

How can Cyprus compete for FDI amid turbulence?

EY Attractiveness Survey
Cyprus
December 2024

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow chevron shape pointing to the right.

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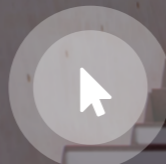
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Foreword

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Cyprus has historically been adapting quickly to changing global dynamics, a key factor that allowed the local economy to maintain an ongoing healthy influx of foreign capital to support economic growth.



Cyprus has long been a destination for foreign direct investment (FDI), attracting multinational investors across an array of economic sectors and activities. Despite being faced with geopolitical challenges in its immediate region, as well as global headwinds such as the persisting inflation, the Cypriot economy continues to demonstrate resilience. The local economy remains on a positive trajectory, as supported by recent upgrades in credit ratings by major rating agencies, advancements in the different macroeconomic KPIs, and the diversification of investment offerings to the intentional investment community.

Cyprus has historically been adapting quickly to changing global dynamics, a key factor that allowed the local economy to maintain an ongoing healthy influx of foreign capital to support economic growth. The government has an instrumental role in driving such activity, by facilitating investments and introducing necessary strategic reforms and initiatives.

Currently there is a need of focusing on strengthening the country's reputation to the global investor community and increasing economic sustainability amid the volatile global conditions. The recent pandemic, coupled with the ongoing conflicts, has underscored the importance of diversification, supply chain resilience, and economic self-sufficiency.

Traditional decision elements, such as favorable tax rates, are no longer the primary drivers of investment activity. Investors have now embedded in their agenda additional criteria linked to areas such as sustainability and new technologies. The importance of these new elements is evidenced in ambitious relevant EU targets for all Member States (e.g., reduction of greenhouse gas emissions by at least 55% by 2030), accompanied by the provision of a plethora of funding opportunities and other incentives (e.g., Recovery and Resiliency facility) to support this transition. In such a dynamic environment, more needs to be done to stand out as an investment destination.

Cyprus can leverage on its strategic location, partnerships and EU funding opportunities, to develop more competitive offerings that meet current and future market demands.

Our third attractiveness survey comes at a very critical moment, offering valuable insights into how the international investor community perceives Cyprus' investment appeal. It highlights both the strengths of Cyprus and the areas that require further improvement. Moreover, in addition to presenting the survey results, this report puts forward a set of suggestions for further critical discussions, aiming ultimately at enhancing Cyprus's FDI attractiveness and leading to increased investment activity.

RONALD ATTARD

Country Managing Partner, EY Cyprus
Advisory Services Limited

Strategy and Transactions Leader for EY
CESA Region

Foreword

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Factors such as the quality of life, the favorable tax regime, and the robust legal regime continue to be positively evaluated by the investment community.



We are proud to present the third edition of our EY Cyprus Attractiveness Survey. This report highlights the key findings of our survey and provides strategic suggestions to help enhance Cyprus' position as an investment destination. In line with previous years' surveys, we aimed to both assess the perception of Cyprus' current investment appeal, as well as identify its strengths and highlight areas for improvement. This edition showcases a positive trajectory toward improving Cyprus' appeal. It is evident that Cyprus' efforts to restore its image and credibility, as well as the efforts to facilitate foreign direct investments, have not gone unnoticed.

Factors such as the quality of life, the favorable tax regime, and the robust legal regime continue to be positively evaluated by the investment community. On the other hand, the survey highlights areas requiring additional attention, such as further optimization of the bureaucratic environment, talent and workforce reforms, and access to capital. Based on the investment community, the Cypriot government needs to focus its efforts in skilling, reskilling and facilitating access to talent, investing in key infrastructure and encouraging environmentally friendly attitudes and policies. It also needs to support further SMEs and encourage more research and innovation.

The Cyprus government appears to recognize the investors' concerns and has been introducing initiatives to address them. Amid a dynamic environment however, where geopolitical tensions and political stability are cited by investors as the number one threat, more needs to be done. Areas such as reshoring and nearshoring, sustainability and technology adoption become even more prominent. They create new opportunities, on the other hand they can become threats if not properly addressed.

From our side, we have outlined suggestions for the different development areas, aiming to act as a foundation for meaningful discussions among relevant stakeholders and ultimately lead to a further improvement of our FDI attractiveness. We hope that you find this year's report helpful and enjoy its reading.

STELIOS DEMETRIOU

Head of Strategy and Transactions
Services, EY Cyprus
Advisory Services Limited
CESA M&A Leader

External viewpoint

NICOS CHRISTODOULIDES

President of the Republic of Cyprus



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Cyprus' strong macroeconomic and fiscal performance is a reflection of the successive upgrades by international rating agencies, underscoring our country's commitment to economic stability and growth.

Foreign direct investment remains a cornerstone of our economic policy, driving our ongoing transformation and reinforcing investor confidence. My administration is committed to reshaping the country's productive model with FDI as a pivotal element. To support this goal, we maintain active engagement with foreign investors, continuously strengthening the legislative framework to facilitate the business environment and investment, while enhancing compliance standards to ensure transparency and full alignment with international standards.

At the same time, Cyprus' multifaceted and effective foreign policy has established our country as a pillar of security and stability in the Eastern Mediterranean and the greater Middle East. This strategic position not only bolsters our regional influence but also underscores Cyprus' role as an attractive and reliable investment hub. Beyond the ICT sector, the country is also experiencing substantial growth in additional key industries such as financial services, shipping, renewable energy, and health sciences, each vital to our diversified and resilient economy.

Ultimately, attracting FDI is integral to our vision for a modern, innovative and digital state. We are moving forward with significant reforms under the "Vision 2035" strategy, targeting critical sectors to ensure a sustainable, efficient, and forward-looking government. We are confident that these strategic efforts will create a thriving environment for investors and, above all, a prosperous future for all citizens.

Executive summary

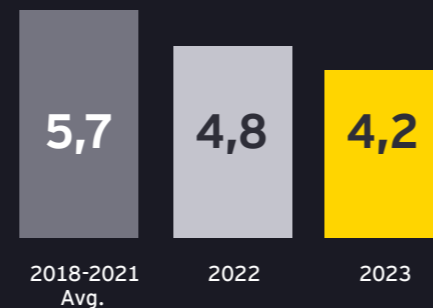
FDI activity in Cyprus

FDI activity in Cyprus has been on a decline over the past three years due to rising geopolitical tensions, uncertainties and unfavorable macro environment during that period.

In 2022, the drop in investments was mainly driven by a decrease in net FDI inflow from Russia, historically the main FDI contributor country, as a result of ongoing sanctions imposed. Other major contributors such as Greece and Israel, also reduced their investments due to the global uncertain environment and the unfavorable macro environment, further supporting the downwards trend.

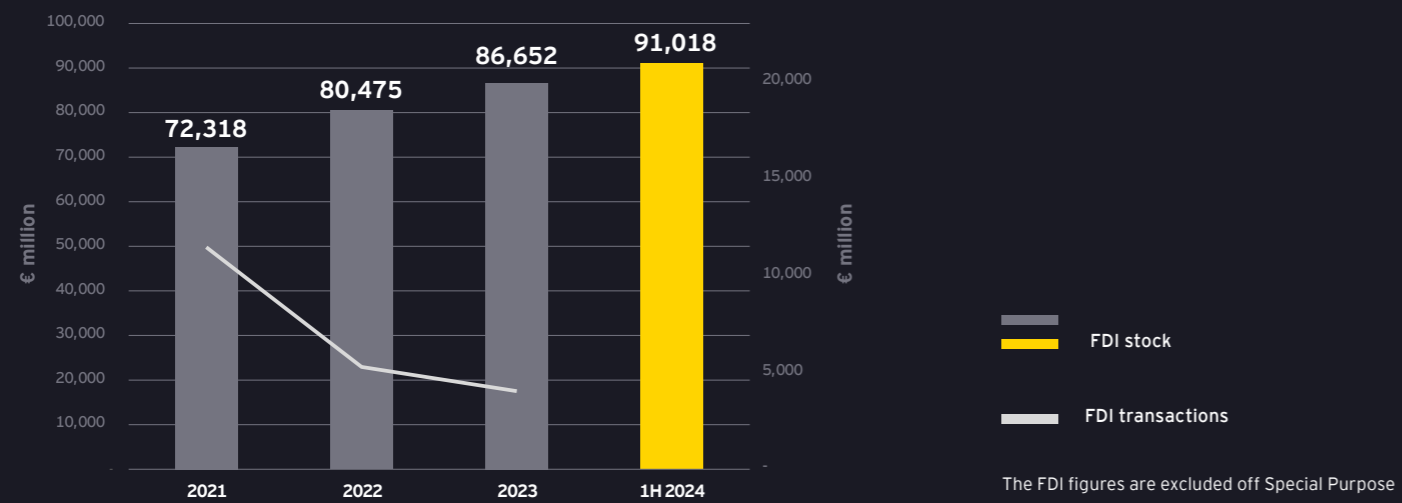
The prevailing scenario continued into 2023, as key contributor countries like the UK also cut short their investments. On the other hand, FDI inflow was positively impacted by European countries (such as the Netherlands) as well as neighboring countries like Lebanon and Israel. The latter is attributed to the fact that Cyprus is viewed as a safe European destination offering security among the rising tensions in the region. The overall FDI stock reached c.€91 billion (preliminary figure as per Cyprus Central Bank) by 2024.

FDIs transaction (€ billion)



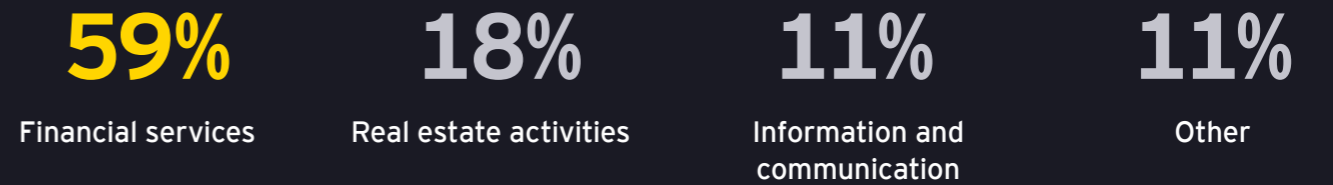
The FDI figure is adjusted for the Special Purpose Entities (SPEs) as the transactions of SPEs do not affect nor are affected substantially by the domestic economic cycle.

Source: Central Bank of Cyprus, 2024.



Source: Central Bank of Cyprus, 2024.

Main sectors attracting FDI



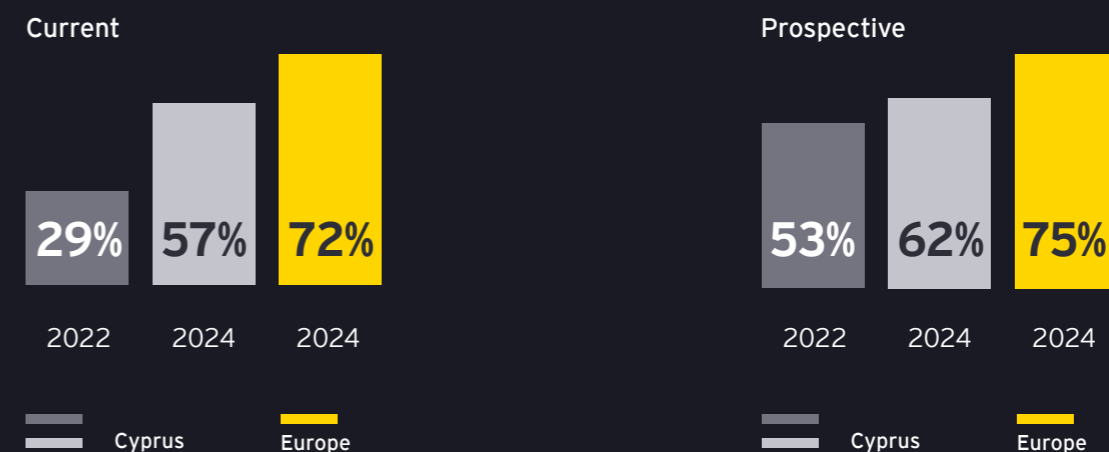
Source: FDI Stock as of 2023, Central Bank of Cyprus, 2024.

Investment sentiment for Cyprus has improved but there is still ground to cover

Based on the results of our EY Cyprus Attractiveness survey, there is a growing optimism among the investor community in relation to FDI activity in Cyprus going forward. Around 57% of investors (vs. 29% during our last survey in 2022), have plans to establish or expand their operations on the island over the next year. Albeit results still fall short of the European survey of 72%.

A similar trend persists in the attractiveness projections. More than half of investors (62%) expect Cyprus' attractiveness to improve over the next year, compared to the 75% average in the case of the European survey.

Investors' perception on Cyprus's FDI attractiveness (current and over the next three years)



Source: EY Attractiveness Survey for Cyprus, 2022 and 2024 and Europe, 2024.

Source: EY Attractiveness Survey for Cyprus, 2022 and 2024 and Europe, 2024.

Investment activities under consideration expand to new areas such as manufacturing

Cyprus continues to attract investors interested in the traditional spectrum of operations (such as the setup of sales and marketing functions and broader headquartering). New activities however, such as manufacturing, training centers and R&D, are also growing in popularity.

The significant interest for establishing manufacturing operations in Cyprus is a trend consistent with the rest of Europe and potentially linked with shifts toward increased protectionism and re-shoring/near-shoring initiatives.

Operations which investors plan to establish or expand in Cyprus

	2024	2022
Sales and marketing office	53%	24%
Manufacturing	40%	7%
Supply chain and logistics	37%	35%
Headquarters	33%	14%
Business support services <small>(call centers, shared services centers)</small>	32%	7%
Training centers	32%	3%
R&D	30%	7%
Other	7%	

Drivers of FDI activity have changed

While factors that traditionally attracted FDI in Cyprus, such as the favorable tax regime, continue to remain important, there are new areas of interest emerging as a priority for investors. Sustainability matters and opportunities in new technologies for example currently feature higher on the investors' list. On the other hand, factors linked to cost reduction, even though they feature at the top of the list in our European survey, appear to be of less importance in the case of Cyprus.

Investors identify the following top three key FDI drivers



Adapt to regulatory environment



Address sustainability issues



Seize opportunities presented by new technologies

Key factors when choosing to invest in Cyprus



Technology adoption



Strength of domestic market



Skills and availability of the workforce

Factors considered by participants as most important when choosing to invest in Cyprus



Level of technology adoption



Strength of domestic market



Skills and availability of the workforce



Stability of the political and regulatory regime



Liquidity of financial markets and availability of capital

Labor costs, labor skills, bureaucratic environment and access to capital feature among the areas where Cyprus is less attractive based on the participants

Source: EY Attractiveness Survey for Cyprus, 2024.

Areas where Cyprus is considered less attractive based on the participants



Investors feel that we should focus on talent, infrastructure projects and SME support in order to remain competitive

Source: EY Attractiveness Survey for Cyprus, 2024.

Top 5 areas where Cyprus should concentrate its efforts to maintain a competitive position in terms of FDI activity



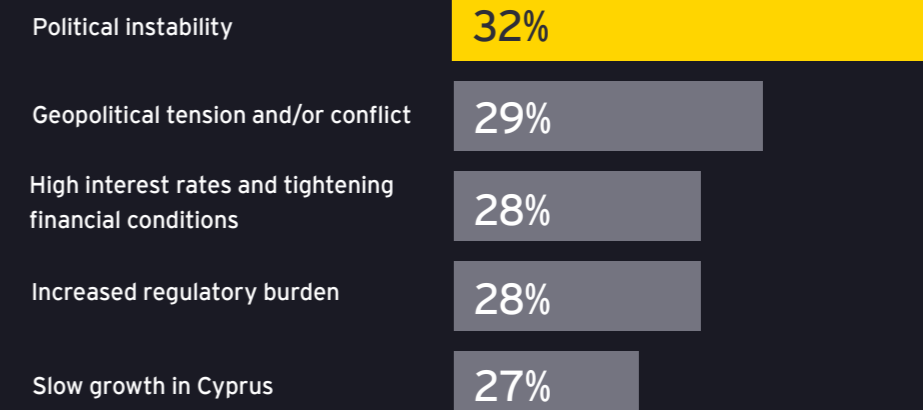
Geopolitical tension and political stability remain the number one threat for FDI attractiveness over the next three years

Source: EY Attractiveness Survey for Cyprus, 2024.

Given the recent geopolitical developments in both the immediate and wider region, it is not surprising that geopolitical tension and political stability are currently considered as the top threats for FDI.

High interest rates and tightening financial conditions along with increased regulatory burden also feature high on the list.

Main risks affecting FDI attractiveness over the next three years



Areas for development

Factors linked to the areas of **talent**, **technology** and **sustainability**, continue to be important for Cyprus' FDI attractiveness. In this regard, to further strengthen Cyprus's attractiveness in the specific areas, participants have identified certain areas for development as shown below:

Talent-related	Technology-related	Sustainability-related
Immigration legislation	Rate of innovation, digital adoption and uptake by the population	Consumer attitude toward sustainability
Cooperation between the Academic and Business world	Availability of workforce with tech skills	Percentage of RES in our power supply
Industrial and labor relations, labor flexibility and social climate	Network technology startups and research institutions and protection of national security related to new tech	Availability of Funding to finance sustainable projects

Recommendations

to boost our FDI attractiveness

01

Refine Cyprus's image and reputation within the global investment community

02

Form public and private collaborations to implement infrastructure projects

03

Streamline regulatory requirements and simplify administrative processes

04

Capitalize on investors' interest and trends favoring manufacturing

05

Invest further in talent reform and the educational system to bridge market demand and boost workforce productivity

06

Increase support to small and medium-sized enterprises

07

Create a fertile environment to further encourage and enhance innovation and R&D

08

Accelerate tax reforms and build investor trust through a modern, flexible and transparent tax system

09

Accelerate green transition to remain competitive

01

Refine Cyprus' image and reputation within the global investment community

The Cypriot government needs to intensify its strategy aiming at regaining investor trust and restoring the country's reputation, amid criticism and allegations of investment activity linked to money laundering and corruption.

Recent initiatives toward this end, like the launch of a rebranding campaign to reinstate the image of the country and its economy, are considered as positive moves.

02

Form public and private collaborations to implement infrastructure projects

Both the pandemic and the ongoing geopolitical developments heightened the need for large infrastructure projects to support the local economy in areas such as telecommunications and broadband connectivity, transportation, etc. Investors in the past have emphasized, among others, the need for expanding and modernising critical infrastructure projects that currently are under PPPs like international airports and seaports.

By further leveraging the PPP model, the government can ease the financial burden on state funds and at the same time gain international know-how, adopt best practises and learn from the experiences of the private sector and global investors.

03

Streamline regulatory requirements and simplify administrative processes

Cyprus is an EU Member State and complies with the EU regulations to be adopted. Efforts should focus on streamlining processes to ensure compliance while fostering an investor-friendly environment.

Lengthy bureaucratic procedures continue to hinder investment and ease-of-doing business. Simplifying administrative processes and accelerating digitalization, leveraging EU funding and aligning with international best practices, should remain priorities.

An important area to focus on includes the complexity of the current process relating to the public procurement system, which may put off foreign investors from participating in competitions and large-scale projects in general. Relevant issues such as public tender delays and inefficiencies in the processes should also be placed as priority.

04

Capitalize on investors' interest and trends favoring manufacturing

Cyprus, utilizing its strategic position and EU membership status, could become a significant player in the nearshoring/reshoring momentum that has resulted from the pandemic and the ongoing geopolitical developments.

A revised strategic plan is needed to allow the sector to realise its full potential. The plan needs to concentrate on identifying new opportunities and manufacturing activities best suited for Cyprus, as well as relevant incentives and infrastructure necessary for their development. In relation to the latter, manufacturing efforts are currently hindered by high energy costs as well as staff shortages.

05

Invest further in talent reform and the educational system to bridge market demand and boost workforce productivity

Cyprus has one of the most educated adult populations in Europe. Despite this, it appears to lack partly in critical skills necessary to succeed in the currently evolving marketplace (e.g., digital skills).

Different schemes need to be introduced to encourage lifelong learning and investment in reskilling, with a focus on skills with a high demand.

There should also be a closer cooperation between business and academia. This may include a collective effort in developing and modernising the existing curriculum and course materials, which will better prepare students to meet the current demands of the job market and bridge the prevalent skills mismatch gap. Additionally, more could be done in developing university and education courses linked to industry placements.

06

Increase support to Small and Medium-sized Enterprises

One of the main challenges faced by SMEs in Cyprus is access to finance as currently there are limited alternatives available in the market other than bank financing.

A number of initiatives falling under the RRF were introduced to address this funding gap; the most prominent being the anticipated establishment of the National Promotion Agency.

Other national and European funding opportunities are also available for Cypriot enterprises. However, it seems that there is lack of awareness about these opportunities and limited utilisation. There needs to be increased promotion of the relevant schemes, as well as a streamlining of the application processes. The above need to be combined with relevant training of applicants to enhance their understanding of the application requirements.

The role of incubator and accelerators is also essential in helping smaller enterprises overcoming infancy challenges. Easing of bureaucratic procedures also remains relevant.

07

Create a fertile environment to further encourage and enhance innovation and R&D

The relevant lack of spending on R&D both from the private and public sectors is recognized as a key development point for Cyprus. Government needs to commit more capital itself in this domain as well as introduce incentives that will encourage spending by the private sector.

Another challenge faced by Cyprus in the R&D&I environment is the difficulty in commercialising the work carried out by innovative enterprises/startups and academic institutions. It is important to note that the barriers in commercialisation appear to be a broader EU issue.

Support in accessing various forms of capital and funding opportunities, as well as the relaxation of bureaucratic procedures also remain relevant.

08

Accelerate tax reforms and build investor trust through a modern, flexible and transparent tax system

Today's market environment, combined with EU's efforts toward harmonisation, reduce the importance of low corporation tax rates when it comes to FDI. Other factors and elements linked to national tax systems are gaining importance.

In such a dynamic and rapidly changing environment, tax systems need to be flexible and transparent. They need to follow and timely adapt to market developments (e.g., keeping up with emerging trends like AI and ESG). Such systems also need to remain business-friendly while at the same time ensuring that tax policies are aligned with sustainable economic practices.

09

Accelerate green transition to remain competitive

The EU's green transition, underpinned by initiatives like the Corporate Sustainability Reporting Directive, creates a unique opportunity for Cyprus to leverage its natural advantages.

The focus should be on enabling more large-scale renewable energy projects like onshore solar farms, capitalising on the island's climate. Revisions to the environmental taxes framework and new tax incentives, alongside strategic investments in grid modernisation, energy storage, and streamlined access to EU funding will be essential to unlocking this potential.

Section 1

Cyprus' macroeconomic environment

Cyprus' macroeconomic environment

Cyprus key facts and figures

<p>Area</p> <p>9,251 km²</p>	<p>Population</p> <p>0.92 million</p> <p><small>Source: CyStat, Cyprus in figures 2023 edition.</small></p> <p>22% foreign</p> <p><small>Source: Cystat, Census of Population and Housing, 2021.</small></p>	<p>Official languages</p> <p>Greek, English</p> <p>is widely spoken</p>
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<p>Key milestones</p> <p>2004</p> <p>EU Member State</p>	<p>2008</p> <p>Eurozone Member</p>	<p>Gross Domestic Product (GDP) per capita 2023</p> <p>€27.9K</p> <p><small>Source: IMF, 2023.</small></p> <p>ranked #13 in EU</p>
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<p>Political system</p> <p>Presidential Democratic Republic</p> <p>with a written constitution</p>	<p>Legal and judicial system</p> <p>based on UK system</p> <p>due to country's ex-colonial status and aligned with EU Directives</p>
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<p>Tax regime</p> <p>12.5%</p> <p>Corporation Tax Rate</p>	<p>Wide range of</p> <p>Double Tax Treaties</p>	<p>General absence</p> <p>of withholding taxes on dividend and interest payments to non-Cyprus tax residents</p>	<p>Favorable</p> <p>Intellectual Property and Tonnage Tax regime</p>
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Leading industries Source: Cyprus Statistical Service, 2023.

Real estate, construction and hospitality	Wholesale and retail	Financial services	ICT
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Indices

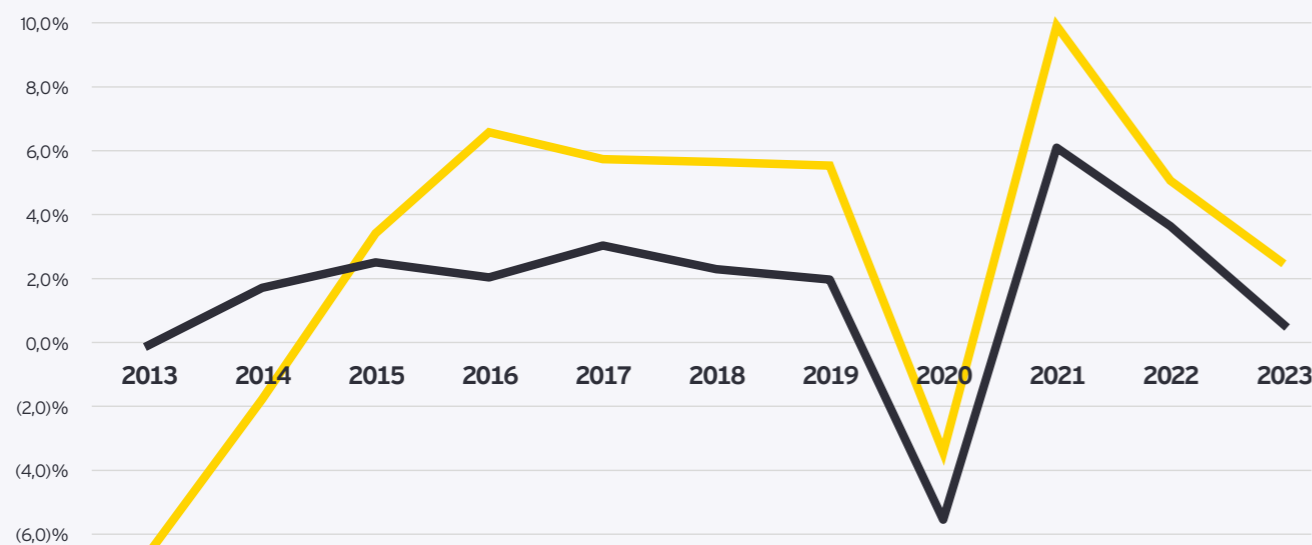
<p>#43 IMD World Competitiveness 2024</p> <p>(out of 67 economies)</p>	<p>#11 Greenfield FDI Performance Index 2023</p> <p>(out of 50 economies)</p>
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Ratings

<p>Moody's</p> <p>A3 Investment grade</p> <p>Stable outlook</p>	<p>Fitch</p> <p>A- Investment grade</p> <p>stable outlook</p>	<p>Standard & Poor</p> <p>A- Investment grade</p> <p>stable outlook</p>
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Recent economic performance¹

GDP: real annual growth 2013-2023



Source: IMF World Economic Outlook database October 2024, Oxford Economics, 2024.

— Cyprus — European Union

Main developments

Following the 2013 financial crisis, the Cypriot economy rebounded in 2015 followed by accelerated growth in 2016-2019 (c.5.9% yearly average); this was mainly driven by the strong performance of the tourism sector and significant FDIs.

At the same time, real Disposable Income (DI) of households increased, unemployment rate decreased, inflation turned negative and remained at low levels, driven by reductions in oil prices.

The economic growth of previous years was interrupted by the COVID-19 pandemic outbreak. The real GDP in 2020 contracted by 3.4%, mainly due to the shrinkage of the tourism sector.

Due to the counter-measures taken by the government to support the employment market, real DI grew while unemployment rate increased marginally.

In 2021-2022, the real GDP in Cyprus grew by 5.1% mainly due to the gradual recovery of the tourism sector, pent-up demand from the pandemic (which boosted consumption) and ICT sectorexpansion.

Also, the households' real disposable income continued to grow while unemployment rate decreased to a decade's low (6.8% by year-end 2022).

Despite the short-term resilience to the global economic and political shocks caused by the war in Ukraine, high energy prices led to an inflation rate of 8.1% in 2022, which in turn resulted in higher interest rates.

In 2023, the economic growth slowed down to 2.5%, due to a high interest rates environment and the delayed impact of sanctions against Russia.

The tourism sector has continued its recovery, ICT sector continued to grow, and financial services became more diversified.

Tight fiscal policy and energy cost normalization have reduced the inflation rate to 3.9% by 2023.

Key economic indicators, 2019-2023¹

	2019	2020	2021	2022	2023
GDP (€'b), constant prices	22.5	21.7	23.9	25.1	25.7
Real DI of households, growth %	7.8	0.7	7.7	0.6	2.6
Inflation rate, %	0.5	(1.1)	2.2	8.1	3.9
Unemployment rate, %	7.1	7.6	7.5	6.8	6.1
Gross gov. debt (% GDP)	93.0	114.9	99.3	85.6	77.4
Interest rates on corporate loans, %	3.1	3.0	2.9	3.2	5.4

Source: IMF World Economic Outlook database October 2024, Oxford Economics, 2024.

Future outlook¹

The outlook for Cyprus appears to be optimistic, with a projected average real GDP growth of c.3.1% over the period 2024F-2029F. The respective average at EU level is 1.2%, indicating that the Cypriot economy is expected to continue outperforming the EU average. One of the key drivers of this growth is the influx of new foreign direct investments as well as public and private sector investments linked to Cyprus' Recovery and Resilience Plan (RRP).

With regards to the labor market, the conditions are also expected to improve further, with unemployment rate forecasted to decrease to c.5% by 2029. At the same time, real DI of households is set to increase by 2.3% on average, while inflation rate and gross government debt as a percentage of GDP to gradually reduce to 2% and 58% respectively. In line with the inflation rate stabilization, interest rates are expected to gradually decrease to 4.2%.

Key economic indicators, 2024F - 2029F¹

	2024F	2025F	2026F	2027F	2028F	2029F
GDP (€'b), constant prices	26,5	27,4	28,2	29,0	29,9	30,8
Real GDP growth, %	3,3	3,1	3,0	3,0	3,0	3,0
Real DI of households, growth %	2,5	2,8	2,4	2,1	2,0	1,9
Inflation rate, %	2,2	2,0	2,0	2,0	2,0	2,0
Unemployment rate,%	5,3	5,1	5,0	5,0	5,0	5,0
Gross gov. debt (% of GDP)	70,2	65,8	62,9	60,7	59,1	58,0
Interest rates on corporate loans, %	5,7	4,9	4,5	4,3	4,2	4,2

Source: IMF World Economic Outlook database October 2024, Oxford Economics, 2024.

¹ Source: IMF World Economic Outlook database October 2024, Oxford Economics, 2024.

External viewpoint

MAKIS KERAVNOS

Minister of Finance



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We will focus our attention on designing and creating conditions that facilitate joint ventures by Cypriot and foreign investors, to boost productive investments.

The global economy is experiencing a period of extraordinary uncertainty following the wars in Ukraine and the Middle East. These geopolitical developments weigh on the economic outlook, creating a very challenging economic environment. Supply chain disruptions, high energy prices, high interest rates, adaptation to green and digital transition present major challenges. Likewise, our economy is also confronted with challenges. However, the economy has shown remarkable resilience.

In terms of economic growth, GDP in 2024 is expected to increase by at least 3.7%, much higher than the EU average. In the labor market, the unemployment rate is expected to drop to 5% of the labor force in 2024 from 5.8% in 2023, reaching almost full employment conditions.

In terms of public finances, Cyprus has been fiscally prudent and able to create the necessary fiscal space, with public debt on a continuously declining trend, expected to fall below the threshold of 60% of GDP by the end of 2026.

In the banking sector, the capital position is in its strongest point in a decade, boosted by record profitability. With regards to the economic prospects of the Cyprus economy, they are generally positive, even though significant risks still exist, mainly stemming from the external environment.

Going forward, our policy priorities remain focused on achieving macroeconomic stability, implementing prudent fiscal policies, ensuring financial stability and establishing a competitive, business-friendly regularity environment.

In parallel, our government's 5-year plan, formulated together with civil society, includes a diverse mix of structural reforms and investments which aim at enhancing the long-term growth potential of the country. The strategy fully exploits the Recovery and Resilience Facility of the EU through which €1 billion was allocated to Cyprus and is fully aligned with the Long-Term Growth Strategy for Cyprus, or "Vision 2035".

The enhancement of our economic model will come from the promotion of new productive sectors, but also from further developing traditional sectors that have been neglected, such as the primary sector. We will focus our attention on designing and creating conditions that facilitate joint ventures by Cypriot and foreign investors, so that to boost productive investments.

At the same time, the support of the traditional sectors of the economy with the largest contribution to GDP will continue, such as tourism, shipping, retail trade and professional services to further improve their competitiveness.

The pages that follow provide a brief overview of the Cyprus' current reality in relation to some of the key pillars of FDI attractiveness identified through our EY Europe Attractiveness Surveys (Technology, Talent, Sustainability, Taxation, etc).

Digitalization

In line with the rest of the EU, Cyprus has put digital transformation in the heart of its strategic priorities. Based on the Digital Decade Country Report 2024 (which tracks Cyprus' performance on achieving EU's 2030 digitalization targets), as of 2023, Cyprus made a significant progress in its digitalization path.

Cyprus is doing particularly well in 5G connectivity coverage (100% coverage of populated areas by 2022) and SMEs digitalization. It has also progressed in terms of other indicators.

Good improvement was recorded also in the gigabit connectivity infrastructure and in the share of ICT specialists among the local labor market – scoring above EU average (77.1% vs. 64.0% and 5.4% vs. 4.8% respectively).² Significant progress was also made in the business take-up of artificial intelligence, although it still scores considerably below EU average (4.7% vs. 8%).²

The main development points identified for Cyprus relate to the share of total population possessing “at least basic digital skills” (where half of the population lacks the basic digital skills), e-health services maturity, and digital public services for citizens (e.g., inability to authenticate with a notified e-ID scheme).

77.1%

Improvement in the gigabit connectivity infrastructure

In order to achieve the aforementioned progress and meet all of EU's 2030 Vision targets, Cyprus prepared a roadmap of implementation. Some of the initiatives included in this roadmap are:

- Creation of policies that guide companies toward digitalization to increase digital intensity of the private sector (e.g., the New Cyprus Industrial Strategy Policy 2022).
- Provision of training and other services to SMEs and public organisations via the Cyprus Digital Innovation Hub (operational since 2022).
- Establishment of an e-ID scheme and provision of an e-ID and Digital Signature package to citizens.
- Digital transformation of schools and the education system to ensure digital student and parent experience.
- Enhancing the population's digital skills and education (revisiting the curricula, developing educational material and training teachers).
- Establishing a National Security Operations Center to strengthen cybersecurity and build capabilities to secure the digital environment. Various EU co-funded projects were approved, aiming at boosting cross-border security infrastructure, cybersecurity coordination and awareness etc.
- Building a modern user centered digital government. Cyprus has set up the Digital Services Factory, promoting the digital transformation of public services and embark in the transformation of all the public facing Government sites and portals.
- Making available a mobile application for citizens to develop Digital Citizen.
- Leveraging Artificial Intelligence to enhance the provision of timely and accurate information to citizens.
- Development of an Enterprise Technology Architecture as a standard and facilitate the practical implementation of robust and interoperable solutions. Also, drive the creation and transition of a Government Cloud architecture.

Funding of these initiatives is partially supported by the EU (RRF and cohesion policy funding). Cyprus' RRP allocates 24.6%³ of the total budget to digital transformation, with the focus on digitalising public services and upgrading connectivity infrastructure.

It is worth mentioning that Cyprus is also a member of various EU organisations that drive multi-country projects in digitalization, such as European Digital Infrastructure Consortium. Beyond collaborations at EU level, Cyprus also became the first EU Member State to join the Digital Cooperation Organisation⁴ in July 2022.

² Source: Digital Decade Country Report 2024, European Commission.

³ Source: European Commission, 2024.

⁴ DCO is an international organisation that aims at accelerating the inclusive growth of digital economy, by unifying the efforts of its member countries. There are 16 member countries, mainly located in Africa and Middle East.

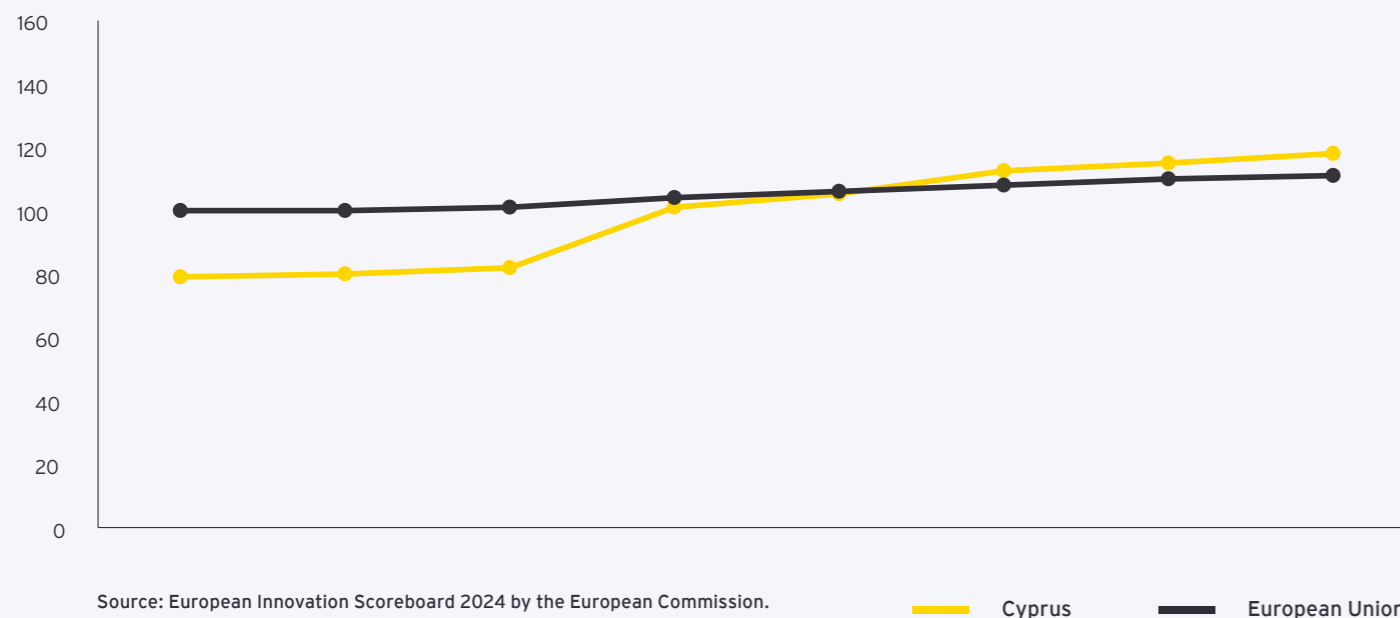
Research, Development and Innovation

(R&D&I)⁵

Cyprus' vision is to become a regional hub for Research, Development and Innovation (R&D&I). A lot of progress has been achieved in this respect. To achieve this progress, the Cypriot Government has undertaken to date various initiatives to develop the necessary ecosystem and improve the country's attractiveness in R&D&I. Cyprus is currently classified as a "Strong Innovator" and ranked 13th out of 39 European countries, according to the 2024 European Innovation Scoreboard (EIS).

Although Cyprus' ranking still remains below the average scoring for the Strong Innovators category, the country continues to improve and at a higher rate than the EU average (growth of c.39% between 2017 - 2024 vs. 10% for EU). Cyprus' progress in innovation performance compared to its EU counterparts can be seen in the chart below:

Summary innovation index⁶



⁵ Source: Global Innovation Index, European Innovation Scoreboard (EIS), Strategy for Research and Innovation for 2024-2026.

⁶ The line chart shows the evolution of the Cyprus's performance over time, relative to the performance of the EU in 2017.



Cyprus is currently classified as a

Strong Innovator

According to the Global Innovation Index (GII), Cyprus also ranks 27th among 48 high income group economies in terms of innovation performance and forms one of the top innovation economies in the NAWA⁷ region.

The country aims to create a comprehensive research ecosystem, comprising of public and private universities, research centers and centers of excellence. It also aims to attract key players from the international research community. The first results are evident from a strong performance in international scientific co-publications, highly cited scientific publications and foreign doctorate students.

Despite the improved performance, the island still faces a number of challenges when it comes to R&D&I. One of them is funding.

Cyprus scores below the EU average in R&D spending by both the private and public sectors. Government allocates €149.9⁸ per person in the field, versus EU's €275.6⁸ in 2023. In the case of the private sector, the respective amounts are only €96.1⁹ for Cyprus and €576.3⁹ for EU. Shortcomings apply not only in terms of government spending, but also in securing alternative financing, like venture capital. We also note that Cyprus faces difficulties when it comes to commercialising the results of R&D&I activity.

In its efforts to improve further, Cyprus has managed during the last few years to achieve the highest per capita funds absorption rate from various EU funding instruments, such as the Horizon Program. It is widely admitted though, that these efforts need to be further amplified in order to sustain an effective R&D&I environment. The challenges must be faced head

on, and solutions must be provided through lessons learned and adopting recognized and acknowledged good practices. In this respect, the Cypriot government has recently published the Research and Innovation Strategy 2024-2026, outlining the main areas in need of development. Such areas include increased government sector support (both direct or indirect), more R&D spending by enterprises themselves, talent development, increase in labor productivity and more financing opportunities for startups and scaleups.

With this strategy, Cyprus aims to boost the sector, which is essential for the country's economic progress and competitiveness with other EU member countries.

⁷ Northern Africa and Western Asia.

⁸ Source: Government Budget Allocation for R&D (GBARD), Eurostat, 2024.

⁹ Source: Business enterprise expenditure on R&D (BERD), Eurostat, December 2024

Labor market

The Cyprus labor market continues to grow, with the 2023 employment rate¹⁰ reaching c. 79%¹¹; well above the EU average of 75.3%¹² and close to the national employment target of 80%¹³ by 2030. In terms of diversity, the employment rate for men in 2023 stood at 83.6%¹² and women at 74.6%¹¹, with the gender gap constrained to 9 percentage points (compared to an EU average of 10.2%¹²). At the same time, Cyprus recorded a positive real productivity growth of 1%¹⁴. Having said this, there is still room for improvement, as productivity levels remain below the EU average^{12,15}.

Salary levels in 2023 increased by 7.3%¹⁶ compared to 2022 (€2,360¹⁷ average gross monthly salary in 2023), but still remain below the EU average. The hourly labor cost in Cyprus in 2023 stood at €20.1¹⁸ compared to the EU average of €31.8¹⁸. Labor cost in Cyprus though is still higher than other countries located in Eastern Europe, such as Bulgaria, Romania, Hungary etc.¹⁹

Despite the improved performance, Cyprus' labor market continues to face critical challenges, resulting in labor shortages and skills mismatch.

While enjoying one of the highest rates of tertiary education graduates among the adult population (ranking 2nd²⁰ in EU), Cyprus suffers in terms of: declining performance of students in some basic skills (reading, mathematics and science), low rate of Science, Technology, Engineering and Mathematics (STEM)²¹ graduates, low level of digital literacy, and a declining rate of adults enrolled in training.

According to the Social Scoreboard²², only 49.5% of the Cyprus population seems to have basic, or above basic, digital skills¹⁹. At the same time, based on HRDA²³ projections, demand for jobs in STEM occupations in Cyprus by 2032 are expected to constitute 40%²⁴ of total, far exceeding the expected local supply of STEM graduates. Cyprus can thus benefit significantly from a growth in both STEM education and advanced skills.

In terms of sectors, labor shortages appear to be more evident currently in trade, manufacturing, tourism and ICT.

79%

employment rate in 2023

Acknowledging the need to address the aforementioned challenges, the government recently introduced a number of measures, including among others:

01

Changes in the immigration framework to help attract more talent from abroad:

- Streamlining of the naturalisation process for highly skilled employees and their families and introduction of a new pathway for naturalisation based on years of residence in Cyprus.
- Amendment of regulations relating to immigration permits, including category E work permits as well as blue card legislation.

02

Income tax incentives

- Income tax exemptions for individuals who relocate to Cyprus for employment purposes (including Cypriots considering to repatriate), such as 20% tax exemption for first employment (50% in the case of high earners).

03

Development of a national skills strategy and implementation of an e-skills action plan,

targeting to develop and upgrade digital skills locally.

04

Various other reforms and investments to strengthen the capacity and quality of vocational training and to address the current skills mismatch,

utilizing both RRP²⁵ and national funds (includes, among others, training programs for upskilling and reskilling on green and digital skills).

¹⁰ Working population aged 20-64.

¹¹ Source: Eurostat, CYSTAT - Labor Market Indicators July 2024.

¹² Cyprus's nominal labor productivity per person employed was 89.2 (EU27=100).

¹³ Source: European Commission, 2024 Cyprus Country Report.

¹⁴ Source: Eurostat, 2024.

¹⁵ Source: European Commission, Country Report Cyprus 2023, Eurostat.

¹⁶ Source: Cyprus Statistical Service, November 2024.

¹⁷ Source: Cyprus Statistical Service, November 2024, Eurostat Average Annual Adjusted Salary 2023.

¹⁸ Source: Eurostat, 2023.

¹⁹ Source: Forecasts of labor demand and supply in the Cyprus economy 2022-2032, December 2022.

²⁰ Source: Eurostat, September 2024.

²¹ Science, technology, engineering and mathematics.

²² Published by the European Commission the scoreboard aims to monitor the progress of Member States in relation to the employment and social field along the various dimensions of the European Pillar of Social Rights.

²³ Human Resource Development Authority of Cyprus.

²⁴ Source: Forecasts of labor demand and supply in the Cyprus economy 2022-2023, Human Resource Development Authority of Cyprus.

²⁵ Cyprus's national Resilience and Recover Plan.

Green transition

As part of its efforts to deal with climate change, EU introduced its European Green Deal, which sets the 2050 vision for a sustainable and inclusive economy. EU targets include a reduction of net greenhouse emissions by at least 55% compared to 1990 levels by 2030, and zero net emission by 2050. A key challenge following the War in Ukraine is to balance climate change and economic prosperity, amid the geopolitical tensions and the resulting energy crisis.

As an EU Member State, Cyprus must strive to achieve the set targets via the implementation of a roadmap of initiatives. In 2024, Cyprus ranked 42 out of 90 countries in the Climate Change Index, indicating that more needs to be done. It is worth noting that Cyprus received low rating in GHG Emission and Climate Policy as well as a medium rating in Renewable Energy use.

To improve its performance, Cyprus is posited to increase the renewable energy penetration and reduce its energy consumption. It has a great potential for the development of Renewable Energy Sources (RES), especially in solar energy, given its climate particularities. In 2023, RES contributed approximately 21.5%²⁶ of the total electricity generated locally. In fact, since 2011, Cyprus has made a significant improvement in RES generation, recording a CAGR of 17%.

21.5%

of all electricity generated locally comes from renewable sources.

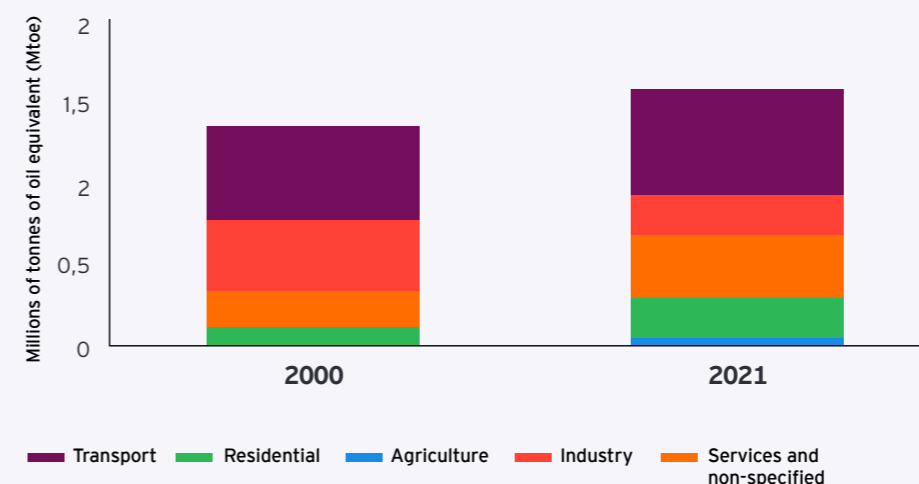
The set target for 2030 however, according to Cyprus' Integrated National Energy and Climate Plan (NECP) is 34%, which indicates that there is still a lot to be done in the next six years.

To stimulate investments in RES technologies and attract relevant FDI, the government has introduced a series of schemes and initiatives; such as establishing a one-stop-shop service under a business facilitation unit to streamline energy and energy storage related projects. It also introduced feed-in tariff (FiT) support schemes to encourage more investments in renewable producers through the signing of Power Purchase Agreements with Electricity Authority of Cyprus (EAC) for a period of 20 years. Under these agreements, EAC buys each renewable producer's entire electricity output at the pre-agreed fixed FiT price. More needs to be done however both in terms of the distribution network and energy storage. To date, Cyprus has not developed any utility scale energy storage installations.

As far as energy consumption, there is also room for improvement. According to National energy and climate plans (NECP), the Energy efficiency target for Cyprus by 2030 dictates a primary and final energy consumption decrease compared to 2020 level by 11.4% and 11.5% respectively. The biggest energy consumer sector is transport, which comes as a consequence of the very low use of public transport on the island. Next follows the residential sector and services, with industry and agriculture featuring at the bottom of the list.

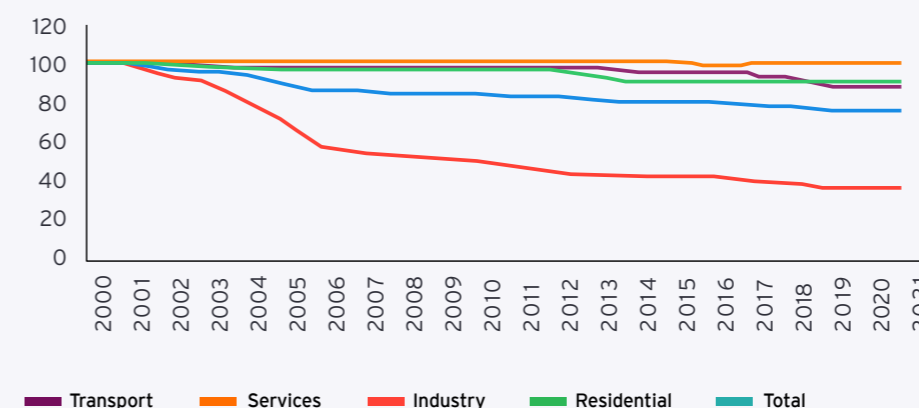
It is important to note that even though the total energy consumption increased based on recent data (2021), energy efficiency appears to have improved for all sectors. This is reflected in the Technical Energy Efficiency Index published by Odyssee²⁷.

Final energy consumption by sector



Source: ODYSSEE Cyprus Energy Profile, 2024.

Technical Energy Efficiency Index²⁸



Source: ODYSSEE Cyprus Energy Profile, 2024.

Despite all the improvements, Cyprus only ranked 12 out of 27 EU countries in the 2023 EU energy efficiency scoreboard²⁹. To push for more energy efficiency, the government has again introduced series of schemes and initiatives, with a number of them being financed by RRF.

One of the main drivers of green transition is the adoption of electric vehicles (EV). In Cyprus, the adoption of EVs in 2023 was just at 0.2%³⁰ of the total car fleet, which is far behind adoption rates in other EU countries³¹. Relevant schemes introduced by the government aim again at improving this ratio.

Finally, another important element of green transition is waste management, especially recycling. The island relies mainly on landfilling in this area, representing c.67%³² of generated waste. Recycling stands at only 16.4%³². EU has set a target for Cyprus to reduce landfilling to only 10% of the generated municipal solid waste by 2035; with a set target for recycling of municipal solid waste at 55% by 2025 and 65% by 2035. It is noted that Cyprus is at risk of missing these targets. To help meet the targets³², the government has introduced the Municipal Waste Management Plan 2022-2028, which aims at promoting the waste separation at source and separate collection, as well as promoting waste reducing measures among all sectors of economy and implementing the "Pay As You Throw" (PAYT) schemes³³.

²⁶ Source: Cyprus Transmission System Operator (TSOC).

²⁷ The ODYSSEE database is part of a project supported by the European Commission and other bodies. The database monitors energy consumption, efficiency, and CO2 emissions indicators by sector for different EU countries.

²⁸ Technical Energy Efficiency Index is calculated at sector level (i.e., industry, transport, households) and for all final consumers to assess energy efficiency progress. It combines the trends observed in various indicators of energy consumption for each of the sectors.

²⁹ The European Energy Efficiency Scoreboard assesses the energy efficiency performance of EU Member States. The scoreboard is based on the Odyssee-Mure databases. The scores are determined by three components: level (country's current performance across major industries), trend (considers developments and past actions) and policy (forecasts the energy savings of recent policies). In case of Cyprus, the detailed ranking is as following a) 27/27 in the level, b) 6/27 in the trend and c) 3/27 in the policies.

³⁰ Source: Eurostat.

³¹ The Share of zero-emission vehicles in stock of all vehicles of the same type at 31st December in EU equals to 1.7%.

³² Source: European Environmental Agency, 2022.

³³ "Pay As You Throw" is a waste management system that introduces waste fees based on the volume of waste produced, encouraging waste reduction, reuse and recycling.

Banking

Over the past decade, Cyprus' banking sector has overcome significant challenges. These include deleveraging balance sheets from non-performing exposures, recapitalizing to meet regulatory requirements, and navigating the COVID-19 pandemic while ensuring the economy continues to function.

The war in Ukraine triggered record inflation, leading to a high-interest-rate environment as a result of the European Central Bank's restrictive monetary policies. This proved advantageous for banks, which saw a surge in net interest income in 2023, reaching €1.9 billion³⁴, compared to €976 million³⁴ in 2022. Consequently, the Return on Equity (RoE) for Cypriot banks soared to 24.6%^{34,35} in 2023, up from 4.8%³⁴ the previous year.

The sector has also begun a digital transformation, shifting to more client-centric models. Banks are expanding digital services, enhancing digital support, and offering digital microloans. However, the rise of FinTech poses a significant challenge to traditional banking globally. Cypriot banks will need to integrate advanced technology and data analytics into their processes to maintain a competitive edge.

Consolidation within the sector continues, with the most recent major transaction being Eurobank Greece's acquisition of Hellenic Bank. More transactions are expected in the coming years as bank returns rise. Additionally, the Bank of Cyprus recently announced its delisting from the London Stock Exchange and relisting on the Athens Stock Exchange to boost share liquidity.

Despite these positive developments, several challenges remain for Cyprus' banking sector to fully reach its potential. Historically, Cypriot banks have traded at low Price-to-Book (P/B) ratios. However, the recent interest rate hikes present a unique opportunity for them to achieve sustainable profitability and improve market perceptions, making their stocks more attractive to investors.

€200 million

in loans with favorable terms for energy upgrades and investments

Climate change is also becoming a priority for banks worldwide, and this trend is beginning to take hold in Cyprus. Although there are no strict regulations yet, there is a growing sentiment that banks must play a pivotal role in the economy's green transition.

Over the past five years, Cypriot banks have provided €200 million³⁶ in loans with favorable terms for energy upgrades in buildings, solar panel installations, low- or zero-emission vehicles, and renewable energy investments.



³⁴ Source: Cyprus Central Bank, 2024.

³⁵ Calculated as Profit (loss) after tax from continuing operations/Total Equity.

³⁶ Source: Cyprus Mail, 2024.

Taxation

Cyprus has long been recognized for its business-friendly tax regime, which has contributed significantly to its attractiveness as an investment destination. The country offers a range of tax-efficient features; including favorable corporation tax rates, an extensive double tax treaty network, and sectoral tax incentives.

These elements have made Cyprus an appealing jurisdiction, particularly for multinational corporations and high-net-worth individuals looking to optimize their tax position. The global tax landscape is however undergoing a reform process.

Since our last report in 2022, Cyprus has seen some shifts in its tax regime, in response to global and regional tax reforms. Most notably, the introduction of the EU's Anti-Tax Avoidance Directive has compelled Cyprus to adapt its tax regime, impacting areas such as Controlled Foreign Corporation rules and interest limitation.

Furthermore, there is a growing emphasis on aligning with OECD's Base Erosion and Profit Shifting framework, particularly with the upcoming global 15% minimum tax rate. These changes signify a move toward greater compliance with international standards, impacting the island's attractiveness as a low-tax jurisdiction.

The Cypriot government has acknowledged the need to balance on one hand the need of maintaining tax competitiveness and on the other the need of increasing public revenue generation to avoid deficits. This balancing act is crucial, particularly in light of ongoing global tax reforms and the EU's push for tax harmonization. The challenge for Cyprus will be to preserve its appeal to investors, while adapting to a rapidly evolving international tax environment.

Key upcoming reforms are expected to focus on enhancing the transparency and efficiency of the tax system, as well as ensuring that it supports broader economic goals such as digital transformation and sustainability. The tax reforms are anticipated to be introduced in phases, with initial legislative proposals expected by early 2025, and implementation within the same year. Further details are expected as stakeholder consultations progress.

Section 2

FDIs: The reality of Foreign Direct Investment in Europe and Cyprus

FDI is essential for any country and a means of achieving and maintaining high economic growth. In this section we provide an outline of FDI activity in recent years in both Cyprus and the wider European region.

European FDI trends

Following two years of post-pandemic growth, FDIs in Europe decreased by 4% in 2023 to 5,694 announced projects.

The decrease was caused by a combination of slow economic growth, persistently high inflation, high energy prices, geopolitical uncertainty, declining demand for office space and competition from attractive stimulus measures in the US.

Additionally, prevailing megatrends appear to have also shifted investment patterns. For instance, the rise of hybrid/remote working models has led to an increased use of collaborative technologies, which, combined with tightening in market conditions, have resulted in decreased investment in large office developments and a decrease of investments in regional headquartering in EU by 51% in 2023.

Number of foreign direct investment projects announced in Europe between 2014 and 2023



Source: EY European Investment Monitor, 2024.

FDI in Europe's services sectors drops, but manufacturing holds steady

The sectors that suffered the most between 2022 and 2023 from the decline in FDI were those linked with financial services and ICT, which have dropped considerably by 27% and 19% respectively. This may be linked to cuts in spending and outsourcing in general. Despite the decrease, the specific sectors still remain the most active sectors in terms of FDI, based on the number of projects. This reflects the importance of the specific sectors for modern economies. Europe needs to continue attracting FDIs in the technology sector (e.g., in the AI field if it wants to remain competitive and ahead of developments).

The sector that appears to hold steady in Europe is Manufacturing, which has only dropped marginally by 1% in 2023. This may be linked to investors' expectations of increased customer demand in the future. It may also be partly linked to efforts to reorganize supply chains and relocate production bases to Europe, in response to supply chain disruptions of the past and reducing Europe's reliance on other regions (e.g., Asia).



5,694

FDI projects announced in Europe in 2023

Top FDIs in Europe in 2023

Rank	Sectors	Number of projects		Change 2022-23	Number of jobs in 2023
		2023	2022		
1	Software and IT services	954	1,182	-19% ↓	42,214
2	Business services and professional services	556	765	-27% ↓	24,028
3	Transportation and logistics	457	417	10% ↑	26,414
4	Transportation manufacturers and suppliers	445	470	-5% ↓	51,472
5	Machinery and equipment	424	368	15% ↑	23,090
6	Finance	329	292	13% ↑	12,675
7	Electronics	316	276	-9% ↓	30,332
8	Utility supply	302	277	9% ↑	16,597
9	Agri-food	266	291	-9% ↓	12,654
10	Chemicals, plastics and rubber	255	249	2% ↑	13,379
11	Pharmaceuticals	226	234	-3% ↓	13,064
12	Metals and minerals	160	139	15% ↑	6,165
13	Construction	157	142	11% ↑	3,799
14	Furniture, wood, ceramics and glass	137	133	3% ↑	4,234
15	Medical devices	123	122	1% ↑	6,196
	All others	587	605	-3% ↓	33,610
	Total	5,694	5,962	-4% ↓	319,923

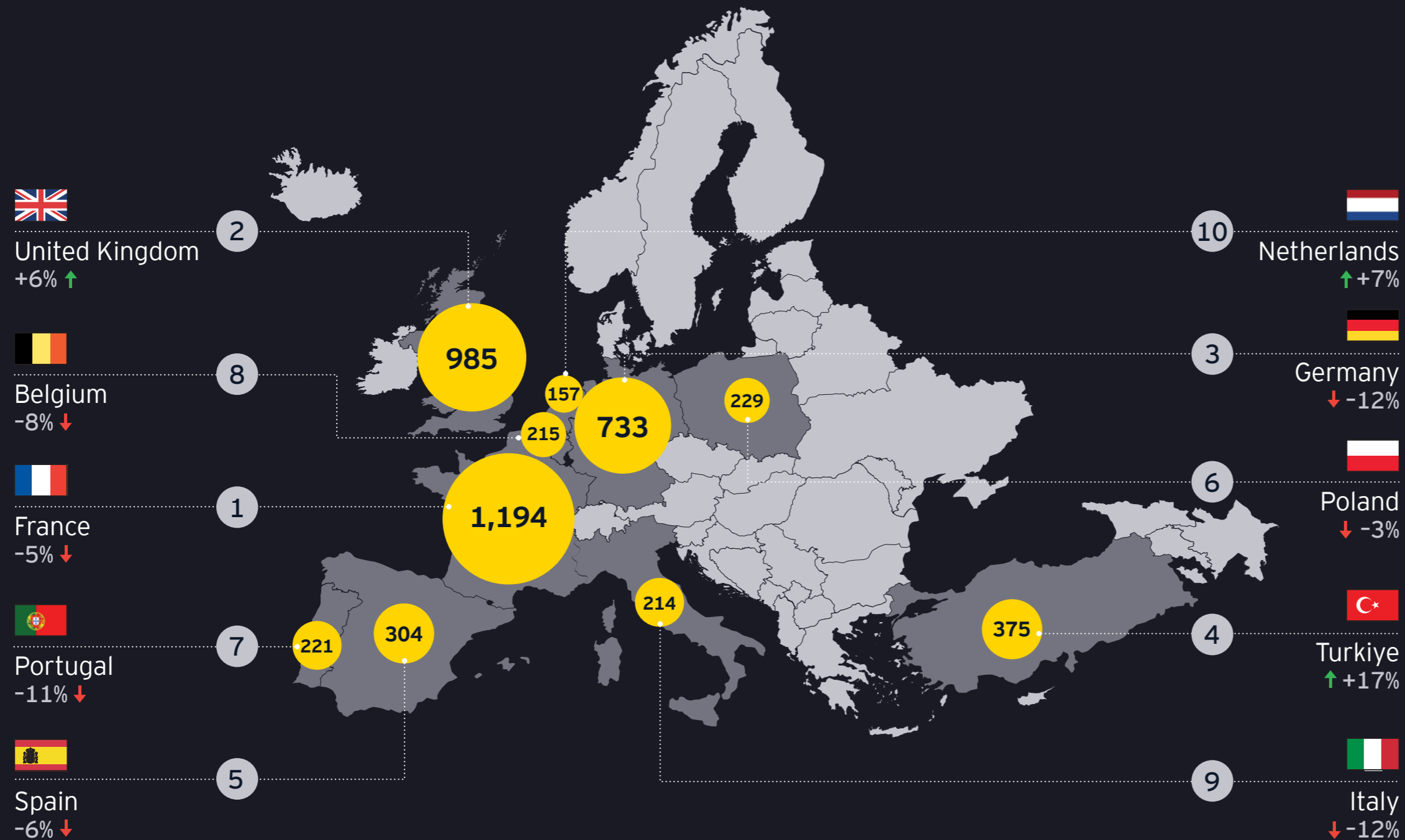
Source: EY European Investment Monitor, 2024.

FDI activity in Europe in 2023 broken down by type

Rank	Activities	Number of projects		Market share 2023	Change 2022-23	Change 2021-22
		2023	2022			
1	Manufacturing	1,743	1,756	31%	-1% ↓	-1%
2	Business services	1,586	1,415	28%	12% ↑	21%
3	Sales and marketing	856	805	15%	6% ↑	-19%
4	Logistics	532	570	9%	-7% ↓	-13%
5	Research and development	484	573	9%	-16% ↓	-7%
6	Headquarters	223	455	4%	-51% ↓	12%
7	Shared services center	83	155	1%	-46% ↓	154%
8	Testing and servicing	82	56	1%	46% ↑	12%
9	Education and training	47	42	1%	12% ↑	62%
10	Contact center	38	50	1%	-24% ↓	-22%
11	Internet data center	20	85	0%	-76% ↓	18%
	Total	5,694	5,962	100%	-4% ↓	1%

Source: EY European Investment Monitor, 2024.

Top 10 FDI countries in Europe in 2023 – ranking, number of projects and change in 2023 vs. 2022



The UK rebounds as France stalls and Germany declines

Investment in France fell by 5%. But the number of jobs created by FDI increased by 4%, which illustrates the benefits of France's business-friendly reforms and an economy that is healthier than in other European countries.

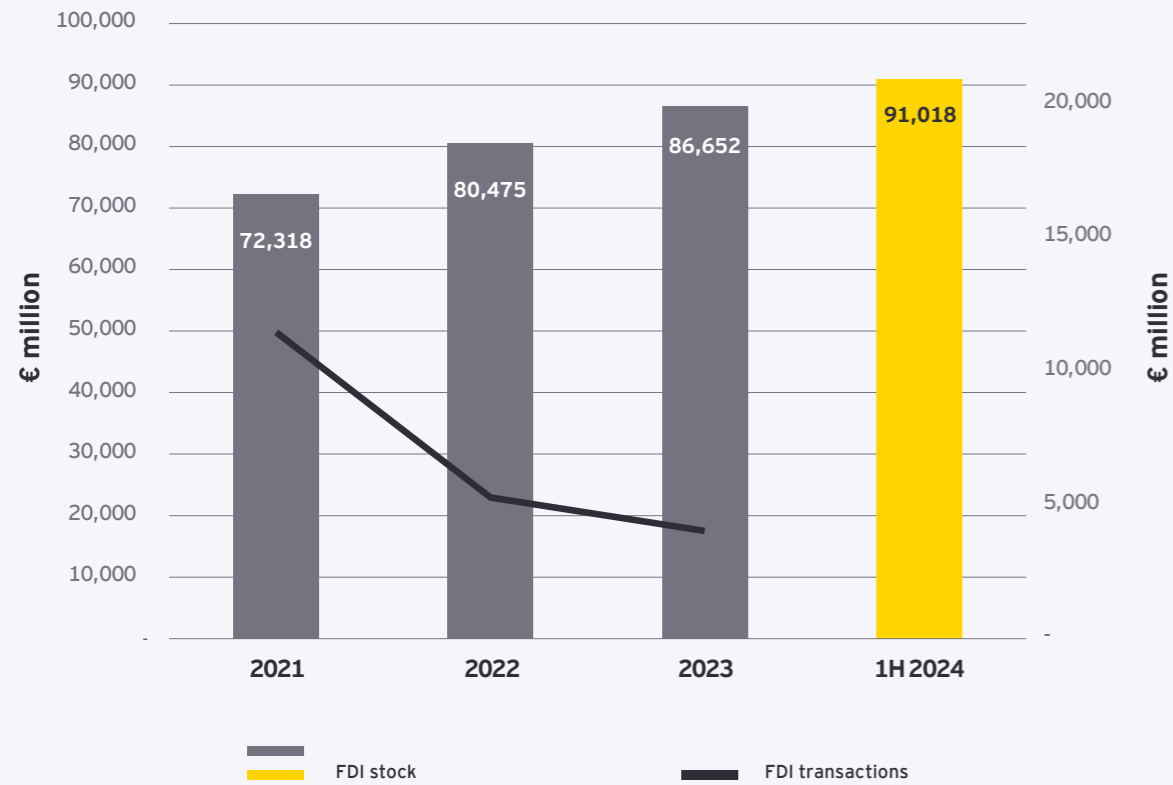
FDI in Germany decreased by 12% in 2023, continuing a steady decline in projects since the onset of the COVID-19 pandemic. Industrial investors have been deterred by the country's recessionary environment, high energy prices and concerns about the security of the energy supply.

The UK bucked Europe's negative trend, with a 6% increase in FDI projects in 2023, but this was achieved from a low base: There was a 6% drop in the previous year.

FDI trends in Cyprus

According to preliminary data provided by the Cyprus Central bank (CBC) covering the past three years, the inward FDI transactions, for Cyprus adjusted for Special Purpose Entities (SPEs), have been on a declining trajectory.

Annual inward FDI inflows and stock levels in Cyprus



Source: Central Bank of Cyprus, 2024.

FDI by sector

Historically, international investors have concentrated their interest in the financial services, real estate and ICT sectors. This comes as no surprise since the Cypriot economy is service-based, with these sectors being among the most developed.

Interestingly, during 2021-2023, while the financial services and ICT sectors experienced a decline in inward FDI transactions, the real estate sector has seen its inflows triple.

Financial services

59%

of total

Real estate activities

18%

of total

Information and communication

11%

of total

Other

11%

of total

Source: FDI Stock as of 2023, Central Bank of Cyprus, 2024.



Section 3

Investors' perception about Cyprus based on survey results

EY Attractiveness Surveys are carried out across the globe by the EY organization for different locations. For Cyprus this is the third survey and follows the one carried out in 2022. It explores the views and perceptions of the global investment community regarding Cyprus' attractiveness as a foreign direct investment destination.

The survey highlights the comparative advantages and weaknesses of Cyprus as an FDI destination, presents the intent and current perception of international investors, and also tracks the progress achieved in recent years. More importantly, it helps identify areas where improvement is needed in order to maintain and further enhance the country's competitiveness in attracting FDI.

The findings for Cyprus are presented in the following pages. Where applicable a comparison is also provided to the previous survey carried out in 2022, as well as to the surveys of other European countries. More details about the survey, such as its methodology or survey participants compositions, are presented in the [Methodology section](#).

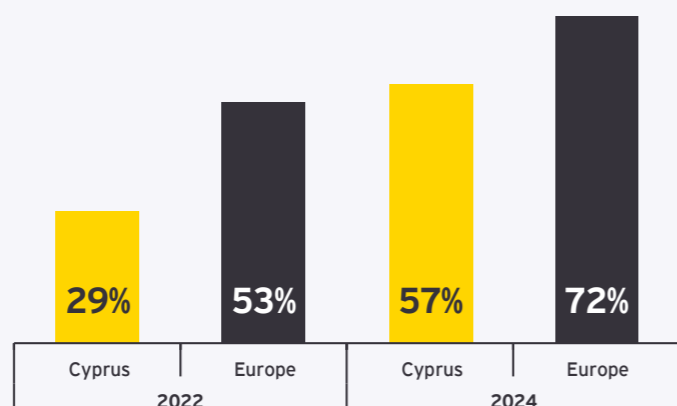
Investment appetite

has improved but there is still room for further improvement

Following the decline in FDI transactions in 2022 and 2023, there appears to be a growing sense of optimism among participants in relation to the recovery of FDI activity. Over half of the investors surveyed (57%) are looking to establish, or expand, their current operations

in Cyprus within the next year (compared to 29% during the last survey in 2022). In comparison to the broader European region however, where positive responses corresponded to 72% of survey participants, Cyprus still appears to lag in appeal.

Does your company have plans to establish or expand operations in Cyprus over the next year?



Source: EY Attractiveness Survey for Europe and Cyprus, 2022 and 2024.

Cyprus

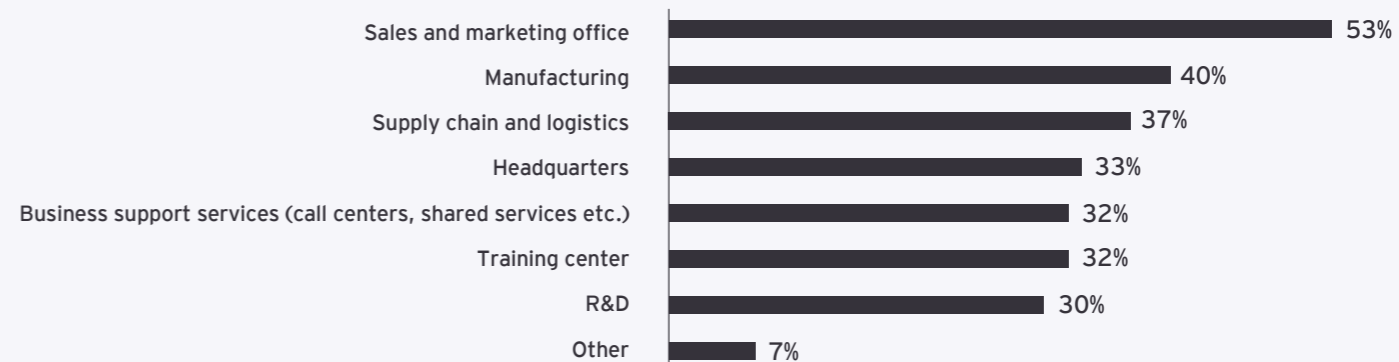
continues to attract interest for traditional operations, such as sales, marketing and headquartering; surprisingly though manufacturing appears to be more lucrative than ever

Popular answers to the question of what type of investments the participants intend to carry out in Cyprus, as in previous years, include **sales, marketing and headquartering**. Surprisingly though, **manufacturing** appears to be a much more popular response than it was in the past (included in the responses of 40% of the participants). This appears to be a general trend, also persistent in the rest of Europe, and potentially linked to increased protectionism and reshoring/onshoring activities. Another noteworthy entrant are the **training centers**, which appear to be gaining interest from international investors.

In relation to **R&D operations**, the intent to establish or expand such type of activities in Cyprus has also increased considerably compared to 2022. The increase in interest reflects the continuous efforts of the government to establish Cyprus as an Innovation Hub. Lastly, **supply chain and logistics**, which topped the Cyprus' list in 2022, remain high on the list but have now fallen a two places. This could potentially indicate that investors' expectations with regards to the specific category may have not been entirely met.



What type of operations are you planning to establish or expand in Cyprus in 2024?



Source: EY Attractiveness Survey for Cyprus, 2024.

Transitioning

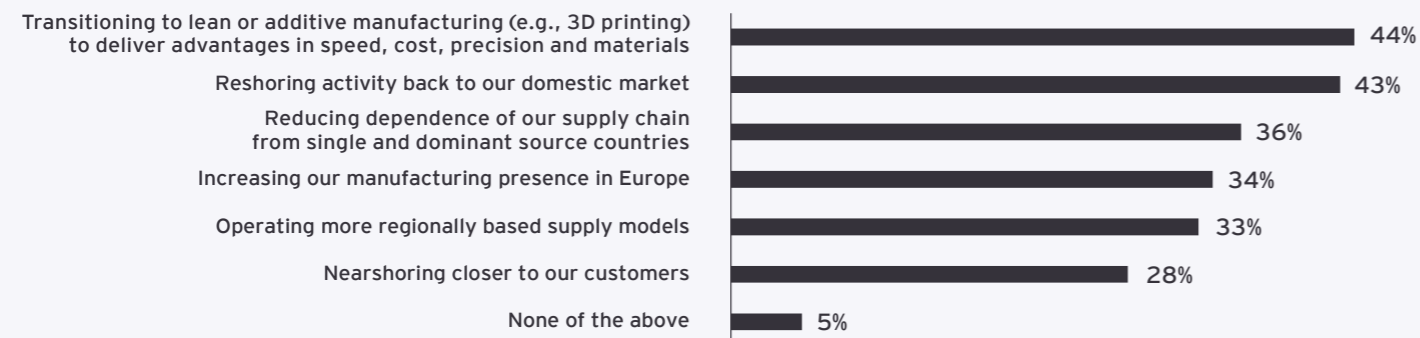
to lean or additive manufacturing and reshoring activities are considered by investors as the focus area in terms of manufacturing and supply chain activities

Considering the increased interest from investors for the establishment or expansion of manufacturing and supply chain and logistics operations amid the current geopolitical tensions, survey participants were also invited to share their perspective on Cyprus' appeal as a host for related activities.

Regarding manufacturing activities, respondents outlined **transitioning to lean or additive manufacturing** (e.g., 3D printing) and **reshoring** activities closer to their domestic market as the key strategies they would consider implementing.

Interestingly, **nearshoring**, i.e., moving activities closer to customers (MENA or EU in our case), falls on the bottom of investors' preferences. Despite nearshoring's decreased appeal, the current geopolitical tensions in the Middle East appear to have prompted some parties to consider transferring part of their production activities to Cyprus, in order to benefit from increased security as well as establish an EU presence. Recent relevant cases include manufacturers from Lebanon and Israel.

Would you consider Cyprus as an investment destination for any of the following reasons?



Source: EY Attractiveness Survey for Cyprus, 2024.

Factors

that have traditionally attracted investment to Cyprus are no longer perceived as priorities to investors when considering FDI

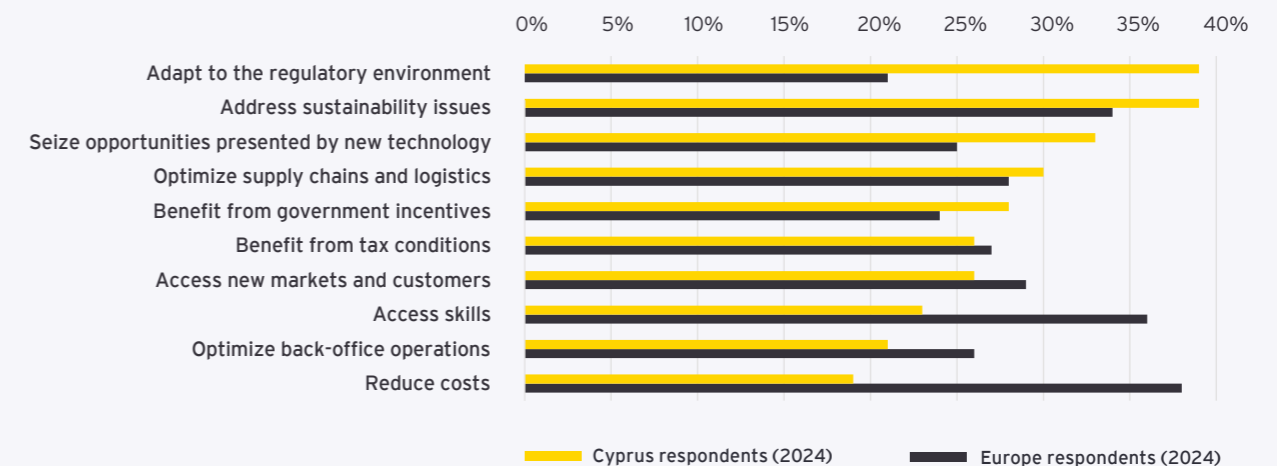
When asked what drives their current interest for FDI, participants first cited factors such as **addressing sustainability issues** and **adapting to regulatory environment**. Sustainability appears to be more important for investors these days than growth and cost reduction. It is worth noting that the specific response was especially popular in the case of companies engaged in industrial sectors, chemicals and pharmaceuticals and high tech (i.e., sectors with a relatively high carbon footprint). **Seizing opportunities presented in new technologies** also features high on the list, together with optimising supply chain logistics.

Supply chain and logistics offer an opportunity for Cyprus, due to its strategic position in the crossroad of three continents. **Investments in the tech sector** is also an area that has attracted significant FDI locally in recent years. Seizing relevant opportunities remains an attractive proposition when it comes to Cyprus.

It is worth noting that factors like **beneficial tax conditions** and **government incentives**, that once featured high on investors' lists, now feature on the bottom half; confirming the change in investors' priorities.

Cost reduction and **skill access** are also low on the list, indicating that investors would not invest in Cyprus for these reasons. The reverse applies though for companies considering relevant investments in the broader EU region, where these responses feature high on the list. This potentially indicates that Cyprus lacks specialised personnel locally and has become less attractive in terms of the cost for setting up and operating a business.

What are the main reasons for establishing new or expanding existing operations?



Source: EY Attractiveness Survey for Europe and Cyprus, 2024.

Traditional sectors,

like financial services and hospitality, are expected by participants to be the enablers of growth for the local economy; optimism also persists for digital economy, while the health sector features as the newcomer

Participants were asked to identify the sectors that will drive economic growth for Cyprus going forward. **Financial services** (including banking, finance, insurance, wealth and asset management) and **hospitality** were the most popular responses, followed by **digital economy** (including IT, telecoms and media). **Healthcare** is also included in the first half of the list as an enabler, in line with the increased momentum and FDI activity in the specific sector in recent years, following the GHS³⁷ introduction.

It is worth mentioning that despite the discovery of large deposits of natural gas in Cyprus' EEZ³⁸ and the advantages enjoyed by Cyprus in the area of RES³⁹, **energy** features at the bottom of the list. **Real estate and construction** also feature at the bottom of the list, suggesting that it is not considered by investors as a key growth enabler, especially following the termination of the CIP⁴⁰.

Technology and talent,

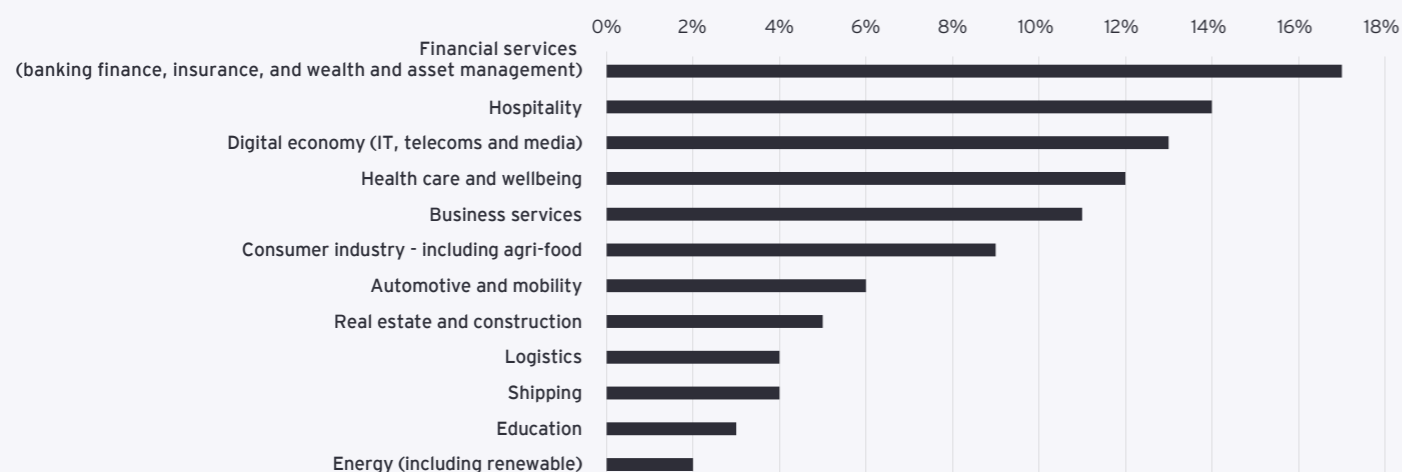
together with the strength of the domestic market and political stability, remain key FDI criteria

In an effort to better understand what factors could drive further FDI in Cyprus, particularly over the following years, we posed the relevant question. Several factors that stand out could significantly influence the decision-making process for businesses looking to invest in the region. The most notable factor cited by investors is the **level of technology adoption**, quoted by 26% of investors slightly above the Europe's survey result of 21%.

The **strength of the domestic market and skills and availability of the workforce** are also crucial for investors, both marked at 25%. It is also worth noting in the case of Cyprus the perceived importance for **stability of the political and regulatory regime**, considered key by 25% of respondents (13% in the case of the European survey). In today's dynamic and fragile geopolitical environment, investors seek stability and security.

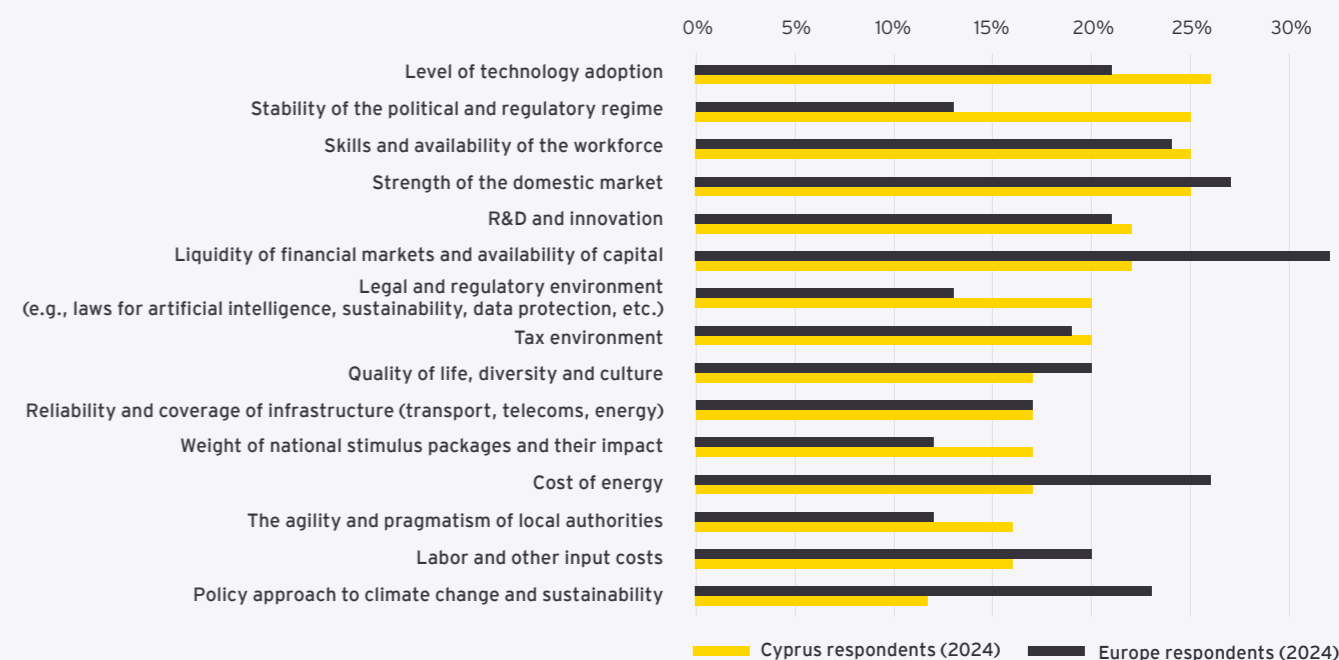
Comparatively, results for Cyprus differ from the broader European results in several other areas as well. **Liquidity of financial markets and availability of capital** in the case of Cyprus features as a less critical driver (quoted by only 22% of the participants compared to 32% in the case of the European survey). This may be linked to the limitations in accessing financing locally, as noted by investors and the lack of a strong capital market. Additionally, the **policy approach to climate change and sustainability** are ranked materially lower in Cyprus compared to the European survey. It is worth noting again that **cost-related factors** (labor costs, energy, etc.) are not cited as a key driver for choosing to invest in Cyprus and not a top priority for investors considering Cyprus at current.

Which main business sector will drive Cyprus' growth in the coming years?



Source: EY Attractiveness Survey for Cyprus, 2024.

Which factors are the most important when choosing to invest in Cyprus or Europe?



Source: EY Attractiveness Survey for Europe and Cyprus, 2024.

³⁷ General Health System.

³⁸ Exclusive Economic Zone.

³⁹ Renewable Energy Sources.

⁴⁰ Cyprus Investment Program; the citizenship by investment scheme terminated in November 2020.

Geopolitical tension

and political stability remain the number one threat and risk consideration when it comes to FDI

Expanding on the previous question, participants were also asked to identify the main risks that in their opinion could affect the attractiveness of Cyprus over the next three years. They confirmed that in today's environment, **geopolitical tension** and **political instability** remain the number one threat. The war in Ukraine, the Middle East conflict and political instability in Europe, cause large concerns. **High interest rates** and **tightening financial conditions** follow.

The results are aligned with the findings of the European survey, with the exception of **increased regulatory burden and volatile energy prices/energy supply**, which are considered to be much more of a threat in the case of Europe. With regards to the latter, it is worth mentioning that competing destinations for FDI to Europe, such as the US, have not experienced the large hikes in prices that Europe has experienced over the past two years.

Businesses are concerned that future unexpected events, similar to the war in Ukraine, could plunge Europe into another energy crisis. Compared to Europe, another heightened concern for Cyprus is slow economic growth (27% responses compared to 15% in the case of the European results). This may be linked to the relatively small size of the local market.

Cyprus offers distinct advantages that enhance its attractiveness. Its strategic location and natural gas resources in the Eastern Mediterranean, alongside energy independence from Russia, mean that only 17% of investors are concerned about energy supply and price, compared to 33% across the EU. Additionally, just 28% of investors (vs. 41% EU) expect regulatory burden to impact Cyprus's future appeal, a notable asset given that regulatory complexity is Europe's leading attractiveness challenge and a focal point for EU competitiveness strategies.

FAMKE KRUMBÜLLER

EY EMEIA Leader,
Geostrategic Business Group



“Over the past year, regional geopolitical dynamics have intensified, creating a more complex and unpredictable operating environment for businesses.

According to a recent EY's CEO survey, 98% of global CEOs and private equity leaders are adapting their investment strategies to address geopolitical challenges.

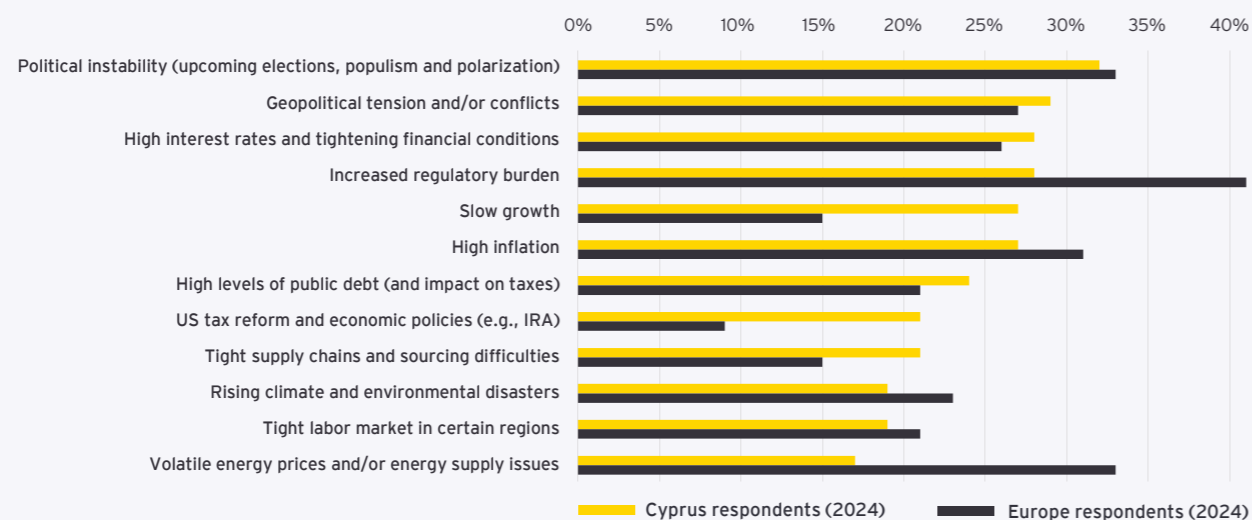
Survey results indicate that foreign investors view Cyprus as slightly more vulnerable to geopolitical and political risks than the EU average (29% vs. 27%). This heightened concern is largely due to Cyprus's unique geographic position, exposing it to political risks from both the EU and the Middle East. Examples include the country's proximity to neighboring countries in unrest (Israel - Palestine - Lebanon conflict), the impact experienced in various economic sectors from the war in Ukraine and related sanctions, as well as the economic implications of potential transatlantic tensions under a Trump 2.0 administration and its America-first policy agenda.

Political instability remains a primary risk over the next three years, driven by uncertainties around the 'Cyprus Problem'. Combined with high interest rates and tightening financial conditions, these factors contribute to investor concerns over Cyprus's growth outlook, with 27% expressing concerns, compared to a 15% for the Europe respondents.

In conclusion, while Cyprus faces significant geopolitical risks, its strategic position also presents opportunities, particularly as a maritime hub for trade and investment between continents, including energy trade.

Despite these political risks, many companies remain underprepared for integrating political risk assessments into investment decisions; only 40% of global CEOs report established frameworks for managing political risk. Investors should act now to embed political risk management in their strategies, enhancing their ability to navigate and capitalize on both risks and opportunities in Cyprus and beyond.

What are the three main risks affecting Cyprus's or Europe's attractiveness over the next three years?



Source: EY Attractiveness Survey for Europe and Cyprus, 2024.

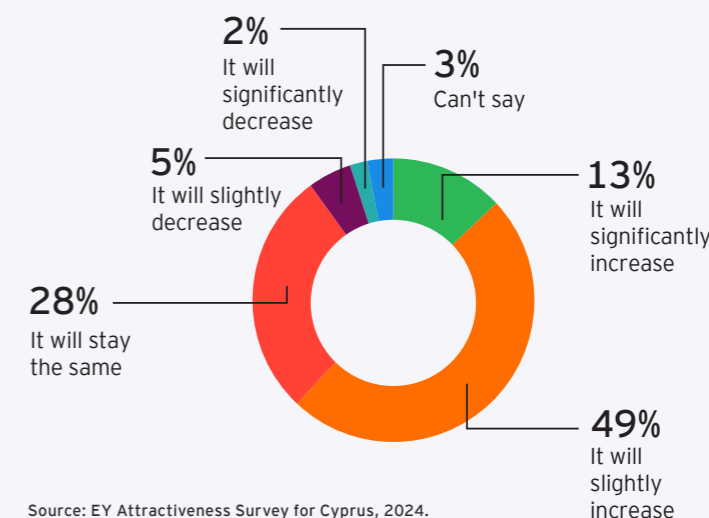
Optimism

There is a healthy optimism among investors about Cyprus's attractiveness over the following years

The majority of the respondents (62%) expect Cyprus's attractiveness to improve over the next three years (compared to 53% in 2022).

This remains lower however than the perception for Europe overall (with 75% positive responses) as well as some of the other countries in the South (e.g., Greece 69%).

How do you expect Cyprus' attractiveness to evolve over the next three years?



Source: EY Attractiveness Survey for Cyprus, 2024.

Section 4

Investors' perception on improving the country's FDI attractiveness

The questions presented so far addressed the overall current perception of the investor community with regards to Cyprus and how investors potentially see Cyprus fitting in their plans. The next set of questions aims at going deeper and getting the feedback of investors on specific areas where Cyprus is performing well and also, more importantly, areas that need to be addressed in order to further improve the country's FDI attractiveness.

Improvement areas

The bureaucratic and administrative environment continues to constitute an area for further improvement. Matters such as the relatively high labor costs and access to capital also remain high on the agenda

Participants were asked to comment on how attractive they consider Cyprus to be as an FDI destination with regards to specific criteria. The chart below presents areas where investors feel that Cyprus is relatively less attractive.

Labor costs and the **bureaucratic and administrative environment** appear to top the list, suggesting areas for improvement. With regards to **labor cost**, this is linked by investors to the level of skills currently available and the extent to which these are fairly priced.

Bureaucratic procedures continue to be a concern, despite the efforts by the authorities on digitalization and streamlining of different administrative procedures.

Access to financing and availability of capital continue to appear relatively high on the list. This concern is especially relevant to SMEs and startups, where both funding alternatives and exit options in Cyprus are considered to be limited.

Finally, **telecommunications and digital infrastructure** also feature on the first half of the list, despite the government's efforts and investment in this area; suggesting the investors expect more to be done.

Focus

Participants feel that we should continue focusing on talent in order to maintain our FDI attractiveness

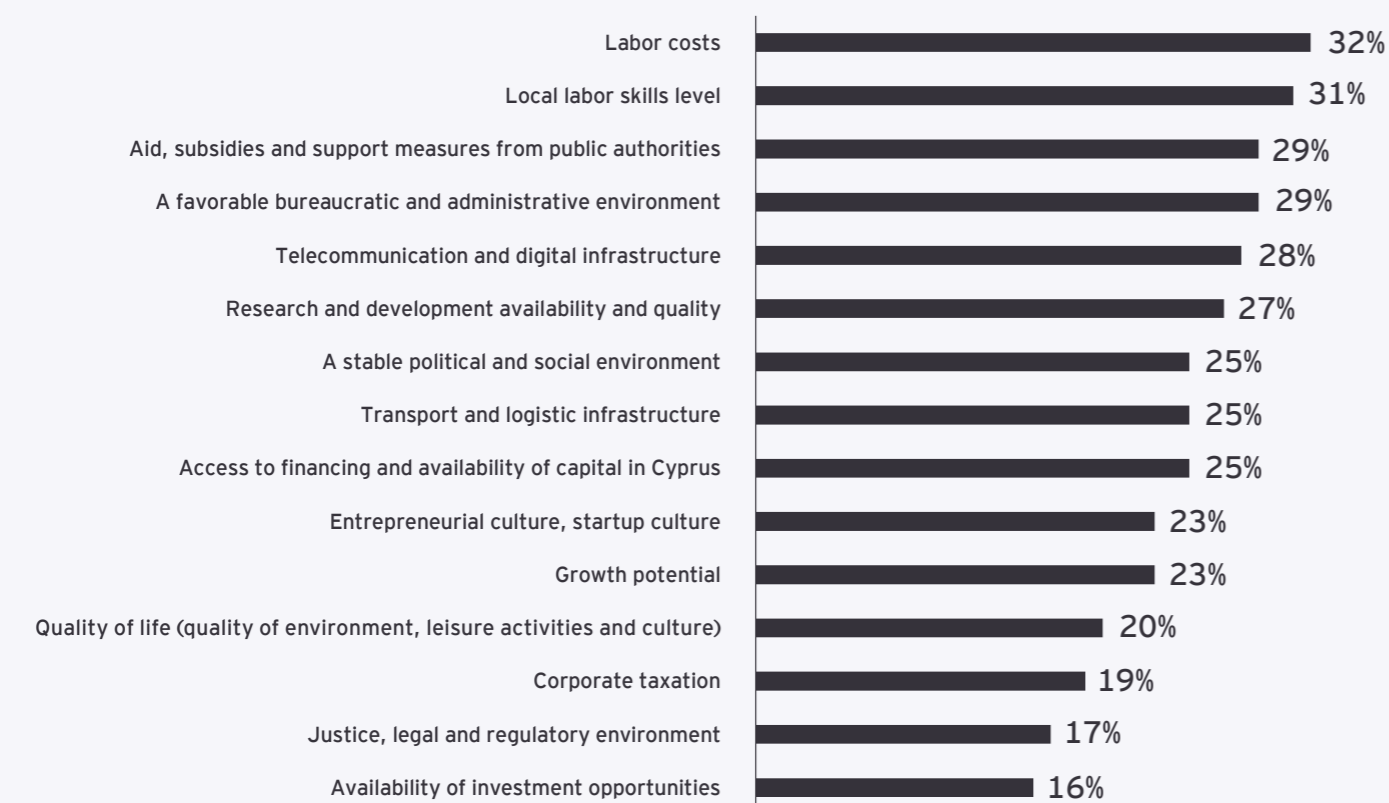
Investors were further asked to identify areas where we should concentrate our efforts in order to maintain our FDI attractiveness. **Development of education and skills**, combined with **facilitating access to talent**, top the list. **Investment in major infrastructure and urban projects** follow.

It is important to note that in the case of the European survey these enablers did not feature in the first half of the list; suggesting that Europe is doing better in these areas. It is also worth noting that the same items were identified as key improvement areas for Cyprus in our last survey in 2022; implying that despite any efforts, the investors' perception has not changed materially.

Support of SMEs and innovation, together with **sustainability** (encouraging environmental policies and attitudes), also appear in the top half of the list. SME support and support to high-tech companies and innovation, were also identified by investors as key areas of focus in the case of the European survey.

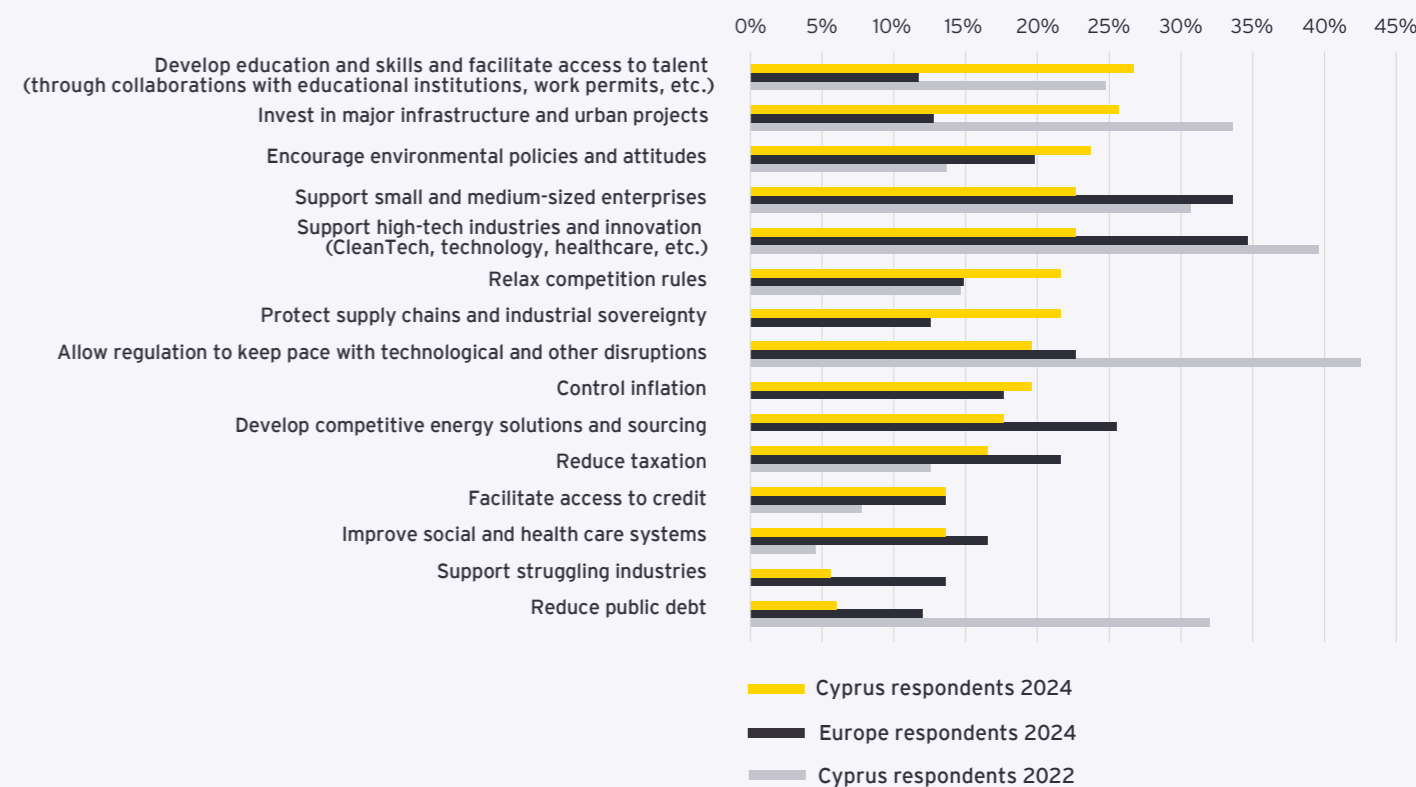
How attractive is Cyprus as an investment destination in terms of each of the following areas?

Little/Not at all attractive



Source: EY Attractiveness Survey for Cyprus, 2024.

Where should Cyprus or Europe concentrate its efforts in order to maintain its competitive position in the global economy?



Source: EU Attractiveness Survey, EY, 2024.

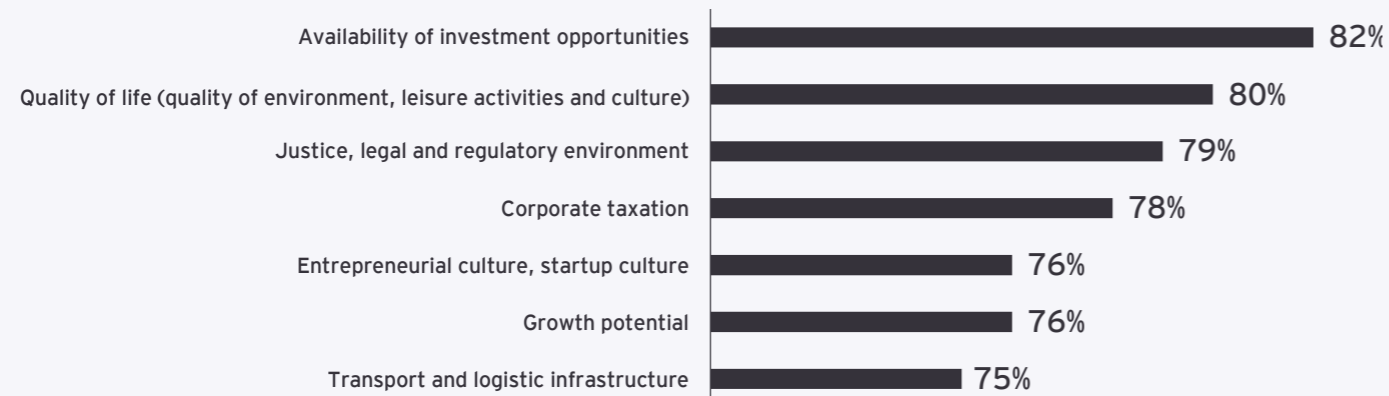
Attractive factors

Factors such as the quality of life, the favorable tax regime, and the legal regime continue to be positively evaluated by the investors

Participants also identified areas where Cyprus is considered to be very or fairly attractive. More than 80% of the participants feel that **investment opportunities** are made available in case of a serious interest. They also highly rank the **quality of life** in Cyprus as well as the **favorable corporation tax** levels and the **legal and regulatory framework**. Despite the relatively small size of the local market, growth potential is also highly ranked.



How attractive is Cyprus as an investment destination in terms of each of the following areas? Very/Fairly attractive



Source: EY Attractiveness Survey for Cyprus, 2024.

Talent, technology and sustainability

remain key pillars to consider in improving the country's FDI attractiveness

Overall, responses to the previous questions are consistent with the rest of the survey results. Items linked to talent, technology and sustainability continue to form key considerations driving FDI decisions. We thus requested participants to also evaluate how Cyprus is performing with regards to these three key pillars and assess how we compare with other regions.

Talent



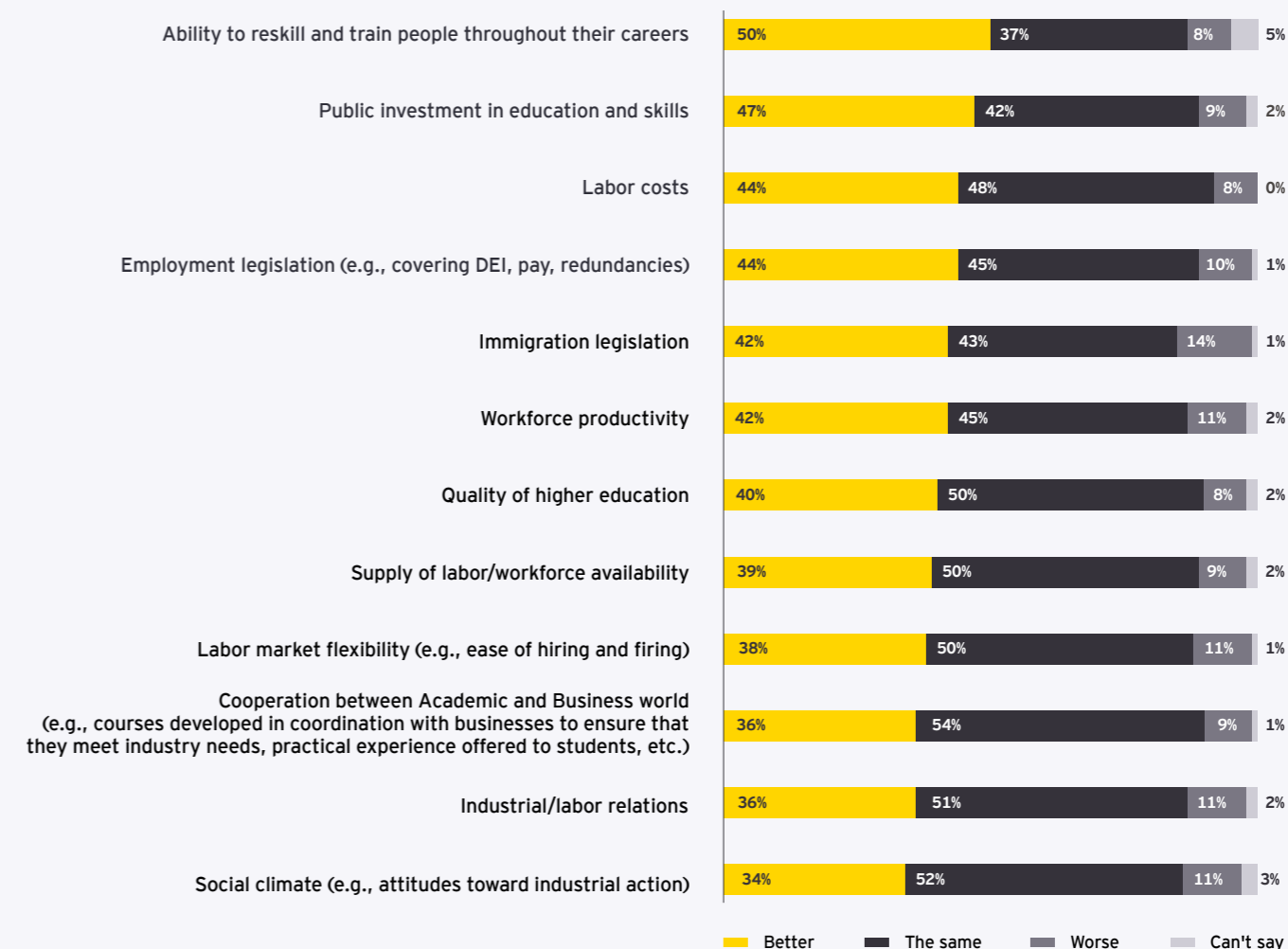
With regards to talent-related factors, investors' perceptions of Cyprus have improved. In the majority of the cases, we are seen as performing more or less either at par or better than the other regions. Areas where investors feel that we are doing better include the **ability to reskill and train people throughout their careers**, and the **public investment in education and skills**.

Areas where part of the participants feel that we are not doing as good, include **Immigration legislation, cooperation between the Academic and Business world, Industrial/Labor relations** and **Labor market flexibility** (ease of hiring and firing, etc.), as well as **Social climate** (e.g., attitude toward industrial action). In terms of immigration legislation, this was a topic raised by many international corporations in the past, especially by companies active in niche technology sectors such as FinTech. The scarcity of the local talent pool has prompted these companies to look abroad for

talent, often from the third countries (non-EU). In doing so, they have encountered difficulties due to the immigration regime being inflexible and restrictive to non-EU nationals.

The government has launched a number of initiatives with an aim to become more attractive for foreign nationals (see Section 1 for more information). Further to this topic, the need for cooperation between academia and businesses is also raised, aiming at cultivating a local talent pool which is well-prepared to meet the demands of the market.

Compared with other regions, how does Cyprus perform with regard to the following talent-related factors?



Source: EY Attractiveness Survey for Cyprus, 2024.

Technology

With regards to technology-related factors, a similar pattern is observed; i.e., we are perceived as being mostly at par with the other regions or even ahead in some areas. Areas securing the highest ranking in terms of doing 'better' than the rest of the regions include the **Availability of workforce with technology skills, Support by the authorities to drive a digital agenda** and **the presence of a positive Environment for AI investment, development and usage.**

The **Rate of innovation, digital adoption and uptake by the population** on the other hand tops the list of areas where we are perceived by some investors as not doing so good (areas with higher percentage of doing 'Worse' replies).

Other responses in this category include the existence of **Network technology startups and research institutions** as well as the **Protection of national security interests relating to new technologies.**

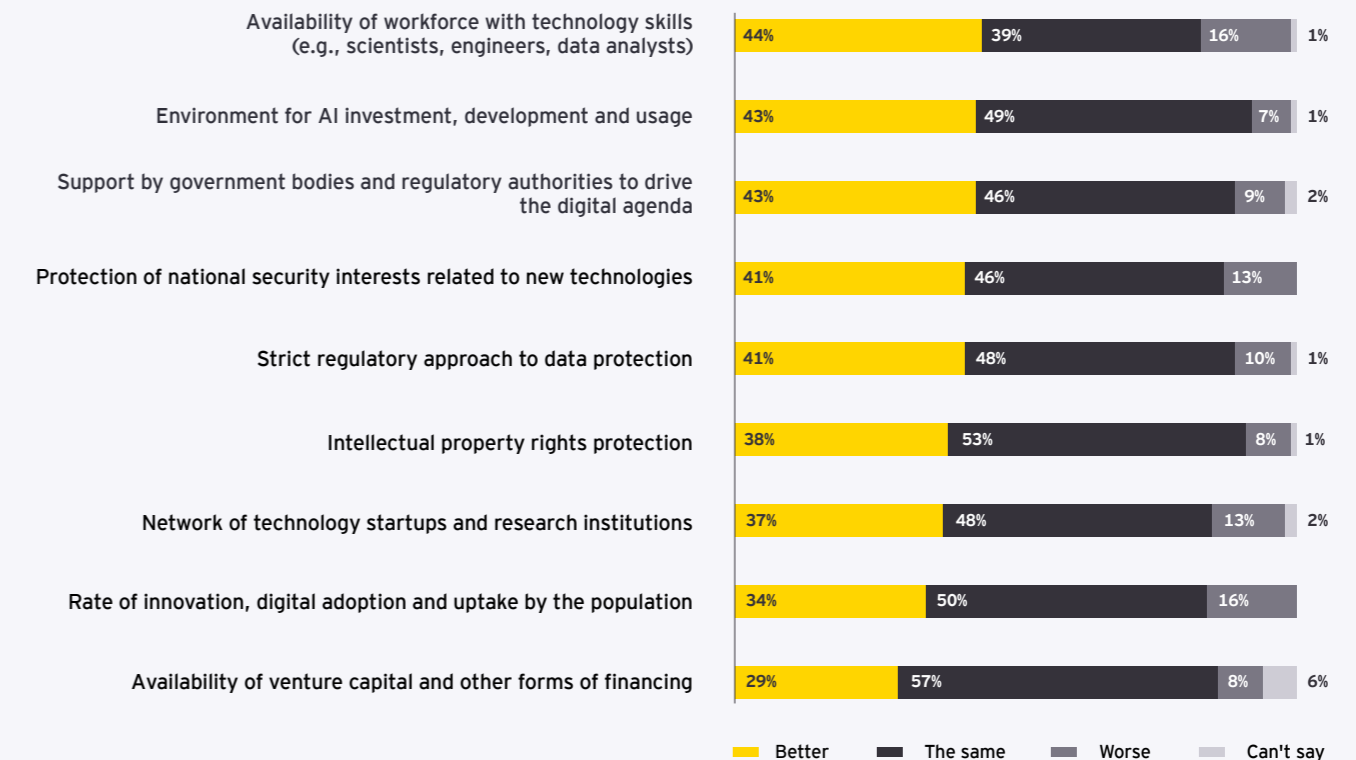
It is worth noting that the Availability of workforce with technology skills, features both on top of the doing 'better' and 'worse' responses. It appears that even though the efforts of the private and public sector to attract and retain skilled labor in this domain have achieved some results, there is still a shortage. This is aligned with responses in other sections of the survey. It is also worth mentioning that **Venture capital availability** appears to remain a pain point for Cyprus.

Overall, with regards to this question it does appear that even though there is room for improvement, the investor community does acknowledge the efforts and initiatives by both the private and public sector (Deputy Ministry of Research, Innovation and Digital Policy, Techisland, CITEA, etc.) to improve our competitiveness.

While it is encouraging to see that the investor community acknowledges the progress made and the efforts of both the public and private sector, the effort must continue in the longer term. It is widely accepted that the focus must be on developing the ecosystem of technology and research and innovation companies as well as the workforce that would fuel this growth.

This can be achieved by implementing a long-term plan aiming at further development of local skills through a restructuring of the education system and ensuring that highly skilled individuals, whether local or not, are incentivised to live and work in Cyprus.

Compared with other regions, how does Cyprus perform with regard to the following technology-related factors?



Source: EY Attractiveness Survey for Cyprus, 2024.

Sustainability

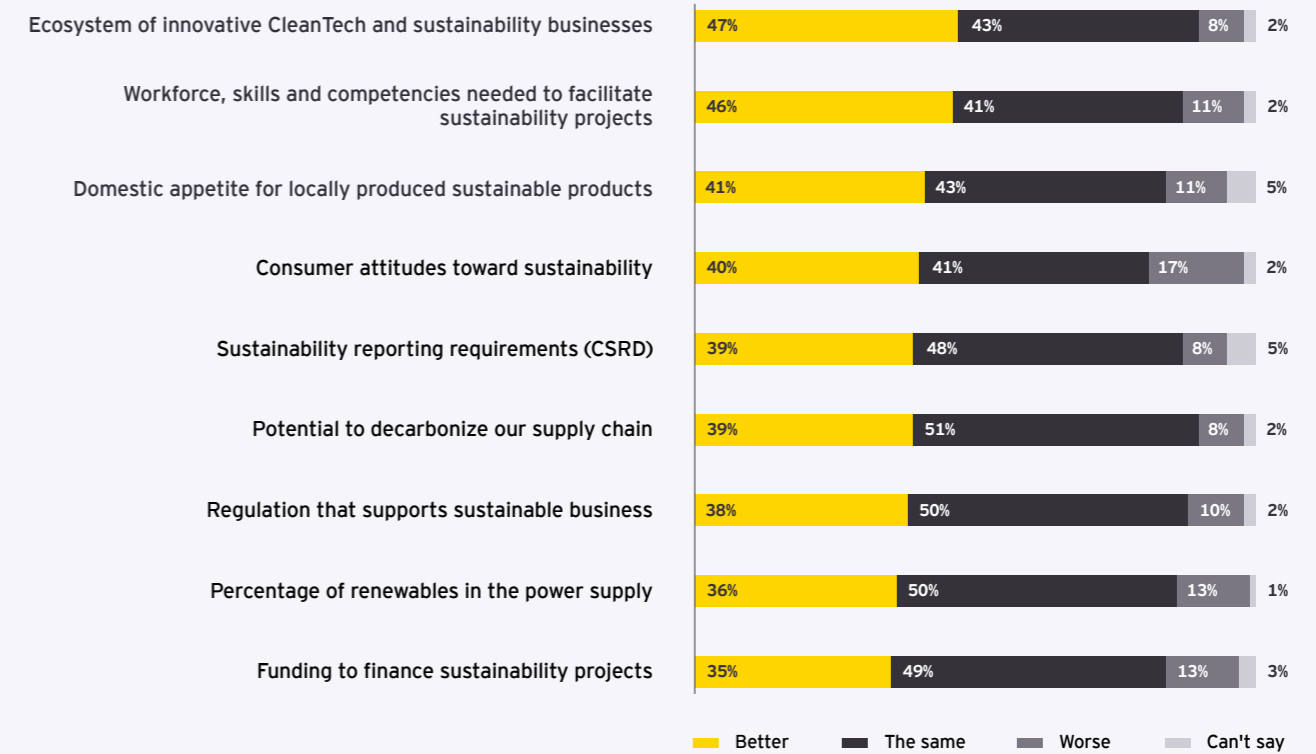


In this area, investors feel that an improvement has been achieved in terms of the availability of a **Workforce with sustainability-related skills and competencies**, while an **Ecosystem of innovative Clean Tech and sustainability businesses** is also developed.

Areas that are relatively not performing as good, include the **consumer attitude toward sustainability**, the **percentage of RES** in our power supply and the **availability of funding** to finance sustainable projects. The responses are consistent with the results of the 2022 survey.

Despite the favorable weather conditions for RES deployment, Cyprus still needs to address infrastructure limitations concerning distribution networks and storage in order to achieve a higher RES absorption. The consumer attitude with regards to sustainability also still needs to improve and, despite gaining increased attention lately, availability of funding addressed to sustainability projects needs to be increased.

Compared with other regions, how does Cyprus perform with regard to the following sustainability-related factors?



Source: EY Attractiveness Survey for Cyprus, 2024.

Tax

A restructuring of the Cyprus tax system is necessary for the country to improve its FDI attractiveness

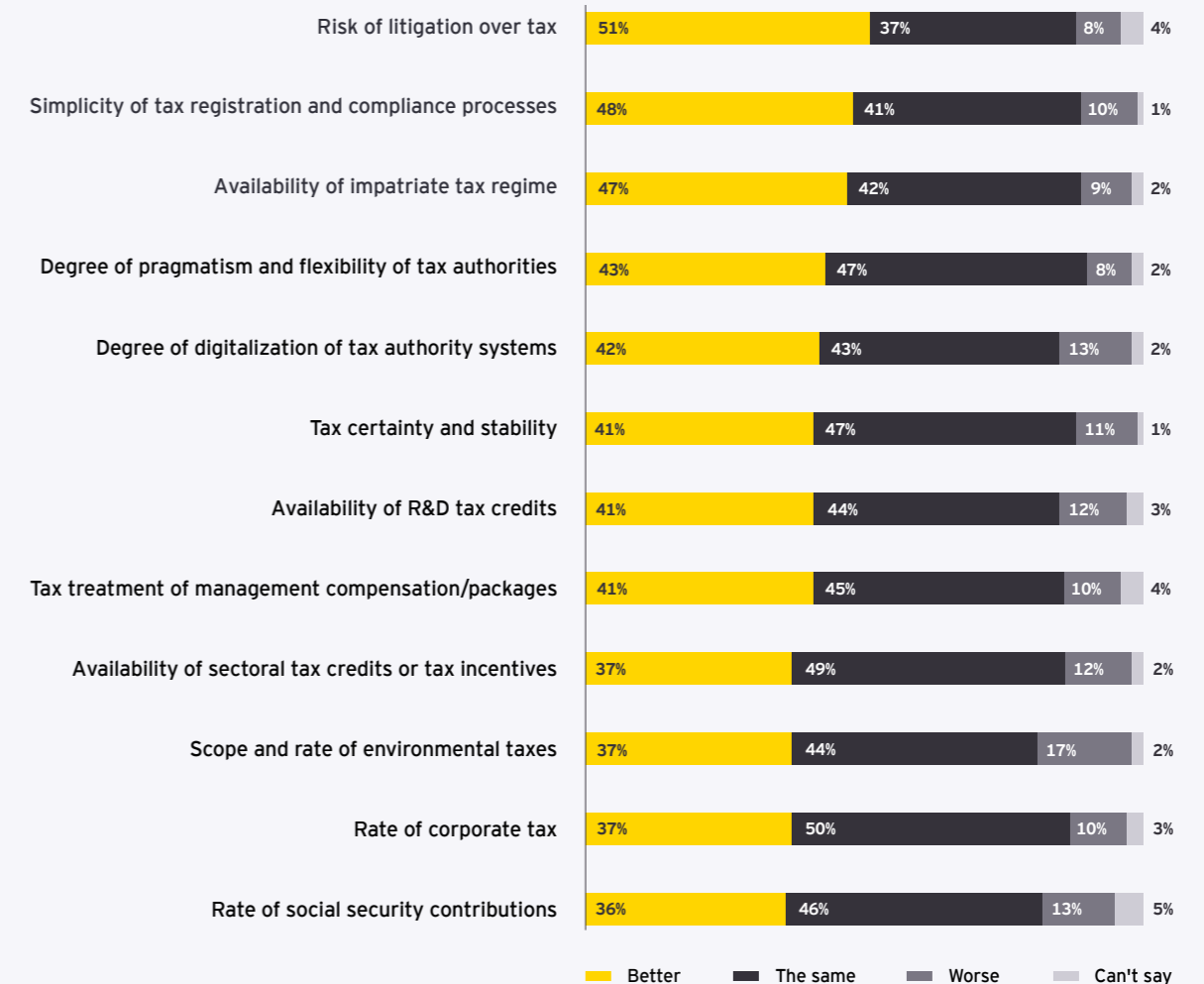
Cyprus has traditionally been considered as a friendly tax jurisdiction. Its relatively low corporation tax rates, combined with a large number of Double Tax Treaties, have encouraged FDI activity in the past. Against a changing environment however, leading to more harmonisation within Europe and also changing investor priorities, one needs to reconsider the attractiveness of our tax system going forward. In this respect, we requested participants to assess our competitiveness with regards to different tax-related elements.

Areas where we appear to be performing 'better' compared to the rest to the region, include the **lower risk of litigation over tax, simplicity of our tax registration/compliance process** and the **availability of an impatriate tax regime** matters.

Our corporation tax rate is no longer considered as a strong competitive advantage. Instead, investors are acknowledging the benefit of a simple, transparent and less risky tax regime.

Areas for further improvement, based on the results, include environmental taxes, social security contributions, the degree of digitalization of the tax authority systems as well as availability of sectoral tax credits and incentives.

Compared with other regions, how does Cyprus perform with regard to the following tax-related factors?



Source: EY Attractiveness Survey for Cyprus, 2024.

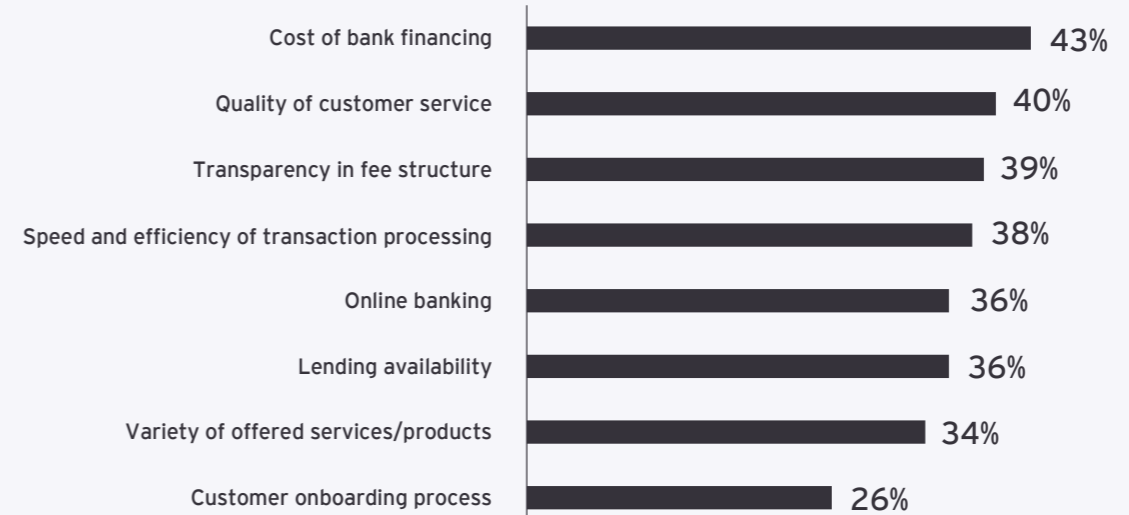
Banking

When it comes to our banking system, more competitive and transparent cost structures, combined with an improved quality of service, are identified as key improvement points

Another important factor identified by investors as key in FDI decisions is financing and the support of the local banking sector. Participants were asked to identify areas where the local banking sector should concentrate in order to improve our FDI attractiveness and facilitate investments. Investors require **competitive financing terms** in order to partly fund their FDI activities into Cyprus.

The **Quality of customer service** is also considered as key and an area to focus, together with **fast and efficient transaction processing**. Finally, **transparency in the fee structure and charging** also features high on the list.

To increase Cyprus' attractiveness for foreign investment, which aspects of the local banking/financing industry should be improved?



Source: EY Attractiveness Survey for Cyprus, 2024.

Improvement efforts

The government needs to work further on its communication strategy

Finally, we asked participants to evaluate different government initiatives aimed at improving the country's FDI attractiveness. Overall, investors appear to acknowledge the efforts of the different Cypriot governments, especially regarding the **launch of public-sector related investment opportunities** (public-private partnerships, etc.) and the **introduction of a legal/regulatory environment to support FDI**.

The main area where they feel that there is still room for improvement is **the communication of the country's overall investment attractiveness** and the **communication of potential investment opportunities**.

Following the different incidences of adverse publicity linked with the CIP and AML, Cypriot Governments have taken a number of corrective actions in an effort to restore the country's reputation. Particularly their efforts were focused on countering money laundering, terrorist financing and corruption. It appears that the efforts of the government paid off, since according to the recent evaluation conducted by MONEYVAL⁴¹, Cyprus has improved the AML/CTF measures and therefore the frequency of reporting could be reduced. These efforts will need to continue.

How would you evaluate the following efforts by the Cypriot government to improve the country's attractiveness for foreign investment?

'Good' and 'Very Good' responses



Source: EY Attractiveness Survey for Cyprus, 2024.

⁴¹ MONEYVAL is a permanent monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation, as well as with the task of making recommendations to national authorities in respect of necessary improvements to their systems.

Section 5

Conclusions and recommendations

FDI is essential for any economy to flourish. It provides a means of achieving and maintaining high economic growth, reducing unemployment, enhancing know-how, accessing new technologies and in general transforming local economies.

In today's dynamic environment, there is a need to continuously monitor our FDI attractiveness and adjust our strategy to remain relevant and competitive. Areas like low corporation tax rates and low operating costs are no longer top of the investors' lists. Investment decisions today are influenced by factors such as geopolitical developments, adoption of new technologies, green transition and focus on sustainability. Human capital also continues to evolve as a key consideration, with a need to continuously invest in attracting new talent and a focus on continuous reskilling and upskilling of the existing labor force.

Based on the survey findings and our interaction with different investors we present below a series of recommendations to help enhance our country's attractiveness as an FDI destination.

01

Refine Cyprus image and reputation within the global investment community

Cyprus's economic development trajectory has been impressive, given the relatively short period since its independence in 1960. Besides being a full EU member since 2004, Cyprus is today classified as an advanced economy by the IMF⁴², and performs well on a variety of economic, social, and other indicators.

Both the public and private sectors have played, and continue to play, an instrumental role in achieving these remarkable results. Through different initiatives and incentives, Cyprus has managed to attract a number of international corporations, who now use Cyprus as their headquarters or regional base. Cyprus's importance as an FDI destination is also reflected in the Greenfield FDI Performance Index⁴³ according to which Cyprus was ranked in the 18th place out of 84 countries.

Despite the positive achievements listed above, a number of incidents in Cyprus's recent history have resulted in creating negative perceptions about the country. Cyprus has faced criticism and allegations in relation to money laundering activities and attracting foreign investments linked to corruption or violations of international sanctions. Despite subsequent efforts and commitment for continuous reforms and improvement, perceptions about Cyprus continue to be adversely affected. This is evidently reflected in relevant indices, like the Nations Brand Index⁴⁴ where Cyprus was ranked at the 95th place for 2023.

The Cypriot Government needs to continue investing in regaining the investors trust and restoring the country's reputation. Well-defined strategic priorities and communication campaigns are one of the ways this can be achieved. Improved communication and the need to better convey Cyprus's FDI attractiveness is also one of the development points identified by investors themselves. Notably, the government has already begun working toward this direction and appears committed to taking actions that foster a positive reputation. The most recent example is the launch of a major campaign for the country's rebranding.

The campaign's main goal is to restore Cyprus's reputation and enable the country to continue growing via the attraction of foreign investments. In this context, Invest Cyprus initiated a tender to secure a communications partner to support the development and management of a brand strategy, which should also align with Cyprus's "Vision 2035"⁴⁵.

Following the development of this brand strategy, the government can further capitalize on its diplomatic relations and partnerships to help communicate the key messages. Relevant activities would include not only participation in different international events and forums, but also business delegations under the auspices of the government.

Cyprus should utilise in these efforts both government officials and the business community. International investors with a local presence can also act as ambassadors in such campaigns and share their own experiences and success stories.

MARIOS TANNOUSIS
CEO, Invest Cyprus



“
Cyprus continues to thrive as a hub of opportunity, innovation, and growth. This is reflected in the recent Moody's milestone upgrade of the Cyprus economy to A3, a significant recognition of the country's economic resilience and growth potential.”

This achievement highlights the positive impact of the headquartering of international companies, the influx of highly skilled professionals, and the sustained flow of foreign direct investments (FDIs) – areas where Invest Cyprus has been spearheading efforts and making important contributions through close collaborations with all stakeholders to advance strategic initiatives. The A3 rating sends a strong signal to global investors, further reinforcing Cyprus's position as a premier investment destination and opening doors to new business opportunities and sustainable economic growth.

The survey highlights key factors that reaffirm we are on the right track. These include the high quality of life in Cyprus, which continues to be a major draw for both businesses and individuals, as well as our attractive tax system, which will be further modernized in the coming years to increase its effectiveness and attractiveness. Furthermore, Cyprus's robust regulatory environment, fully aligned with EU regulations, remains an appealing factor for investors and businesses seeking stability, transparency, and access to a harmonized EU market.

Cyprus is dedicated to fostering an ecosystem that provides both support and incentives for startups and established businesses, ensuring that the country remains a premier destination for companies seeking new opportunities across diverse industries. Areas where there is ample room for improvement is the enrichment of the pipeline of investable projects (public and private) that can also include BOT and small-scale PPP projects which will unlock FDIs further contributing to economic development and job creation. The judicial performance and efficiency can also be improved while further simplification of business processes with digitalization will further slash red tape and make it easier for foreign investors to set up in Cyprus.

Aligned with "Vision 2035", our commitment to creating a sustainable, competitive, and innovative Cyprus remains steadfast. This includes driving investment into the country, supporting investors throughout their entire journey, providing ongoing aftercare, and collaborating with stakeholders to accomplish reforms that strengthen our investment climate. The future of Cyprus holds immense promise, and we look forward to working with all stakeholders to realize this vision, ensuring that we continue to be a leading destination for investment, opportunity, and prosperity.

⁴² International Monetary Fund.

⁴³ Greenfield FDI Performance Index is an index that measures the relative number of investment projects in relations to the size of economy.

⁴⁴ Nations Brand Index published by Brand Finance measures national influence and the nation-to-nation awareness.

⁴⁵ "Vision 2035" is Cyprus' long-term strategic plan for a sustainable growth model. 11 "Vision 2035" is based on three key pillars, each one having a number of strategic objectives. The plan is for Cyprus to become one of Europe's key sustainable business and trade hubs, combining a green economy and the development of niche high-technology services, to drive sustainability and diversification.

02

Form public and private collaborations to implement infrastructure projects

Recent geopolitical developments, along with the pandemic, have further heightened the need for digitalization and green transition. These events have also prompted a shift in corporate strategies, especially in regards to their supply chains. In order to support their local economies, and the need for an accelerated transition into greener and more sustainable models, EU governments have increased their infrastructure investments. These investment plans are fueled by both the RRF and national funds.

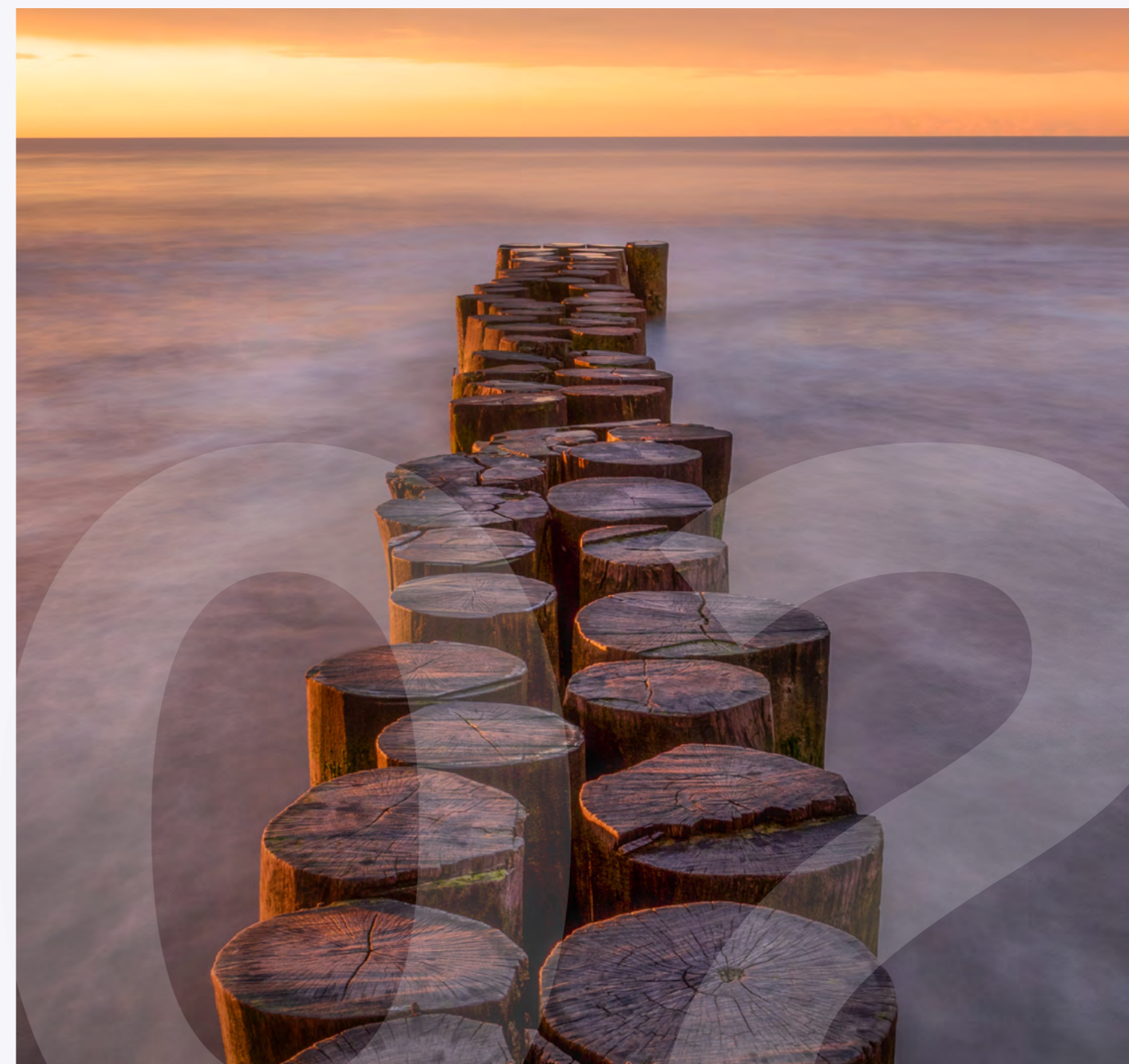
Cyprus should be no exception. The government needs to continue developing critical infrastructure for the prosperity and sustainability of the local economy. A potential arrangement for the implementation of these initiatives could take the form of strategic Private/Public Partnerships (PPPs). Such a framework will allow the state to mobilise both private and public resources, for the provision of better infrastructure solutions.

With regards to specific infrastructural needs, a number of investors emphasized the need for the expansion of the connectivity of Cyprus with more international airports and seaports.

Given its strategic geographic location, Cyprus could benefit from increased connectivity to central Europe and beyond. The government has already started consultations with airlines and other key stakeholders to expand connectivity with new destinations and more frequent connections. The same applies to sea transportation.

Finally, digital connectivity also plays an important role for the attraction of FDIs. Cyprus has progressed in gigabit connectivity infrastructure and has fully deployed 5G with a full coverage. However, it is still behind in VHCN⁴⁶ coverage. It is also worth noting, that in terms of internet connection cost, Cyprus belongs to the cluster of relatively expensive EU countries⁴⁷, indicating the need for further improvement.

PPPs can help the state to expedite large infrastructure projects, reducing the financial burden on public funds and at the same time enabling the sharing of specialised know-how and expertise possessed by the private sector.



⁴⁶ Very High-Capacity Network, representing an all optical-fibre network or electronic communication networks capable of delivering similar network performance to that provided by an all optical-fibre network.

⁴⁷ Source: Retail Broadband Prices in Europe 2022.

03

Streamline regulatory requirements and simplify administrative processes to become more attractive

Regulatory burden and complex administrative processes have been identified through the survey as areas limiting FDI attractiveness, and as such areas of focus by relevant authorities. Based on the European EY Attractiveness survey this is also a common challenge faced by Europe. The challenge is further intensified by the introduction of new laws and regulations, linked with the current geopolitical challenges, the emergence of new priorities and technologies (AI, sustainability, etc.) and the existing disparity in regulations between Member States.

A key task faced by European policy makers is to ensure harmonisation of the laws and regulations among Member States and to find the right balance which will ensure both protection but at the same time not hinder economic growth.

Reducing the bureaucratic burden on businesses is also a priority area and can be achieved through the modernisation of public services. Lengthy bureaucratic procedures (licensing of new projects, issue of staff and other permits, etc.) remain a pain point for Cyprus and discourage further investment activities.

The government has initiated several initiatives, and plans to undertake additional ones, to increase the level of digitalization of public services in an effort to address the problem. Progress remains slower than anticipated though. As an example, based on previous surveys and discussions with investors, one of the areas identified for action was the digitalization and streamlining of judicial services. After a series of delays, the e-justice system is yet to be launched and the interim solution introduced (i-Justice) has not yielded the expected results.

According to Digital Decade Country Report⁴⁸, it appears that other EU countries on average move at higher speeds in their digitalization journey. Cypriot authorities need to accelerate the digitalization effort. The prioritisation of initiatives with the input and taking into account the need of the business and investor community, can add material benefits.

Another area raised by different stakeholders is the complexity of the current processes relating to the public procurement system. This appears to discourage both local and foreign entities from participating in

different competitions and ultimately large-scale projects. While there is a fully functional e-procurement portal in place for conducting public procurement competitions, there are still issues with delays and inefficiencies in the tendering process and administration of these contracts.

Industry players push for reforms in this area and are looking for updates in the terms and conditions of public tenders, including dispute resolution mechanisms, that are aligned with the industry standards and practices. Under the RRP, there is a strategy foreseen that aims at redesigning of the whole procurement cycle. The implementation of this strategy necessitates the timely introduction of relevant reforms.

IRENE PIKI

Deputy Minister to the President



“
Strengthening Cyprus’s outreach and attracting productive investments remain top priorities, fully aligned with our government’s core goal of diversifying our economic model. In order to safeguard Cyprus’ competitiveness, in view of new regulatory frameworks and increasing obligations, we are committed to a proactive approach that does not hinder business activity and innovation.

In the formulation and enforcement of national rules we apply the principle of proportionality, taking into account the nature and complexity of services offered. An initiative promoting innovation worth mentioning includes the recent launch of the Cyprus Securities and Exchange Commission’s Regulatory Sandbox to promote innovative financial services’ growth.

An important priority in our efforts to mitigate the impact of the regulatory burden on the market is digital transformation and the facilitation of interaction between the state and citizens/businesses. Key actions include digitalizing public services with online platforms for application submissions, digital infrastructure and employee training, and improving interoperability among government systems for better collaboration. A flagship project is the Digital Citizen, a consolidated digital service portal (gov.cy) that allows citizens to access a broad range of government services directly from their smartphones via the Digital Citizen App. Integrated with the Gov. cy platform, the app leverages the eID system to provide secure, authenticated access to these services.

In addition, the Business Facilitation Unit (BFU) has been enhanced and plays a pivotal role in streamlining the process for foreign investors looking to establish or expand operations in Cyprus. Acting as a "one-stop-shop," the BFU assists investors by simplifying procedures related to company registration, residency, and work permits, offering a smooth landing to setting up their businesses. This unit also guides regulatory and licensing requirements, connecting investors with the responsible authorities. Through such dedicated support, the BFU aims to foster a business-friendly environment that attracts and retains international investments, contributing to Cyprus's economic growth and enhancing its status as a regional business hub.

Further to the above, the recent law on strategic investments is a significant step forward in accelerating investment licensing processes for key projects in Cyprus. This legislation introduces a streamlined framework that reduces bureaucratic obstacles for strategic investors, particularly in sectors critical to Cyprus's economic development. It centralizes and simplifies licensing and permit procedures, for projects that are characterized as "strategic," enabling fast-tracking of those projects. Additionally, the law enhances transparency and efficiency by setting deadlines for approvals from relevant authorities, which reduces delays and uncertainties for investors. By facilitating quicker, more efficient licensing, this law aims to attract substantial foreign direct investment, foster job creation, and further establish Cyprus as a competitive, investor-friendly destination in the region.

These initiatives align with the broader objectives of Cyprus's "Vision 2035", which aspires to establish the country as a resilient, inclusive, and innovative economy. By embracing sustainable growth, fostering digital transformation, and enhancing global partnerships, the vision sets a clear roadmap for Cyprus to thrive in an ever-evolving global landscape.

⁴⁸ Digital Decade Country Report published by European Commissions, tracks the current progress toward achieving the targets of the Digital Decade for each Member State.

04

Capitalize on investors' interest for the manufacturing sector

Investor interest in Cyprus's manufacturing sector appears to be gaining momentum. This trend might be driven by EU's strategy to reduce reliance on foreign markets, such as China and US. An example is the introduction of the European Chip Act⁴⁹, which aims to strengthen EU's technological leadership in the field of microelectronics, a sector of strategic importance. This trend is also linked to the shift toward nearshoring/reshoring amid pandemic and geopolitical risks.

By leveraging its strategic position and past success stories, Cyprus could attract part of the nearshoring/reshoring momentum. Examples of the latter include the recent investments of a Lebanese bottling company in Cyprus as well as past transactions in the pharma sector by large foreign investors. In order to encourage and further facilitate similar investments though there is a need for a revised strategic plan that will help identify new opportunities in the manufacturing

sector, areas to focus on and supportive measures needed.

As part of its industrial strategy and "Vision 2035", Cyprus has further outlined the sector's priorities, such as the promotion of light manufacturing and innovation, and the sustainability and upskilling of the manufacturing workforce. Although the above are aligned with the findings and recommendations of the investor community based on our survey, more needs to be done.

The environment is changing rapidly, and new opportunities and threats are emerging. In this context the government needs to introduce new incentives for capital expenditure in fixed assets and industrial equipment, simplify procedures, and extend state support for innovative and value creating manufacturing projects. The national strategy should also consider the relevant European industrial strategies and identify best practises and opportunities arising out of those.

There is also a need for continuous investment in further expanding and modernising critical for manufacturing infrastructure. The expansion and modernisation of the island's sea and air⁵⁰ transportation infrastructure (ports, etc.) is a key part of this effort.

Despite the different efforts to make the sector more resilient and appealing, investors appear to face additional challenges. Issues that

relate to high energy cost, port fees, restrictive immigration laws which affect workers, as well as the high cost of housing for the blue-collar workers. All of the above remain persistent concerns.

Cyprus currently has one of the highest electricity costs of industrial purposes, as a result of its energy isolation and use of conventional fuel such as HFO⁵¹ for the production of electricity. The electricity isolation is expected to end with the construction of the Great Sea interconnector⁵². Further diversification of energy sources is expected to be achieved with the completion and deployment of the island's Liquefied Natural Gas floating storage and regasification unit, which is expected to be completed in the following years at Vasiliko.

The Electricity Authority of Cyprus has also received the green light to proceed with a reinforcement of electricity networks and build new infrastructure to support and connect more RES projects to the grid. These solutions at current appear to be medium to long term, and the implementation of all of them is currently facing significant delays.

As an interim solution to the high energy cost, the government might thus need to consider introducing additional stimulus packages for the manufacturing sector.

MARIOS TSIAKKIS

Secretary General,
Cyprus Chamber of Commerce
and Industry



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The Cypriot industrial sector faces significant challenges that mirror the broader economic landscape. Key priorities for industries include the effective management of energy costs, the implementation of energy-saving measures, and the adoption of renewable energy sources.

The European Union is committed to enhancing the global competitiveness of its industrial sector while strengthening its autonomy and resilience. This strategic focus recognizes the sector's indirect but substantial contribution to numerous interconnected industries and the broader economy. Cyprus is aligning with this vision, as its industrial sector has consistently demonstrated the capacity to endure challenges originating from both internal issues and external disruptions, showcasing its resilience and adaptability in the face of crises.

The Cypriot industrial sector faces significant challenges that mirror the broader economic landscape. Key priorities for industries include the effective management of energy costs, the implementation of energy-saving measures, and the adoption of renewable energy sources. These efforts are essential to facilitate the transition toward a green and sustainable development model. Additionally, challenges such as the scarcity of skilled labor, access to finance and concerns over securing critical raw materials remain pressing.

To strengthen their export capacity, Cypriot industries must prioritize investments in productivity enhancement, product quality improvement, research and innovation, and digital transformation. They must also adopt agile decision-making processes to integrate new trends and address evolving consumer behaviors effectively. Moreover, achieving economies of scale in the export sector is crucial. This can be accomplished through the establishment of collective networks (clustering), enabling smaller enterprises to access international markets.

The government can effectively support the scaling-up of manufacturing companies by facilitating access to funding and tax incentives, particularly for investment in innovation, capacity expansion, and advanced technologies. Additionally, subsidies for digitalization and the adoption of cutting-edge manufacturing processes can further stimulate growth. To enhance market access, the government should prioritize export promotion through trade missions and international exhibitions, enabling businesses to expand their reach into new global markets. Strategic investments in industrial infrastructure will streamline production and distribution processes. Moreover, simplifying bureaucratic procedures and regulatory frameworks will reduce administrative obstacles, fostering an environment helpful to growth. Finally, providing R&D support and innovation grants will incentivize continuous technological advancements and product development, reinforcing the competitiveness of the manufacturing sector.

⁴⁹ The European Chips Act was introduced in February 2022 as part of European Commission's broader set of initiatives to strengthen Europe's digital sovereignty and build up its capabilities in the semiconductor sector. It aims at reducing EU's dependency on non-EU countries for critical components such as semiconductors and reflects EU's ambition to be more self-sufficient and competitive in key digital technologies.

⁵⁰ The two corridors are a) the new Western Balkans - Eastern Mediterranean (WBEM) Corridor links central European Member States with the ports of the Adriatic and East Mediterranean Seas via the Western Balkans. b) The newly created Baltic Sea - Black Sea - Aegean Sea (BBA) European Transport Corridor (ETC) links European Member States from the far north to the far south of Europe with the maritime interfaces of the Baltic Sea, Black Sea and Aegean Sea part of the Mediterranean Seas, through the countries of Ukraine and Moldova.

⁵¹ Heavy Fuel Oil.

⁵² The Great Sea Interconnector is a planned HVDC interconnector between the Greek, Cypriot, and Israeli power grids via the world's longest submarine power cable, from Israel to Cyprus and from Cyprus to Greece.

05



Invest further in talent reform and the educational system to meet current market demand and boost workforce productivity

As per the survey findings, both in Cyprus and across the EU, the availability of a highly skilled and qualified workforce is a major factor determining where businesses choose to invest in.

Based on CyStat data, employment in Cyprus has expanded significantly over recent years, with the number of employed persons increasing by more than 27% within the last 7 years alone. Despite this, and the high level of population with tertiary education, investors are still concerned about the availability and skill levels of the local workforce. The lack of basic and digital skills emerged through the survey as one of the prominent developments points for Cyprus, impacting our overall competitiveness compared to our EU counterparts. Participation in adult education and training in Cyprus remains close to par with the EU average, and still well below a number of European counterparts (Switzerland, Netherlands, Sweden, Norway, Hungary, etc.).⁵³

In order to address the above, the government can introduce different schemes to encourage/reward lifelong learning and investment in reskilling, targeting the development of digital and other skills that are high on demand. Examples of such schemes, include the funding and facilitation of participation in adult education programs.

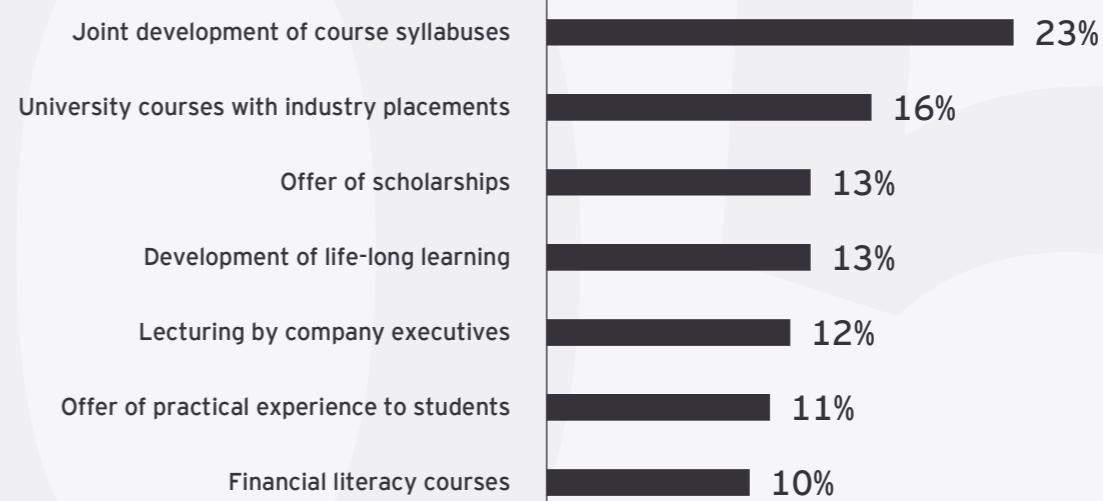
Based on a study by the OECD⁵⁴, around one in three adults who wanted to participate in further education and training across the EU reported cost as one of the key obstacles that prevented them from doing so. The government of Cyprus could invest in subsidising adult education programs. As additional support, the government can introduce universal measures that make it easier for employees to take time off work in order to participate in such education and training.

Moreover, closer cooperation between the business community (companies, associations, etc.) and academia can further help to address and bridge the skills mismatch. Such cooperation could entail the joint development of education curriculum and courses addressed to specific gaps in the local labor market, as well as the launch of university and education courses with industry placements. In fact, only 12% of the survey participants believe that education offerings in Cyprus are highly aligned with the actual needs and skills required in the labor market.

Learning and education institutions can further develop and launch distance learning programs focused on adult education, which can also be linked to obtaining relevant qualifications (in order to encourage and increase participation).

Taking into account the above, we have asked our survey participants to suggest themselves actions for closer collaboration between the business and academia communities. The results are presented below:

What areas should Cyprus prioritise in order to improve cooperations between business and academic institutions?



Source: EY Attractiveness Survey for Cyprus, 2024.

⁵³ Source: Eurostat.

⁵⁴ Organisation for Economic Co-operation and Development.

05 CONTINUED

The educational system can also introduce reforms aimed at younger ages, targeting digitally transforming schools and enhancing Digital and Science, Technology, Engineering and Mathematics (STEM) skills. Reforms can also cover relevant training of teachers and transforming curricula accordingly.

Finally, with regards to boosting workforce productivity, the balance

between professional and personal life, good working conditions, and employee wellbeing have become key concerns for businesses worldwide. Flexible working arrangements appear to be here to stay, with employees considering flexibility in the place and time of work as significant. In EY [2023 Work Reimagined Survey](#), more than 70% of employees reported that having flexibility in terms of where and when they work is crucial for them.

Consequently, the government should take more measures to promote and regulate flexible working arrangements.

The initial regulation introduced in 2023 needs to be reviewed and further updated to reflect the changing market trends and developments.

YIANNIS PANAGIOTOU

Minister of Labor



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The government is fully committed to building confidence in the Cypriot economy, promoting sustainable growth, and achieving a steady reduction in public debt.

The recent upgrade of the Republic of Cyprus' credit rating reflects the country's strong fiscal performance and robust economic growth, confirming the government's responsible economic policies. These policies support the strengthening of key sectors and infrastructure, foster business growth, and enable the implementation of effective and targeted social policies.

Recognizing the importance of effective and timely business staffing, especially regarding the continuous and steady decrease of unemployment rates, and moving toward full employment, the government has introduced a series of measures to streamline and expedite the review process for third-country nationals' employment applications, with ongoing actions for further improvements including the revision of the Foreign Labor Force Employment Strategy in the upcoming months and the increase of employment opportunities for students from third-countries.

We are confident that these measures, along with the adoption of the EU Blue Card, ongoing efforts to address skills mismatch, and our commitment to creating a closer link between higher education and the labor market, will better align with the real needs of the workforce and the labor market.



06

Increase support to Small and Medium-sized Enterprises

The majority of businesses and investments in Cyprus concern SMEs. Fostering a supportive environment for these entities is of utmost importance for a sustainable economic growth. A healthy and supportive SME environment offers plethora of investment and collaboration opportunities, which can lead to greater FDI activity. The importance of SME support and the need to help them remain competitive in order to increase our FDI attractiveness is underscored in our survey results.

To effectively support SMEs, it is important to recognize the challenges they are facing. One of their main challenges is the access to finance. Besides bank financing, enterprises that seek funding in Cyprus have limited alternatives, with the local equity market experiencing minimal liquidity. At the same time, there is a very small presence of venture capital or other forms of private equity funding.

The funding landscape in Cyprus is currently undergoing a change, with new initiatives by the Government, some linked to RRF. The first one relates to the creation of a National Promotion Agency. This agency will aim to address market failures in access to capital by SMEs and at the same time promoting different Government policy objectives (such as digitalization, energy efficiency etc.). This will be achieved via the provision of tailored-made financial instruments and advisory services support. A second initiative relates to the introduction of a Cyprus Equity Fund (c.€30 million initially), which will provide both acceleration and VC funding. Both initiatives are expected to improve access to financing for SMEs, especially startups.

In addition to the above, other national and EU funding opportunities are available to Cypriot SMEs, especially in the case of innovative projects linked to digitalization and sustainability (e.g., EU's Innovation Fund). It appears however that there is currently limited awareness regarding such funding opportunities, which hinders their utilisation. Moreover, even in the case where SMEs do get knowledge of these funding opportunities, the complexity of the application process and resource dedication entailed discourage their participation.

A potential solution would be to increase promotional activities associated with these funding opportunities and at the same time streamline the application processes and provide relevant training where applicable.

To further assist local SMEs access to capital, local incubators/accelerators could expand their advisory services to help connect SMEs' projects with international investor networks (PE funds, Business angels, etc.).

Other challenges faced by SMEs (such as the bureaucratic burden, talent issues and tax incentives) are addressed as part of other recommendations in this section.

KYRIAKOS KOKKINOS

Member of the Board for European Commissioner for Innovation, Research, Culture, Education and Youth



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An important finding of the survey is that the finance and support provided to SMEs by the government needs to be further improved. The findings suggest that supporting SMEs, especially entities engaged in technology, is a top priority for preserving the FDI attractiveness of Cyprus.

Although proper leveraging of the EU Resilience and Recovery Fund (RRF) instrument is expected to partly alleviate the issue, more options can be explored as the EU has many instruments tailored for enhancing the competitiveness of SMEs. The report rightly identifies that there is a lack of awareness of the existence of such instruments, especially on innovative entrepreneurship, and how they can be leveraged. The State, Chamber of Commerce and other entrepreneurial stakeholders need to collaborate for mapping all these instruments as well as induct SMEs to the appropriate EU programs.

The level of business sophistication and management practices for most SMEs – including tech SMEs – is another area that does not benchmark favourably against the 'excellence' rating. As we enter an AI-enabled economy, SME competitiveness cannot rely on legacy and 20th century management practices and tooling. Entrepreneurial excellence can only be achieved through advanced learning programs across the board, cross-fertilisation through collaboration with SMEs beyond Cyprus and the strengthening of Corporate Governance practices and framework. The SME ecosystem is a key pillar of our economy, and its competitiveness is reliant on entrepreneurial excellence and innovation.

There is a growing optimism among the investor community in relation to FDI activity in Cyprus and we can definitely take advantage of it through a rigorous and well-crafted strategy.

07

Create a fertile environment to further encourage and enhance innovation and R&D activity

Survey participants believe that although Cyprus has been effective in attracting companies, it needs to do better in attracting innovative companies in general, and startups. In line with the previous recommendation, this type of companies require an established ecosystem to thrive.

For Cyprus to become an attractive destination for such entities, the government must intensify its efforts to address the current challenges and unlock the country's full potential. This needs to be a multifaceted and holistic approach, involving a number of different stakeholders.

As covered in earlier sections, an important area for development in the case of Cyprus is insufficient spending in R&D, both from the public and private sectors. The issue has also been acknowledged by the government in its "Vision 2035" strategy, where an ambitious target in terms of total R&D spending was set (2.5 - 3% of GDP by 2035).

To meet this target, the government will first need to commit itself more capital in the domain, as well as introduce further initiatives to encourage R&D spending by the private sector. The latter could take the form of additional tax or other incentives, which however will need to be industry specific. A tested approach, is the provision of tax credits to companies and investors investing in R&D in the form of income tax deductions. Tax credits can be further combined with the option of deferring tax payments to periods beyond the infancy stage, to help startups overcome initial cash flow considerations.

The fact that most technological startups gravitate close to established industry giants (e.g., Silicon Valley) or financial centers, attests to the fact that access to finance is a critical factor. Our participation in the single EU market, along with the credibility and stability of the Eurozone, provide a solid ground to facilitate access to finance. As previously noted, this can be achieved for example by the establishment of government-backed venture capital funds for local startups, or by facilitating partnerships between banks and startups, or by encouraging the development of angel investor networks and technology driven crowdfunding platforms.

Given the non-traditional nature of their activities, innovative enterprises also encounter problems when seeking to recruit specialised talent. Talent is again addressed as a separate recommendation, in this case however it is important to emphasize the need to intensify efforts in attracting to

Cyprus PhD graduates and promote PhD studies among the local population. The need for ecosystems embracing a more active cooperation between industry and academia also remains relevant, and even more important.

Another critical challenge faced in the R&D&I domain locally, is the commercialisation of the work carried out by innovative enterprises/startups as well as academic research. One suggestion would be the introduction of sector specific Regulatory Sandbox environments, where these enterprises can test their innovative solutions in a controlled environment, without incurring immediately all costs. The willingness of the government to act as an early adopter and lead customer for innovative products and services helps contain the risks undertaken by innovators. It is important to note that the commercialisation difficulty appears to be a wider EU issue. Despite the high quality of R&D&I in Europe, Europe has not been in a position to exploit the outcomes the way competing destinations (e.g., US and China) do.

To further support innovative enterprises, the government can also organize roadshows, expos and other promotion activities to help market their solutions abroad. These activities provide the opportunity for such enterprises to access new markets, form cooperations, and to share and receive knowledge.

Finally, intellectual property, which is the outcome of R&D, is the single most valuable asset for these organisations. The integrity and capacity of local legislation to protect IP is extremely important for entrepreneurs and investors alike. Cyprus, as part of the EU, has set in place a rigid legal framework to protect IP. More can be done to communicate this.

08

Accelerate tax reforms and build investor trust through a modern, flexible and transparent tax system

Survey results confirm that low corporation tax rates are no longer a key determinant when it comes to FDI decisions, especially given the harmonisation for large entities at European level at 15%. Additional parameters relating to tax systems are gaining importance, affecting investment decisions.

Investors today are looking for transparent, simple and stable tax systems, with low uncertainty. These systems also need to be flexible and in a position to adapt to changing market conditions and developments (e.g., keeping up with developments in technology/sustainability, etc.).

Cyprus should work toward creating a flexible and transparent tax system that can adapt to the different market developments. Such a system should also include integrating digital tools for tax administration and ensuring that tax policies are aligned with sustainable economic practices.

Tax administration should be geared toward a more business friendly practice, whereby taxpayers will be dealt with in a direct and transparent manner, reducing bureaucracy and controversy.

Another challenge for the authorities is the need to balance tax competitiveness and revenue growth. Governments face a challenging balancing act, as they attempt to raise public revenues for increased expenditure and to retain a positive public budget, while maintaining competitive tax systems and rates. Authorities need to avoid harsh measures that could harm FDI attractiveness.

Europe's introduction of the 15% global minimum tax on companies with more than €750 million in revenue could for example lead to jurisdictions differentiating themselves through new ways of offering tax breaks to attract companies.

CHRISTIANA EROTOKRITOU

Member of the House of Representatives of Cyprus



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Cyprus already has a reputable and credible tax system. The reforms in the pipeline have the potential to establish the system even more attractive. The improvement of administrative procedures and legislative simplification are anticipated to strengthen the robustness and agility of our system for the benefit of all taxpayers including individuals and businesses.



09

Accelerate green transition to remain competitive

Recent literature suggests that sustainable development and renewable energy are key factors in attracting FDI to a specific country⁵⁵. Sustainability gains even more traction today, with companies encouraged to invest into locations that support their decarbonisation journey and help achieve their ESG targets. Developments in the regulatory landscape, such as the Corporate Sustainability Reporting Directive, to continue pushing further toward this direction. Our survey has identified two aspects of sustainability which are considered by investors as vital: promoting environmental behaviour and promptly adopting ESG policies. Given the rising significance of sustainability however, even more needs to be done to gain a competitive edge and remain attractive for foreign investors.

Cyprus has an untapped potential in Renewable Energy Sources (RES), which is one of the areas in which it can capitalize further. To achieve this, a significant investment is needed by the government to modernize the distribution networks as well as strengthen the grid to be able to integrate RES into electricity generation. Investment in energy storage is another essential step to support higher RES penetration.

An additional enabler would be to increase funding opportunities for this type of projects. It appears that there is an untapped potential for leveraging EU funding in this area, like for example the Innovation Fund⁵⁶.

Since the inception of the Fund, Cyprus has secured funding for only one project, with a value of €4.5 million. For comparison, Croatia (a potentially comparable country based on size) has successfully secured on average €32.6 million for 4 projects.

To fully capitalize on this type of funding opportunities, there is a need to identify the factors that have contributed to this the low participation and low success rate. Following this, a set of targeted initiatives would need to be formulated to address the issues identified.

Another key consideration is the strive for balancing environmental regulation and ease of doing business, as overregulation often results in discouragement of investments. The government needs to consider the adoption of essential environmental regulation in a streamlined manner, so as to remain competitive while at the same time complying with EU regulations.

Finally, to remain competitive, Cyprus must enhance its environmental taxes framework and offer tax incentives that encourage sustainable practices among businesses. Investors are increasingly considering environmental factors in their decision-making, and Cyprus's tax policies should reflect this shift.

By accelerating green tax reforms, Cyprus can position itself as a leader in sustainable development, attracting environmentally conscious investors and contributing to global efforts to combat climate change.



⁵⁵ Source: Journal of the Knowledge Economy.

⁵⁶ Innovation Fund supports commercialisation of innovative low carbon technologies, aiming to decarbonise Europe and support its transition to climate neutrality through the provision of grants. The program has a budget of c.€38 billions for the period 2020 - 2030, depending on the carbon price.

Methodology

About the European Investment Monitor

The evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), an EY proprietary database.

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. Data on FDI is widely available.

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 loans.

To confirm the accuracy of the data collected, the research teams aim 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).

Our figures also include investments in physical assets, such as plant and equipment. This data provides valuable insights into:

- How FDI projects are undertaken.
- What activities are invested in.
- Where projects are located.
- Who is carrying out these projects.

The EY EIM is a leading online information provider that tracks inward investment across Europe. This flagship business information tool is the most detailed source of data on cross-border investment projects and trends throughout Europe. The EY EIM is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business and investment.

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.

* Investment projects by companies in these categories are included in certain instances. For example, 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 center, this project would qualify for inclusion in the database.



EY perception surveys

We explore the perceived attractiveness of a region or country via an online survey of international decision-makers. Respondents are determined on the most recently available FDI data (2022).

The survey aims to get a representative sample of investors, by geography, industry grouping and size of company. We define the attractiveness of a location as a combination of image, investor confidence, and the perception of a country's or area's ability to provide the most competitive benefits for FDI.

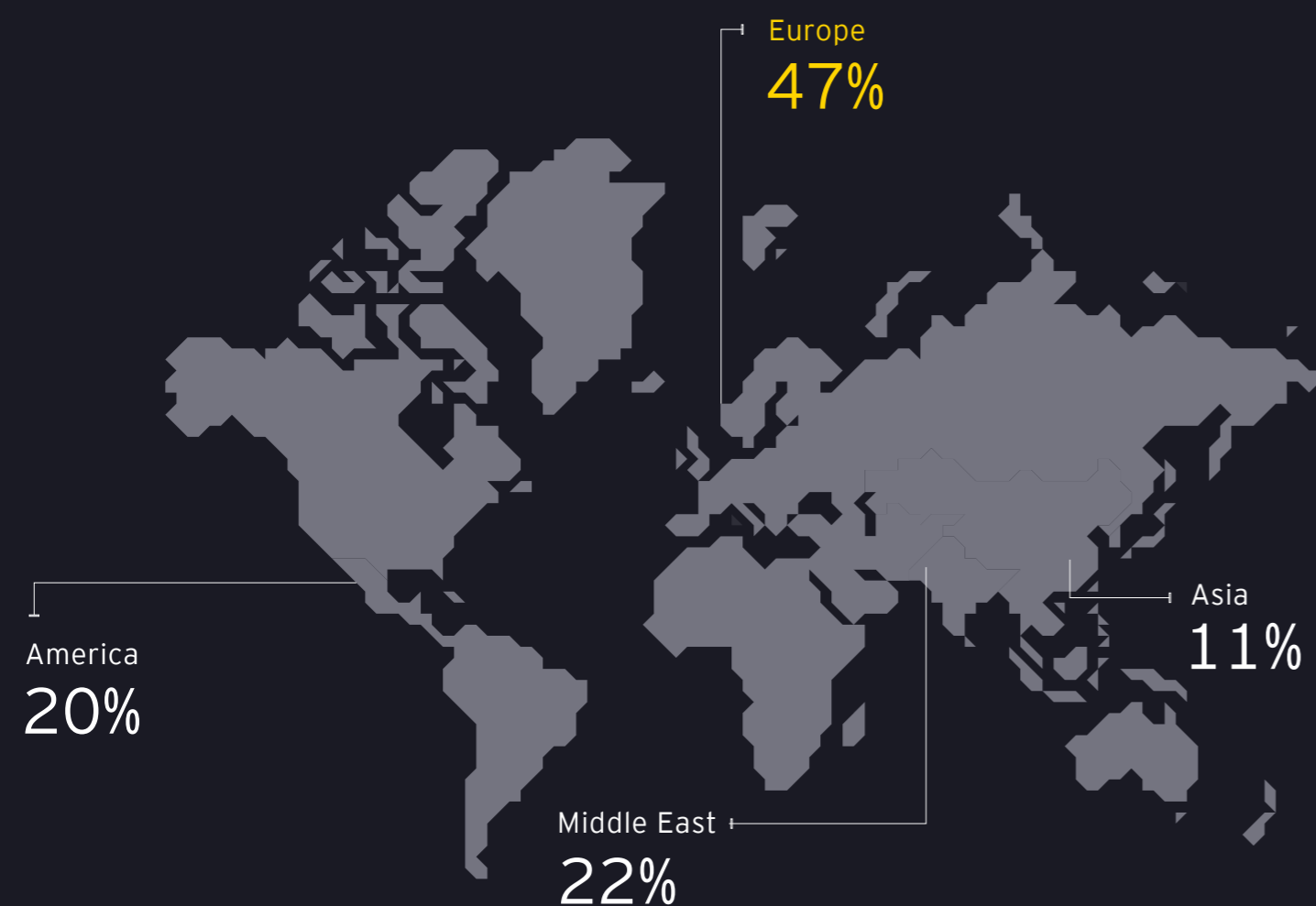
Europe

For the European Attractiveness Survey, the field research was conducted by FT Longitude in February and March 2024 via online surveys, based on a representative panel of 500 international decision-makers.

Cyprus

The fieldwork for EY Cyprus Attractiveness Survey was conducted by FT Longitude in March and April 2024 by means of online surveys, based on a representative panel of 100 executives from foreign companies being located for work in 13 countries. About 64% of the investors surveyed have operations in Cyprus.

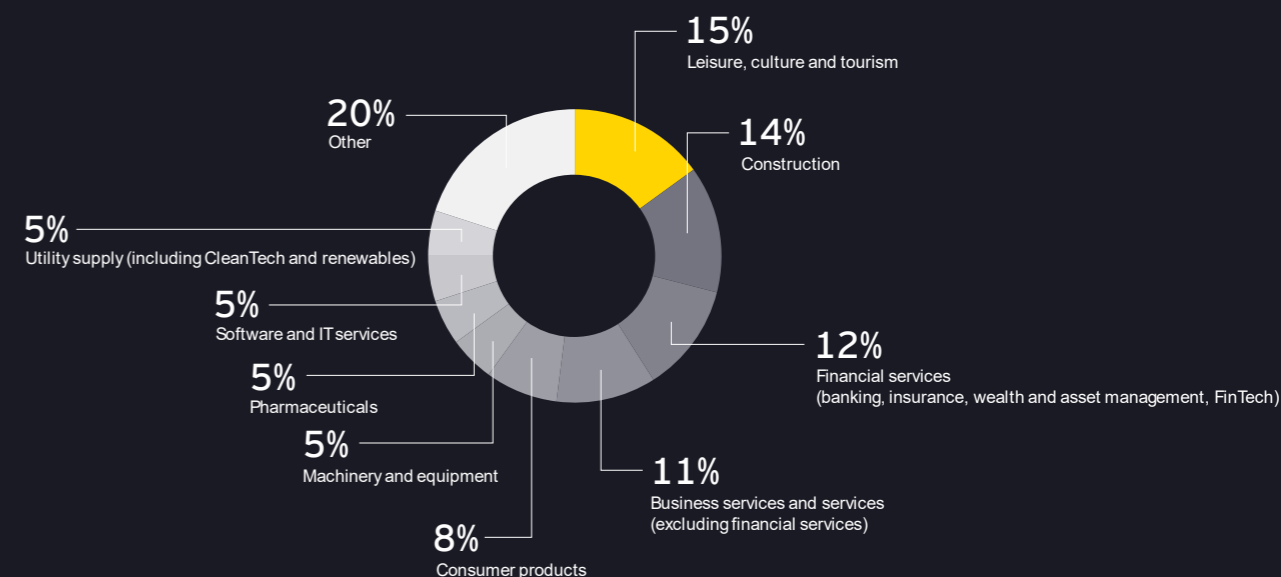
Location of companies' headquarters



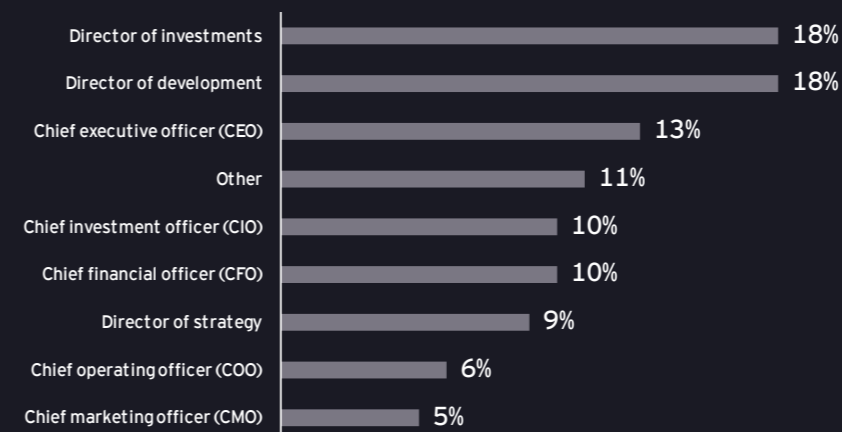
Sales turnover



Primary sector of activity



Job title



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[ey.com/cy](#)

EY contacts

RONALD ATTARD

Country Managing Partner, EY Cyprus Advisory Services Limited
Strategy and Transactions Leader for EY CESA Region
ronald.attard@mt.ey.com

STELIOS DEMETRIOU

Head of Strategy and Transactions Services, EY Cyprus
Advisory Services Limited
CESA M&A Leader
stelios.demetriou@cy.ey.com

GEORGHIOS TZIORTZIS

Consulting Services Leader, EY Cyprus
Advisory Services Limited
georghios.tziortzis@cy.ey.com

PHILIPPOS RAPTOPOULOS

Tax and Legal Services Leader, EY Cyprus Advisory Services Limited
philippos.raptopoulos@cy.ey.com

ANDREAS AVRAAMIDES

Assurance Services Leader, Ernst & Young Cyprus Limited
andreas.avraamides@cy.ey.com

For more information about the EY Cyprus Attractiveness Report 2024, please contact:

ANDREAS ANASTASIOU

Partner, Strategy and Transactions Services, EY Cyprus
Advisory Services Limited
andreas.anastasiou@cy.ey.com

ELENI DAMIANOU

Chief Operations Officer, Ernst & Young Cyprus Limited
eleni.damianou@cy.ey.com

STELIOS ALETRARIS

Manager, Strategy and Transactions Services, EY Cyprus
Advisory Services Limited
stelios.aletraris@cy.ey.com