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Cyprus

EIBIS 2016

EIB Group Survey on
Investment and
Investment Finance 2016

Country Overview

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

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About the EIB Investment Survey (EIBIS)

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

About this publication

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

About the Economics Department of the EIB

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

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Disclaimer

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

About Ipsos Public Affairs

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

EIBIS 2016 – COUNTRY OVERVIEW

Cyprus

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

As the EU bank, the EIB Group responds to the need to accelerate investment to strengthen job creation and long-term competitiveness and

sustainability across all 28 EU member States. EIBIS helps the EIB to contribute to a policy response that properly addresses the needs of businesses, promoting investment.

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

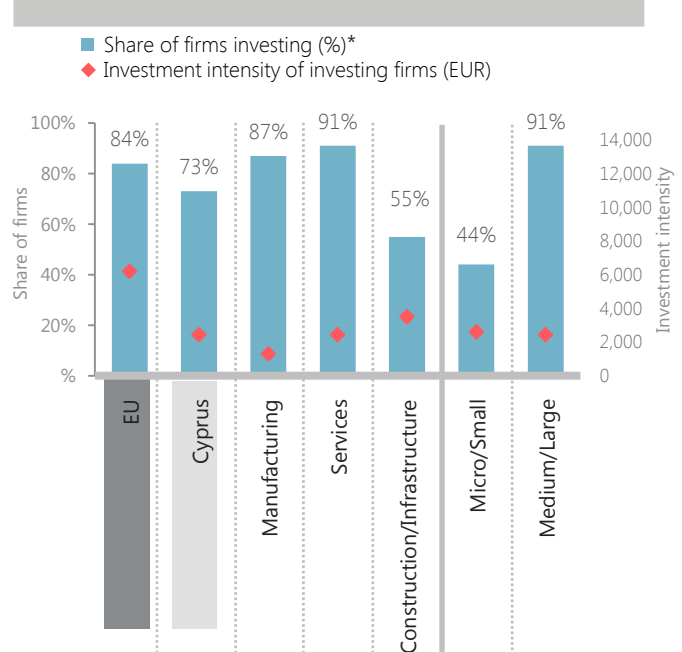
Key results

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

INVESTMENT DYNAMICS

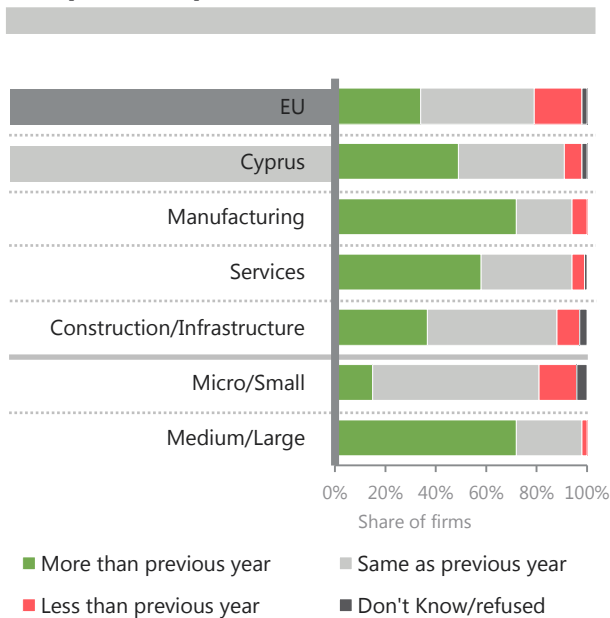
- Overall, 73% of the firms in Cyprus invested in the last financial year, against an EU average of 84%.
- Over nine in ten (91%) firms in the services sector and 87% of firms in the manufacturing invested, compared to 55% of firms in the construction/infrastructure sector.
- Investment intensity (investment per employee) stands at EUR 2,438 against the EU level of EUR 6,200.

Investment activity in last financial year



Base: All firms (excluding don't know/refused responses)
 *The blue bars indicate the proportion of firms who have invested in the last financial year.
 A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities.
 Investment intensity is the median investment per employee of investing firms.

Investment activity in last financial year compared to previous

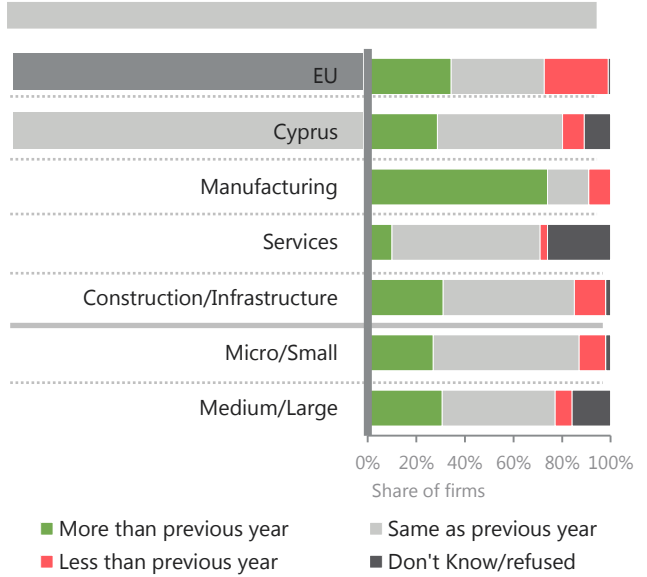


Base: All firms who invested in the last financial year
 Q. Overall was this more, less or about the same amount of investment as in the previous year?

- Compared to 2014, 49% of firms in Cyprus increased their investment activities in 2015.
- 72% of firms in manufacturing invested more than the previous year, compared to 58% among firms in the services sector and 37% in the construction/infrastructure sector.
- The share of medium/large firms that increased investment was 57 percentage points higher than the equivalent share of micro/smaller firms.

- Around three in ten (29%) firms in Cyprus expect their investment in 2016 to exceed the investment levels of 2015.
- Around half of firms in Cyprus expect their investment in 2016 to be as high as in 2015 (52% compared to 38% in the EU).
- Three quarters of firms in the manufacturing sector plan to invest more than in the previous financial year, compared to 31% of firms in the construction/infrastructure and 10% in service sector.

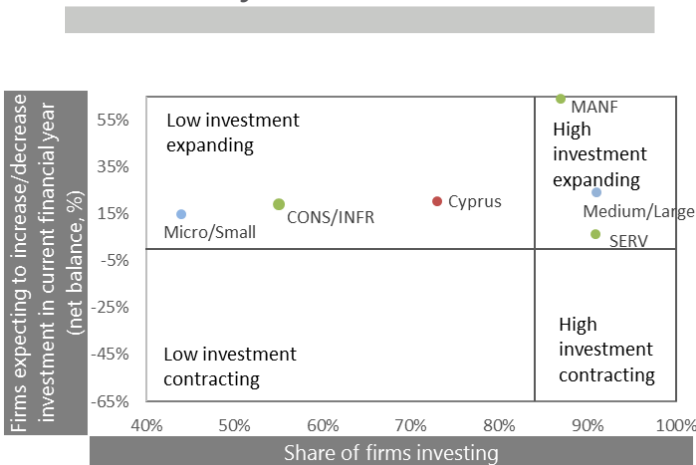
Expected investment in current financial year compared to last one



Base: All firms

Data is derived from two questions: firms who had invested in the last financial year were asked if they expect to invest more, around the same amount or less than last year; firms who had not invested in the last financial year were asked if they had already invested, or expect to invest in the current year

Investment cycle



Base: All firms

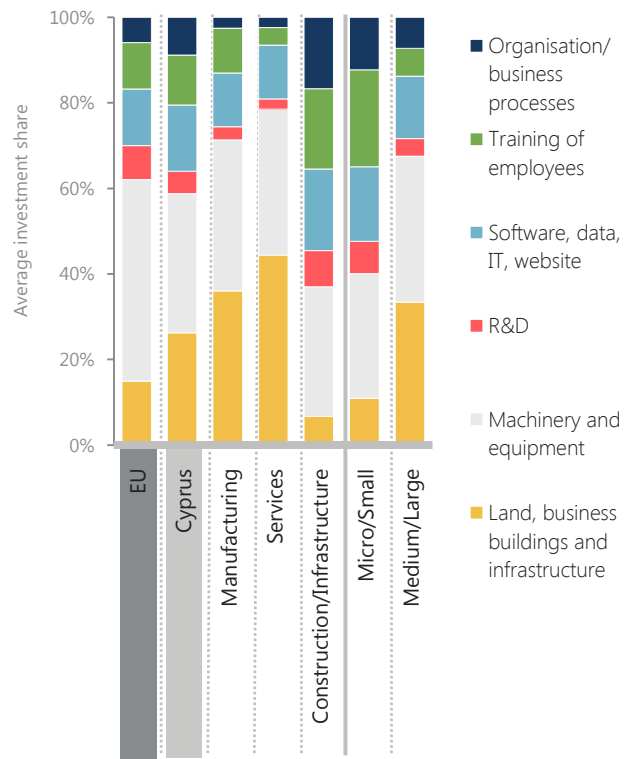
Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.

- Overall, Cyprus falls into the “low investment; expanding” quadrant of the investment cycle diagram, confirming firms’ recovery from a marked investment slump.
- Positively, despite the construction and infrastructure sectors which were most severely hit by the crisis, this signals an investment recovery in the current financial year.

INVESTMENT ACTIVITY

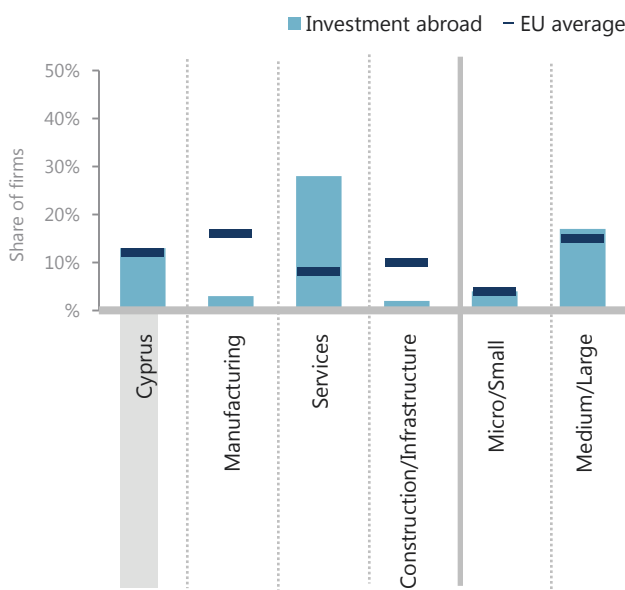
- One third of the investment activity in Cyprus during the last financial year was concentrated in machinery and equipment (33%), followed by land, business building and infrastructure (26%) and investment in software, data, IT and websites (16%).
- Relative to investment in the EU as a whole, Cyprus reported 11 percentage points more investment in land, business and infrastructure and 14 percentage points less investment share in machinery and equipment.

Investment areas



Base: All firms who have invested in the last financial year (excluding don't know/refused responses)
Q. In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

Investment abroad

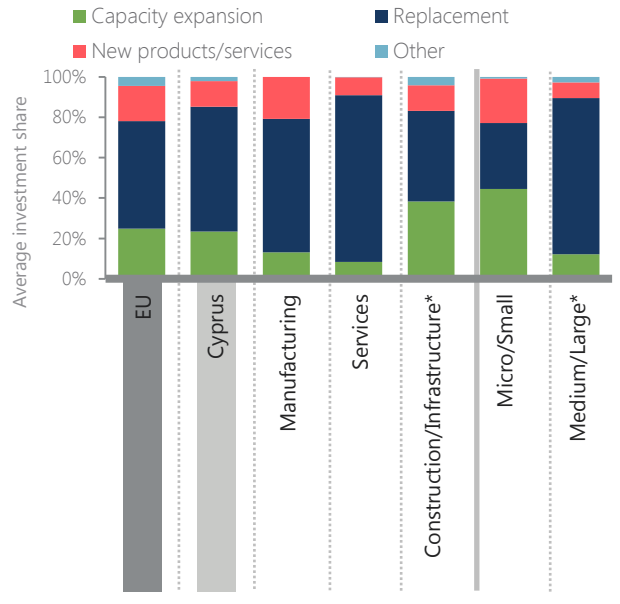


Base: All firms who invested in the last financial year
Q. In the last financial year, has your company invested in another country?

- Overall, 13% of the firms in Cyprus have invested in another country in the last financial year, in line with the EU average.
- Over a quarter (28%) of firms in the service sector invested abroad, while the proportions for the construction/infrastructure sector and manufacturing stand at 2% and 3% respectively.

- During the last financial year, investments in Cyprus were dominated by replacement (62%), followed by capacity expansion (23%) and developing or introducing new products, processes or services (13%).
- This is largely in line with the EU aggregates.

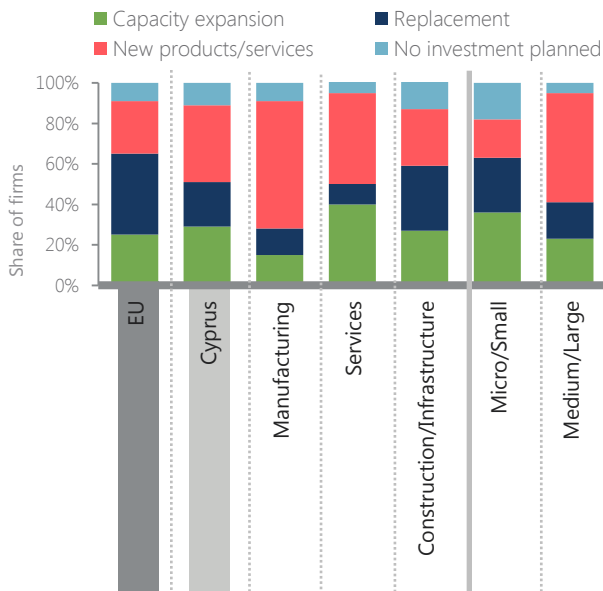
Purpose of investment in last financial year



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

Q. What proportion of total investment was for (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?
*Caution: very small base size of less than 30

Future investment priorities



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

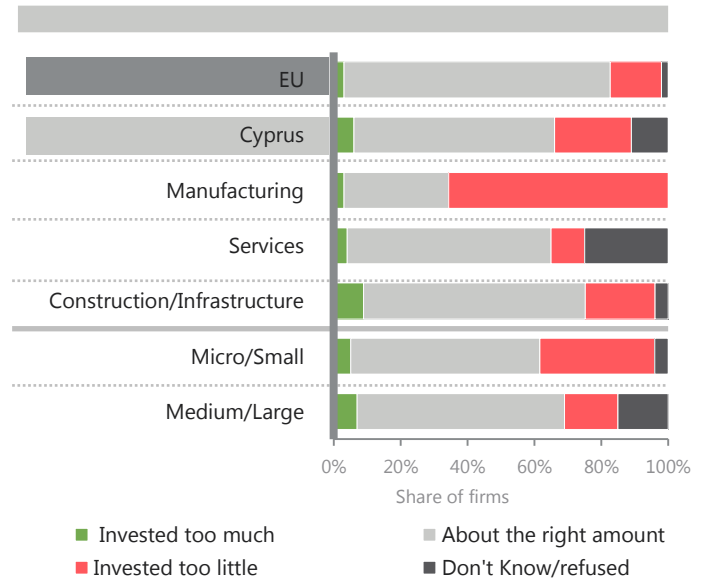
Q. Looking ahead to the next 3 years, which of the following is your investment priority (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

- For nearly two fifths (38%) of firms in Cyprus, new product or service development seems to be the investment priority for the coming three years, rising to 54% among medium and large companies.
- 22% of firms in Cyprus prioritise replacement, compared to 40% across the EU as a whole.

INVESTMENT NEEDS

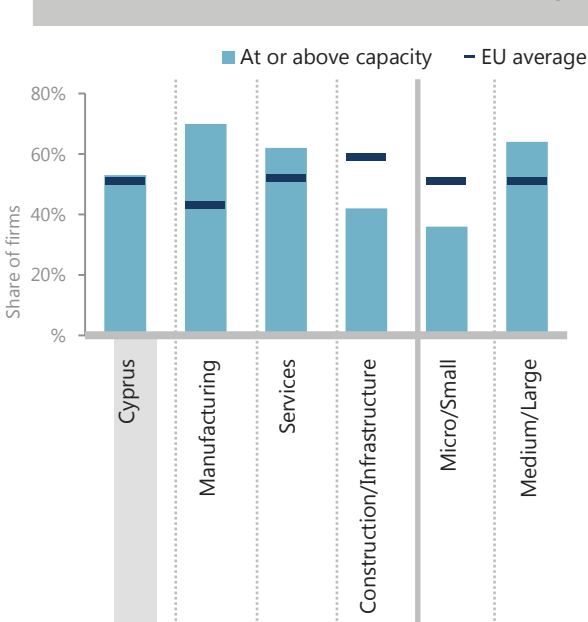
- Three in five (60%) firms in Cyprus believe that their investment over the last three years was about the right amount. Around one in 17 (6%) believe that they invested too much.
- 23% of firms, rising to 65% in the manufacturing sector, believe that they invested too little in the last three years.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

Perceived investment gap



Base: All firms (excluding 'Company didn't exist three years ago' responses)
Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount to ensure the success of your business going forward?

Share of firms at or above full capacity



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

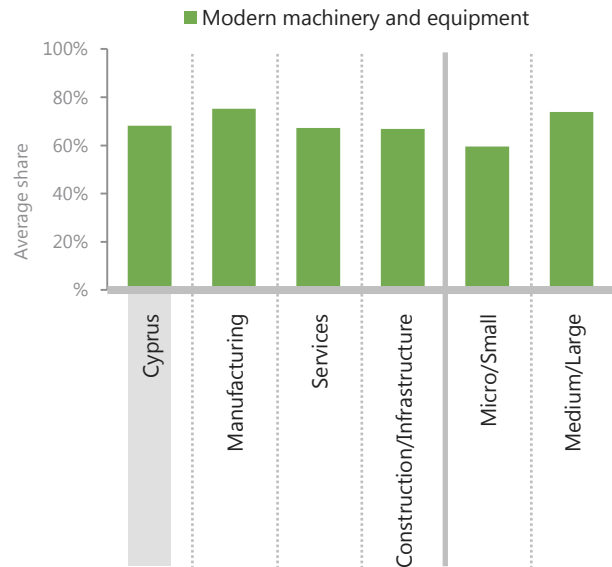
Base: All firms (data not shown for those operating somewhat or substantially below full capacity)

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

Q. In the last financial year, was your company operating above or at maximum capacity attainable under normal circumstances? 6

- The average share of machinery and equipment owned by firms in Cyprus that is considered to be state-of-the-art is 68%, fairly consistent across different sectors and sizes.

Average share of modern machinery and equipment

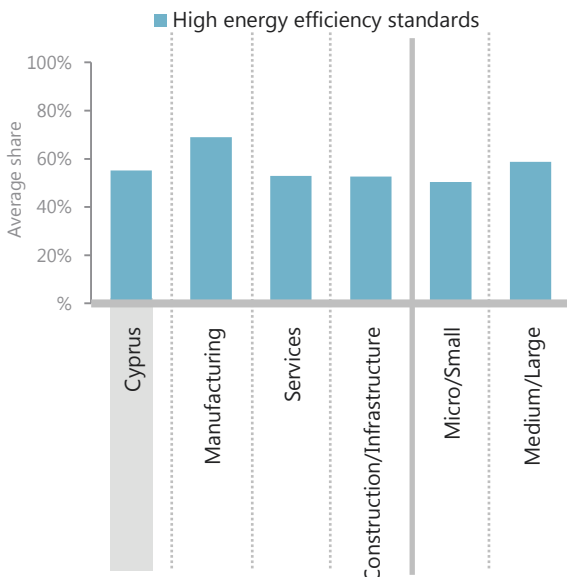


Base: All firms

Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

NOTE: Due to potential translation issues, the shares reported here are not comparable to those in other countries.

Average share of building stock meeting high energy efficiency standards



Base: All firms

Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

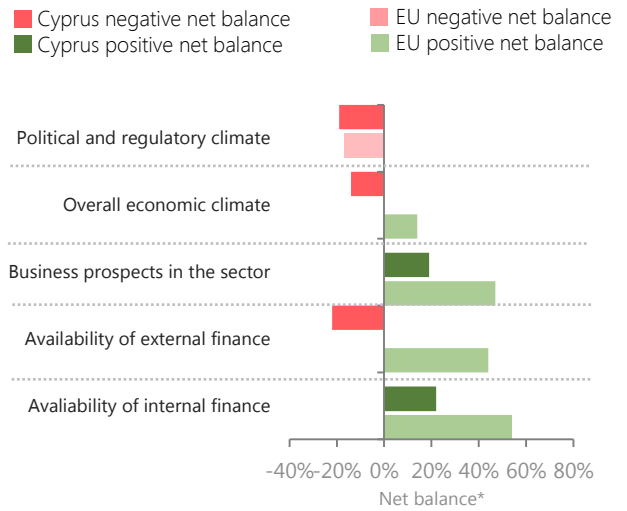
NOTE: Due to potential translation issues, the shares reported here are not comparable to those in other countries.

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

INVESTMENT CONSTRAINTS

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

Short term influences on investment

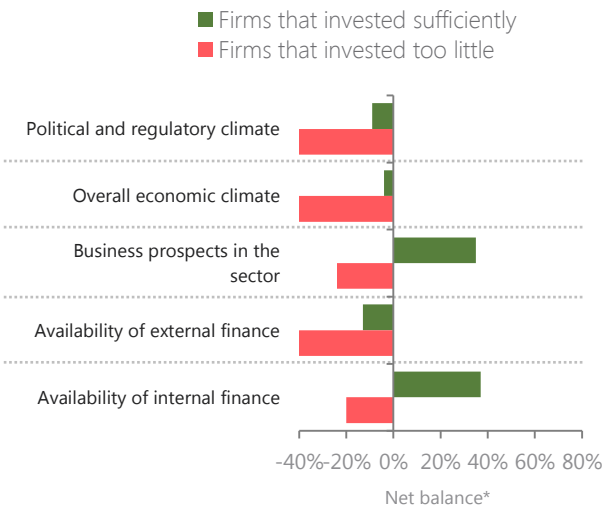


Base: All firms who have planned to invest in the current financial year

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

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

Short term influences by investment performance



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

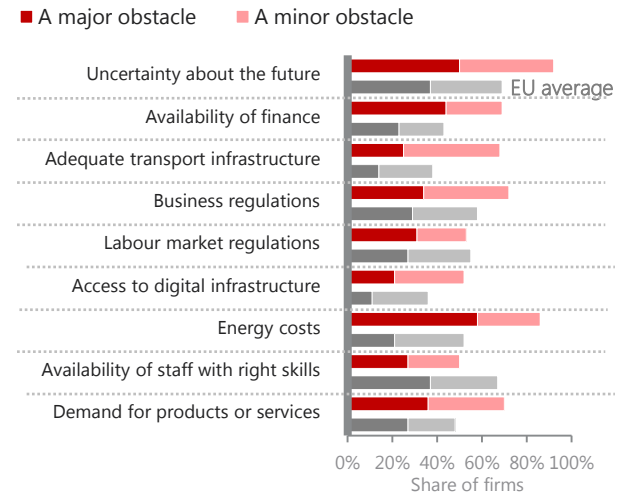
Q. How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?

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

- On balance, firms in Cyprus that reported insufficient investments in the last three years were more negatively affected by all factors, compared to firms that invested sufficiently.

- Although the overall investment environment in Cyprus is challenging, a significant 58% share of firms indicate that high energy costs constitute a major long term obstacle to their investment activities. This figure is the highest in the EU.
- Half of the firms in Cyprus consider future uncertainty as a major investment barrier, while 44% of the firms are concerned about limited availability of finance.

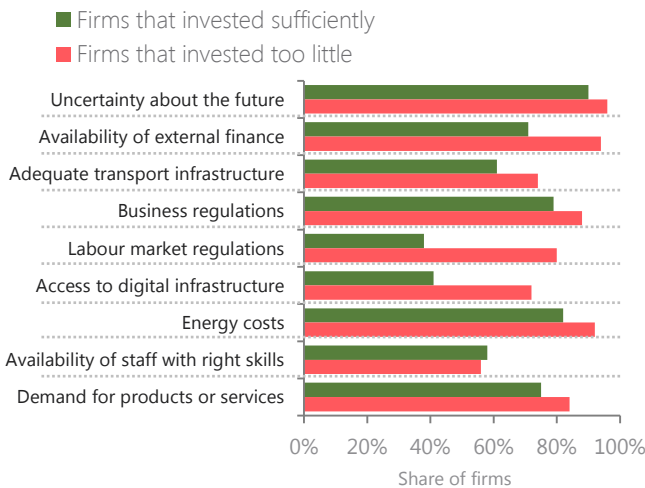
Long term barriers to investment



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

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

Long term barriers by investment performance



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

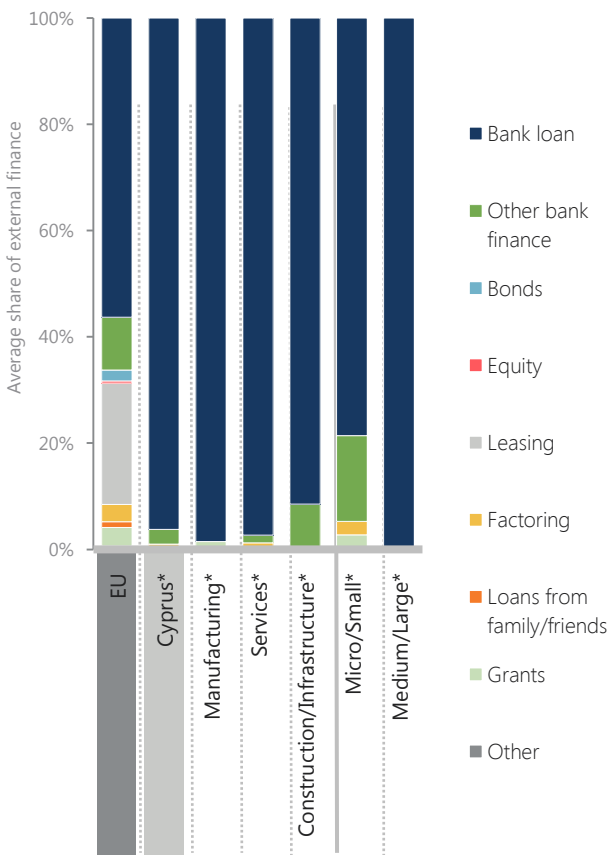
Q. Thinking about your investment activities in Cyprus, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

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

INVESTMENT FINANCE

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

Type of external finance used for investment activities

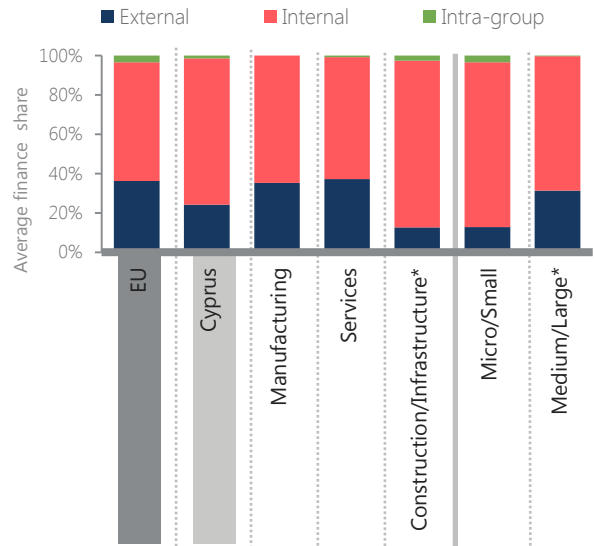


Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

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

*Caution: very small base size of less than 30

Source of investment finance

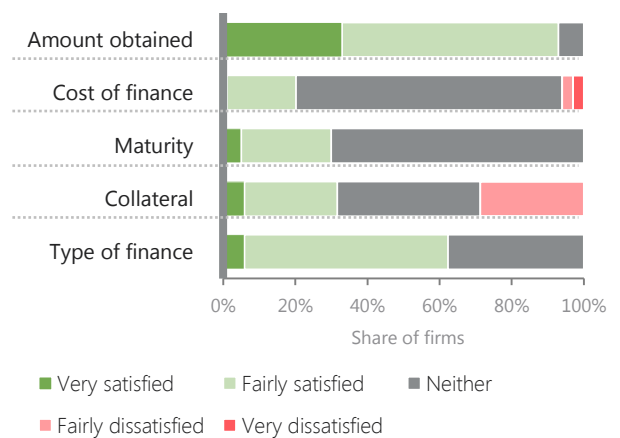


Base: All firms who invested in the last financial year (excluding don't know/refused responses)

Q. Approximately what proportion of your investment in the last financial year was financed by each of the following?

*Caution: very small base size of less than 30

Satisfaction with external finance

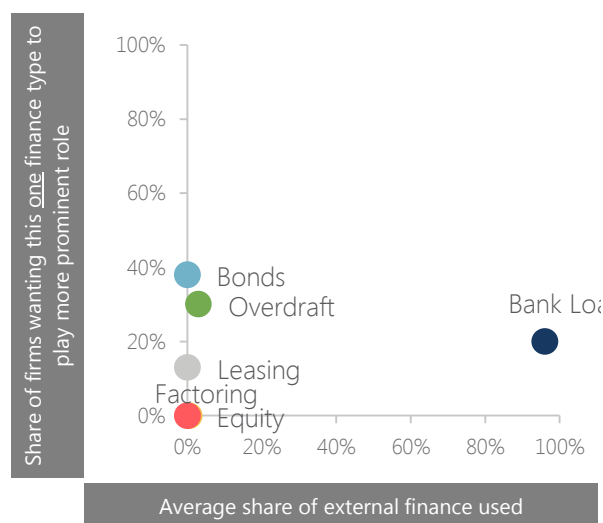


Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

Q. How satisfied or dissatisfied are you with ...?

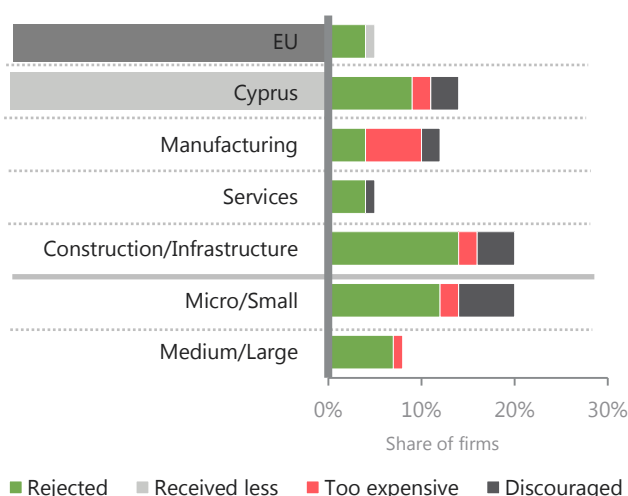
- Overall, firms in Cyprus would prefer to diversify their sources of external financing more. In particular, they would like overdrafts and the issuance of bonds to play a more prominent role in financing their investments in the future.
- Bank loans appear to be the most used type of finance for firms in Cyprus.

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



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

Share of finance constrained firms

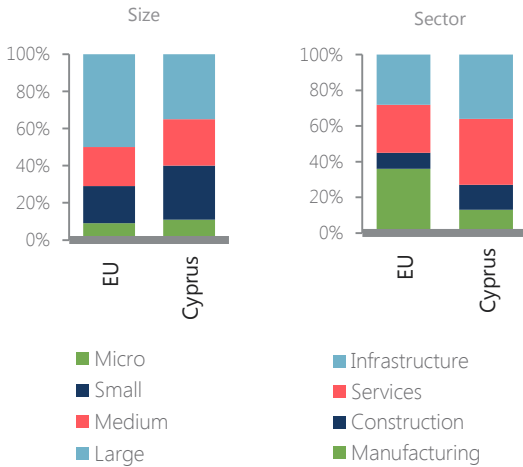


- 14% of firms in Cyprus consider themselves to be credit constrained, which compares to 5% across the EU as a whole.

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

PROFILE OF FIRMS

Contribution to Value-Added

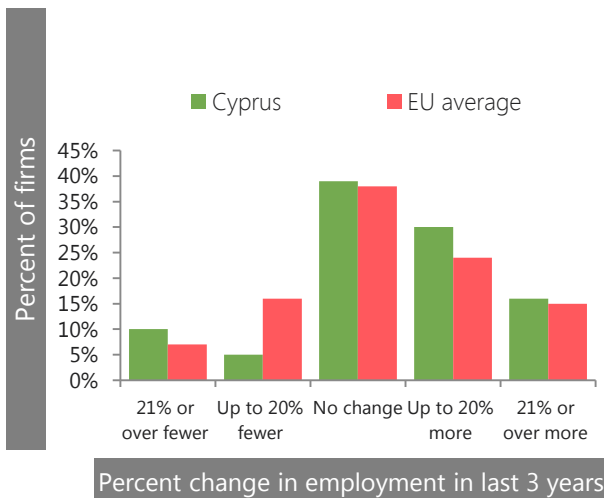


- More than a third of the firms in Cyprus are large firms (35%), below the EU average of 50%. Micro and small companies are modestly overrepresented in Cyprus.
- The services and infrastructure sectors make up 73% of the firms in Cyprus, against an EU average of 55%.
- Employment dynamics in Cyprus are modestly skewed towards employment expansion than contraction.
- In general, firms in Cyprus show low levels of productivity. All the sectors (particularly services and manufacturing) have a substantial share of firms in the lowest EU productivity quantile.

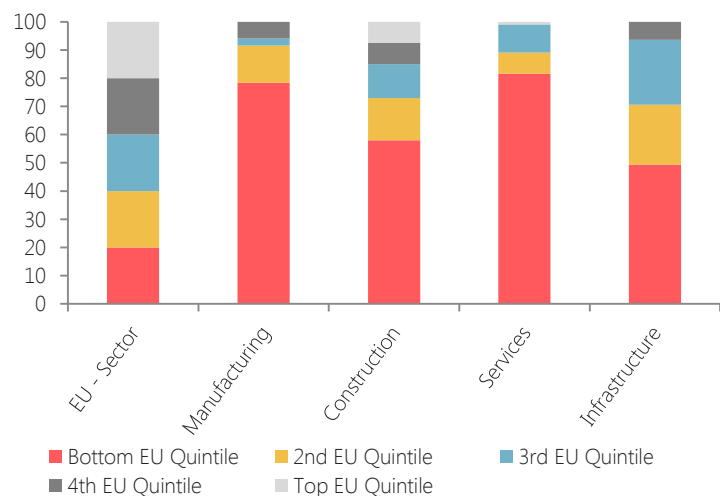
Base: All firms

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

Employment dynamics in last 3 years



Distribution of firms by productivity class



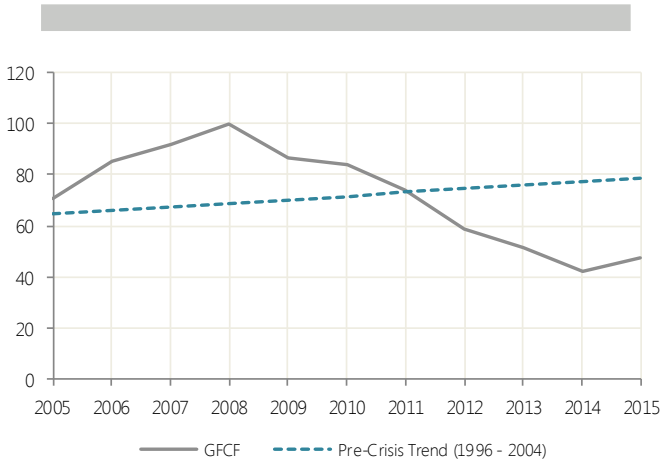
Base: All firms (excluding don't know, refused and missing responses)

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

Share of firms by productivity class (Total Factor Productivity). Productivity classes are sector specific; they are defined on the basis of the entire EU sample (for a particular sector).

MACROECONOMIC INVESTMENT CONTEXT

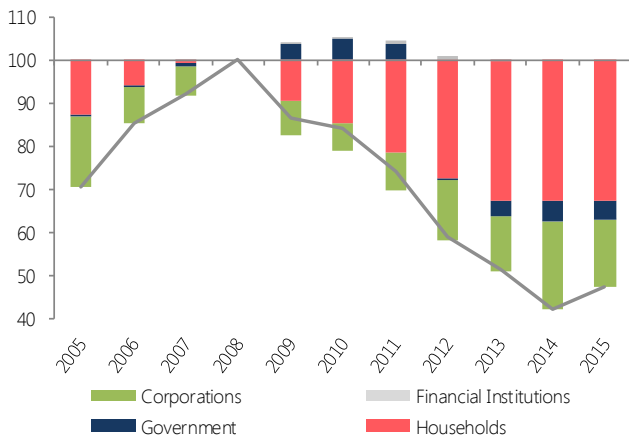
Investment Dynamics over time



- In 2015, aggregate investment in Cyprus was nearly 50% below the investment levels observed in 2008.
- Investment contraction is observed in all the institutional sectors, with households reducing their investment the most.
- Compared to 2008, investments in dwellings were reduced the most.

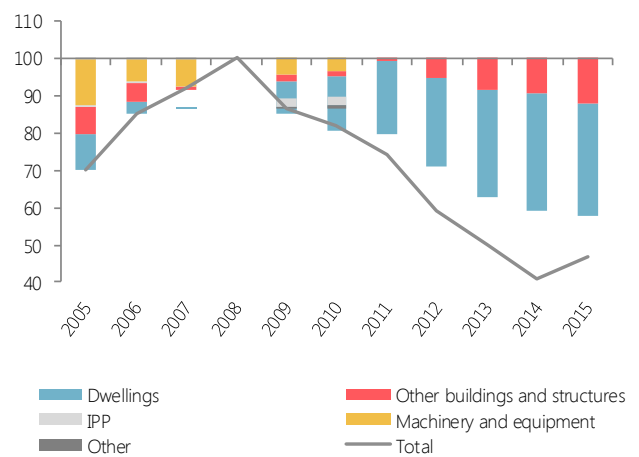
The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); against the series 'pre-crisis trend'. The data has been indexed to equal 100 in 2008. Source: Eurostat.

Investment Dynamics by Institutional Sector



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

Investment Dynamics by Asset Class



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

EIBIS 2016 – COUNTRY TECHNICAL DETAILS

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

Approximate sampling tolerances applicable to percentages at or near these levels

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

Glossary

Investment	A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities with the intention of maintaining or increasing the company's future earnings.
Investment cycle	Based on the expected investment in current financial year compared to last one, and the proportion of firms with a share of investment greater than EUR 500 per employee.
Productivity	Total factor productivity is a measure of how efficiently a firm is converting inputs (capital and labor) into output (value-added). It is estimated by means of a country-by-country regression analysis (with industry dummies).
Manufacturing sector	Based on the NACE classification of economic activities, firms in group C (manufacturing).
Construction sector	Based on the NACE classification of economic activities, firms in group F (construction).
Services sector	Based on the NACE classification of economic activities, firms in group G (wholesale and retail trade) and group I (accommodation and food services activities).
Infrastructure sector	Based on the NACE classification of economic activities, firms in groups D and E (utilities), group H (transportation and storage) and group J (information and communication).
SME	Firms with between 5 and 249 employees.
Large firms	Firms with at least 250 employees.

EIBIS 2016 – COUNTRY TECHNICAL DETAILS

Base sizes

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

Percentage rounding

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



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