How will Cyprus compete for investment in a disrupted world?

EY Cyprus Attractiveness Survey 2022

The better the question. The better the answer.
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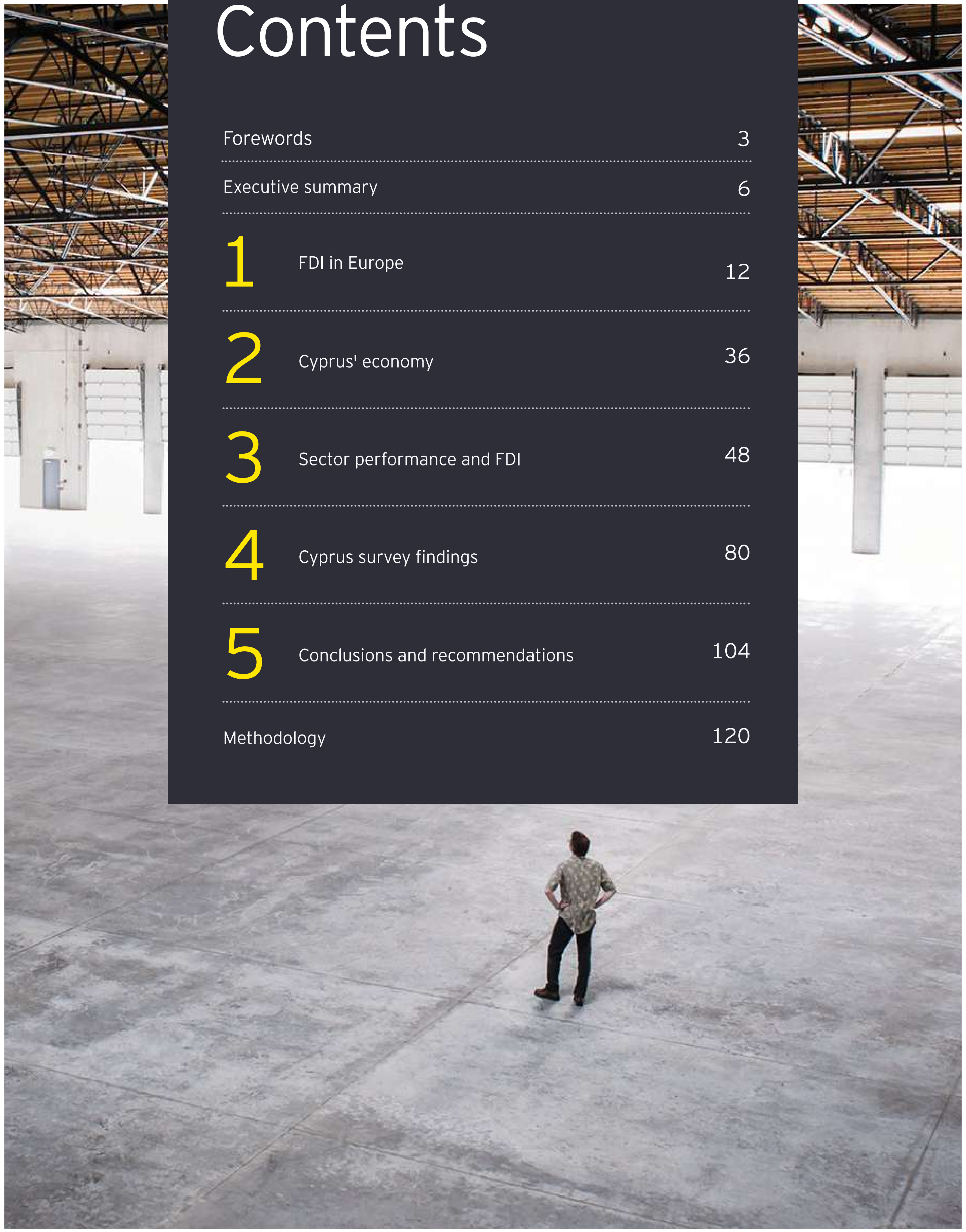

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Foreword

Ronald Attard
EY Cyprus Country Managing Partner, Strategy and Transactions Leader for CESA Region

The second edition of the EY Cyprus Attractiveness Survey 2022 was conducted against a background of rising geopolitical tensions and economic uncertainty. While addressing the immediate challenges posed by these developments, we need to remain focused on the far-reaching, long-term changes that are sweeping our world and, increasingly, influencing investment decisions.

The days where the investment destination was determined solely by taxation levels and labor costs are gone. Today, investors' FDI decisions are mainly driven by three factors: digitalization, sustainability and talent. Digitalization is rapidly becoming the key competitive differentiator for businesses and national economies. As society's and stakeholders' concerns about climate change mount, putting increasing pressure on companies to address these issues, companies opt to relocate their activities to jurisdictions, where environmental awareness and legislation support sustainability practices. Finally, at a time of acute labor shortages, skill level of the local labor force is becoming critically important, especially with regard to green and digital transition.

One of the most encouraging findings of our survey is that a significant percentage of investors believe that Cyprus is performing better than the European average in all three of these fields. Moreover, Cyprus' telecommunication and digital infrastructure tops the list among the country's attractive features. However, companies still perceive Cyprus' investment in digital skills and digital culture as lacking.

It is no coincidence that the two top priorities, to improve our competitive position, according to our survey, are allowing regulation to keep pace with technological and other disruptions, and supporting high-technology industries and innovation, including CleanTech. Developing education and skills and supporting sustainable business practices are also perceived as key priorities.

If we are to keep up with our European and global competitors, we need to focus more intensively on these areas. The national Recovery and Resilience Plan (RRP), with its emphasis on digital and green transition, provides us with a unique opportunity to meet these challenges head on, transform and diversify our economy, and create a favorable environment for technology investments across multiple sectors.

This will require us to continue on the path of bold reforms in all major sectors of our economy. We need to think out of the box to design a forward-looking strategy and implement it with determination.

This report, along with a plethora of thought-provoking findings, includes a wide range of proposals and recommendations which, we hope, will spark a meaningful debate. Meanwhile, EY Cyprus will repeat this survey at regular intervals in the future, to monitor progress, changes in perceptions and new trends, and identify areas of improvement.

Foreword

When we first launched the EY Cyprus Attractiveness Survey, two years ago, our objective was to understand the international investment community's perception of Cyprus' attractiveness as an investment destination, identify the country's comparative advantages and areas to focus on, and to present recommendations for improving our competitive position. We also intended to establish this survey and the accompanying forum as a benchmark which will measure progress in the years to come.

The second edition of our survey clearly shows that Cyprus is on the right course to strengthening its competitive position. Against a background of global uncertainty and turmoil, participants' responses show a marked improvement over 2020 and a marked optimism about the future. Almost one in three respondents report that their company plans to establish or expand operations in Cyprus during the next year, while 53% expect the country's attractiveness to improve over the next three years.

Our survey also identifies significant new trends, developments and opportunities for Cyprus. Along with the all-important role of technology, sustainability and talent, the disruptions in global supply chains are leading companies to relocate their operations closer to Europe. Significantly, 65% of respondents believe that Cyprus presents an opportunity today for increasing their manufacturing presence in Europe, while one in three among those planning to invest in Cyprus say this will be in the supply chain and logistics sector.

Headquartering is also a field with great potential given the country's strategic position at the crossroads of three continents, allowing companies to serve a dynamic region from a safe and stable business environment. At the same time, two-thirds of respondents note that Cyprus' geopolitical situation is an important factor for FDI decisions, as the country's problem continues to cast its shadow over companies' decisions to invest in Cyprus.

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

Although improvement over our 2020 findings is a welcome development, we need to remember that, in today's intensely competitive environment, our European partners are all striving to attract investment and are also making significant progress. We should, therefore, focus more on comparing our achievements with our competitors and less with our own past performance. Above all, we need to delve into the survey's findings and identify the areas requiring improvement. Our conclusions and recommendations, found at the end of this report, are drawn from the findings of the survey and our day-to-day work with foreign investors, which precisely serve this purpose.

Foreword

Cyprus is a developing hub for foreign direct investment (FDI), and its potential keeps growing. A Member State of the EU, with a highly skilled workforce and a legislative framework favorable to business initiatives, Cyprus offers substantial opportunities for investment.

The services sector in Cyprus is constantly expanding. While tourism is a cornerstone of our economy for decades, we have also recently seen the sectors of shipping, innovation, education and technology coming dynamically to the forefront. The long-term national strategy for shipping also aims to make Cyprus a key player in the shaping of international shipping policy, having sustainability as a compass. The further development of the tertiary education sector, with high-caliber training and innovation projects, also creates fruitful ground for investment.

Recent international developments, including the energy-related challenges brought about by the ongoing war in Ukraine, have demonstrated the need for energy autonomy and the significance of investment in alternative energy sources, while revealing the important role that Cyprus may play in this field.

The potential of Cyprus and the Eastern Mediterranean as energy providers for the EU is significant. The region's energy resources, including renewable energy sources (RES), can substantially contribute, both to enhance Europe's energy security, and to promote peace and stability in the region. Projects include the Euro-Asia Interconnector, an "electricity highway" connecting Israel, Cyprus and Greece, which is a project of common interest, already funded by the EU.

H.E. Ms. Annita Demetriou
President of the House of Representatives of the Republic of Cyprus

The Cyprus House of Representatives remains committed to enhance the Cypriot economy and facilitate investments through its legislative work. Legislation on RES and the promotion of strategic investments are currently being examined by the House.

Finally, I must stress that a just and viable settlement of the Cyprus problem, in accordance with international law and pertinent UN Security Council Resolutions, that will ensure the respect of human rights and fundamental freedom for all Cypriots, will further enhance the business environment in Cyprus, for the benefit of our country, as well as for Europe and the economy of the wider region.

Executive summary

Each year, the EY organization carries out a survey among global investors to assess Europe's attractiveness as an investment destination. This year, EY Cyprus augmented that research with a survey to assess Cyprus' position in relation to our European neighbors, and to establish where the key strengths, opportunities and potential exposures lie. Additionally, a select number of interviews were held with established investors to obtain their viewpoints.

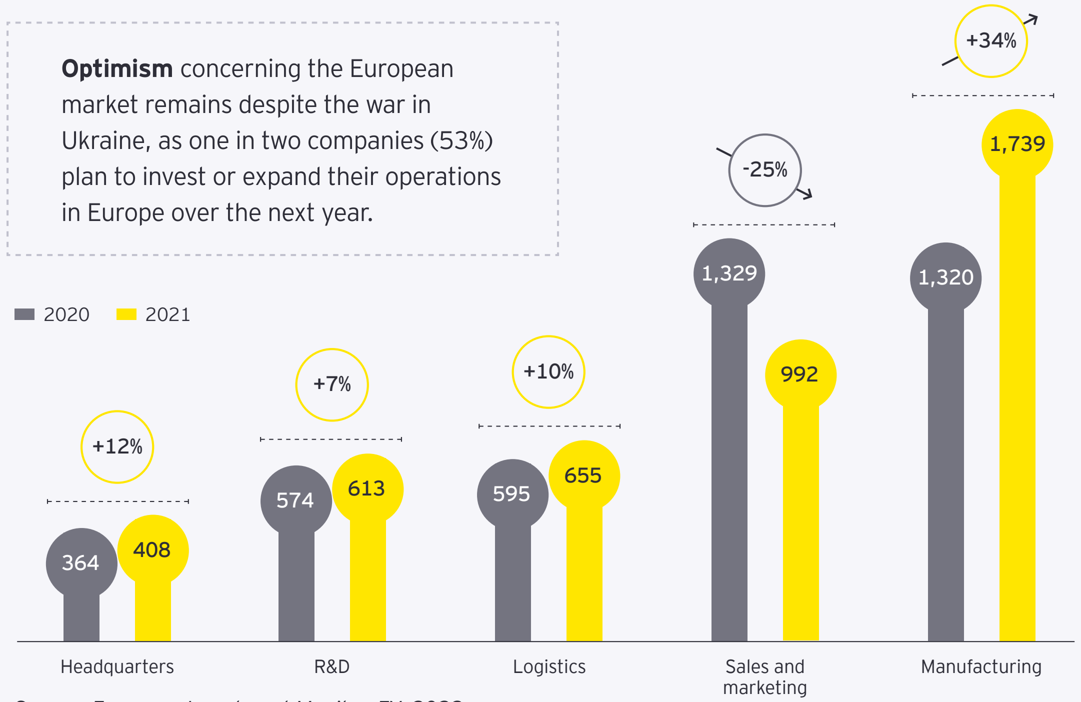
1 EY EU Attractiveness Survey 2022

Slow recovery of FDIs in 2021, led by manufacturing, logistics and R&D; optimism remains despite the war; technology, sustainability and human capital expected to determine future FDI decisions.

Slow recovery of 5% in FDI activity in Europe was observed in 2021, partly offsetting the 13% decrease in 2020. Recovery was led by **manufacturing** and **logistics**, reflecting company efforts to move production base closer to the European market in view of the widespread disruption in supply chains caused by the pandemic. Going forward, further **reshoring** and **nearshoring** FDI activities are expected (53%), compelled by the war in Ukraine.

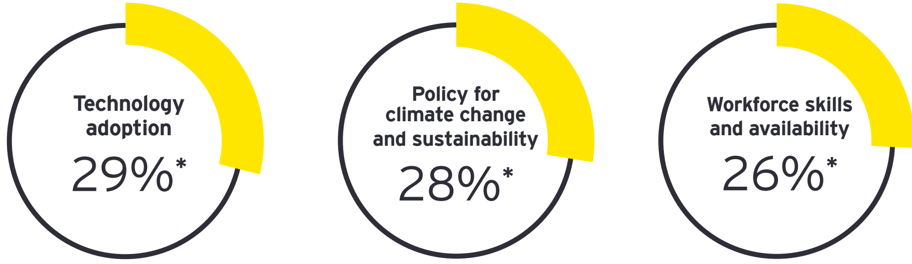
Major FDI categories in Europe for 2020 and 2021

Optimism concerning the European market remains despite the war in Ukraine, as one in two companies (53%) plan to invest or expand their operations in Europe over the next year.



Source: *European Investment Monitor, EY*, 2022.

Investors identify the following three as the most important pillars for future FDI decisions:



Most important **technology-related factors**

- Workforce with technological skills (44%)
- Intellectual property (IP) protection (43%)
- Rate of innovation and digital adoption (36%)

Most important **sustainability-related factors:**

- Regulatory framework for sustainable business practices (48%)
- Workforce with sustainability skills (48%)
- Consumer awareness of sustainability and climate change (40%)

Most important **talent-related factors**

- Management and leadership skills (48%)
- Innovation and technology skills (39%)
- Ability to be trained or retrained (38%)

It is important to note that following the pandemic disruptions and the war, going forward, investors identify the **rise in populist and protectionist feelings**, the evolution of the **European legislative framework on digital and environmental** services to cope with rapidly changing developments, and the **high volatility** facing the markets, as major challenges.

* Represents the amount of investors who participated in the EY EU Attractiveness Survey 2022 that considered these factors to be among the top three for choosing to invest in a country

2 EY Cyprus Attractiveness Survey 2022

Cause of optimism despite the challenges, as investors project positively the country's attractiveness and acknowledge support measures introduced so far; yet planned FDI activity remains low compared with the rest of Europe. More needs to be done in areas such as bureaucracy, less administrative culture, more investment in infrastructural projects, skilling and re-skilling of the local workforce and introducing new regulations to keep pace of developments. Technology, sustainability and talent remain high on the investors' agenda.

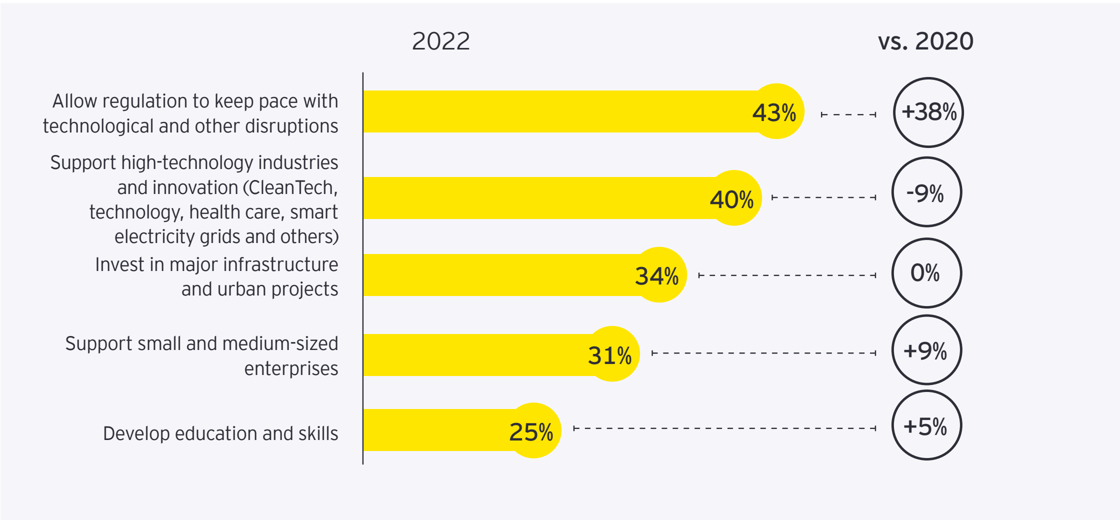
Planned investments in Cyprus (29%) for the next year, although higher than in our previous survey of 2020, still remain **well below the European** average (53%). In contrast, attractiveness projections for the next three years remain **optimistic** and closer to the European average. Cyprus has taken significant steps toward improving its position as an attractive FDI destination, but certain areas need to be further addressed.

Cyprus would primarily be considered by investors for **supply chain and logistics** operations (35%), followed by sales and marketing offices and activities (24%), and headquartering (14%). It is also the first time the FDI intent includes **manufacturing** activity (7%), possibly linked to nearshoring.

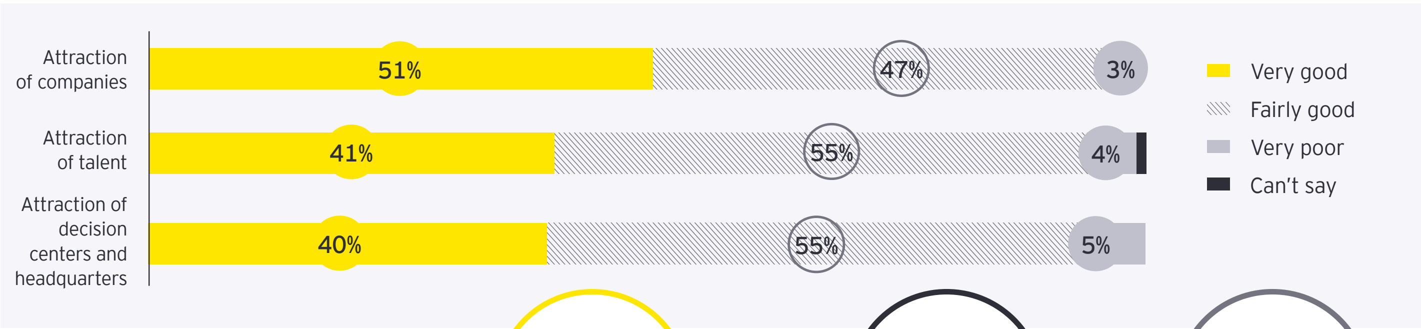
Investors consider **telecommunication and digital infrastructure**, offering a good **quality of life**, and favorable **corporate taxation** as the most attractive criteria to invest in Cyprus. Investor responses reflect that Cyprus could do better in creating a **more entrepreneurial, less bureaucratic and less administrative culture**, and be **more supportive of startups**, the **high-technology industry** and w **(SMEs)**. Investors' perception is that Cyprus should concentrate its efforts on providing the means for **regulation to keep pace** with technological and other developments, to continue **investing in major infrastructural** projects, and that Cyprus needs to do more to **advance education, skilling and re-skilling**, and **facilitate access to talent**.

Executive summary

In your view, where should Cyprus concentrate its efforts in order to maintain/improve its competitive position in the global economy?



Investors acknowledge that steps taken by the government to enhance Cyprus' attractiveness are in the right direction, especially the measures introduced to simplify procedures to attract new companies, talent and decision centers/headquarters.



The survey participants evaluated Cyprus based on the three key pillars identified by the EY EU Attractiveness Survey 2022 as key for FDI decisions going forward (i.e., technology, sustainability and local talent).

The areas identified for improvement under each pillar are as follows:

Technology

- Regulation to keep pace with technological disruptions
- Disruptions and further support for high-technology industries and innovation
- Availability of workforce with technology skills
- Availability of venture capital and other forms of financing
- Protection of national security interests related to new technologies
- IP protection

Sustainability

- Potential to decarbonize supply chains
- Percentage of renewables in the electricity supply
- Local workforce's sustainability-related skills
- Regulation to support sustainable business practices
- Presence of banks and investors that finance sustainability projects

Local talent

- Further investment in digital skills and a digital culture
- Enhancement of links and collaborations between business and academia
- Re-skilling and training toward new skills
- Diversity in hiring and HR policies

3 Recommendations for driving attractiveness

Based on the findings of the survey, presented below are key areas that can be targeted to strengthen our FDI attractiveness. Our main conclusion is that even though the latest geopolitical developments increase uncertainty globally and promote protectionism, they also give rise to a number of opportunities. Cyprus can leverage its strategic location, EU membership and other advantages, to enhance its competitive position and attract FDI. These FDI funds and expertise will be essential to support the local economy navigate through the global economic challenges that lie ahead. In order to achieve this, there is a need to adopt a sustainable long-term economic strategy, founded on a wider consensus and true cooperation between different stakeholders, such as the authorities, the business world and the academic community.

01 Retaining focus on **digital economy** through, among other things, further investment in digital infrastructure, supporting digital skilling and re-skilling of local workforce, further digitalization of government services and actively promoting digital culture and the uptake by the general population, and encouraging public-private sector cooperation. The significant funds allocated to digital transformation through our national RRP will be key in this respect.

02 Overcoming **workforce challenges** by helping to match skills to current and future employment needs. The development of new, and where appropriate, specialized higher-education institutions should be encouraged, and the active cooperation between the industry and academia should be promoted at all levels.

03 Establishing a flourishing **entrepreneurial ecosystem** where startups and SMEs can flourish and grow sustainably. Simplifying processes, improving transparency and facilitating the sharing of information, transiting fully to e-government, encouraging alternative funding, and providing incentives for R&D and innovation are only some of the ways to achieve this.

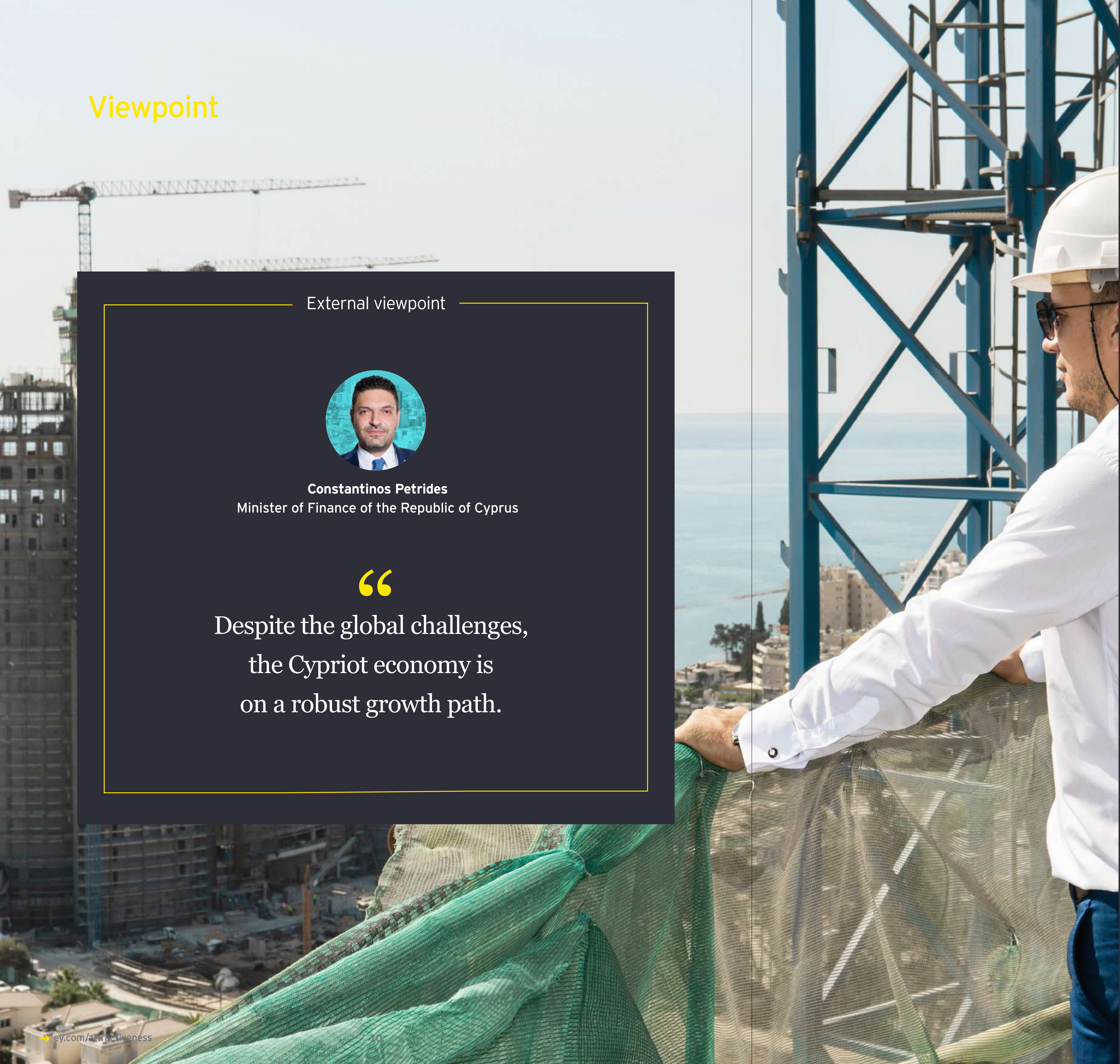
04 Accelerating the efforts to establish Cyprus as a **regional technology and innovation hub**, by joining forces with relevant stakeholders to improve incentives and build a comprehensive ecosystem to support the information and communications technology (ICT) sector and its growth. Encouraging collaboration between the public and private sector to ensure effective access to the global tech community and effective communication of Cyprus' competitive advantages.

05 Intensifying **diversification** efforts into developing sectors and new areas, such as supply chain and logistics, energy, education, and medical. Also, it is recommended to support traditional sectors (such as tourism, professional services and shipping) to focus and transform to remain competitive in today's dynamic and technology-driven environment.

06 Supportingthe efforts of the **financial services** sector to regain its health, transform, achieve efficiencies, and concentrate on the funding of innovative and sustainable projects.

07 Embracing **sustainability** ahead of our European counterparts, by creating the culture, developing the necessary skills and competencies, establishing the regulatory framework, and facilitating the education of local population and the sharing of information.

08 Capitalizing on recent **geopolitical developments** by exploiting our EU membership, strategic location and other competitive advantages in the region, in order to gain a key regional role in fields like energy and supply chain.



Viewpoint

External viewpoint

Constantinos Petrides
Minister of Finance of the Republic of Cyprus

> "Despite the global challenges, the Cypriot economy is on a robust growth path.

The European Commission recently revised its 2022 GDP growth forecast for Cyprus raising it by 0.9% from 2.3% to 3.2%, mentioning that that "the Cypriot economy surprised on the upside."

What has come as a surprise to the European Commission, is the result of our coordinated efforts attributed to the diversification of the Cyprus' economy in recent years; a diversification that spans into most key sectors of the economy. The rapid adaptation of its business services sector; the expansion of its education, health and pharmaceutical sectors; and the rapid expansion of its technology sector led to a continuing growth of confidence by investors, and a robust improvement in public finances and other key macroeconomic indicators.

Going forward, we are confident that the new growth model, which we have designed and started implementing, will be a driver for relatively strong and sustainable growth in the medium to long term, and for keeping unemployment at bay. In fact, one of the problems that the economy faces is not high unemployment but the lack of skilled labor in certain important sectors of the economy, such as tourism.

The downside risks of the economy are twofold. Firstly, the risk of a period of prolonged and high inflation, combined with increasing interest rates that will adversely affect consumption and investment, and subsequently growth and employment prospects. This exogenous risk is mainly the result of the war in Ukraine and the forthcoming EU policies in regard to green transition for which, I have my reservations. Secondly, the political risk associated with a change in government policies of the recent years regarding the consolidation of public finances and the reduction of nonperforming loans."

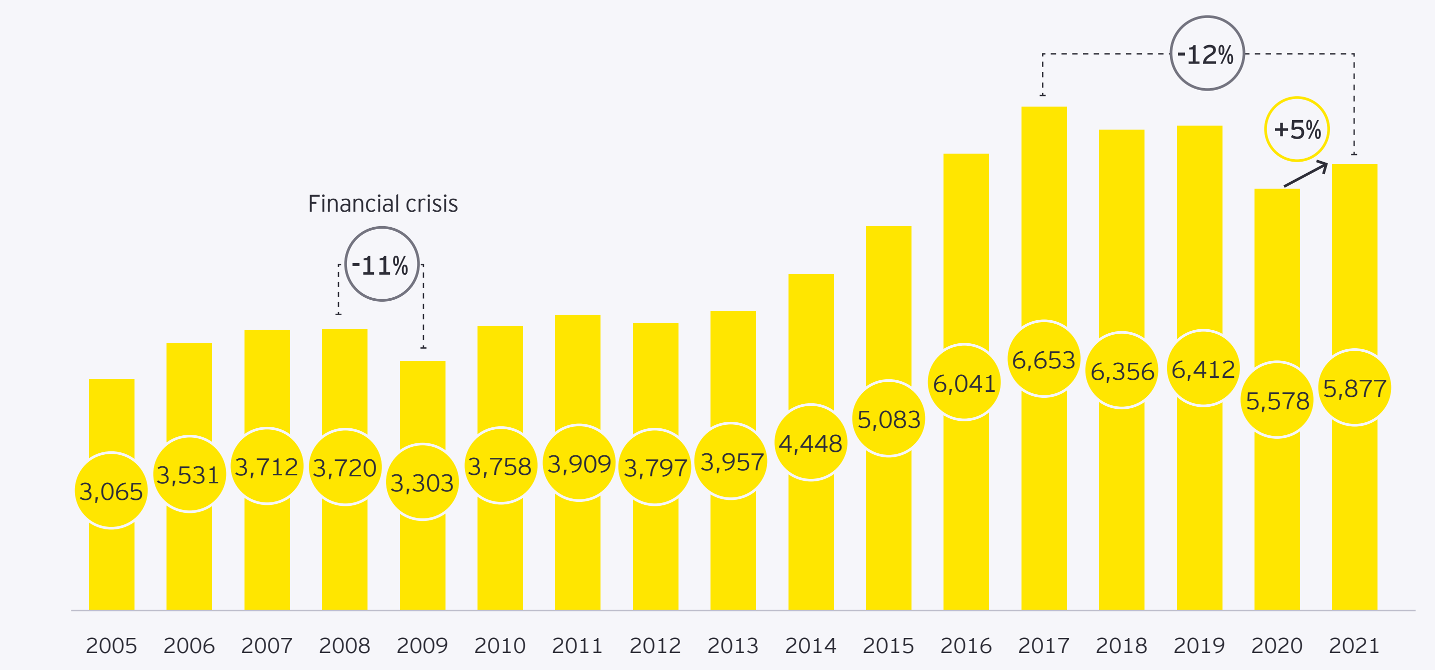
1 FDI in EUROPE

FDI in Europe: a slow recovery with notable differentiations among countries and sectors

In 2021, 5,877 FDI-related projects were announced in Europe, marking a 5% annual increase from 2020 when the number of projects dropped by 13% in the wake of the COVID-19 pandemic. In comparison with the pre-pandemic period, FDI investment in Europe in 2021 was still 8% below 2019 levels.

It is worth noting that the gradual recovery is in sharp contrast to the one that followed the financial crisis of 2009, when, after an 11% decline, investment levels bounced back strongly in 2010 reaching record highs. The comparison suggests that the effects of the pandemic are proving to be more profound and longer lasting than those of the last global financial crisis of 2009, even before considering the impact of the war in Ukraine.

Number of foreign investment projects announced in Europe (2005–21)



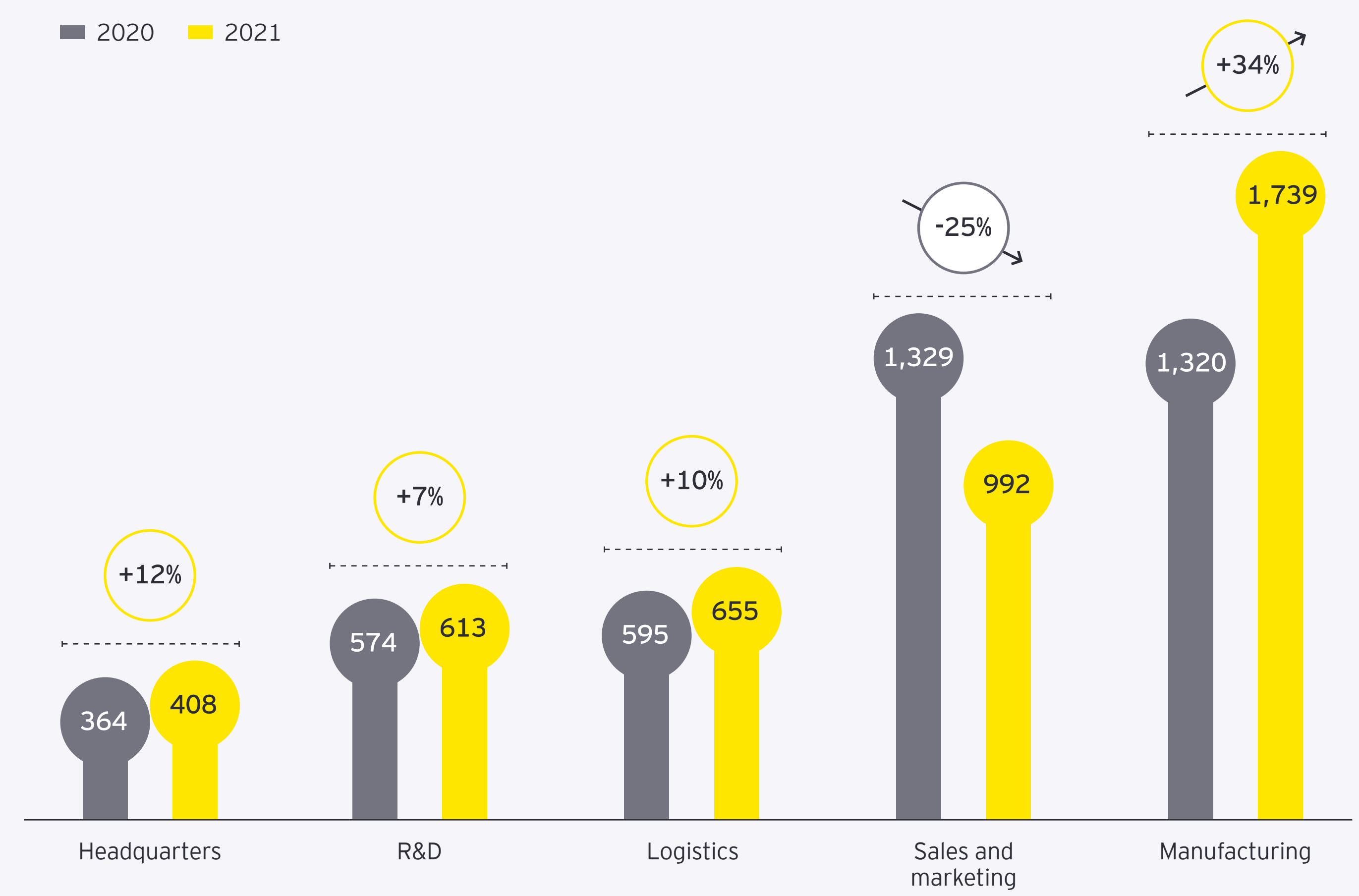
Source: *European Investment Monitor, EY*, 2022.

Manufacturing and logistics lead the recovery

The pace of recovery varied significantly by type of activity. The number of investments in manufacturing increased by 34% after a significant drop in 2020, in logistics by 10% and in R&D by 7%, a promising development as these activities can give a significant boost to employment within Europe. The strong recovery in manufacturing may reflect the efforts of companies to move their production base closer to the domestic markets, in view of the widespread disruption in supply chains caused by the pandemic. It is worth noting that the recovery in manufacturing investment was driven by sectors that were not historically among the key pillars of European manufacturing, such as construction (increase of 78%), metals and mining (increase of 40%), and pharmaceuticals (increase of 39%).

On the other hand, the widespread adoption of remote and hybrid working practices has enabled many businesses to fulfil office-based activities from their existing locations, which negatively impacted FDI investment relating to sales and marketing. The number of declared sales and marketing projects fell by 25% in 2021.

Major foreign investment categories in Europe in 2020 and 2021



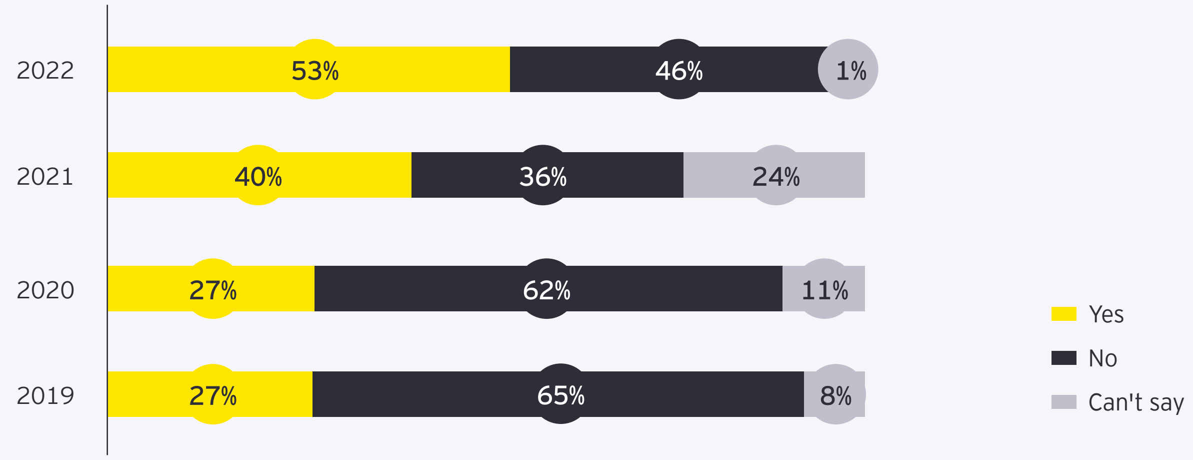
Source: *European Investment Monitor*, EY, 2022.

FDI in EUROPE

Optimism for Europe's medium-term prospects and a strong investment appetite, somewhat curbed by the war in Ukraine

Following the significant decline in investment during the pandemic, one in two companies (53%) surveyed planned to invest or expand their operations in Europe over the next year. This was the highest figure recorded during the last twenty years, and significantly higher than previous years.

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

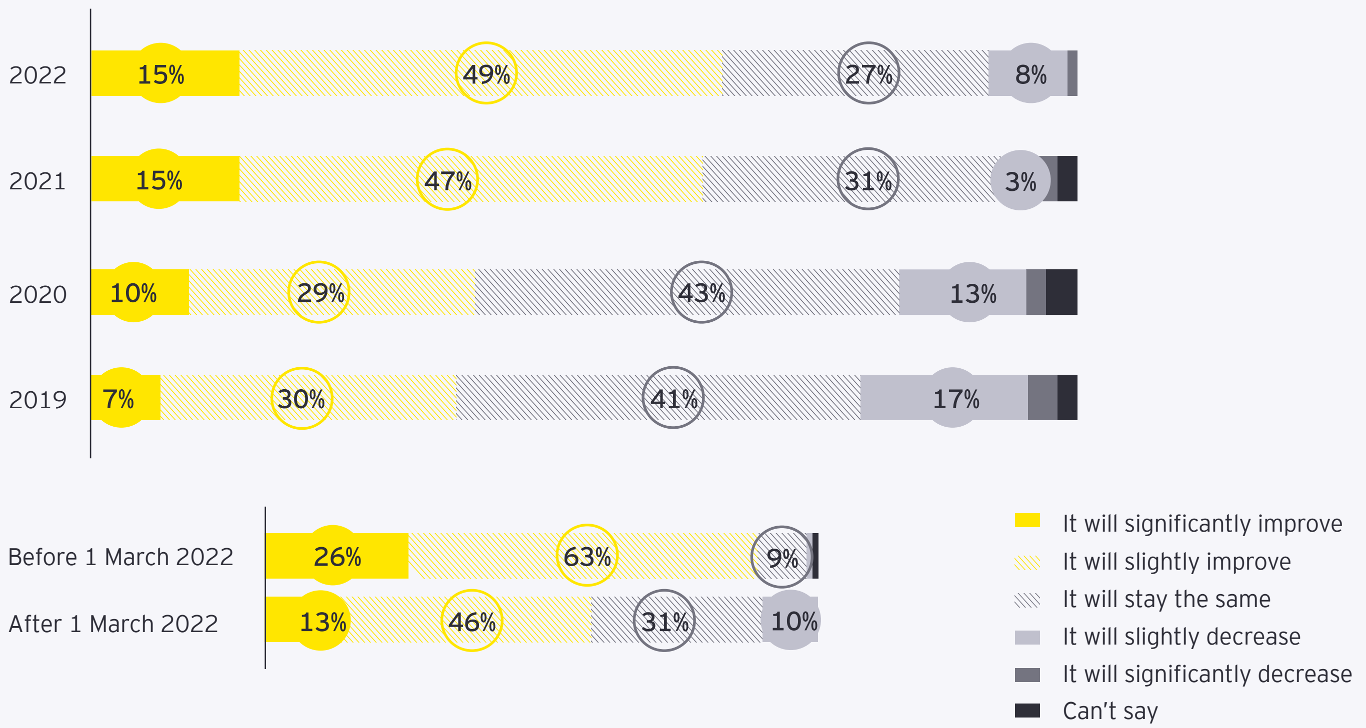


Source: *EU Attractiveness Survey*, EY, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

It is important to note that 80% of the replies were received following the beginning of the war in Ukraine. Positive responses fell from 81% before 1 March 2022 to 25% after 15 March 2022, indicating that the appetite to invest, over the next 12 months, is much lower among businesses surveyed with full knowledge of the war.

Two out of three companies (64%) still believe that Europe's attractiveness as an investment destination will improve, either significantly (15%) or slightly (49%), marking a small improvement compared with 2021 figures and a significant improvement compared with 2020. Again, the findings were affected by the war, with the positive replies dropping from 89% to 59% after 1 March 2022.

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



Source: *EU Attractiveness Survey*, EY, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

FDI in EUROPE

Major challenges ahead

As with previous surveys, investors were asked to identify the three most important threats to Europe's attractiveness as an investment destination. Even though the war in Ukraine was not included as a response option, participants' views showed signs of being affected. In particular, high volatility in exchange rates, commodities and capital markets climbed from fifth place in 2020 to second place in 2021, while the rise in populist and protectionist feelings among politicians and populations features on the top.

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

Source: *EU Attractiveness Survey*, EY, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

The evolution of the European legal framework relating to digital services and markets features high on the list. This is an interesting finding, given that the Digital Markets Act (expected to be implemented by the end of the year) aims to support the technology sector by stimulating competition, limiting the power of large technology companies, and protecting from misinformation and cyber threats.

The evolution of European legislation on environmental policies is also ranked high, as investors are concerned that climate change policies may lead to a further increase of their cost base. In fifth place (31% from 26% in 2020) is the risk of political instability in the EU, possibly under the double influence of war and new COVID-19 mutations that could potentially lead to another round of lockdowns. Other notable threats identified include the political instability due to the war, uncertainty over customs and trade policies, Britain's exit from the EU, and shortages in key skills.

These findings highlight the multiple challenges that could adversely affect the investment climate emerging after the pandemic.

France emerges as a clear leader among European investment destinations

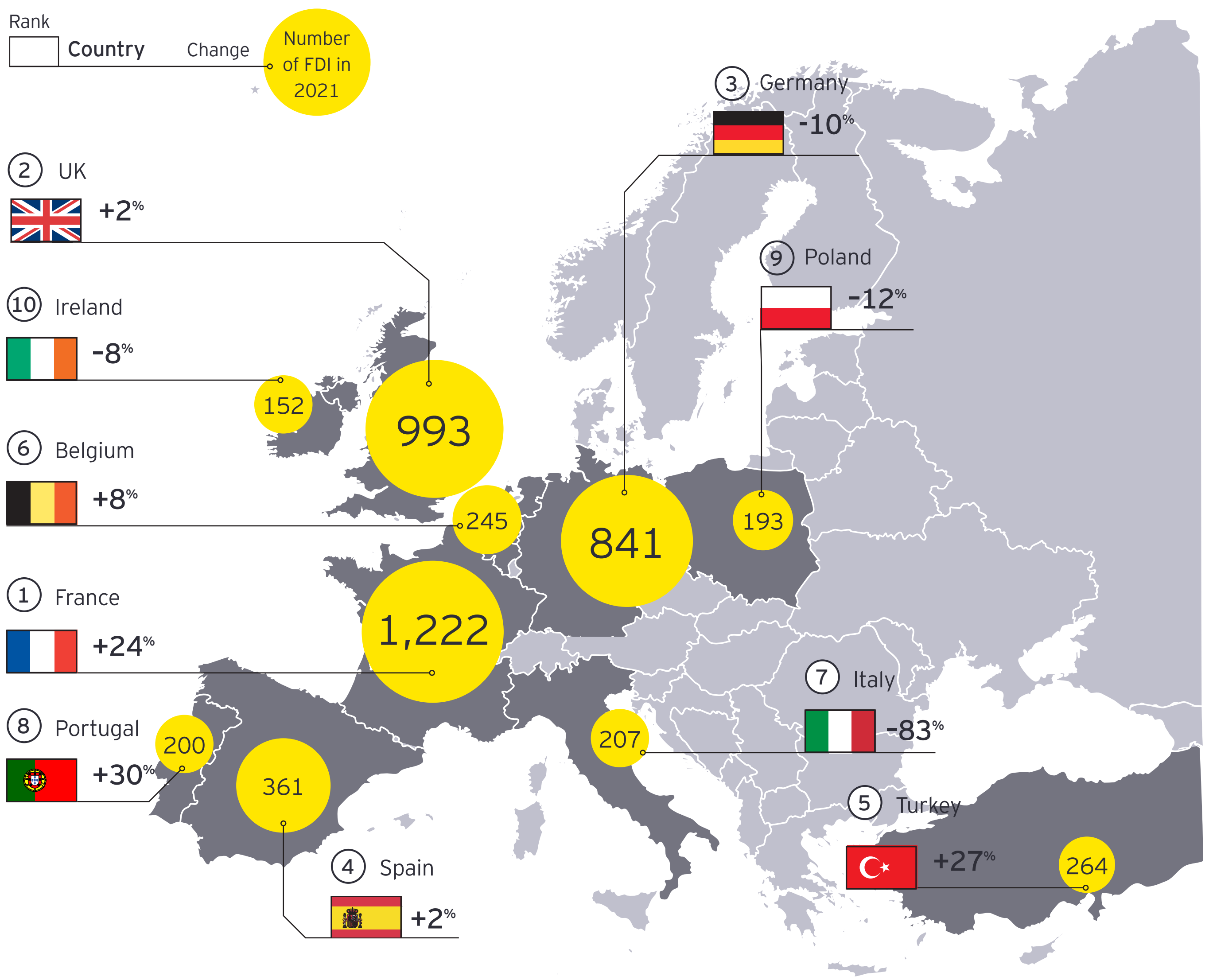
In 2020, France, Germany and the UK virtually tied in first place as the largest recipients of foreign investment within Europe. This changed in 2021. The number of announced projects in France rocketed by 24% to 1,222 projects, while, in stark contrast, the number of projects in Germany tumbled by 10% to 841. Investment in the UK remained steady, increasing slightly by 2%.

Top 15 countries in terms of FDI projects in Europe in 2020–21

Rank	Country	2020	2021	Change 20–21	Market share 2021
1	France	985	1,222	24% ↑	21%
2	UK	975	993	2% ↑	17%
3	Germany	930	841	-10% ↓	14%
4	Spain	354	361	2% ↑	6%
5	Turkey	208	264	27% ↑	4%
6	Belgium	227	245	8% ↑	4%
7	Italy	113	207	83% ↑	4%
8	Portugal	154	200	30% ↑	3%
9	Poland	219	193	-12% ↓	3%
10	Ireland	165	152	-8% ↓	3%
11	Netherlands	193	151	-22% ↓	3%
12	Finland	92	124	35% ↑	2%
13	Austria	76	103	36% ↑	2%
14	Russia	141	101	-28% ↓	2%
15	Hungary	48	76	58% ↑	1%

Source: *European Investment Monitor*, EY, 2022.

Top 10 FDI countries in 2021 – project numbers and 2020–21 trend



Source: *European Investment Monitor*, EY, 2022.

France's remarkable increase follows a sharp decline recorded in 2020, as the country was more severely affected by the pandemic than other European economies. France's improved position is mainly attributed to the significant increase in investment in manufacturing (+41%) and is also tied to significant reforms that have been instituted in recent years, targeting among others the labor market.

The impact of Brexit is gradually being felt

In the UK, despite a marginal increase of 2%, investments remain 10% below the pre-pandemic levels. The easing of restrictive measures for COVID-19 ahead of other countries has not been able to offset the growing concerns about trade barriers and labor shortages caused by Brexit. The impact was particularly felt in manufacturing, where only 145 investment projects were announced in 2021 (compared with 217 in 2017). The UK's traditionally high dependence on US investment contributed to the country's weak performance, in a year where US investment in Europe dropped by 21% compared with pre-pandemic levels.

Nonetheless, the UK continues to dominate the technology and financial services sectors, with London also remaining, based on the investors, as Europe's most attractive metropolis.

The decline is felt in Germany

The 10% drop in FDI in Germany is significant, however, it comes after a pandemic year during which the country only recorded a 4% decline in investment projects (compared with 13% for the rest of Europe). The sizeable 2021 drop may be partly attributed to the uncertainty associated with the September federal elections. Although FDI in manufacturing recovered by 4%, it remains 34% lower than pre-pandemic levels. Employment shortages and industrial supply chain challenges (especially in the automotive, chemical and pharmaceutical industries) appear to be troubling investors. The targeted reduction of dependence on Russian gas is likely to adversely affect prospects in the short term. Nevertheless, Germany's robust and export-oriented economy remains attractive to investors.

Reshoring and nearshoring boost investment in southern European economies

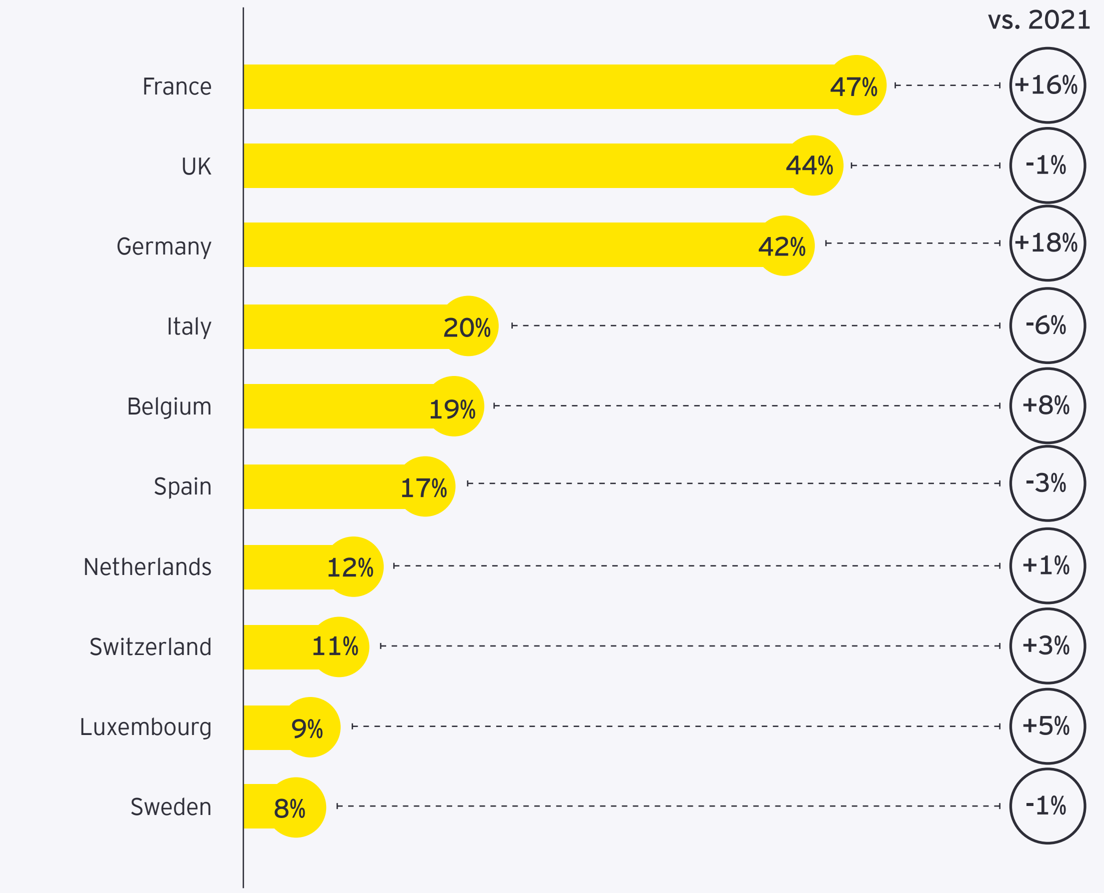
Three Mediterranean countries, Italy (+83%), Portugal (+30%) and Turkey (+27%), clearly benefited from the trend toward reshoring and nearshoring caused by supply chain disruptions and the recent five-fold increase in fares. Their relatively low labor costs contributed to the increase in FDI projects.

In contrast, other economies traditionally featuring among the top 10 investment destinations in Europe but with higher dependence on the services sector, such as the Netherlands (-22%) and Ireland (-8%), were hit hardest.

In Eastern Europe, an increasingly dynamic FDI destination in the 2010s, investment that appears stagnant (apart from Hungary which grew by 58%) seems to suggest that the countries are failing to take full advantage of supply chain redesigns and other opportunities.

The above perceptions were largely reflected in investors' expectations regarding the economies that will be the most attractive in 2022. France remains in the first place, displacing the UK and strengthening its comparative advantage after Brexit. The two countries, together with Germany, have now left other powerful European economies, including Italy and Spain, far behind.

Select the three Europen countries you believe will be the most attractive for foreign investment in 2022.



Source: *EU Attractiveness Survey, EY*, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

Hybrid work models take their toll on service sectors

Widespread remote working, hybrid work models and the reduced need for office space have negatively affected investments in specific sectors at European level, including professional services and services to companies (recording a 16% and 25% drop compared with 2020 and 2019 respectively). Despite this, the services sector remained second in terms of FDI activity in 2021, representing 10% of the total.

The software and IT sector remains the undisputed leader in FDI activity, with an 18% share. Having said this, it is worth noting the small year-over-year (y-o-y) increase of only 2%, largely influenced by the continuing downward trend of investments in Europe by US companies. Such investments represented 30% of the total volume in 2021, signifying a 26% decrease compared with 2019, a trend that should cause concern among European decision-makers.

Number of foreign investment projects by sector in Europe, in 2020 and 2021

Sectors	2020	2021	Change	Market share
Software and IT services	1,046	1,066	2% ↑	18%
Business services and professional services	691	577	-16% ↓	10%
Transportation manufacturers and suppliers	305	491	61% ↑	8%
Transportation and logistics	217	420	94% ↑	7%
Machinery and equipment	425	376	-12% ↓	6%
Finance	285	319	12% ↑	5%
Agri-food	322	301	-7% ↓	5%
Chemicals, plastics and rubber	268	264	-1% ↓	4%
Electronics	259	260	0%	4%
Pharmaceuticals	265	253	- 5% ↓	4%
Utility supply	145	198	37% ↑	3%
Consumer products	155	198	28% ↑	3%
Metals and minerals	103	133	29% ↑	2%
Medical devices	116	130	12% ↑	2%
Textile, clothing and leather	83	104	25% ↑	2%
Other	893	787	-11% ↓	13%
Total	5,578	5,877	5,36%	NA

Source: *European Investment Monitor*, EY, 2022.

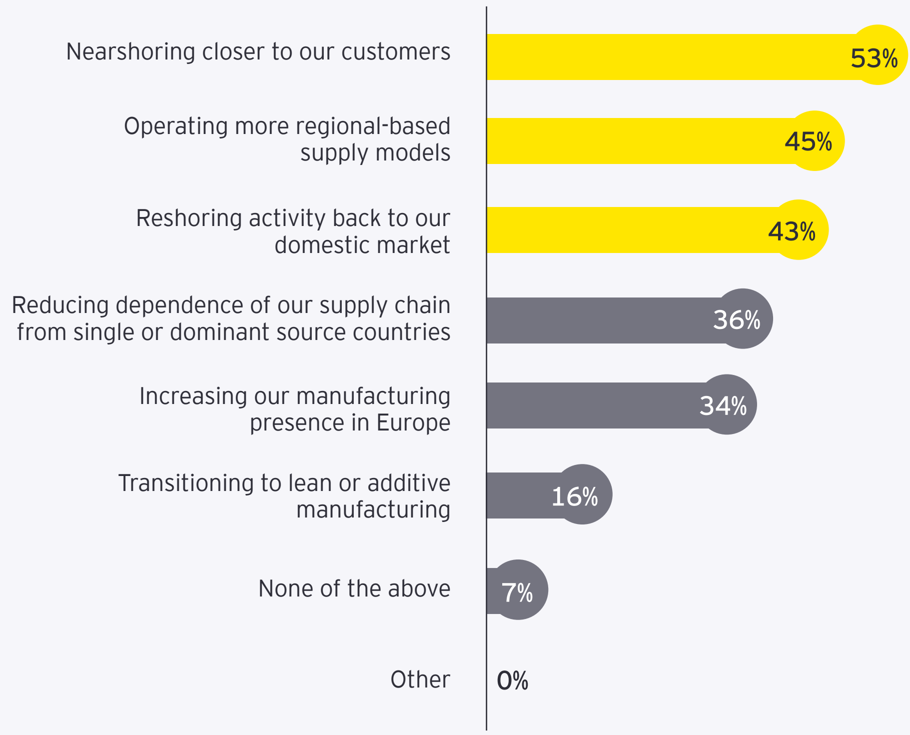
In contrast, several manufacturing subsectors recorded a significant growth in 2021. For example, investments in transportation manufacturers and suppliers (also including the automotive and aerospace industries) grew by 61%.

The increase of investment in the transportation and logistics sector reached 94%, linked to supply chain revisions. Strong growth was also recorded in the utilities (37%), metals and minerals (29%), and consumer products (28%) sectors.

Supply chain reorchestration

The war in Ukraine is forcing companies to reconsider their supply chains. Notably, 53% of the respondents (compared with 23% in 2020) consider moving activities closer to their customers (nearshoring) and 43% (compared with 20% in 2020) consider bringing them closer to their domestic market (reshoring).

How are you changing your supply chain setup?



Source: *EU Attractiveness Survey, EY*, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

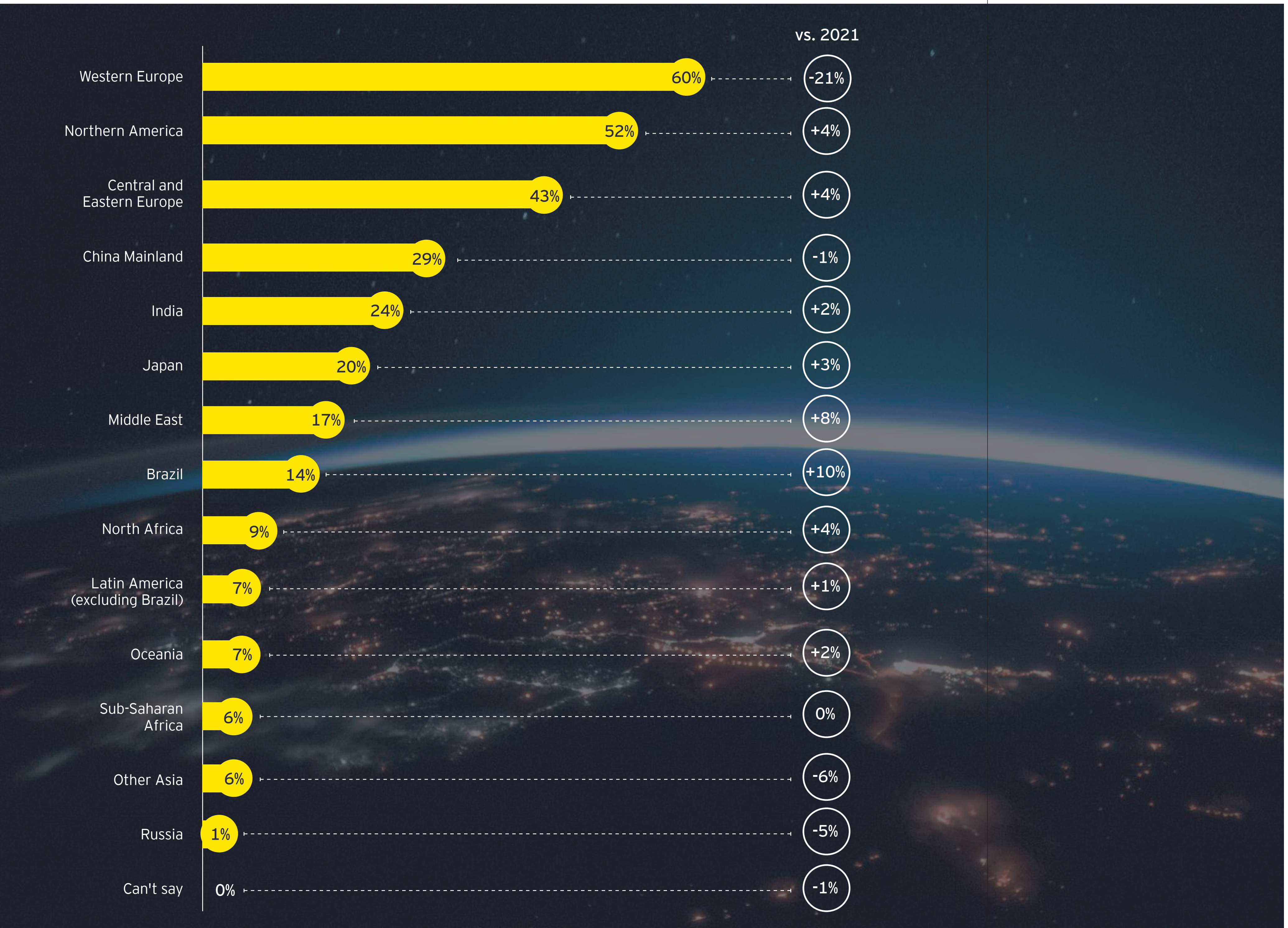
It is not clear, however, whether these supply chain considerations will transform into concrete action plans. In 2020, for example, the pandemic again led companies to reconsider nearshoring and reshoring, but that appetite dissolved in a matter of months as businesses realized the cost and impact of such strategies. That being said, today there are greater pressures pushing for supply chain reorganizations, such as:

- The war in Ukraine has forced many companies to urgently look for alternative supply sources to replace Russia and Ukraine energy supplies.
- The war in Ukraine has also raised concerns about over-reliance on third countries such as China.
- Increased transport costs have dramatically eroded the cost advantage of East Asian countries.
- The shift toward sustainability has strengthened consumer pressure for sourcing supplies closer to final consumption.

Europe's long-term perspectives and priorities as an FDI destination

According to the survey, although Europe remains the most attractive investment destination, this should not lead to complacency. Western Europe's lead, for example, is weakening and the gap with North America reduced from 33% to 8%. Central and Eastern Europe is now only 9% behind North America, while regions, such as Japan, the Middle East, Brazil and South America, are improving their relative positions.

Which of the following regions do you believe are the three most attractive to establish operations?



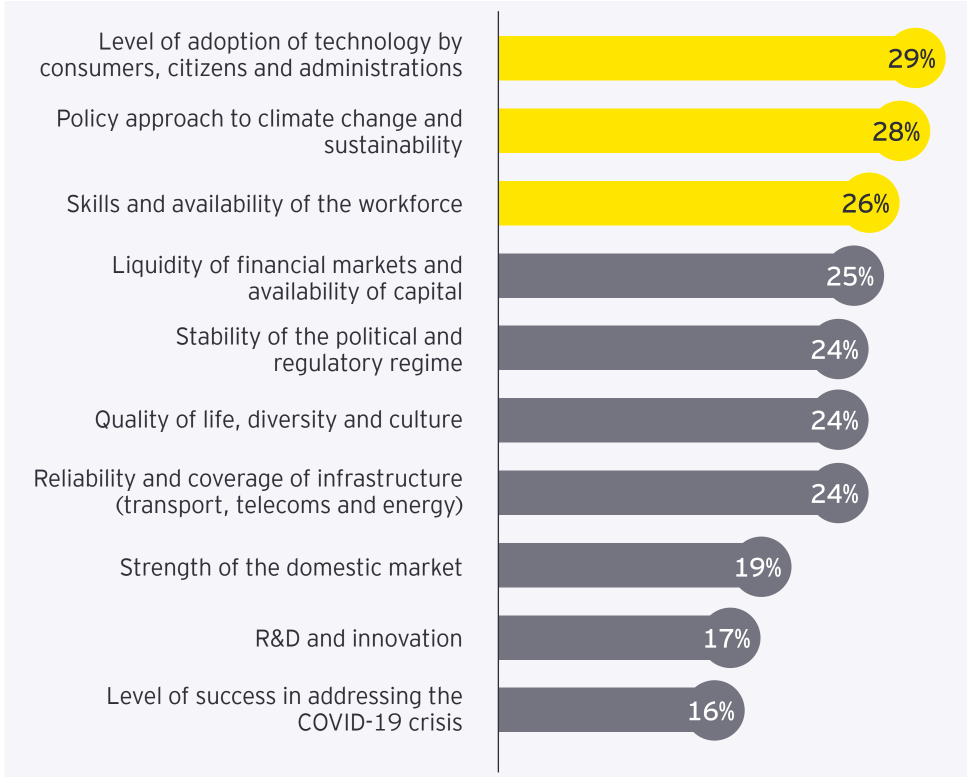
Source: *EU Attractiveness Survey*, EY, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

FDI in EUROPE

To some extent, this decline in the EU region may have been affected by the answers given after 1 March 2022, under the influence of the war in Ukraine and, therefore, may be reversed in the future. However, the fact remains that a number of emerging economies are now competing vigorously with Europe, creating the need for more intensive efforts and a focus on critical areas that will largely improve Europe's attractiveness in the coming decades.

In an effort to identify ways of improving Europe's competitiveness, investors were asked to select the three most important factors influencing their investment decisions. The level of **adoption of technology** by consumers, citizens and governments (29%); the **policy approach to climate change and sustainability** (28%); and **workforce skills and availability** (26%) have emerged as the key factors. They were closely followed by the liquidity of financial markets and the availability of capital (25%), the stability of the political and regulatory regime (24%), quality of life (24%), and reliability and coverage of infrastructure (24%).

Out of the following factors, which three are most important when choosing a country to invest in?



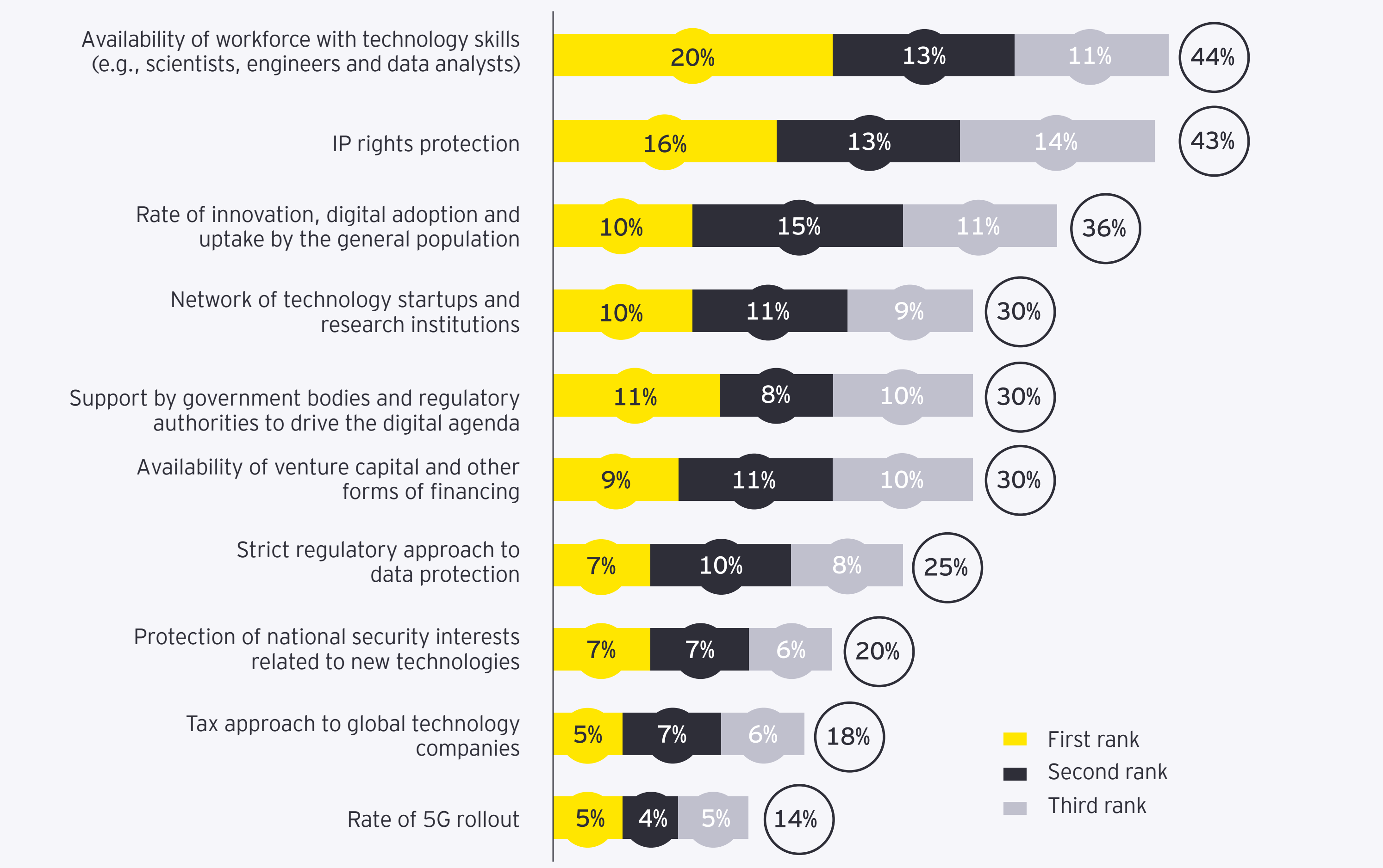
Source: *EU Attractiveness Survey*, EY, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

Building on the survey results, the following priority areas have been identified to improve Europe's FDI attractiveness:

1. Advanced technology lures businesses

Investments in technology during the pandemic to facilitate remote working and enhance digital customer propositions have further highlighted the importance of technology adoption. When asked about the most important technology-related criteria investment decisions, participants cited the **availability of a workforce with technological skills**, the **protection of IP rights, and the rate of innovation, digital adoption and uptake by the general population.**

Of the following technology-related factors, which three are most important when choosing a country to invest in?

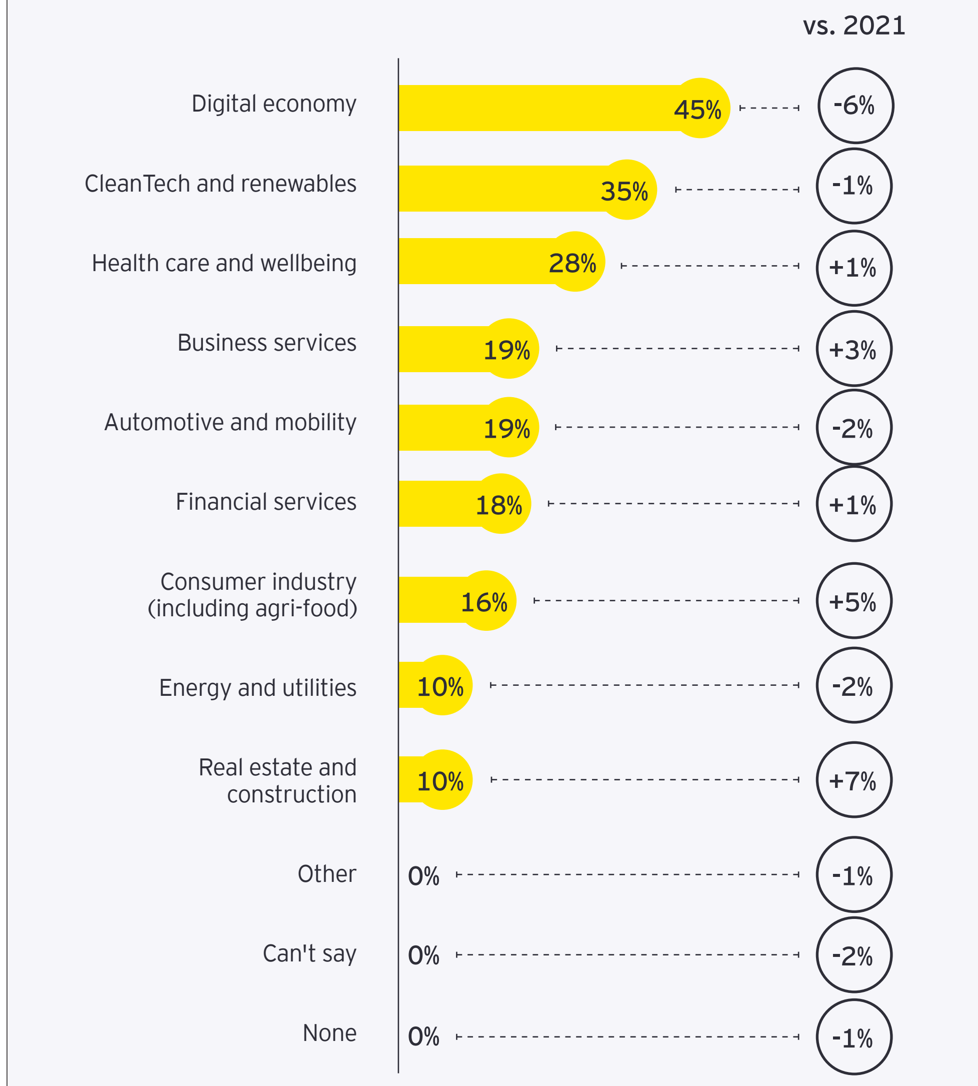


Source: *EU Attractiveness Survey*, EY, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

FDI in EUROPE

Technology-related criteria are becoming increasingly important for businesses in all sectors of the economy. It is clear that digital economy will be the locomotive of Europe's growth in the years to come. This view is shared by 45% of respondents, followed by clean technologies and RES (35%), and the health care and wellbeing sector (28%).

In your opinion, which two business sectors will drive Europe's growth in the coming years?



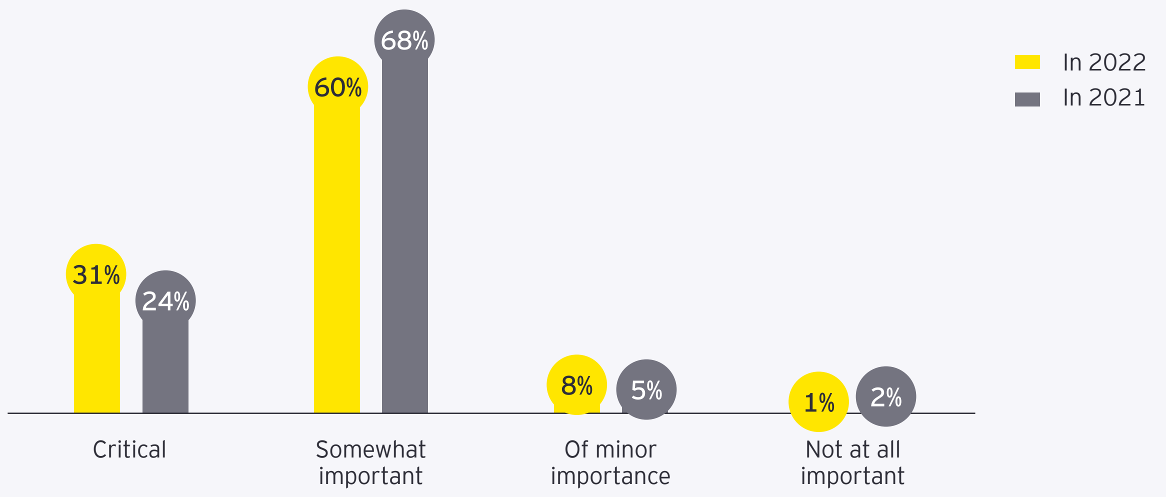
Source: *EU Attractiveness Survey*, EY, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

FDI in EUROPE

2. Sustainability policies are now a key location driver

Rising concerns by consumers, investors, regulators and employees have pushed climate change and sustainability policies from fifth to second place among the factors influencing investment decisions. At the same time, nine in 10 companies (91%) now consider sustainability as an important factor in developing as an investment strategy.

How important is enviromental sustainability to your investment strategy?

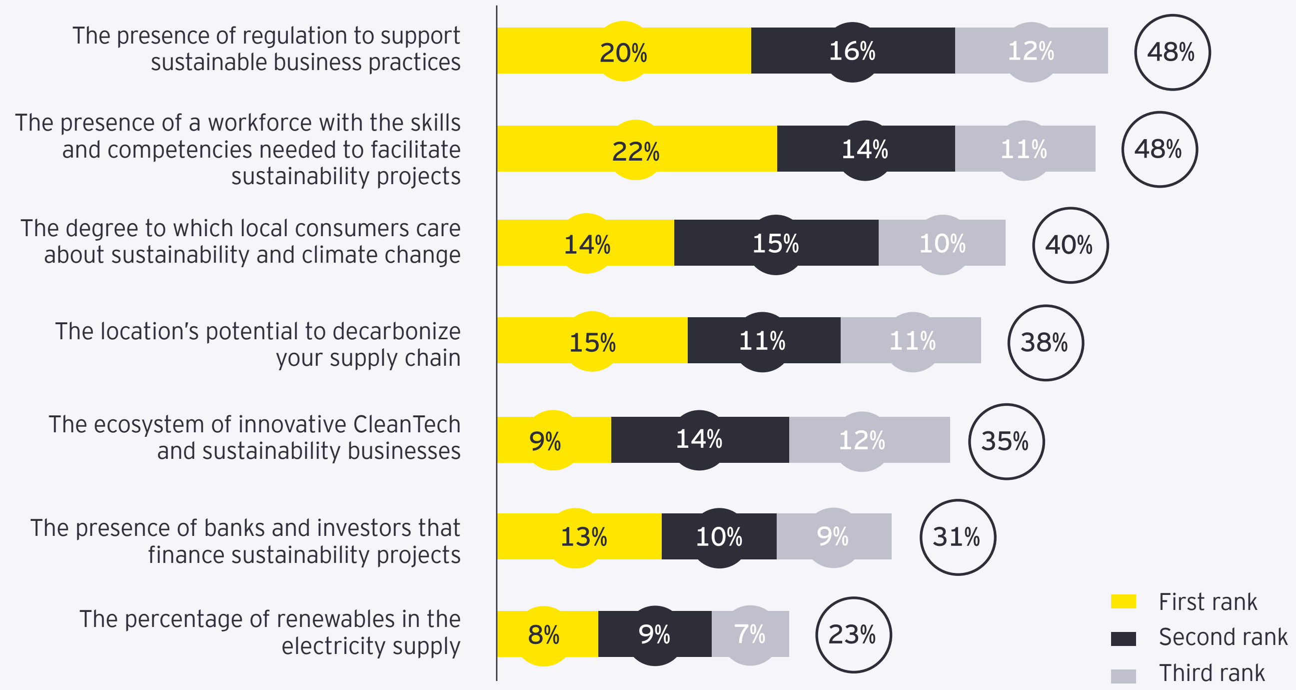


Source: *EU Attractiveness Survey,* EY, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

Businesses are looking to move to countries where the regulatory landscape supports sustainability practices and where funding for sustainability initiatives is available. The European Recovery and Resilience Fund (RRF), which is earmarked for green transition projects, is a characteristic opportunity in this context.

The companies surveyed cited the existence of a **regulatory framework that supports sustainable business** practices together with the **existence of workforce skills and competencies to facilitate sustainability projects** as the most important sustainability-related factors influencing investment decisions. **Consumer awareness** of sustainability and climate change was ranked at third place.

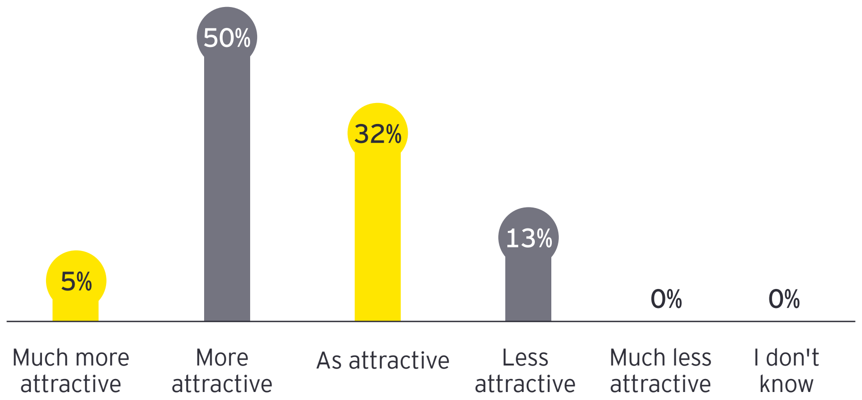
Of the following sustainability-related factors, which three are the most important when choosing a country to invest in?



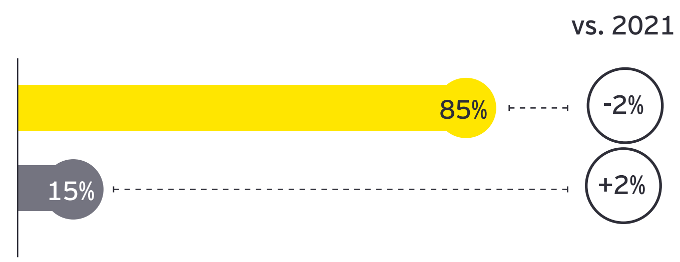
Source: *EU Attractiveness Survey, EY,* 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

It is worth noting that 56% of respondents consider Europe to be more attractive today than other regions based on sustainability criteria, while 85% see Europe as the leading green power.

In terms of sustainability-related factors, how does Europe compare with other regions for your investment?



Do you see Europe as a global leader?



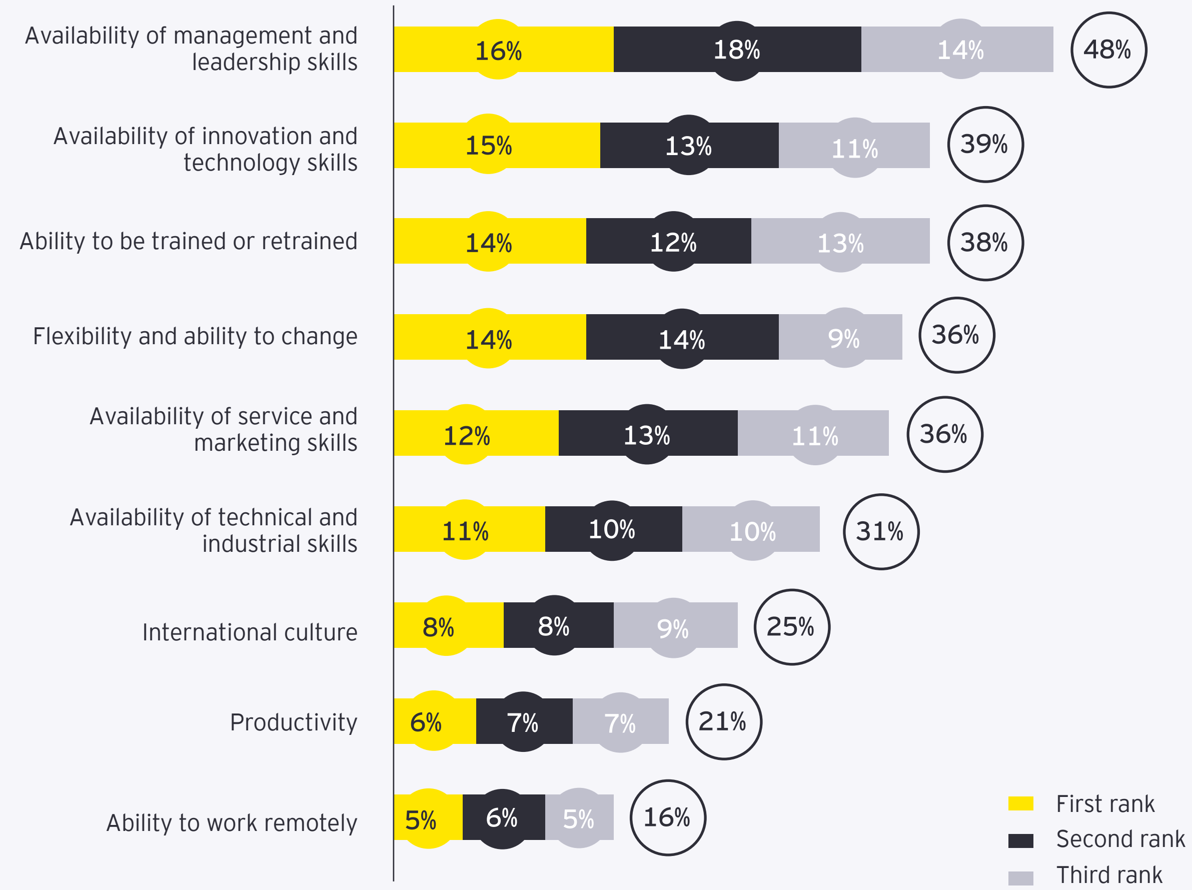
Source: *EU Attractiveness Survey, EY*, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

3. Human skills are more critical than ever

Both the digital transformation and green transition create new urgent requirements with regard to skill development. It is no coincidence that the availability of a skilled workforce tops the list of both technology and sustainability-related investment criteria.

Among HR-related factors influencing FDI decisions, availability of **management and leadership skills** (48%), availability of **innovation and technology skills** (39%), and the **ability to be trained or retrained** (38%) were those most frequently mentioned factors.

Of the following HR-related factors, which three are the most important when choosing a country to invest in?



Source: *EU Attractiveness Survey, EY*, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.

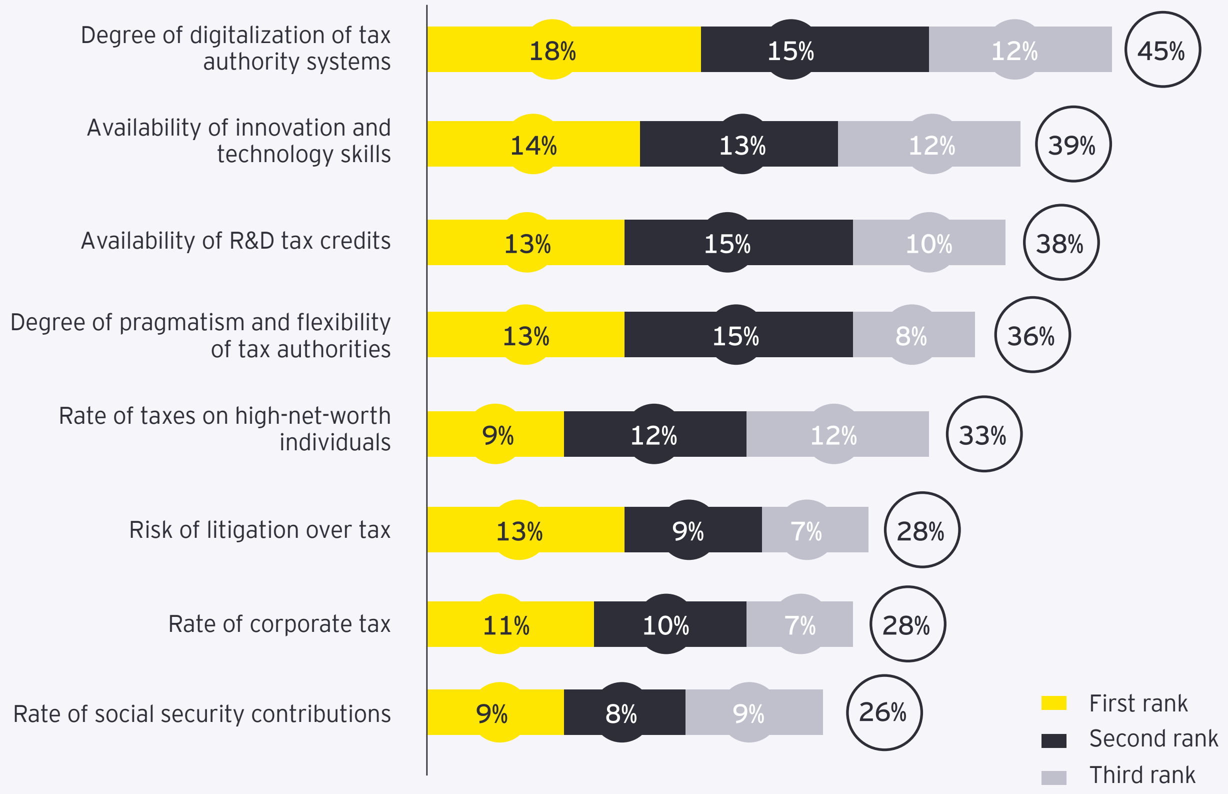
4. Tax rates alone are not the determining criterion

Based on the survey results, and contrary to what some would expect, the overall corporate tax rate level is only the sixth most important tax-related criterion considered when making investment decisions. At the top of the list is the **degree of digitalization of tax** authority systems (45%), which helps businesses demonstrate tax compliance as simply and effectively as possible.

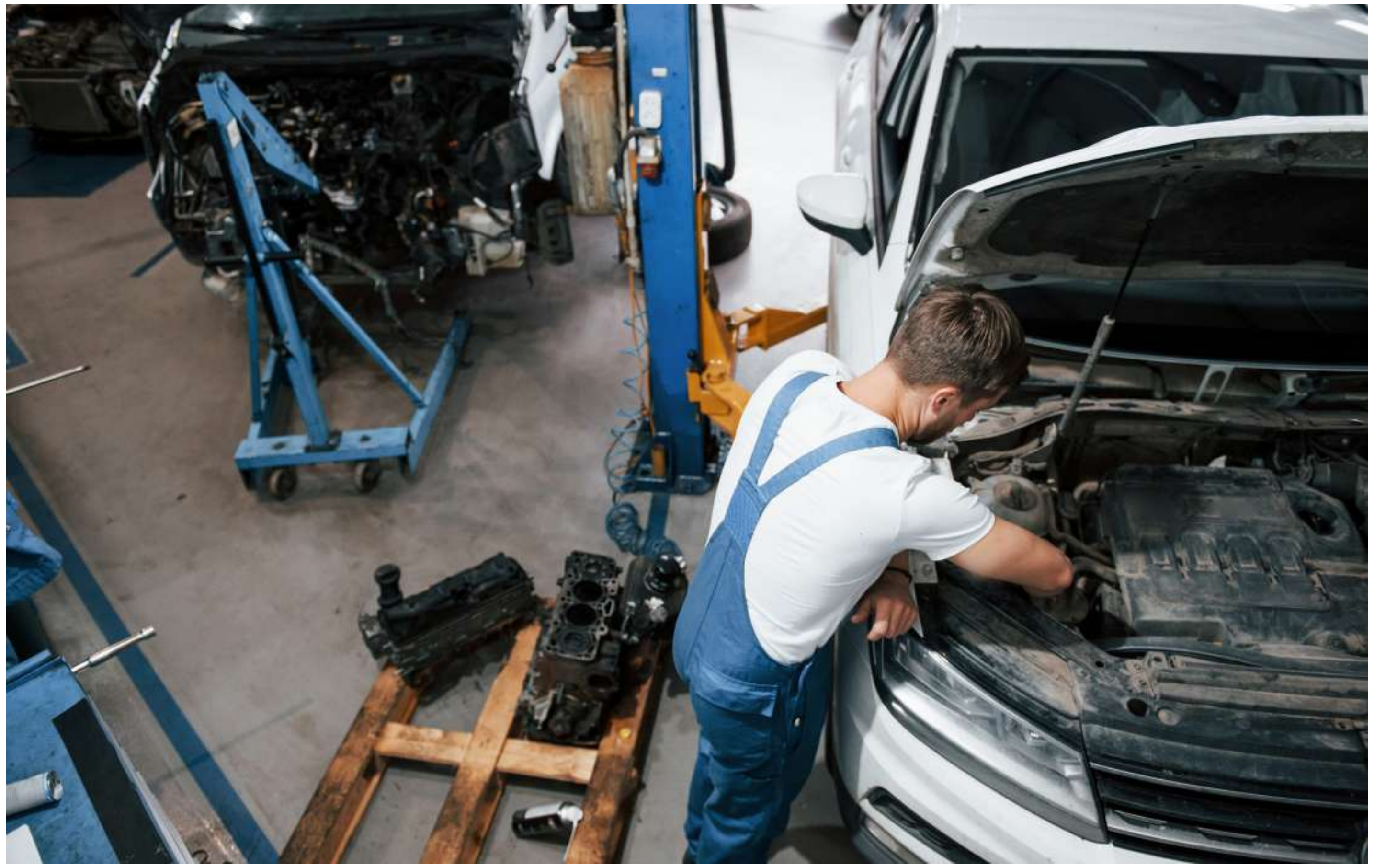
The second most important criteria are the **scope and rates of environmental taxes** (39%), as companies are concerned about the possible imposition of new taxes, or the increase of existing ones, to finance the green transition. It is the European Commission's intention to create a common framework for environmental taxes, limiting the ability of individual countries to play with environmental taxes. The risk remains that Europe's overall competitiveness compared with North America and Asia will be adversely affected.

In third place is the **availability of tax credits for R&D** (38%), one of the few remaining areas of tax competition in Europe, and a lever that governments can pull to attract investment and boost their country's competitiveness.

Of the following tax-related factors, which three are most important when choosing a country to invest in?



Source: *EU Attractiveness Survey, EY*, 2022 - 501 respondents surveyed from 17 February 2022 to 6 April 2022.



5. Small and medium-sized enterprises are less keen to invest

The survey identifies significant differences in investment perceptions and priorities between the small and medium-sized enterprises (SMEs) and their larger-scale competitors. For example, only 44% of SMEs plan to invest in Europe in the next year, compared with 83% in the case of large enterprises. At the same time, only 26% of the SMEs state that they have increased their investment plans, compared with 64% of large enterprises.

The biggest difference, however, and a plausible explanation for SMEs' more limited willingness to invest, is their perception about the role of the RRF. Only 54% of SMEs consider the RRF to be a determining factor in their investment decisions in Europe, compared with 100% of large companies. There are many possible interpretations for this finding. There is no doubt that European FDI policies are aimed primarily at very large projects, while the complexity of recovery plans or reforms underway in the EU and Member States may be too large for the limited staff of smaller companies. It is also possible that smaller suppliers do not have the required resources to respond immediately to the demands of their customers.

2 Cyprus' economy

Figure 10: Cyprus key facts and figures

Area [1]
9,251 km^2

Population
0.92 million (21% foreign) [1]

Official languages
Greek
English is widely spoken

2004
EU member state

2008
Eurozone member

Gross domestic product (GDP) per capita 2021
€26k
Ranked #15 [2] in Europe

Political system
Presidential Democratic Republic with a written constitution

Legal and judicial system
Based on UK common law system due to country's ex-colonial status and aligned with EU directives

Tax regime

Corporation tax rate
12.5% [3]

Wide range of double tax treaties

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

Favorable IP and Tonnage Tax regime

Leading industries

01 Hospitality and tourism

02 Professional services

03 Real estate and construction, ICT

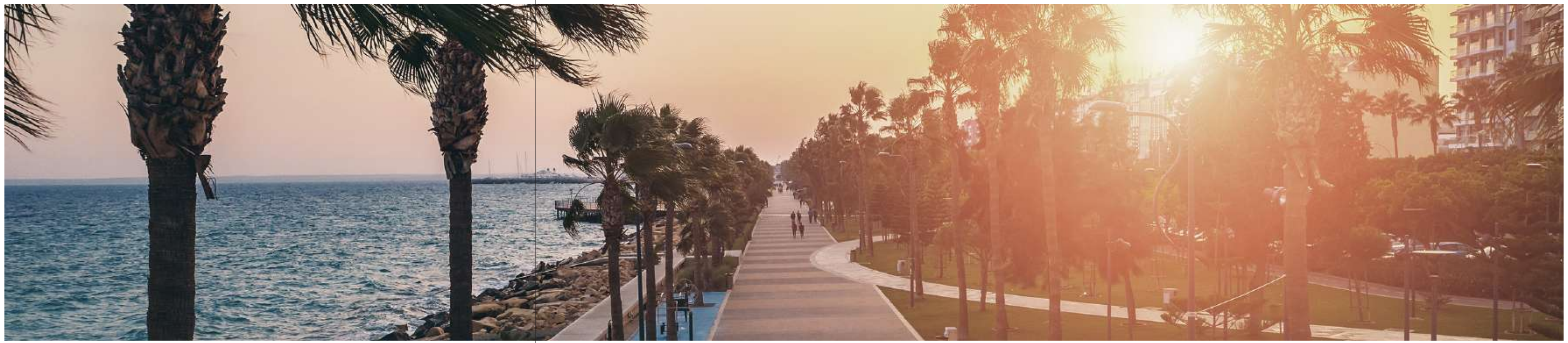
Indices

IMD World Competitiveness 2022 #40 [4]

Greenfield FDI Performance Index #18 [5]

1 Cyprus Mail population census, 2022
2 CyStat
3 Ministry of Finance
4 IMD World Competitiveness Center
5 FDI Intelligence: Greenfield Performance Index, 2022

Cyprus economy



Economic trends

The economy of Cyprus staged a strong recovery in the second half of 2021 due to its successful management of the COVID-19 pandemic and sizeable policy support. In numbers, economic activity in 2021 expanded by 5.5% in terms of GDP, recovering most of the lost ground of 2020. The growth has been set back by the fallout from the war in Ukraine, with both direct and indirect impacts (inflationary pressures, supply chain disruptions, sanctions on Russian interests and so on). Economic growth for 2022 is projected by the International Monetary Fund[6] at 2%, partly supported by increased investment under the national RRP. This is significantly lower than the pre-war projections of 4%. However, the outlook for 2023 continues to be positive, with a return to growth (3.5%). Public debt is on a firmly declining path (104% in 2021 and projected to 94%[1] in 2023) pursuant to the implementation of fiscal discipline measures.

Regarding prices, inflation averaged 2.3% during 2021, with the largest change noted in transport (8.6%). Led by high energy prices, inflation is forecast to close at 5.3%[5] for 2022 (compared with 8.4%[7] for the EU) and expected to decelerate to 2.3%[5] by 2023.

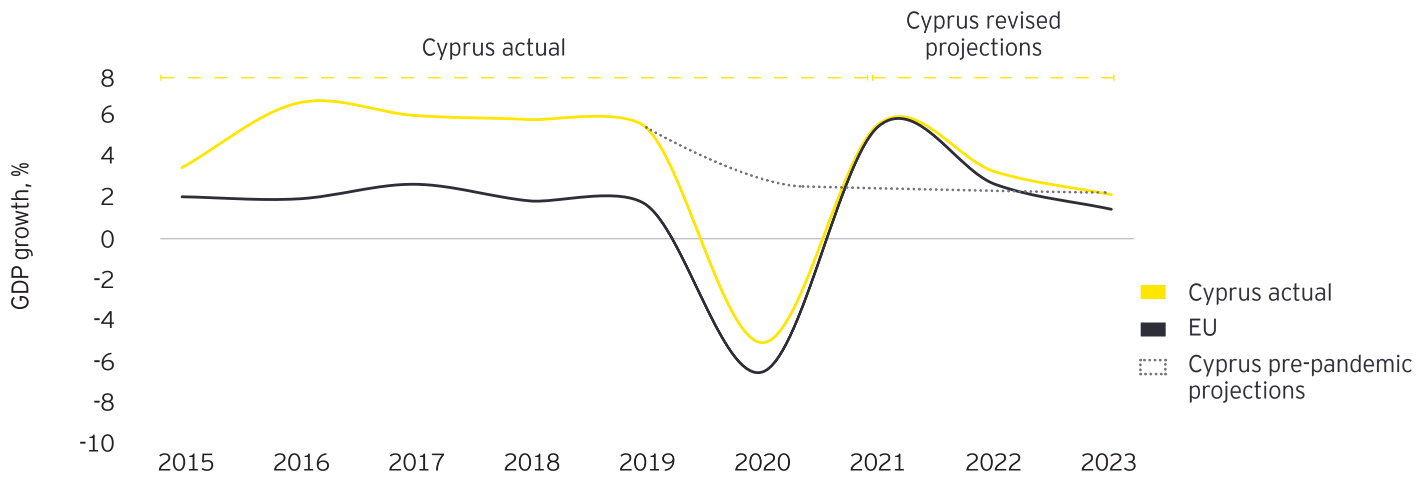
In the labor market, the utilization of the temporary income support schemes during the pandemic has helped to contain unemployment at relatively low levels (7.5%)[6] compared with other EU members (e.g., Spain at 14.8%).

SMEs[8] in Cyprus form the backbone of the local economy, comprising close to 57,500 companies (approximately 99.8% of the total). Economic contribution from SMEs grew materially in 2021 with their value added increasing to almost €8 billion or 77% of the total. SMEs are also responsible for 82% of total employment.[9] Government support measures during the pandemic (salary subsidies, tax breaks and others) helped SMEs deal with liquidity pressures.

Undoubtedly the war and ongoing pandemic have cast a shadow over Cyprus' economic outlook; nonetheless, credit ratings for Cyprus are affirmed at "BBB-" with a stable outlook according to Fitch.[10]

The **national RRP (2021–2026)** will see €1.2 billion allocated to Cyprus through the EU's Recovery and Resilience Mechanism, with €1 billion to be provided in grants and €200 million in loan subsidies. Reforms and investment projects planned on the premises of the RRP concentrate around the key policy axes of green economy transition (€447.6 million), strengthening the resilience and competitiveness of the local economy (€422.3 million), digitalization (€89.4 million), and employment and education (€172.9 million). It is also worth noting that local authorities have also launched, in cooperation with the European Commission, certain initiatives to formulate Cyprus' long-term strategic plan for a sustainable growth model, called **Vision 2035**.[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.

6 *Country Report No. 22/151*, International Monetary Fund, 2022.
7 See Labor market section.
8 Small and medium enterprises (as per European Commission's definition: registered companies with fewer than 250 employees and either (i) an annual turnover not exceeding €50 million or (ii) an annual balance sheet total not exceeding €43 million).
9 *SME Country Fact Sheet: Cyprus, European Commission*, 2022.
10 Fitch ratings, March 2022.
11 *DG Reform. A long-term strategy for sustainable growth for Cyprus*, European Commission, 2022.

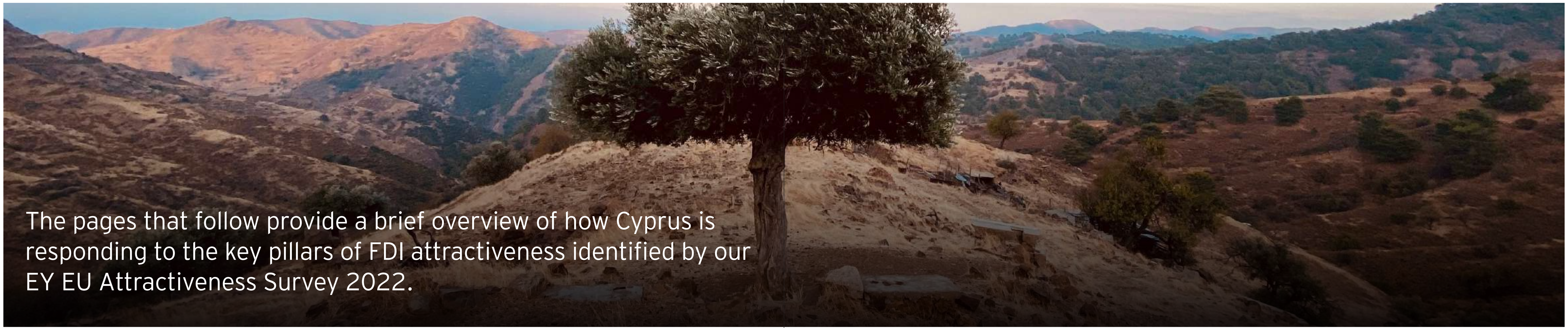


Key economic indicators[12]	2017	2018	2019	2020	2021	2022 P*	2023 F[13]
Real GDP growth (at constant market prices 2010, annual change in percent)	5.9	5.7	5.3	-5.0	5.5	2.0	3.5
Nominal GDP (at current prices, € billion)	20.3	21.6	23.0	21.6	23.4	24.7	26.4
GDP per capita (EU-28[14] = 100)	84	86	88	90	90		
Public debt (as percentage of GDP)	93.9	100.6	91.1	115.0	103.9	97.7	94.1
Inflation (annual change in percent)	0.5	1.4	0.5	-1.1	2.3	5.3	2.3
Unemployment (percentage of total labor force)	11.1	8.4	7.1	7.6	7.5	7.9	7.5

*Projected

12 Data from Cyprus Statistical Service, Ministry of Finance, IMF, Eurostat
13 International Monetary Fund Forecast, 2022.
14 EU-27 as of 2020, following Brexit.

Cyprus economy



Labor market

The labor force in Cyprus in the first quarter of 2022 amounted to 474,631[15] persons, or 64.3% of the total population. The support schemes introduced by the government helped contain unemployment during the pandemic, with unemployment rate increasing only marginally from 7.1% in 2019 to around 7.5% in 2021. The labor market is expected to improve further in the coming years, with an employment growth at 1.5% in 2023.

In terms of salary levels, the average gross monthly salary in Cyprus is approximately €1,992, which is close to the EU average. This is well above other EU countries in the South, such as Bulgaria (€690), Greece (€1,060) and Romania (€1,075). On the other hand, it is well below northern Member States, such as Denmark (€5,179), Luxembourg (€5,143) and Germany (€4,035).

Cyprus ranks **third** in the EU **in terms of number of adults holding a tertiary education degree**. In 2021, the relevant percentage stood at 57.8%, considerably above the EU average of 40.5%. On the other hand, Cyprus has the **lowest number of science, technology, engineering and mathematics (STEM) graduates** in the EU, currently standing at 13.8%. This may explain why Cyprus is only ranked 23rd on human capital (internet user skills and advanced skills) — among the 27 EU Member States — in the 2021 edition of the Digital Economy and Society Index (DESI).[16]

The basic digital skills of Cypriots remain below the EU average of 56%, with only 45% of the population between 16 and 74 years possessing at least basic digital skills.

Moreover, **participation in continuous adult learning is low**, at only 4.7% in 2020, compared with an EU average of 9.2%.

The high educational background of the Cypriot workforce, combined with the **relatively low labor cost** compared with its European counterparts, may offer Cyprus a competitive edge in terms of investment attractiveness. Nonetheless, as suggested above, there are still challenges and **skill set gaps around specific fields**, such as emerging and innovative technologies, sustainability projects, shipping, and other specialized sectors.

15 *Cyprus Statistical Service,* www.cystat.gov.cy
16 *Digital Economy and Society Index (DESI),* European Commission, 2021.

The following are noted regarding the local labor market:

- The rapid growth in the FinTech and gaming industries has created significantly increased demand for specialized skilled labor. Currently, there is a very high number of software developer vacancies, mirroring the expanding sector. Recognizing the gap, technology companies and local educational institutions have already started investing substantial efforts and resources to bridge the gap.
- The improvement of economic conditions in other EU countries resulted in the repatriating of communal staff back to their home countries, creating further dis-equilibrium in the local labor market.
- Skill shortages, combined with the reinitiation of previously frozen collective bargaining agreements in labor-intensive sectors, have exerted upward pressures on salaries. This development, coupled with the effects of the war in Ukraine and disruption of supply chains, has created a vicious cycle of further inflationary pressures.
- Recent amendments to the local immigration framework aimed at attracting talent in response to the challenges above include: (i) revised policies for temporary residence and employment permits to highly skilled third-country nationals and a simplification or fast-tracking of relevant processes, (ii) introduction of relevant income tax incentives, and (iii) introduction of the "Cyprus Digital Nomad Visa" scheme.[17]

17 The scheme allows nationals from non-EU and non-European Economic Area countries, who can perform their work remotely and independently using technology, to reside temporarily in Cyprus and still work for their employers, or clients, abroad.

Digital economy

Digitalization is in the center of the country's new economic model. Given the importance, the Cypriot government set up in March 2020 the Deputy Ministry of Research, Innovation and Digital Policy (DMRID). DMRID has since worked toward, enforcing the **digital strategy** for Cyprus (2020–30). The strategy aims to: (i) achieve a **digital transformation** of the **public sector** (e-government), (ii) promote the digital transformation of the **private sector**, (iii) facilitate **high-speed network connectivity**, (iv) promote an accessible and inclusive society that has the **skills to embrace** the digital transformation, and (v) promote **innovation**.

DMRID's work has proven pivotal during the pandemic, as it managed to transform and digitalize many of the governmental departments to enable fast, safe and easy user experience under the gateway portal "Ariadni," a milestone development. Still, adoption remains relatively slow, with only 59% of Cypriot internet users actively using e-government services, well below the respective EU average.

Cyprus has quite some ground to cover to achieve a digital economy. The country ranked 21st among the 27 EU Member States in the 2021 edition of the DESI.[18] It featured well **below the EU average in terms of the take-up of fast broadband**, while almost one in two Cypriots were recorded as **lacking basic digital skills**. Despite growing demand, the **supply of ICT specialists** is still recorded below the EU average.[19] On the flip side, Cyprus' performance is on an **upward trajectory** in almost all DESI dimensions, reflecting the efforts of the newly established DMRID.

In terms of **digital infrastructure**, Cyprus is well connected via submarine fiber optic cable and satellite to other communication networks in both the Eastern Mediterranean basin and mainland Europe. Since the telecommunications sector liberalization almost two decades ago, operator-led investments have resulted in a significant improvement and coverage of connectivity infrastructures, facilities and services. Nonetheless, there are still issues reported with internet connection. Cyprus ranks 24th out of the 27 EU Member States in the connectivity dimension, **lagging** particularly behind **in coverage and take-up of ultrafast services and prices**. To alleviate that, the government has launched the **National Broadband Plan** (2021–25) to promote private-sector investments in high speed networks. One such project is the ARSINOE optical fiber subsea cable system connecting Cyprus to Egypt and France, that became operational in March 2022.

The deployment of the 5G mobile network was also completed in May 2022, rendering Cyprus as the first country in the EU to have reached **100% 5G population coverage**. Adoption rates are a different story though, with the main challenges believed to be the lack of interest from consumers and the retail pricing structure adopted by the operators. Once the issues are overcome, 5G introduction is expected to generate economic spillovers across sectors (such as health care and education).

Finally, in 2021, half of the enterprises with 10 or more employees bought cloud computing services, compared with one-third (34.6%) in 2020.[20] The adoption rate is expected to increase further following the signing of a relevant memorandum of understanding (MOU) with Amazon Web Services in May 2022, aiming at a **"cloud-first" policy and "cloud-ready" workforce across the government sector**. Amazon will also provide support services to accelerate the cloud-powered digital transformation of SMEs and technology startups, through a number of programs designed to create company-specific actionable plans for cloud adoption.

18 *Digital Economy and Society Index (DESI),* European Commission, 2021.
19 See Education in Section 3
20 *Cyprus Statistical Service,* www.cystat.gov.cy

Cyprus economy

Sustainability and ESG

Driven by a set of EU policies and regulations, environmental, social and governance (ESG) matters are deemed to have a material financial impact, going forward, on any organization's short- and long-term value.[21] Factors like **environmental protection, social justice, gender equality** in the workplace, and **fight against poverty and hunger**, are among the key topics that investors and businesses will be considering as part of their decision-making over the following years. EU banking regulators, for example, have already published a set of ESG expectations for their sector and have already carried out climate stress tests on the books of major EU credit institutions. Local banking institutions have already applied for and received relevant ratings.

EU is pushing for larger-scale nonfinancial **ESG reporting**, requiring large organizations to report extensively on sustainability and ESG matters,[22] a mandate that is expected to cover about 50,000 companies in the coming years. In order to facilitate sustainable investments, EU introduced a classification system in July 2020 that establishes a list of environmentally sustainable economic activities **(EU Taxonomy)**.[23] By providing appropriate guidelines to investors regarding the economic activities that are considered sustainable, it is expected that investors will be avoiding greenwashing[24] and will shift their attention to ESG value-adding investments.

The developments above, combined with the relevant activities included in the national RRP, are expected to strengthen the local economy's resilience and the country's potential for an economically, socially and environmentally sustainable long-term growth. Although Cyprus still has ground to cover on the ESG ladder, the first steps have been made and they constitute a good basis on which local businesses can be built. Challenges to overcome relate to the fact that **ESG is a relatively new concept for the local market**, with a **need for further information and guidance**, as well as proper **governance and transparent disclosures** to ensure accurate reporting. In addition, the adoption of ESG-related strategies remains to be fully embedded within the overall local culture, and the plans of local organizations and their employees.

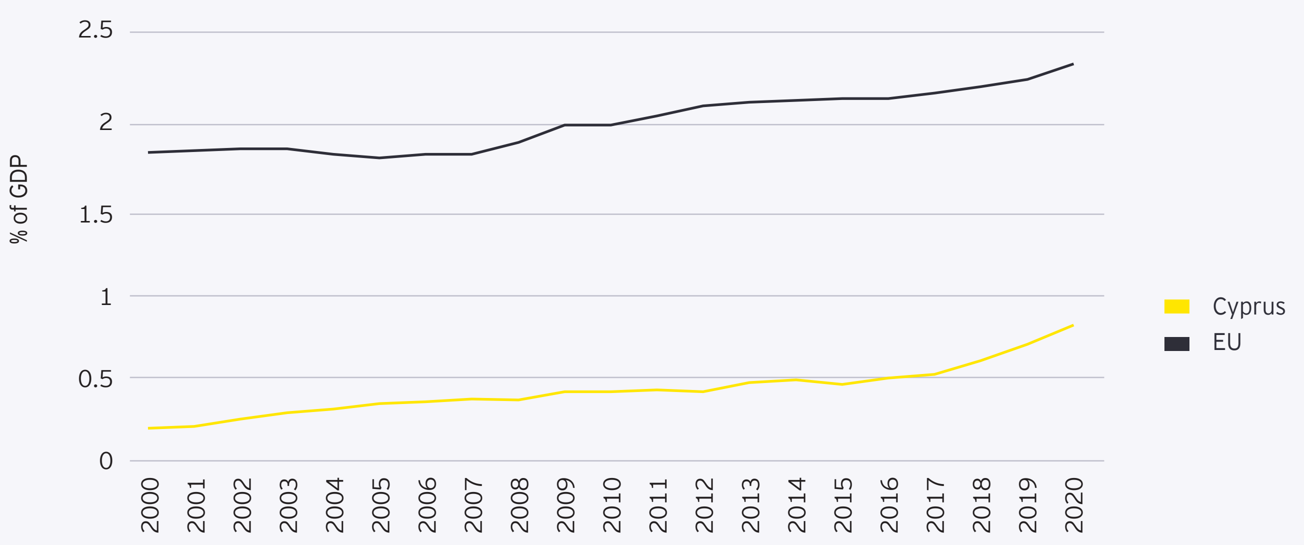
21 *On management and supervision of ESG risks for credit institutions and investment firms,* European Bank Authority, 2021.
22 EU Taxonomy for sustainable activities, European Commission.
23 European Commission. EU Taxonomy for sustainable activities.
24 Greenwashing is the process of conveying a false impression or providing misleading information about how a company's products are environmentally friendly, in order to deceive consumers or other stakeholders.

Research, development and innovation

R&D activity in Cyprus, in 2020, was estimated at around 0.82%[25] of the country's GDP, with only 0.5% of the active population engaged in R&D activities. Cyprus' R&D-related **GDP share continues to be considerably lower than its European counterparts** (EU average of 2.2%). Nonetheless, it is worth pointing that the country exhibits **one of the highest average annual growth rates** in R&D expenditure, at 11%, over the period 1998–2019.

Business enterprises accounted for €70.7 million of the total R&D expenditure in 2019 (43% of total), higher education institutions for €63 million (38.3% of total), private nonprofit institutions for €16 million (9.7% of total) and the government sector for only €12 million (7.3% of total).[26] In terms of the business enterprises group, ICT constituted the principal source of R&D investment, followed by the manufacturing industry (pharmaceutical products, computer, electronic and optical products, and electrical equipment).

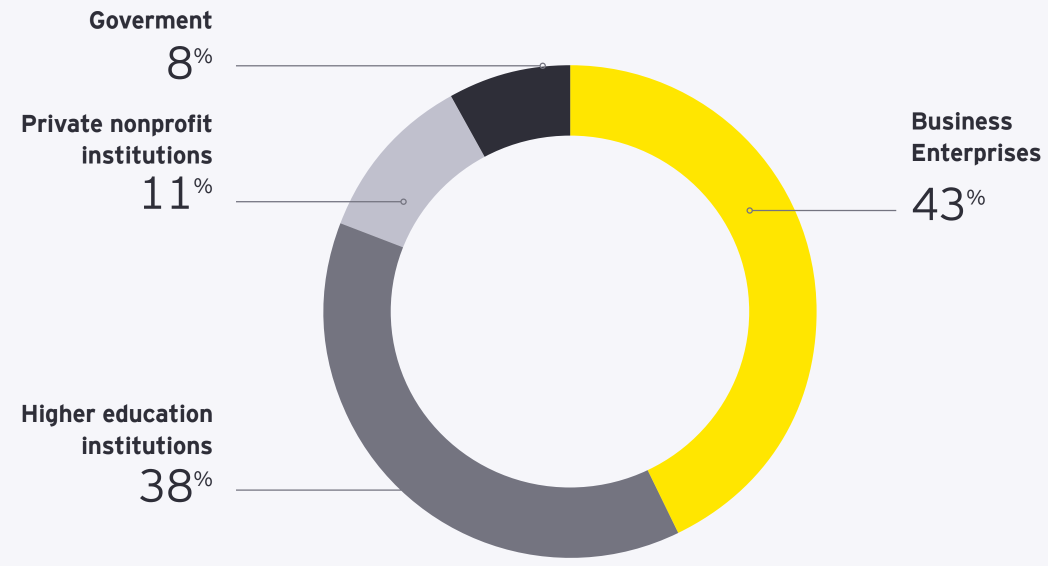
R&D expenditure (percentage of GDP)



Source: *Research and development expenditure (% of GDP)* - Cyprus, the World Bank, 2021.

25 *Research and development expenditure (% of GDP)* - Cyprus, the World Bank, 2021.
26 *Cyprus Statistical Service*, www.cystat.gov.cy

R&D investments by sector (2019)



Source: *Research and Development Activity in Cyprus*, Cyprus Statistical Service, www.cystat.gov.cy

Even though Cyprus is directing increased efforts and investment toward research and innovation, it still ranked 49th out of the 60 countries in Bloomberg's Innovation Index for 2021 (lowest-ranked country among EU members). Cyprus was further classified as a "moderate innovator" according to the European Innovation Scoreboard 2021, **scoring low on human capital, finance, intellectual assets** and **climate-related indicators**.

In contrast, the country ranked 28th among the 132 economies featured in the Global Innovation Index (GII)[27] for 2021. Based on the relevant ranking, Cyprus manages to convert its relatively limited innovation investments into more and higher-quality innovation outputs. Areas to develop based on this index are the human capital (percentage of graduates in science and engineering, labor productivity growth and others) and the **market sophistication** (such as size of domestic market and global brand value).

27 The Global Innovation Index (GII) is published by the World Intellectual Property Organization (WIPO), a specialized agency of the United Nations. GII ranks world economies according to their innovation capabilities. Consisting of roughly 80 indicators, grouped into innovation inputs and outputs, the GII aims to capture the multidimensional facets of innovation.

Taxation

The last two years saw numerous developments in the Cypriot tax framework.

Tax efficiencies have been preserved, while at the same time Cyprus **bolstered** its **creditworthiness** through abiding to the global tax trends:

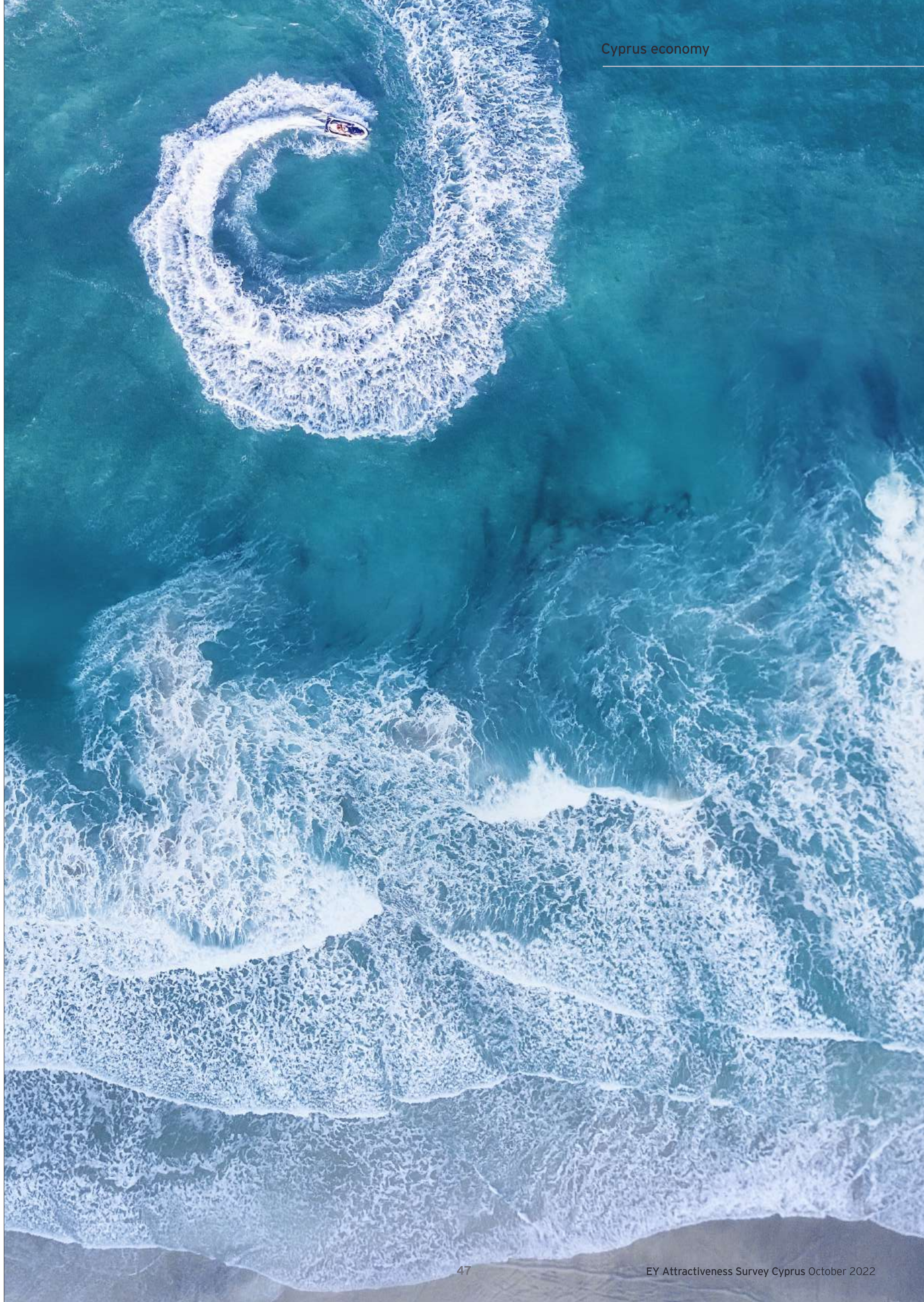
- The Tonnage Tax regime was approved by the EU Commission for another 10 years to 2030.
- The Notional Interest Deduction rules have been modified to comply with EU's Code of Conduct Group on Business Taxation.
- Cyprus transposed relevant EU legislation designed to tackle tax avoidance and strengthen the automatic exchange of information mechanisms through the adopting of the Anti Tax Avoidance Directive (ATAD) and the DAC6 directives.
- Cyprus committed to reform its tax system further, as part of the implementation of the RRP.

As part of the effort to further **strengthen the competitiveness** of the local economy and **enhance** Cyprus' **position as a business and technology hub**, Cyprus has also introduced, or is considering introducing, the following changes:

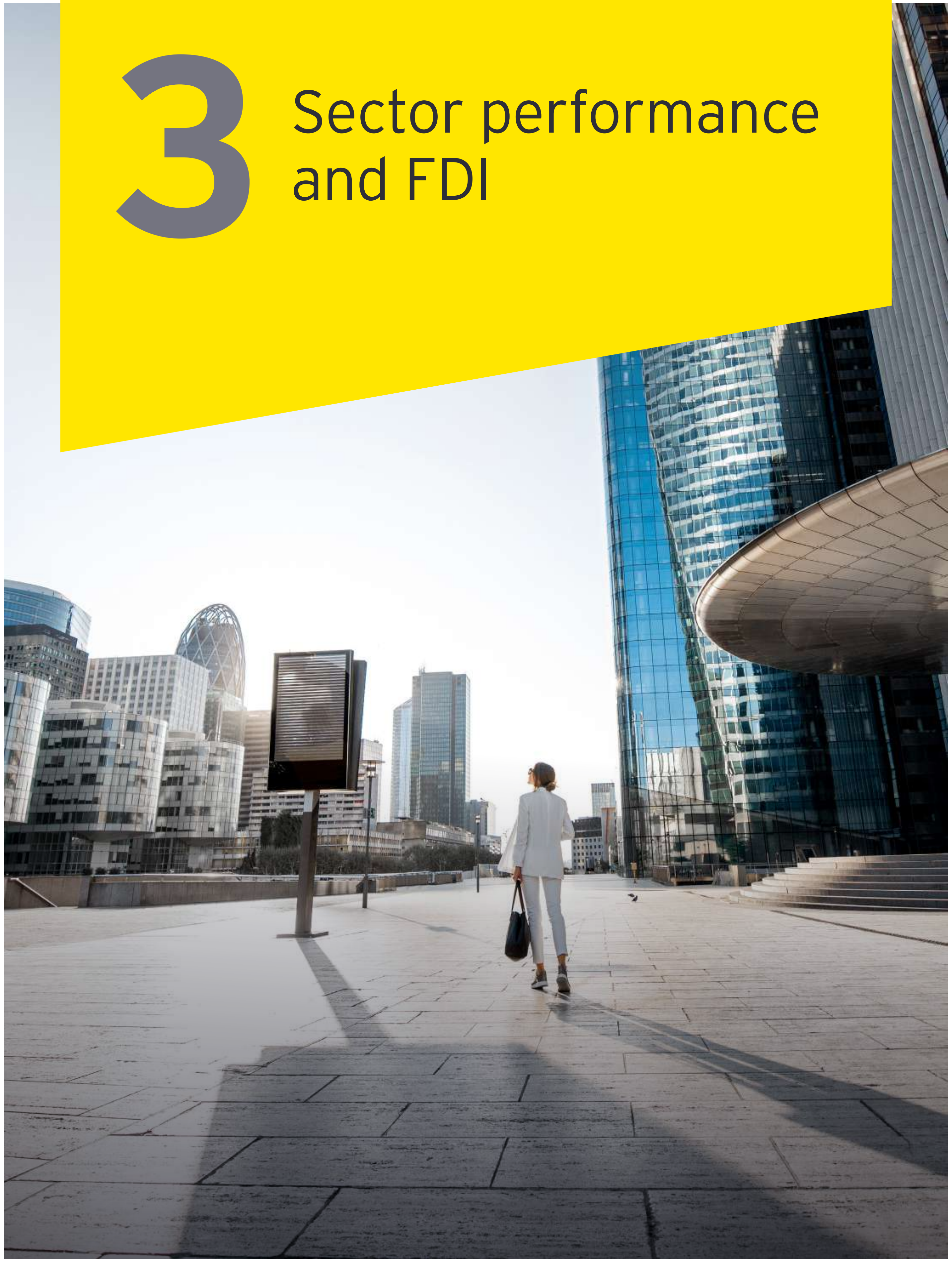
- Extend the duration of the tax scheme for innovative companies for a period of another three years.
- Extend a 50% exemption on employment income from 10 to 17 years for all foreign individuals taking up employment in Cyprus (relevant threshold also reduced from €100,000 to €55,000 per annum).
- Implement additional tax deduction of 20% for R&D expenses for a period of three years (increasing the total deduction to 120% of the total actual expenditure incurred).

In terms of challenges, certain global tax developments admittedly lead to a **reduced appetite for setting up new international tax structures** and exploring new jurisdictions. These are mainly in the field of the base erosion and profit shifting (BEPS) 2.0 project[28] and the **introduction of a global minimum tax rate**, combined with EU's "Unshell" initiative aiming to curb the misuse of shell companies. Despite the above, a number of multinationals continue to relocate their operations and staff to Cyprus in order to tap into various other synergies and exploit Cyprus' other competitive advantages. While a competitive tax framework does remain an important factor to consider when expanding or investing in a new market, it is by no means the only and main reason for such moves.

28 *OECD Statement on a two-pillar solution to address the tax challenges arising from the digitalization of the economy,* 2021.



3 Sector performance and FDI



Information and communications technology (ICT)

The ICT sector contributed 7.7%[29] to the country's gross value added (GVA) and 3.4% to employment in 2021, marking an **impressive growth** of 39% in value over a five-year period. The growth reflects the steady increase in the number of **leading IT companies setting up regional headquarters** in Cyprus or treating the country as a **technology hub** for software development, systems integration, testing services, R&D, back offices, and marketing and sales. These include, among others, names like NCR (consumer transaction solutions), AMDOCS (leading provider of software to communication and media companies), 3CX (leading session initiation protocol (SIP)-based private branch exchange (PBX) provider), Wargaming (award-winning online game developer and publisher), Easybrain (leading mobile game developer) and Servers.com (dedicated servers provider).

Cyprus has always been an ideal **geostrategic location** for **serving the Eastern Mediterranean region**, acting as the gateway between Europe, Middle East and North Africa. Recent efforts by both the government and the private sector to establish Cyprus as a technology hub have put the island firmly on the map. Some of such efforts are strategic planning around the **ICT ecosystem** including, among others, the Cyprus Research and Innovation Strategy framework 2019–23, National Boards for Research and Innovation, Chief Scientist of research and innovation (R&I), national strategies for cybersecurity, artificial intelligence (AI) and distributed ledger technologies (e.g., blockchain), and importantly the creation of the **DMRID**.

Sector growth is expected to be further facilitated by a series of new **measures and incentives** announced by the government in 2021 around **immigration**[30] and the establishment of the **Business Facilitation Unit**.[31] In April 2021, the **Cyprus Tech Association** was also established, aiming to provide a platform for all ICT companies established in Cyprus to promote new opportunities and partnerships, and to provide support to existing and potential foreign investors. Earlier in the year, technology companies also established the nonprofit organization **"TechIsland,"** with a mission to promote the interests of IT companies in Cyprus, promote Cyprus overall as a technology destination and attract sector talent. The initiative has driven significant changes and investments in the domain through **public-private sector collaboration**.

It is also worth noting that, in September 2021, the Association of Cyprus Electronic Money and Payment Institutions (ACEMPI) was established, with the aim of promoting and developing the electronic money sector in Cyprus, reinforcing cooperation among all key stakeholders and providing industry insights.

29 *Cyprus Statistical Service*, www.cystat.gov.cy
30 See Labor market section
31 One-stop-shop unit with centralized registration and incorporation procedure to facilitate investment activity

Notable recent overseas investments in the sector:

- Nexters Global, a games development company, relocated to Cyprus in December 2021, with 170 employees.
- Murex, a Paris-based global leader in designing and implementation of integrated trading, risk management and processing, and post-trade solutions, established its presence in Cyprus in June 2021 and employs 130 staff locally.
- BrainRocket, a leading provider of innovative IT research and development services, entered the Cypriot market in 2020 and to date employs more than 600 people through a hybrid working model.
- Abbyy Ltd, an AI, machine learning and process-mining service provider, relocated 75 employees to Cyprus in 2022.
- Mitsubishi UFJ Financial Group has acquired, through a Cyprus subsidiary, part of Point Nine Limited, creating the MUFG Investor Services Fintech (see Financial Services section, page 50).
- Jetbrains Limited, a software development company, relocated part of its operations to Cyprus in March 2022, bringing over 100 employees and 200 more expected in the future.
- TEKNAVO Ltd, a technical and management consultancy services company, established a local presence in Cyprus in March 2022 with the relocation of a number of staff.
- IPONWEB LABS Limited, an AI, data and engineering company, leader in programmatic and real-time advertising technology and infrastructure, relocated to Cyprus in February 2022 with 100 employees and 80 more expected in the future.
- Wrike Cyprus Ltd, a project management application service provider, relocated to Cyprus in February 2022 with 170 employees, and 180 more expected in the future.
- Malta's telecom company GO Plc increased in 2019 its majority stake in Cablenet Communications System plc, the local telecoms company, to over 60%.

Sector performance and FDI

Viewpoint

External viewpoint

Alexey Gubarev
TechIsland, Co-founder

The ICT sector is very important for the local economy, exhibiting sustainable and high growth, with an estimated 13% contribution to the country's GDP.

The last decade saw significant developments in the sector, fueled by the entrance of key international players in the local market. The potential for further material growth continues, but is dependent on enhancing the relevant ecosystem, including human capital and legislation.

On the human capital side, there is an acknowledged worldwide shortage of programmers and data analysts but, in the case of Cyprus, the gap is even wider as not many Cypriots follow the profession. In order to attract large IT giants, Cyprus first needs to build its local workforce. In doing that, Cyprus can draw inspiration from the model of Silicon Valley and its proximity to top IT higher education. Cyprus needs to develop a top European IT university that can support the local growth of IT professionals. The university can operate with the active participation of technology entrepreneurs and professionals as guest lecturers and internship placements. This interaction will help bridge the gap between education and industry needs. Until then, and in the absence of human capital locally, the provision of incentives for sourcing these specialists from abroad is deemed necessary. There also needs to be investment in supportive infrastructure for the families who relocate, such as high-quality international schools and tackling of current accommodation shortages.

On the legislation side, there is a need for further changes. Thankfully, a number of important changes have already been introduced, such as the recent amendments to the immigration regime and taxation framework. Further changes are needed, such as the enhancement of the protection of IP rights.

The government has been very supportive to market players. Nonetheless, the fact that governments change every five years, and together with them the country's strategic plans, is not helping the implementation of any strategy. What is needed is a long-term growth strategy, of 20 years or more, that will be adopted and implemented by everybody, regardless of who is in power, in order to ensure continuity and implementation. Other areas for improvement include the elimination of bureaucracy, digitalization of the public sector, and expedited and transparent processes for work and residence.

Finally, in terms of promotion of the country as an FDI destination and a technology hub, there are many untapped opportunities. These include participation in significant sector events abroad and organization of ICT community events locally. Best practices can be adopted from countries, such as Estonia and Luxembourg, which succeed at attracting key sector players through the provision of incentives and the right communication.

Viewpoint

External viewpoint

Nikhil Patil
GO plc, CEO

Cyprus is definitely an attractive FDI destination, mainly because of its access to the EU market, its great infrastructure, and a well-educated and highly skilled workforce.

We intend to expand our presence locally, by continuing to invest in both the telecoms and IT sectors. GO is already the largest investor in the local digital infrastructure. Through our investment arm "GO Ventures," we also continue to invest in a number of new local and international startups in technology-driven sectors.

In terms of future sector outlook, like many other EU countries, inflation has been rampant in Cyprus and is impacting unemployment levels, and consumer and business confidence. However, the telecoms sector is generally quite resilient and is seen as a defensive sector, since existing customers will continue to need essential communications services, regardless of any changing economic conditions. In the short to medium term, the lack of consumer and business confidence could potentially result in delays in investing in large telecom projects and a move toward lower-priced products for consumers. In the longer term, however, I believe the local sector has a potential to grow at the rate of Cyprus' economic growth.

The biggest challenge in the local telecoms sector is its competitive intensity. It is just too small for infrastructure-based competitors.

In terms of funding, even though the capital market in Cyprus is not yet well established, Cablenet, our Cyprus-based subsidiary, was able to raise financing from Maltese investors and is the first foreign-based company to be successfully listed on the Malta Stock Exchange.

Viewpoint

External viewpoint

John Sergides,
CEO of MUFG
Investor Services

A number of factors contributed to our decision to establish a new operational center in Cyprus, which will act as a major European hub.

Low-cost is never the key driver for us, since our priority is to maintain a presence in high-quality locations that are close to our clients. Instead, we establish a physical presence where we believe there is an excellent talent pool, as well as where we can partner with the local communities and cities in which we are based.

One of the ways in which we historically cultivated our partnership with the local community in these locations, was through cooperative initiatives with local universities; something which the company expects to also do in Cyprus. Our partnership involves offering scholarships, taking people straight from university, offering them rewarding careers, allowing them to travel with our company, and enabling them to work in one of our global offices. It is very important for us to give back to the local community.

For the new location we considered different locations, like Poland, Hungary, and the Czech Republic. Cyprus, from our perspective, came top of the list. We wanted to enter a country and be present in a place that is stable, has a high talent pool, has an internationally recognized accepted legal system, English is a spoken language, and where we can find people with experience in banking and financial services - able to work in our industry. Cyprus's location between the Middle East and Western Europe was also cited as a key reason.

The pandemic highlighted another advantage of Cyprus. The country has always been a very resilient island and has overcome fairly quickly whatever challenges has faced, with a minimum of fuss. It is always business as usual here, which is important for us.

The company already employs approximately 40-50 people, and the plan is to expand on this to north of 300 people over the next few years.

Even though the opening of the Cypriot office gives us a first mover advantage, we do anticipate that other providers will follow soon, since people in the industry do take notice when a firm of our size makes a move.

Infrastructure, transportation and logistics

Given its **strategic location** and island status, transport and logistics infrastructure remains an important area for Cyprus in the effort of gaining and maintaining any comparative advantage as an investment destination. Capitalizing on its geography and **modern port and airport infrastructure**, Cyprus can become a key **regional transport hub** for cost-effective cargo transport and processing. In 2021, transportation and storage contributed €1.33 billion or 6.5% to the country's GVA,[32] the seventh-largest contribution by activity.

Road transport is the dominant form of domestic transport, while international connectivity is carried out exclusively by sea and air.

By air, the country features two international airports at Larnaca (LCA) and Pafos (PFO), hosting over 70 airlines and connecting Cyprus to around 40 countries and 120 destinations, servicing both passengers and cargo. Since 2015, when former Cyprus Airways ceased operations, there has been currently no national carrier. Nonetheless, connectivity to the island remains good. In July 2020, Hungarian Wizz Air made Larnaca its 28th base, launching to date 14 new destinations. Emirates SkyCargo also expanded to Larnaca in response to the growing demand for air cargo capacity across the world.

Connectivity by sea is enabled by two deep-sea ports in Limassol and Larnaca. The Limassol port is a state-of-the art facility, equipped to compete with regional rivals such as Piraeus and Haifa. Further expansion of the country's ports, starting with the Larnaca port, is expected to contribute to the growth of the logistics sector.

The transport and logistics sector has further benefited from the discovery of natural gas in Cyprus' Exclusive Economic Zone (EEZ), with logistics companies becoming specialized in supporting oil and gas companies. Major global players are choosing Cyprus as the natural service center for their regional operations, including among others ExxonMobil, ENI, Shell and Total. In response to the above, DP World Limassol has established an environmentally compliant 100,000m^2 oil and gas logistics center in the Limassol port, with the capacity to support up to three offshore exploration projects in the Eastern Mediterranean simultaneously. The Cypriot government has also announced plans for the development of a new dedicated energy port at Vassilikos, at an estimated cost of €250 million, in its efforts to transform Vassilikos area as Cyprus' new energy center.

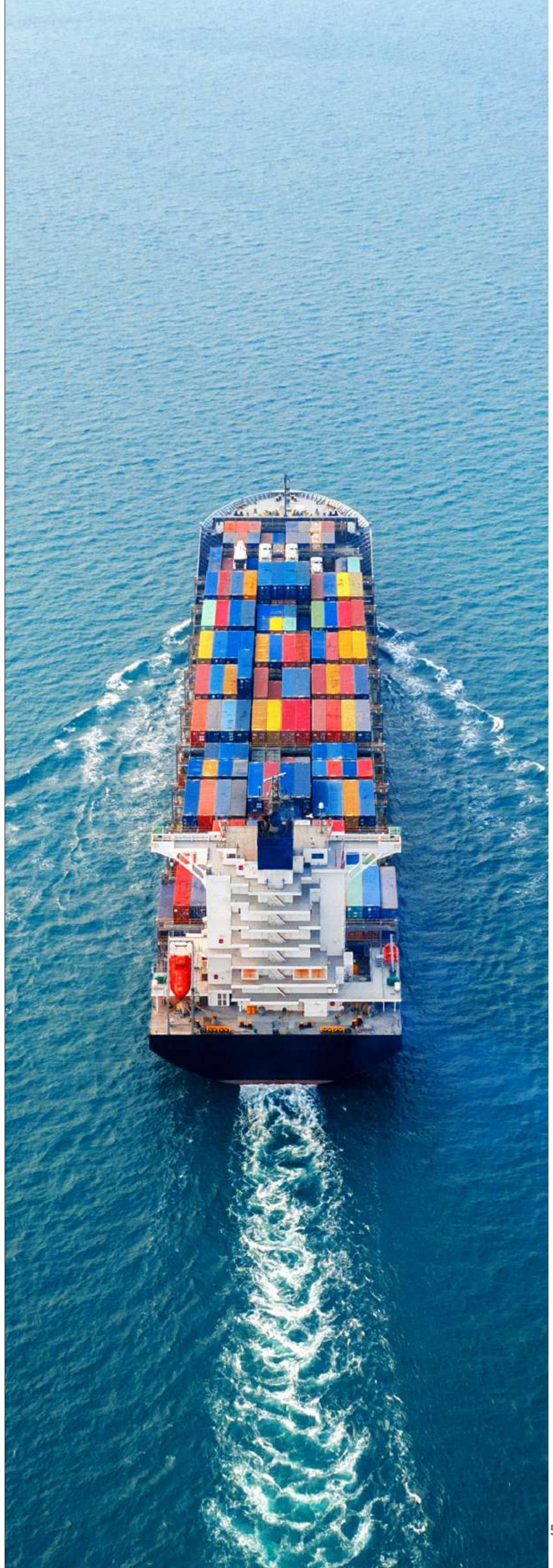
In response to the pandemic, Cyprus took early action by implementing strict safety protocols and ramping up support to its transport sector, thereby allowing companies and industry players to keep operations going with minimal disruptions. The pandemic has also created **opportunities in the sector** by emphasizing the need for door-to-door delivery services, increasing **e-commerce** activity. The changing needs and behaviors of the final consumer reinforced the need for process optimization, increased **technology use, reconsideration of storage locations** and the redistribution of products.

As supply chain disruptions are leading businesses to consider a complete reshaping of supply chain activities, Cyprus stands to actively benefit from **nearshoring and the regionalization of supply chains** by virtue of its location and expanding infrastructure. Cyprus should also be in a position to attract giants in the field of e-commerce. According to KYFEAS,[33] there is a need of approximately 120,000 m^2 of storage and warehousing areas[34] to cover immediate needs in Cyprus. An establishment of Cyprus as an international freight center, for European and other corporates, in terms of fulfilling south-eastern Mediterranean markets is likely to increase further the storage and warehouse needs.

32 *Cyprus Statistical Service,* www.cystat.gov.cy

33 Cyprus Supply Chain and Operations

34 First Cypriot Survey of Supply Chain needs. iMinder, Cyprus Chamber of Commerce and Industry, Ministry of Energy, Trade and Industry, Cyprus Supply Chain Agency (KYFEA) and ECR CYPRUS, April 2022.



Sector performance and FDI

Notable recent overseas investments in the sector:

- DP World (UAE) invested, in 2016, in two public concessions for the operation of the multipurpose terminal and marine services of the Limassol port, including offshore oil and gas, multipurpose general cargo, roll-on and roll-off, and further development of the new cruise terminal. A consortium led by German-based Eurogate invested in a third concession of the same port, involving the operation of a container terminal. To date, the companies above have invested millions in state-of-the-art IT systems and additional infrastructure (super-post-Panamax cranes and so on) to optimize the port's facilities.
- The new Pafos and Larnaca airport terminals were completed and they commenced operations in 2008 and 2009 respectively, on the basis of a 25-year build, operate and transfer (BOT) model. This was followed by their concession to Hermes Airports (an international consortium led by the French giant Bouygues). Hermes has invested over €600 million in the two concessions and is expected to invest further in infrastructure over the following years.
- In 2020, Cyprus petroleum company Petrolina and international energy trader VTTV inaugurated a new €80 million liquid fuels storage facility in Vassilikos, thereby tripling local storage capacity.
- The Larnaca port redevelopment was recently awarded to an Israeli consortium (see the real estate section, page 66). Upon completion of the expansion project, the Larnaca port is expected to host 10 berths with a total capacity of 3,672m^2 and a state-of-the-art passenger building. At the same time, the existing port infrastructure will be upgraded in terms of sea area, internal road network and storage areas.

Energy

Cyprus has a **high energy dependency rate** (the third largest in the EU, at 92.5%) due to its **isolated electricity grid** and **low degree of diversification in electricity generation**. About 90% of electricity is generated through conventional thermal combustion of imported petroleum products, with only a very small share of demand covered through RES. This results in significantly **higher energy prices** compared with other European countries.

On the flip side, large **new RES projects** are increasingly attracting the interest of international investors. **Structural reforms** surrounding the introduction of the **new wholesale electricity market**, together with allocated funds in the sector from Cyprus' **RRP** and the introduction of ESG-related practices, are expected to provide an additional boost to the sector.

The discovery of **significant natural gas** reserves in Cyprus' EEZ, during the last decade, has also attracted a number of multinationals operating in the sector. Global energy giants, such as ENI (Italy), Kogas (South Korea), Total (France), ExxonMobil (US), Chevron (US) and Qatar Petroleum, have all secured relevant exploration rights. Overcoming the pandemic-induced disruptions, ExxonMobil, Qatar Petroleum, ENI and Total recommenced their drilling activities in Cypriot waters in 2022.

Part of the vision is for Cyprus to **establish itself as a logistics and support provider for the oil and gas industry in the Eastern Mediterranean**. The development of a €300 million sophisticated fuel terminal at Vassilikos by VTTV (Cyprus subsidiary of Dutch multinational VTTI), in 2014, has been an important step in this direction. The terminal is the first of its kind in the Eastern Mediterranean and can help the country establish itself as a leading regional center for the processing, storage and re-export of fuel.

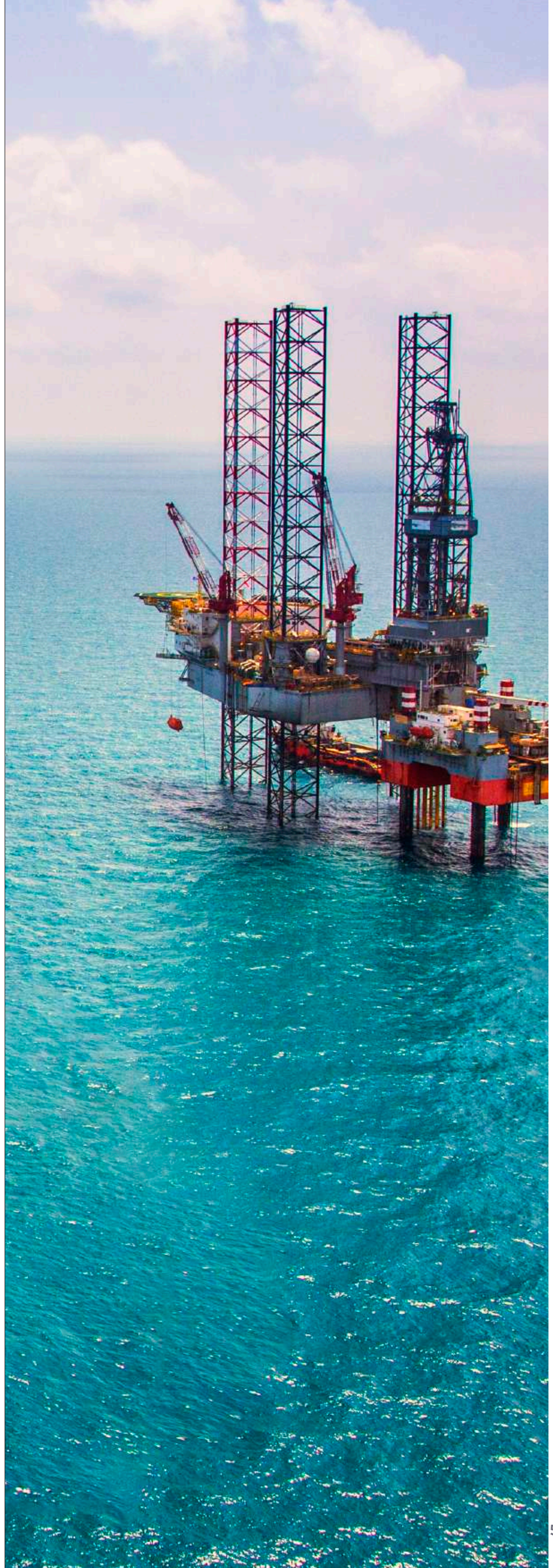
In addition, the newly reapproved Tonnage Tax System[35] provides opportunities for oil and gas companies and, in particular, cable and pipeline-laying vessels, research vessels, mobile drilling units, offshore support vessels and accommodation barges used in offshore activities, as they are now on the list of eligible ships.

The country's **strategic position** in the Eastern Mediterranean makes it an ideal location, not only as an important **fuel hub** and **headquartering** location, but also as an **energy interconnection node**. As countries around the world, and Europe in particular, are facing an unprecedented energy crisis, Cyprus has entered into interconnection agreements with neighboring countries to overcome its own energy isolation and to contribute to EU's overall energy security.

Another significant development is the **REPowerEU** Plan, presented in May 2022 by the EC, in response to the hardships and global energy market disruption caused by the war in Ukraine. The plan includes measures on energy savings, diversification of energy supply, and accelerated rollout of renewable energy to replace fossil fuels in homes, industry, and power generation.

Finally, it is worth noting that Cyprus has already embarked on a decarbonizing transition process, endorsing the **Agenda 2030 for Sustainable growth** and EU Council's conclusions on climate neutrality by 2050. National targets include, among others, the following: (i) increased penetration of RES, (ii) security of supply through the introduction of natural gas via liquefied natural gas (LNG) imports and the development of relevant infrastructure, and (iii) the promotion of electricity in interconnectivity within the EU energy market.

35 See Shipping section



Notable recent overseas investments in the sector:

- A milestone project, currently in progress in Cyprus, relates to the €290 million terminal for the import of LNG for electricity generation, led by China Petroleum Pipeline Engineering (signed in December 2019). The project is partly funded by EU and includes a floating storage and regassification unit (FSRU), which will link to the country's energy grid until 2046. LNG will replace heavy fuel oil and diesel in power generation, reducing the cost of electricity and curbing carbon dioxide emissions.
- A key project which is expected to further decrease the cost of electricity locally and terminate the country's energy isolation, is the Euro-Asia Interconnector. The project, which has already secured the necessary permits and funding of €657 million from the EU, involves a 2,000 MW electricity interconnector between Israel, Cyprus and Greece.
- Another important project in the sector is the EastMed gas pipeline, a 2,000 km-long onshore and offshore natural gas conduit project, which meant to connect offshore gas reserves from the Levantine Basin to Greece via Cyprus, and further to south-eastern European countries. The project is expected to deliver approximately 10 billion m^3 of natural gas to the EU, helping countries with coal and heavy-crude oil-reliant energy systems, transition to natural gas, and come closer to their net-zero targets. It will also strengthen their energy security given the existing Russian dependency. Despite recent controversies, in June 2022, DNV[36] confirmed the technical maturity of the project.

36 Independent expert in risk management and quality assurance leading the EastMed pipeline project

Viewpoint

External viewpoint

Natasa Pilides
Minister of Energy,
Commerce and Industry

Recent geopolitical developments have led to material changes in the region's energy field, acting in many cases as a catalyst for developments.

Inevitably, the war in Ukraine has significantly impacted the prices of goods, fuel and electricity, leading to inflationary pressures, even though imports of energy products to Cyprus from Russia (coal and liquefied petroleum gas) are limited. As such, the government is continuously working toward finding better and more inclusive ways to shield consumers from power price volatility, and a series of measures has been implemented for this purpose.

Further developments are also expected with regard to the natural gas deposits in our EEZ. Some of the biggest players in the oil and gas industry are actively involved, including Chevron, ExxonMobil, Qatar Energy, Shell, ENI, Total, Kogas and NewMed Energy, holding exploration or exploitation licenses. Seven exploration wells have been drilled offshore Cyprus thus far, and three gas discoveries have been made: "Aphrodite" at 4.4 trillion cubic feet; "Calypso," which merits appraisal; and "Glaucus" at 5–8 trillion cubic feet in place. Further exploration is ongoing.

Relevant to the sector infrastructure, investments are also underway and include projects, such as the LNG import terminal at Vasilikos, as well as infrastructure allowing Cyprus to export LNG from its EEZ to Europe and elsewhere. Such projects could allow the EU in general to diversify its natural gas suppliers and routes, and tackle the ongoing energy crisis. Natural gas is the least polluting and geographically abundant fuel that will serve as a transition fuel toward greening the EU economy.

The Euro-Asia Interconnector is also a notable project and a potential game-changer for Cyprus and the wider region. It will allow the integration of the Cypriot energy market with Europe, as well as the export and import of electricity between Israel, Cyprus, and mainland Europe. This will not only enhance energy security, but it will also allow much higher penetration of renewables in Cyprus' energy mix. It will also encourage further investment in renewable energy projects, as local projects will have access to a much larger captive market. As stated in our National Energy and Climate Plan, with electricity interconnection, the RES share in electricity production can exceed by 50% by 2030, as opposed to a targeted 30% RES – electricity penetration in the absence of the interconnection.

The strategic utilization of RRF funds in the area of renewables and sustainability is also key for us. Transition to a greener and circular economy is a crucial element, built into all our funding programs (co-funded by the EU) for businesses, industry, and homes, with a total of €547 million for 2021–27. Around 61% (€334 million) of these funds will be allocated toward greening the economy, while another €208 million (38%) will go toward promoting greener entrepreneurship.

Hospitality and tourism

The tourism sector has **traditionally** been **one of the strong pillars** of the Cypriot economy and largest contributors to the country's GDP. The pandemic stemmed the continuous growth that the tourism and hospitality industry was experiencing until 2019; a year that registered a record four million tourist arrivals and direct revenues of €2.7 billion (approximately 12% of GDP).[37] The sector is also responsible for 18,000 jobs.

During the pandemic, the sector has shown **resilience**, with 2021 tourist arrivals reaching 50% of pre-pandemic levels. The outlook for 2022 is also encouraging, with strong recovery signals: the first four months of 2022 alone reached almost 80% of the respective pre-pandemic levels.

The war in Ukraine and Russian sanctions have created additional **challenges** since, historically, the Russian market represented approximately 20% of the country's total arrivals. Official estimations indicate that up to 800,000 tourist arrivals from Russia and Ukraine could be lost in 2022.[38] Additional challenges for the sector include the rising fuel prices impacting **flight fares, rising energy and other operational costs**, historic **connectivity** issues, and the sector's **seasonality**. Finally, one should note the staff shortages observed in the sector following the pandemic, with the shift of experienced personnel to other sectors. The latter does not only adversely affect the cost base of the units through higher salaries but also the quality of the services offered.

Efforts have been made on all fronts to **penetrate new markets** and strengthen existing ones to offset the losses. Historically, the UK and Russian market together accounted for more than 50% of the country's tourist arrivals. Alternative tourist markets are being targeted (such as Germany, Poland, France, Switzerland and Austria), as part of the plan to **diversify** the island's tourist feeder base. In addition, increasing efforts are being made to **promote the country as a year-round holiday destination**, expanding the tourist season beyond summer time and the "sun and sea" concept. Improvements in existing tourist products, and introduction of new and **authentic experience** projects are also underway. The relatively recent establishment of the **Deputy Ministry of Tourism** has been key in these efforts.

Efforts are also under way with regard to re-establishing Cyprus as a **leading cruise hub in the Eastern Mediterranean**. Prior to the pandemic, Cyprus was gaining momentum in the area, with TUI announcing 13 new destinations leaving from Limassol port for the winter season 2019-20. In addition, a new passenger terminal was inaugurated in Limassol in 2018 by DP World, with plans to increase passenger port traffic by 35%. DP World expects over 150 cruise ship calls during 2022, with the upward trend expected to continue into 2023.

37 *Cyprus Statistical Service,* www.cystat.gov.cy
38 Bloomberg, Europe Edition, 2022

Notable recent overseas investments in the sector:

- Hong Kong-listed gaming and hospitality group Melco Resorts & Entertainment is currently developing Cyprus' first and Europe's largest integrated casino resort in Limassol, the "City of Dreams Mediterranean." The project involves an investment in excess of €600 million and is expected to commence full operations in mid-2023. The project is expected to help Cyprus' target of becoming a year-round quality tourist destination, attracting an additional 300,000 tourists annually. The opening of the resort was planned for 2022 but has been delayed, with the company citing labor and supply chain shortages.
- Invel Real Estate – an international real estate and hospitality fund – along with other overseas partners, acquired the luxury five-star Parklane hotel in Limassol, in 2021. The move followed a number of other investments by the group in the local hospitality sector, including among others the acquisition of the former Hilton hotel and the Holiday Inn hotels in Nicosia, as well as the Aphrodite Hills resort in Pafos. Following the acquisitions, the group and its partners invested material funds in renovating and expanding a number of these units.
- The new five-star Radisson Beach Resort is nearing completion and set to open its doors in Larnaca within 2022. In 2018, Radisson launched the Radisson Blu hotel in the same city. The year 2020 saw the opening in Larnaca of the first branded boutique hotel under the Intercontinental Hotels Group, namely Hotel Indigo. NCH Capital, a US hedge fund firm, is also undertaking a number of other hotel projects in the district, with projected investment exceeding €250 million.
- A number of other leading international hotel chains are also rumored to soon enter the Cypriot hospitality market. AccorHotels and its luxurious Sofitel brand have been appointed to manage a new resort in Limassol, while the Hyatt group is in discussions for the opening of the first Grand Hyatt hotel in Limassol by 2025.
- Other large-scale projects relevant to the sector, during the last years, feature the development of a number of marina projects, aiming at a growth of nautical tourism (see Real estate section, page 66).

Viewpoint

External viewpoint

Savvas Perdios
Deputy Minister of Tourism

The Deputy Ministry of Tourism (DMT) is working fervently toward recovering from the effects of both the pandemic and the war in Ukraine, by intensifying all efforts to increase traffic from all other important source markets, with good results.

At the same time, the DMT strives toward further enrichment of the country's tourist offering, through additional infrastructure, such as mixed-use tourist developments, new hotels, conference centers, self-service sharing establishments, agro-tourism and farm living concepts. Extending special-interest tourism products is also targeted, with a focus on weddings, sports training, authentic experiences, high-quality services and sustainable tourism.

Over the last 20 months, since the start of the pandemic, the DMT has been working incessantly to create the tourism products which will become the focal point of the country's new identity and succeed in repurposing Cyprus as a tourism destination. Examples of relevant actions include the following:

- Launch of the new tourism brand identity that is used to promote Cyprus since 2021
- Launch of an online reputation management system, a tool to enable DMT to monitor service quality and customer satisfaction
- The development of a 3,000 km authentic experience route, the "Heartland of Legends," to support and highlight the countryside, mountainous, and remote areas

DMT has further drafted new legislations and frameworks aiming to further enhance the country's tourism product. It also commissioned different areas and product-specific strategy studies to enhance the offering.

The DMT has further exploited the RRF to support the tourism industry in the post-COVID-19 era. Four relevant incentive schemes have been drafted, as follows:

- Financing for the renovation of hotels and accommodation establishments in rural, mountainous, and remote areas
- Reviving rural, mountainous, and remote areas through the creation of authentic experiences to enrich the tourism product
- Renovating traditional restaurants and businesses selling traditional food products, with the possibility of their inclusion in the quality label "Taste of Cyprus"
- Repurposing of hotels and accomodation establishments to include medical and assisted living facilities in order to attract health, wellness, and medical tourism

Furthermore, within the framework of the **National Tourism Strategy 2030**, Cyprus implements a number of policies and actions linked to sustainability, aiming to: (i) reduce the burden on coastal areas, (ii) stimulate tourist development in rural, mountainous and remote areas, and (iii) generate tourism flow to these areas.

Another pillar of our strategy is the growth of nautical tourism through the development of marinas along our coastline and the licensing of yacht harbor areas. We are also closely monitoring the construction of the "City of Dreams Mediterranean" casino resort, the first multipurpose, integrated casino resort in Cyprus and the largest in Europe, with an investment that is expected to surpass €600 million. This integrated resort enriches Cyprus' tourism product, and it could attract up to an additional 300,000 tourists annually. It is expected to contribute significantly to the improvement and enhancement of our tourist product, besides combating seasonality.

Finally, DMT closely monitors Cyprus' performance. It utilizes, for example, the World Economic Forum's Travel & Tourism Development Index (TTDI) as a monitoring tool for the sector's competitiveness. Based on the latest edition of the Index (2021), Cyprus ranks 31st, among 117 countries. We aim to firmly establish ourselves as one of the 30 most competitive countries in world tourism by the end of the decade. Based on the Index, Cyprus ranks high under the pillars of prioritization of travel and tourism, international openness, tourist service infrastructure, ICT readiness and socioeconomic resilience. TTDI also offers valuable information on areas in which Cyprus can further improve, through actions undertaken by DMT or with collaboration with different bodies from the public and private sectors. Such actions can be addressed as part of the implementation of the National Tourism Strategy 2030 in order to secure a long-term perspective.

Viewpoint

External viewpoint

Marianna Papachristoforou
Invel Real Estate, Head of Asset Management, Cyprus

Cyprus is an ideal destination from both a business and a personal perspective. The mild climate and trouble-free lifestyle it offers, are paired with a high-quality workforce and professional services, excellent educational institutions, an efficient administration, and transparency of systems compared with other countries, as well as a favorable and business-friendly tax regime. It's therefore no coincidence that so many foreigners choose to call it "home." In fact, this is why after almost 30 years of living and working abroad, my family happily relocated there.

By further building on its traditional strengths, Cyprus is moreover steadily evolving into an attractive FDI destination that can attract long-term institutional capital. Improving areas such as capital markets liquidity; further developing and investing in new industries and products such as technology, health, and education; and last but not least expanding on its core industry, that of tourism, will strengthen its popularity as a business destination. Additionally, facilitation and incentives for personnel relocation, digitalization of government services, implementation of the anticipated one-stop-shop process for the licensing of large development projects, and further enhancement of infrastructure will facilitate FDI. Air connectivity remains a key issue, especially following the closure of the country's national carrier. The gap in the market in fact presents a very attractive investment opportunity and any initiative addressing this will go a long way.

The Cypriot hospitality sector has been competitive in attracting foreign capital prior to the COVID-19 outbreak, and this is expected to return on the back of new – some of which branded – hotels that are in the pipeline. For the moment, the sector still suffers from the pandemic and is very much impacted by the ongoing war in Ukraine, which has resulted in high inflation and downward economic pressures. The future remains challenging, with a possibility of further demand shortfall from direct and indirect effects on the consumer spending power, higher transport fares, and cancellation of flights.

Overall, there has been a discernible rise in the luxury sector around the globe, with significant changes in consumer preferences for high-quality branded hotels and restaurants. Further, "staycations" increased domestic leisure. Guests are exhibiting strong preferences for hygiene and precautionary measures, contactless technologies, sustainability, health, and wellbeing.

As such, opportunities in the Cypriot hospitality sector include branded resorts and restaurants, the development of concepts around health and wellbeing, and overall offerings that elevate service standards, and provide unique memorable experiences inspired by the rich local culture and nature.

In order to support the local industry, authorities should enhance their efforts to target new prospective markets, and intensify and redesign marketing campaigns to promote Cyprus as an authentic luxury destination. This will require time and effort. It is, however, achievable as Cyprus has true intrinsic value as a destination, and the relevant authorities can and should embark on intelligent campaigns to present this even more fervently. Suffice to say, as an example, Cyprus has significantly warmer seas than many competing European destinations, including many of the Greek islands, and therefore a longer tourist season (April–October).

In addition, authorities can aim to diversify by targeting new segments through new channels of collaboration. Areas to focus on include health and wellbeing, sports, tournaments, thematic tourism, experiences and MICE (meetings, incentive, conference and exhibitions). They can also introduce initiatives to enhance summer and winter months so as to promote all year-round tourism. We applaud the DMT for its intention and commitment to implement such strategies.

To date, Invel has invested heavily in the Cypriot hospitality and real estate sector, with the acquisition of a number of hotels and mixed-use developments combining tourist, commercial, retail, and residential uses. With regard to future plans, we believe that opportunities continue to exist locally, and we are reviewing a number of projects across different sectors.

Real estate

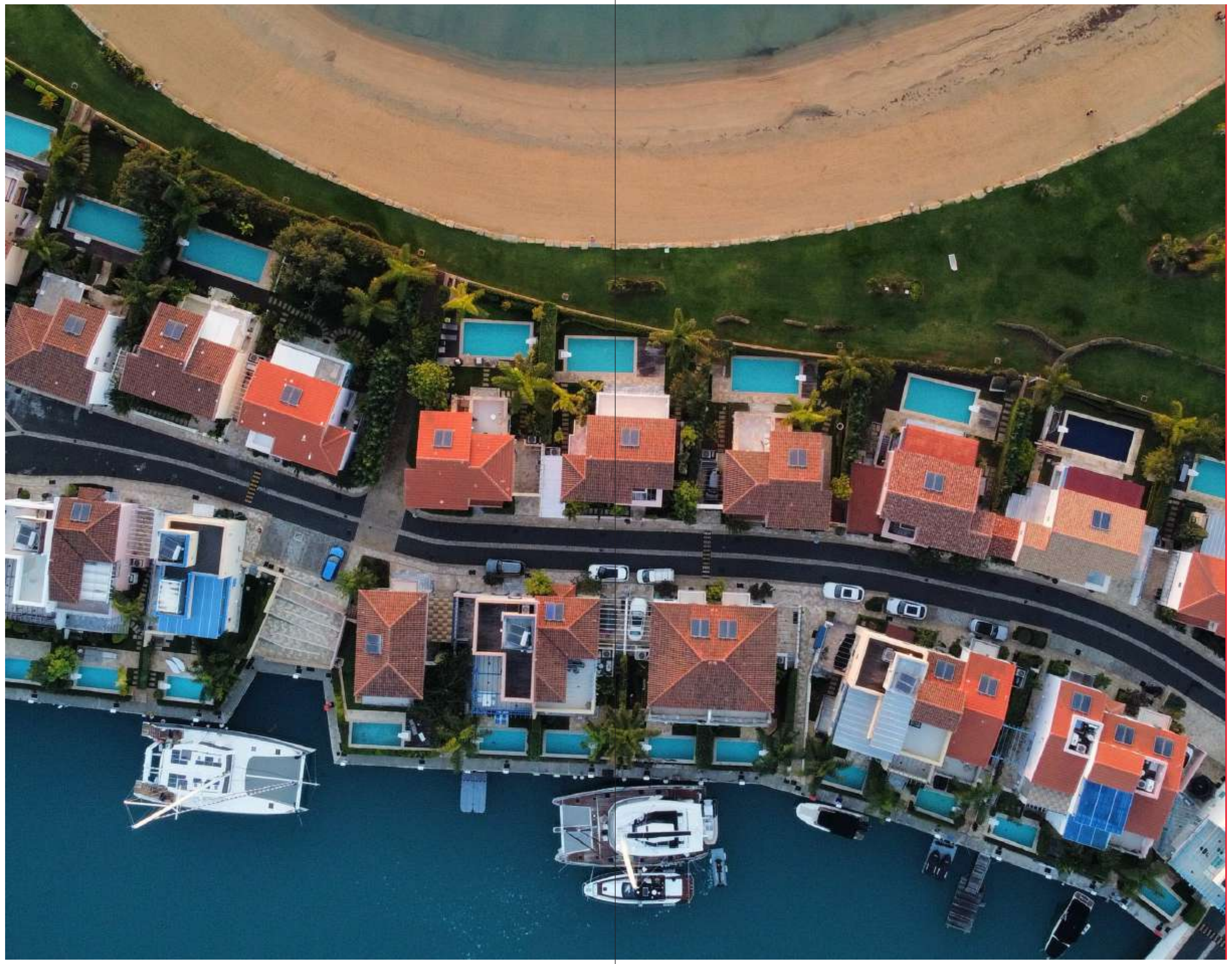
Real estate has traditionally been another **key pillar** of the local economy. In 2021, the sector proved **resilient** and bounced back and recovered its pre-pandemic transaction activity, with sale contracts filed at the Department of Lands and Surveys reaching approximately 10,000 (30% y-o-y increase). Demand from the domestic market was a key contributor to this increase and involved properties purchased either as first residence or for investment purposes. Foreign demand had a positive impact, with around one-third of the transactions carried out by foreign buyers. The sector's contribution to the country's GVA in 2021 was about 16%,[39] despite facing pandemic-led challenges coupled with the **termination of the Cyprus Investment Program** (CIP), in November 2020.

The termination of CIP has either canceled or put on hold some large-scale residential developments at the upper end of the market, while others that were still at the initial stages have been modified and redesigned to adjust the offering to new target markets and the changing environment.

The pandemic and associated lockdowns have brought about a **shift in sector behaviors** globally and could are also expected to affect the local market, with certain asset types affected more than others. The growing tendency toward **e-commerce** is hitting high-street retail outlets, and favoring warehouses and distribution centers. Large corporations stunned by the success of **"work-from-home"** routines are looking at hybrid models, aiming at reducing office space requirements and costs. It is possible that remote working may become the new norm in the medium term, leading to "reverse urbanization" where tenants move to the suburbs for more space and lower rents.

The war in Ukraine has introduced **new challenges**, curbing demand for residential units locally from both the Russian and Ukrainian market, which historically concentrated at the higher end of the market. Moreover, the war is causing **supply chain disruptions** and is **inflating the costs** of raw materials and energy, exerting substantial upward pressure on prices. Inflation and higher interest rates are also expected to impact financing, thus the demand in the sector. Construction costs rose by 17% y-o-y during the fourth quarter of 2021,[40] and the price index of construction materials in April 2022 reached a historical high since 1986, when data was first collected.[41]

On the other hand, a number of companies based in Ukraine and Russia have already initiated plans to relocate part of their staff and operations to Cyprus, resulting in increased demand for housing units and office space in specific areas (especially in the coastal cities of Limassol and Pafos), a trend that is expected to continue in the short to medium term.



Notable recent overseas investments in the sector:

- The consortium Kition Ocean Holdings has commenced construction works for the Larnaca marina and port re-development, the largest infrastructure project in Cyprus (in excess of €1 billion, based on public announcements). The development will include, in addition to the marine infrastructure, a mixed-use development with extensive real estate components. Kition Ocean Holdings Ltd was awarded the tender in 2020. German-based Aroundtown SA joined the Kition consortium in 2022. One of the largest real estate investment firms in Europe – Aroundtown – has also been considering a number of additional large-scale real estate opportunities on the island.
- New marina developments are also underway across Cyprus, with Paralimni and Agia Napa at the construction stage, and the Pafos marina project entering the tendering stage. The first phase of the Agia Napa marina, a project undertaken by Egyptian investor Naguib Sawiris, was completed in June 2022.
- Israeli investor Gilad Shabtai has also recently acquired over 130,000 m^2 of land next to the integrated casino and hotel resort in Limassol. Based on public announcements, Mr. Shabtai is considering developing a mix of uses, such as residential, commercial, culinary, leisure and entertainment. The site is within close proximity to a new integrated golf resort developed in the area, (namely "Limassol Greens"), developed with the participation of Maltese investors.
- A number of other international investors with presence in Limassol (active in the ICT and other sectors) have recently invested in sizeable land parcels in the Tsiflikoudia coastal area, west of the Limassol Marina. These plots are expected to be developed as high-end mixed-use developments, elevating the wider area, and establishing it as a major business and technology hub.
- Israeli companies Dorsel (B.A.Z.) Ltd and Ari Real-Estate (Arena) Investments acquired, in April 2022, part of the share capital of My Mall in Limassol, an investment expected to open up the way for the expansion and renovation of the mall.
- Invel Real Estate Management and its partners have invested in a number of real estate assets locally, including hospitality and mixed-use assets. They are planning to further invest in the development of these assets with the introduction of additional real estate components.

39 *Cyprus Statistical Service,* www.cystat.gov.cy
40 Central Bank of Cyprus
41 *Cyprus Statistical Service,* www.cystat.gov.cy

Shipping and maritime industry

Cyprus is considered one of the most **reliable** and **competitive** shipping centers around the globe. The country hosts 275 ship-owning, ship management, chartering and other shipping-related companies.[42] These companies control a merchant fleet of 2,200 vessels with 56 million gross tonnage, while employing approximately 11,000 employees on land and 55,000 seafarers. In terms of fleet size, the Cyprus Registry is classified as the **11th-largest merchant fleet in the world** and the **third largest in the EU**. In 2021, there were more than 1,700 ocean-going vessels with 25 million gross tonnage registered under the Cyprus flag.[43]

Cyprus is **EU's largest third-party ship management center** and among the top three, globally. Cyprus-based companies handle more than 20% of the world's third-party ship management activity. In 2021, ship management services provided by such companies covered 3,300 ships with a net tonnage of 47 million and, based on estimations, contributed around €1 billion in revenues (approximately 4% of the country's GDP).[44]

The country's success in the shipping sector is attributed not only to its **strategic position** as a crossover of three continents and the **close proximity to the Suez Canal**, but also to a number of strategic moves. These include its **EU-approved shipping regime**, with a wide and legally endorsed **Tonnage Tax System** that was recently reapproved. The Tonnage Tax System provides certainty to companies on their annual tax obligations, and reassurance on continuance of benefits for ship-owning, ship management, and chartering activities. Moreover, Cyprus boasts favorable investment funds legislation offering **alternative funding solutions** to shipping companies, **competitive ship registration** costs and fees, **no restrictions on crew** nationality, 28 merchant shipping **bilateral agreements**, and a **sophisticated professional services** industry. In addition, Cyprus is signatory to all international maritime conventions on safety, security and pollution prevention. It should also be noted that the Cyprus flag is on the **"white list"** of both the Paris and Tokyo Memoranda of Understanding, resulting in less inspections and delays for its holders.

Challenges facing the global industry include the IMO 2020 **sulphur cap and decarbonization**, trade **sanctions** and incorporation of **technology advancements**, as well as **talent shortages**. With respect to the latter, it is worth noting that **local universities** and newly established maritime academies have started offering shipping-related courses locally. There is also increased activity in awareness campaigns for the youth, as well as initiatives taken to spark interest and encourage maritime and blue studies among secondary-school students.

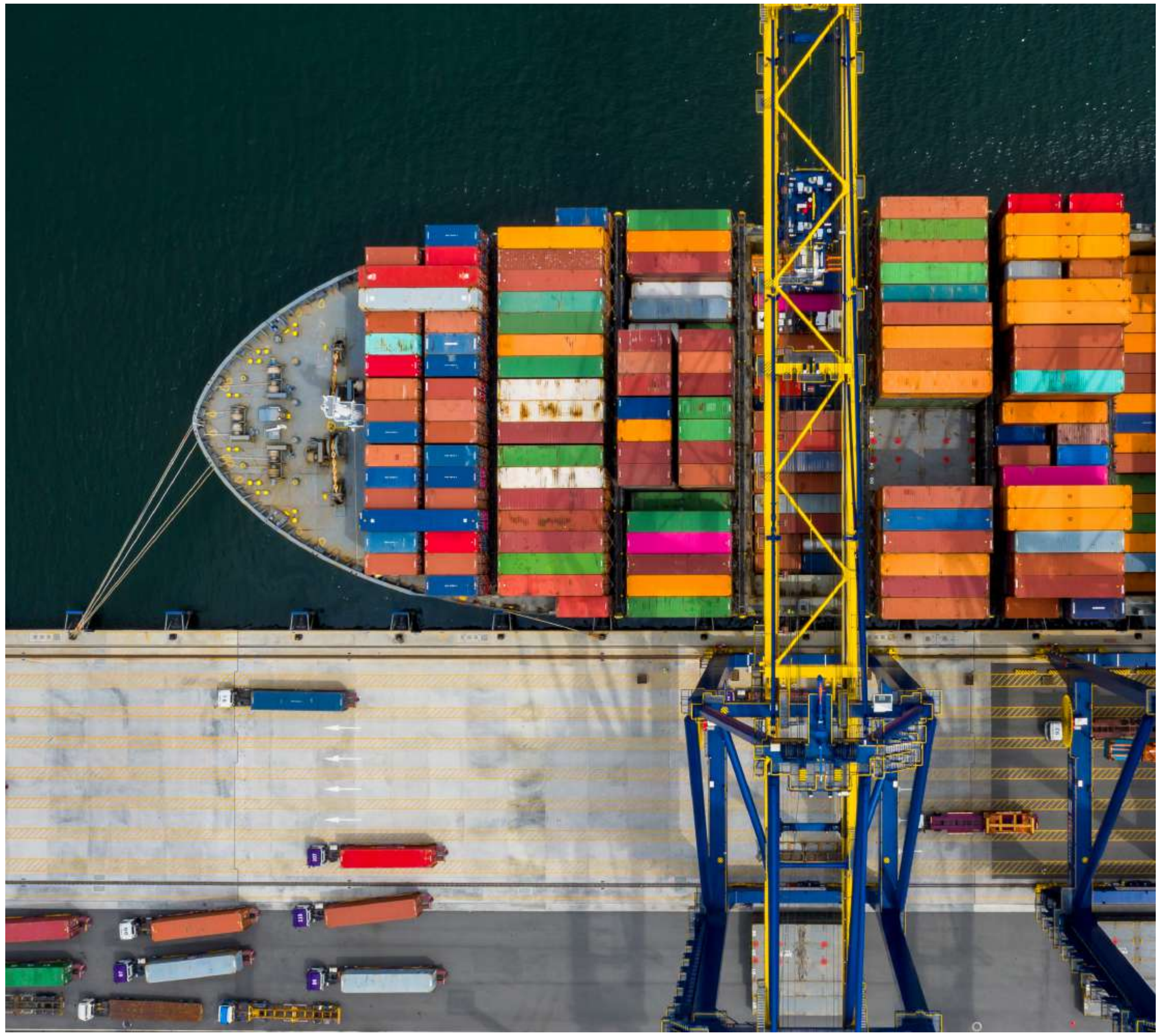
Additional local challenges include the country's **air-connectivity limitation** and the **Turkish embargo**. Shipping executives have been calling for Cyprus to improve flight connectivity and establish more direct flights to other key hubs around the world. In addition, the Turkish embargo that is preventing Cyprus-flagged ships from calling at Turkish ports is a serious hurdle to the country realizing its full potential as a maritime hub.

In view of the challenges and opportunities, the country's commitment to the specific industry has led to the recent creation of an autonomous **Shipping Deputy Ministry**, committed to preserving and enhancing the competitive advantages of Cyprus in the sector.

42 President Anastasiades speech at the inauguration of ferry link between Cyprus and Greece, 20 June 2022.
43 Invest Cyprus. A thriving maritime cluster.
44 Cyprus Profile, Country report 2021.

Notable recent overseas investments in the sector:

- Protection and Indemnity (P&I) Club member Steamship Mutual Underwriting Association (Europe) Limited (SMUAL) decided to underwrite all its European business through a Cypriot entity in February 2020.
- In 2019, in advance of Brexit, British P&O Ferries proceeded to register their entire English Channel operating fleet under the Cyprus flag.
- Israeli consortium Kition Ocean Holdings has invested in the Larnaca port redevelopment (see Real estate section, page 66).
- DP World and Eurogate have made investment in the Limassol port to optimize facilities (see Infrastructure, transport and logistics section, page 54).



Financial services

Financial services (banking, insurance and asset management) constitute a **key sector** of the local economy with a contribution to GVA, in 2021, of 8.2% and to employment of 4.2%.[45]

During the pandemic, banks continued to provide liquidity to the local economy, while at the same time improving their capital adequacy and maintaining **healthy liquidity ratios**. The main focus of Cyprus' banks in the last couple of years continued to be the **reduction of nonperforming exposures (NPE)**, which has been the biggest hindrance of the sector since the financial crisis of 2013. NPEs shrunk to €3 billion (11% of total loans) by December 2021, compared with €9 billion (28% of total loans) in December 2019, as the pressure from regulators on de-risking and cleaning of banks' balance sheets continued.

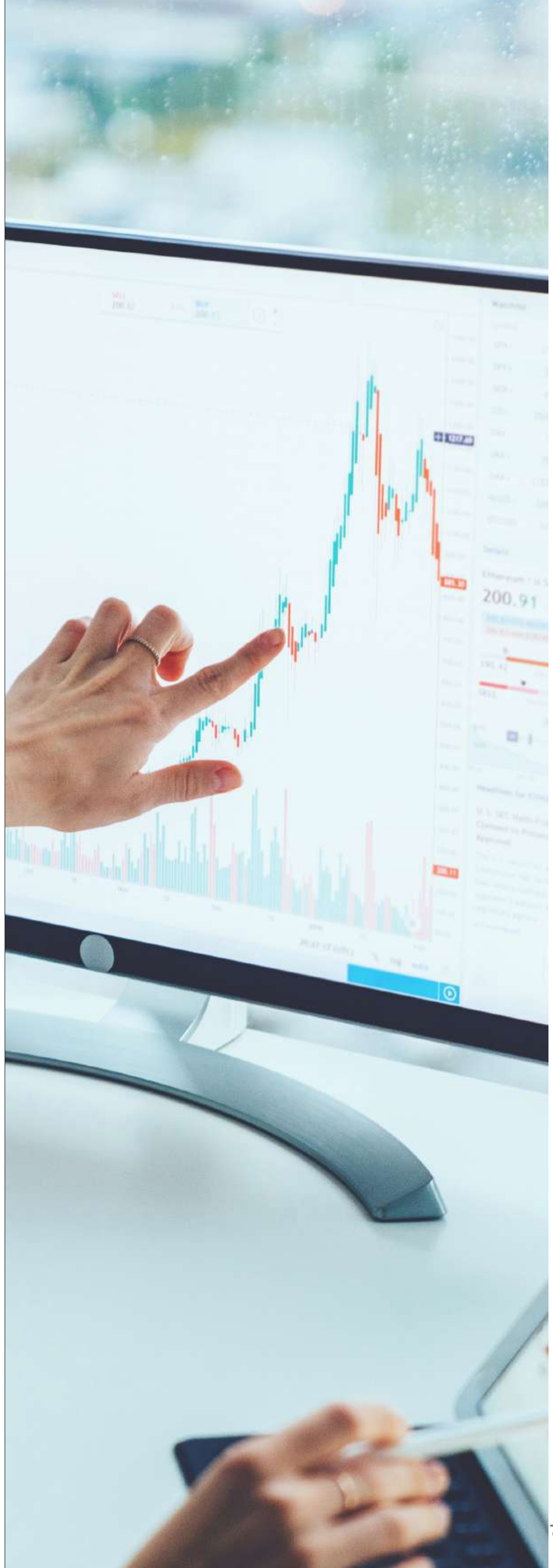
In March 2022, following Russia's invasion in Ukraine, RCB, one of the island's three systemic banks, entered into an agreement with Hellenic Bank Public Company Ltd for the sale of a performing loan portfolio of up to €556 million and related off-balance sheet obligations. Subsequent to this transaction, RCB announced that due to the extremely volatile geopolitical situation, it has taken a decision to transform into a regulated asset management company, shifting away from banking operations which will be phased out.

Despite the end of the pandemic, a number of **challenges remain** for Cyprus banks that will need to be decisively addressed in the near future. These include **identifying new lending opportunities** without increasing credit risk, proceeding with their **digitalization** plans, optimizing their revenues, and addressing their **cost structure** through reduction of their branches and workforce. Given their **excess liquidity** (net loans to deposits ratio was at 56% in December 2019), there is an obvious and imminent need for new lending.

Insurance: Insurance companies in Cyprus are currently focused on the timely implementation of the new accounting standard for insurance contracts, IFRS 17. There has been no **consolidation** in the sector in the last few years, something that is expected to take place in the coming years as smaller companies will face higher **regulatory compliance costs** as well as major investment in digitalization, to keep pace with the bigger players in the market.

Asset management: Despite the challenges posed by the pandemic, 2021 has been another year of **remarkable growth** for the investment funds sector in Cyprus. Based on data published by the Cyprus Securities and Exchange Commission (CySEC), the total assets under management by funds in Cyprus reached €11.6 billion at the end of 2021, compared with €8.6 billion at the end of 2020, an increase of 35%. The number of regulated management companies and undertakings of collective investments, at the end of 2021, reached 310, of which 224 already have activities. A year earlier, the number of licensed companies was 283, of which 197 had activities. Several new applications for licensing are currently being evaluated by CySEC.

45 *Cyprus Statistical Service*, www.cystat.gov.cy

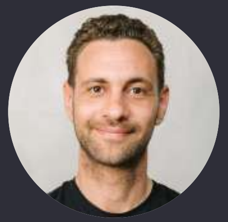


Notable recent overseas investments in the sector:

- US-based Bain Capital acquired €325 million of nonperforming loans, as gross book value (GBV), from National Bank of Greece (Cyprus) in late 2020.
- Bank of Cyprus announced, in August 2020, the sale of NPEs of €916 million (GBV) and in November 2021 the sale of NPEs of €577 million (GBV) and real estate properties of €121 million (book value) to funds under US-based PIMCO.
- Hellenic Bank also announced, in April 2022, an agreement with funds affiliated with PIMCO for the sale of an NPE portfolio of €740 million (GBV) and for the sale of APS Debt Servicing Cyprus Ltd (the debt servicing subsidiary). The sale is expected to be completed by the end of 2022.
- In 2020, Astrobank, a bank owned by a group of Lebanese investors led by Maurice Sehnaoui, issued new share capital of approximately €23 million.
- In December 2021, Eurobank Greece completed the acquisition of a 12.6% stake in the share capital of Hellenic Bank from funds affiliated with Third Point, a US-based investment advisor.
- Since 2020, a number of insurance entities and brokers, including the London P&I Club (one of the largest maritime insurance companies worldwide), the UK Defence Club (the leading and most influential provider of legal costs insurance to the maritime industry) and Steamship Mutual, have decided in light of Brexit, to relocate to Cyprus to ensure continued access to trade in the EU.
- In March 2022, MUFG Investor Services, the global asset servicing arm of Mitsubishi UFJ Financial Group, announced the establishment of a new operational center in Cyprus, as its second major European hub working alongside Dublin, Ireland. The new office provides key infrastructure necessary to support MUFG Investor Services' rapid growth across Europe.

Viewpoint

External viewpoint



Ran Cohen
Co-founder and CEO,
BridgerPay

Cyprus has several competitive advantages as an investment destination. Notably, it offers a "quiet" environment that enables investors to focus on their venture without many outside distractions. It also comes with a high quality of life and pleasant lifestyle, especially for raising a family. Short distances to travel mean more time that one can spent with family. On top of these, I would say, EU membership is an important factor.

In order to improve Cyprus' attractiveness as an FDI destination, there are several actions that can be taken. First, there is the issue of inefficiency in the provision of funding by banks. For example, in New York, know your client (KYC) procedures are usually completed within a few hours, whereas in Cyprus it takes weeks for such procedures to be completed. The lack of venture capital is also an issue.

There is also the issue of talent shortage, especially in FinTech. Bringing talent to Cyprus is not easy, as there are a number of relocation challenges. It is encouraging to see that the authorities are taking steps to improve the situation. The government can support the FinTech sector and attract further FDI through education. It is logical to assume that there is talent locally, and what we need to do is take steps to train, educate and upskill. We need to embrace and develop people to address the lack of skills.

In addition, there is a need for incubators to help startups develop and flourish, to guide them on product development, marketing, capital raising and others; supporting startups is key. We need to build a structure to bring ideas to life, to educate and support startups, perhaps in the form of a government-led or backed accelerators. Although there is no need for high-technology science parks and centers, there is a need to create hubs, bringing together people from existing companies who have the expertise and resources to support startups. Adding to these, competitions are a great way to cultivate, connect and create communities.

In general, the government should reach out more to stakeholders and market players, and get their input and help to improve the sector and in general FDI. If given the opportunity, stakeholders are willing to provide the required assistance.

Promoting Cyprus' attractiveness abroad is an area for further improvement. Market players are looking for and need content. A solution would be to have a consolidated platform or space to share information that is properly managed and monitored.

Health care

The health care system in Cyprus is split between the **public and the private sectors**. Health services in the public sector are provided by five district hospitals and one pediatric and gynecological hospital, three small rural hospitals, and 38 health centers. The private system consists of 73 independent centers, with facilities owned either by the physicians themselves or private companies in which doctors are usually shareholders.

The sector underwent a major transformation in June 2019 with the launch of the new **General Health Care System** (GESY), which came into full force in July 2020. GESY came to unify a previously fragmented system that had serious problems, including an imbalance of resources between public and private providers, very high out-of-pocket payments, large inequalities in access, long waiting lists, and general inefficiencies. Financed by state revenues and contributions levied through wages and pensions, the new system offers universal coverage with the inclusion of inpatient care, emergency care, ambulance services, preventive dental care services, and outpatient care by allied health professionals.[46] While the old system covered only 83% of the population, GESY covers 100% — all legal residents, including Cypriot citizens, EU citizens, and third-country nationals with permanent residence status and their dependents, as well as refugees and asylum seekers.

But GESY did not come without **challenges**. Notably, **human capital shortage** has surfaced as a major challenge. Competition between private and public hospitals and the growth of certain providers have led to an unprecedented shortage of doctors and nurses, across all levels and areas. The system currently relies on medical graduates who studied abroad and are planning to practice in Cyprus, but in the near future, the four local medical schools will start training doctors to fill vacant posts.

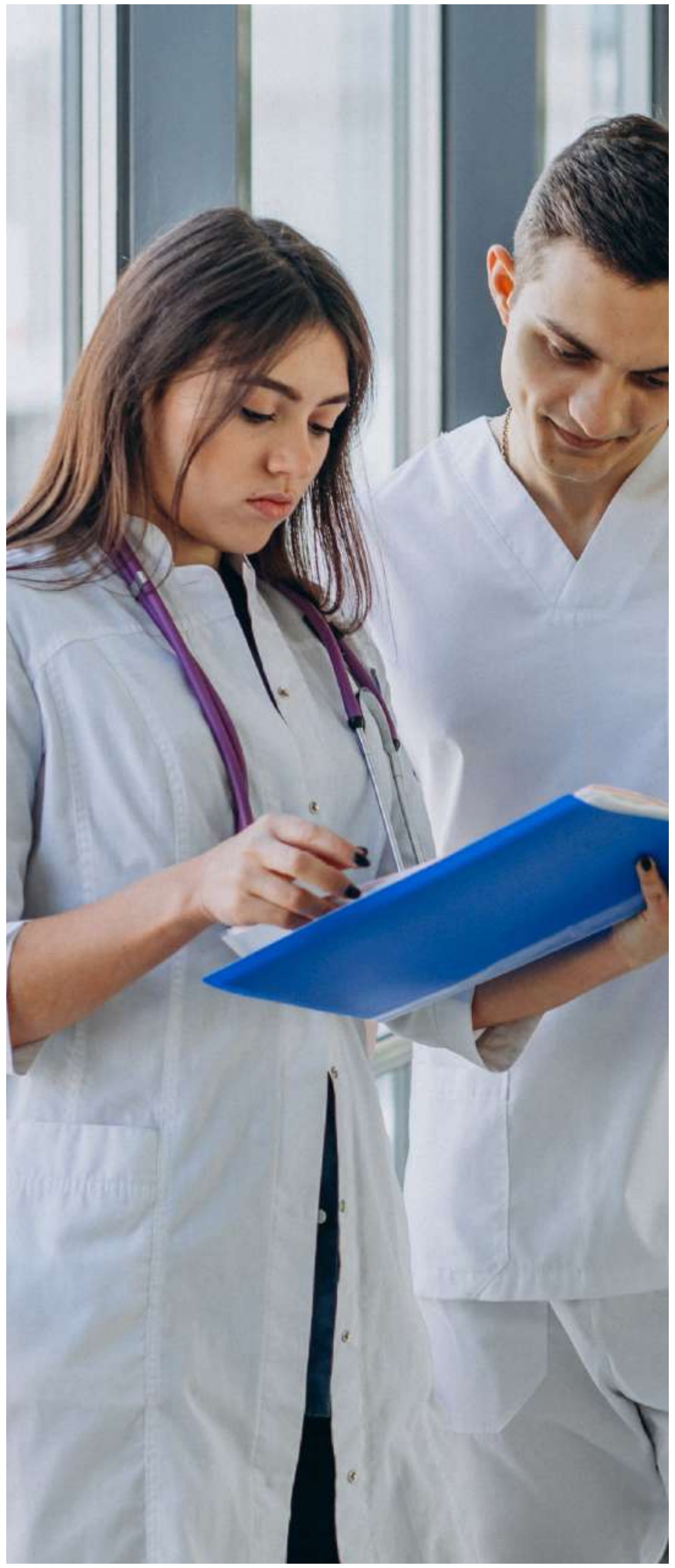
In addition, public hospitals are lagging behind in terms of their own transformation and financial sustainability. A five-year transitional period has been granted, during which public hospitals are receiving financial support. Serious concerns exist over their ability to withstand qualitative and quantitative competition from the private-sector hospitals and this could result in serious imbalances for GESY.

As such, health care providers are called to **invest in upgrades** by way of accreditation in order to meet the quality-related KPIs and benchmarks, correlated to remuneration models. It will be the first time that health care providers will be reviewing their procedures, processes, governance, protocols and other areas of quality control to this extent. This creates an opportunity for increased transparency and more foreseeable financial trajectory for providers, that could translate into system efficiency and stability.

As part of the National Recovery and Resilience Plan (**RRP**) for the period 2021–26, Cyprus has targeted areas of **investment to modernize** key elements of the health system.[47] The plan includes major investments in GESY (€5.7 million), upgrading of both public and private hospitals (€46.1 million), and support to facilitate accreditation as part of quality assurance measures.

On the whole, the system has been welcomed by the wider population, in spite of initial resistance by some established health care providers. The eventual entrance of both private and public providers, including hospitals and clinics, into the system has led to tectonic moves in the sector, with **FDI in health care reaching an all-time high**.

46 *Cyprus Health Profile*, OECD, WHO, EU, 2021
47 Republic of Cyprus and European Union, 2021



Notable recent overseas investments in the sector:

- Apollonion Private Hospital was acquired in Nicosia by CVC Capital Partners in late 2021, for the amount of €85 million. CVC Capital Partners is one of the largest investment firms worldwide. In Greece, CVC operates through the Hellenic Health care Group (HHG). This umbrella holds six private hospitals as well as the network of primary care services, HealthSpot and Alpha Lab.
- CVC Capital Partners proceeded through HHG with the acquisition of the Aretaeio Private Hospital. A transaction was announced in July 2022.
- Medicover Investment B.V., a Dutch company, acquired NIPD Genetics Public Company Limited. Specifically, Medicover increased its participation in NIPD to 87.2% from 18.9% (acquired in 2018), for the amount of €44.4 million. Medicover is a leading international company in the field of health care and diagnostic services.
- The development of a Hadassah medical and hospital complex in Nicosia, and a diagnostic center in Limassol was announced by Hadassah, an Israeli medical organization. Hadassah Medical Center in Limassol is already under construction and expected to be operational by the end of 2022, while the Hadassah Health Park in Nicosia is projected to be completed in 2025, on a privately owned land in Lakatamia. The two projects are expected to create around 1,500 new job positions.

Viewpoint

External viewpoint

Alex Fotakides
Partner and Head of CVC Greece,
CVC Capital Partners

CVC has been monitoring the Cypriot market, and the medical sector in particular, since late 2017. We started visiting private hospitals in Cyprus in early 2018. We found the facilities to be well maintained with good equipment and excellent doctors. Almost all, if not all, private hospitals were owned by many doctors (either practicing or retired) and, therefore, there was a need for strategic and institutional investors to come in and support the next phase of growth in the market.

With respect to the medical sector outlook, the sector typically follows the general economic trend as per GDP growth. In Cyprus, the new public-private health care system (GESY) provides further opportunities for growth and should result in universally providing better medical services for everyone. At CVC, we are also increasingly focused on digital transformation, wellness and prevention.

Cyprus is attractive as an FDI destination for CVC Greece, for both general and specific reasons. In general, the economy has recovered well from the financial crisis of the previous decade and has a highly educated, entrepreneurial workforce, often with international experience. The presence of skillful professionals bringing "global experience locally" is very important to CVC as this is completely aligned with the company's DNA of global and local staff. In addition, Cyprus has an investment grade, Eurozone economy, and has efficient legal and taxation frameworks. The country is also strategically positioned from an EMEA perspective and, as a member of the Commonwealth, maintains a good relationship with the UK even after Brexit. Corporate social responsibility (CSR) and ESG Cypriot initiatives are also important elements for deciding to invest, as are the opportunities created by the Recovery and Resilience Facility.

Regarding the specific reasons for CVC, almost all of our Greek portfolio companies are invested in Cyprus, including: Hellenic Health care Group, Skroutz, Dodoni and Ethniki Insurance. We have strong collaboration and partnerships, which create synergies and are win-win for both countries. For example, Cypriot doctors can practice in our Greek hospitals and vice versa.

Government support to date has been strong and consistent. There has been great effort to further integrate within the EU, and provide an attractive investment destination for European and global companies. The way forward will be bolstered by FDI diversification, both in terms of sectors and investor base. Close working relationships between government officials and relevant industry stakeholders are also necessary for effecting swift and meaningful change to seize opportunities created, such as Brexit.

As far as our future plans are concerned, we are keen to continue investing in Cyprus through our existing portfolio companies (not only the ones based in Greece but also across the broader CVC network of 25 offices worldwide). We have also identified several leading Cypriot companies as independent investment opportunities, where we believe an institutional investor, such as CVC, can help them grow sustainably.

Education

The education sector contributed 6.3% to the country's GVA and 7.3% to employment in 2021. In terms of higher education, the **sector is growing** with the establishment of a number of high-quality academic institutions over the last years, offering a large variety of advanced and fully accredited undergraduate and postgraduate programs. Today, there are 10 universities (three public and seven private) together with 45 other higher-education private institutions (with no university status), offering academic and vocational programs.[48] A number of the local universities have also managed to forge cooperative agreements with reputable universities abroad (such as UCLAN, St George's and Middlesex Universities) and develop courses matching the local market needs.

In the academic year 2020–2021, the total number of students studying in higher education institutions (HEIs) in Cyprus amounted to 54,235.[49] Of the total number of students, 44% were Cypriot citizens, 40% were citizens of EU countries while 16% are citizens of third countries. Based on historical data, the number of Cypriot students has remained relatively constant over time, while the number of students from other EU countries and third countries has followed an increasing trend.

Lockdowns affected the education sector significantly and forced institutions to undergo a **major transformation to digital** in a short period of time. Higher education responded effectively to the challenges and took advantage of distance learning methods and hybrid models, from which they will also benefit in the longer term.

Recognizing the importance of the sector for the wider economy, especially given the lack of local talent in a number of emerging sectors,[50] **investments related to education, training and skills** represent about 10% of the total budget for the country's RRP.[51] The plan contains reforms and investments focused on improving the quality and effectiveness of education and training at all levels and ages, thereby **addressing key skills mismatches in the labor market**, and promoting employment and inclusive growth.

It also aims to address the challenges of low participation in **vocational education and training and lifelong learning**, rising skills mismatches particularly among young graduates, and poor digital skills. It further aims to **digitalize** the education system.

In particular, the development of digital skills is among the objectives of the RRP, which dedicates €24 million to digital skills development. The measures planned include modernizing primary and secondary education curricula, developing new educational material, training teachers, and making investments in digital equipment for schools. In parallel, Cyprus is in the preparation of a national "e-skills Action Plan" to boost digital skills across all population groups, including in public administration, enterprises and society at large. Moreover, an electronic education system for public schools will also be developed as part of a broader strategy for the digital modernization of education through a €20 million government and EU joint investment.

Several actions to support adult learning will be further financed by the EU in the programming period 2021–2027. The European Social Funds Plus (ESF+) will support the development and promotion of individual learning accounts, while the RRF will support training initiatives to improve digital skills, upskilling and re-skilling actions, and actions toward the green and digital transitions. The new lifelong learning strategy currently being developed, with support from the commission's technical support instrument, will help further in that direction.

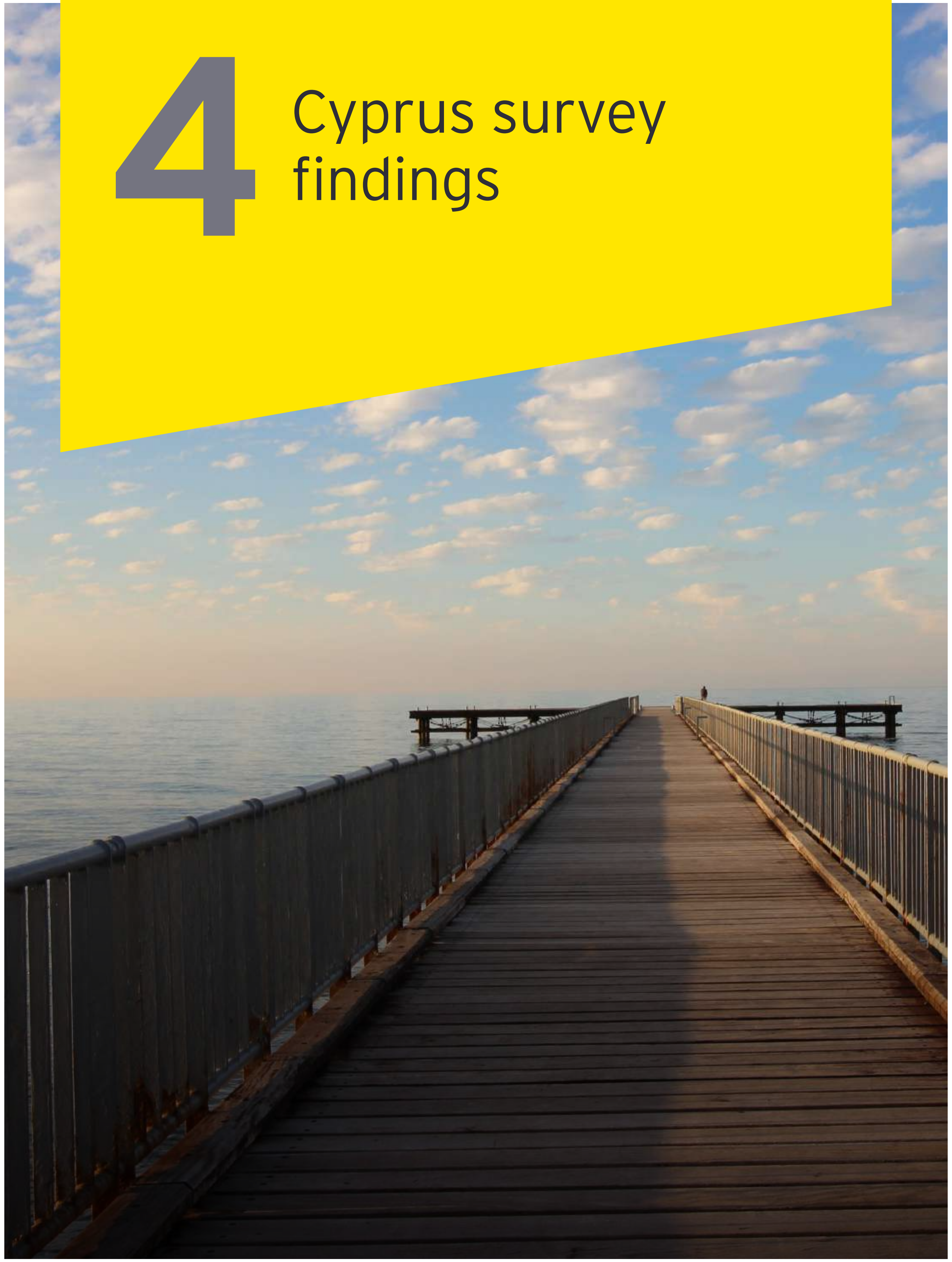
Finally, one should add the opportunities created through Brexit for the local education sector. Following UK's exit from the EU, one of the top university destinations for both Cypriot and other EU students is now out of reach, due to a significant increase in tuition fees. These students are now selecting Cyprus and other European countries (e.g., Netherlands) that operate English-speaking universities.

48 Cyprus Ministry of Education, Culture, Sport & Youth.
49 *Mapping of the Educational Field of Higher Education in Cyprus*, Department of Higher Education, 2022.
50 See Labor market section.
51 *Analysis of the recovery and resilience plan of Cyprus*, EU Commission Staff, 2021.

Sector performance and FDI

Notable recent overseas investments in the sector:

- Cyprus inaugurated its seventh private university in May 2021. The fully accredited American University of Cyprus (AUCY) will host two campuses, the first in Larnaca and another in Agia Napa to follow.
- The opening of the Cyprus Campus of the American University of Beirut (AUB) in Pafos is estimated for the fall term 2023, with an estimated budget of €29 million for converting the new campus. The "AUB-Mediterraneo" will constitute the European extension of the 155-year-old academic institution.
- The acquisition of the share capital of Pascal World Schools Ltd by Providence Equity Partners was announced in June 2022. Providence Equity Partners specializes in private equity investments in North America. It has 33 years of experience, eight flagship funds, over 170 investments and US$31 billion in total private equity commitments.



4 Cyprus survey findings

This is the second survey covering the perceptions of the international investment community on the attractiveness of Cyprus as an investment destination, after the series was launched for the first time in Cyprus in 2020. It is part of the broader EY Attractiveness program and uses the same methodology with surveys carried out for other European countries. The Attractiveness program this year covered, in addition to the European-wide Attractiveness Survey Europe,[52] surveys in 14 countries and were carried out between February and May 2022.

The timing of the Cyprus survey

The Cyprus survey was conducted between 8 April and 17 May. It should be noted, at the outset, that this year's survey coincided with the war in Ukraine, accompanied with the imposition of unprecedented sanctions against Russia and the political and economic uncertainty that ensued. It is likely that the above have significantly affected the participants' outlook and perceptions.

Perception gap between established and nonestablished companies narrows

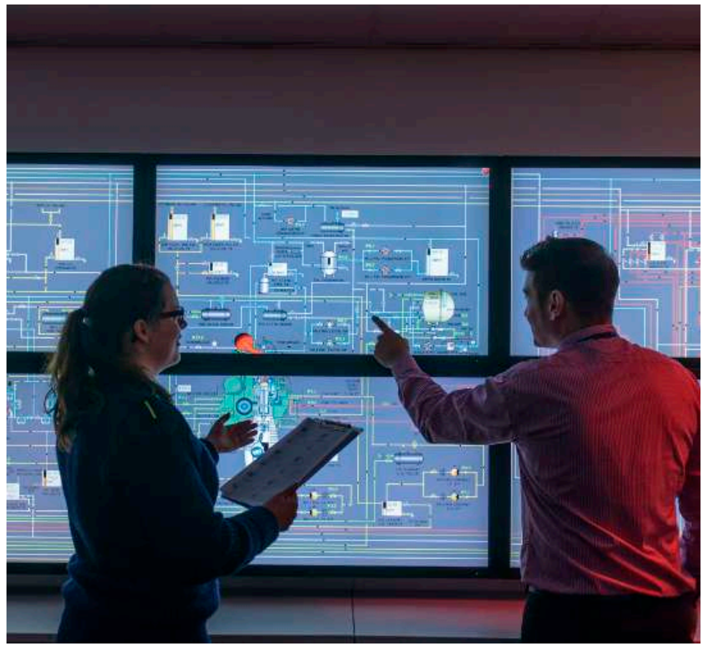
One of the striking findings of the EY Cyprus Attractiveness Survey 2020 had been the persistent differentiation between the responses of "established" and "nonestablished" companies.[53] The latter category had a significantly less positive view of Cyprus as an investment destination, while many of them opted not to reply to several questions, possibly because of the lack of extensive knowledge of the local environment. By contrast, the results of the 2022 survey show that the **views of established and nonestablished companies are much more aligned**, with companies that have no established ties to Cyprus adopting a more positive and responsive outlook. This could be an indication that the general level of awareness about developments in Cyprus and the country's advantages as an investment destination has increased over the last two years. This may be attributed to the increased promotion efforts of relevant authorities (e.g., Invest Cyprus), as well as efforts undertaken by the private sector (e.g., TechIsland).

Larger companies have a more positive outlook

Another differentiation that has emerged in this year's survey is the one between smaller and larger companies. This is consistent with the findings of the Europe-wide survey, where very **large companies**[54] **tend to have a more positive outlook** than medium and small companies.[55] One possible explanation for this trend is that smaller companies feel less able to take advantage of the opportunities arising from the European Recovery and Resilience Fund (RRF), which is focused primarily on very large projects. In the case of Cyprus, it may also reflect the fact that smaller companies tend to prioritize investments in larger economies.

Number of companies planning investment in Cyprus increases

Participants were asked whether their companies have plans to establish or expand operations in Cyprus over the next year; 29% of respondents gave a positive response, up from 24% two years ago. Investment plans were more pronounced among large companies (35%) than SMEs (16%), and among established companies (35%) compared with nonestablished companies (22%).



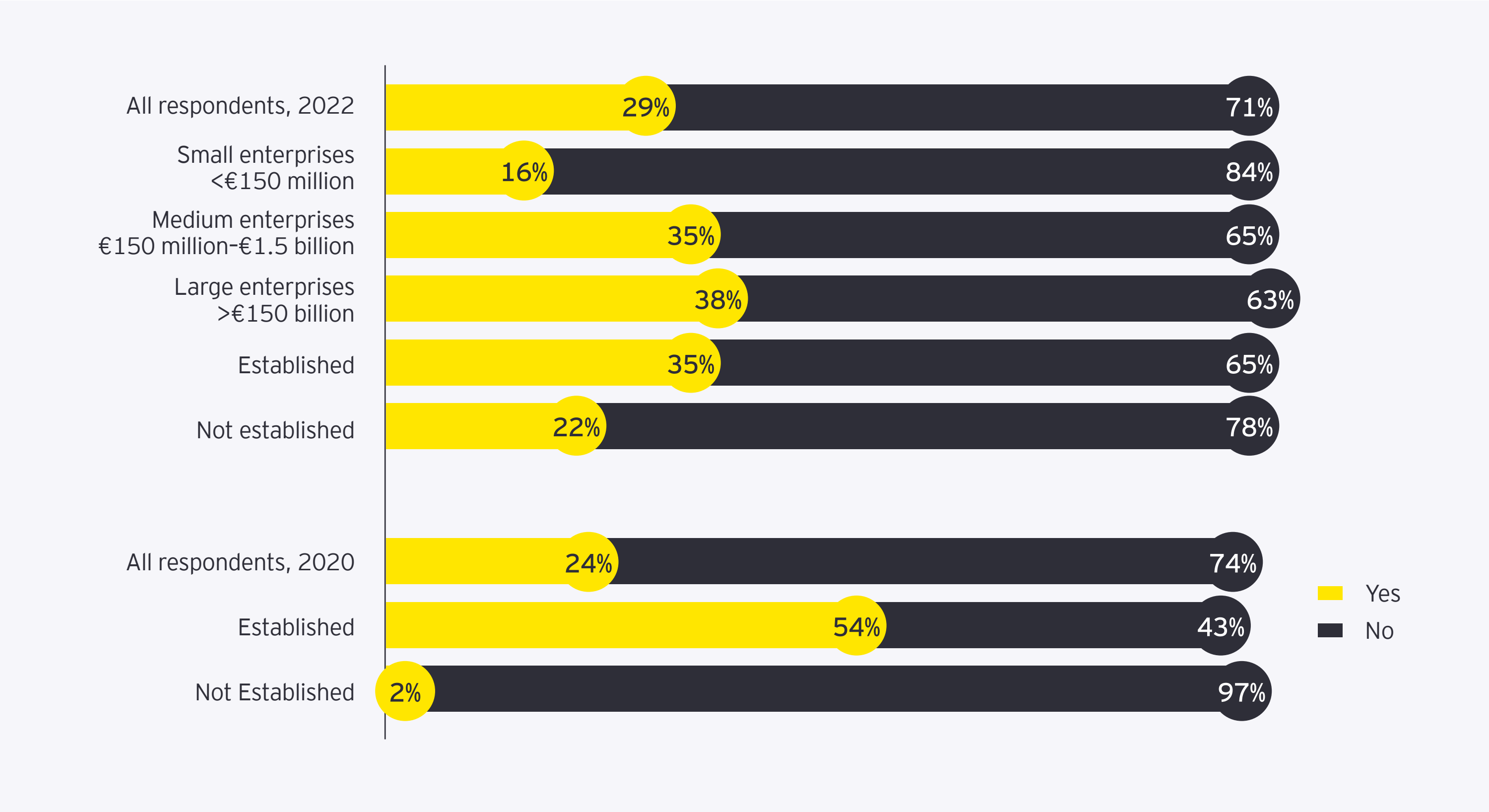
52 Results of the European survey are discussed in Section 1.

53 Established investors refer to investors with a presence in Cyprus, either through setting up their own operations, or by means of an acquisition. Nonestablished investors refer to investors with no presence in or ties to Cyprus.

54 Companies with revenues of more than €1.5 billion

55 Companies with revenues less than €150 million

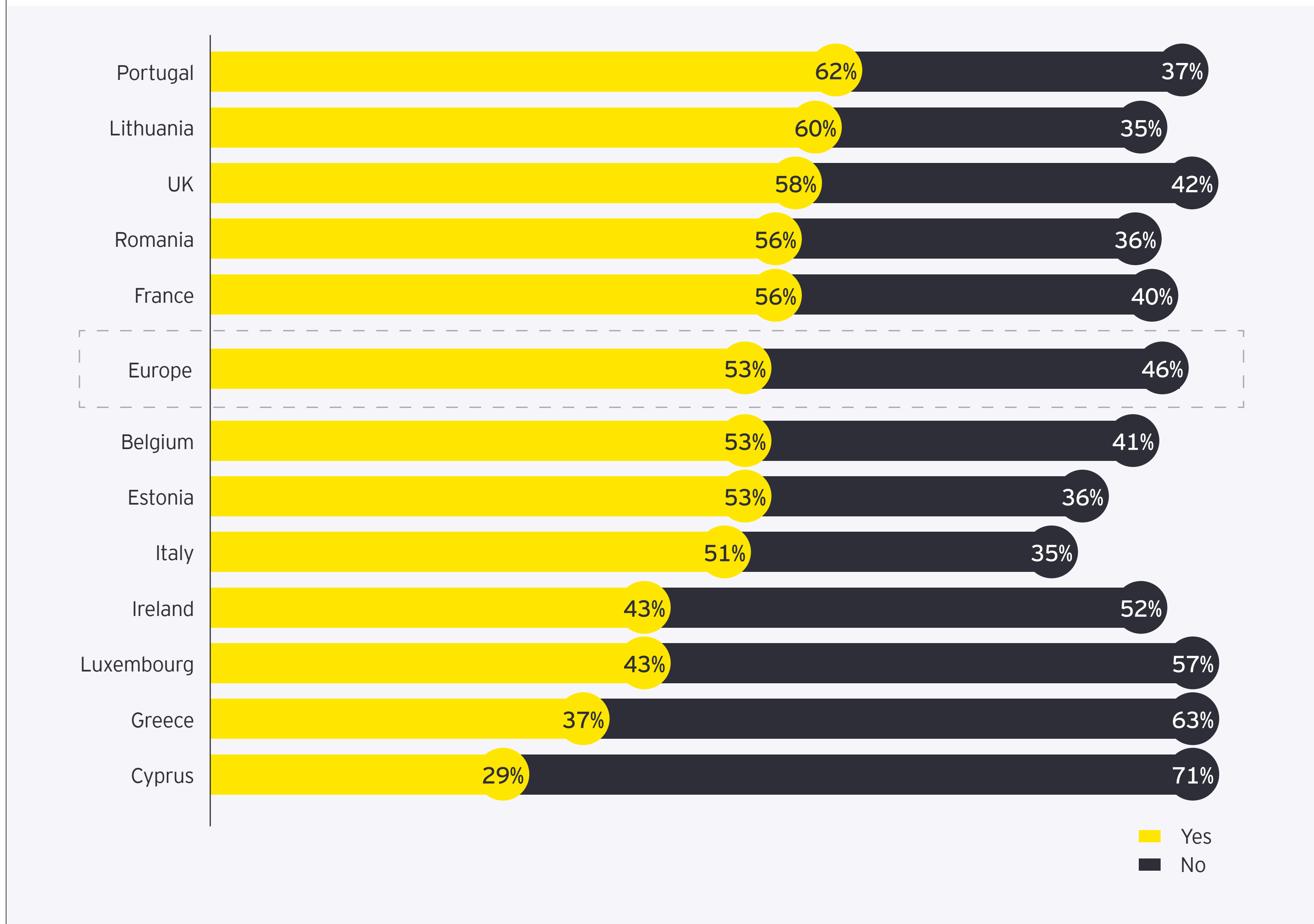
Does your company have plans to establish or expand operations **in Cyprus** over the next year?



The overall percentage of companies planning to invest in Cyprus, although higher than two years ago, is still **low** compared with the percentage of investors planning to invest in Europe (53%). It is among the lowest percentages overall, topped by not only the likes of formidable FDI players, such as the UK and France, but also by more comparable countries in southern Europe, such as Greece and Romania.

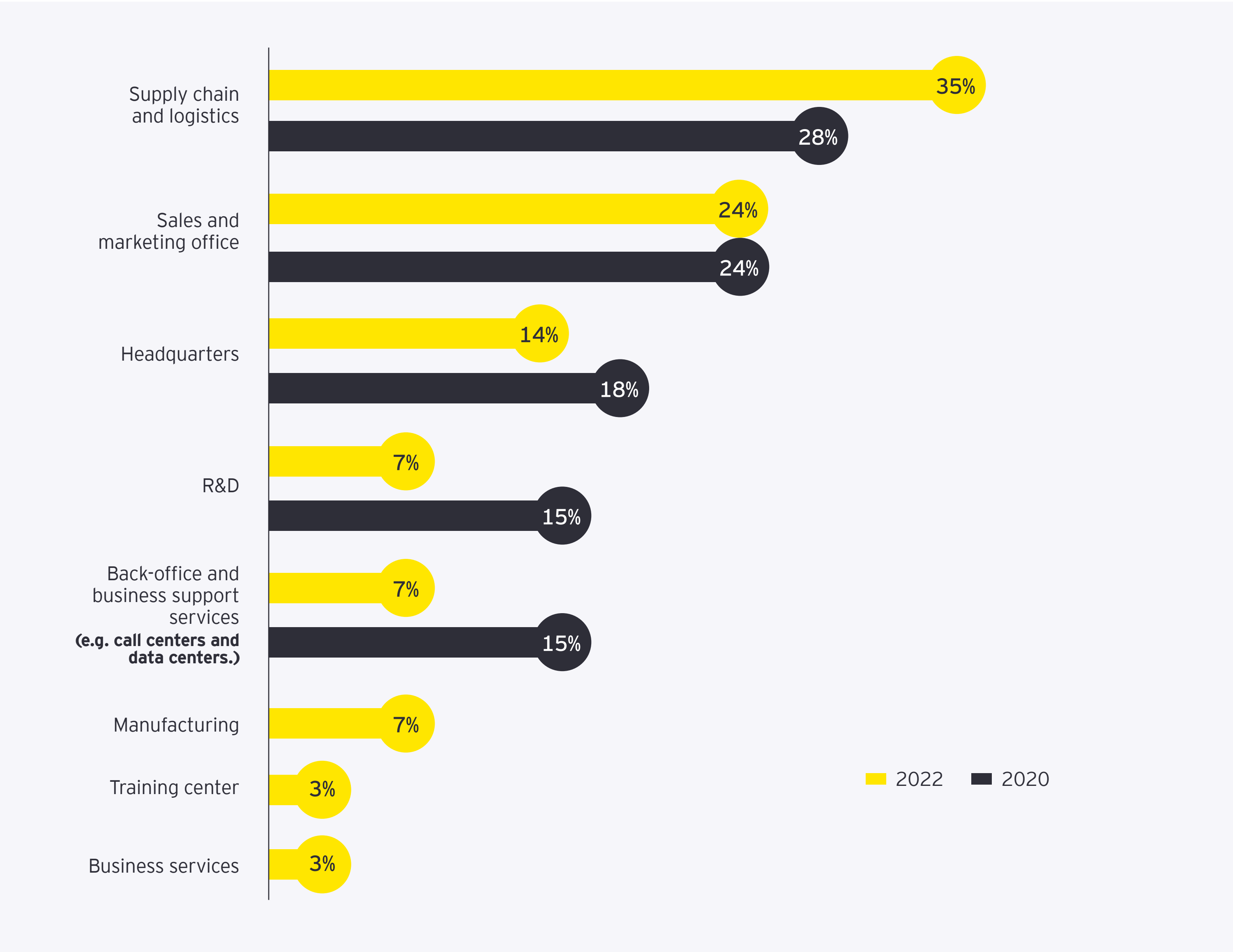
This may signify that Cyprus needs to do more in communicating its FDI attractiveness to the international investor community.

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



The survey asked investors to specify what **type of investment** they were contemplating for Cyprus. **Supply chain and logistics** operations continue to dominate investment plans, with more than one in three companies (35%) planning to invest in this area, up from 28% two years ago. **Sales and marketing offices and activites** remain in second place, attracting around one in four investment projects (24%). Around 14% of respondents have plans to **establish headquarters** in Cyprus, compared with 18% in 2020. Despite the efforts of the government to promote R&D, **interest from investors to establish R&D** facilities in Cyprus **has declined** at 7%. A similar scenario applies to establishing business support services (call centers, shared services centers, data centers and so on). It is worth noting the **increase in respondents intending to invest in manufacturing**, compared with zero relevant intent back in 2020. Manufacturing activity has also been on the rise in the case of the European survey, possibly linked to nearshoring activities.

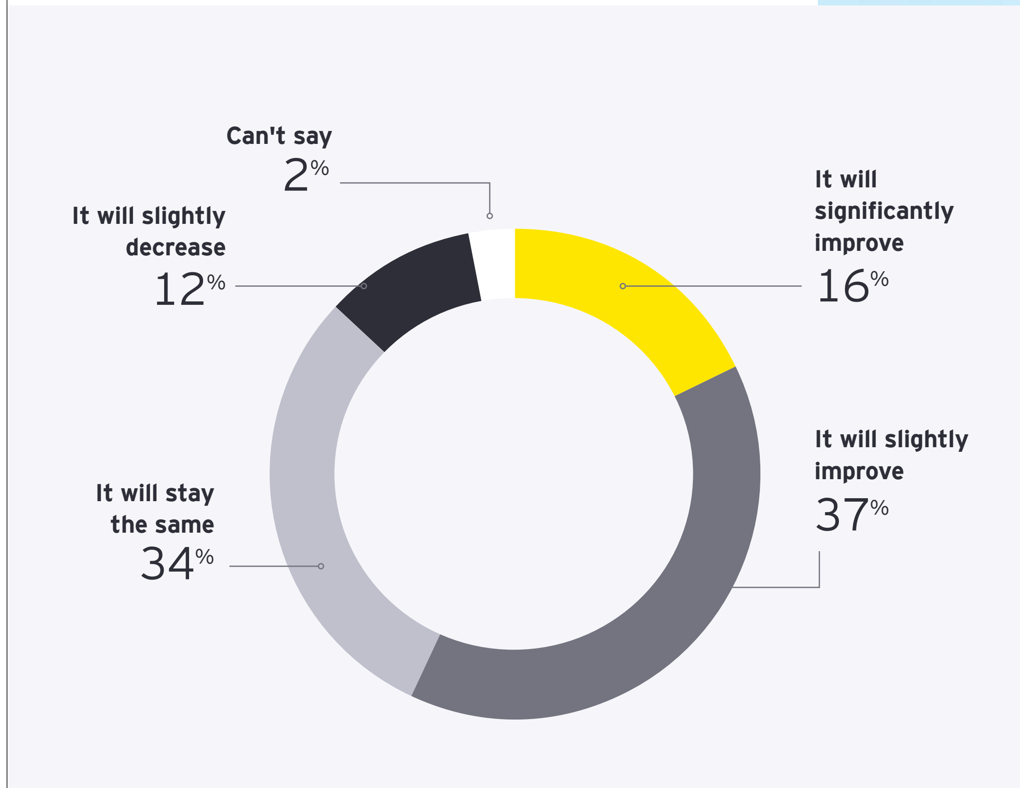
What type of investment project does your company want to establish or expand in Cyprus?

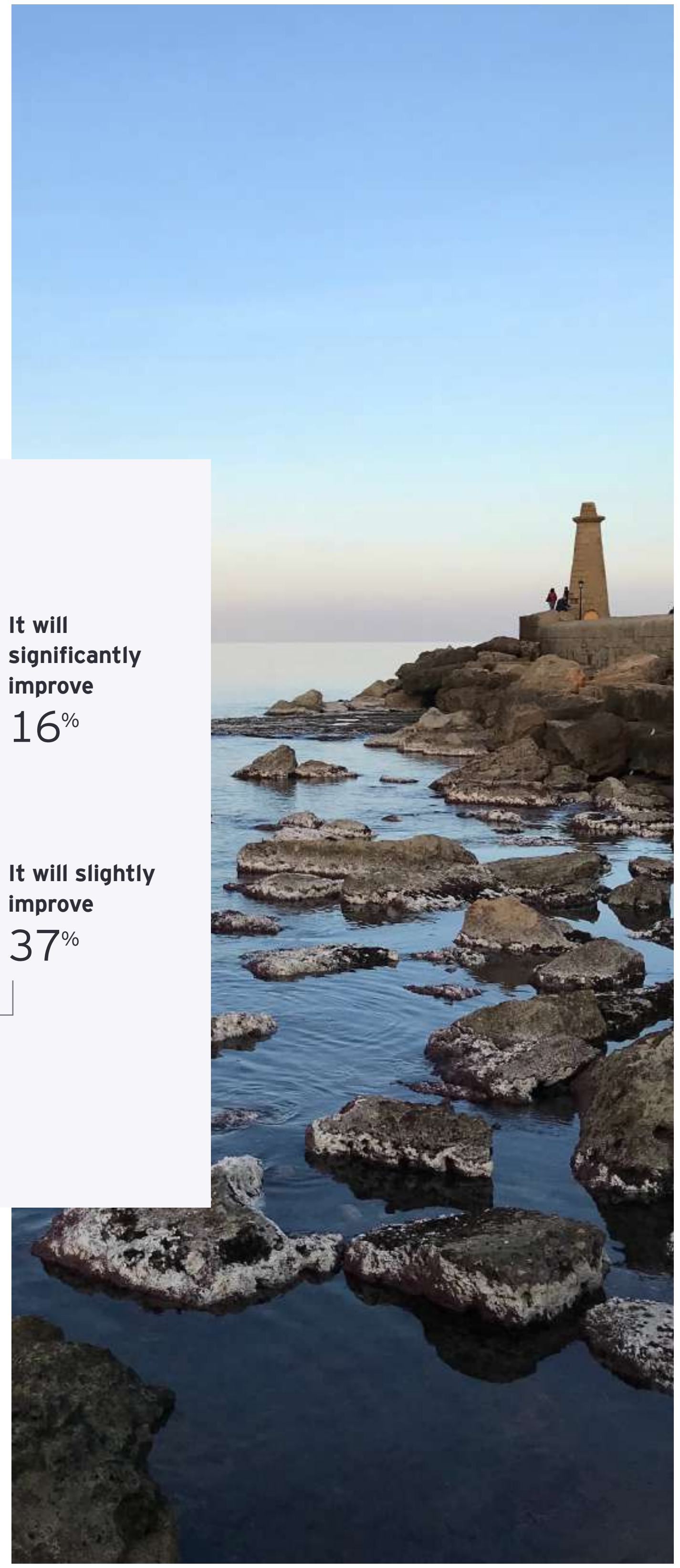


Optimism remains about future prospects of Cyprus' attractiveness

When asked about their views on how Cyprus' attractiveness will evolve over the next three years, the majority of respondents (53%) replied that they **expect Cyprus' attractiveness to improve**, including 16% of respondents who anticipate it will improve significantly. Close to one in three (34%) said it will remain the same, while a small minority (12%) said it will slightly decrease.

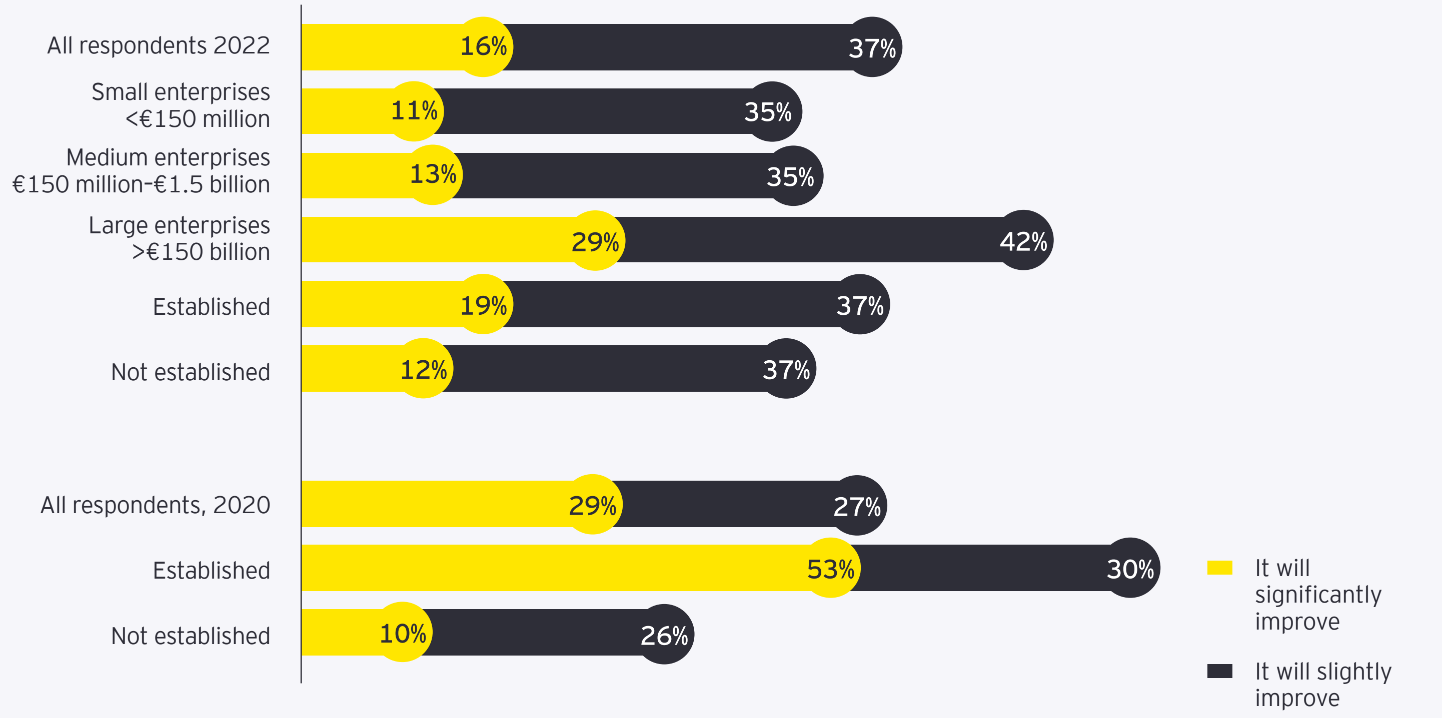
To what degree do you think Cyprus' attractiveness will evolve over the next three years?





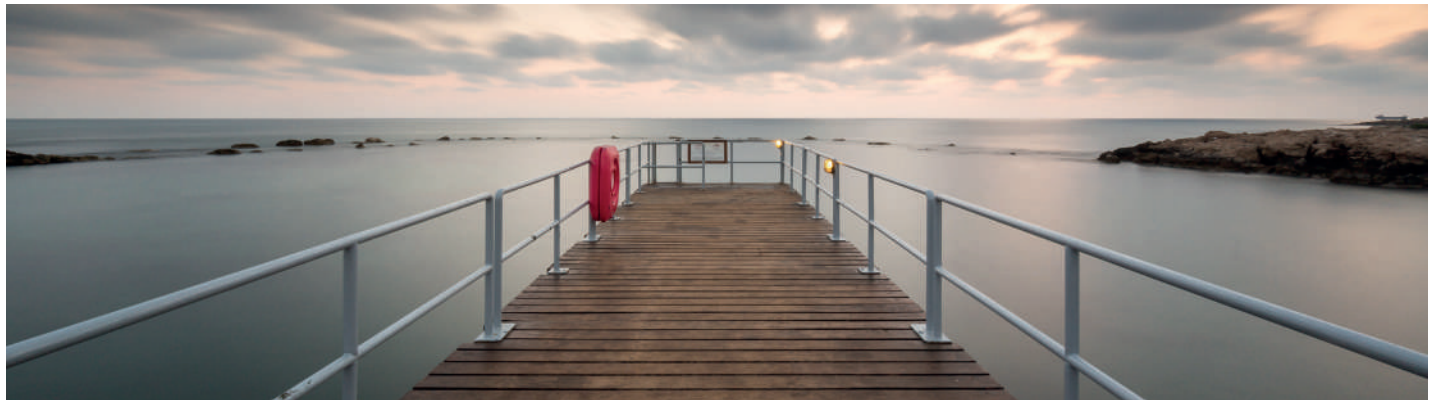
The percentage of respondents expecting an improvement is marginally lower than two years ago (56%) and even fewer companies are now expecting a significant improvement. Larger companies are, once again, far more optimistic (71%, including 29% expecting a significant improvement). Companies already established in Cyprus appear more reserved compared with two years ago, while nonestablished companies have grown more confident about the country's prospects.

To what degree do you think Cyprus' attractiveness will evolve over the next three years?

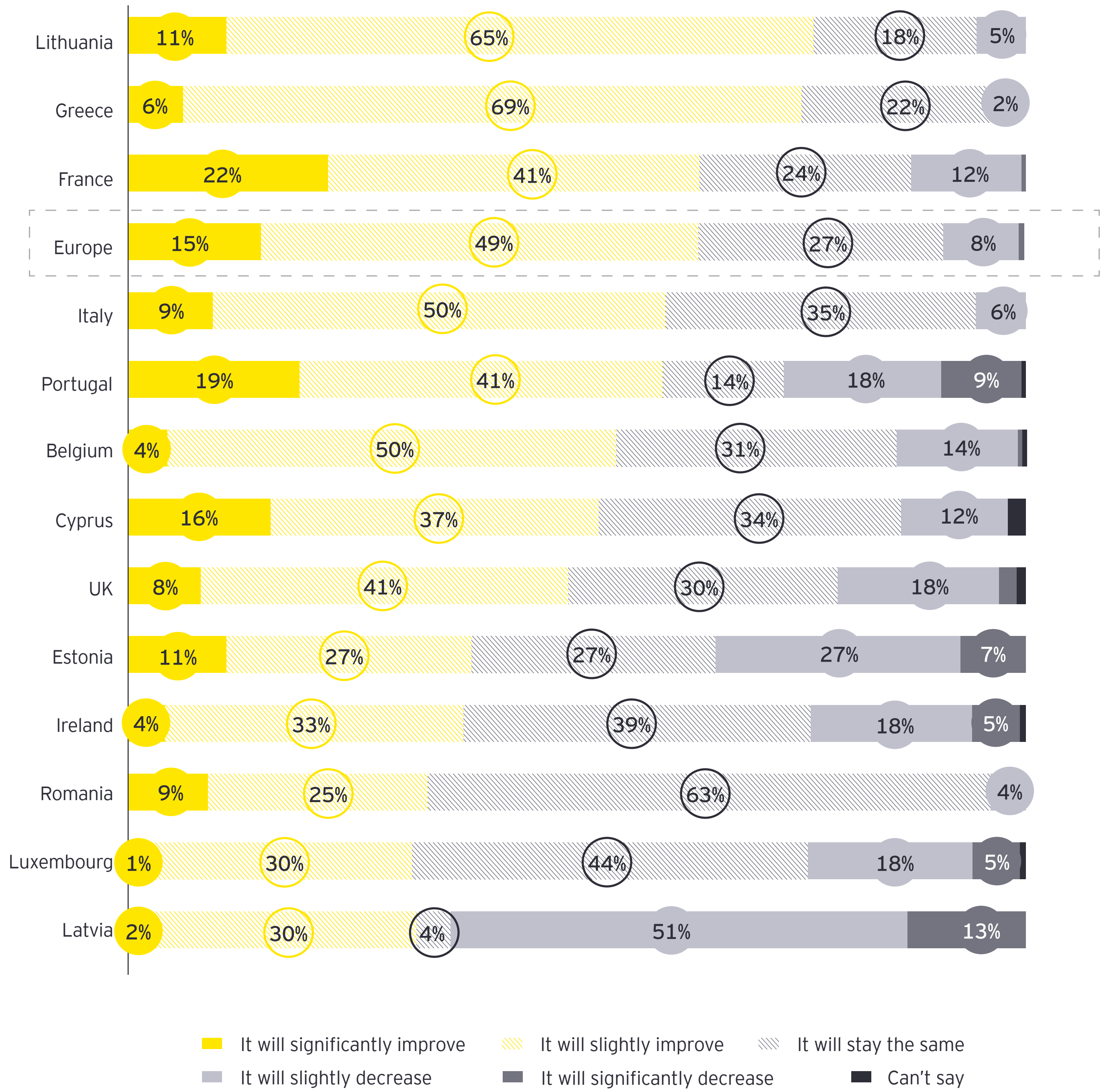


A comparision of the attractiveness projections of the investment community for a number of EU countries, can be seen in the next chart. As already noted, more than half (53%) of the respondents perceive that Cyprus' attractiveness will improve over the next three years. It is worth reiterating that in response to the question of whether they "had plans to establish and expand operations in Cyprus over the next year," only 29% responded positively.

This raises the question of why, since attractiveness projections are high, not more investors are planning to actually establish, or expand, operations in Cyprus in the near term. On the one hand, the country has taken significant steps toward improving its position as an attractive FDI destination, from nursing its financial system back to health to competitive R&D taxation incentives. Even more plans and incentives have been announced, with more steps toward digitalization, investments in infrastructure and further easing of immigration processes. On the other hand, the picture is tainted by certain weaknesses that have not yet been addressed sufficiently, such as the issue of human capital. Additionally, factors outside of the country's control, such as the small size of the local economy and the geopolitical situation (Cyprus problem and Eastern Mediterranean tensions), are also likely to be adding to investor hesitancy.



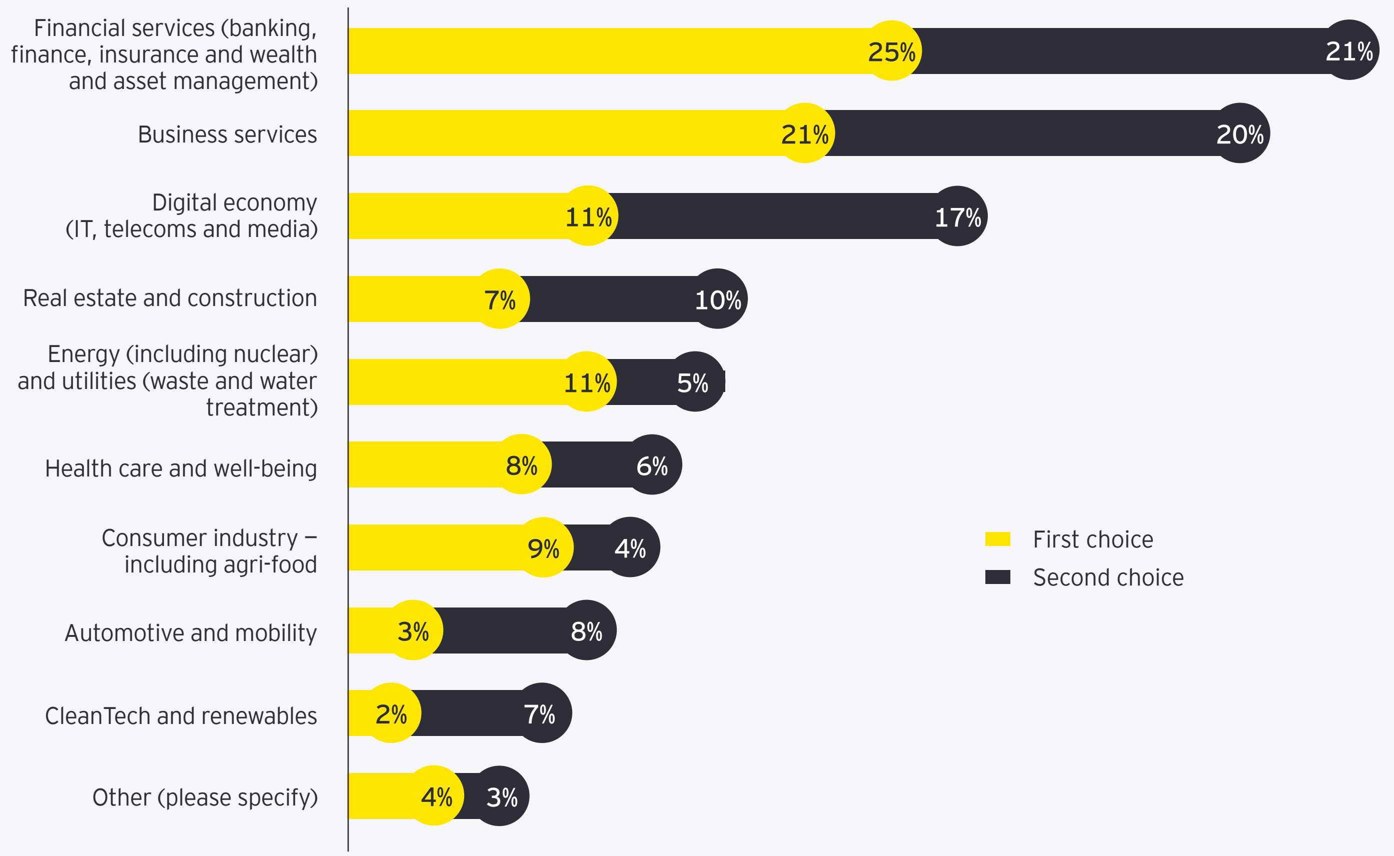
To what degree do you think the country's attractiveness will improve over the next three years?



Financial and business services expected by investors to drive Cyprus' growth

Investors were asked to express their views regarding the main sectors that will drive economic growth in Cyprus in the coming years. It should be noted that, for reasons of consistency with other countries surveyed, tourism was not included as a response option. Close to half of the respondents (46%) expect **financial services** (including banking, finance, insurance, wealth and asset management) **to drive growth**, followed by **business services** at 41% and **digital economy** (including IT, telecoms and media) at 28%. This is not surprising as financial and business services have long been a strong suit of the Cypriot economy. In relation to ICT, it appears that the measures and incentives aimed at the establishment of Cyprus as a regional ICT hub are being noticed. It is worth noting that traditional sectors like **real estate and construction no longer feature on the top of the list** (17%). Similarly, emerging sectors, attracting material attention recently, such as energy and utilities (16%) and health care and wellbeing (14%), are in the middle of the list.

In your opinion, which main business sector will drive Cyprus' growth in the coming years?

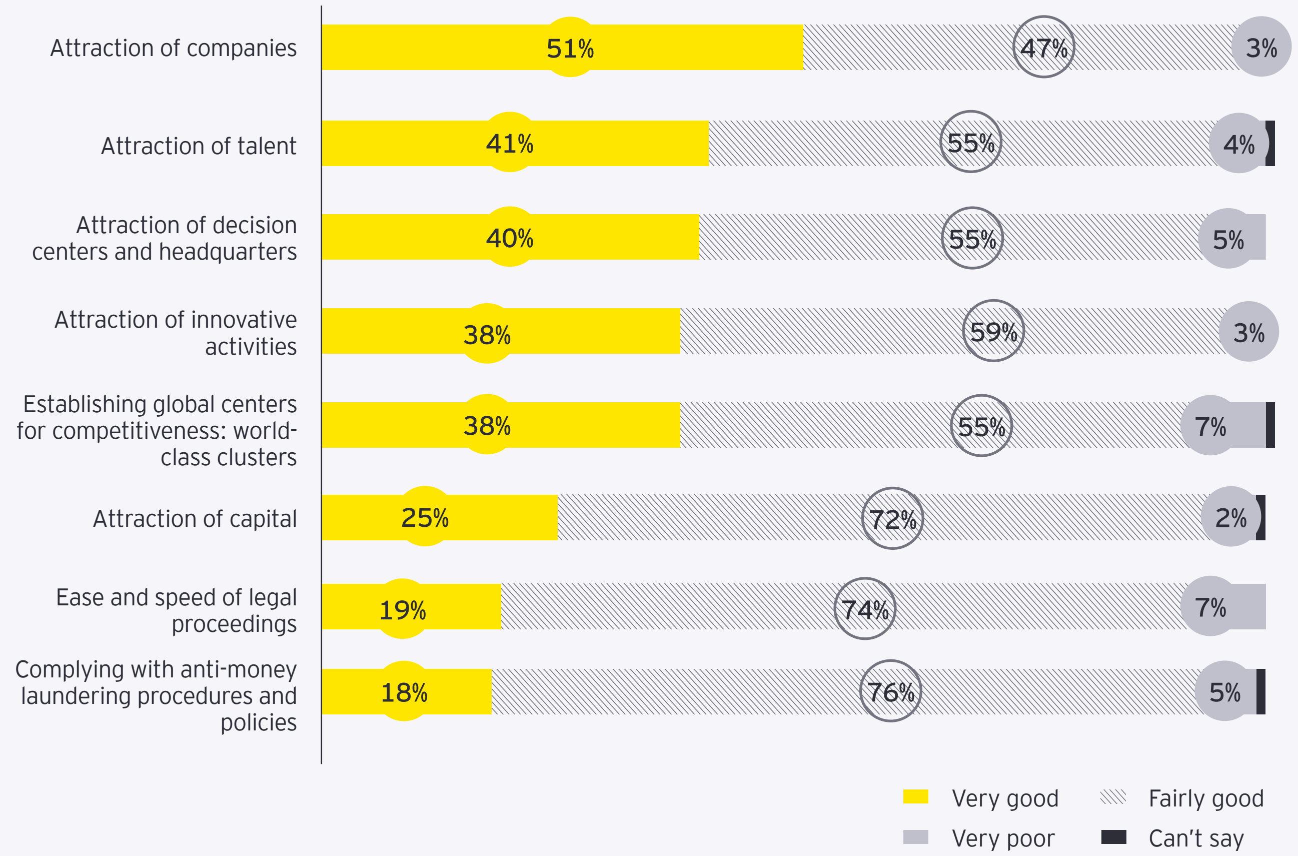


Marked improvement regarding key aspects of Cyprus' performance

Respondents were asked to assess Cyprus' performance with regard to a number of key attractiveness aspects. Responses show a major improvement in the perceived performance of Cyprus compared with the findings of two years ago.

Cyprus is seen as **fairly competitive in attracting companies** (51% of respondents describing its performance as "very good") followed by the **attraction of talent** (41%), and the **attraction of decision centers and headquarters** (40%). Cyprus' performance in establishing global centers for competitiveness (38%) and attracting innovative activities (38%) follow closely behind. Cyprus is seen as **less effective in attracting capital** (25%), in the **ease and speed of implementing legal proceedings** (19%) as well as in the **compliance with anti-money laundering (AML) procedures and policies** (18%). It is worth noting the latter, given the fact that a lot of attention and drastic changes have been introduced in the AML area, to the extent that a number of investors now cite relevant procedures as long and bureaucratic. Despite these, adverse publicity of the past appears to have left its mark.

How would you evaluate Cyprus' performance on the following aspects?



Room for improvement in factors related to sustainability, technology and talent

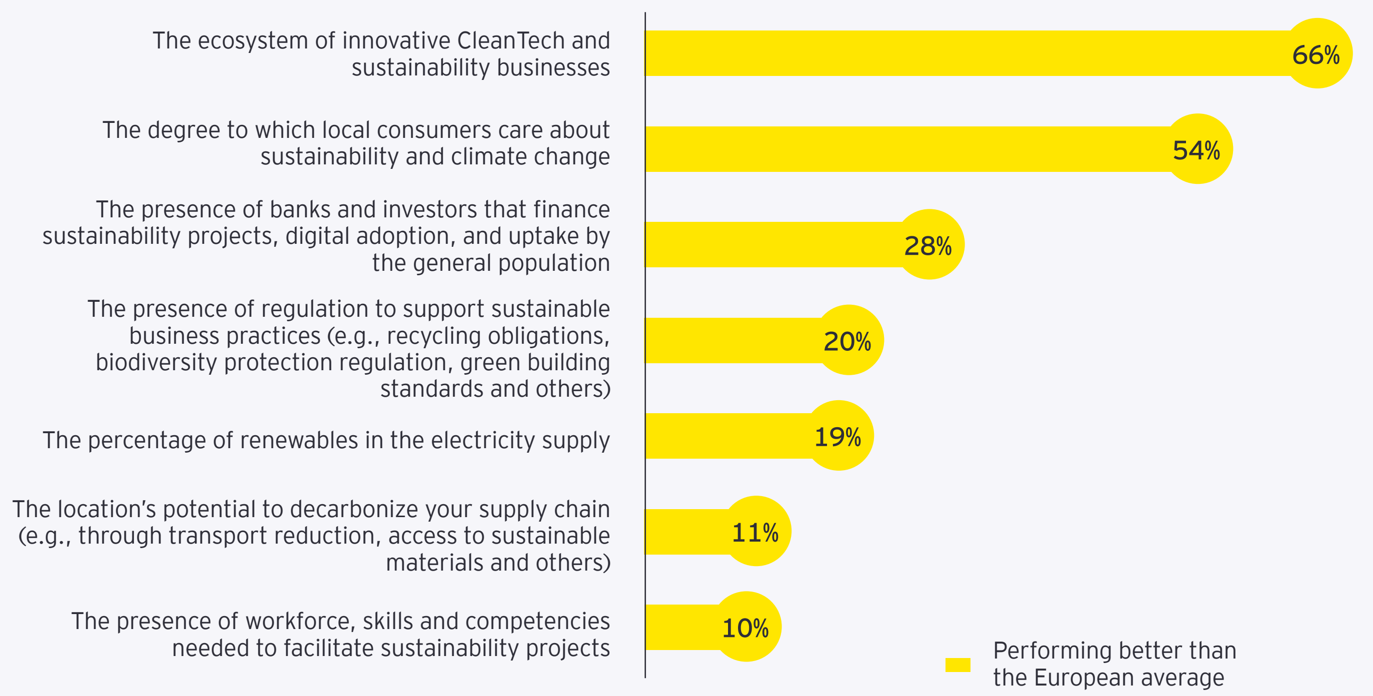
According to the European survey, the three key factors influencing investors' FDI decisions are **sustainability**, **technology** and **talent**, with regard to the destination's performance.

Participants were asked to assess Cyprus' performance with respect to these three factors, relative to the perceived performance at a European level. For the majority of the subcategories, Cyprus is generally seen as performing at par with Europe. We note that the regional average is not necessarily a good aspiration, since Cyprus will be competing against its EU counterparts for the attraction of the same investor pool.

Sustainability-related factors

Cyprus' **ecosystem of innovative CleanTech and sustainability businesses** is endorsed by the greatest number of investors (66%). Likewise, the country is perceived as performing better than the European average with respect to **local consumer culture** about sustainability and climate change (54%). Cyprus performs less effectively in terms of the presence of **banks and investors that finance sustainability projects, digital adoption, and uptake by the general population** (28%), **regulations** to support sustainable business practices (20%), and in the utilization of renewables in the electricity supply (19%). Based on the responses, when compared with the perceived European average, Cyprus is not considered an ideal location that is able to assist companies **decarbonize their supply chain** (11%), and lacks in having local workforce with the **skills and competencies required to facilitate sustainability projects** (10%). With regard to renewable energy sources (RES), Cyprus is still behind its 2030 targets, despite the favorable weather for solar parks and being awarded for a number of relevant licenses. The country still must deal with infrastructure limitations concerning distribution networks and storage.

In your view, how does Cyprus perform with regard to the following sustainability-related factors?



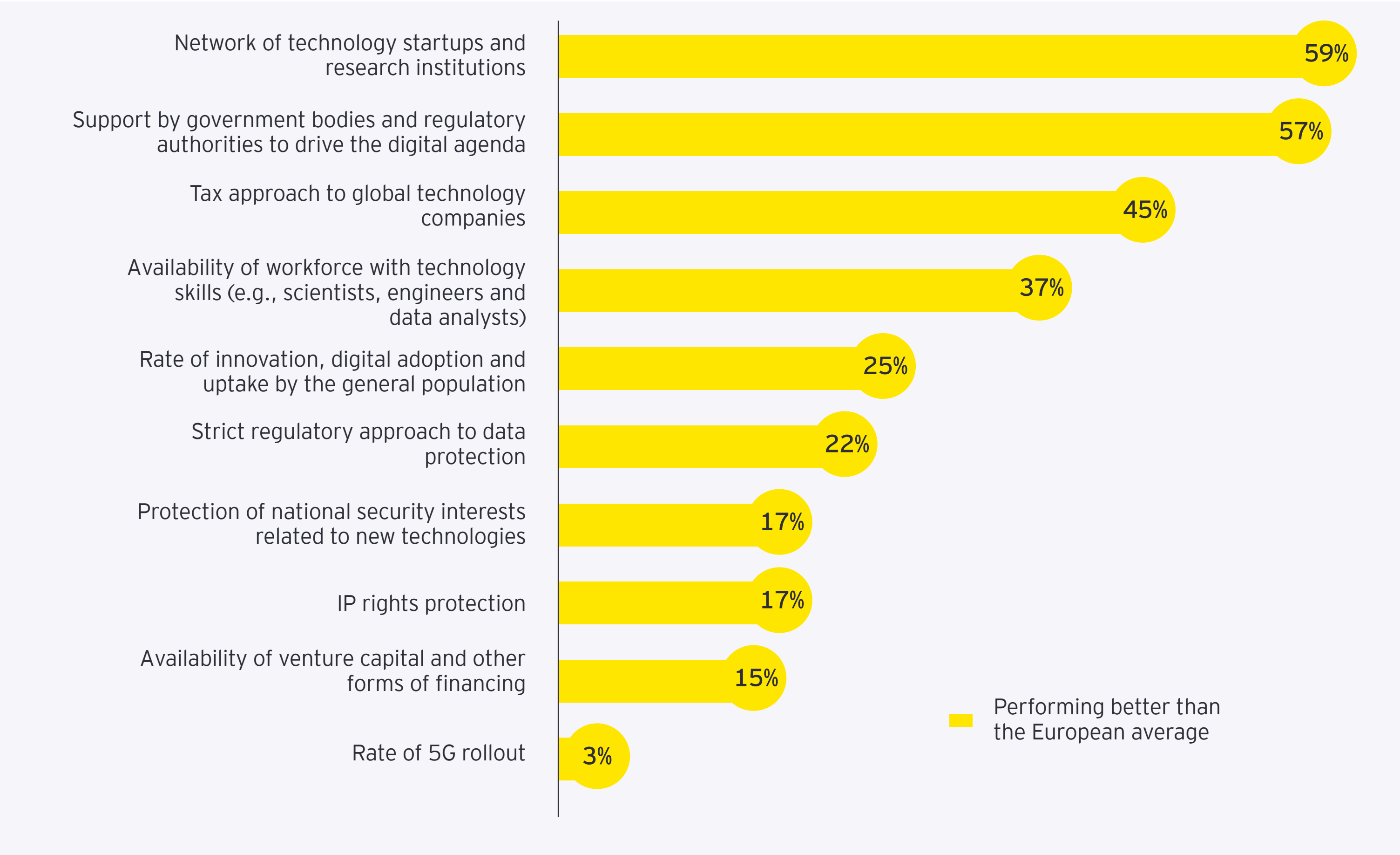
Technology-related factors

In this area, Cyprus is seen as performing better than the European average in relation to its **network of technology startups and research institutions** (59%), and the **support by government bodies and regulatory authorities** to drive the digital agenda (57%). This perception may again be linked with the work undertaken by private-sector initiatives (like TechIsland) and the different schemes and incentives announced by the government to support the technology sector. It is also a recognition of the work undertaken by the Deputy Ministry of Research, Innovation and Digital Policy (DMRID) since its inception. The **tax approach** to global technology companies (45%) appears to be one of the country's strong points, indicating once again that the government's support to the specific sector is not going unnoticed.

Based on the EY country attractiveness surveys conducted within the specific countries, with respect to technology talent (such as scientists, engineers and data analysts), Cyprus sits in the middle of the list, performing better than a number of countries in Southeast Europe, but yet to outperform countries in the north of Europe and also countries like Portugal and Romania. The relative shortage in local talent with technology skills is an area that has also been identified by a number of international players active in the local market.

Areas for further improvement, as also confirmed through interviews with established investors, include the availability of venture capital and other forms of financing and **intellectual property (IP) protection**. It is also worth noting that despite the fact that Cyprus is one of the few countries with full 5G rollout, its rate of 5G network rollout rating by investors still appears to be low.

In your view, how does Cyprus perform with regard to the following technology-related factors?

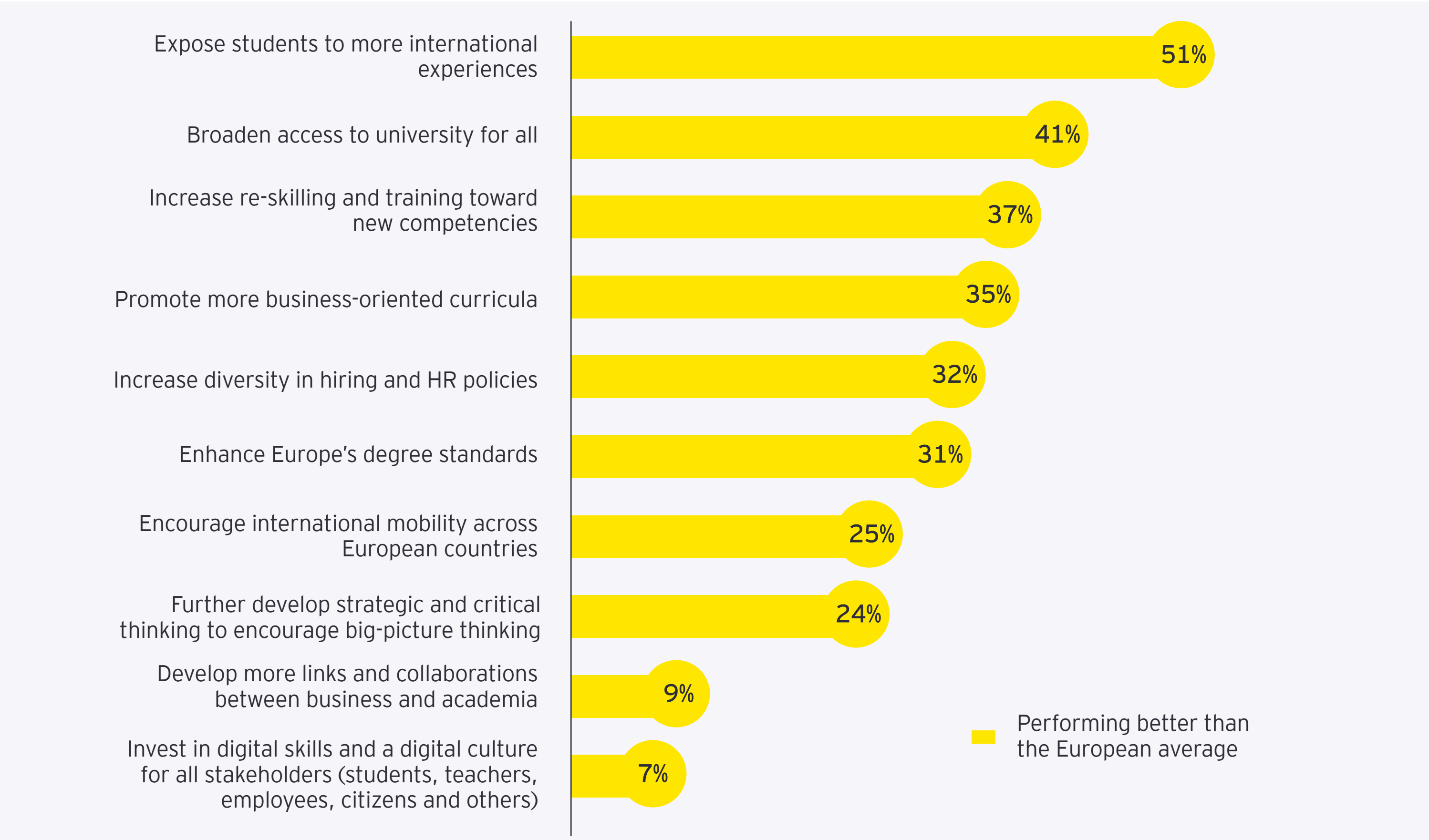


Talent related factors

With regard to talent-related factors, investors' perception is that students in Cyprus are exposed to **more international experiences** (51%) and also that they have **broader access to university** education (41%) than their European counterparts. The results reflect the 2021 rankings which placed Cyprus third in Europe, after Luxembourg and Ireland, with 58% of the population having a university degree.[56]

Responses to the rest of the factors highlight the need for **Cyprus to invest more in digital skills and a digital culture** (7%), **enhance the collaborations between business and academia** (9%), as well as develop more **strategic and critical thinking** (24%) and encourage further international mobility (25%). Areas for further development identified by interviewed investors, such as the need for increased re-skilling and training toward new competencies and the promotion of more business-oriented curricula in educational institutions, feature in the middle of the list.

In your view, how does Cyprus perform with regard to the following talent-related areas?



56 European Statistics Office, Eurostat

Assessing key different components of the country's attractiveness

Participants were asked to assess Cyprus' overall attractiveness as an investment destination on the basis of a number of key criteria. The findings shed light on the country's strengths and areas to develop.

The country's **telecommunications and digital infrastructure** tops the list, with 43% of respondents describing it as "very attractive" (36% in 2020). This increase links well to the efforts invested in this area, namely, the rollout of 5G, investments in fiber networks by all telecommunication operators, government initiatives and COVID-19-led developments of digital services.

The **quality-of-life criterion** has dropped from first place in 2020 to second place in 2022, with 33% of respondents evaluating the criterion as "very attractive" (compared with 47% in 2020). Quality of life includes not only the weather and natural beauty, but also refers to factors such as quality of environment, leisure activities and culture.

In terms of "very attractive," the **corporate taxation criterion** is in third place (29%) followed by **R&D availability and quality** in fourth position (29%). The latter is an interesting finding not only because of the weight allocated to R&D under the country's economic growth model, but also because despite the relatively high ranking, the number of investors actually considering R&D investments in Cyprus has been halved since the previous survey of 2020. Even though supply chain and logistics consistently top the list of intended FDIs in Cyprus, the **transport and logistics infrastructure criterion** (23%) features at the middle of the list. This may suggest that further improvements in relevant infrastructure could lead to additional FDI activity in the area of supply chain and logistics.

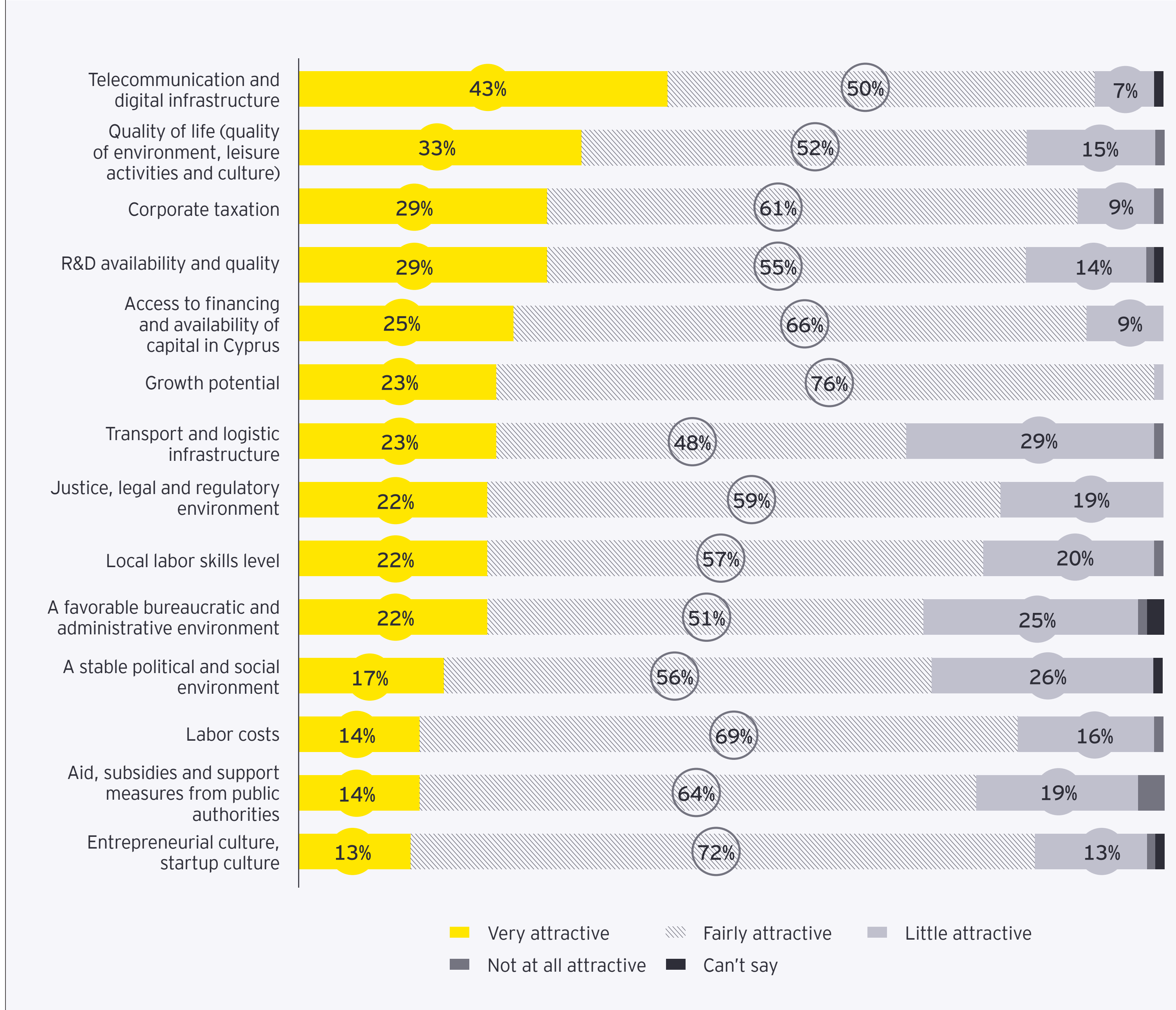
The country's growth potential (a parameter examined for the first time in EY Cyprus Attractiveness Survey) is appreciated by investors (i.e., it is considered "very attractive" by 23%). This resonates well with the IMF encouraging economic growth projections (2% in 2022 and 3.5% in 2023), supported by investment spending under the national RRP and structural reforms as per Vision 2035.

Areas where Cyprus is perceived as **not performing as well** include the **country's entrepreneurial and startup culture** (with only 13% "very attractive" responses), aid or subsidies and support measures from public authorities (14%), **labor costs** (14%), and the **stability of the country's political and social environment** (a result that may be linked to geopolitical threats and the Cypriot political problem). With regard to the first two criteria, we note that they may not apply in the technology sector, where the network of technology startups and sector support by governmental bodies achieved the highest scores under a relevant question.

Finally, it is worth noting that the bottom end of the table also includes the **labor skills level** (22%) as well as the **bureaucratic and administrative environment** (22%). The first is in line with the feedback received from interviewed investors and an area of focus by all key stakeholders (public and private sectors together with educational institutions). The latter also features consistently in similar lists and is an area that the government attempted to tackle recently not only with e-government initiatives, but also through the establishment of the business facilitation unit aiming to centralize the registration and incorporation procedures as an attempt to facilitate investment activity.

It is also worth noting that the areas for which companies are **not established** in Cyprus, and have more positive views than those **established** in Cyprus, include access to financing and capital, Cyprus' growth potential, as well as telecommunication and digital infrastructure. The country's entrepreneurial and startup culture and legal and regulatory environment as well as the quality of life are more appreciated by companies already established in Cyprus.

According to your company, please evaluate for each criterion how attractive Cyprus is as a location for establishing new activities.



Areas for improvement

Participants were asked to identify specific areas they believe Cyprus should focus its efforts to improve its attractiveness.

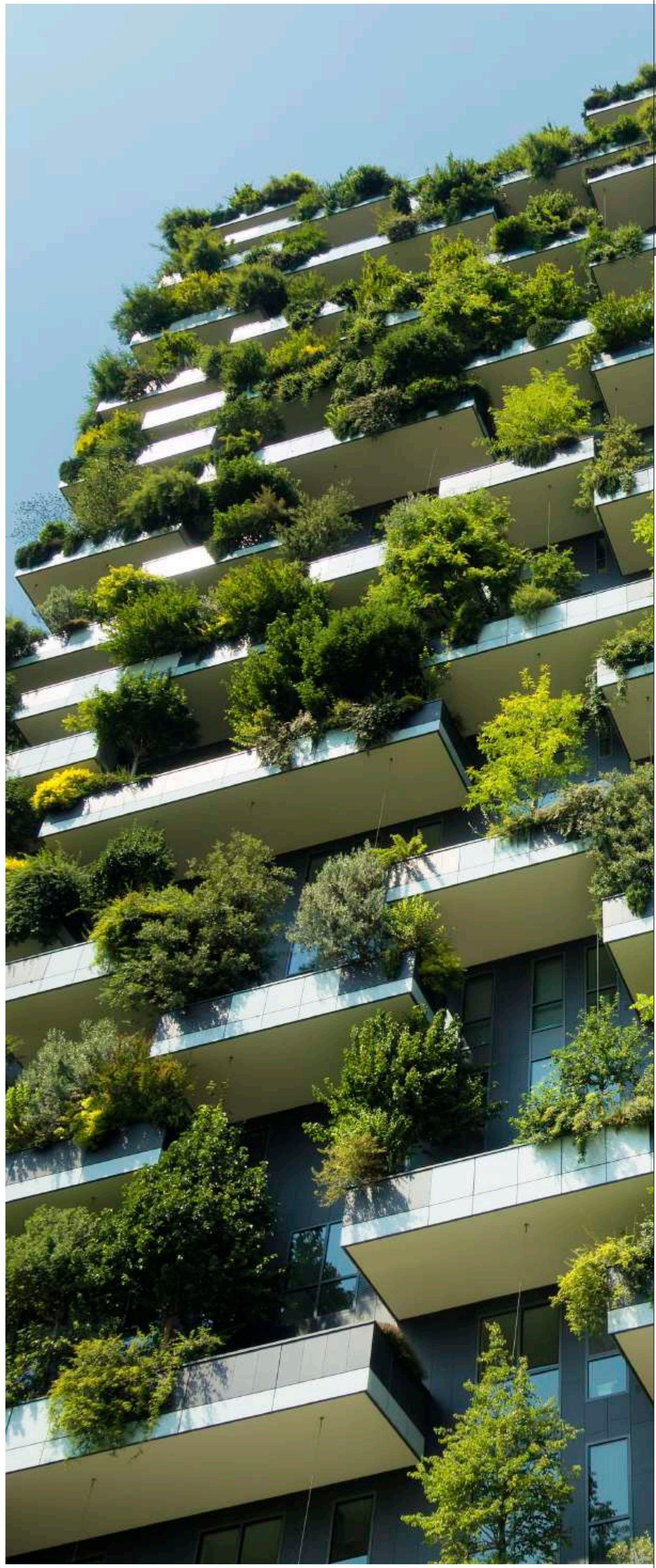
Against a background of sweeping developments in the field of technology, 43% of respondents suggest that Cyprus should continue prioritizing the sector by **allowing regulations to keep pace with technological and other disruptions.** It is worth noting that the specific response to this question, in the case of Cyprus, was the highest among all countries carrying out the EY Attractiveness Survey, with Portugal in second place with 36%.

Support for high-technology industries and innovation features as a top priority, selected by 40% of the respondents. Likewise, the specific response was the most popular answer to this question in our 2020 survey. It is worth noting that this area features as a top priority area this year for a number of other European countries, where the survey was carried out such as France (49%) and Estonia (42%).

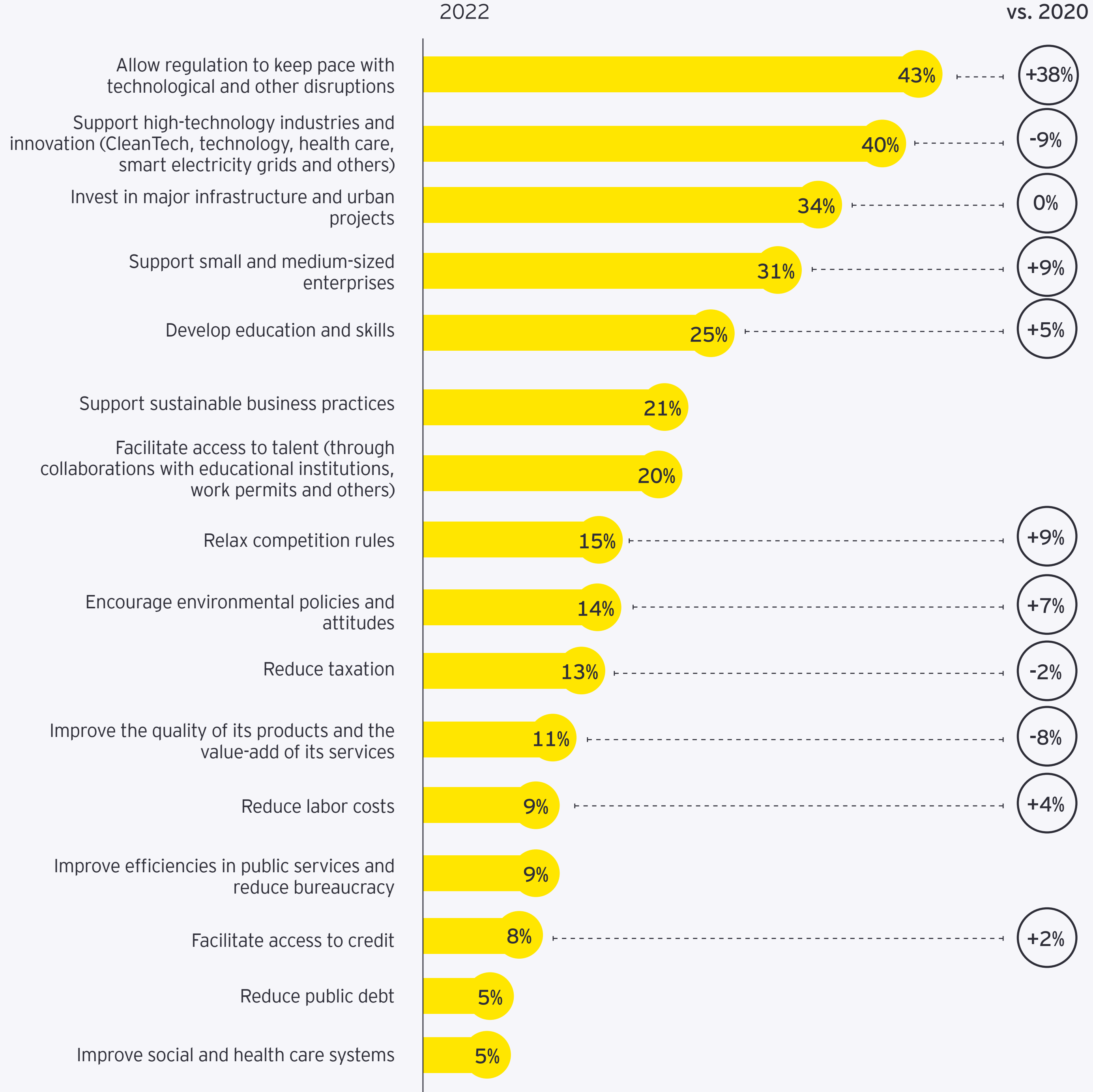
The need to **invest more in major infrastructure and urban projects** has slipped from second to third place (34%) this year. In comparison to the other EU countries where the survey was held, Cyprus is still seen as having the greatest need in this area, with Estonia in second place (24%). This is so even though telecommunications and digital infrastructure, in the case of Cyprus, topped the investors' satisfaction list. Transport and logistics infrastructure has been identified by the survey as an area for further development, and one that would facilitate supply chain and logistics activities, the sector that currently attracts the highest intention to invest in Cyprus. Public-private partnership (PPP)[57] arrangements of the RRF and other EU funding can be leveraged in this direction.

The need to **support SMEs** (31%) and further **develop education and skills** (25%) feature in fourth and fifth place, respectively. This year, the top half of the list also features the need to **support sustainable business practices** (21%) and the need to **facilitate access to talent.** All four recommendations above appear consistently in other parts of this survey and feature in the results of the EY Attractiveness survey carried out in other European countries.

57 Public-private partnerships involving collaboration between government and the private sector.



In your view, where should Cyprus concentrate its efforts in order to maintain/improve its competitive position in the global economy?



R&D-related tax incentives seen as top priority

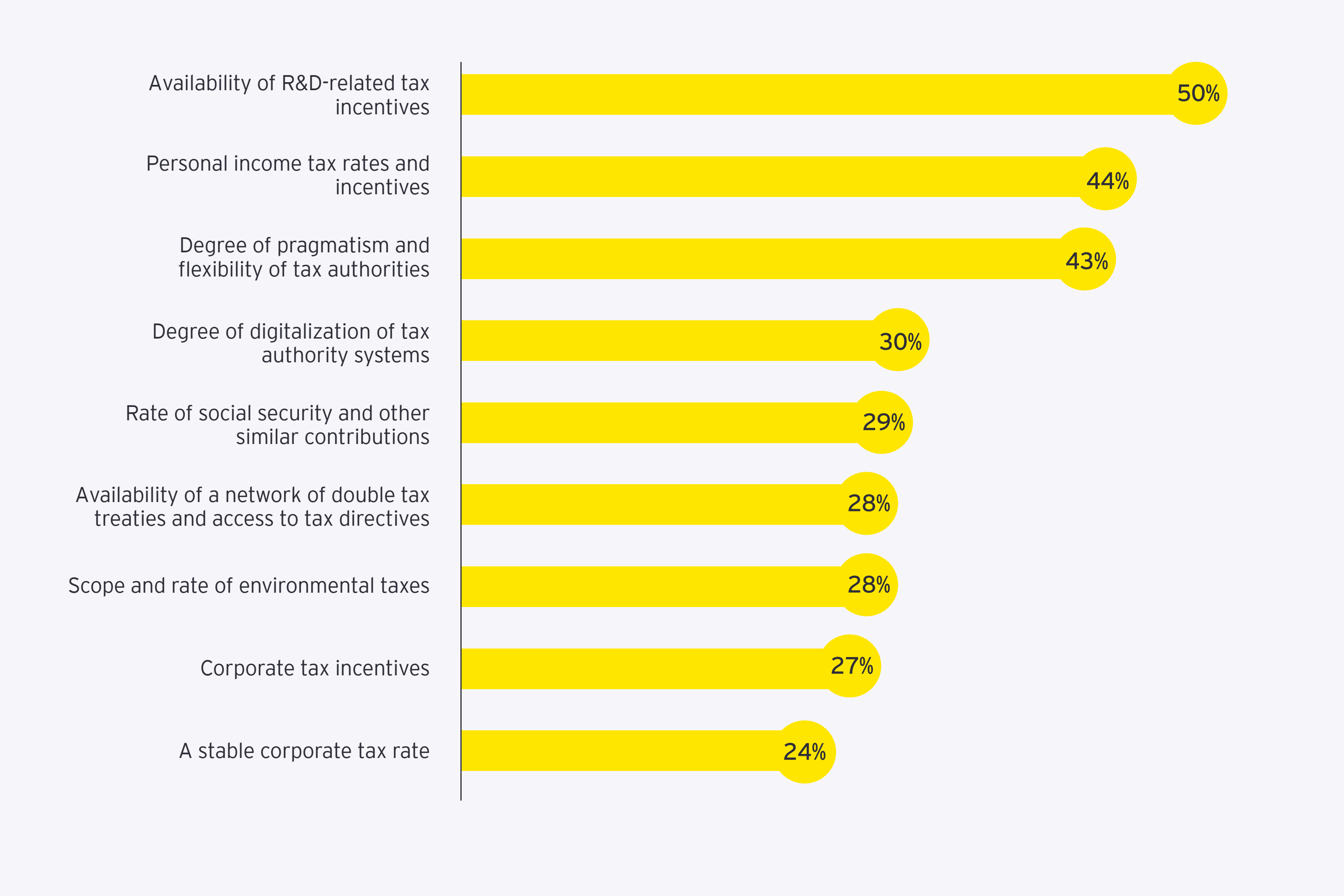
As in 2020, the survey also included a series of questions relating to areas of interest specifically for Cyprus. The first of these questions covered the tax environment, with respondents asked to identify the three most important tax-related factors that would prompt them to choose Cyprus as an investment destination.

One in two companies mentioned availability of **R&D-related tax incentives** (50%). Interestingly for SMEs (62%), this factor is considered more important than larger companies (42%). **Personal income tax** rates and incentives is in second place (selected by 44% of the respondents), followed by the **need for pragmatism and flexibility of tax authorities** (43%).

As noted, the Cypriot government has already addressed the first two points, with additional tax deductions covering R&D expenditure to encourage relevant activities and personal income tax exemptions, aiming to attract talent from abroad.

Other factors identified include the degree of **digitalization of tax authority systems** (30%), which emerged as the top priority in the European-wide survey. It is interesting to note that a stable tax rate and corporate tax incentives do not feature on the top of the list, as is also the case in the pan-European survey.

What are the three most important tax-related factors that will prompt an investor to choose Cyprus as an investment destination?



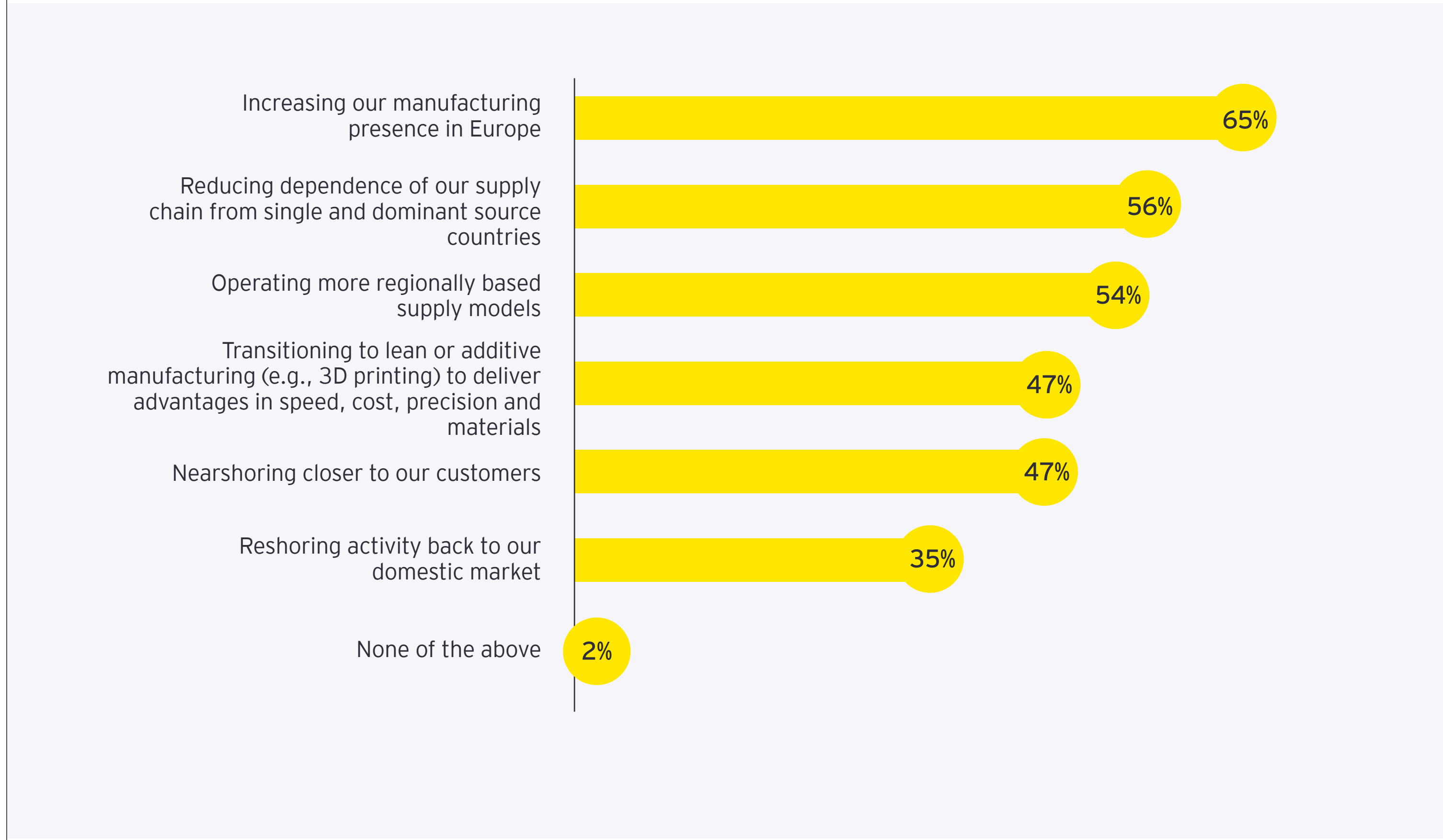
Cyprus as a manufacturing base for Europe

Against the current background of changes in production locations and supply chain reorganizations, participants were asked whether Cyprus could be considered for a number of supply chain setup options.

Interestingly, two in three respondents (65%) would consider Cyprus for increasing their **manufacturing presence** in Europe. The percentage in the case of SMEs rose even higher to73%. Investors would also consider Cyprus to **diversify their supply chain** away from single or dominant source countries (56%), or in order to **operate more regionally based supply models** (54%). Other options for which Cyprus would be considered include **nearshoring closer to customers** (47%); **transitioning to lean or additive manufacturing** (e.g.,3D printing) to deliver advantages in speed, cost, precision and materials (47%); and reshoring activity back to their domestic market (35%).

These findings are very much in line with the results of the EY European survey, where 53% of the respondents are thinking of moving activities closer to their customers (nearshoring) and 43% of bringing them closer to their domestic market (reshoring). Important developments, such as the pandemic-induced supply chain disruptions and the war in Ukraine, as well as consumer sustainability preferences and rising transportation costs, have made supply chain redesign a priority for many manufacturing companies. In the case of Cyprus, its strategic location at the edge of Europe and with access to Middle East and Africa, in combination with ongoing investments in infrastructure expansion and modernization, renders the island an attractive manufacturing and supply chain base in the eyes of investors.

Please specify whether you feel that Cyprus could be utilized in any of the following choices:

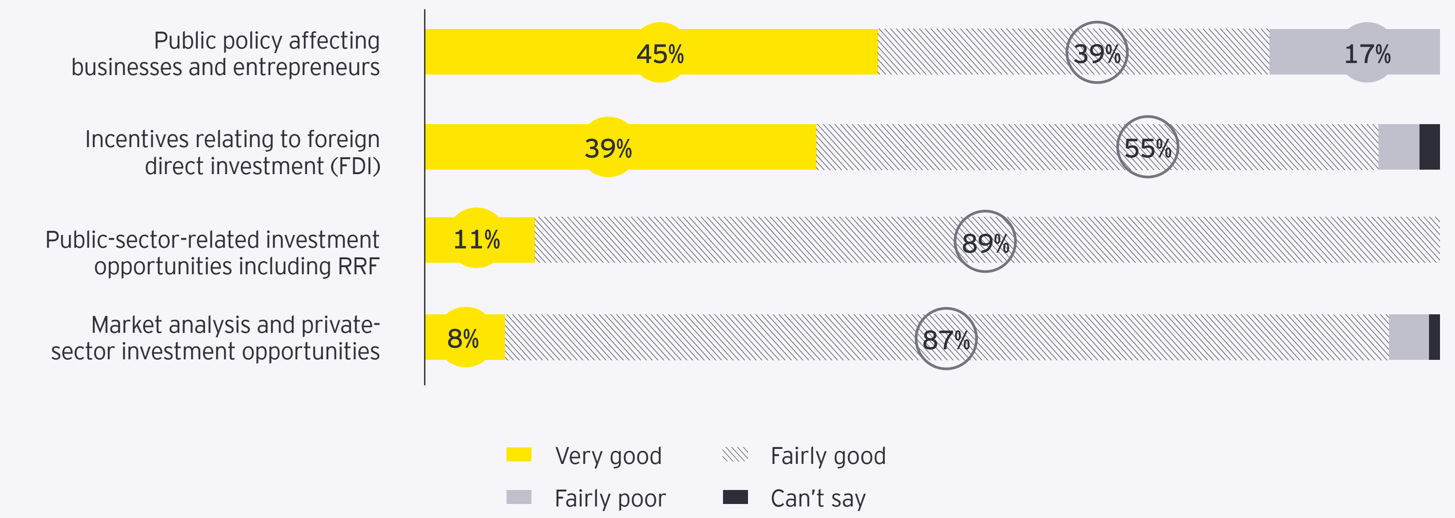


Transparency and timeliness of information

Companies were asked to assess Cyprus' ability to communicate information to investors in an efficient, transparent and timely manner, in terms of a number of parameters.

Based on the results, Cyprus is perceived as performing "very good" in the provision of information on public policy affecting businesses and entrepreneurs (45%) and the incentives relating to FDI (39%). Investors appear less satisfied but consider that Cyprus performs "fairly good" in the provision of information on public-sector-related investment opportunities (including the RRF), market analysis and private-sector investment opportunities.

How do you rate Cyprus' ability to deliver information to investors in an efficient, transparent and timely manner, in terms of:



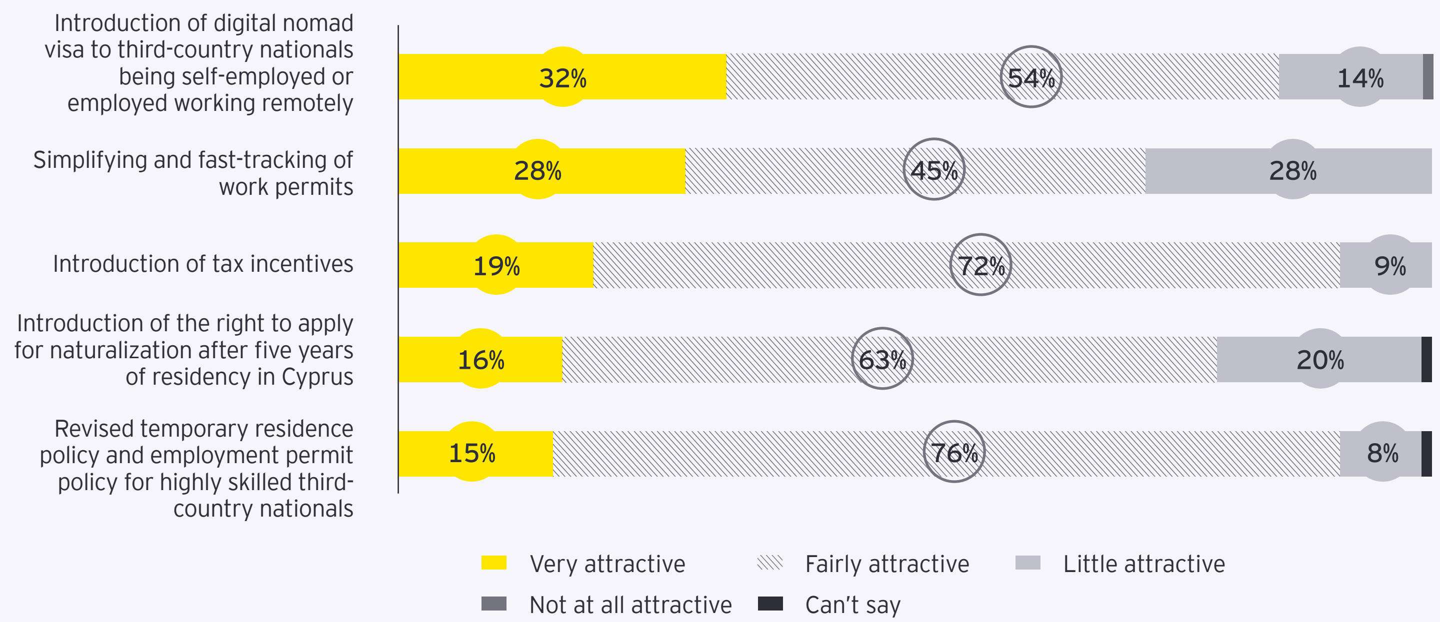
Cyprus survey findings

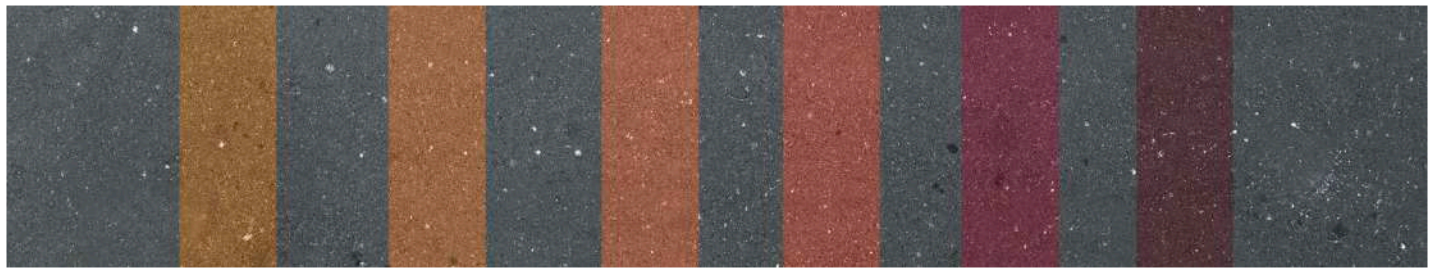
Assessment of recent government measures

Participants were asked to provide their assessment on a series of measures announced by the government to attract both overseas investors and talent.

The majority of respondents rate the measures as "fairly attractive" or "very attractive." The introduction of **digital nomad visa** to third-country nationals (being self-employed or employed and working remotely) was the most popular measure, rated as very attractive by one in three investors (32%). It is particularly appreciated by companies established in Cyprus (44%) and larger companies (46%). The **simplification and fast-tracking of work permits** are considered as "very attractive" by 28% of companies, and even more so by nonestablished companies (39%), followed by the introduction of **tax incentives** (19%). The introduction of the right to apply for naturalization after five years of residency in Cyprus (16%), and the revised temporary residence policy and employment permit policy for highly skilled third-country nationals (15%), albeit still important, are seen as less-important initiatives.

How do you rate the new proposed measures announced by the government to enhance attractiveness for investors and talent, including:





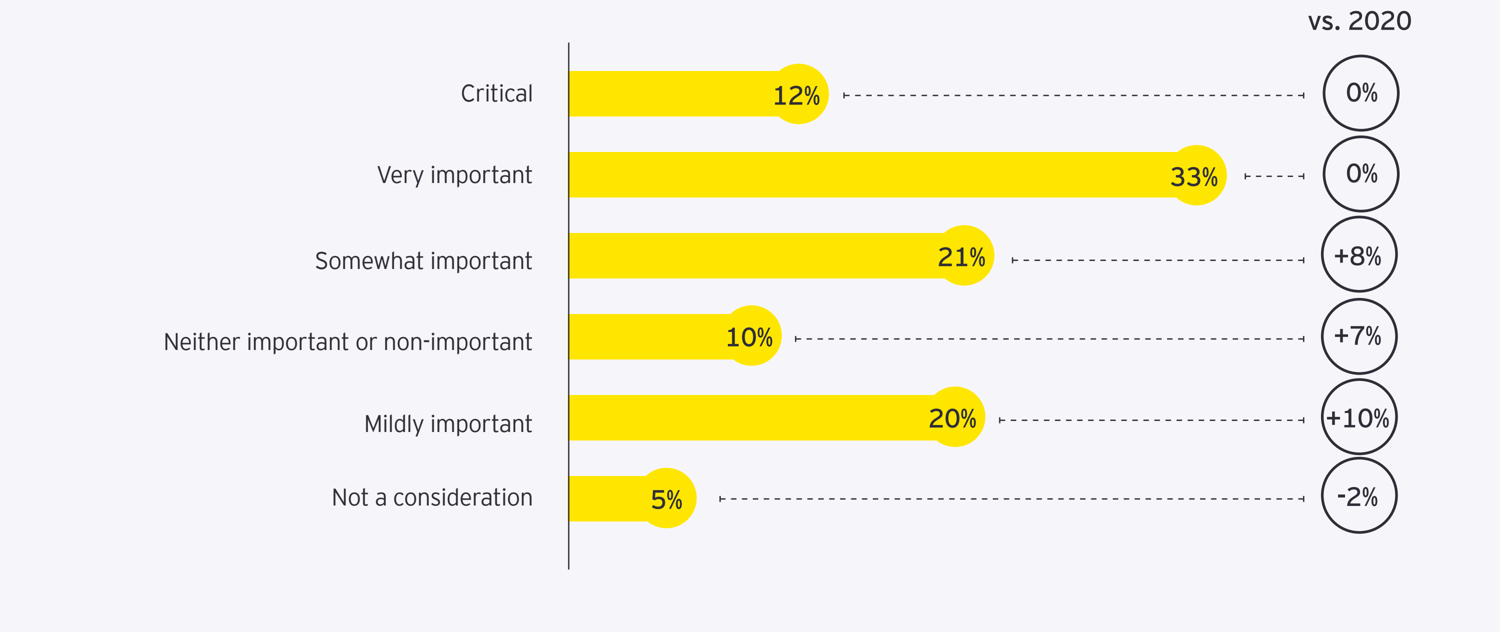
Cyprus survey findings

Cyprus' geopolitical position continues to affect investment decisions

The survey confirms that Cyprus' broader geopolitical situation continues to cast its shadow over companies' decisions to invest in the country. Similar to the results of the 2020 survey, close to half of the investors surveyed say that this is either a "critical" (12%) or "very important" (33%) factor.

Responders that are established in Cyprus attach greater importance to the geopolitical situation, with 49% of them regarding it as critical or very important factor for attracting FDI.

How important is Cyprus' current geopolitical situation for attracting FDI?



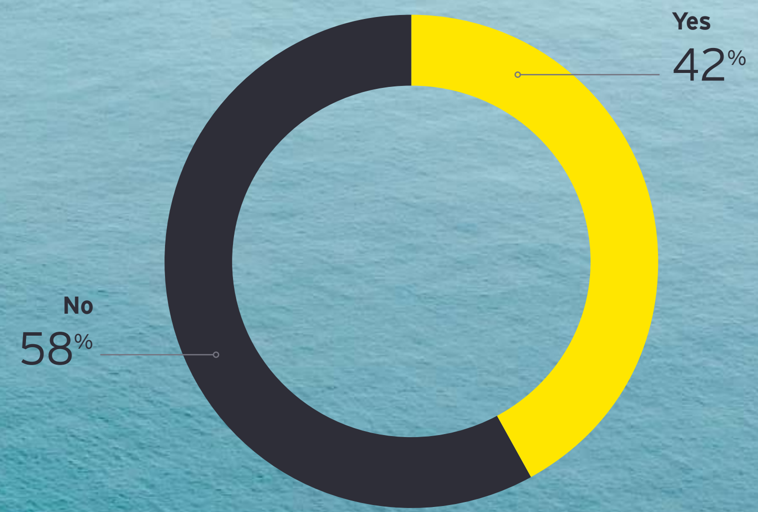
And what if Cyprus addresses these issues?

Finally, respondents were asked whether they would be more willing to invest, or proceed to further investments, in the country if Cyprus addresses the different issues identified. About 42% of companies replied that they would, while the remaining 58% gave a negative reply.

This may appear as a finding that needs to be worked upon for further improvements.

However, it is to be expected that not all companies would consider investments in any country. Some countries may be simply not have the right market size, be relevant or compliant with the respondents' specific sector. Moreover, 42% of the international players that responded positively are still a measurable force in itself, should they decide to move ahead with an actual investment.

If Cyprus addresses the above issues, would you be more willing to invest in the country or proceed to further investments in the country?



5 Conclusions and recommendations

Cyprus' FDI attractiveness, measured as the proportion of investors contemplating an investment in Cyprus over the following year, stands at 29%, compared with the European average of 53%. This score is among the lowest recorded as part of EY European Attractiveness surveys and suggests that there is still room for improvement to realize the country's full FDI potential.

Paving the road toward a digital economy

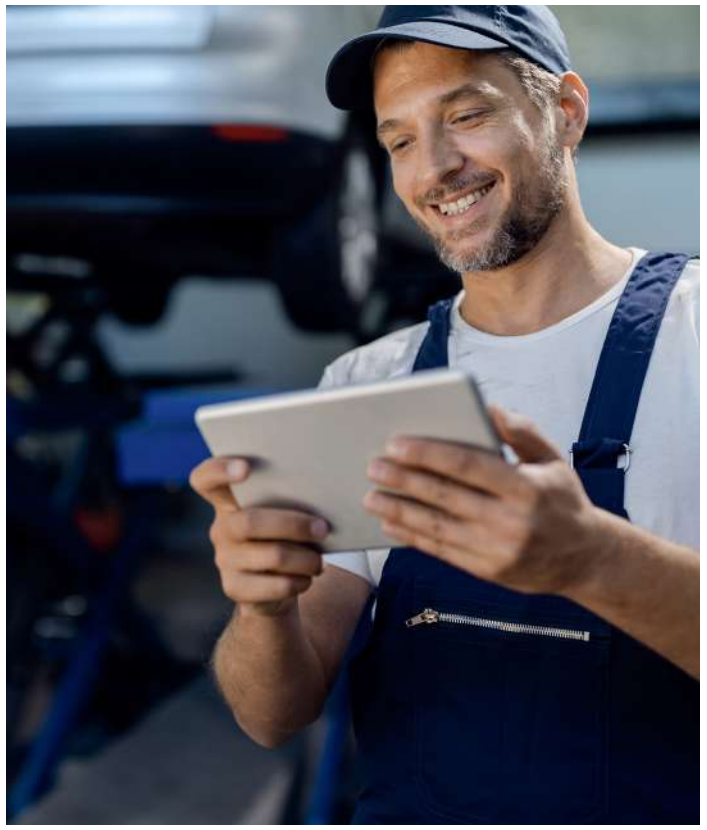
The pandemic has highlighted even more the importance of digital economy with the use of technology for remote working and delivery of customer propositions. From cloud services and reliable connectivity to automation, online education, and entertainment platforms, **digitalization** has become the competitive differentiator for how all businesses and ecosystems work. Consequently, the existence of solid **digital infrastructure** is ranked as the most important consideration for investors in 2022 based on the EY European Attractiveness Survey, up from fifth place just a year ago. Investors cite **digital adoption**, availability of **digitally skilled workforce and digital uptake by the general population** as other important factors in their decision-making. This extreme reprioritization attests to the broader investor view that digital economy will be the locomotive of Europe's growth in the years to come and calls for action to improve along all these parameters.

According to the Cyprus survey, four in five investors consider the country's digital infrastructure as attractive, which marks a significant increase from two years ago and showcases the work achieved by the DMRID and other stakeholders. Implementation of the Digital Strategy for Cyprus (2020–2030) remains key. Other groundbreaking initiatives, such as the collaboration with Amazon toward boosting the adoption of cloud-based services, have also not gone unnoticed.

However, investors still perceive Cyprus' investment in **digital skills** and a **digital culture** as lacking. Although investors acknowledge that infrastructure is largely available, they also recognize that the **rates of adoption** remain low, calling for well-designed behavioral interventions on behalf of the government to enhance the adoption of these tools among slow-adopter individuals and companies alike. In the case of digital skills and culture, the government is currently running large-scale digital-upskilling programs for public servants. These initiatives can be extended to target the wider population.

Efforts may also include **public-private sector cooperation,** and the conduction of supporting studies and other **training initiatives**. At the same time, further efforts to eliminate bureaucracy and facilitate FDI require the continuation of DMRID's significant work on **digitalization of critical government services** such as taxation, construction permits and legal proceedings.

Lastly, a huge opportunity exists with the **RRP** to drive digital transformation initiatives, through 23% of the funds (€280 million) assigned to digital transformation initiatives. Relevant activities include the infrastructure for connectivity to address challenges and shortcomings, and the enhancement of e-government through further digitalization of government services. Digital-related projects in Cyprus' RRP include the modernization of local authorities and deployment of generic cross-border e-health services. The vision of **smart cities** remains promising and it is an area not to be neglected.



Viewpoint

External viewpoint

Kyriacos Kokkinos
Deputy Minister of Research, Innovation and Digital Policy

Cyprus has set forth an aspirational vision for becoming a fit-for-the-future society and knowledge-based economy, enabled by digital technologies and data-driven culture. The ultimate goal is to drive economic competitiveness, stimulate business activity, create new jobs, and elevate social prosperity and sustainable growth. Embarking toward this ambitious vision, the Ministry has crafted a transformational strategy in the domains of e-government and digital skills, connectivity, communications and space technologies, as well as innovative entrepreneurship. Key design attributes of this strategy include: a holistic approach that encompasses systems, processes, structural interventions and reforms, redefining the talent and skills gap as well as "budgeting" for the cultural dimensions change management and resistance to change. At the heart of this transformation journey is citizen experience (CX). As a propulsive fuel driving the whole effort is the Ministry's team, working hand-in-hand with academia, and partnering with the private sector toward a shared vision and set of goals.

Digital public services are key deliverables and imperatives in this journey. We are focused on creating a seamless user experience, consolidating digital channels via "Gov.cy," a new online platform where citizens can navigate and access both information (websites) and services based on life events or business situations. At the same time, key strategic enablers, such as the single-sign-on and digital identity, give people control over their online identity and data, when they access public, private and cross-border digital services. After all, digital is about applying the culture, practices, business models and technologies of the internet era to respond to the raised societal expectations. A key challenge in this journey is the state of data across the various systems, currently holding back service delivery. For this reason, foundational interventions, and redrafting from scratch an effective government-wide enterprise architecture – business, systems, data and cybersecurity – are absolute prerequisites for a successful transformation.

Although the Ministry was established during the start of COVID-19, leaving no room for strategy experimentation, deep thinking and brainstorming, it provided us with two key things that every digital organization needs: ruthless prioritization on what really matters, and a strong incentive to focus on the outcomes rather than the means. In fact, a lesson learned is that: "strategy is execution."

To deliver a government that is efficient and digital to its core, we started rebuilding the government IT infrastructure by adopting a cloud-first policy and a service model XaaS, with strong emphasis on user-centricity, automation, and process optimization. Last but not least, through skilling, re-skilling and upskilling interventions, we aim to strengthen digital fitness at all levels of society and business ecosystem as well as the ICT marketplace so as to cover the needs of a demanding and fast-growing labor market.

As part of nurturing an advanced, sophisticated business environment, various funding instruments, tools and incentives have been introduced for promoting innovative entrepreneurship and creating digitally intensive industries, facilitating access to talent and funding for startups, technology, and innovation companies. These include tax incentives for investment in innovative companies, increased tax deduction for R&D expenditure, funding programs to expand research and innovation (R&I) activity via the Research and Innovation Foundation, a new €30 million state-funded equity fund for startups and SMEs, attractive startup and digital nomad visa schemes, as well as government subsidy for the digital upgrade of enterprises.

These are just the first but quite bold and decisive steps in a long-term transformational journey, the benefits of which are already deeply felt in the fabric of society and the economy. In fact, these first positive results not only raised even higher expectations across the whole spectrum of the citizens and the society, but also boosted our confidence that we can aim higher, dare to outthink, and try even more disruptive ideas! Cyprus is committed to a sustainable development model, driven by innovation and technological advancement, promoting continuous reform to accelerate transformation, and provide across-the-board quality service experiences to local and foreign businesses and its citizens.

Our aim is to be acknowledged by our citizens as providing "five-star hotel" citizen experience and services, be available around the clock, functioning as a "best in-class airport," and being trusted and secure as a "best-in-class banking institution."

Conclusions and recommendations

Matching skills to needs

Survey findings underline the opportunities made available to Cypriot students, and their accessibility of tertiary education and international experiences (e.g., Erasmus). Results confirm that gaining access to educated talent is not a challenge in Cyprus. The problem lies elsewhere. Despite the high rate of higher-education qualification among Cypriots, there are critical deficiencies in lifelong learning and re-skilling. These are attributed to both the lack of relevant infrastructure and also the willingness by employees themselves (i.e., the culture). Established international players in Cyprus confirm that the **quality of local staff** and **professional service** providers remain of the highest standard and competitive advantage, however their **re-skilling and continuous development** are lacking.

Lack of specific specialization is deemed as equally important, especially in emerging sectors. Digital transformation and green transition, for example, have created new urgent requirements with regard to skills. The availability of a skilled workforce tops the list of both technology- and sustainability-related investment criteria for international investors. In the case of Cyprus, one in two investors perceive the country as deficient in **skilled workforce** in the two sectors. Following the pandemic, similar scarcity is also recorded in more traditional sectors of the economy, including hospitality, health and shipping. Again, there is a need for targeted and coordinated large-scale training and development.

Workforce challenges are expected to become even more acute for the ICT industry, given its growth trajectory. These challenges may even pose an obstacle to investment and further growth of the sector locally. Ways need to be found to cover skill mismatches locally and, where this is not possible, attract and retain skilled human capital from other markets. With regard to the latter, the tax and immigration incentives, and simplified and fast-tracked process launched recently have been noticed. Further initiatives for attracting skilled workforce can also include the offering of special incentives for the **repatriation of skilled Cypriots.**

The current **curriculum in higher education** is in some cases not entirely relevant for developing some of these more specific job-prerequisite skill sets. They are in some cases considered as outdated. The country's performance in developing links and **collaborations** between the **business world and academia** is key and could be stronger. The design of curriculum in close collaboration with the industry, so as to reflect actual needs, and the involvement of industry professionals in course delivery are only a couple of the ways where such collaborations can be beneficial. Moreover, such cooperation could cover vocational training at company sites, internships and apprenticeships. There have been some cases where local universities did sign MOUs with business organizations, driven primarily by the industry technology (medical, pharmaceuticals, banking and so on). Cooperation in these cases resulted in the development of programs focusing on developing job-specific skills and in the launch of some sector-specific accredited courses and degrees (e.g., oil and gas). The collaboration can be further promoted by the central authorities and expanded further to cover additional disciplines. Joint R&D efforts to capitalize on the expertise of both the academics and industry experts are also desirable.

Cyprus can also borrow **best practices** from around the world to timely identify and address current, but also future, skill set needs in areas such as technology, green energy, maritime, hospitality, medical and beyond. Relevant interventions should be planned to also consider the **medium to long term**. Skills development should start from an early age (primary school) in order to attain sustainability,

Finally, in the area of relevant infrastructure, the government can encourage, and facilitate through incentives, the establishment of **more universities**, especially ones specialized in specific fields. Establishment of these institutions is even more important following the Brexit, due to the monetary and other constraints now associated with entering the popular for Cypriot students UK universities.

Creating a flourishing entrepreneurial ecosystem

While isolated efforts can provide an intermittent boost to an economy, sustainable growth mandates the establishment of an **entire ecosystem devoted to entrepreneurship**, an amalgam of appropriate infrastructure, clear processes, facilitation mechanisms, attractive incentives, financing, developing necessary skills, legal and tax regimes, and innovation culture. Despite local efforts, along each of these domains, and an investment-friendly attitude, more concrete steps are needed before Cyprus can boast a welcoming, flourishing entrepreneurial ecosystem. Our entrepreneurial and startup culture was cited as our least attractive point under the survey's relevant question.

First, **simplification of processes, transparency** and **communication** is high on the investors' wish list. In Cyprus, the administrative burden on businesses (setting up, obtaining necessary permits and licenses, and others) is still considered by investors as substantial. Efforts are underway to implement necessary structural reforms to improve the current procedures and encourage investment activity through streamlined rules and mechanisms. One such important step is the operation of the **Business Facilitation Unit** which came into existence in January 2022. The Unit acts as the single point of contact for investors and aims to holistically cover all necessary support. Another important development is the transition to **e-government** and the development of **e-legislation** platform. The aim is for all registrations, issue of permits and licenses, as well as public procurement to be carried out digitally. The Ariadni portal is already a reality, for example, despite its low adoption. Easy access to effective and efficient communication is also considered key for investors. Based on the feedback received, there is room for improvement (especially in the area of public-sector-related-opportunities and funding). We expect that as relevant platforms are further developed and fine-tuned, the situation will improve.

With respect to funding, investors cite **cumbersome and lengthy banking procedures** together with limited sources of **alternative funding** (such as venture capital) locally. There is a need for financial instruments to support innovative entrepreneurship and investment. Initiatives such as the new equity fund set up to facilitate finance for SMEs and startups, as well as the National Promotion Agency could partly alleviate the problem.

On the topic of innovation, the offer of **R&D**-related tax and other **incentives** are considered one of the top priorities by foreign investors. Relevant tax deductions are already in effect and have been recently extended by the government. Grants and other incentives to encourage R&D activity, and exploiting RRF funds will also help and need to be clearly communicated. The modernization of regulators and the framework to keep up with the industry and technology developments is also considered crucial, based on the responders, for fostering such activities. **Protection of IP rights** was cited as an area for further improvement in the case of Cyprus.

Cyprus has the fundamental ingredients in terms of basic infrastructure, quality of human capital, legal and tax regime, and professional services. The government and institutions need to harness these dynamics and potential to achieve further growth, by building a holistic entrepreneurial ecosystem.

Becoming a technology and innovation hub

In today's global environment, the ICT sector is a key driver for the success of any economy. By generating and offering new technologies to a wide range of sectors of the economy, ICT plays a strategic role in the promotion of economic growth, innovation, and competitiveness. It is no surprise that the sector has a central role in Cyprus' new sustainable economic growth model and Vision 2035. To this extent, the government has announced several incentives aiming the establishment of Cyprus as a **regional hub** for ICT and R&I. This effort has also been embraced and reinforced by private-sector initiatives, such as the TechIsland, focused on accelerating further the growth of the sector.

Survey results verify how investors strongly favor destinations where there is **government support** for high-technology industries and innovation. Moreover, as technology evolves, investors are increasingly urging authorities to **allow regulation to keep pace** with technological and other disruptions by **modernizing the relevant bodies** and **updating the legal framework**. In the case of Cyprus, investors rank as a priority the need to further **support high-technology industries and innovation**, which they consider as key to improve the country's overall FDI attractiveness and competitiveness.

These results call for Cyprus to accelerate its efforts of creating a favorable environment, where technology investments and transformation spill across multiple sectors. Becoming a technology hub does not involve the offer of random incentives, but rather the development of a **long-term strategy** and the creation of a **complete ecosystem** with supporting **services** and **infrastructure**. This would range from the development of international schools and sufficient accommodation to cater for the needs of the sector's talent and their families, to the modernization of the **regulatory and other frameworks** to cope with the rapidly changing developments, to creating the right environment for **cooperation** among different stakeholder groups.

Cyprus appears to have been doing a good job at attracting notable players and promising startups in the sector during the last years, capitalizing on factors such as its EU membership, strategic location, quality of life, professional services and legal and tax framework. Feedback from these players is positive, both with regard to the reasons that prompted them to choose Cyprus in the first place, as well as the support and attention they received from since they arrived. That being said, they feel that there is room for further support of the sector, and especially startups. They refer to the need for a **more entrepreneurial** and l**ess bureaucratic** approach. They repeat the **talent-related limitations** with the scarcity in specialized skills (programmers, data analysts and others), and the relatively low **digital culture** and **digital skilling** among the local population. Finally, the lack of sizeable **venture capital** funding and other forms of financing locally is cited as another limitation.

In all areas above, Cyprus needs to differentiate itself from competition, and especially its European counterparts. **Further incentives** and benefits may be required, including the **optimization of existing legislation** on matters like IP protection, to ensure that Cyprus is not only at par but is better than competing jurisdictions. In order to achieve this, the authorities need to better understand the needs of the players in the market and what is offered to them by the competition. Key in this respect is the **cooperation with the private sector**, and especially the international players that have already chosen Cyprus. The private sector appears to share the aspirations of the government in this area, and is willing to share knowledge, experiences, and connections for their achievement. A successful example of such a cooperation is the incentives package recently announced for talent attraction from abroad.

Communication is a key success factor and one where the private sector can be of value. Routes for communication and engagement need to be established with the global technology community, a key player in articulating to peers the competitive advantages Cyprus offers as technology destination.

Finally, another area to focus on to create the ecosystem necessary to become a regional hub, is the establishment of a **strong higher-education sector** in the technology area and the **collaboration** of these institutions with the industry. Such a cooperation would ensure that any R&D activities share the knowledge and experiences of both worlds. Cooperation with the academic institutions can also help bridge the talent gaps currently faced by the sector.

Viewpoint

External viewpoint

George Cambanellas
Invest Cyprus, CEO

Global flows of FDI recovered to pre-pandemic levels in 2021, reaching US$1.6 trillion, according to the World Investment Report 2022, published by United Nations Conference on Trade and Development (UNCTAD). The US was the largest source of FDI outflows, boosted by high levels of reinvestment of earnings. Germany, Japan, China and the UK followed, with more than US$100 billion outflows in 2021. However, the outlook remains uncertain given the geopolitical context in the current year 2022.

As a result of the strategy of the Ministry of Finance to attract business and talent to our country, which Invest Cyprus is currently promoting, we have witnessed an influx of companies choosing Cyprus as a base for their operations, a lot of them coming from the ICT sector. This creates multiple benefits to our local economy and there are strong indications that this momentum will continue in the coming years. Furthermore, the development of the country as an international financial center is very positive, with the sector of investment funds recording significant growth in recent years. With regards to FDI, we have seen significant inflows of foreign capital in various key sectors such as renewable energy, health care, higher education, and tourism and hospitality.

Human capital and access to talent have become top priorities in today's environment when it comes to choosing a location for FDI or for expanding/relocating business operations. Furthermore, there is a growing tendency toward sustainable investing and ESG criteria, while digitalization continues to be one of the top priorities for investors and businesses.

At the end of 2020, the government introduced an update to the immigration regime which allowed the employment of third-country ICT professionals into the country and established a fast-track mechanism (FTM) for fast registration of international companies. This had a major effect in attracting FDI in Cyprus within 2021, especially in the technology sector, with leading technology companies relocating their operations into the country and existing companies employing more technology professionals. This created approximately 700 direct and 1,320 indirect job positions in 2021. At the beginning of 2022, the government enhanced this regime by introducing a new incentives package for attraction of business and talent while upgrading the previously established FTM into a business facilitation unit. This package covers a wide range of incentives including among others a new, more comprehensive policy of employment of third-country nationals, targeted tax incentives for individuals and companies, and a reduced naturalization procedure. Meanwhile, Cyprus has started implementing its Long-Term Strategy 2035 which focuses on digitalization and green agenda, paving the way toward a sustainable future.

Intensifying diversification efforts

Cyprus' successful economic model of the past decades is currently considered outdated. The model that relied primarily on a small number of sectors (professional services, summer tourism, real estate and others) is no longer considered competitive. Several global and local developments have eroded its benefits. While these sectors remain important, investors are also highlighting the importance of **diversification**, flexibility and exploiting the potential economic value of **emerging new sectors**. Diversification could entail, in addition to the **ICT** sector, investment in **supply chain and logistics, education, energy, and the medical** sector. It may also involve refocusing on **light manufacturing, agriculture and shipping**.

Based on the survey results, **supply chain** tops the list in terms of potential FDI activity in Cyprus, with one in three investors stating that they would consider the country for relocation of their supply chain and logistics operations. Companies are looking to reduce dependency of their supply chain from a single or dominant source, and to operate more regionally based supply models. They want to get closer to their customers (nearshoring), and transition to lean or additive manufacturing, to deliver advantages in speed, cost, precision and materials. Cyprus stands to benefit from these supply chain disruption and changes, by virtue of its location in the cross-roads of three continents and being EU's eastern boundary. Continuous **investment in the expansion of the relevant infrastructure** (ports, logistic centers, storage and others) can help improve and expand the relevant capabilities to best exploit the opportunity. It is worth noting that based on the survey results, Cyprus is seen as a candidate destination for a "**manufacturing** base" by 7% of the investors. This is a material change to the results of our 2020 survey and may again be linked to the supply chain disruptions. Light manufacturing operations (such as generic pharmaceuticals, food and biotech) fit well with the country's characteristics and could attract additional investor interest in the future.

Enhancing the country's connectivity, both by air and sea, is a key factor in strengthening the specific sector and the economy, since it is vital for tourism and a vital factor for the country in becoming any sort of regional hub (technology-hub, shipping and others).

Diversification can be achieved within each sector itself. In shipping, for example, the local industry is growing, based primarily on traditional services, but can further benefit by expanding more on other maritime services. These may include chartering, bunkering, brokerage, shipping insurance, maritime technology, telecommunication services and procurement services. In the area of tourism, the plan set forth by the DMT is to diversify and complement our main "sun and sea" offering with more refined packages and new tourism types (sports, religion, agro, wellness and so on). This would not only reduce our tourism dependence to specific markets but would also help our efforts of extending our tourist season beyond the summer period.

The development of a **long-term strategy** for sustainable economic growth (Vision 2035), along with the establishment of a number of **deputy ministries**, are considered important first steps with regard to diversification and sustainable growth. Investors are reacting positively to these developments, with 53% of respondents expecting improvement in Cyprus' attractiveness over the next three years (below the EU average of 64%). A key concern shared is the tumultuous situation that occurs with every new election and change in power, emphasizing the need for coherent and solid long-term strategies.

Down the road, the spillover effects of a strong technology sector, in combination with the country's other comparable advantages and diversification efforts, can place Cyprus in a favorable position to leverage on global industry shifts and geopolitical events.

Strengthening the financial system

Financial and business services are projected by respondents to lead Cyprus' growth. For this to happen, the financial system needs to **regain its health, overcome risk aversion**, develop **new forms of finance** (shipping, RES and project finance), and open its doors to FinTech **innovation** and **digitalization**.

Compared with the 2020 survey results, progress has been reported regarding access to financing and availability of capital, partly reflecting the ongoing recovery of the country's banking sector. Despite the progress, a number of investors already present in Cyprus describe the local banking sector as still **not facilitating transactional and funding** activities, referring to experiences of **cumbersome and lengthy procedures.** The **lack of material venture capital** and other forms of **alternative financing** locally has also been noted, as was the mediocre funding support to sustainability and innovation projects.

Further developments expected to aid in this direction include: (i) the creation of the state-funded **equity fund** which is set to enhance access to alternative sources of finance by supporting innovative SMEs and attracting private investments, (ii) the anticipated establishment of a **National Promotional Agency** expected to support businesses through financial instruments such as loans, guarantees and equity financing, in a coordinated way, ensuring expertise and operational synergies, (iii) the Cyprus **Entrepreneurship Fund** that supports working capital and investment loans to SMEs, and (iv) the issuance of a **Crowdfunding** Directive relating to investment-based crowdfunding through transferable securities.

The authorities could further **strengthen the ecosystem** and process through which venture capital is made available to local companies. This can be done either through local schemes or by linking startups and innovation stakeholders to the international venture capital ecosystem. Opportunities exist within Fintech for bringing **new ways to raise capital** in shipping, and introducing better ways of risk profiling for both investors and investments. In addition, the revival of ship financing through Cyprus banks (which stalled on account of the 2013 banking crisis) could help support the future growth and diversification of the maritime sector.

Viewpoint

External viewpoint

Dr. George Theocharides
Chairman, Cyprus Securities and Exchange Commission (CySEC)

Technology-led growth has created a unique financial services sector in Cyprus, where it has been deployed to provide innovative services to investors, both in our domestic market and across the EU, with which the Cypriot securities market's legal framework is fully harmonized. As part of its mandate, CySEC actively supports new financial technology products, services, and infrastructure projects, particularly those that can help boost the real economy, and offer better and less costly services to investors. In the last decade, we have seen the growth of ever-more sophisticated technologies, such as artificial intelligence, algorithmic trading, blockchain technologies, machine learning, big data analytics, robo-advisors and social trading. The deep impact of digitalization in the EU capital markets will continue to drive a dramatic reshaping of the regulatory landscape in finance for years to come.

At CySEC, our vision is to enhance the Cyprus securities market to make it one of the safest and most reliable investment destinations in Europe, and internationally. We seek to achieve this by fostering trust among the firms we regulate and the investors they serve, through supervision, innovation and education against this constantly evolving market backdrop.

The prospects and opportunities of these new technologies are indeed enormous, but they need to be monitored carefully to enhance investor protection. There are challenges relating to the protection of the investors, such as money laundering and terrorist financing, and challenges around cybersecurity.

The dynamism and resilience of the investment sector in Cyprus continues unabated, attracting international interest and talent. Today, regulated entities in Cyprus amount to 824 and many Cyprus investment firms do business using state-of-the-art financial technology. The flow of new licensing applications to CySEC from Cyprus and abroad continues unabated.

It is almost four years since CySEC established its innovation hub, to explore the growth and use of FinTech developments including blockchain and DLT, AI tools, virtual and digital currencies, crypto exchanges, and RegTech solutions. The innovation hub serves as a knowledge-sharing platform for both supervised and non-supervised entities to enhance understanding about new and evolving financial technologies. It allows for the easy transfer of information around how existing regulation applies to new products or business models. The hub facilitates the identification of frameworks and licensing requirements that might need to be established in order to meet evolving needs, ultimately ensuring the safety and protection of investors. Currently, we are in the process of transforming the innovation hub into a regulatory sandbox, which we expect to launch in 2023. In this controlled environment, FinTech startups and other entities will be able to test their products or services in real conditions under the regulator's supervision.

On another note, I am encouraged to see that there is an increased focus on sustainability. ESG has been growing in prominence as its application has become essential to investor decisions and for businesses throughout the world. As more stakeholders engage, ESG is playing a decisive role in the way investments are evaluated and decisions are made, ultimately affecting returns on those investments and, more importantly, the costs and allocation of capital.

In line with the EU action plan for financing sustainable growth, CySEC has confirmed its commitment to foster compliance with sustainable finance standards. CySEC has created a dedicated section on its website on sustainable finance. All market participants have been urged to take necessary steps and ensure full compliance with the regulatory requirements, particularly their Sustainable Finance Disclosure Regulations (SFDR) obligations, to ensure a smooth implementation of the new ESG policies.

In Cyprus, we have already registered some alternative investment funds with an investment policy focusing on environmental, social and governance factors, which is promising. We are yet to see a large-scale shift toward responsible investment, but we are moving in the right direction.

CySEC is fully committed to support these exciting developments. At the same time, we are also dedicated to ensuring that these services are delivered in a prudent and compliant manner, and that investors are protected. We also continue to contribute at national, EU and global level to give Cyprus a strong voice, and we do this within the framework of EU regulation – notably the European Securities and Markets Authority (ESMA) regulation – and through our continued participation in various decision-making and discussion forums. CySEC's priority remains to make the Cyprus securities market a safe and secure place to do business, by maintaining high standards and investor protection, investor confidence, and supporting the healthy development of the market with new products and services. This is consistent with ESMA's mission to "enhance investor protection and promote stable and orderly financial markets."

Conclusions and recommendations

Embracing sustainability

Rising concerns by consumers, investors, regulators, and employees have pushed climate change and sustainability policies from fifth to second place among the factors influencing investment decisions across Europe. Businesses are looking to move to countries where the regulatory landscape supports sustainability practices and where funding for sustainability initiatives is available. Investors are looking for the workforce skills and competencies needed to facilitate sustainability projects, together with consumer awareness of sustainability and climate change.

Cyprus cannot afford to stay behind in this area. We need to understand our current capabilities and upcoming opportunities, but also need to recognize the potential risks if we fail to move as fast as other EU countries. Actions have been taken by the regulatory bodies and the government on tackling the issue of climate change through laws and regulations. For instance, significant steps have been taken in **capitalizing on the RRF,** and the country is in the process of updating its **National Energy and Climate Plan**[58] to include **higher renewable energy targets** as well as **hydrogen** and **smart energy** commitments. With the great majority of business in Cyprus being SMEs, there are **limitations concerning the gathering of information** on their carbon footprint and, in extent, the existence of **decarbonization plans is limited**. However, the government has taken action (through RRF incentives) to encourage organizations to take stock of their current carbon and environmental footprint, and set decarbonization strategies to reduce them.

Survey findings suggest that Cyprus performs well with regard to the establishment of an ecosystem of innovative CleanTech and sustainability businesses, as well as the degree to which local consumers care about climate and sustainability issues. There is, however, plenty of room for improvement. Survey findings suggest that Cyprus compares unfavorably with the rest of Europe, in terms of the l**ocal workforce's skills and competencies** needed to facilitate sustainability, degree of **utilization of renewable energy**, and the presence of **regulation to support sustainably projects**. Investment is needed to **develop relevant skills locally** through collaboration between businesses and academia, as well as to further enhance sustainability culture among citizens. Strengthening of the RES sector is needed, not only through raising relevant productions targets and warding relevant licenses, but by creating the infrastructure capacity to serve the increased production (distribution network, energy storage facilities and others).

Local regulation will need to be **adjusted**, to create the framework for sustainability and circular economy growth. European regulators are expected to become even stricter, and push for more institutions to update all their processes to include climate risks and sustainability in the decision process. Waiting for these regulations before acting may be too late. Instead, the government and local regulators can take measures earlier, like other countries have done. Such measures include requirements for specific **sustainability-related information to be disclosed** (i.e., ESG governance, climate risk management and disclosure) for all listed and large companies. Local authorities have not yet complied with their verbal commitments regarding the Paris Agreement, through amendments in local legislation, in a similar way as other EU countries have. The government may need to consider introducing **mandatory decarbonization goals** within its legislation, for high-intensity carbon sectors, following the example of other EU countries committed to a green transition.

In addition, the much-anticipated **liberalization of the Cyprus electricity market** is expected to **encourage further penetration of RES share**.

58 In order to meet the EU's new energy and climate targets for 2030, Member States are required to establish a 10-year national energy and climate plan (NECP) for the period from 2021 to 2030.

Finally, for the green transition to be successful, there needs to be a **knowledgeable and competent local workforce** to deliver the necessary projects. It is widely accepted that this transition will affect several sectors and their employees, as some technologies and products will become redundant, and others will be replaced with more efficient and environmentally friendly products and procedures. It is therefore important for the government to encourage the development of **training and re-skilling programs** through Human Resource Development Authority of Cyprus (HRDA)[59] or other means, as well as the cooperation of the private sector with **universities** that will enable and help deliver this transition.

As climate change and sustainability matters are expected to be a major influencing factor on investors' decisions going forward, Cyprus will need to understand the forthcoming opportunities and develop capabilities to match them. Failing to move fast, following the lead of other EU countries, will result in potential risks.

59 Human Resource Development Authority of Cyprus or HRDA, whose mission is the training and development of the country's human capital at all levels and in all areas to meet the needs of the economy

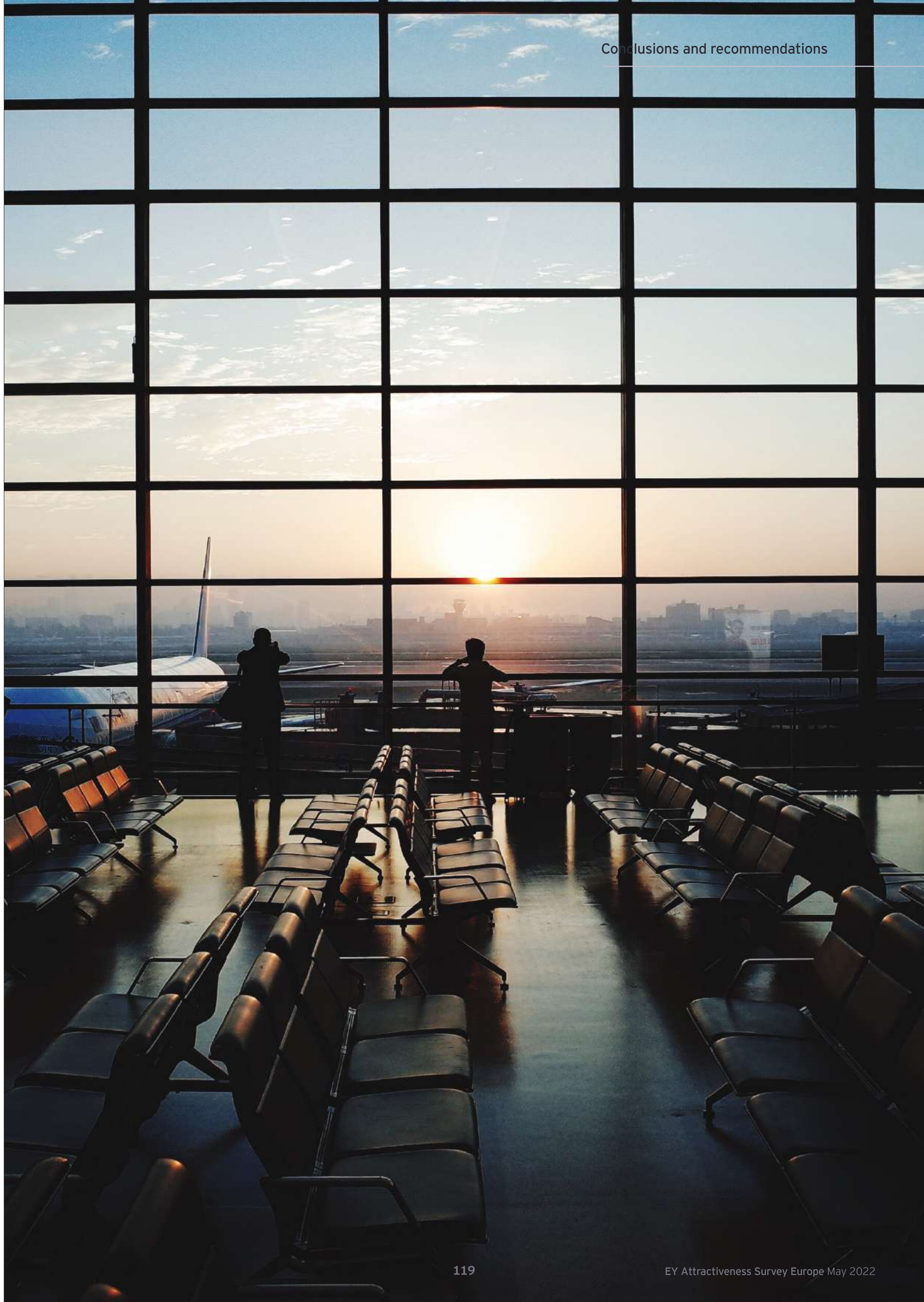
Exploiting geopolitical opportunities

The survey confirms that Cyprus' broader geopolitical situation continues to cast its shadow over investors' decisions to invest in the country, referring to the occupation of the north of the island by Turkey (the **Cyprus problem**). Two-thirds of the respondents acknowledge that the geopolitical situation is an **important factor** for FDI decisions. This is understandable, given the feeling of insecurity looming due to the Cyprus problem, and undulating tensions between Greece and Turkey. The opportunity cost is considered in that a reunification of the north and south of the country would not only remove a major source of **uncertainty** for the economy but will also remove **restrictions** and impediments to growth; one of them being the Turkish embargo on Cyprus-flagged vessels, which will enable the country to realize its full potential as a maritime hub. A reunification can also open the sizeable Turkish market to other sectors of the Cypriot economy.

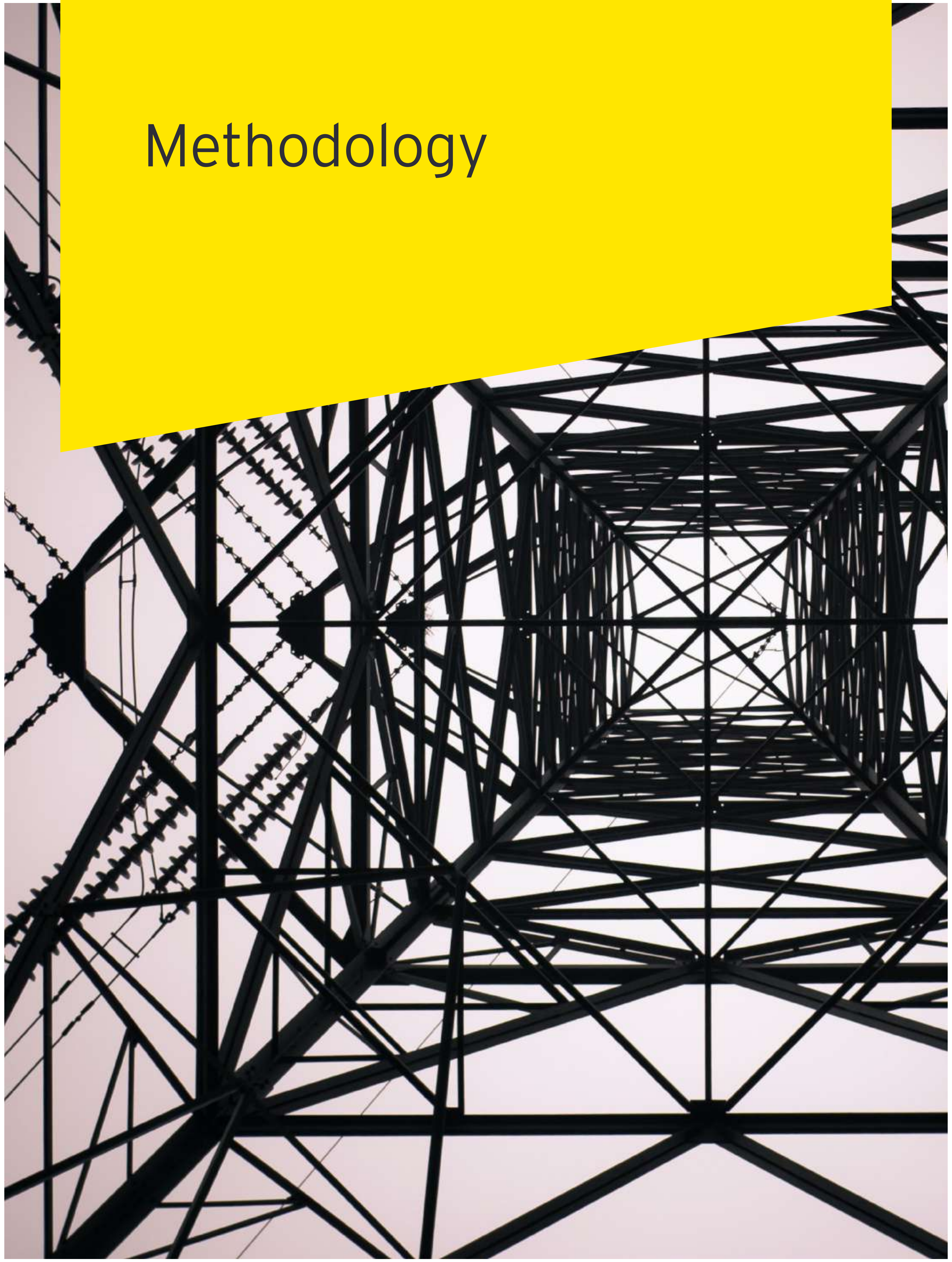
At the same time, the country's **strategic location** on the crossroad of three continents, combined with its EU membership and a stable political regime, opens the horizon for Cyprus to play a **key regional role**. This is a competitive advantage currently enjoyed by a limited number of countries in the region. The historic close relationship with the UK and the country's Commonwealth status are also factors not to be neglected. Opportunities have already presented themselves, arising for example from Brexit; and opportunities will continue to evolve through the development of existing healthy and strong **bilateral relationships** (Commonwealth, Israel, Arab world and others).

Moreover, Cyprus' strategic location and large deposits of natural gas discovered in Eastern Mediterranean can favor the efforts of the EU for complete **energy independence from Russia**. Major infrastructure projects, such as the Euro-Asia Interconnector, Cyprus' FSRU investment in Vassilikos and EastMed, are already under way (see Energy section, page 58). In addition, as already suggested, Cyprus stands to benefit from the **supply chain** disruptions, leading businesses to consider a complete reshaping of relevant activities (nearshoring, regionalization and so on), by virtue of its location, EU membership and expanding infrastructure.

Overall, the geopolitical situation for Cyprus is a two-sided picture, which the country can leverage to its advantage upon focusing on suitable competitive strategies and communicating the message to investors accordingly. There is a need for adopting a long-term strategy that withstands government elections and parliamentary changes, and supports the revision of the economic model, allowing for diversification in view of securing competitiveness and sustainability. At the same time, efforts to promote Cyprus can be more efficient, once they are more targeted (with regard to specific sectors), frequent, consistent and they involve coordination between the public (e.g., Invest Cyprus) and private sectors (e.g., TechIsland).



Methodology



About the European Investment Monitor

Our evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), the EY proprietary database produced in collaboration with OCO. This database tracks the FDI projects that have resulted in the creation of new facilities and jobs. By excluding portfolio investments and M&A, it shows the reality of investment in manufacturing and services by foreign companies across the continent. An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany, such as plant and equipment. The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources. To confirm the accuracy of the data collected, the research teams 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:

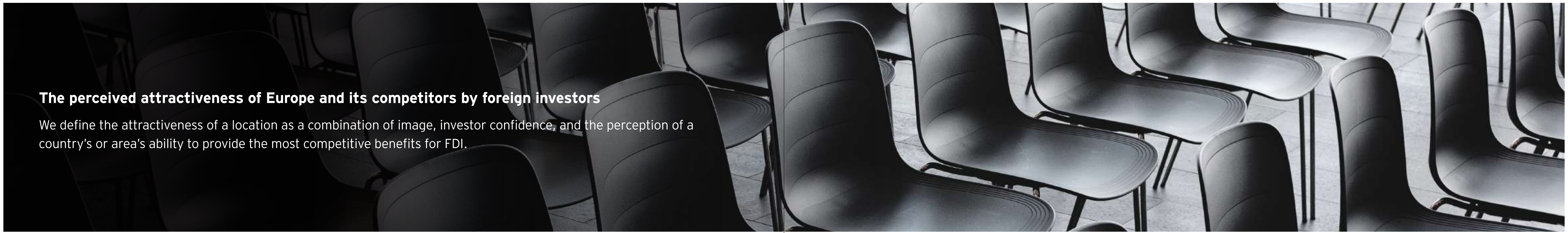
- M&A and joint ventures (unless these result in new facilities or new jobs being created)
- License agreements
- Retail and leisure facilities, hotels, and real estate*
- Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
- Extraction activities (ores, 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)

* 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.

However, 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.



The perceived attractiveness of Europe and its competitors by foreign investors

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.

EY Attractiveness Survey:

Europe

For the European Attractiveness Survey, the field research was conducted by Euromoney in February, March and April 2022 via online surveys, based on a representative panel of 501 international decision-makers.

Cyprus

The fieldwork for EY Cyprus Attractiveness Survey was conducted by **Euromoney** between 8 April and 17 May 2022 by means of online surveys, based on a representative panel of 101 international decision-makers from **22** countries. About 50% of the investors surveyed have an established presence in Cyprus. Additionally, a select number of interviews were held with established investors to obtain their viewpoints.

Interviewed companies by nationality:

UK	12%
US	12%
Israel	10%
Greece	8%
China	6%
Germany	4%
Ireland	4%
Lebanon	4%
Malta	4%
Norway	4%
South Africa	4%
Czech Republic	3%
Denmark	2%
France	2%
Hungary	2%
India	2%
Italy	2%
Japan	2%
Netherlands	2%
Qatar	2%
Romania	2%
Saudi Arabia	2%

Interviewed companies by turnover:

<€150 million (small enterprises)	37%
€150 million–€1.5 billion (medium enterprises)	40%
>€1.5 billion (large enterprises)	24%

Companies by primary sector of activity:

Advanced manufacturing and mobility	26%
Business services	15%
Media and entertainment	14%
Retail and consumer products	11%
Health sciences and wellness	10%
Financial services	6%
Oil and gas	6%
Power and utilities	4%
Technology and telecommunications	4%
Real estate and construction	3%
Hospitality	2%
Other	0%

Interviewees by job title:

Chief operating officer (COO)	14%
Chief executive officer (CEO)	11%
Chief tech officer and chief digital officer	11%
Chief financial officer (CFO)	10%
Director of strategy	9%
President	8%
Director of development	8%
Marketing and commercial director	7%
Chairman	6%
Chief investment officer (CIO)	6%
Director of investments	6%
Chief risk officer (CRO)	2%
House of resources director	2%
Other	1%

About the EY Attractiveness program:

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

The program has a 21-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

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

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