invested in the acquisition and tourist development of two hotel projects in Larnaca.*

21. CyStat

22. European Economic Forecast report, July 2020

Viewpoint



Savvas Perdios
Deputy Minister of
Tourism

Tourism is an important part of the world economy and for the case of Cyprus a priority sector and a great contributor to the country's GDP. Cyprus is an established tourist destination in the South East Mediterranean Region and has achieved a record year of almost 4 million in tourist arrivals in 2019.

The country's National Tourism Strategy 2030, aims to enrich the island's tourism product, diversify its source markets and attract 5 million tourist arrivals. The ultimate objective is to achieve sustainable tourism development, extend its tourist season during autumn, winter and spring and position itself as a premium tourist destination.

Cyprus has strong comparative advantages, being a new investment destination for foreign investors. This interest has grown over the years as a result of the Government's structural reform programs and various incentive schemes such as a favourable legal and tax regime, highly educated human talent, safety, unique geographic location among three continents (Europe, Asia and Africa), mild climate, high quality of life and a family-friendly environment.

As a result, during recent years, Cyprus has gradually generated growth in tourism. Examples of tourism investment projects include marinas, the first integrated Casino Resort in Europe, golf projects as well as new hotel developments including branded hotels and other mixed-use developments.

FDI investments are expected to enrich the tourist product, attract new promising markets, increase winter tourism and attract visitors with higher per head expenditure. In addition, the island's international airports and sufficient airline connectivity will have a positive contribution to the island's economy.

After all, Cyprus has been successfully established as a trustworthy financial and business services hub and is committed to offer the best possible experience for international investors while delivering sustainable economic growth and prosperity.



► Real Estate

The Real Estate and Construction sector constitutes one of the main pillars of the Cypriot economy, contributing c.9% of total employment²³ (c.39,000 jobs) and c.15% of the country's GDP.

Cyprus has one of the highest home ownership rates in Europe and a longstanding market for second homes and holiday villas. The sector played a critical role in the remarkable economic turnaround of the island during the last years, boosted by the Cyprus Investment Programme²⁴ (CIP).

After a long recession-driven decline, the sector rebounded growing by an average of more than 5% p.a. since 2017, with the total number of transactions reaching c.28,000 in 2019²⁵. One in five transactions recorded in 2019 were carried out by foreign buyers. A large proportion of these transactions were

linked to CIP and much higher than average ticket prices. With a minimum investment requirement of €2 million, CIP-related transactions have played an important role in the sector's revival.

A number of new high-end luxurious high-rise developments are currently developed primarily to address this market, especially in Limassol, with prices in some cases in excess of €10,000 per m². Based on a 2019 study²⁶ conducted by EY, over the period 2013-2018, CIP had a material direct and indirect economic impact of c.€9 billion contribution to GDP, together with an increase in employment through c.10,000 new jobs created²⁷.

Key challenges/developments

- The market has been impacted significantly by the COVID-19 pandemic, with an overall y-o-y decrease of c.40% in sales volume during the first half of 2020. CIP-related transactions have experienced an even higher decline during the period. The expectations by market specialists are that CIP related acquisitions will demonstrate a material slowdown compared to historic figures, even after the end of the pandemic. The above developments and demand contraction add to concerns of oversupply in the market. These are also fuelled by a potential unloading by local banks and credit acquiring companies of real estate assets acquired through repossessions and debt-for-asset swaps associated with non-performing loans.
- Despite the above, there is market liquidity, financed by both individual investors' own funds and banking loans from institutions. The recent move towards the digitisation of procedures adopted by the Land Registry, together with the commitment of the Planning Authorities to expedite the issue of planning permits to 10 days (as opposed to up to 6 months that was the

case previously), is targeted at further supporting the sustainability of market activity.

Notable overseas investments in the sector:

- Egyptian investor Naguib Sawiris is currently developing with a local partner the Ayia Napa marina; a mixed-use development with total investment exceeding €220 million and whose marina operations opened in 2020.
- A group of Maltese investors invested in Limassol Greens in 2018, a mixed-used golf resort in Limassol.
- South African Atterbury Group (real estate group focusing on the development of shopping malls/commercial buildings) acquired the Shacolas Emporium Park in 2015 (including The Mall of Cyprus and The Mall of Engomi) for €193 million. Other malls around the island were also developed with the participation of foreign investors such as My Mall in Limassol with Israeli funds.
- Bank of Cyprus sold the CYREIT Variable Investment Company (a bundle of 21 commercial properties) to Pangea in 2018 for c.€138 million.

23. Data from CyStat, 2019 figures

24. Cyprus's citizenship by investment scheme, whereby eligible investors secure naturalisation following investments equal or in excess of €2m. In addition to the separate requirement for possessing a permanent residence in Cyprus costing or exceeding 500k (excl. VAT), historically and in the majority of the cases, the relevant investment requirement to qualify for the scheme has also been met through real estate.

25. Data from the Department of Land and Surveys

26. Economic Impact Assessment of the Citizenship by Investment Scheme, EY study 2019

27. Although the construction & real estate sectors were the primary beneficiaries, more than half of the economic contribution of the Scheme went towards other sectors notably banking, and financial and professional services (accountants, lawyers, etc.)

► Financial Services

Financial Services (banking and insurance) constitute another important sector of the local economy.

The sector's GDP contribution in 2019 was estimated at c.6.6% compared to 11.2% in 2015. The banking sector experienced a significant contraction in recent years as a result of the deleveraging of problematic loans and market consolidation. The sector's troubles surfaced in 2013 when, at the height of the eurozone sovereign debt crisis, Cyprus turned to the European Stability Mechanism for a €10 billion financial support package; leading to a bail-in of bank deposits and closure of one of the country's largest institutions (Laiki Bank).

The shrinking of the economy also led to extremely high levels of non-performing exposures (NPEs), peaking at €28.1 billion in October 2015 (49% of total loans and north of 140% of the country's GDP). The Cypriot economy showed resilience

and recovered relatively quickly, returning to growth two years later. Non-performing exposures shrunk to €9 billion (28% of total loans) by December 2019, following pressure from regulators for banks to focus on de-risking and cleaning of their balance sheets. The resolution of the NPE problem initially involved internal mechanisms such as restructuring, debt-to-asset swaps and foreclosure procedures.

It later extended to the sale of NPE portfolios by the two largest banks (Bank of Cyprus and Hellenic Bank), thus transferring a significant portion of NPEs outside the banking sector.

A significant portion of the NPEs was also carved out through the acquisition of the good assets of ex-Cooperative Bank by Hellenic Bank in 2018; with the problematic loans assigned to a separate State-owned asset management company.

Key challenges/developments

- Prior to the pandemic, banks' strategic orientation was aimed towards further de-risking in the short term, as well as cost rationalization and digital transformation in the medium to longer term. With the pandemic-induced recession, an increase is expected in NPEs in 2020 and a bigger wave of defaults in 2021 (following the end of the 9-month moratorium on loan payments); thus, creating a new challenge for the sector.
- Post-COVID-19, banks are also expected to seek growth through new lending opportunities. Given their excess liquidity (net loans to deposits ratio was at 60% in Dec 2019), there is an obvious and imminent need for new lending.

Notable overseas investments in the sector:

- US-based Apollo Global Management acquired in 2018 €2.8 billion of loans (GBV) from Bank of Cyprus, €2.7 billion of which related to secured NPLs.
- Bank of Cyprus also announced in August 2020 an agreement for the sale of NPEs of €916 million (GBV) to a fund under US-based PIMCO.

- Norway-based B2Kapital acquired in 2018 a non-retail portfolio of €145 million (GBV), comprising both secured and unsecured exposures, from Hellenic Bank.
- Lebanese investor Maurice Sehnaoui together with other associates, acquired in 2016 for €40 million Piraeus Bank's Cyprus subsidiary (subsequently renamed to Astrobank). Astrobank acquired in 2019 another local bank (USB Bank) for €40.2 million.
- UK-based Caius Capital invested during 2019-2020 in the Bank of Cyprus, acquiring 8% of its share capital for around €18 million.
- PIMCO also invested via Poppy Sarl in a c.17% equity participation in Hellenic Bank, for c.€50 million.
- The London P&I Club (one of the largest maritime insurance companies worldwide with annual gross premiums of \$120 million) have decided in light of Brexit to relocate to Cyprus to ensure continued access to trade in the EU in case Britain loses single market access.

► Telecommunications & Digital Infrastructure

The telecommunications sector, contributes c.2% of the country's Gross Value Added²⁸.

Cyprus has a fully digital network with reliable highspeed connectivity fibre-optic submarine cables, linking the island directly with South Asia, the Middle East and Western Europe.

The Government has further launched a Broadband Subsidy Grant Scheme to encourage investment in highspeed networks. Currently, operators offer 4G/4.5G broadband mobile access and in the meantime are upgrading their core networks to accommodate the roll-out of 5G (licences of which will be issued by the end of 2020).

Some key market data demonstrating the country's advancement in this sector is as follows:

- ▶ more than 95% of local businesses are computerised and use broadband connection for their operations;
- ▶ 27% of the enterprises used cloud services in 2018, a 170% increase since 2014 that bridged a 9-percentage point gap towards the EU average;
- ▶ 4G coverage in 2020 reached 97.55% of the population;
- ▶ overall mobile internet coverage reached an impressive 99.97% in terms of population coverage and 99% in terms of geographical coverage;
- ▶ mobile subscriptions reached 1,371 per 1,000 residents, showing that more than 30% of the population use more than 1 mobile subscription²⁹, despite prices for mobile broadband being higher than the EU average³⁰;
- ▶ since 2015, 100% of households have internet contracts for broadband connection and 84% of people use the internet at least once per week.

Key challenges/developments

- ▶ Despite the high connectivity, only one out of two Cypriots aged between 16 and 74 have basic digital skills, placing Cyprus amongst the lowest positions of the European Commission's Digital Economy and Society Index for 2019;
- ▶ Cypriots also lag behind in the use of online banking services (41% of the population in 2019) compared to Europe (58%). The statistics are expected to improve on account of the COVID-19 lockdown.
- ▶ Online shopping is not as popular as in the rest of Europe, with the corresponding percentages at 31% and 53% respectively for 2019. Again, it is believed that online shopping in Cyprus has seen an upward trend due to the pandemic, albeit not to the same extent as in other countries with better digital business infrastructure and more educated consumers.

Notable overseas investments in the sector:

- ▶ Monaco Telecom (the telecom operator of the Principality of Monaco) paid €260 million to the MTN Group in 2018 to acquire 100% of the share capital of its subsidiary in Cyprus (now operating under the 'Epic' brand).
- ▶ GO PLC, Malta's leading quad play telecommunications company, became the majority shareholder in Cablenet Communications Systems in 2016.
- ▶ 3CX (international company operating in the field of Internet software and services) opened its new headquarters in Nicosia in 2018.
- ▶ Whipper (a gamified messaging platform that enables users to chat and play in real time) established their headquarters in Cyprus in 2017 because of the access to talent, capital and connections the island can offer to such ventures.
- ▶ US-based Iron Mountain (global leader in Records and Information Management) acquired in 2017 Fileinders, the local leader in the RIM sector.

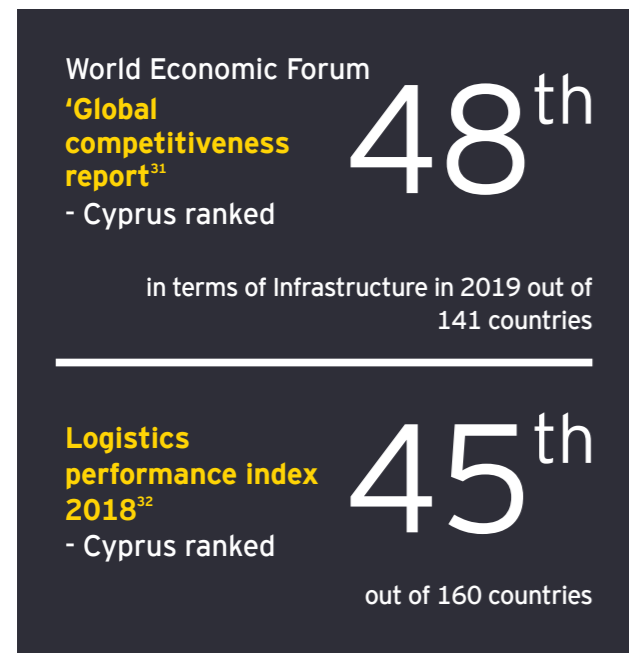
28. CyStat_Publication_2019

29. Cyprus Statistical Service

30. European Commission study



► Infrastructure, Transportation and Logistics



It is estimated that transportation and storage made up c.7,2% of the country's Gross Value Added³³ and 4,8% of total employment.

Road transport is the dominant form of domestic transport, while international connectivity is carried out by sea and air (being an island). The country hosts two main ports (Limassol and Larnaca) and two international airports (Larnaca and Paphos), servicing both passengers and cargo. It is worth noting that both the airports and ports have been or are in the process of being redeveloped through public concessions with the participation of the private sector/international operators. The modernisation and expansion of the country's ports and airports has also coincided with the growth of the logistics sector. Key market players have focused on the provision of third-party logistics services and invested heavily in technology, equipment and warehousing in response to the growing demand for transshipment, processing, third-party logistics and re-export services. The use of technology has enabled the digitalisation of supply chain processes and, in combination with the increased customer demand, has led existing companies towards systematic efforts to improve

their efficiency in order to remain competitive, a process often achieved through international cooperation and transaction activity (see below).

Key challenges/developments

The pandemic has increased e-commerce activity at the expense of traditional retail outlets. In parallel, supply-chain disruptions have led local businesses considering a complete re-shaping of relevant activities. The rapid growth of e-commerce activity has reinforced the need for immediate service to the final consumer through optimisation of processes and technology use, with a thorough selection of geographical points of storage and redistribution of products. Cyprus, due to its advantageous geographical location (being a safe/stable centre in the crossroads of Europe, Asia and Africa), combined with its EU membership could be in a position to attract giants in the field of e-commerce. To achieve this will require not only further investment in technology and infrastructure, but also a flexible and friendly business environment without bureaucratic obstacles.

Notable overseas investments in the sector:

- ▶ *DP World (UAE) invested in 2016 in the public concessions for the operation of the multipurpose terminal and marine services of the Limassol port. German-based Eurogate invested on a third concession, involving the operation of the container terminal. The three concessions together are expected to generate €1.9 billion for the 25-year management period.*
- ▶ *In 2008 and 2009 respectively the new Paphos and Larnaca airport terminals were completed and commenced operations, on the basis of a 25-year BOT Concession to Hermes Airports (a French and Cypriot consortium led by the French giant Bouygues). Hermes invested over €600 million in the two concessions. The concessions are further expected to contribute c.€3 billion to public funds in the form of concession fees.*
- ▶ *Maltese group Alf Mizzi & Sons invested in 2019 in a majority stake in Tryfon Tseriotis, a strong local FMCG distributor.*
- ▶ *Israeli-owned Diplomat (leading FMCG sales and distribution company representing Procter & Gamble) invested in the establishment of presence in the Cypriot market in 2011.*

Viewpoint



Nawaf Abdulla
CEO
DP World Limassol

Cyprus is an ideal destination for global trade given its location at the crossroads of Europe, the Middle East and Africa, making it attractive for both maritime trade and passenger routes. When it comes to tourism, Cyprus is an ideal location for year-round cruising. Cruise passengers can participate in plenty of activities and shore excursions, regardless of what time of the year they visit.

Furthermore, Cyprus is very well-placed as an international business and financial centre. Apart from its strategic geographical location as mentioned, cosmopolitan environment and attractive climate, it offers an excellent commercial infrastructure, a highly educated English-speaking labour force, a business-friendly environment and above all hospitable people.

A developed comprehensive growth reform strategy, which will curb bureaucracy and time consuming processes, simplify procedures and regulation, and create a more enabling business and investment environment, is something that will make Cyprus even more attractive.

It is through this kind of reforms and with Public Private Partnerships (PPP's) that Government decision makers should aim to create the solid foundations of a more multi-faceted and viable economic investment model for Cyprus.

All stakeholders and partners need to invest in improving and modernising the reliability and quality of their offerings and services and by working in partnership is a key strand of engagement.



Petros Sofianos
CFO of Eurogate Container Terminal
Limassol Limited

The key advantages of Cyprus as an FDI destination are its tax regime, EU membership and geographic location that offer opportunities for regional expansion, the educated workforce, and the relative political safety. The country's location also creates a number of opportunities, especially considering the unrest in the surrounding region. In case of a solution to the Cyprus problem and lifting of the Turkish embargo on vessels, there will be even more opportunities for us as the Limassol port volumes and revenues would materially increase.

Our experience has also been positive with regards to financing from local banks, who have restructured their operations since the 2013 crisis and can competitively support local investments and operations.

The main challenge we have come across is the staggering bureaucracy of government procedures. Simple approvals take months to be reviewed and approved. Such delays hinder our ability to timely respond to market developments and take advantage of opportunities created in the region for transshipment due to the instability in neighbouring countries (e.g., Syria, Lebanon). Our German-based owners are used to much more dynamic and fast-moving environments.

While there exist opportunities in Cyprus for foreign investors, the Government has yet to develop a long-term strategic plan for sustainable growth and a framework for attracting and maintaining FDI; a plan that is focused on specific lucrative sectors where Cyprus can develop a competitive advantage. These sectors would need to be supported with various incentives, simplified and flexible procedures and the attraction of relevant talent.

31. http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport2019.pdf
32. <https://ipi.worldbank.org/international/global/2018.%202019>
33. CyStat Publication 2019

► Energy - Power market: Conventional, Renewables & Sustainable

The power market in Cyprus is currently characterised by the following:

- ▶ Around 90% of the electricity is generated through conventional thermal combustion, with only a very small share of demand covered through Renewable Energy Sources (RES)³⁴.
- ▶ In terms of capacity, c.82% of the power generation infrastructure in December 2019 (1,478 MW out of a total 1,797 MW) was operated by the state-owned Electricity Authority of Cyprus Limited (EAC). Independent Power Producers included six wind farms (157.5 MW), 14 biomass plants (12.1 MW) and a number of small solar plants (150 MW).
- ▶ On the supply side, and even though the market is liberalised and since January 2014 all consumers can select their electricity supplier, EAC remains the sole supplier.
- ▶ Cyprus has among the highest energy dependency rates³⁵ in the EU (third at 92,5%) due to its isolated electricity grid and low degree of diversification in electricity generation.
- ▶ With the current infrastructure, electricity prices are determined solely by EAC's production costs and, as such, depend primarily on the cost of Heavy Fuel Oil and gasoil.

Key challenges/developments

- ▶ The above environment creates potential opportunities in the whole cycle, from production to distribution and supply. It is worth noting that Cyprus also endorsed the Agenda 2030 for Sustainable growth and the EU Council conclusions on climate neutrality by 2050, with national targets including, among others, the following:
 - increasing penetration of renewable energy (to at least 23% of final energy consumption from current >13%)
 - security of supply through the introduction of natural gas via LNG imports and the development of relevant infrastructure, and
 - promotion of electricity interconnectivity within the EU Energy market.
- ▶ In an effort to lift the energy isolation, the Government also launched the EuroAsia Interconnector project with its neighbours; involving a 2,000 MW electricity interconnector between Israel, Cyprus and Greece via the world's longest submarine power cable (1,208 km)³⁶.

The necessary permits and funding have been secured from the EU and the Interconnector will soon move to implementation. The project is expected to decrease the cost of electricity since it involves more efficient methods in power generation, namely natural gas and RES.

Notable overseas investments in the sector:

- ▶ *Ancala Partners, a UK based infrastructure fund manager recently acquired 100% of the 82 MW Orites wind farm in Paphos (representing over half of the island's total installed wind capacity).*

34. Transmission System Operator

35. Energy dependency refers to the % of energy an economy needs to import

36. <https://euroasia-interconnector.com/at-glance/>

► Energy - Oil & Gas

The country's oil and gas sector, following the discovery of significant natural gas reserves in the island's Exclusive Economic Zone, is also considered promising for the local economy and has created investment opportunities for multinationals operating in the market. Cyprus' strategic location in the Eastern Mediterranean, at the southeast tip of the European Union and close to the Suez Canal, make it ideally suited not only as an important fuel hub and headquartering location, but also as an energy interconnection node.

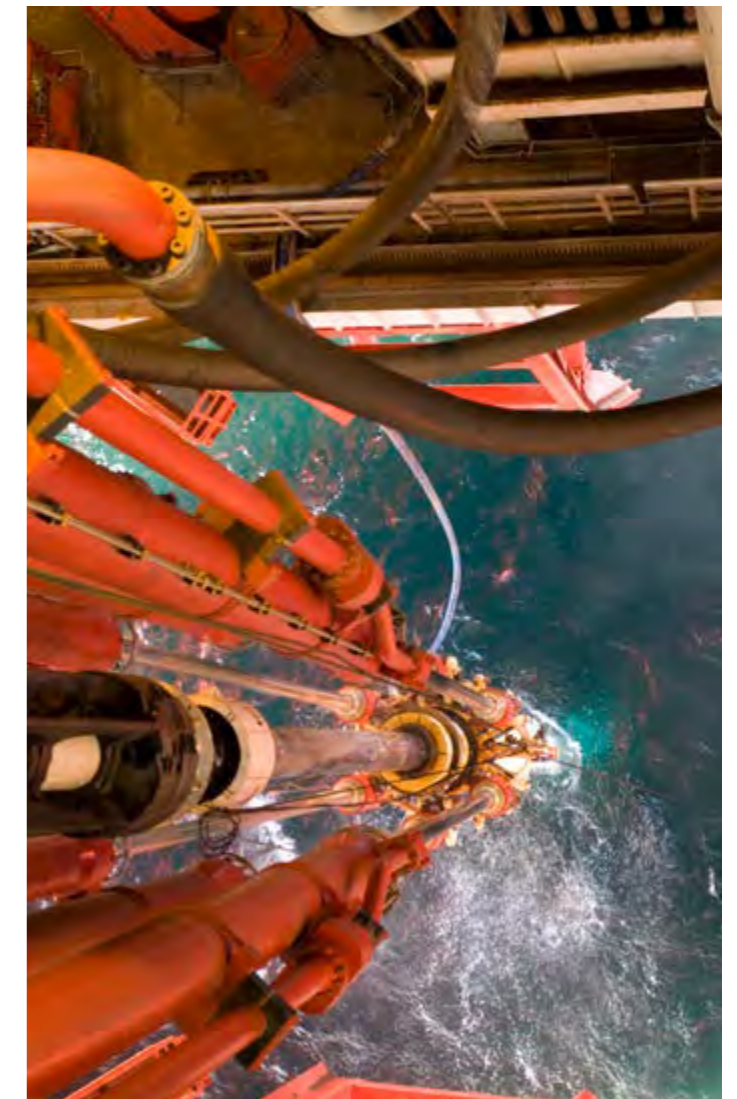
Key projects in motion include a €290 million terminal for the import of liquified natural gas for electricity generation, which will include a floating storage and regasification unit (FSRU). The project is led by a multinational consortium and is estimated to be completed by the end of 2021 or early 2022.

Another important project in the sector in the longer term is the EastMed gas pipeline, an alliance between Cyprus, Greece and Israel to build a pipeline that will connect the Leviathan (Israel) and Aphrodite (Cyprus) gas fields in the Eastern Mediterranean to Europe through Greece. The project is expected to deliver approximately 10 billion m3 of natural gas to the EU.

Despite the opposition by Turkey on the above matters, the Government is counting on the support of its fellow EU members and Mediterranean allies (like Israel and Egypt) to peacefully proceed with the exploitation of its hydrocarbon reserves.

Notable overseas investments in the sector:

- ▶ *Global energy giants such as Italian ENI, South Korean Kogas, French Total, American ExxonMobil, Qatar Petroleum, American Noble Energy, Israeli Delek Group (recently acquired by US Chevron) and Royal Dutch Shell, have all secured exploration rights in Cypriot waters.*
- ▶ *A multinational consortium led by China Petroleum Pipeline Engineering won in 2019 a €290 million tender for the construction of the terminal for the import of liquified natural gas for electricity generation, which will include a floating storage and regasification unit (FSRU). The project is estimated to be completed by end 2021 or early 2022.*
- ▶ *Dutch VTTI developed the first storage terminal & oil management facility in Eastern Mediterranean back in 2014 with a cost of c.€300 million. The terminal helped Cyprus enter the global energy market as a regional fuel hub and transshipment terminal.*



► Higher education

This is a relatively young but growing sector, with the first university established in 1989. Today, there are eight universities; three public and five private and more than 40 higher education institutions. Local universities have managed to forge cooperative agreements and links to reputable universities across the globe and offer courses across a wide range of topics in Greek and/or English³⁷.

The number of overseas students soared from fewer than 400 in the academic year 2004/05 to more than 50,000 in 2018/19. About half of the students come from Greece and the EU; the range however is rapidly expanding.

A 2018 EY report estimated that, in 2016 alone, the education sector contributed around 9,500 jobs and c.5% of the country's GDP.

It was further projected that, should the current level of activity enjoy a moderate growth in international students and research expenditure, the sector's economic contribution could grow by a further €400 million by 2023, creating 1,500 additional jobs.



37. Cyprus Investment Promotion Agency - Invest in Cyprus (link: Study in Cyprus)
38. EY Report on Higher Education, 2018

Key challenges/developments

- ▶ The lockdown has affected the education sector as institutions were forced to undergo a major transformation to digital in a short period of time. Despite the stressful circumstances, the pandemic has acted as the catalyst for education in Cyprus to embrace digitalisation and switch to distance learning. Going forward, curricula are expanding to include virtual classes and attract even more foreign students.
- ▶ At the same time, the fear of the pandemic in conjunction with increased costs for British education due to Brexit are likely to translate to more Cypriots electing tertiary education in their home country in the next few years.
- ▶ It is further noted that the market for Anglophone Higher Education Internationally Mobile Students is estimated at c.€50 billion, growing at an annual average of 5%³⁸; creating an opportunity for English-centric countries like Cyprus to increase their share as tertiary enrolment rates soar and new source markets like China and India develop. Key areas that Cyprus needs to improve upon in order to be internationally competitive include: scale, quality and infrastructure of its universities; external promotion; sensible migration procedures; responsiveness to changes in the sector, primarily in online and blended education, and; coordinated national strategy and goals.

Notable overseas investments in the sector:

- ▶ *Galileo Global Education (one of Europe's largest private education groups) acquired the European University of Cyprus from Laureate Education in 2018 for €225 million.*
- ▶ *Goldman Sachs led a group of investors to raise c.\$28 million in 2018 for UNICAF, the largest online higher education platform in Africa, developed by the University of Nicosia and based in Cyprus.*

Viewpoint



Grant Johnson
Property General Manager of City of Dreams Mediterranean & Cyprus Casinos "C2", Melco Resorts & Entertainment Ltd

Besides its strategic geographical location, Cyprus possesses a series of advantages such as warm weather, some of Europe's best blue flag beaches and an advanced infrastructure for tourism. We view Cyprus and the Mediterranean as an emerging market for entertainment and Meetings, Incentives, Conventions and Exhibitions (MICE) and believe in its potential to become a top destination for international tourism and conferences.

Cyprus is the only jurisdiction in the region to have successfully passed legislation and complete an RFP for a large-scale integrated resort. In addition, the potential to establish strong, local partnerships is a compelling reason for us to invest in the country.

Of course, there is still room for improvement, especially in improving international connectivity by attracting new airlines and establishing frequent routes, and by introducing ferry services with neighboring countries for example Israel, Lebanon and Egypt, which will contribute to transforming Cyprus into a year-round destination for business and leisure travel.

Overall, we are very satisfied with our investment in Cyprus as well as our cooperation with the Government and our local partner and see this as a win-win partnership. The Cyprus Government followed through with a transparent licensing process for the Integrated Casino Resort (ICR) and has been efficient in processing the permits required for the resort's operations.



Eljay Lee
Senior Project Development Manager of Samsung C&T Corporation

Geographically, Cyprus is in a strategic location for foreign companies to expand their business presence to Europe and the Mediterranean market.

Another advantage involves the capabilities of the Cypriot professionals. They are fluent in English and professional in their dealings.

On the other hand, the Cypriot market is limited by its size, not being large enough to achieve significant economies of scale in terms of investment in energy infrastructure.

In terms of expansion, foreign construction companies and utility players always consider whether they can re-utilize their existing resources and materials at one site for new projects in the vicinity.



3

Survey Findings: EY Cyprus Attractiveness Survey 2020

The survey, which took place for the first time this year for Cyprus, is part of EY's broader Attractiveness program and uses the same methodology as surveys for other European countries. The survey was conducted in 16 countries between June 5th and 26th, 2020. Along with the broader perceptions of Cyprus as an investment destination, the timing allowed for capturing the impact of the COVID-19 pandemic. From the companies surveyed 43% already have an established presence in Cyprus. Participants represent a balanced range of sectors, including the energy sector (mining & metals, power & utilities, oil & gas), professional services, manufacturing, financial services (banking, insurance, wealth & asset management), technology, real estate, hospitality and construction, transportation (automotive, mobility, airlines, shipping, etc.), retail and consumer goods, telecommunications, and healthcare. Countries of origin include the United Kingdom, Israel, USA, Russia, China, and continental Europe (France, Germany, etc.).

Prior to presenting the results, we note that one of the most striking findings of the survey is the persistent **differentiation in the responses between established and non-established companies³⁹**; with the former having a significantly more positive view of Cyprus as an investment destination. **By contrast, companies with no prior activities locally were more negative about their views of Cyprus.** Although a similar trend was observed in surveys conducted by EY in other countries, in the case of Cyprus it is more pronounced.

The results of the survey are presented on the following pages.

39. Established investors refer to investors with a presence in Cyprus; either through setting up their own operations or by means of an acquisition. Non-established investors refer to investors with no presence or ties with Cyprus, as a consequence of which they appear to have no (extensive) knowledge of the local environment.

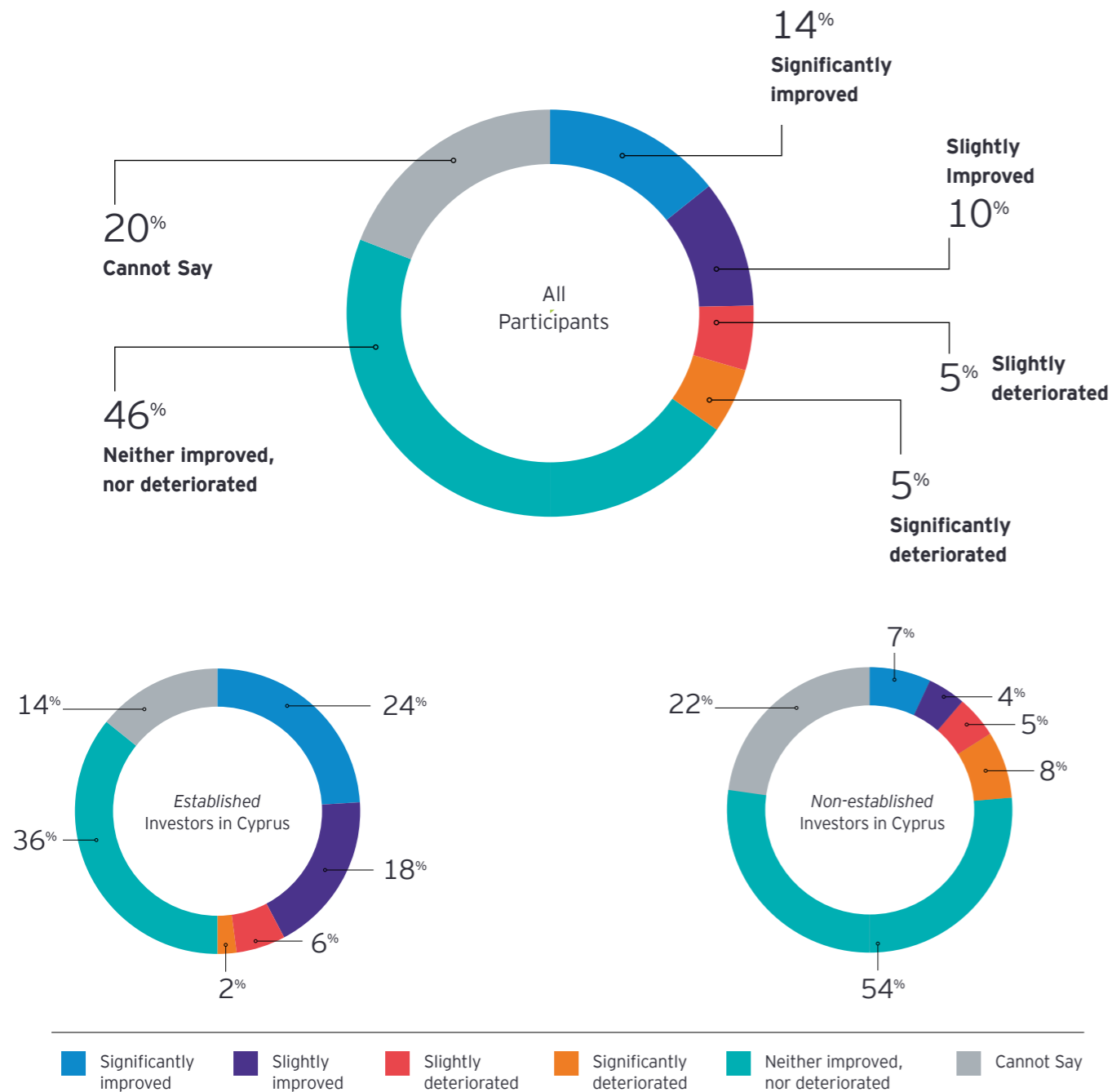
Investors feel that Cyprus's attractiveness has not changed dramatically over the past year, but remain relatively optimistic about the future

Participants in the survey were asked to assess whether their perception of Cyprus as a location, where their company might establish or develop activities, has changed

over the past year. Close to one in four respondents feel the situation has improved, compared to 10% who say it has deteriorated. The results are stronger among companies already established in Cyprus, reporting an improvement perception of 42%.

The majority of investors in all cases feel that the situation has neither improved nor deteriorated over the past year.

Regardless of the impact of Covid-19 on your business, over the past year has your perception of Cyprus as a location where your company might establish or develop activities changed over the past year?

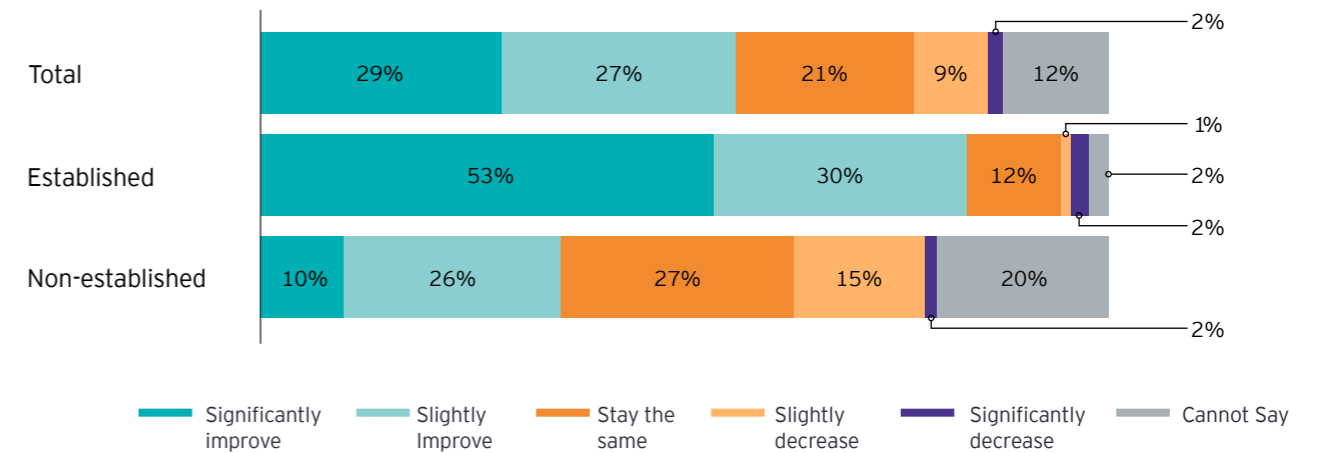


Investors' perceptions are considerably more positive when it comes to assessing the future prospects for Cyprus's attractiveness over the next three years, when the COVID-19 pandemic is expected to pass.

More than half of the overall sample believe the country's attractiveness will improve during this period, with 29% feeling that it will improve significantly. Only 11% of

the respondents feel that the situation will deteriorate. The established group is again more optimistic, with an impressive 83% expecting an improvement. Even among the non-established group, more than one in three see the country's attractiveness as improving.

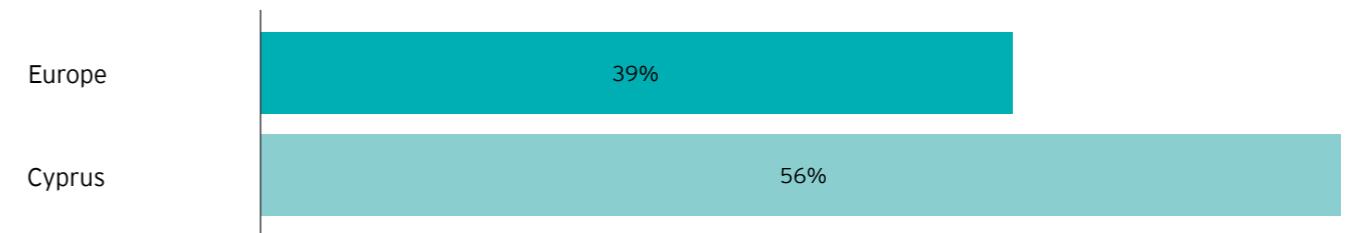
How in your opinion will Cyprus's FDI attractiveness evolve over the next three years/ after the COVID-19 pandemic has passed?



Percentage of those expecting attractiveness to improve over the next three years

These findings compare favourably with those of other more mature European markets as well as the overall European market, where positive sentiment stands at 39%.

56% ↑
of investors are optimistic about Cyprus

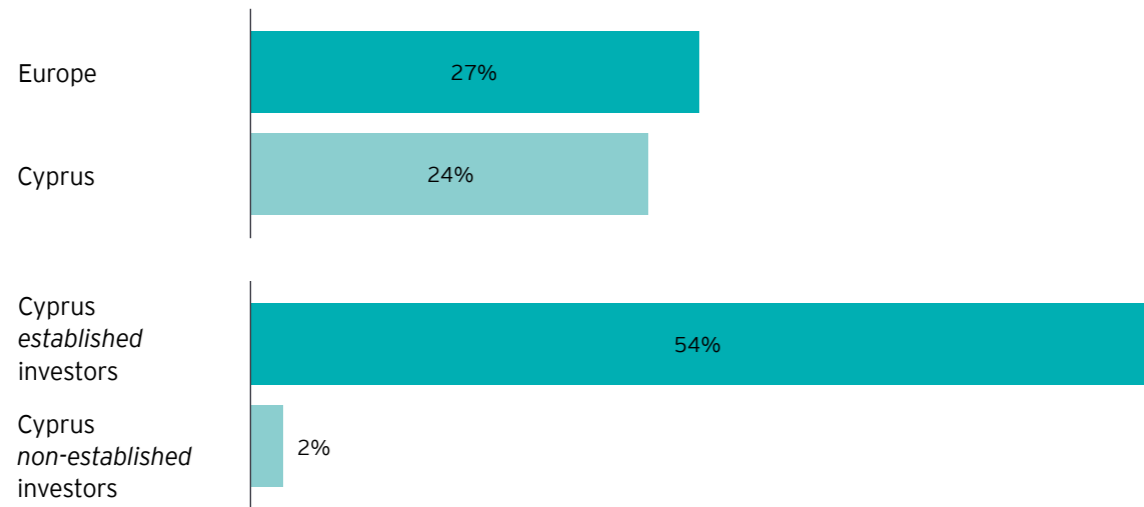




One in four participating companies had plans to establish or expand operations in Cyprus

Almost one in four companies surveyed reported that they had plans to establish or expand operations in Cyprus over the next year. Again, the difference between established and non-established investors is striking, with more than half of the companies active in Cyprus having relevant plans, against a respective 2% for those with no presence in the country. Overall, the figure of 24% for the complete sample is slightly less than those planning to invest in Europe as a whole (27%).

Intention to establish or expand operations in Cyprus over the coming year, prior to the COVID-19 pandemic



Types of investment activity

When asked what type of investment activities they are considering for Cyprus, participants presented a rather balanced portfolio, though quite different from other surveyed countries. Supply chain and logistics was cited by 28% of the investors; more than triple the share of the European average for the same category (9%). This attests to the appeal and further potential of this sector for the Cyprus economy.

Sales and marketing offices⁴⁰, account for 24% of planned investment projects, less than the respective result in the Europe survey (27%).

Around 18% of the participants responded that they plan to establish headquarters in Cyprus; well above the relevant figure for Europe (6%) and reflecting the advantages of Cyprus as a headquartering destination. Cyprus's geostrategic location provides organisations the capability to serve regional clients from a proximity, within a safe business environment and using a well-educated local workforce. As noted in the previous section, a number of international players have already established headquarters in Cyprus (especially acting as regional HQ) in sectors like technology, gaming, shipping, financial services and forex trading. These companies take advantage of the complete package offered, combining not only business benefits but also a high quality of life.

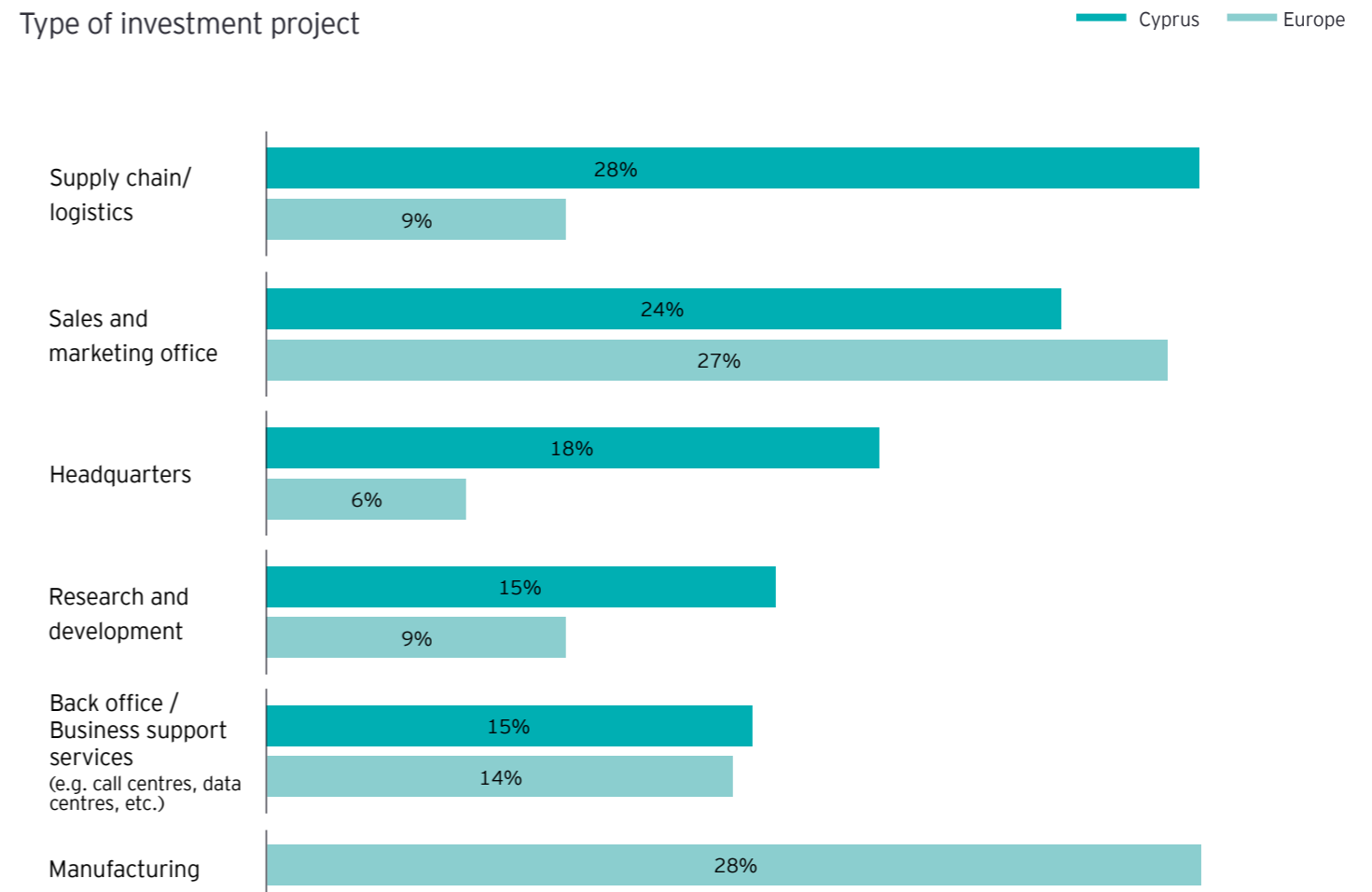
Finally, Research & Development and Back Office & Business

Support Offices each account for 15% of planned investment activities; a positive development given that both activities are labour intensive (with R&D in particular relying on highly skilled human capital). Such investments are expected to have a positive contribution to local employment across a wide skillset spectrum. It is worth noting that the share of those planning to invest in R&D is higher in Cyprus than in EU as a whole (15% vs 9%).

The results are aligned with the focus placed by the Cypriot government in the specific area, with the recent establishment of a Deputy Ministry of Research, Innovation and Digital Policy.

At the same time, however, it is worth noting that manufacturing, which accounts for almost one in three planned investment projects in Europe, is completely absent from investors' plans for Cyprus.

Type of investment project



40. Sales and marketing refers to commercial activities across sectors, as opposed to Shared Services Centres or headquarters.

Investors appear largely undeterred by COVID-19

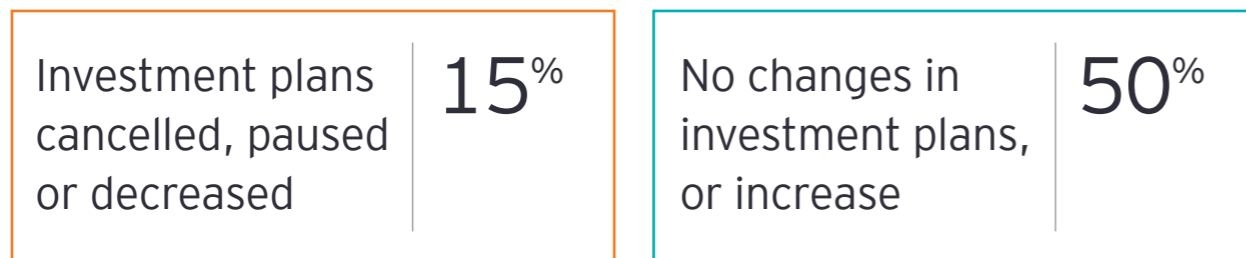
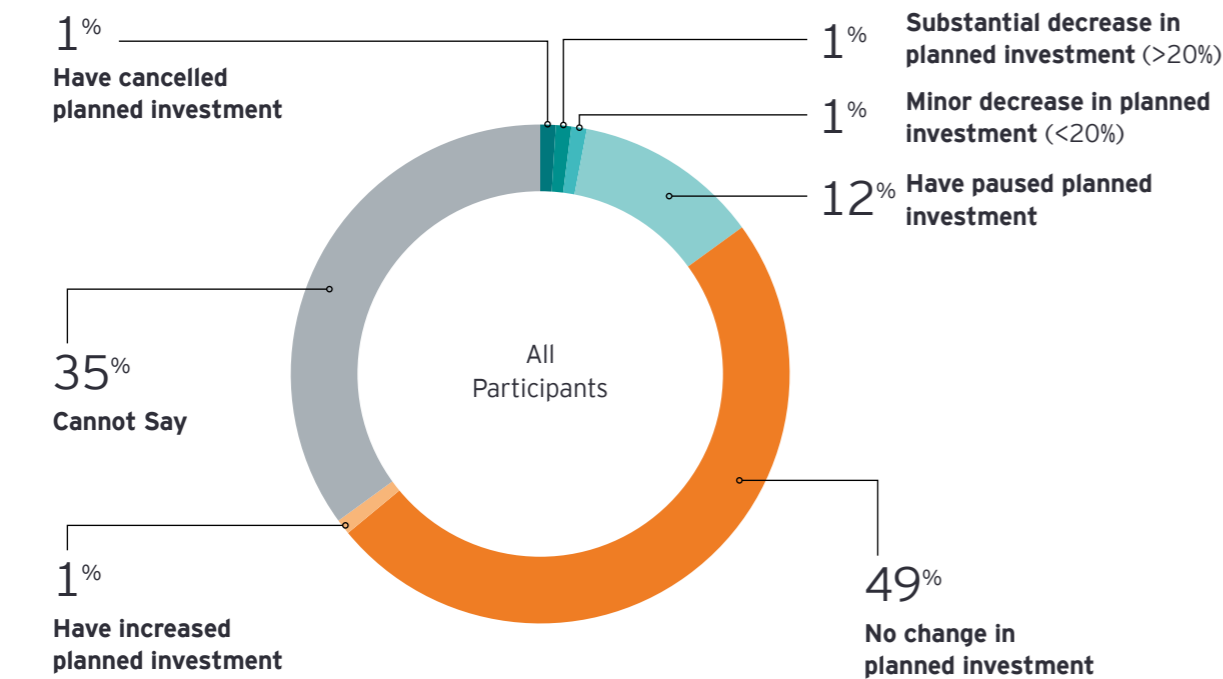
Respondents were also asked to report whether they had changed their plans for investment in Cyprus as a result of the COVID-19 pandemic.

Almost half of the total replied that they had made no changes in their planned investments, while 12% said they have paused their plans. A small minority said they had either cancelled/downscaled/increased planned investments, while 35% of the participants were not in a position to respond (possibly due to the COVID-19 uncertainty).

These findings are in line with the responses of participants in EY's European Attractiveness Survey.

Percentage of those who have changed their plans for investment in Cyprus as a result of the COVID-19 pandemic

Source: CSA Research (total respondents: 100).

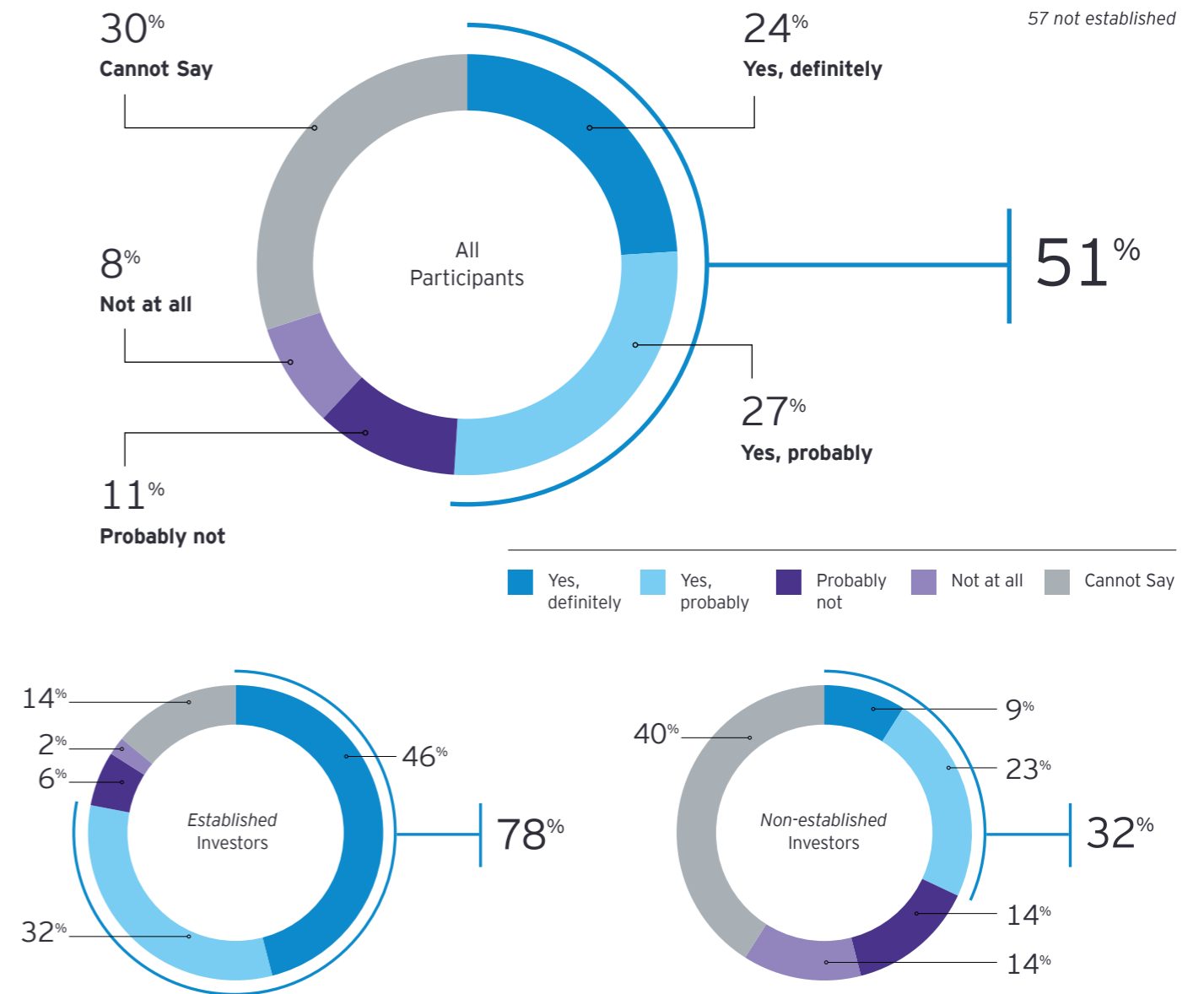


A country attractiveness policy that appears effective to familiar investors

Participants were also asked whether they consider that Cyprus currently implements an attractiveness policy that appeals to international investors. About half gave a positive reply, while 19% responded negatively. Once again, *established* players were overwhelmingly positive (78%) while *non-established* were much less enthusiastic (32%). From the respondents 30% expressed no view on the matter; the great majority of which again related to *non-established* companies, reinforcing the lack of awareness conclusion.

Percentage of those who think that Cyprus currently implements an attractiveness policy that appeals to international investors

Source: CSA Research (total respondents: 100).
43 established - 57 not established



Performance of investment attractiveness based on different attributes

Respondents were also asked to assess Cyprus's investment attractiveness with regards to different types of activity. The country's performance in registering companies is perceived as the most successful area, with 62% of the participants responding positively. This is attributed to the different positive aspects of doing business in Cyprus (friendly tax regime, solid legal system, high level of professional services, etc.). Attraction of capital is ranked second, with positive responses reaching 56%, followed

by the attraction of decision centres/headquarters (54%). Attraction of innovative activities followed with 47%, a figure expected to improve in future surveys given the country's focus in this area. Attraction of talent and establishing global centres for competitiveness ranked last with only 46% and 40% positive responses respectively. While Cypriots themselves rank high in terms of education background, it appears that there is room for improvement in terms of attracting overseas and specialised talent, especially in rapidly developing sectors like technology.

Level of achievement regarding Cyprus's performance in relation to different attributes?



A disproportionate reliance on a few sectors

The survey results suggest that investors view a high reliance of the country on a small number of sectors, especially tourism. When asked to identify the business sectors that will be driving growth in the coming years, more than one in three participants (35%) referred to tourism as their first choice, while 48% included it in their overall reply.

Financial services' along with 'professional services' are in second place with 21% each. The 'real estate and construction' sector follows with 18%.

These findings confirm the historic reliance of the local economy on a small number of sectors and its vulnerability to external shocks, like the COVID-19 pandemic and its material impact on the country through the tourism sector.

It is also worth noting that evolving sectors that appear high on the list in the case of the European survey for Cyprus rank significantly lower. Examples include 'clean tech and renewables' (39% in the case of EU vs only 4% in the case of Cyprus), 'digital economy' (35% vs 17%) and 'healthcare & well-being' (24% vs 10%). Participants expect these sectors to drive Europe's growth in the coming years.

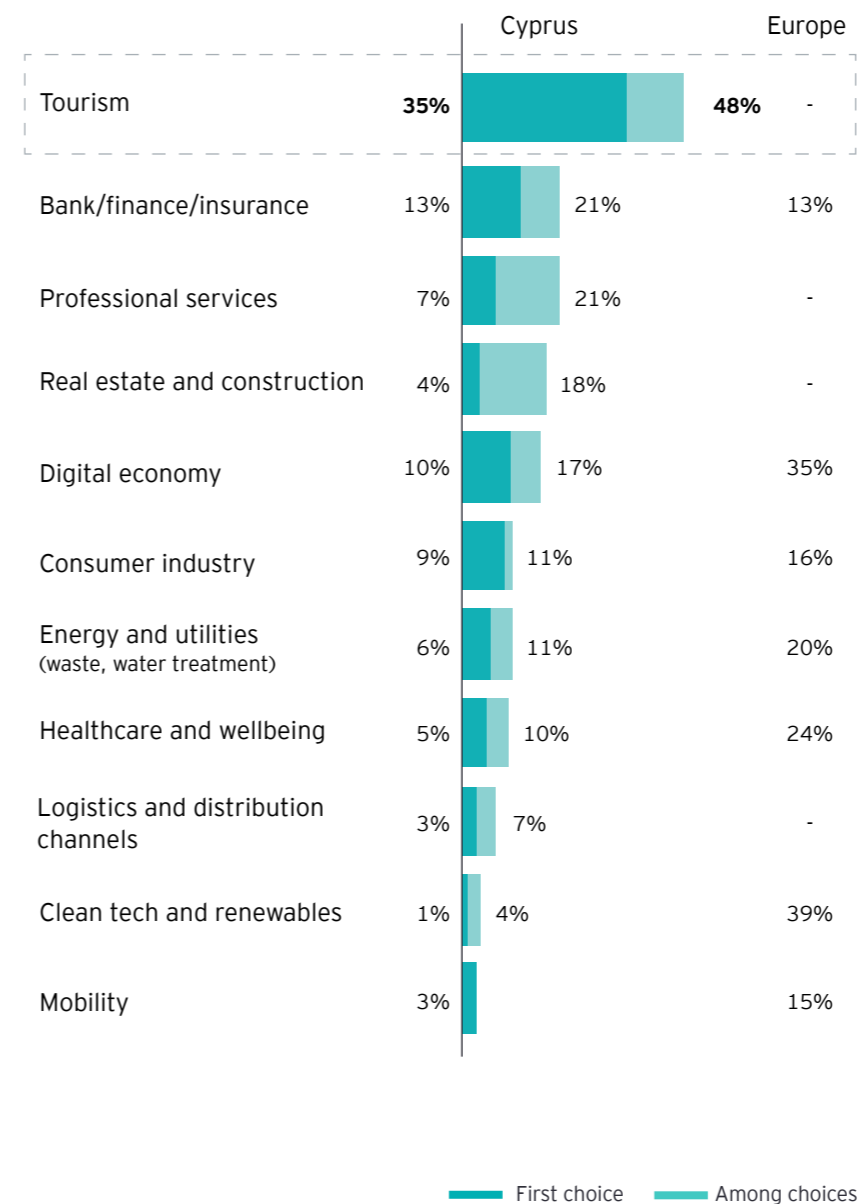
This comparison is important in assessing the sustainability of the country's economic model and identifying areas of focus in case of a reshaping.

Another interesting observation is the area of 'logistics and distribution channels', which is considered to be a key driver for future growth by only 7% of the participants despite 28% of them responding in other parts of the survey that their existing investment plans for Cyprus concern this specific area.

These findings highlight the need, but also the potential, for the Cyprus economy to diversify its traditional dependence on sectors such as tourism, real estate and professional services.

Following the lead of other European countries, potential expansion into evolving sectors such as the digital economy, energy, logistics, clean tech and renewables seems to be supported by the apparent interest from foreign investors.

Which business sectors do you think will drive (Cyprus's) growth in the coming years?





Assessing the country's strengths and weaknesses in terms of investment attractiveness

Participants were also asked to assess Cyprus's investment attractiveness on the basis of a number of key criteria. Their answers highlight the country's key strengths as an investment destination and areas to further develop in order to improve its attractiveness.

In general, for nine out of the seventeen criteria identified, the percentage of those finding Cyprus fairly or very attractive exceeds 50%. For the remaining eight criteria, positive results still lie above the 40% mark, ranging between 49% and 42%. The average value of positive views for the 17 criteria is 51.9%.

Key strengths & weaknesses based on the Total sample (both established and non-established)

Quality of life tops the list, with positive views reaching 76% (81% in the case of Greece). This criterion covers, in addition to areas where Cyprus traditionally ranks high (like the sea, sun, natural beauty), factors like the quality of the environment, healthcare and public transport.

'Telecommunication & digital infrastructure' (64%) and 'Transport & logistics infrastructure' (59%) come in second and third place respectively in terms of popularity, followed by the 'stable political & social environment' (57%) and the 'corporate taxation regime' (56%).

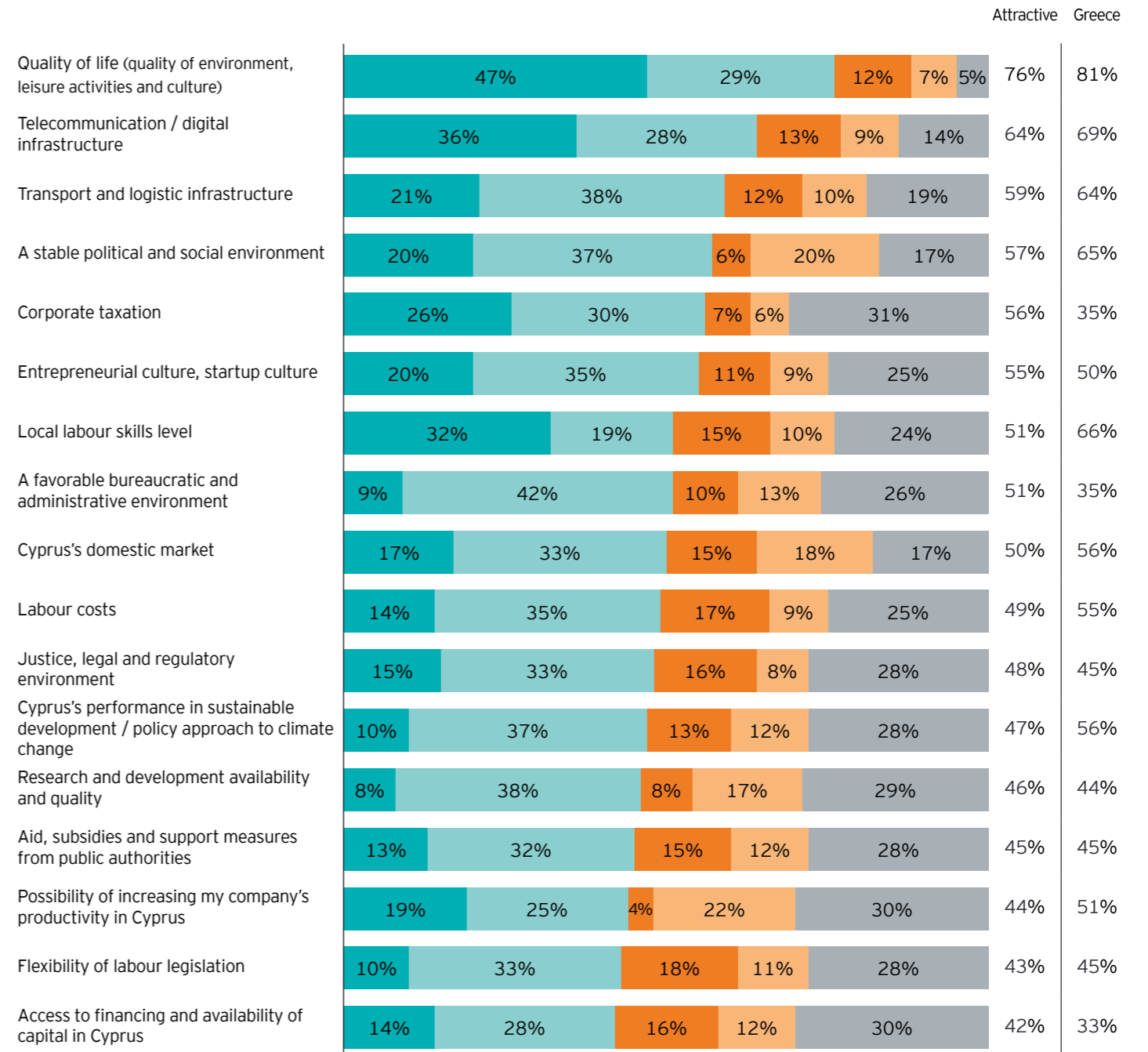
Furthermore, 55% of the respondents include the country's 'entrepreneurial/start-up culture' as a strength and more than one in two (51%) consider the 'local labour skill level' and the 'favourable bureaucratic and administrative environment'.

The perception of the overall participant sample is that Cyprus's poorest performance is in the areas of 'access to financing/availability of capital' (42% positive response) followed by 'flexibility of labour legislation' (43%) and 'possibility of increasing a company's productivity' (44%).

How do you rank Cyprus's attractiveness with regards to each of the below criteria?

Source: CSA Research (total respondents: 100)

Answers from total sample of all participants



Very attractive Fairly attractive Little attractive Not attractive at all Cannot Say

Key strengths & weaknesses based on the established investors sample

Given the importance of this section, and in order to facilitate the analysis and drawing of conclusions, for this question we also present separately the results of the more educated established investors category.

The first point to note is that while Cyprus only scores 33% on average in terms of overall positive responses in the case of the non-established participants, the percentage rises dramatically to 78% in the case of the established, and more educated, participants.

It is noted that positive responses in the case of established participants, lie on the upper end of the scale, ranging between 66-99%. (see next page)

Again, 'Quality of Life' tops the list. The 'telecommunication/digital infrastructure' and 'stable political/social environment' continue to feature high on the list, with a 90% rating.

'Local labour skills', 'cost of labour', 'entrepreneurial/start-up culture', 'R&D availability/quality', 'transport and logistics infrastructure' and the 'domestic market' also feature on the upper end of the list with positive responses approaching and even exceeding 80%.

The lowest results are observed in the area of 'development/policy approach to climate change', 'flexibility of labour legislation', 'aid/subsidies/support measures from public authorities' and 'favourable bureaucratic/administrative environment'; indicating potential areas of improvement for the attraction of new investments.

Indeed, the low degree of digitalisation of government processes contributes to substantial delays in the issuing of permits and other administrative issues. Further, the EU Justice Scoreboard 2017 shows that while judicial independence in Cyprus is perceived to be relatively high, achieving greater efficiency in the judicial system remains a serious challenge.

It is worth noting the significant difference in perception between the non-established (and thus less familiar) category and the established players in the following categories:

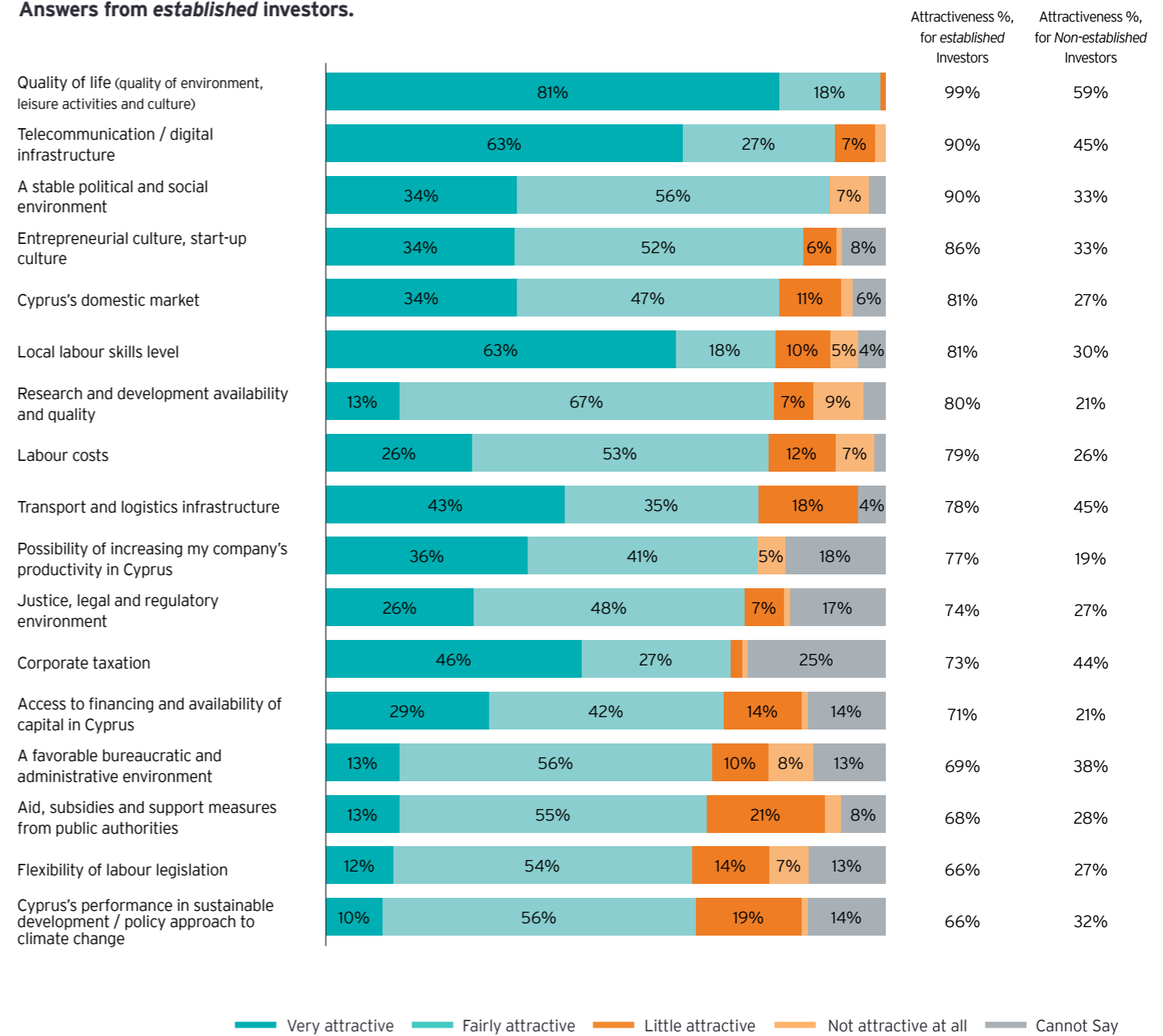
- ▶ R&D availability/quality: 80% vs 21% and Entrepreneurial/start-up culture: 86% vs 33%
- ▶ Local labour skills level: 81% vs 30% and Labour costs: 79% vs 26%
- ▶ Stable political/social environment: 90% vs 33% and Justice, legal and regulatory environment: 74% vs 27%
- ▶ Domestic market: 81% vs 27%



How do you rank Cyprus's attractiveness with regard to each of the below criteria?

Source: CSA Research (total respondents: 43)

Answers from established investors.





Areas for improvement

The survey further recorded participants' views on areas where Cyprus should concentrate its efforts in order to strengthen its investment attractiveness (see graph in the next page). Key findings are included below.

► Innovation and high tech are pivotal for Cyprus's future attractiveness

Almost half of the respondents (49%) identified the need to further support high-tech and innovation as a top priority. This category covers areas such as clean technology, logistics, life sciences, information technology, etc. At a time when, according to EIM data, one in five investment projects in Europe, is directed to digital technology, it is indeed imperative for Cyprus to focus on this area. This priority area was also identified in EY attractiveness surveys for other European countries. The high percentage of participants identifying high-tech as a top priority for Cyprus not only stresses the work that needs to be done in this direction, but also the fact that investors do consider Cyprus as a potential destination for this type of investments.

► Investment in infrastructure

Investing in major infrastructure and urban projects emerges as the second key priority according to a third of the respondents (34%), a higher figure than that recorded in other European countries. Even though survey participants did identify telecommunications & digital infrastructure and transport & logistics among the country's strengths, this answer indicates that there is a need, or opportunity, for further development.

► Enhancement of SMEs ecosystem

Support for small and medium sized enterprises comes in third place; highlighting investors' perception that the existence and support of an ecosystem of healthy and modern SMEs is an important factor for the success of any foreign investment attraction policy.

► Development of human capital

Educational background, skillset and experiences of local human capital is a key consideration in investment decisions. According to a recent report by the World Economic Forum⁴¹, 74% of companies will base their decision of location on the availability of skilled local talent, compared to 64% that will base their decision on labour cost. Human capital development comes in fourth place, backed by 20% of respondents. Although skilled local labour is highly ranked by *established* participants and the percentage above is lower than the survey result of other EU countries, this is still identified as an area for potential improvement.

► Quality of services at par with EU average

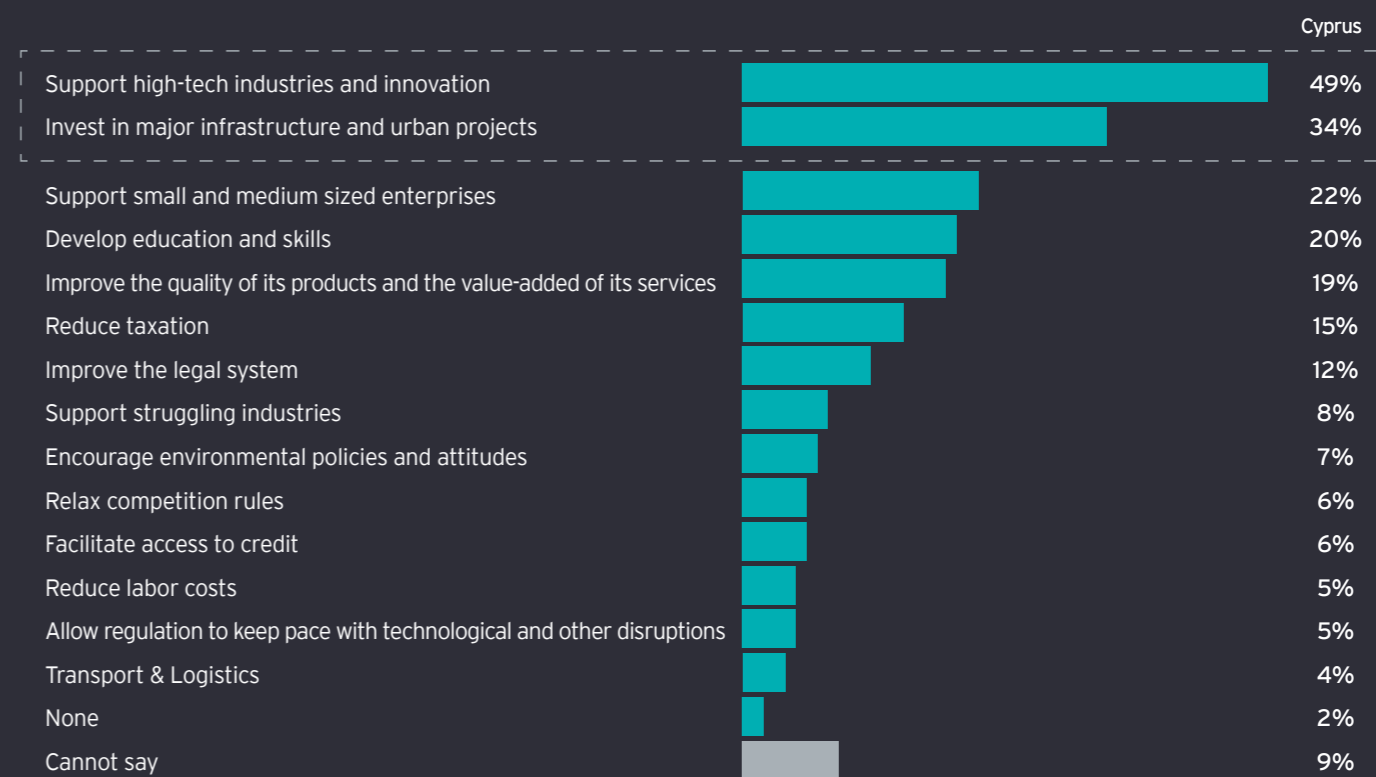
Improving the quality of the country's products and the value-added of its services completes the list of the top-five priorities, supported by 19% of respondents; a finding comparable to those of other EU countries surveyed.

41. *The Future of Jobs Report 2018, World Economic Forum.*

► Investor satisfaction with taxation, legal system, labour costs and other factors

As shown below, other areas that are usually considered part of investment decisions (e.g., taxation, legal system, labour costs and competition rules) were not highly ranked as areas to concentrate by participants in the case of Cyprus. This finding suggests a potential satisfaction of participants with the current status. It is noted for example that taxation in the case of other European countries surveyed was included among the top three priorities.

Which areas should Cyprus concentrate on, to maintain its competitive position in the global economy?



Source: CSA Research (total respondents: 100)

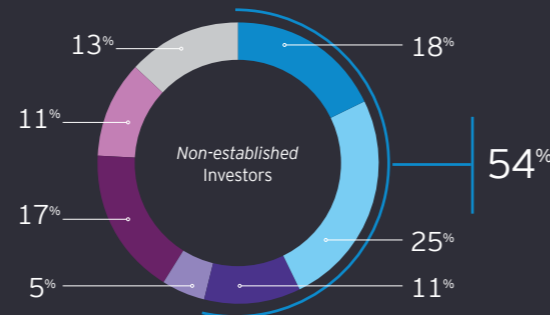
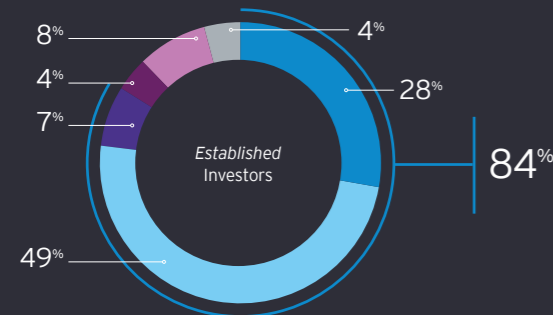
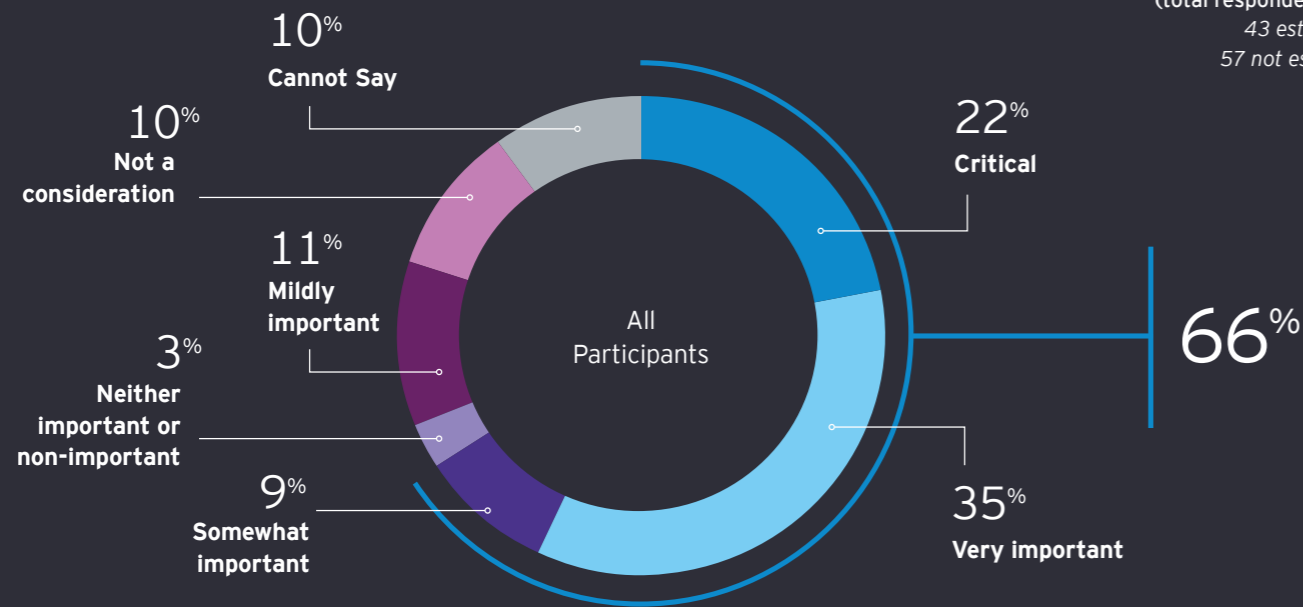
► **Strong local banking sector and a liquid stock exchange market also considered critical by investors**

Participants were also asked to consider the importance of the local banking sector in supporting their foreign investment decisions. Two out of three investors (66%) replied that they do view this area as an important factor. There is again a marked difference between the response of *established* players at 84% and *non-established* at 54%. This could imply that those who chose to invest in Cyprus so far are the type of investors that do rely on the banking sector for support in implementing their investment decisions and may have taken this into consideration prior to investing.

A less definite response was provided with regards to the local stock exchange market, with 48% of the respondents citing this area as important when reaching an investment decision, among which only 9% consider it critical.

How important is the local banking sector in your investment decision?

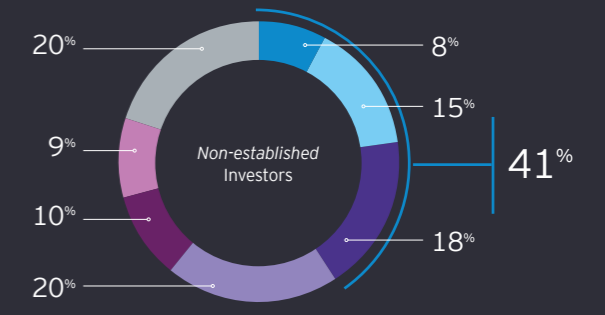
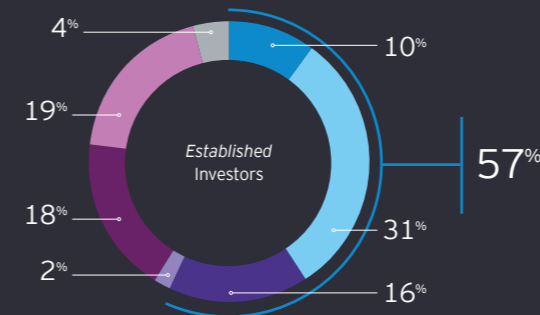
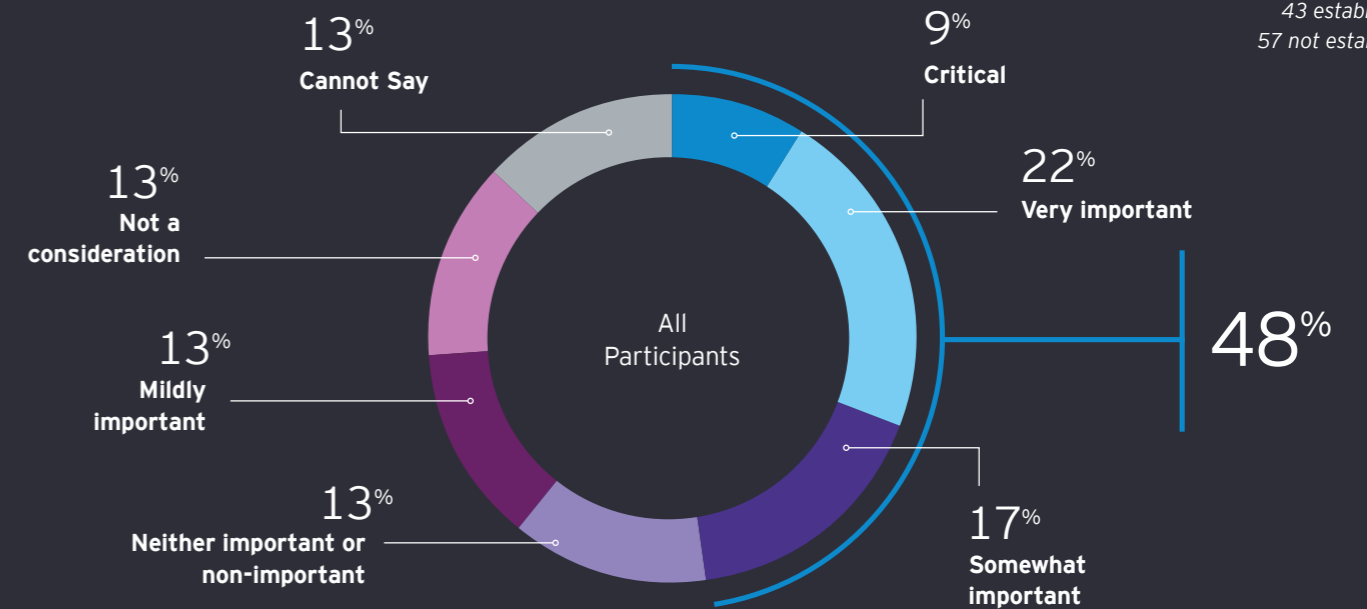
Source: CSA Research
(total respondents: 100)
43 established -
57 not established



■ Critical ■ Very important ■ Somewhat important ■ Neither important or non-important ■ Mildly important ■ Not a consideration ■ Cannot Say

How important is a strong and liquid stock exchange market in your investment decision?

Source: CSA Research
(total respondents: 100)
43 established -
57 not established



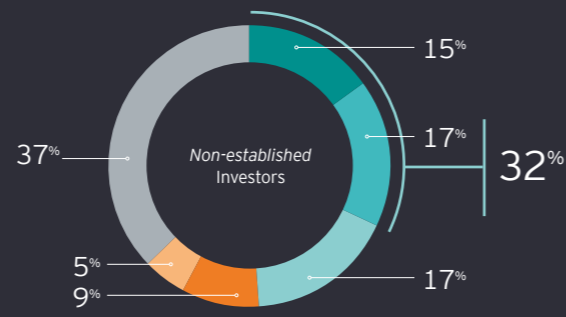
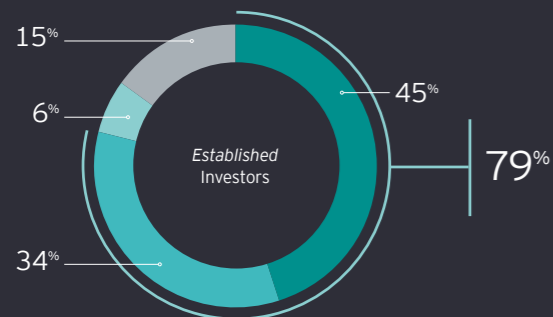
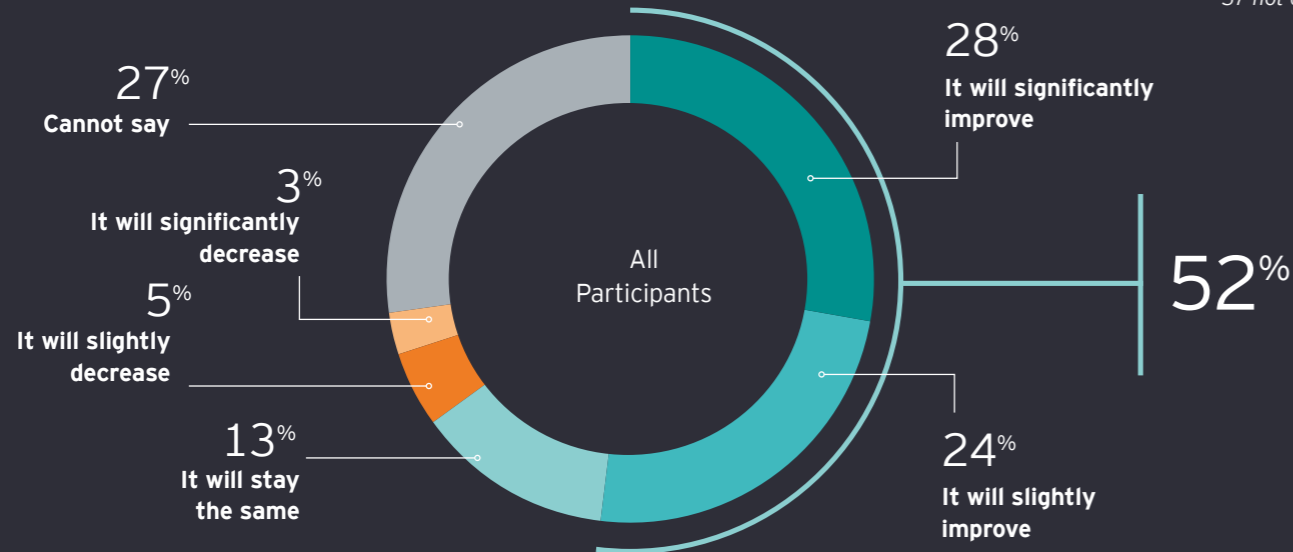
■ Critical ■ Very important ■ Somewhat important ■ Neither important or non-important ■ Mildly important ■ Not a consideration ■ Cannot Say

► **A reunification of the island would have a significant positive impact on Cyprus's attractiveness**

The survey also examined investors' sentiment regarding the island's partition. More than half of the participants (52%) replied that a potential reunification of the island would improve the country's investment attractiveness, including 28% that say it would do so significantly. Even more importantly, the percentage rises to 79% in the case of *established* players, who are more familiar with the scenario. Interestingly, the only respondents who feel this prospect would undermine the country's attractiveness are to be found exclusively among the *non-established* participants.

How would the country's attractiveness change if there was a solution to the Cyprus problem, that reunites the island?

Source: CSA Research
(total respondents: 100)
43 established -
57 not established



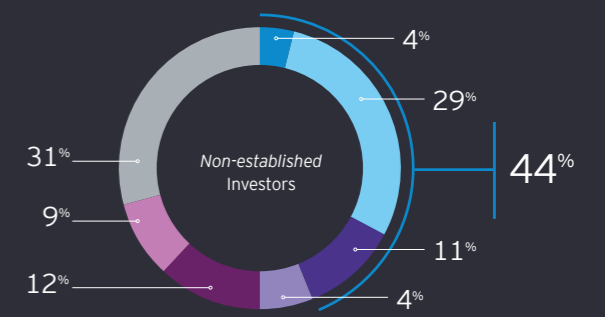
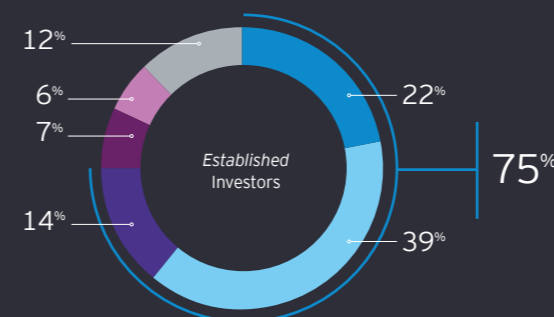
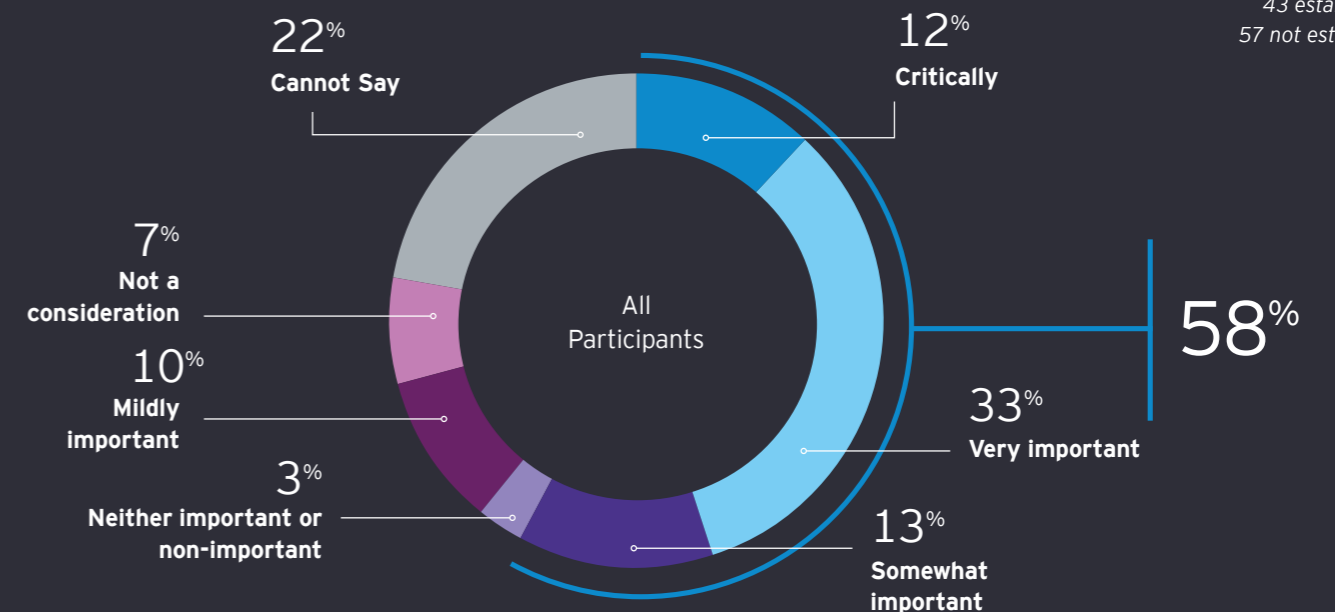
■ It will significantly improve ■ It will slightly improve ■ It will stay the same ■ It will slightly decrease ■ It will significantly decrease ■ Cannot Say

► **The country's geopolitical situation is also influencing investment decisions**

The findings indicate that Cyprus's broader geopolitical situation also plays a role in the country's investment attractiveness, with 58% of participants also recognising this area as an important consideration. Here too, *established* companies take a stronger view, with 75% replying that geopolitical considerations are an important factor, compared to 44% among *non-established* companies. This indicates that investors who chose to invest in the local economy in the past did consider factors like the country's political stability and also geopolitical position. Factors that could also affect additional investments in the future and further support the benefits of a viable solution with regards to the country's reunification.

How important do you consider the country's current geopolitical situation, in regard to your investment decision?

Source: CSA Research
(total respondents: 100)
43 established -
57 not established

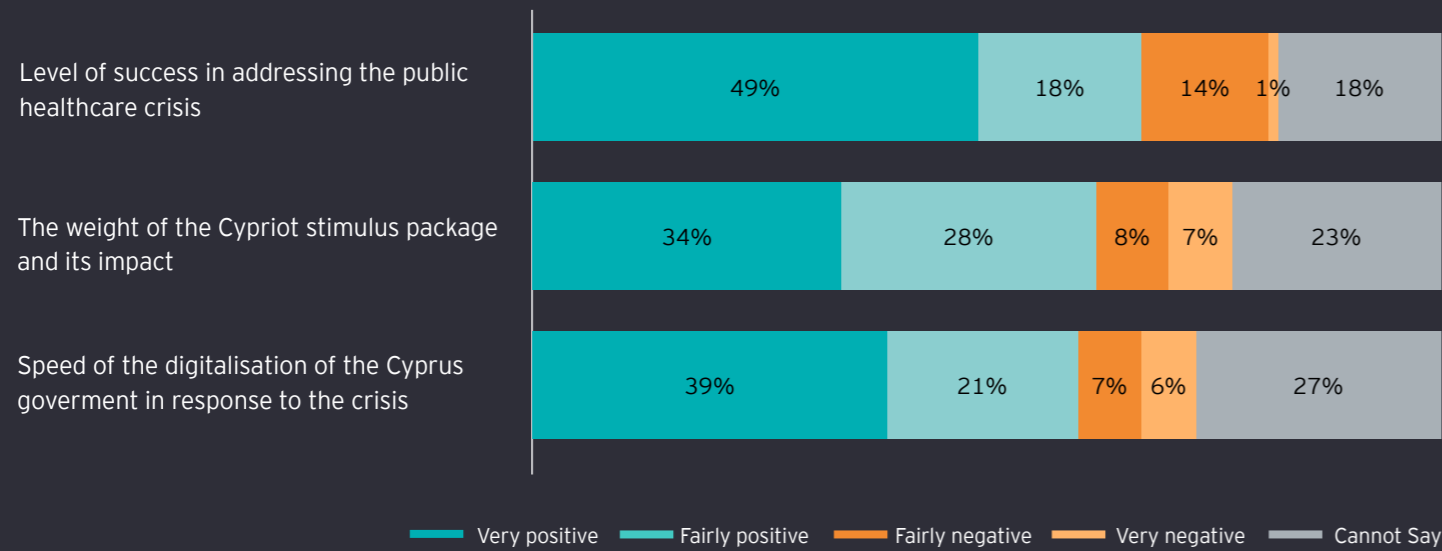


■ Critical ■ Very important ■ Somewhat important ■ Neither important or non-important ■ Mildly important ■ Not a consideration ■ Cannot Say

► Investors' positive reaction to Cyprus's handling of the COVID-19 pandemic

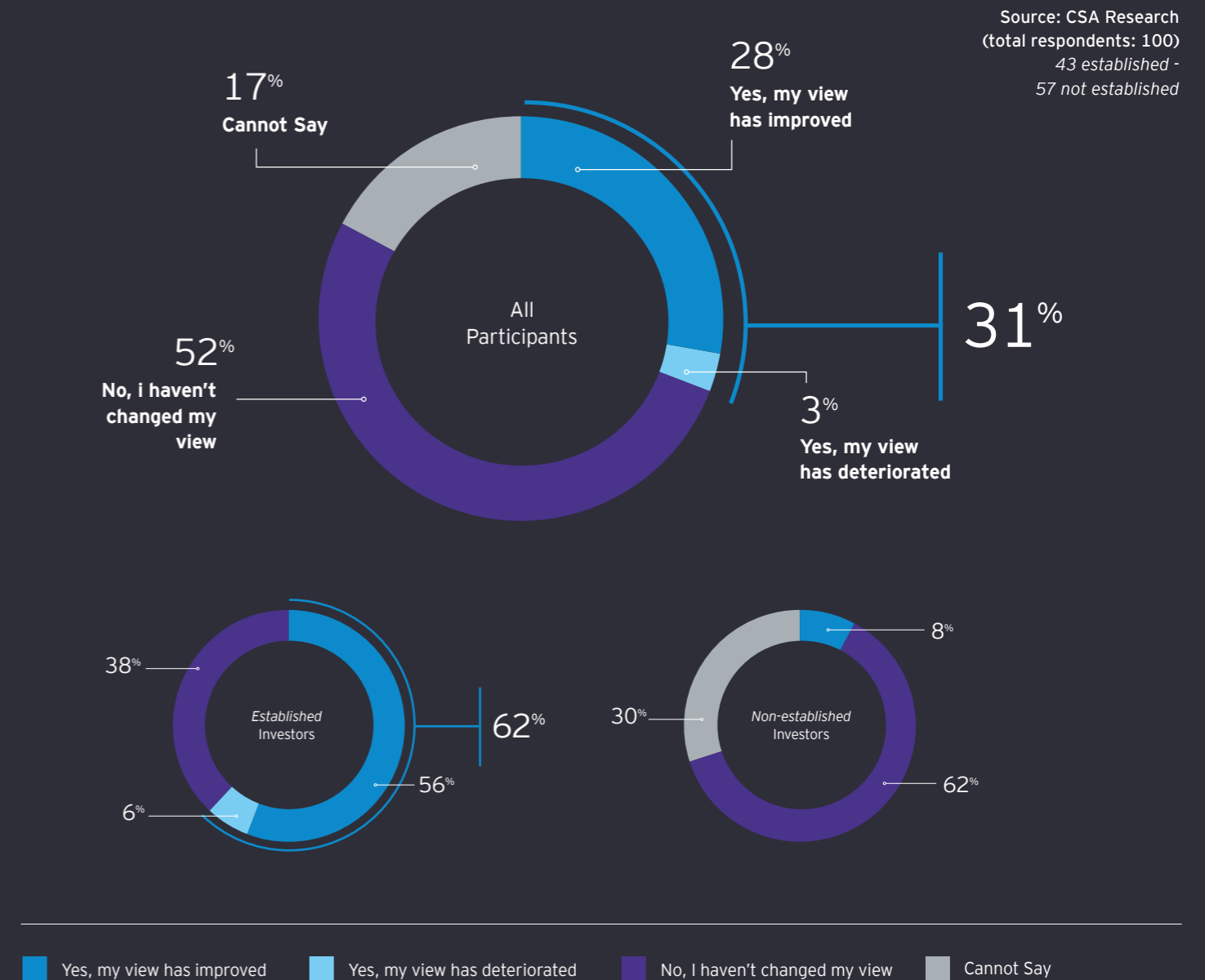
When asked to assess the country's success in addressing the coronavirus healthcare crisis, participants' response was clearly positive (67% of respondents had a positive view, including 49% with a very positive view). A share of 62% of the participants also has a positive view of the weight and impact of the stimulus package introduced by the government, while 60% of the participants approved the speed of digitalisation of the state in response to the crisis. It is again worth noting the differentiation between *established* and *non-established* participants, with the former category positively evaluating the COVID-19 response at levels in excess of 90%.

How do you evaluate Cyprus's performance on the below aspects?



Finally, respondents were asked to consider whether the handling of the crisis has affected their overall perception of Cyprus as an investment destination. The majority of *established* participants (56%) responded that the handling of the crisis positively affected their perception of the country's attractiveness. The respective percentage in the case of *non-established* players was only 8%.

Has the government's response to the COVID-19 crisis impacted your view of Cyprus as an investment destination?



4

Conclusions and recommendations

At a time of rising geopolitical uncertainty compounded by the impact of the coronavirus pandemic, our survey suggests that Cyprus is perceived by educated investors as an attractive investment destination, with optimism about the coming years at levels not seen in other European countries. Several key strengths are identified by investors as contributing to the country's attractiveness, including but not limited to, the quality of life, infrastructure, political stability, local workforce and the tax environment. At the same time, however, respondents draw attention to several areas where there is considerable scope for further improvement.

1 Limited Awareness for *non-established* investors

Probably the most remarkable finding of our survey is the huge divergence between the perceptions of investors that have already chosen to invest in Cyprus and those that have no established presence in the country.

Companies with a first-hand experience of Cyprus tend to be considerably more positive, while those that have not were much more negative and often unwilling, or in a number of cases unable to, answer survey questions due to the lack of awareness.

This lack of awareness by *non-established* investors may be partly explained by the fact that Cyprus is a small economy and not a top-of-mind investment destination. On the other hand, it does appear that investors that did make the move and have studied the local environment are overwhelmingly positive about their investments. It is precisely for this reason that a small change in perception among *non-established* companies could lead to a substantial relative increase in investors' interest.



Cyprus needs to undertake an aggressive and well-targeted information campaign to raise awareness about conditions and investment opportunities, promote success stories and clear up possible misconceptions or prejudices.

Invest Cyprus (The Cyprus Investment Promotion Agency) has been set up for the purpose of promoting Cyprus as a destination for FDI across the globe. Such promotion is achieved through different initiatives like international events and campaigns, media presence and the use of satisfied investors as examples. The enthusiastic positive views expressed by the majority of *established* investors in this survey, confirms that companies that already have a presence can take up the role of acting as ambassadors of Cyprus FDI.

Viewpoint



George Campanellas
CEO, Invest Cyprus

Ways of creating additional awareness of Cyprus as an investment destination and attracting new investors.

“Cyprus has many of the necessary characteristics that make a location/jurisdiction an ideal destination for foreign investment and international business operations. However, there is a need for further improvement of the country’s regulatory framework and government efficiency, which can mainly be achieved by digitalizing the public sector, reshaping the immigration policy, adopting an investment law which will make the investor’s journey more effective, and establishing a National Strategy for air-connectivity which will give emphasis on both business and tourism flights.

As the National Investment Promotion Authority, our mission is to raise awareness of Cyprus as a location for FDI across the globe, providing certainty around all aspects of operating a business in Cyprus and supporting potential investors in developing their business case for investment in Cyprus. Awareness is built by effective communication and marketing campaigns that portray Cyprus’s advantages as an international business destination.

As a member of the World Association of Investment Promotion Authorities, Invest Cyprus has been following competition and best practices of IPAs at a European and International level. It is obvious that the public resources deployed for promoting the country as a destination for foreign investment and international business have always been significantly lower when compared to the rest of Europe and other competing jurisdictions. With a promotional budget less than €1m pa and without a network of representatives/offices in major international markets, the awareness is inevitably limited. This constitutes a major discrepancy for an open serviced-based economy, especially when compared to the annual public spending for the promotion of the country as a tourist destination.”

Ways of diversifying inwards FDI beyond the traditional sectors (e.g. hospitality and real estate); and sectors that could form focus of such efforts (technology, innovation, etc.).

“It appears that the majority of the FDI in Cyprus during the last years focused on the hospitality and real estate sectors. Nonetheless, Cyprus has the potential to become an international center for Tech Companies, hosting development centers and regional or international headquarters here. The technology sector has already been established in Cyprus with big companies such as Wargaming, 3CX, Sykes and Amdocs being established on the island, but we believe there is more opportunity for the tech sector to grow even further.

Furthermore, Cyprus can be established as a regional hub for higher education, by building on some of its competitive advantages such as the wide use of the English language, its location and its EU membership. In order to grow the sector Cyprus could build up the existing ecosystem and make collaborations with reputable overseas universities.”

2 Dependence of the economy on a relatively small number of sectors

Investors’ perception confirms the fact that Cyprus has been traditionally heavily dependent on a small number of sectors, and in particular: tourism, real estate and financial and professional services. While important, these sectors are highly vulnerable to international shocks, as became apparent once again this year with the fallout of the COVID-19 pandemic. Informed investors are aware of this reality and, more importantly, appear to project that it will continue to persist in the coming years. At the same time, as confirmed by our European Attractiveness Survey, the business sectors that are expected to drive European growth in the following years include at its core dynamic and developing sectors like clean tech, the digital economy, healthcare, information technology, etc. These are not sectors that spring to investors’ minds when asked about Cyprus.

Not undermining traditional sectors, Cyprus needs to diversify its economic model and open up to new sectors, including those where the well-educated and skillful local human capital can be put to use. This will involve the provision of relevant incentives to attract global leaders in the specific sectors, as well as creating not only the relevant infrastructure but also a flexible framework that would accommodate such players and the dynamic way they operate. At the same time, Cyprus must re-examine its strategy with regards to traditional pillars of the local economy, without necessarily undermining them. The tourism industry for example can adapt to behavioural, technological and demographic changes that are transforming the industry worldwide.

“

Cyprus needs to diversify its economic model and open-up to new sectors



3 Focus on Digital Technologies and Innovation

More than one in three investors surveyed by EY expect that digital technology will be the main driver of growth in Europe in the coming years. The rapid adoption of new technologies on account of the pandemic makes the digital competitiveness of an economy even more critical in attracting foreign investment. Some countries have been more successful than others in developing the sector and attracting investment in this critical field. The UK alone absorbed 30% of all FDI projects in Europe in the digital sector in 2019.

In the case of Cyprus, one in two survey participants believe that support to high-tech industries and innovation should be the top priority but only one in ten expect that digital economy will become the key driver of the local economy in the coming years.

The relevant handicap of Cyprus is also reflected in the global rankings. In the 2019 Bloomberg Innovation Index, Cyprus placed 48th out of the 60 countries ranked on the list. It is also the lowest ranked country in the index from the 28-member European Union. In addition, as per the World Economic Forum Global Competitiveness report, Cyprus is ranked 43rd in terms of innovation capability, and 58th on ICT adoption. Cyprus is further classified as a “moderate innovator” according to the European Innovation Scoreboard 2020⁴², scoring low on Employment in fast-growing enterprises of innovative sectors, R&D expenditures in the business sector, Private co-funding of public R&D expenditures, and R&D expenditures in the public sector. Further, in 2017 Cyprus spent €109 million on Research & Development (representing 0.56% of its GDP), giving it the fourth lowest score in the EU.

However, the situation is not all gloomy. Cyprus has the fundamental ingredients in terms of basic infrastructure, quality of human capital, legal and tax regime and professional services. The Government and institutions need to harness these dynamics and potential to achieve growth.

42. European Innovation Scoreboard 2020.



Responding to this need, the Government formed the Deputy Ministry of Research, Innovation and Digital Policy in March 2020, a milestone development.

In this endeavour, the cultivation of a culture of research, innovation and entrepreneurship is the main challenge.

Another area to focus on is the interconnection of the academic / scientific community with companies, so that the knowledge and work generated is disseminated to the industry and then to the local market and abroad. The country, due to its small size, has the potential to become a regional centre for research and innovation that could also function as a “test field” for pilot applications of innovative ideas and solutions. The key is the internationalisation of the ecosystem which, among other things, will help to attract foreign venture capital and to further strengthen the ecosystem. Through partnerships, Cyprus can identify and take advantage of synergies and opportunities that will help consolidate research and innovation as the basis for a new model of economic growth.

Viewpoint



Kyriacos Kokkinos
Deputy Minister of Research, Innovation and Digital Policy

Information and Communication Technologies ICT technologies along with phenomenal progress across all Sciences (bio-tech, health, material sciences etc.) are fuelling digital transformation at unprecedented pace at global level, substantially improving people’s lives, bringing job creation and social prosperity, while opening up new opportunities for government and businesses for innovative business models. In fact, digital is not a “top-up” of business or government strategy; it is an integral part of ‘the strategy’ embedded into the fabric of every economic and social activity. Hence, in light of this new digital reality, nations and organizations need to develop, adapt and adopt that agile and holistic innovation and optimization capacity that stretches beyond today’s state of affairs and is designed to accommodate continuous adjustment, as societal changes and technological evolutions continue to take place, accelerate and evolve.

Set up in March 2020, the Deputy Ministry of Research, Innovation and Digital Policy DMRID is mandated by this exact challenge: *to fundamentally transform the Cypriot society and economy, through a well-tuned research & innovation ecosystem and digital technology exploitation, facilitating social prosperity and economic competitiveness through the use of state-of-the-art digital technologies.* For the government transformation, we aim, through leveraging digital and ICT, to further streamline and automate government processes and citizen interactions; for this, we designed a two-dimensional approach of rapid deployment of small-scale digitally enabled government services already identified and working on 160 such services across all government operations and in parallel we are working towards the accelerated implementation of long-term mega projects of a time span of 2-5 years. Release of a modern and user-friendly, comprehensive citizen portal, digitisation of our justice system, introduction of electronic ID, and full scale digitisation of the Registrar of Companies department, are just a few examples of our current endeavours. Through the holistic upgrade of technological infrastructure, the optimization of the internal operation of the government, and the introduction of quality public services for citizens and businesses, we intend to improve service delivery, drive cost efficiencies, enhance reliability, security and resilience, and draw genuine trust in the system and the technologies themselves.

Our strategy has a strong citizen-centric and business focus, both in terms of innovative solutions as well as in enhancing the ease of doing business with the government. Modern telecom infrastructure and broadband services is a key pre-requisite for our ‘digital-only’ services *motto to become a reality; we, therefore, aim to facilitate high-speed connectivity, at more competitive price points, as well as proceed with the deployment of 5G networks.* In order to minimize the widening digital divide, we are running stimulating programs, interventions and instruments to strengthen digital fitness across the whole spectrum of our society, while infusing a digital and innovative mindset and developing a culture of lifelong learning across the whole spectrum of enterprises and society.

Leading by example, we aim to create an environment that supports, encourages and incentivises others to innovate and adopt new technologies. A number of financial instruments are available to promote innovative entrepreneurship and investment, such as tax incentives for investment in innovative companies, the new Equity Fund set up to facilitate access to finance for SMEs and startups, and, of course, the funding programs launched by the Research & Innovation Foundation, which also offers consulting and coaching services to enhance the innovation management capacity of startups and enterprises.

Speeding up digital transformation and optimising excellence in eGovernment, developing more secure and efficient global communications, while launching tailored-made incentives for cross-sectoral investment into research and innovation, we aim to develop a future-proof, digitally fit, knowledge-based economy and further strengthen Cyprus’s position as a dynamic business hub in the Eastern Mediterranean region. Offering wide access to high growth markets, highly skilled human talent, a robust regulatory framework, an attractive tax regime, and a diversified economy, Cyprus should be ‘the choice’ location for Investors and Multinationals!

4 Investment in Infrastructure

Although survey participants identified 'telecommunication & digital infrastructure' as well as 'transport and logistics' infrastructure among Cyprus's strong points, still one in three respondents would like to see more investment in major infrastructure and urban projects.

Cyprus has indeed made significant progress in this respect, compared to other Southern European countries, investing in road networks, airports, ports, telecommunications etc. However, and especially as far as digital infrastructure is concerned, the need to upgrade networks is continuous.

All European countries are expected to continue to invest heavily in this area in the coming years, taking advantage of the relevant EU Funds. Keeping up with the pace will be key for Cyprus to retain its competitiveness.

With regards to logistics infrastructure, Cyprus is located at the crossroads between three continents and is ideally placed to develop into a regional logistics hub. This potential is likely to grow in the post-coronavirus era, with 83% of participants in our EU-wide survey reporting that they plan to near-shore to low-cost areas just outside the EU and in Africa as a response to COVID-19. Cyprus is the eastern boundary of the EU and could facilitate the relevant logistics. Investors participating in the survey appear to recognise this, with 28% of respondents to our survey planning to invest in Cyprus, identify supply chain and logistics as the object of their investment.



“
With regards to logistics infrastructure, Cyprus is located at the crossroads between three continents and is ideally placed to develop into a regional logistics hub.

Let us not forget that the rapid growth of e-commerce, with COVID-19 acting as a catalyst, further enhances the need for immediate service to the final consumer through the optimisation of processes. Not only using technology, but also through the selection of the right geographical points of storage and redistribution of products.

As noted in previous sections, Cyprus could become the choice of giants in the field of e-commerce by creating the relevant infrastructure and flexible framework to attract the interest of such companies. The relatively recent privatisation of the country's main ports and airports is perceived by market players as a step in the right direction. Connectivity of the island remains a key challenge with a need to not only improve relevant infrastructure, but also attract new players like international airlines.

5 Steps towards a green economy

Sustainable development and the transition to a circular economy have been recognised as major global challenges since 2015 with the adoption of the United Nations 2030 Agenda.

It has also become a key priority for the European Union, as reflected in the ambitious European Green Deal plan to reduce the continent's carbon footprint. A quarter of the spending by the European Union's €750 billion Recovery Fund is earmarked for climate action. Cyprus expects to receive €1.3 billion, a substantial share of which will be directed towards green economy.

Meanwhile, investors increasingly consider a country's performance with regard to environmental and social criteria when deciding where to invest. Just about half of the companies surveyed consider the country's performance in sustainable development and its policy approach to climate change as attractive. The score for this criterion was among the lowest in the case of both the overall sample and the *established* participants.

Some steps forward have been made in recent years, with regard to carbon emissions through investments in renewable energy, primarily solar. The liberalisation of the energy market may also help the transition to renewables. However, **the country needs a fresh approach to its energy strategy and possibly greater emphasis on implementation.**

A well-designed green and energy taxation system could also play an important role in supporting the transition to a green and digital economy. Such a system will send the right price signals and provide incentives to producers and consumers to encourage less polluting production and consumption.

6 Development of Human Capital

Numerous studies confirm that the level of local labour skills is a critical factor in determining an investment destination. In our own EU-wide survey, 62% of the respondents mention the skills of the local workforce as a factor that will influence the decision to select a particular country.

Cyprus has one of the highest levels of tertiary education graduates in Europe and has been investing heavily in its educational institutions during the last decade.

The overqualification of the local workforce in terms of academic credentials and the historical focus on traditional sectors like the professional services sector has resulted in the shortage of certain critical skills.

These include STEM⁴³, data management, computer engineering, advanced computer programmers and analysts, and technical skillsets relating to specific trades (shipping, ports, etc). It is worth noting that the percentage of IT professionals across the country is significantly lower than the EU average (2,3% vs 3,7%)⁴⁴.

The above is in line with the survey results. Even though survey participants do consider local labour to be one of the country's advantages they still have included further development among the top four priorities for improvement.

Addressing such a skill shortage will allow Cyprus to diversify by attracting higher investment in sectors with a higher value added but also to address the ongoing impact of digitalisation and automation. To do so, **Cyprus needs to improve the level of professional orientation, guidance and direction, but also to increase opportunities for reskilling the existing workforce and to encourage a closer interaction between private enterprise and academic institutions.** The support and promotion of vocational training and certifications through work experience will also help with the acquisition of technical, applicable skills that are currently in shortage.

7 Supporting SMEs

Enhancement of the Small and Medium-sized Enterprises ecosystem has also been included in the top four priorities set by survey participants for improvement. This includes creating an environment that encourages the development of start-ups. A modern and efficient ecosystem is a prerequisite for foreign investment to flourish.

It is worth noting that the three aspects ranking low on the basis of the survey for the country's attractiveness were the 'attraction of innovative activities', 'attraction of talent' and 'establishment of world class clusters/centres of competitiveness'.

In 2020, Cyprus ranked 54th out of 190 countries in World Bank's Ease of doing business index, three places higher than in 2019 (further details are presented in the table below).

Rankings on Doing Business topics

(Out of 190 countries)

| Rankings on Doing Business Topics - Cyprus (World Bank, 2020) | 2020 Rank | 2019 Rank |
|---|-----------|-----------|
| Ease of Doing Business | 54 | 57 |
| Starting a Business | 50 | 52 |
| Dealing with Construction Permits | 125 | 126 |
| Getting Electricity | 75 | 70 |
| Registering Property | 71 | 94 |
| Getting Credit | 80 | 73 |
| Protecting Minority Investors | 21 | 38 |
| Paying Taxes | 29 | 47 |
| Trading Across Borders | 50 | 49 |
| Enforcing Contracts | 142 | 138 |
| Resolving Insolvency | 31 | 26 |

45. Start-up Visa Scheme

A range of initiatives have been provided or are under way to support start-ups, including a Start-up Visa scheme⁴⁵ to attract more international talent, recent changes to taxation on intellectual property (IP), and an amendment of the Cyprus Investment Programme to include as a criterion the support innovative research.

More is needed though to support start-up companies and help them commercialise their innovative ideas, including among others more tax incentives in terms of both corporate taxation as well as individuals' income tax in order to help attract skilled professionals.

Bureaucratic procedures (construction permits, registrations, contract enforcement through courts, etc.) and raising debt capital are also cited as the key challenges for SMEs.



Viewpoint



Christodoulos E. Angastiniotis
President, Cyprus Chamber of Commerce and Industry



The sector of investments is a major driving force for the economy in Cyprus. Therefore, CCCI makes significant efforts and puts forward numerous initiatives to enhance investments in Cyprus.

Our attempts are focused on two levels: On a national level, we are striving to improve the legal and institutional framework in order to attract more investments on the island. On an international level we are trying to promote Cyprus as an investment location.

Cyprus can offer numerous competitive advantages to investors, which are up to us to explore and promote further.

Such advantages include its strategic location, its EU and eurozone membership, the advantageous taxing system, the high level of communication services, air-transport and ports, its highly skilled professionals in the sector of services, its highly educated work force, the good weather and the high standard of living.

In this difficult time of the pandemic, both the state and the professional services should focus their efforts on attracting more investments which will boost all the sectors of Cyprus economy.

8 Overcoming bureaucracy and delays in the legal system efficiency

As evidenced above and confirmed by discussions with international investors, **the slow pace and complicated bureaucratic procedures cause constant frustration and act as an investment disincentive.**

The experience of the coronavirus has acted as a catalyst for the government to digitalise several processes (applications for building permits, online payment of some forms of taxation, etc). It is worth noting the significant upgrade in the 'paying taxes' category, following the recent introduction of an online filing and payment system by the authorities⁴⁶. This has apparently been noted by the investment community, with 60% of respondents to our survey reporting that they have a positive view of the speed of digitalisation of the state in response to the COVID-19 crisis. Clearly however, the scope for further improvement is considerable.

Improving the efficiency of the justice system is another key priority cited. The EU Justice Scoreboard 2017 shows that while judicial independence in Cyprus is perceived to be relatively high, achieving greater efficiency in the system remains a serious challenge. According to the findings of the Institute of Public Administration, there is significant delay in the adjudication of cases. In particular, the length of court proceedings is among the longest in the EU, and the level of backlogs in litigious civil and commercial cases is among the highest. Even though improving the legal system is seen as a priority by only 12% of respondents, it is still an area where the government could focus its efforts.

Recognising these challenges, a project for the Reform of the Justice System has been put in place that includes training on the new Rules of Civil Procedure⁴⁷, judicial reform and e-justice. At the lead of the latter initiative, the newly formed Ministry of Research, Innovation and Digital Policy is in the process of designing an electronic submission platform, which is estimated to be ready in September 2020 for a pilot run but will take 2-3 years to be fully developed.

46. European Innovation Scoreboard 2020

47. <https://www.coe.int/en/web/national-implementation/cyprus-enhancing-the-current-reform-of-the-court-system-and-the-implementation-process-as-well-as-the-efficiency-of-justice>

9 Strengthening the banking system and stock exchange market

Almost two thirds of the surveyed investors consider the local banking sector as a key factor when deciding on foreign investment. This rises to 84% among companies established in Cyprus, indicating that they rely even more heavily on the support of the local banking sector for both their operations and funding. A similar trend is expressed, though by fewer participants, with regards to the existence of a strong and liquid local stock exchange market. At the same time, access to financing and availability of capital is seen as the least attractive feature of Cyprus's investment attractiveness, with only 42% having a positive view.

Following the contraction and restructuring of the local banking sector after the 2013 crisis, banks have introduced additional procedures and controls, in an effort to manage and mitigate Non-Performing Exposures. These procedures are reported by investors as lengthier, more cumbersome and stricter than in the past. They also inevitably lead to longer approval processes and a smaller number of facilities being granted to the market, thus affecting liquidity.

Even though local banking institutions do have the capital adequacy to fund new investments, the current high levels of NPEs and risk-management processes limit their ability to do so.

The local stock market, which in principle could not only provide a source of capital but also an exit strategy for foreign investors, is not very active; evidenced by a very limited number of new company listings during the last six years, and a very low transaction volume.

“
The Cyprus Stock Exchange management and Board are considering ways of revitalising the market.

At present, there appears to be a lot of ground to be covered.

Viewpoint

Nicos Trypatsas
Acting General Manager
at the Cyprus Stock
Exchange



The Cyprus Stock Exchange (“CSE”), recognizes that, in order to maintain its critical role in facilitating the development of the Cyprus economy, it needs to be proactive, in order to stay ahead in a highly competitive and continuously changing environment. Towards this end, the CSE Council and Management are taking various initiatives aimed at attracting new companies and increasing liquidity to the market.

The continuous effort to improve procedures, the adoption of new technologies, the efforts to remain competitive and the adoption of a competitive pricing policy, are among others major tools that are used, to improve the CSE's position and be able to cope with the different challenges and remain viable, in the business and economic environment.

Key efforts and initiatives undertaken by the Cyprus Stock Exchange include among others the following:

- ▶ active promotion of the CSE through targeted communication and road shows
- ▶ promotion of tax incentives to encourage listings but also to stimulate investors interest (e.g. tax reductions on Corporate Bond interest)
- ▶ creation of a new segment-market for SMEs, and
- ▶ establishing links with other international Depositories in order to facilitate dual listings on the CSE.



10 Capitalising on the country's headquartering attractiveness

The participants have identified the country's attractiveness in terms of headquartering activities, with 18% citing this area as a potential investment activity (compared to 6% in the case of the European Survey).

The island offers a number of advantages for headquartering purposes.

These include but are not limited to, the country's geostrategic location, its political stability, security, high quality of life, favorable tax regime, strong professional services sector and educated workforce.

While the country has successfully attracted a number of international players for regional or central headquarters, there is still room for growth. This growth can be achieved through further promotion of the country's relevant attractiveness, as well as through the offer of further incentives and support to those players who choose to relocate to the island (e.g. elimination of bureaucratic procedures for work permits, tax incentives for employees, etc.)

11 Cyprus reunification and geopolitical considerations

Cyprus's broader geopolitical environment is, predictably, a key consideration for investors. Around half of the surveyed companies (and 79% in the case of *established* investors) feel that a reunification of the island would improve the country's attractiveness.

This is understandable, given that Cyprus has been divided for close to 50 years and a reunification would remove a major source of uncertainty for the economy. It would further increase the captive market locally as well as remove restrictions like the Turkish embargo on Cyprus flagged vessels.

Another geopolitical factor taken into consideration by investors, as already referred to in different parts of the report, is the country's strategic geographic location.

On the positive side, this location, combined with EU membership and the country's political stability/safety, creates a number of opportunities for a key regional role. Cyprus could, for example, be actively involved and utilised in the reconstruction of Beirut.

This is a competitive advantage currently enjoyed by a limited number of countries in the region. At the same time, however, the current rising tensions in the region, and more specifically the continuing crisis in Syria and the mounting aggression by Turkey in the Eastern Mediterranean, are factors that could adversely affect investor interest in case of escalation.

For more information about doing business in Cyprus you can refer to our publication "[Doing Business in Cyprus: Your strategic investment hub](#)".

This document is intended to act as an introduction to the Cypriot business environment, regulation and legislative and tax frameworks. It aims to answer many of the questions we most frequently hear from potential investors.



Methodology

About the European Investment Monitor

Our evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), the EY proprietary database produced in collaboration with OCO. This database tracks the FDI projects that have resulted in the creation of new facilities and jobs. By excluding portfolio investments and mergers and acquisitions (M&A), it shows the reality of investment in manufacturing and services by foreign companies across the continent.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany, such as plant and equipment.

The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources. To confirm the accuracy of the data collected, the research teams aims to directly contact more than 70% of the companies undertaking these investments. The following categories of investment projects are excluded from the EY EIM:

- ▶ M&A and joint ventures (unless these result in new facilities or new jobs being created)
- ▶ License agreements
- ▶ Retail and leisure facilities, hotels and real estate*
- ▶ Utilities (including telecommunications networks, airports, ports and other fixed infrastructure) *
- ▶ Extraction activities (ores, minerals and fuels) *
- ▶ Portfolio investments (pensions, insurance and financial funds)
- ▶ Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- ▶ Nonprofit organizations (charitable foundations, trade associations and government bodies)

* Investment projects by companies in these categories are included in certain instances: e.g., details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution centre, this project would qualify for inclusion in the database.

EY Attractiveness Survey Europe

The field research for EY Attractiveness Survey Europe, was conducted by the CSA Institute in January and February 2020 via telephone interviews, based on a representative panel of 504 international decision-makers.

A second perception survey was conducted from 15 April to 29 April to reflect decision-makers' perception changes due to the COVID-19 crisis. This online survey was led by Euromoney, based on a representative panel of 113 international decision-makers.

Cyprus

The field research for EY Attractiveness Survey Cyprus, was conducted by the CSA Institute between June 5th and June 26th by means of telephone interviews with 100 decision-makers from foreign companies in 16 countries.

36 participants were interviewed in Cyprus and 64 outside Cyprus (including 7 interviewees who were interviewed outside Cyprus and already have operations in the country). Thus, 43% of the surveyed investors (n=43) have an established presence in Cyprus.

Figure 33: Interviewed companies by nationality

| | |
|-----------------|-----|
| Western Europe | 34% |
| Middle East | 18% |
| North America | 13% |
| Russia | 11% |
| Asia | 8% |
| Northern Europe | 5% |
| Other | 11% |

Figure 34: Interviewed companies by turnover

| | |
|---------------|-----|
| < €150m | 38% |
| €150m - €1.5b | 32% |
| >€1.5b | 30% |

Figure 35: Sector of activity of each company/interviewee

| | | | |
|---|------------|--|------------|
| Total Industry, Automotive & Energy | 46% | Total Consumer | 12% |
| Advanced manufacturing | 14% | Consumer industry | 10% |
| Energy: Mining & metals, Power & Utilities, Oil & gas | 16% | Retail | 2% |
| Real Estate, Hospitality and Construction | 9% | Total Telecommunications & technology | 12% |
| Automotive & Mobility / Transportation (airlines, shipping, etc.) | 7% | Technology | 10% |
| | | Telecommunications | 2% |
| Total Private & business services | 27% | Other | 3% |
| Professional services | 16% | FinTech | 2% |
| Banking, insurance, wealth & asset management | 11% | Healthcare and wellbeing | 1% |

Source: CSA Research (Total sample: 100)

Figure 36: Interviewees by job title

| | |
|-------------------------------------|-----|
| Financial Director | 29% |
| Managing Director / Senior VP / COO | 18% |
| Director of Strategy | 14% |
| Director of Development | 13% |
| Chairman / President / CEO | 8% |
| Director of Investments | 2% |
| Marketing and Commercial Director | 12% |
| Human Resources Director | 4% |

About the EY Attractiveness program

EY Attractiveness Surveys are widely recognized by clients, media, governments and major public stakeholders as a key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth. A two-step methodology analyzes both the reality and perception of FDI in the country or region.

The program has a 19-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit: ey.com/attractiveness #EYAttract



About EY

EY is a global leader in assurance, tax, strategy, transaction and consulting services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

© 2020 Ernst & Young Cyprus Ltd
All Rights Reserved.

EYG no. 006405-20Gbl



In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisers for specific advice.

ey.com/cy

ey.com/cy [@EY_Cyprus](https://twitter.com/EY_Cyprus) EY

[@EYCyprus](https://www.facebook.com/EYCyprus) [eycyprus](https://www.instagram.com/eycyprus)

EY contacts



David Barker

Country Managing Partner, EY Cyprus,
CESA Corporate Finance Leader for Strategy
and Transactions Services

T: +357 22 209 820

E: David.Barker@cy.ey.com



Stavros Pantzaris

Partner, Chairman, EY Cyprus

T: +357 22 209 754

E: Stavros.Pantzaris@cy.ey.com



Stelios Demetriou

Partner, Head of Strategy and Transactions
Services

T: +357 22 209 746

E: Stelios.Demetriou@cy.ey.com



Philippos Raptopoulos

Partner, Head of Tax and Legal Services

T: +357 25 209 740

E: Philippos.Raptopoulos@cy.ey.com



Charalambos Constantinou

Partner, Head of Consulting Services

T: +357 22 209 774

E: Charalambos.Constantinou@cy.ey.com



Andreas Avraamides

Partner, Head of Assurance Services

T: +357 22 209 778

E: Andreas.Avraamides@cy.ey.com

For more information about the EY Cyprus
Attractiveness report 2020, please contact

Andreas Anastasiou,

Director, Strategy and Transaction Services

Andreas.Anastasiou@cy.ey.com,

+357 22 209 750

Irene Charitou, Associate Director,

Head of Brand, Marketing and Communications

Irene.Charitou@cy.ey.com,

+357 22 209 767