



Cyprus

Overview

EIB INVESTMENT SURVEY

2017

EIB Group Survey on Investment and Investment Finance Country Overview: Cyprus

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About the EIB Investment Survey (EIBIS)

The EIB Group Survey on Investment and Investment Finance is a unique, EU-wide, annual survey of some 12 300 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 40 economists, is headed by Debora Revoltella, Director of Economics.

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Disclaimer

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

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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.

EIBIS 2017 – COUNTRY OVERVIEW

Cyprus

The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey of some 12 300 firms that gathers 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 the Cyprus in 2017 (carried out between April and June).

Key results

Macroeconomic Context	The economy of Cyprus expanded by 2.8% in real terms in 2016 , driven mainly by private consumption and investment, with 3.5% forecasted for 2017 by the European Commission. The recovery is broad-based with employment growth remaining strong and the general government budget position being better than anticipated.
Investment outlook	On balance, investment dynamics in Cyprus are positive , driven mostly by firms in the services sector. The positive outlook is expected to continue although manufacturing firms are the least optimistic.
Investment activity	79% of the firms in Cyprus invested in the last financial year , marking a modest increase compared to the previous survey's wave. Investment intensity (investment per employee) remains at similar levels to last year, and builds around half of the EU average.
Perceived Investment gap	28% of the firms report investing too little in the last year , which is above the EU average of 15%.
Investment barriers	Uncertainty about the future and energy costs continue to be the most commonly perceived long-term barriers to invest (90% and 89%, respectively). These investment barriers are more often cited in Cyprus than across the EU overall. Hospital/care infrastructure is considered by 38% of firms as a priority over the next 3 years, the highest figure in the EU.
External finance	6% of the firms are finance constrained, similar to the EU average of 7%, but dropping from 14% in the last wave . This is the proportion of firms dissatisfied with the amount of finance obtained, sought finance but did not receive it, did not seek finance because they thought borrowing costs were too high or they would be turned down.
Firm performance	Firms' productivity is modestly behind the EU benchmarks . The infrastructure sector has a relatively high share of firms in the higher productivity class.

INVESTMENT DYNAMICS

INVESTMENT ACTIVITY IN LAST FINANCIAL YEAR

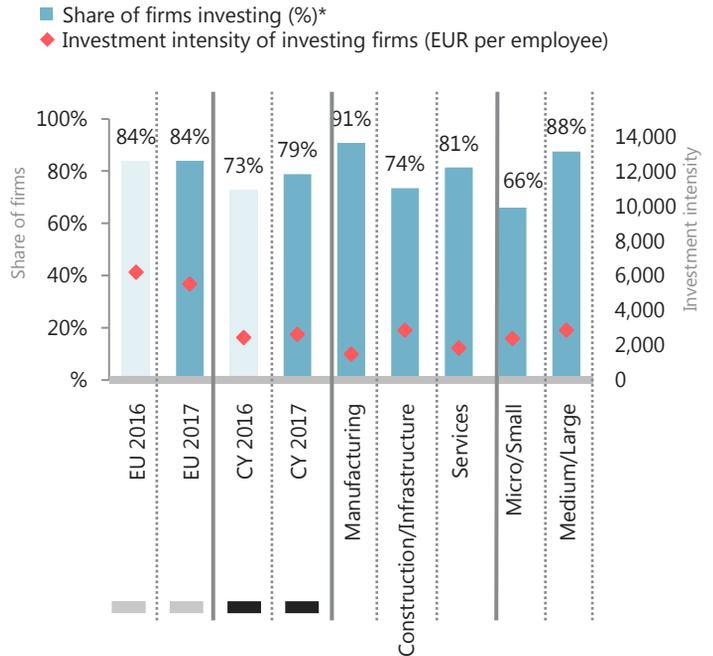
Overall, 79% of the firms in Cyprus invested in the last financial year, against an EU average of 84% and last year's survey figure of 73%.

Smaller firms are much less likely to have invested than larger ones..

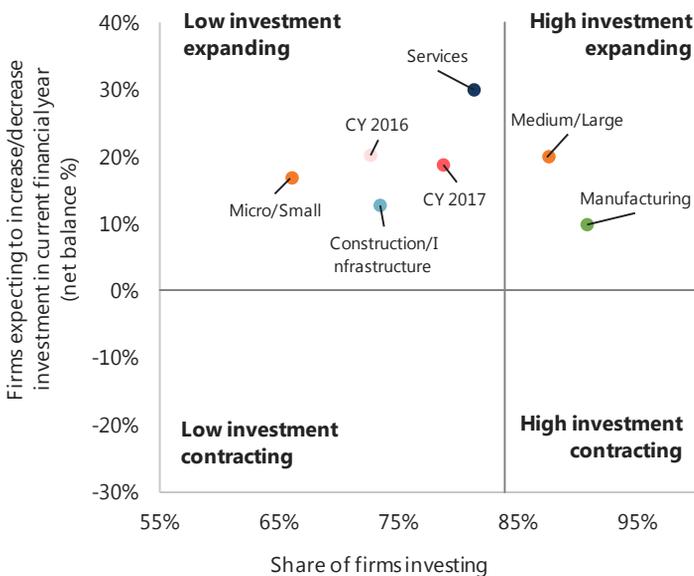
The reported intensity of investment (investment per employee) is similar to the previous survey's wave (EUR 2,627 vs EUR 2,437 respectively) and continues to be below the EU average of EUR 5,515.

**The blue bars indicate the proportion of firms who have invested in the last financial year.
A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities.
Investment intensity is the median investment per employee of investing firms.
Investment intensity is reported in 2015 values (using the Eurostat GFCF deflator).*

Base: All firms (excluding don't know/refused responses).



INVESTMENT CYCLE



Base: All firms

Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.

The y-axis line crosses x-axis on the EU average for 2016

Investment activity reported in this wave, places Cyprus in the "low investment expanding" quadrant on the investment cycle.

Medium/large firms and those in the manufacturing sector are in the "high investment expanding" quadrant.

The highest proportion of firms expecting to increase their investment in the current financial year is in services sector.

INVESTMENT DYNAMICS

EVOLUTION OF INVESTMENT EXPECTATIONS

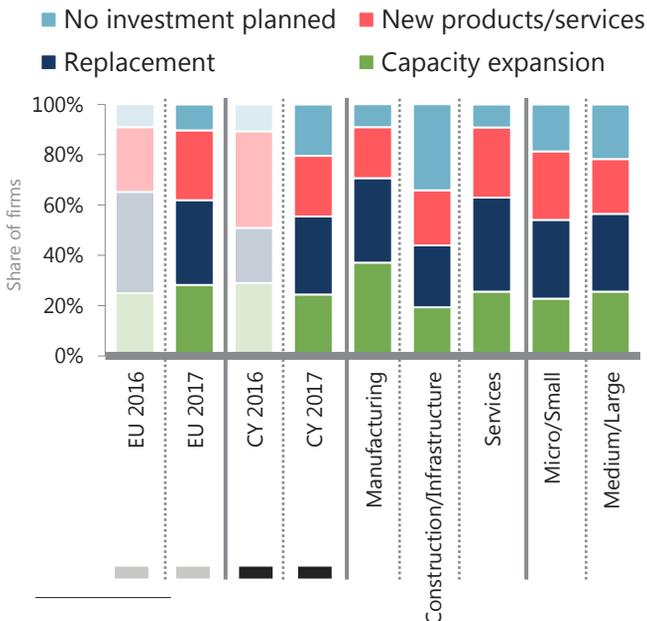
More firms in Cyprus increased than reduced their investment activities in the last financial year, with the net investment share being in line with the last wave's expectations. Furthermore, in the current year the outlook remains positive. The firms in the services sector are the most likely to expect an increase in investment, while the manufacturing companies are the least likely.



Base: All firms

'Realised change' is the share of firms who invested more minus those who invested less; 'Expected change' is the share of firms who expect(ed) to invest more minus those who expect(ed) to invest less.

FUTURE INVESTMENT PRIORITIES



Base: All firms (excluding don't know/refused responses)

Q. Looking ahead to the next 3 years, which is your investment priority (a) replacing existing buildings, machinery, equipment, IT; (b) expanding capacity for existing products/services; (c) developing or introducing new products, processes, services?

Looking 3 years ahead, firms in Cyprus are evenly split across the three priority areas. Specifically, 31% of the firms cite replacement, 24% capacity expansion and 24% new products and services as future investment priorities.

Overall, this follows a similar pattern to the EU. Nevertheless, firms in Cyprus are less likely to plan investment activities than average firms in the EU (20% have not planned any investments against 10% in the EU).

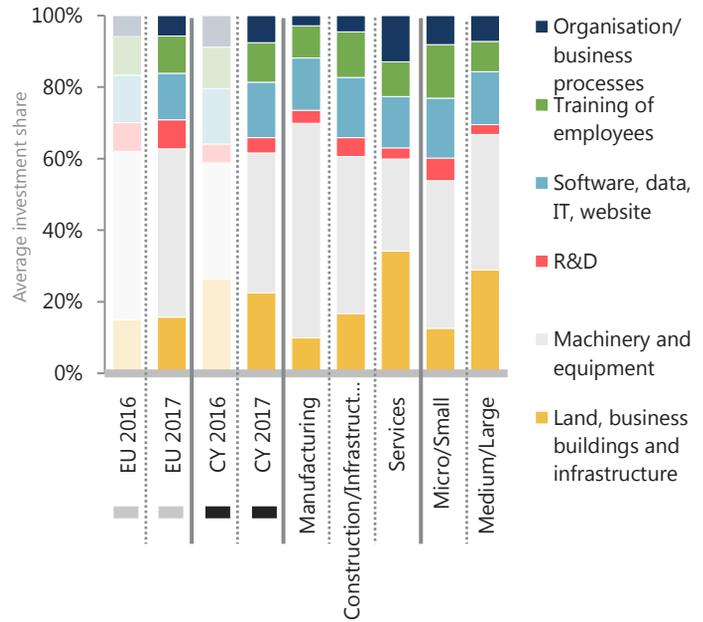
The proportion of firms with no investment plans increased to 34% in the construction/infrastructure sector, compared to 14% in the previous survey's wave.

INVESTMENT FOCUS

INVESTMENT AREAS

From the six investment areas asked about, most investment in Cyprus is in machinery and equipment (39%), followed by land, business buildings and infrastructure (22%) and software, data and IT (16%). This pattern is broadly similar to the last survey's wave as well as to the EU-wide findings.

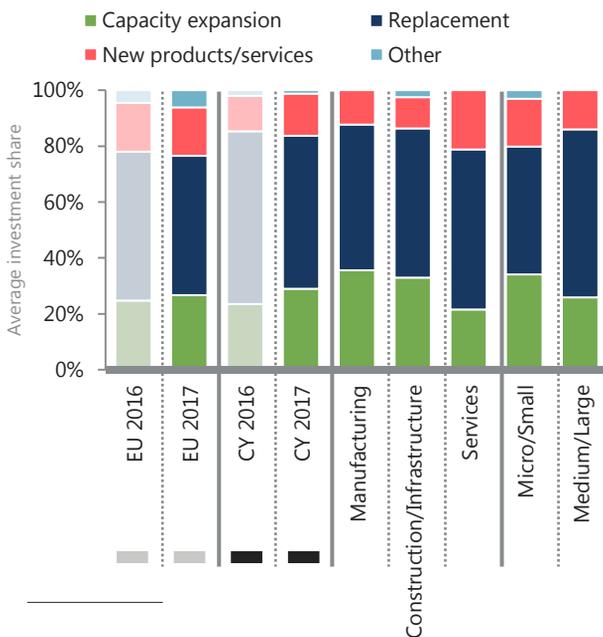
Similar to the findings of the previous survey, the services sector has by far the highest share of firms investing in land, business buildings and infrastructure (34%).



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

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?

PURPOSE OF INVESTMENT IN LAST FINANCIAL YEAR



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

Q. What proportion of total investment was for (a) replacing capacity (including existing buildings, machinery, equipment, IT) (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

The largest share of investment in Cyprus is driven by the need to replace existing buildings, machinery, equipment and IT (55%), below the previous year level of 62%, and in line with the the EU average (50%).

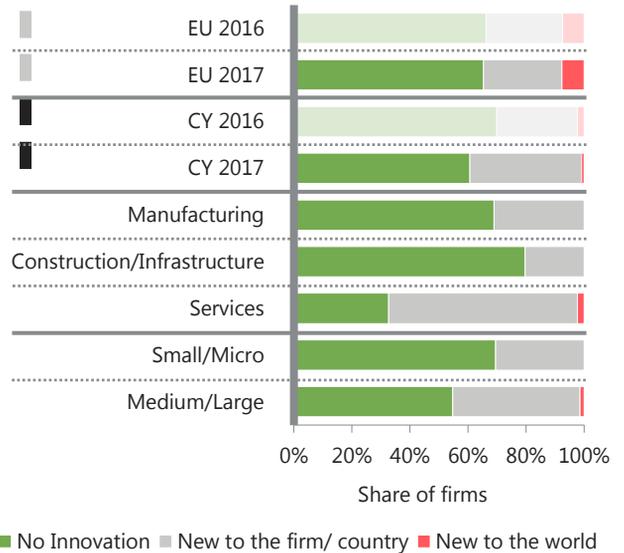
The overall pattern is relatively stable across sectors and size classes.

INVESTMENT FOCUS

INNOVATION ACTIVITY

Among all firms, almost four in ten (39%) developed or introduced new products, processes or services as part of their investment activities. The innovation in Cyprus is mostly at the local level with less than 1% of the companies innovating globally.

Firms in the services sector were more likely than others to exhibit high levels of innovation (65% of these firms indicated that the products, processes or services were new to the firm or country, while a further 2% provided innovative solutions at the world level).

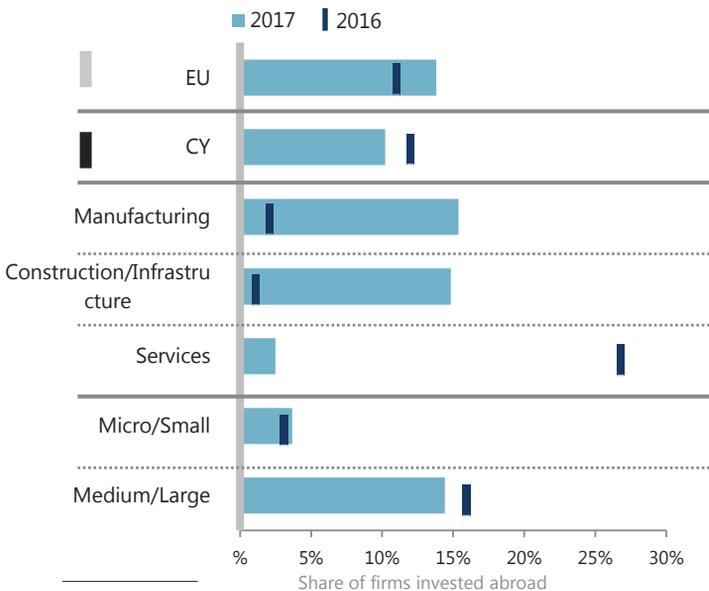


Base: All firms (excluding don't know/refused responses)

Q. What proportion of total investment was for developing or introducing new products, processes, services?

Q. Were the products, processes or services new to the company, new to the country, new to the global market?

INVESTMENT ABROAD



Base: All firms who invested in the last financial year

Q. In the last financial year, has your company invested in another country?

Among firms that invested in the last financial year in Cyprus, 10% had invested in another country, compared to the EU average of 14%.

Compared to the previous year, services sector firms were much less likely to have invested abroad in the last financial year, whereas manufacturing and construction/ infrastructure firms were more likely to invest abroad than the year before.

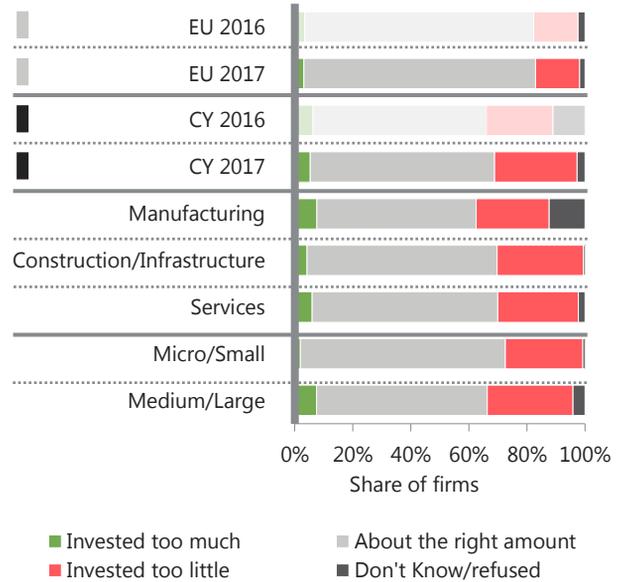
INVESTMENT NEEDS

PERCEIVED INVESTMENT GAP

Around six in ten firms (64%) believe that their investment over the last three years was about the right amount.

In Cyprus, 28% of the firms reported too little investments over the last 3 years. The particular "investment gap" is above the EU average of 15%. It is also the third largest figure across the EU, and by nearly 5pp higher than the previous survey's figure.

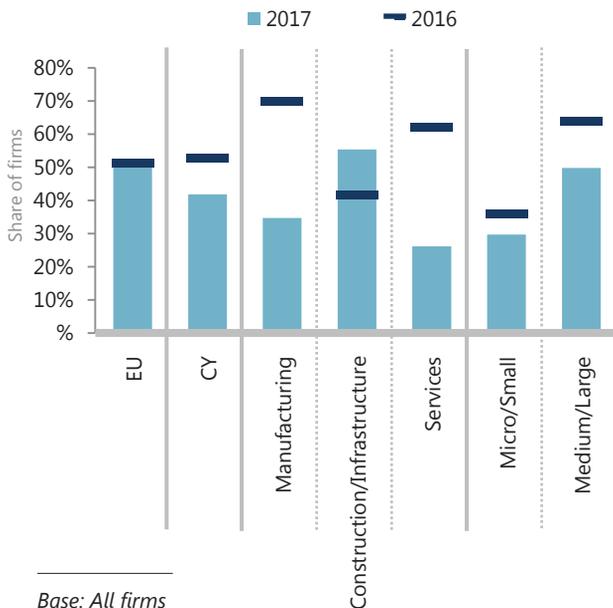
The same investment pattern exists across firms' sectors and sizes.



Base: All firms (excluding 'Company didn't exist three years ago' responses)

Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount?

SHARE OF FIRMS AT OR ABOVE FULL CAPACITY



Base: All firms

Full capacity is the maximum capacity attainable under normal conditions e.g. company's general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.

Q. In the last financial year, was your company operating above or at maximum capacity attainable under normal circumstances?

Four in ten firms in Cyprus (42%) report operating at or above maximum capacity in the last financial year. The particular figure is below the EU average (53%).

The share of firms in construction/infrastructure sectors which reported to operate at or above full capacity is slightly higher compared to the previous wave. Conversely, the shares in manufacturing and services sectors dropped by more than a half.

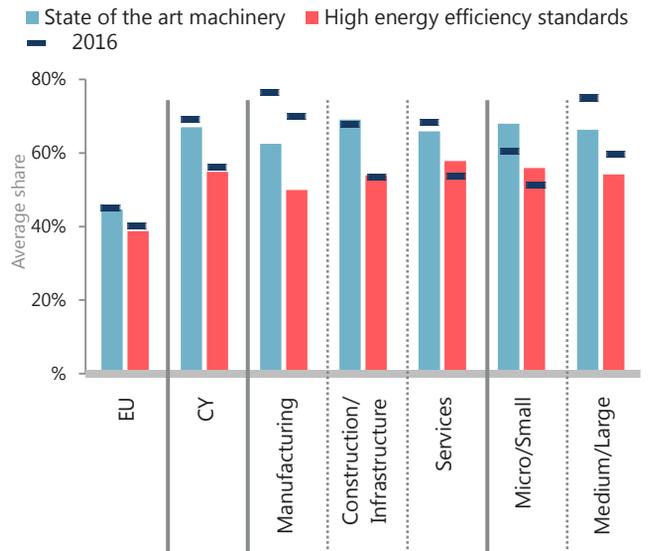
INVESTMENT NEEDS

SHARE OF STATE OF THE ART MACHINERY AND BUILDING STOCK MEETING HIGH ENERGY EFFICIENCY STANDARDS

The average share of state-of-the-art machinery and equipment in firms is perceived above the EU average.

On average, over half of firms' building stock in Cyprus is seen as satisfying high efficiency standards, which is again higher than the EU average.

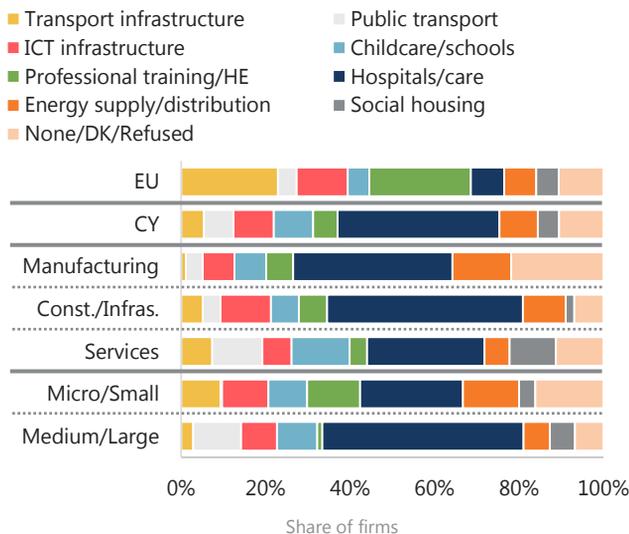
The aforementioned findings are generally in line with the previous survey's results and they are largely stable across sector and size classes. They may be strongly influenced by differences in perception.



Base: All firms

Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?
Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

PUBLIC INVESTMENT PRIORITIES



Respondents were asked to choose between eight areas of public investment as a necessary priority over the next 3 years.

Four in ten firms in Cyprus (38%) cited hospital/care infrastructure as the priority for investment over the next three years. This particular figure is above the levels reported in any other EU country, and more than 4 times higher than the EU average of 8%. All other areas were mentioned by around one in ten firms or less.

Base: All firms

Q. From your business' perspective, if you had to prioritise one area of public investment for the next 3 years, which one would it be?

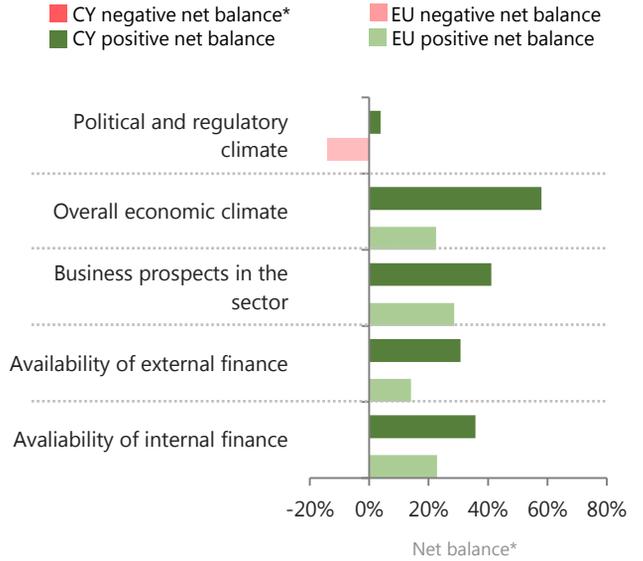
DRIVERS AND CONSTRAINTS

SHORT TERM INFLUENCES ON INVESTMENT

Slightly more firms (4% in net terms) in Cyprus expect the political and regulatory climate to improve than deteriorate in the next 12 months. This is in contrast to firms across the EU which are, on average, on a more negative front.

In net terms, firms in Cyprus are more positive than the EU-wide aggregates in all the factors, with particularly strong optimism in the overall economic climate. Moreover, the figure was negative in the 2016 survey, indicating that firms' gained business confidence.

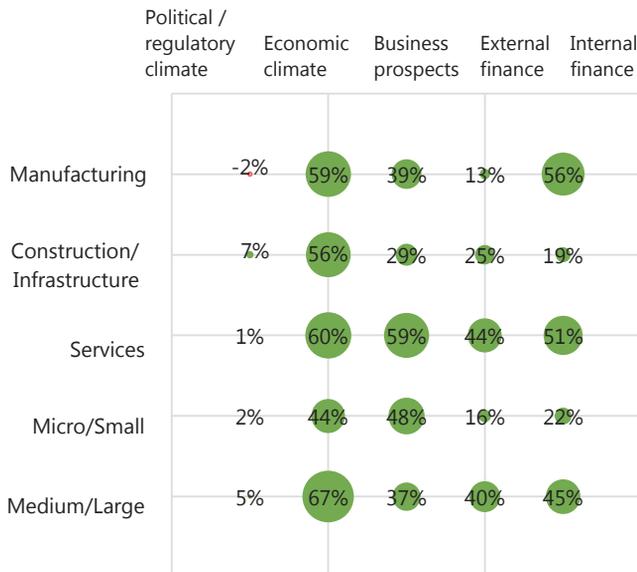
*Net balance is the share of firms seeing improvement minus the share of firms seeing a deterioration



Base: All firms

Q. Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?

SHORT TERM INFLUENCES BY SECTOR AND SIZE (NET BALANCE)



Base: All firms

Q. Do you think that each of the following will improve, stay the same, or get worse over the next 12 months?

Firms in the services sector are generally more positive than firms in other sectors. Firms in the services sector, are unambiguously more optimistic than construction/infrastructure companies when it comes to within-sector business prospects and availability of internal and external finance.

Medium/large firms show the strongest optimism about the economic climate, while smaller firms are relatively less optimistic than large firms when it comes to external and internal finance.

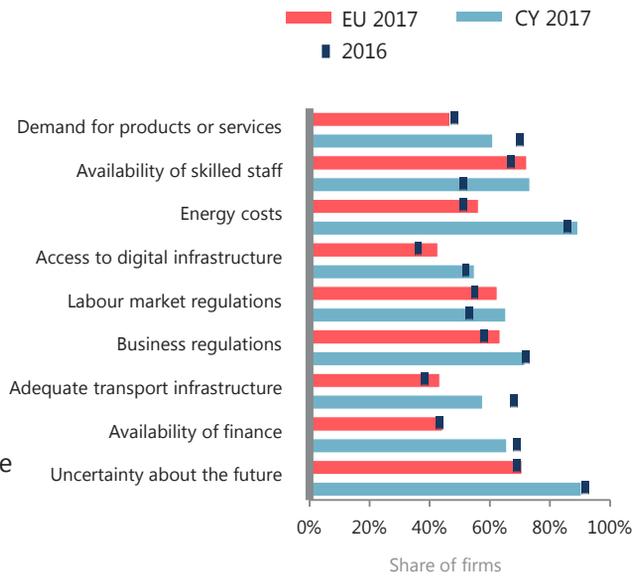
DRIVERS AND CONSTRAINTS

LONG TERM BARRIERS TO INVESTMENT

Around nine in ten firms in Cyprus consider uncertainty about the future (90%) and energy costs (89%) as obstacles to investment activities.

Business regulations and availability of skilled staff were mentioned as barriers to investment by around seven in ten firms on average, and specifically by around 9 in 10 firms in the services sector.

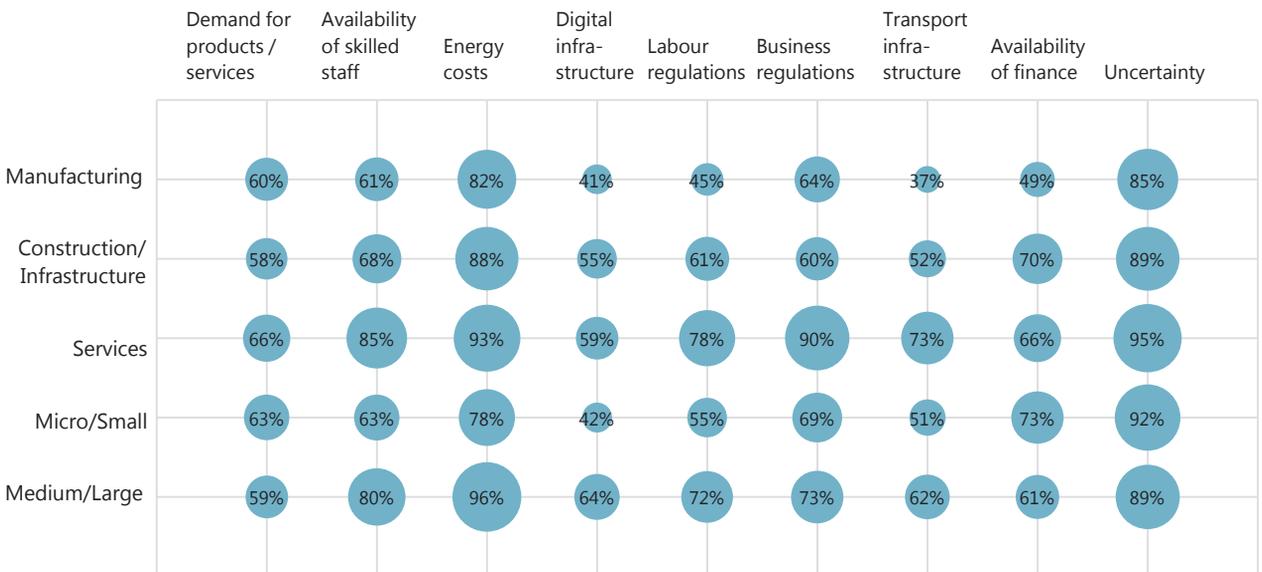
While the overall pattern of results is similar to the EU, some of the investment obstacles are reported more often by firms in Cyprus. These include energy costs, availability of finance and uncertainty about the future.



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 the Cyprus, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

LONG TERM BARRIERS BY SECTOR AND SIZE



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

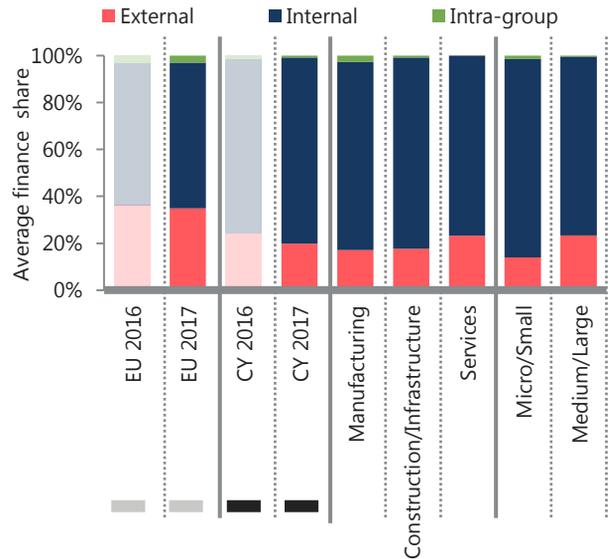
Q. Thinking about your investment activities in the Cyprus, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

INVESTMENT FINANCE

SOURCE OF INVESTMENT FINANCE

Firms in Cyprus are more likely to have funded investment through internal funds (80%) than external (20%), compared to the EU average figures of 62% and 35% respectively. As a matter of fact, the particular figure of internal finance is the second largest in the EU.

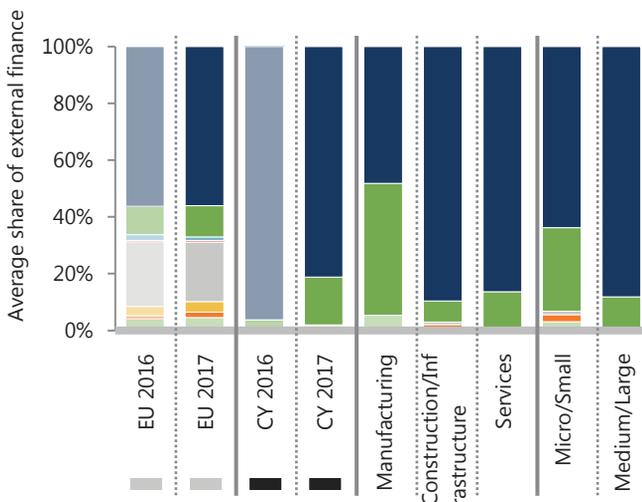
The funding pattern is stable across the size classes and sectors.



Base: All firms who invested in the last financial year (excluding don't know/refused responses)
Q. What proportion of your investment was financed by each of the following?

TYPE OF EXTERNAL FINANCE USED FOR INVESTMENT ACTIVITIES

- Bank loan
- Equity
- Non-institutional loans*
- Other bank finance
- Leasing
- Grants
- Bonds
- Factoring
- Other



Bank loans account for the highest share of external finance (81%) in Cyprus. The particular figure, is the second highest in the EU, and together with the share of other bank finance (17%), it confirms the dominant role of the banking sector in providing external finance to firms in Cyprus.

Small/micro companies demonstrate relatively more diversified sources of external finance than larger firms, with bank loans contributing to 64%.

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

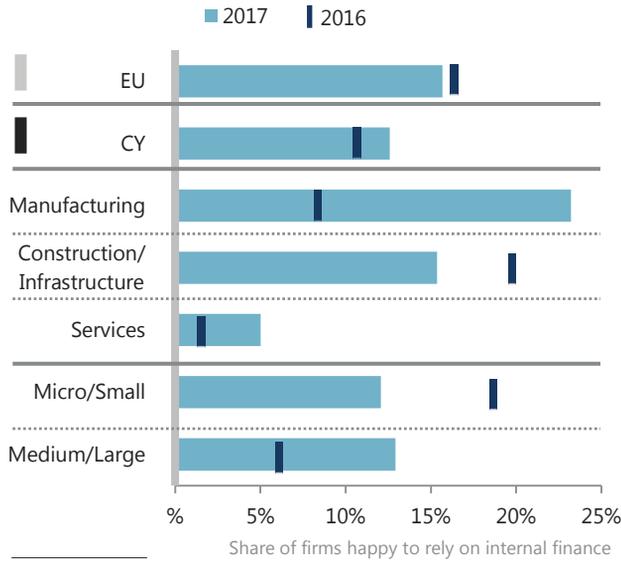
**Caution very small base size less than 30

Q. Approximately what proportion of your external finance does each of the following represent?

*Loans from family, friends or business partners

INVESTMENT FINANCE

SHARE OF FIRMS HAPPY TO RELY EXCLUSIVELY ON INTERNAL SOURCES TO FINANCE INVESTMENT



Around one in eight firms in Cyprus (13%) report that they did not need to apply for external finance as they were happy to use internal finance or did not need the particular finance at all.

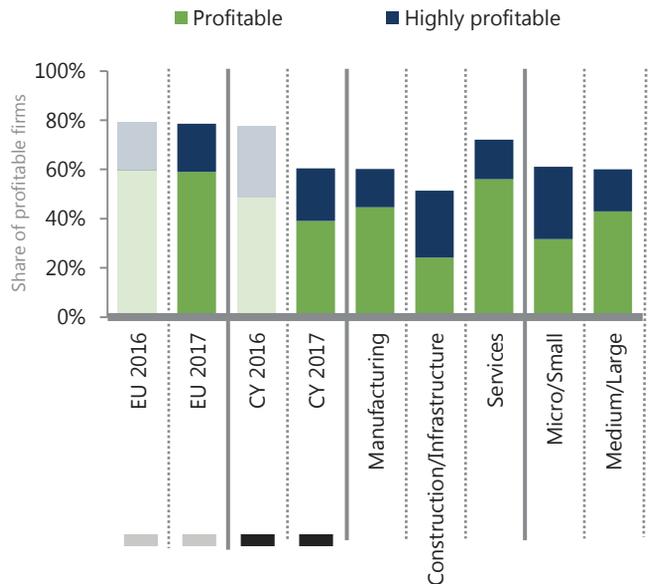
This share varies across sectors. The share of manufacturing firms reporting satisfaction with internal finance is more than four times larger than the corresponding share of service sector firms (23% against 5%).

Base: All firms

Q: What was your main reason for not applying for external finance for your investment activities? Was happy to use internal finance/didn't need the finance

SHARE OF PROFITABLE FIRMS

Six in ten firms (60%) in Cyprus are profitable, among which around 21% report being highly profitable. The service sector firms are most likely to report a profit (72%) in Cyprus.



Base: All firms (excluding don't know/refused).

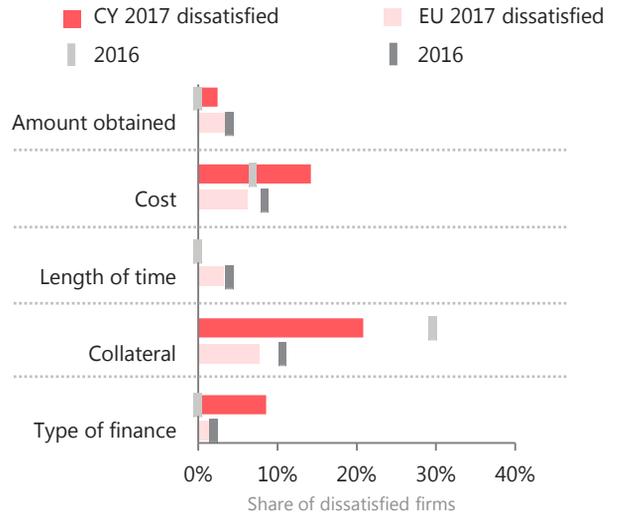
Q: Taking into account all sources of income in, did your company generate a profit or loss before tax, or did you break even? Highly profitable is defined as profits/turnover of 10% or more.

SATISFACTION WITH FINANCE

DISSATISFACTION WITH EXTERNAL FINANCE RECEIVED

The firms in Cyprus that used external finance are, on balance, satisfied with the amount, cost, maturity and the type of finance received.

Despite modest improvement from the last survey's results, collateral requirements continue to be the most substantial obstacle, with 21% of companies reporting them as a source of dissatisfaction.



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?

DISSATISFACTION BY SECTOR AND SIZE



Dissatisfaction with collateral is largely driven by the construction/infrastructure sector. In contrast, manufacturing firms are particularly unhappy with the cost and types of external finance available.

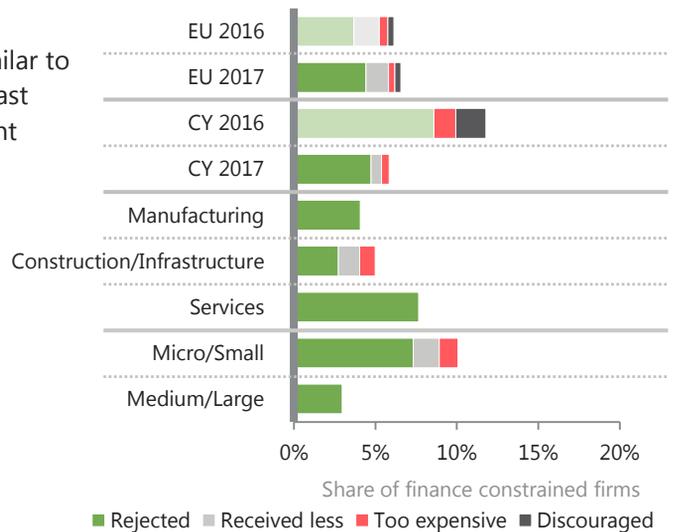
Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)
*Caution very small base size less than 30

Q. How satisfied or dissatisfied are you with?

SATISFACTION WITH FINANCE

SHARE OF FINANCE CONSTRAINED FIRMS

6% of the firms in Cyprus are finance constrained, similar to the EU average. The share dropped from 12% in the last year's survey, indicating an improvement in the current credit conditions.

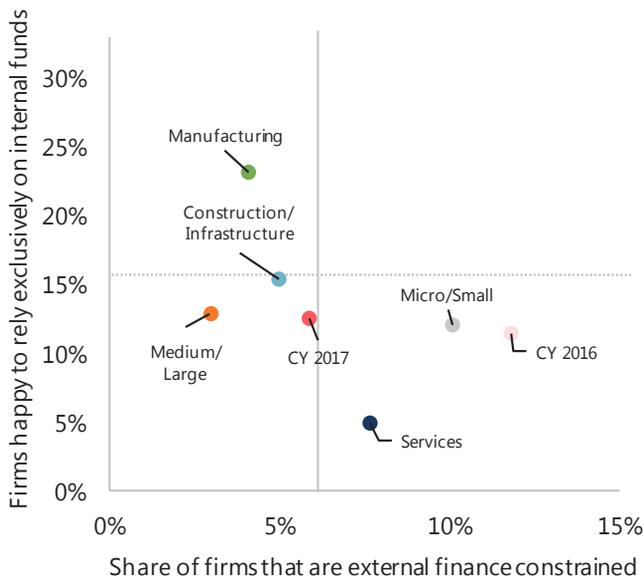


Base: All firms

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)

*Financing constraints for 2016 among non-investing firms estimated

FINANCING CROSS



Base: All firms

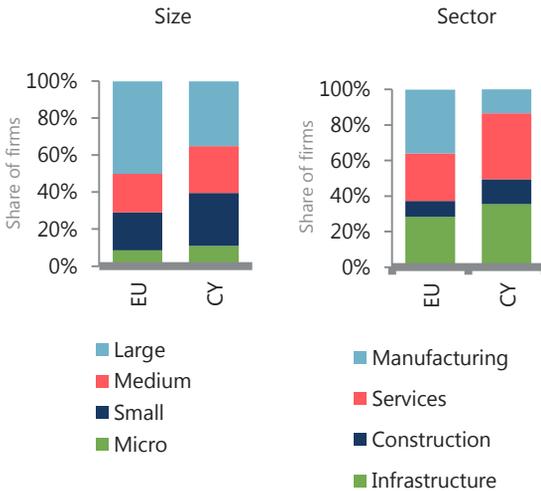
Data derived from the financial constraint indicator and firms indicating main reason for not applying for external finance was 'happy to use internal finance/didn't need finance'
The x- and y-axis lines cross on the EU average for 2016.

Within Cyprus, services firms are the least likely to rely on internal funds and demonstrate the most substantial financial constraints (compare with the graph above).

Manufacturing companies show the opposite pattern, with low shares of finance constrained companies and high reliance on internal funds.

PROFILE OF FIRMS

CONTRIBUTION TO VALUE ADDED



In terms of the weighted size distribution, larger firms account for the greatest share of value-added in the Cyprus sample (35%). This compares to an EU sample average of 50%.

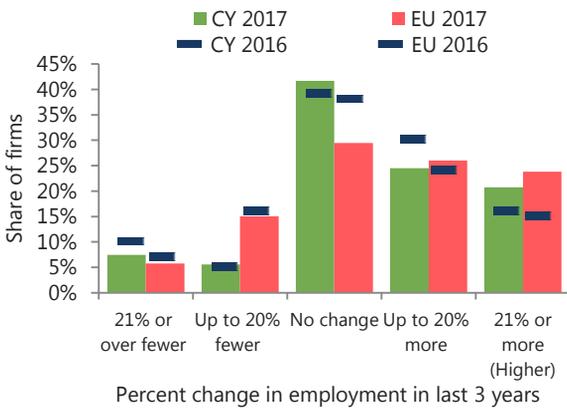
Employment dynamics over the past three years are favourable in Cyprus with more firms expanding than contracting.

Firms' productivity in Cyprus is modestly behind the EU benchmarks. The infrastructure sector has a relatively high share of firms in the top productivity class when compared across firms in other sectors.

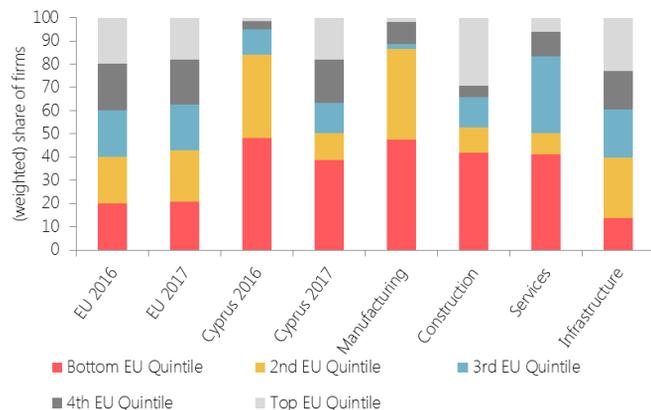
Base: All firms

The charts reflect the relative contribution to value-added by firms belonging to a particular size class / sector in the population of firms considered. That is, all firms with 5 or more employees active in the sectors covered by the survey. Micro: 5-9 employees; Small: 10-49; Medium: 50-249; Large: 250+.

EMPLOYMENT DYNAMICS IN LAST THREE YEARS



DISTRIBUTION OF FIRMS BY PRODUCTIVITY



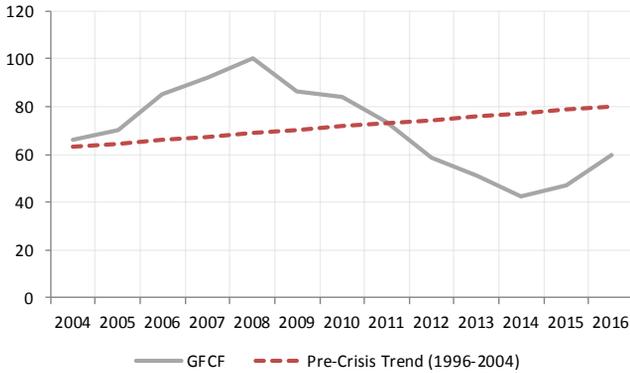
Base: All firms (excluding don't know, refused and missing responses)

Q. Thinking about the number of people employed by your company, by how much has it changed in the last 3 years?

Share of firms by productivity class (Total Factor Productivity). Productivity classes are defined on the basis of the entire EU sample.

MACROECONOMIC INVESTMENT CONTEXT

Investment Dynamics over time



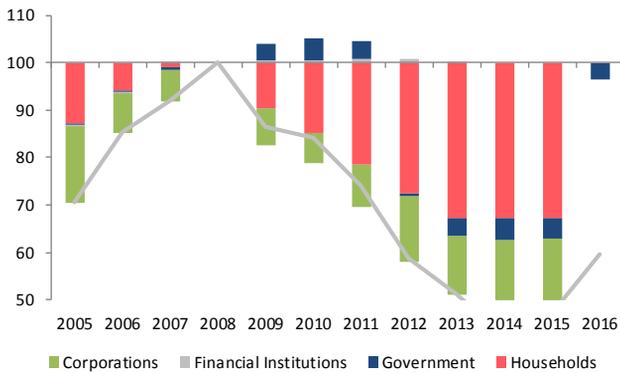
Despite an improving trend, aggregate investment in Cyprus in 2016 was around 40% below the investment levels observed in 2008.

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, followed by other buildings and structures.

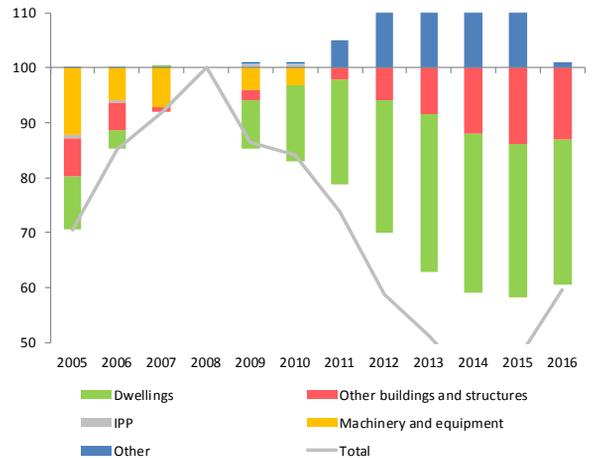
The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); against the series 'pre-crisis trend'. The data has been indexed to equal 100 in 2008. Source: Eurostat.

Investment Dynamics by Institutional Sector



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); by institutional sector. The data has been indexed to equal 100 in 2008. Source: Eurostat.

Investment Dynamics by Asset Class



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); by asset class. The data has been indexed to equal 100 in 2008. Source: Eurostat.

EIB 2017 – COUNTRY TECHNICAL DETAILS

SAMPLING TOLERANCES APPLICABLE TO PERCENTAGES AT OR NEAR THESE LEVELS

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.

	EU	Cyprus	Manu- facturing	Cons- truction	Services	Infras- tructure	SME	Large	EU vs Country	Manufacturing vs Construction	SME vs Large
	(12338)	(150)	(40)	(44)	(66)	(105)	(45)	(12338 vs 150)	(40 vs 66)	(105 vs 45)	(12338)
10% or 90%	1.1%	6.4%	10.6%	10.7%	9.8%	5.1%	10.1%	6.5%	14.4%	11.3%	1.1%
30% or 70%	1.6%	9.8%	16.2%	16.4%	14.9%	7.8%	15.4%	9.9%	22.0%	17.3%	1.6%
50%	1.8%	10.7%	17.7%	17.9%	16.3%	8.5%	16.9%	10.8%	24.0%	18.8%	1.8%

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 an industry-by-industry regression analysis (with country 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.

EIB 2017 – COUNTRY TECHNICAL DETAILS

BASE SIZES

Base definition and page reference	EU 2016/ 2017	CY 2016/2017	Manufacturing	Construction/ Infrastructure	Services	Small/Micro	Medium/Large
All firms, p. 2, 3, 6, 7, 8, 11, 14	12483/12338	150/150	40	66	44	105	45
All firms (excluding don't know/refused responses), p. 3	12159/12020	147/144	37	63	44	101	43
All firms (excluding don't know/refused responses), p. 5	12071/12073	143/144	38	63	43	102	42
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4	10060/10321	114/127	36	53	38	90	37
All firms who invested in the last financial year, p. 5	10881/10889	115/130	38	54	38	91	39
All firms (excluding 'Company didn't exist three years ago' responses), p. 6	12453/12306	149/148	39	65	44	103	45
All firms (data not shown for those who said not an obstacle at all/don't know/refused), p. 9	12483/12338	150/150	40	66	44	105	45
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 10	9093/9131	95/120	36	47	37	84	36
All firms (excluding don't know, refused and missing responses), p. 14	12162/11513	148/142	38	62	42	100	42



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Cyprus

Overview

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