EIBIS 2016
EIB Group Survey on Investment and Investment Finance 2016

Cyprus
Country Overview
EIB Group Survey on Investment and Investment Finance Country Overview: Cyprus
© European Investment Bank (EIB), 2016. All rights reserved.

About the EIB Investment Survey (EIBIS)
The EIB Group Survey on Investment and Investment Finance is a unique, EU-wide, annual survey of 12,500 firms. It collects data on firm characteristics and performance, past investment activities and future plans, sources of finance, financing issues and other challenges that businesses face. Using a stratified sampling methodology, EIBIS is representative across all 28 member States of the EU, as well as for firm size classes (micro to large) and 4 main sectors. It is designed to build a panel of observations to support time series analysis, observations that can also be linked to firm balance sheet and profit and loss data. EIBIS has been developed and is managed by the Economics Department of the EIB, with support to development and implementation by Ipsos MORI. For more information see: http://www.eib.org/eibis.

About this publication
This Country Overview is one of a series covering each of the 28 EU Member States, plus an EU-wide overview. These are intended to provide an accessible snapshot of the data. For the purpose of these publications, data is weighted by value-added to better reflect the contribution of different firms to economic output. Contact: eibis@eib.org.

About the Economics Department of the EIB
The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The Department, a team of 30 economists, is headed by Debora Revoltella, Director of Economics.

Main contributors to this publication
Marcin Wolski, Nicolas Arsalides, EIB.

Disclaimer
The views expressed in this publication are those of the authors and do not necessarily reflect the position of the EIB.

About Ipsos Public Affairs
Ipsos Public Affairs works closely with national governments, local public services and the not-for-profit sector, as well as international and supranational organizations. Its c.200 research staff in London and Brussels focus on public service and policy issues. Each has expertise in a particular part of the public sector, ensuring we have a detailed understanding of specific sectors and policy challenges. This, combined with our methodological and communications expertise, helps ensure that our research makes a difference for decision makers and communities.
Cyprus

The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey of 12,500 firms that gathers quantitative information on investment activities by both SMEs and larger corporates, their financing requirements and the difficulties they face.

As the EU bank, the EIB Group responds to the need to accelerate investment to strengthen job creation and long-term competitiveness and sustainability across all 28 EU member States. EIBIS helps the EIB to contribute to a policy response that properly addresses the needs of businesses, promoting investment.

This country overview presents selected findings based on telephone interviews with 150 firms in Cyprus in 2016 (July-October). Note: The results are weighted by value-added, reflecting firms’ contribution to the economy.

Key results

<table>
<thead>
<tr>
<th>Investment outlook:</th>
<th>Investment environment in Cyprus is challenging. Companies in Cyprus expand investments on balance, however, they start from very low levels.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment activity:</td>
<td>73% of the firms invested in the last financial year, compared to 84% across the EU. Investment intensity (investment per employee) stands at EUR 2,438 against the EU level of EUR 6,200.</td>
</tr>
<tr>
<td>Investment gap:</td>
<td>23% of the firms reported that they invested too little over the last three years, while 6% of the firms found that they invested too much.</td>
</tr>
<tr>
<td>Investment barriers:</td>
<td>The political, regulatory and overall climate conditions together with the low availability of external finance have been a short term obstacle on investments in Cyprus. Furthermore, a significant 58% share of firms indicated high energy costs in Cyprus as the major long term obstacle to their investment activities. In fact, energy costs in Cyprus have had the most unfavourable effect on investment across the EU countries.</td>
</tr>
<tr>
<td>External finance:</td>
<td>14% of firms consider themselves finance constrained: the proportion of firms either dissatisfied with the amount of finance they received, had their application rejected, thought borrowing costs would be too high or were discouraged from applying; the EU average is 5%.</td>
</tr>
<tr>
<td>Firm performance:</td>
<td>Job creation has been improving as firms in Cyprus are more likely to increase and less likely to decrease their employment levels. However, firms still have unsatisfactory productivity levels compared to the EU average.</td>
</tr>
</tbody>
</table>
Overall, 73% of the firms in Cyprus invested in the last financial year, against an EU average of 84%.

Over nine in ten (91%) firms in the services sector and 87% of firms in the manufacturing invested, compared to 55% of firms in the construction/infrastructure sector.

Investment intensity (investment per employee) stands at EUR 2,438 against the EU level of EUR 6,200.

**Investment activity in last financial year compared to previous**

Compared to 2014, 49% of firms in Cyprus increased their investment activities in 2015.

72% of firms in manufacturing invested more than the previous year, compared to 58% among firms in the services sector and 37% in the construction/infrastructure sector.

The share of medium/large firms that increased investment was 57 percentage points higher than the equivalent share of micro/smaller firms.
Around three in ten (29%) firms in Cyprus expect their investment in 2016 to exceed the investment levels of 2015.

Around half of firms in Cyprus expect their investment in 2016 to be as high as in 2015 (52% compared to 38% in the EU).

Three quarters of firms in the manufacturing sector plan to invest more than in the previous financial year, compared to 31% of firms in the construction/infrastructure and 10% in service sector.

Overall, Cyprus falls into the “low investment; expanding” quadrant of the investment cycle diagram, confirming firms’ recovery from a marked investment slump.

Positively, despite the construction and infrastructure sectors which were most severely hit by the crisis, this signals an investment recovery in the current financial year.
INVESTMENT ACTIVITY

- One third of the investment activity in Cyprus during the last financial year was concentrated in machinery and equipment (33%), followed by land, business building and infrastructure (26%) and investment in software, data, IT and websites (16%).

- Relative to investment in the EU as a whole, Cyprus reported 11 percentage points more investment in land, business and infrastructure and 14 percentage points less investment share in machinery and equipment.

Investment abroad

- Overall, 13% of the firms in Cyprus have invested in another country in the last financial year, in line with the EU average.

- Over a quarter (28%) of firms in the service sector invested abroad, while the proportions for the construction/infrastructure sector and manufacturing stand at 2% and 3% respectively.

Q. In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company’s future earnings?

- Base: All firms who have invested in the last financial year (excluding don’t know/refused responses)

- Base: All firms who have invested in the last financial year
During the last financial year, investments in Cyprus were dominated by replacement (62%), followed by capacity expansion (23%) and developing or introducing new products, processes or services (13%).

This is largely in line with the EU aggregates.

For nearly two fifths (38%) of firms in Cyprus, new product or service development seems to be the investment priority for the coming three years, rising to 54% among medium and large companies.

22% of firms in Cyprus prioritise replacement, compared to 40% across the EU as a whole.
INVESTMENT NEEDS

- Three in five (60%) firms in Cyprus believe that their investment over the last three years was about the right amount. Around one in 17 (6%) believe that they invested too much.
- 23% of firms, rising to 65% in the manufacturing sector, believe that they invested too little in the last three years.
- Over a third (34%) of micro and small firms believe they invested too little, compared to 16% among medium and large firms.

**Perceived investment gap**

- Over half of the firms in Cyprus (53%) reported operating at or above maximum capacity in the last financial year, in line with firms across the EU.
- Overcapacity rises to 70% in the manufacturing sector and 64% in medium and large firms.

**Share of firms at or above full capacity**

- Over half of the firms in Cyprus (53%) reported operating at or above maximum capacity in the last financial year, in line with firms across the EU.
- Overcapacity rises to 70% in the manufacturing sector and 64% in medium and large firms.
The average share of machinery and equipment owned by firms in Cyprus that is considered to be state-of-the-art is 68%, fairly consistent across different sectors and sizes.

Firms in Cyprus report that on average 55% of their building stock satisfies high energy efficiency standards, again with little variation between the different sectors and sizes.

Average share of building stock meeting high energy efficiency standards

Average share of modern machinery and equipment

Base: All firms
Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?
NOTE: Due to potential translation issues, the shares reported here are not comparable to those in other countries.

EIB Group Survey on Investment and Investment Finance 2016 Country overview: Cyprus
**INVESTMENT CONSTRAINTS**

- In net terms, the availability of external finance as well as the political, regulatory and overall economic climate are cited as barriers to the implementation of investments in Cyprus in the current financial year.
- Firms in Cyprus were the only firms in the EU that faced a negative impact on their investment plans due to limited external finance availability.
- On balance, firms believe that the influence of business prospects and the availability of internal finance were positive.

**Short term influences by investment performance**

- Net balance is the share of firms seeing a positive effect minus the share of firms seeing a negative effect.

**Short term influences on investment**

- **Cyprus negative net balance**
- **Cyprus positive net balance**
- **EU negative net balance**
- **EU positive net balance**

**Base:** All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don’t know/refused/company didn’t exist three years ago responses)

Q. How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?

*Net balance is the share of firms seeing a positive effect minus the share of firms seeing a negative effect*

- On balance, firms in Cyprus that reported insufficient investments in the last three years were more negatively affected by all factors, compared to firms that invested sufficiently.
Although the overall investment environment in Cyprus is challenging, a significant 58% share of firms indicate that high energy costs constitute a major long term obstacle to their investment activities. This figure is the highest in the EU.

Half of the firms in Cyprus consider future uncertainty as a major investment barrier, while 44% of the firms are concerned about limited availability of finance.

Comparing firms that invested too little in the past three years and firms that invested sufficiently, views on the main barriers to investment diverge; this is true in particular for labour market regulations and access to digital infrastructure; both of which are considered more of an issue by firms that underinvested.

### Long term barriers to investment

**Base:** All firms (data not shown for those who said not an obstacle at all/don’t know/refused)

**Q. Thinking about your investment activities in Cyprus, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?**

- **Uncertainty about the future**
- **Availability of finance**
- **Adequate transport infrastructure**
- **Business regulations**
- **Labour market regulations**
- **Access to digital infrastructure**
- **Energy costs**
- **Availability of staff with right skills**
- **Demand for products or services**

### Long term barriers by investment performance

**Base:** All firms who invested too much, about the right amount or too little in the last financial year (excluding don’t know/refused/company didn’t exist three years ago responses), data shown for firms who said each was a major or minor obstacle

**Q. Thinking about your investment activities in Cyprus, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?**
Firms in Cyprus rely, to a large extent, on internal funds to finance their investment activities (74% against the EU average of 60%).

Bank loans are the dominant source of external finance.

Firms in Cyprus are most satisfied with the amount and type of external finance.

**Source of investment finance**

- **Firms in Cyprus rely, to a large extent, on internal funds to finance their investment activities (74% against the EU average of 60%).**
- **Bank loans are the dominant source of external finance.**
- **Firms in Cyprus are most satisfied with the amount and type of external finance.**

**Type of external finance used for investment activities**

**Base:** All firms who invested in the last financial year (excluding don’t know/refused responses)

Q. Approximately what proportion of your investment in the last financial year was financed by each of the following? *Caution: very small base size of less than 30*

**Satisfaction with external finance**

**Base:** All firms who used external finance in the last financial year (excluding don’t know/refused responses)

Q. How satisfied or dissatisfied are you with …? *Caution: very small base size of less than 30*
Overall, firms in Cyprus would prefer to diversify their sources of external financing more. In particular, they would like overdrafts and the issuance of bonds to play a more prominent role in financing their investments in the future.

Bank loans appear to be the most used type of finance for firms in Cyprus.

---

14% of firms in Cyprus consider themselves to be credit constrained, which compares to 5% across the EU as a whole.

---

**Types of finance used versus the one type of finance firms want to use more**

- **Base:** All firms who used external finance in the last financial year (excluding don’t know/refused responses)
- **Data** is derived from two questions: firms were first asked about the types of external finance used in the last financial year and then which one type of external finance they would want to have a more prominent role over the next 3 years.

---

**Share of finance constrained firms**

- **Base:** All firms
- **Finance constrained firms** include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged).

---

**EIB Group Survey on Investment and Investment Finance 2016 Country overview: Cyprus**
More than a third of the firms in Cyprus are large firms (35%), below the EU average of 50%. Micro and small companies are modestly overrepresented in Cyprus.

The services and infrastructure sectors make up 73% of the firms in Cyprus, against an EU average of 55%.

Employment dynamics in Cyprus are modestly skewed towards employment expansion than contraction.

In general, firms in Cyprus show low levels of productivity. All the sectors (particularly services and manufacturing) have a substantial share of firms in the lowest EU productivity quantile.
- In 2015, aggregate investment in Cyprus was nearly 50% below the investment levels observed in 2008.
- Investment contraction is observed in all the institutional sectors, with households reducing their investment the most.
- Compared to 2008, investments in dwellings were reduced the most.

The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); against the series 'pre-crisis trend. The data has been indexed to equal 100 in 2008. Source: Eurostat.
EIBIS 2016 – COUNTRY TECHNICAL DETAILS

The final data are based on a sample, rather than the entire population of firms in Cyprus, so the percentage results are subject to sampling tolerances. These vary with the size of the sample and the percentage figure concerned.

### Approximate sampling tolerances applicable to percentages at or near these levels

<table>
<thead>
<tr>
<th></th>
<th>EU</th>
<th>Cyprus</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Construction/ Infrastructure</th>
<th>Micro/ Small</th>
<th>Medium/Large</th>
<th>EU vs Country</th>
<th>Manufacturing vs Construction/ Infrastructure</th>
<th>Micro/Small vs Medium/Large</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(12483)</td>
<td>(150)</td>
<td>(49)</td>
<td>(57)</td>
<td>(44)</td>
<td>(110)</td>
<td>(40)</td>
<td>(12483 vs 150)</td>
<td>(49 vs 44)</td>
<td>(110 vs 40)</td>
</tr>
<tr>
<td>10% or 90%</td>
<td>1.0%</td>
<td>9.8%</td>
<td>26.3%</td>
<td>21.5%</td>
<td>9.0%</td>
<td>7.1%</td>
<td>15.6%</td>
<td>9.8%</td>
<td>27.7%</td>
<td>17.0%</td>
</tr>
<tr>
<td>30% or 70%</td>
<td>1.5%</td>
<td>14.9%</td>
<td>40.1%</td>
<td>32.8%</td>
<td>13.8%</td>
<td>10.8%</td>
<td>23.8%</td>
<td>15.0%</td>
<td>42.3%</td>
<td>26.0%</td>
</tr>
<tr>
<td>50%</td>
<td>1.7%</td>
<td>16.3%</td>
<td>43.8%</td>
<td>35.8%</td>
<td>15.0%</td>
<td>11.8%</td>
<td>25.9%</td>
<td>16.3%</td>
<td>46.1%</td>
<td>28.4%</td>
</tr>
</tbody>
</table>

### Glossary

**Investment**
A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities with the intention of maintaining or increasing the company’s future earnings.

**Investment cycle**
Based on the expected investment in current financial year compared to last one, and the proportion of firms with a share of investment greater than EUR 500 per employee.

**Productivity**
Total factor productivity is a measure of how efficiently a firm is converting inputs (capital and labor) into output (value-added). It is estimated by means of a country-by-country regression analysis (with industry dummies).

**Manufacturing sector**
Based on the NACE classification of economic activities, firms in group C (manufacturing).

**Construction sector**
Based on the NACE classification of economic activities, firms in group F (construction).

**Services sector**
Based on the NACE classification of economic activities, firms in group G (wholesale and retail trade) and group I (accommodation and food services activities).

**Infrastructure sector**
Based on the NACE classification of economic activities, firms in groups D and E (utilities), group H (transportation and storage) and group J (information and communication).

**SME**
Firms with between 5 and 249 employees.

**Large firms**
Firms with at least 250 employees.
## Base sizes

<table>
<thead>
<tr>
<th>Base definition and page reference</th>
<th>EU</th>
<th>Cyprus</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Construction / Infrastructure</th>
<th>Micro / Small</th>
<th>Medium / Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>All firms, p. 3, p. 6, p. 7, p. 9, p. 11, p. 12, p. 13</td>
<td>12483</td>
<td>150</td>
<td>49</td>
<td>57</td>
<td>44</td>
<td>110</td>
<td>40</td>
</tr>
<tr>
<td>All firms (excluding don’t know/refused responses), p. 2</td>
<td>11838</td>
<td>145</td>
<td>48</td>
<td>55</td>
<td>42</td>
<td>106</td>
<td>39</td>
</tr>
<tr>
<td>All firms (excluding those who have no investment planned/don’t know/refused responses), p. 5</td>
<td>12159</td>
<td>147</td>
<td>49</td>
<td>55</td>
<td>43</td>
<td>109</td>
<td>38</td>
</tr>
<tr>
<td>All firms (excluding ‘Company didn’t exist three years ago’ responses), p. 6</td>
<td>12453</td>
<td>149</td>
<td>49</td>
<td>56</td>
<td>44</td>
<td>110</td>
<td>39</td>
</tr>
<tr>
<td>All firms (excluding don’t know, refused and missing responses), p. 13</td>
<td>12162</td>
<td>148</td>
<td>49</td>
<td>56</td>
<td>43</td>
<td>109</td>
<td>39</td>
</tr>
<tr>
<td>All firms who invested in the last financial year, p. 2</td>
<td>12281</td>
<td>147</td>
<td>48</td>
<td>55</td>
<td>44</td>
<td>108</td>
<td>39</td>
</tr>
<tr>
<td>All firms who invested in the last financial year, p. 4</td>
<td>10881</td>
<td>115</td>
<td>39</td>
<td>44</td>
<td>32</td>
<td>81</td>
<td>34</td>
</tr>
<tr>
<td>All firms who have invested in the last financial year (excluding don’t know/refused responses), p. 4</td>
<td>10060</td>
<td>114</td>
<td>38</td>
<td>44</td>
<td>32</td>
<td>81</td>
<td>33</td>
</tr>
<tr>
<td>All firms who have invested in the last financial year (excluding don’t know/refused responses), p. 5</td>
<td>9682</td>
<td>101</td>
<td>34</td>
<td>38</td>
<td>29</td>
<td>72</td>
<td>29</td>
</tr>
<tr>
<td>All firms who invested in the last financial year (excluding don’t know/refused responses), p. 10</td>
<td>9093</td>
<td>95</td>
<td>33</td>
<td>37</td>
<td>25</td>
<td>70</td>
<td>25</td>
</tr>
<tr>
<td>All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don’t know/refused/company didn’t exist three years ago responses), p. 8</td>
<td>10536</td>
<td>115</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>All firms who used external finance in the last financial year (excluding don’t know/refused responses), p. 10, p. 11</td>
<td>4344</td>
<td>24</td>
<td>7</td>
<td>12</td>
<td>5</td>
<td>15</td>
<td>9</td>
</tr>
</tbody>
</table>

### Percentage rounding

Percentages with value of less than 0.5 but greater than zero have not been shown in the charts.