European Commission

European Construction Sector Observatory

Country profile Cyprus

June 2018

In a nutshell

The **construction sector** in Cyprus is showing signs of recovery after a severe economic and financial crisis coupled with a housing crisis. Notably, production in construction dropped overall by 47% from 2010 to 2016. Nevertheless, since 2014, it has picked up by 13.2%. Similarly, even though the drop in employment in the construction sector over the period 2010-2016 stands at 39.0%, there is an upward trend since 2014. Yet, the gross operating surplus of the broad construction sector amounted to EUR 247 million in 2014, 73.5% below the 2010 level.

Production in construction 2010-2016

47%

As a result of the Cypriot banking crisis of 2012-2013, the economy is struggling with **access to finance**, particularly SMEs and construction companies. Indeed, banks in Cyprus are hampered by large shares of non-performing loans (NPL) on their balance sheets, which in December 2016 amounted to 56.6% of loans to non-financial corporations, and to 56.6% of loans private individuals. Importantly, loans to the construction sector, to real estate activities and to construction-related manufacturing made up 24.7% of the total outstanding loans to the domestic private sector in 2015.

Having experienced a surge in **investment in dwellings** before the crisis, the housing market collapsed as the global financial crisis unfolded. However, there are signs of improvements. In fact, investment in dwellings dropped by 49.4% over 2010-2013, but recovered by 17.6% since then. The number of building permits for residential buildings continuously declined from 2010 to 2014 by 74%, but picked up by 28.1% until 2016. In parallel, house prices declined rapidly by 2.4% on average on a yearly basis between 2010 and 2015, are now showing signs of stabilisation and decreased by only 0.8% between 2015 and 2016.

Number of building permits for residential buildings evolution 2010-2016

-49.4% **+28.1%**

2010 2013 2015

Following the burst of the housing market, **investment in construction** dropped significantly. Notably, total investment in construction declined by 51.6% over 2010-2015, while picking up slightly in 2016. Similarly, investments in transport have been depressed, despite a recovery starting in 2014. To overcome investment shortages in transport infrastructure, Cyprus will dedicate EUR 99.3 million to transport projects from its share of ESIF.

Total investment in construction decline

51.6%

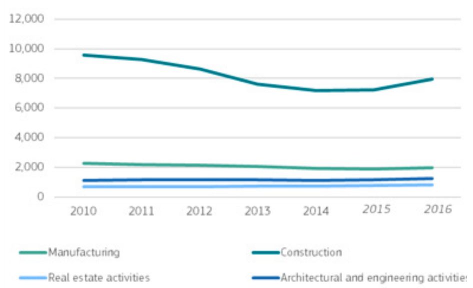
1

Key Figures

The **number of enterprises** in the broad construction sector in Cyprus totalled 11,994 in 2016[1] (Figure 1), with the construction sub-sector (NACE F) accounting for 66.4% of the total firms. Overall, the number of enterprises in the broad construction sector decreased by 12.3% from 2010 to 2016. Company growth has been positive in two of the four sub-sectors from 2010 to 2016, namely in engineering activities and related technical consultancy as well as in real estate activities which grew respectively by 11.6% and 16.5%. On the other hand, the construction and manufacturing sub-sector saw a decrease by respectively 17.1% and 11.3%. Despite the overall decrease, both sectors have been following an upward path in recent years. In line with the drop in the number of companies, **production** has decreased dramatically from 2010 to 2016, by 47%. However, since 2014, production has picked up again (Figure 2).

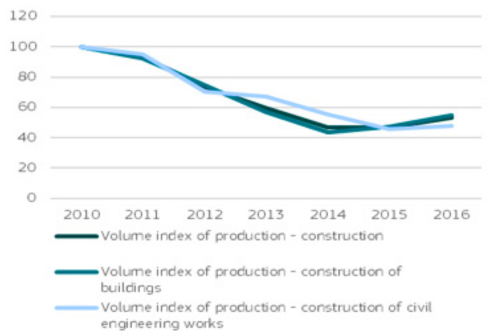
Number of enterprises in the broad construction sector decrease 2010-2016 **12,3%**

Figure 1: Number of enterprises in the Cypriot construction sector between 2010-2016



Source: Eurostat, 2017.

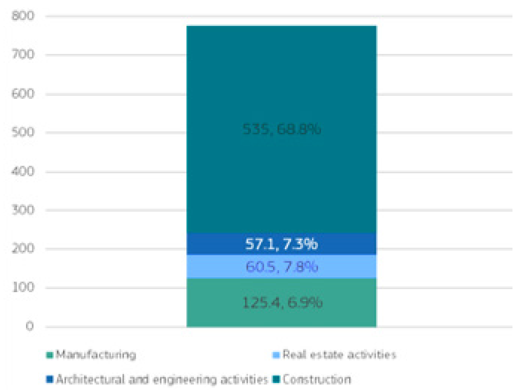
Figure 2: Volume index of production in the Cypriot construction sector over 2010-2016 (2010=100)



Source: Eurostat, 2017.

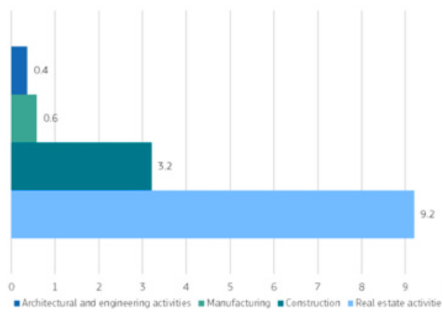
The **total added value** of the broad construction sector amounted to EUR 777.6 million in 2016[2] with the construction sub-sector contributing to 68.7% of the total[3] (EUR 534.6 million), followed by manufacturing contributing to 16.1% of the total, real estate activities with 7.8%, and architectural and engineering activities with 7.3% (Figure 3). The **share of gross value added** of the broad construction sector in the GDP reached 13.4% in 2014, with real estate activities having the largest contribution (Figure 4). This is below the EU-28 average, which stood at 16.9% in 2016.

Figure 3: Value added in the Cypriot construction sector in 2016 (EUR m)



Source: Eurostat, 2017.

Figure 4: Value added in the Cypriot construction sector in 2016 (EUR m)

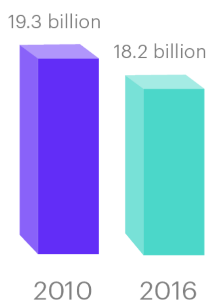


Source: Eurostat, 2017.

2

Macroeconomic Indicators

The **GDP** of Cyprus reached EUR 18.2 billion in 2016, 2.8% higher than the previous year, however still 5.9% below the 2010 level (EUR 19.3 billion).



GDP (€) of Cyprus 2010 and 2016

The **GDP** of Cyprus reached EUR 18.2 billion in 2016, 2.8% higher than the previous year, however still 5.9% below the 2010 level (EUR 19.3 billion). The potential GDP in 2016 amounted to EUR 18.3 billion, which resulted in an output gap of -0.8% of potential GDP, on par with the EU-28 average. The economic and banking crisis took a toll on potential and actual GDP output in Cyprus, due to reduced investment and economic activity[4]. The small negative output of the national economy suggests potential unused reserves for productivity and efficiency gains. **Inflation** in Cyprus has been volatile since the 2000s, suggesting difficulties to keep the economy on track. From 2010 to 2013, inflation increased by 7.1%, yet decreased by 3.0% thereafter and until 2016. Overall, this represents a small inflation rate of 3.9% over the whole period. In 2016, the average **unemployment rate** in the Cyprus reached 13.1%, well above the EU-28 average of 8.5%[5]. This represents a slight improvement compared to the peak reached in 2014 (16.1%), but is still considerably above the 2010 levels (6.3%). As a consequence of the crisis, youth unemployment (below age of 25) spiked up to 29.1% in 2016. While this value is representing a 10 percentage point improvement compared to 2013 (38.9%), it remains considerably higher than 2010 levels (16.6%) and well above the EU-28 average of 18.7%.

The **total population** in Cyprus amounted to 848,319 people in 2016. It is projected to increase by 8.5% by 2030 and by 16.0% until 2050, reaching a population of over 1 million in 2060. In parallel, **net migration** was positive prior to 2012 averaging 17,028 net influx of people per year over 2010-2011, but turned negative over 2012-2015 with an average 7,427 people leaving the country per year. Despite the expected population growth in Cyprus, the country is also projected to experience population ageing. In 2016, the **working age population** made up 68.8% of the Cyprus' total population, above the EU-28 average of 65.8%. By 2050, this share is expected to have decreased to 62.5%. In parallel, the proportion of people over 65 are projected to increase from 15.0% to 26.3% of the total, highlighting the country's ageing population.

In 2016, the general **government expenditure** represented 38.9% of GDP. The **general government surplus** amounted to 0.4% of GDP in 2016, in line with the 3% threshold of the EU's Stability and Growth Pact (SGP). The general **government gross debt** amounted to 107.8% of GDP in 2016, considerably above the 2010 level (55.8%). In 2013, in response to the Cypriot financial crisis of 2012-2013, Cyprus agreed on a three-year Economic Adjustment Programme with the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) providing a financial package of up EUR 10 billion. The Programme aimed at restoring financial stability, implementing fiscal consolidation as well as implementing structural reforms. Cyprus exited the Economic Adjustment Programme in March 2016 and is now subject to post-programme surveillance (until 2029), i.e. a continuous assessment of the country's ability to repay the received financial assistance to the ESM and IMF[6]. In July 2017, Cyprus repaid before the payment was due, part of its bailout loan from the IMF amounting to EUR 288 million, as a means to reduce debt servicing costs. This shows the strong recovery of the Cypriot economy[7]. Moreover, the Emergency

Cyprus ranks 108th out of 137 economies in terms of **financial market development**, according to the 2017-2018 Global Competitiveness Report. Indeed, access to financing is the most problematic factor for doing business in the country.

Liquidity Assistance provided by the ECB to help a Cyprus bank has been fully paid back in January 2017[8].

In particular, Cyprus performs poorly with respect to the soundness of its banks (127th) and ease of access to loans (123th). Cyprus is also low in the ranking in terms of financing through local equity market and the regulation of securities exchanges, ranking 120th and 110th, respectively[9]. Access to finance in Cyprus suffered from the banking crisis that affected the country over 2012-2013. To rescue Cypriot banks a 'bail-in' was brokered, whereby shareholders and bondholders lost failed investment[10]. The difficult situation of Cyprus' banks led to a reduction in credit with **outstanding loans to non-financial corporations** decreasing by 12.0% over 2010-2016, from EUR 23.0 billion to EUR 20.2 billion. Furthermore, banks in Cyprus continue to be hampered by large shares of **non-performing loans** (NPL) on their balance sheets, which in December 2016 amounted to 56.0% of loans to non-financial corporations, and to 56.6% of loans for households[11]. Nevertheless, confidence in Cypriot banks is returning, as some of its major banks were able to attract foreign capital, including from multilateral lenders such as the European Bank for Reconstruction and Development (EBRD). Indeed, Cyprus was able to remain a relevant finance location for foreign businesses[12]. Despite these positive developments, access to finance continues to hamper growth in Cyprus, in particular for SMEs that struggle to receive funding. In fact, over 25% of SMEs consider access to finance their main difficulty[13]. In February 2017, the EIB signed a EUR 100 million loan with the Bank of Cyprus to boost investment, specifically for local SMEs and Midcaps. This came with a State Guarantee agreement signed between the Cyprus and the EIB[14].

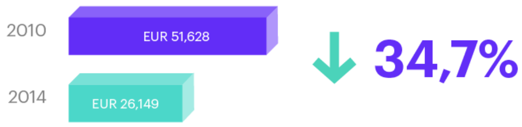
3

Key economic drivers of the construction sector

Productivity

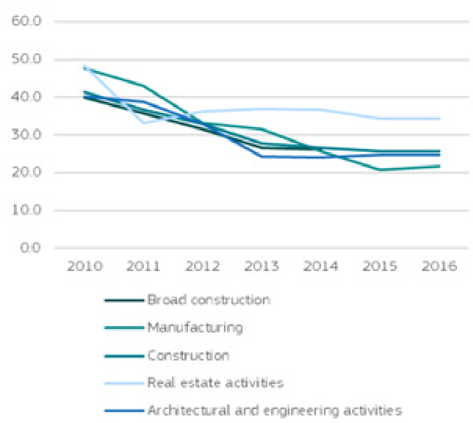
Labour productivity in the broad construction sector experienced a sharp decrease from 2010 to 2014, dropping from EUR 51,628 to EUR 26,149, representing a 34.7% decrease (Figure 7). This decrease has placed Cyprus below the EU-28 average which stood at EUR 50,200 in 2014. Real estate activities fare the best, decreasing by 29.1% over the 2010-2016[15] period, while architectural and engineering activities experienced the largest decrease, with a 38.4% drop. The productivity in the manufacturing and construction sub-sectors declined, respectively, by 31.7% and 38.0% over the same period.

Labour productivity in the broad construction sector 2010 and 2014



According to the Productivity Centre in Cyprus , labour productivity in the construction sector is equal to 64.1% of the general economy's productivity, while this number amounts to 62.8% for the manufacturing sector. This is to be contrasted with gross value added in real estate activities, which is about 20 times higher than average productivity in the economy. This is inherent to the sector, given the high value of housing and the relatively low number of individuals working in this sector[16].

Figure 7: Labour productivity in the construction sector in Cyprus over 2010-2016 (EUR k)



Source: Eurostat, 2017.

Profitability

The total **turnover** of the broad construction industry in 2016[17] amounted to EUR 2.5 billion, which represents a 48.3% decrease compared to 2010. However, since 2015, total turnover has exhibited a positive trend and rebounded by 8.3%, a sign pointing to a recovery of the sector. The construction sub-sector accounted for the vast majority of total turnover (77.0%), followed by manufacturing (16.1%), real estate activities (3.7%) and architectural and engineering activities (3.2%). The **gross operating surplus** of the broad construction sector amounted to EUR 247 million in 2014, 73.5% below 2010 levels. In line with the strong decline of gross operating surplus and turnover, the **gross operating rate** of the broad construction sector[18], which gives an indication of the sector's profitability, dropped by 45.2% from 19.4% in 2010 to 10.6% in 2014. This is well below the EU-28 average which amounted to 17.9% in 2014.

Total turnover of the broad construction industry decrease 2010-2016 **48,3%**

In parallel, **construction costs** have stayed relatively constant, with the construction cost index decreasing by 3% from 2010 to 2016.

The slight drop in construction costs is largely driven by a decrease in labour costs while input prices have increased by 2% from 2010 to 2016.

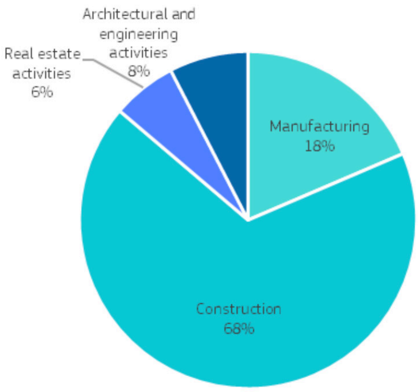
Figure 8: Construction cost index over 2010-2016 (2010=100)

Source: Eurostat, 2017.

Employment

In 2016[19], the broad construction sector **employed** 30,455 people. The number of persons employed in the broad construction sector declined by 39.0% between 2010 and 2016. The construction sub-sector employed the majority (68.4%) of the total construction workforce in 2016, followed by manufacturing (18.2%), architectural and engineering activities (7.6%), and real estate activities (5.8%) (Figure 9). The narrow construction sub-sector experienced a 41.8% decrease in its workforce from 2010 to 2016, the highest among the four sub-sectors. The manufacturing sub-sector also experienced a large decrease, over the same period, losing 38.7% of its employees. On the other hand, employees in the real estate activities have stayed relatively constant, decreasing only by 2.0%.

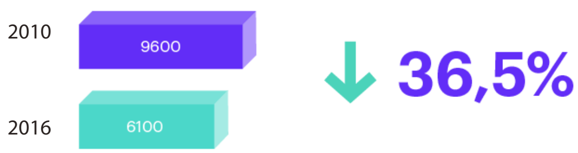
Figure 7: Percentage of people employed by construction sub-sector in Cyprus in 2016



Source: Eurostat, 2017.

The number of **self-employed workers** in the construction sub-sector has declined substantially over 2010-2016, reaching 6,100 people in 2016, 36.5% below the 2010, when 9,600 self-employed were working. Since 2015, the number of self-employed has however started to pick up. In parallel, full-time employment in the construction sub-sector decreased by 43.1% between 2010 and 2016, while the number of part-time workers more than doubled. Finally, SMEs employed 88.0% of the entire workforce of the broad construction sector in 2012.

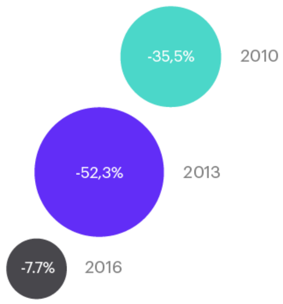
Number of self-employed workers in the construction sub-sector in 2010 and 2016



Business confidence

Business confidence has recently rebounded after declining from 2010 to 2012 and is currently reaching or exceeding pre-crisis levels depending on the indicator analysed. Indeed, between 2010 and 2016, the consumer confidence indicator has gone up from -35.5 to -7.7, after hitting a low -52.3 in 2013. Similarly, the industry confidence indicator went up from -7.2 to 0.3 in 2016, after reaching a low -23.3 in 2012. Confidence in the construction sector continues to be lowest among the three indicators, but has also seen a reversal in trend since 2013. Since 2010, the construction confidence indicator has gone from -45.5 to -27.7 after dropping to -61.3 in 2013 underscoring recent improvements in the sector. However, this is still below the EU-28 average, which stood at -13.9 in 2016.

Consumer confidence indicator evolution 2010-2016



Moreover, reflecting the low confidence in the economy, the **investment ratio** declined from 22.3% in 2010 to 16.7% in 2016. Still, the investment ratio has recently rebounded since dropping to a low 12.4% in 2014. However, this is below the EU-28 average, which amounted to 19.8% in 2016. Similarly, **investment per worker** dropped by 15.9% between 2010 and 2012, from EUR 49,957 to EUR 42,015 before recovering to 46,298 in 2014.

According to the Federation of Associations of Building Contractors in Cyprus (O.S.E.O.K.), the reduction of the VAT rate on the energy efficient renovation of residential buildings from 19% to 5% will contribute to the recovery of the construction sector. At the same time, the implementation of this measure will ensure that all such projects are executed by qualified professional designers and contractors, thus contributing to reducing illegal work and improving the confidence and image of the sector[20].

In May 2017, the President of Cyprus addressed the annual general assembly of the Land-development and Construction Business Association being optimistic about the current revival of the construction sector. He argued that domestic and foreign investments as well as incentives offered by the government have helped spur such growth. Overall, according to the association and government estimates, investment by foreigners in the real estate sector has exceeded EUR 4 billion[21].

Domestic sales

The ranking of the most domestically sold construction products in Cyprus remained largely constant since 2010 with the exception of 'Other structures and parts of structures, plates, rods, angles, shapes, etc.' going down from third to fifth position as 'Particle boards and similar boards of wood or other ligneous materials' and 'Fibreboard of wood or other ligneous materials' gained in value. Furthermore, sales declined for all **top 5 most domestically sold construction products** over 2010-2014 with the product group 'Other worked ornamental or building stone and articles thereof' experiencing the largest decrease in sales (-70.6%). From 2014 to 2015, sales picked up for all but 'Particle boards and similar boards of wood or other ligneous materials'. The top 5 most domestically sold construction products are presented in Table 3, including a comparison with the most sold in the EU-28. These represented 61.2% of total domestic construction product sales in 2015.

Table 3: 5 most domestically sold construction products in Cyprus and in the EU in 2015

Cyprus			EU-28
Product	Value (EUR m)	Share in construction product domestic sales (%)	Product
Ceramic tiles and flags (group 233110)	21.2	30.0	Other structures (group 251123)
Marble, travertine, alabaster, worked, and articles thereof (group 237011)	6.6	9.3	Doors, windows, etc. (group 251210)
Particle boards and similar boards of wood (group 162113)	6.5	9.3	Ready-mixed concrete (group 236310)
Fibreboard of wood or other ligneous materials (group 162114)	4.6	6.5	Prefabricated buildings of metal (group 251110)
Other worked ornamental or building stone and articles thereof, etc. (group 237012)	4.3	6.1	Prefabricated structural components (group 236112)

Source: PRODCOM, 2017

Export of construction-related products and services

The **top 4 most exported construction products** from the Cyprus and the EU-28 are summarised in Table 4. Together, these made up 99.2% of all construction products exports in 2015.

Table 4: 4 most exported construction products in Cyprus and in the EU in 2015[22]

Cyprus			EU-28
Product	Value (EUR m)	Share in construction product domestic sales (%)	Product
Cement clinkers (group 235111)	48.9	71.9	Ceramic tiles and flags (group 233110)
Portland cement, aluminous cement, etc. (group 235112)	15.3	22.5	Other structures (group 251123)
Other structures and parts of structures, plates, rods, angles, etc. (group 251123)	2.3	3.4	Fibreboard of wood or other ligneous materials (group 162114)
Doors, windows and their frames and thresholds for doors, of metal(group 251210)	0.9	1.9	Marble, travertine, etc. (group 237011)
N/a	-	-	Doors, windows, etc. (group 251210)

Source: PRODCOM, 2017

In terms of **cross-border provision of construction services**, the value of Cypriot exports of construction services worldwide amounted to EUR 17 million in 2016, 52.8% below the 2010 value (EUR 36 million)

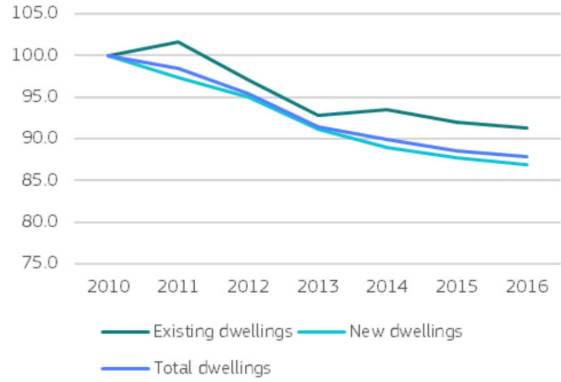
Exports of construction services to the EU-28 amounted to EUR 6 million, down 71.4% from 2010 levels (EUR 21 million). In parallel, imports from the world decreased, too, but to a lesser extent (-41.7%) between 2010 and 2015, from EUR 12 million to EUR 7 million. In 2010, imports from the EU made up 75.0% of total imports, while in 2015, only 28.6%. Overall, Cyprus achieved a **trade surplus** of EUR 13 million in 2015.

Access to finance in the construction sector

Following the banking crisis, **access to finance** poses one of the biggest constraints to the development of firms in the country, in particular SMEs, which constitute a large share of enterprises in the construction sector (see section 2). Moreover, lending to the construction sector is particularly burdened by the heavy exposure of banks to the construction industry as well as the high share of NPL originating from the sector.

Indeed, loans to the construction sector, to real estate activities and to construction-related manufacturing made up 24.7% of the **total outstanding loans** to the domestic private sector in 2015. Furthermore, the construction sector registered the highest share of NPL per sector, with 81.6% of total loans to the construction sector marked as non-performing[23]. In addition, NPL to the real estate sector witnessed an increasing trend until 2015 due to the fact that developers and construction companies experienced increasing financial difficulties linked to the deteriorating economic environment[24]. Indeed, the **NPL ratio** for the real estate sector is estimated at about 60%[25]. In 2016, the situation in both sectors has improved, according to data from the Central Bank of Cyprus. The NPL ratio in Construction amounted to 72% while standing at 54% for real estate activities. Moreover, the share of construction sector NPLs in the total number of NPLs decreased to 17%[26]. Finally, reduced banking lending also impacts the housing market and in turn affects the construction industry[27].

Figure 8: House price index in Cyprus between 2010-2016 (2010=100)



Source: ECB MFI Interest Rate Statistics, 2017.

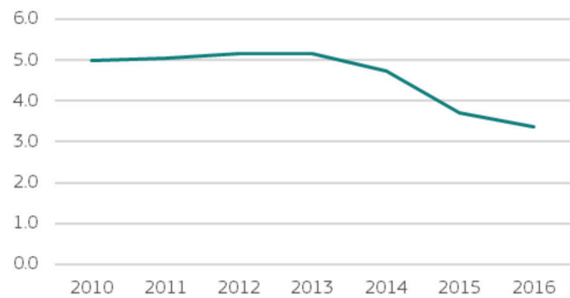
Loans to households have been slightly expanding from 2010 to 2012, rising by 6.4% to reach EUR 12.7 billion. Since then, and until 2015, housing loans to households have decreased to EUR 11.6 billion, dropping by 8.2%. Despite the decrease in volume of loans, Cyprus still recorded a high ratio of **outstanding residential loans to GDP**, which stood at 66.4% in 2014 and ranks amongst the highest in the EU[30]. Reflecting the developments in the economy, mortgage interest rates have been declining from 5.0 in 2010 to 3.4 in 2016 (Figure 11). Over 2010-2015, rental prices have been decreasing by 16.7%, further reflecting the deterioration of the housing market.

Access to housing

> With the decline in house prices almost halting between 2015 and 2016 alongside the reversal in the number of **building permits** since 2014, the housing market is showing signs of improvements.

With the decline in house prices almost halting between 2015 and 2016 alongside the reversal in the number of **building permits** since 2014, the housing market is showing signs of improvements. In fact, the number of building permits for residential buildings continuously declined from 2010 to 2014 by 74%, but picked up by 28.1% until 2016. Overall, in 2016 the number of permits amounted to 5,354[28]. Improvements in the overall economic climate are supporting the housing market and this is being reflected in prices[29]. **Housing prices**, which dropped on average every year by 2.4% between 2010 and 2015, decreased only by 0.8% year-on-year from 2015 to 2016.

Figure 9: Mortgage rates for loans for over 5 years original maturity (%) (2010-2016)



Source: Eurostat, 2017.

The **number of households** in Cyprus has been growing over the past decade, reaching 315,000 in 2016, a 10.7% increase from 2010, when the number of households stood at 285,000. In terms of urbanisation, 49.7% of the population lived in cities and greater cities in 2016. At the same time, the share of population living in densely populated areas slightly diminished over the past years, from 55.4% in 2010 to 49.5% in 2015, following a similar trend as the EU-28 average, which stood at 40.4% in 2015.

Number of households increase 2010-2016 ↑ **10,7%**

The **mean equivalised net income** experienced a 6.8% increase between 2010 and 2012, yet dropped by 10.5% from 2010 to 2015 as the economic crisis unfolded, reaching EUR 16,944. This is slightly below EUR 18,463, the EU-28 average. Decreasing incomes have taken a toll on the Cypriot population. In fact, a high share of the population has arrears in rent and mortgage payments. Moreover, the country has one of the highest shares of population that is not able to properly heat its housing[31].

The majority of the **building stock** in Cyprus is owner-occupied. In 2015, owners held 73.0% of the building stock compared to the remaining 27.0% for tenants. Income plays a role in the likelihood of being a homeowner or tenant. Indeed, 77.6% of owners earn above 60% of median equivalised income. On the other hand, more than half of tenants (50.7%) earn less than 60% of the median equivalised income. Moreover, the **housing cost overburden rate**[32] was at 3.1% in 2016, below the EU-28 average of 11.1%[33], while the **severe housing deprivation rate**[34] reached 1.3% in 2016, below the EU-28 average of 4.8%[35], underscoring the good quality of housing in Cyprus.

Infrastructure

> Cyprus ranks 30th out of 137 in terms of its **infrastructure**, according to the 2017-2018 Global Competitiveness Report[36]

In particular, it performs best in terms of the quality of its roads (26th), followed by quality of air transport infrastructure (27th). Its port infrastructure falls below the other dimensions (46st), despite port infrastructure being key to the economic development of the island. According to the EU Transport Scoreboard 2016, the rating of the quality of air transport infrastructure has improved previous years, whereas the rating of road and port infrastructure deteriorated[37].

4

Key issues and barriers in the construction sector

Company failure

Business demography in the broad construction sector has been impacted by the crisis with increases across sub-sectors in company deaths and decreases in company births. From 2010 to 2014, different trends have emerged. For the construction sub-sector, births dropped by 31.5%, from 273 to 359. On the other hand, the number of deaths decreased slightly by 2.7% from 846 to 823. Following a similar trend, but in a more pronounced way, the number of birth have increased by 203.6% in real estate from 28 to 85, while company deaths have decreased by 16.0% from 81 to 68. On the other hand, the number of deaths for companies in the architectural and engineering activities sub-sector have increased from 44 to 87, representing a 97.7% increase. The number of company birth in that sub-sector has followed a similar trend as in the other sector by increasing by 25.9%.

The deterioration of the general economy during the economic crisis, and in particular of the local property market, resulted in an increase in **bankruptcies** in the national economy. After peaking in 2013 (+10.5% from 2010), the number of bankruptcies dropped by 78.3% from 2013 to 2016, reaching 106. In addition, this downward is expected to continue in 2017, as the total number of bankruptcies and liquidations until the end of September reached 73[38]. However, the Cypriot market is suspected to be hampered by so-called 'zombie' companies, i.e. unprofitable enterprises that have no incentive to liquidate and thus remain in the market. These 'zombie' companies particularly affect the real estate and construction sector in Cyprus[39].

In order to address this issue, the legal framework for private debt restructuring has been reformed in depth. The new reform introduces a new debt restructuring procedure for the liquidation of companies. This provides for a swift liquidation procedure for insolvent companies. Furthermore, new tools for restructuring household debt were introduced as an effort to reform personal insolvency[40].

Trade credit

Trade credit is very wide-spread in Cyprus, and 62% of SMEs consider it a relevant source of finance, according to the 2016 SAFE Survey. This is far above the EU average, where 35% of survey respondents consider trade credit relevant for their business[41]. In addition, 33% of total respondents had used this source of finance in the 6 months prior the survey, slightly above the EU-28 average (19%). Furthermore, 71% believe the availability of trade credit will increase or remain unchanged over the next six months, revealing the willingness of the companies to use trade credit[42].

Late payment

Cyprus was the first Member State to transpose **the late payment Directive** into its national law, on 27 July 2012[43]. However, the country remains one of the Member States with comparatively longer average payment delays according to a study by the European Commission[44].

For business-to-business (B2B) transactions, the law provides a payment term of 60 days. Forpublic administrationto-business (PA2B) transactions, the law provides a payment term of 30 days (or up to 60 days under exceptional circumstances.) After the expiration of the payment period, the creditor is entitled to claim interestfor late payment at the statutory rate, fixed at 8% above the European Central Bank's reference rate, or at the rate agreed in the contract[45]. However, the payment duration tends to exceed these limits for both public and private debtors. For instance[46], B2B transactions averaged 25 days of delay, qualifying Cyprus as a 'high urgency' country in terms of payment delays according to European Payment Index 2014. Furthermore, PA2B payments followed a similar trend, registering an average delay of 24 days, the sixth highest in Europe.

Nevertheless, there has been an important amelioration in payment practices over the last years. For instance, the average payment delay in B2B transactions has decreased (-6 days) between 2011 and 2014, whereas the payment delay on PA2B transactions has remained stable (+1 day) during the same period. Conversely, there has been a deterioration in consumer payment practices over the last years, as the average delay remains above 2010 levels (25 days)[47].

These delays have a direct impact on the general economy and, in particularl, on the labour market. Consequently, the majority (51%) of companies report difficulties to hire due to late payments, reduced liquidities and loss of income[48].

Time and cost of obtaining building permits and licenses

> Cyprus ranks 120th with respect to "**Dealing with construction permits**", according to the World Bank Doing Business 2018, compared to 125th the previous year[49]

Indeed, 8 procedures are required to build a warehouse, lower than the OECD high-income average (12.5), thus taking 507 days, largely above the OECD high-income average (154.6) (Table 5). However, the cost required to cover all fees associated with completing the procedures to legally build a warehouse represents 1.1% of the value of the warehouse, below the OECD high-income average of 1.6%.

Table 5: Construction procedures timing and costs in Cyprus

Procedure	Time to complete	Associated costs
1. Request copy of the site plan	1 days	EUR 2
2. Apply for the town planning permit at the Town Planning Department	90 days	EUR 4,125
3. Apply for building permit at the Municipality of Nicosia	100 days	EUR 3,983
4. Apply for final approval and final inspection	75 days	EUR 199
5. Receive final inspection and obtain certificate of final approval	1 days	no charge
6. Update land title	240 day	EUR 115
7. Request and obtain sewerage connection	10 day	EUR 100
8. Request and obtain water connection	10 days	EUR 2,439

Source: Doing Business overview for Cyprus, Word Bank, 2017.

Skills shortage

The number of **job vacancies** in the construction sub-sector experienced a significant drop as the crisis hit. Then, from 2010 to 2015, the job vacancy rate continued to decline from 551 to 150, representing a -72.8% drop. This is, however, up from a record low of 26 in 2013. These figures signal the drop in recruitment following the crisis, although the situation has been improving since 2013. In parallel, **adult participation in education and training** in the construction sub-sector declined from 4.6% in 2010 to 3.0% in 2016, significantly lower than 9.2%, the EU-28 average. On the other hand, **tertiary students** in engineering, manufacturing and construction have increased from 2010 to 2015 going up from 324 to 901, a 178.1% increase

Number of job vacancies in the construction sub-sector

The construction sector is one of the sectors, together with wholesale, retail trade and manufacturing, which concentrates the workers with the lowest level of qualification, on average[50]. Therefore, some bottlenecks have been reported in Cyprus when it comes to recruit elementary/manual skilled employees. As a result, professions linked to the construction sector remain less popular among young people[51].

In terms of specific bottleneck vacancies related to the construction sector, Cyprus presents a shortage of carpenters and joiners, insulation workers, painters and related workers as well as electrical engineering technicians[52]. In addition, the Cypriot construction workforce presents skills shortages with respect to energy efficient construction. Indeed, the country aims to train a minimum of 4,500 workers and installers in 13 different skills related to Renewable Energy Sources (RES) and Buildings, which are crucial to meet the EU2020 energy efficiency targets[53].

A more recent report from CEDEFOP notes that workers in building and related trades as well as mobile plant operators and manufacturing labourers are considered as surplus occupations in Cyprus. In fact, as a result of the economic crisis, unemployment in these areas has greatly increased, due to supply being well above demand. Measures have been introduced to tackle such issues, discussed in TO 2 – Skills[54].

Sector & sub-sector specific issues

Material efficiency and waste management

> In 2012, Cyprus reported a total amount of 142.2 thousand tonnes of **construction and demolition (C&D) waste**, a 15% decrease compared to 2010 (166.5 thousand tonnes[55]).

Of these, 62 thousand tonnes were mechanically recovered and about 21 thousand tonnes were used for backfilling. In addition, all reported C&D waste was non-hazardous[56].

The main piece of legislation encompassing all national legislation regarding waste treatment is **the Waste Law of 2011**, which transposes the EU Waste Framework Directive (2008/98/EC) into Cypriot law. In addition, the Solid and Hazardous Waste Regulations of 2011 sets out the measures and conditions for the efficient management of excavation, construction and demolition waste[57]. However, Cyprus' performance with respect to recycling is weak. Indeed, in 2013 the recycling rate stood at 21%, while the landfill rate was very high (79%)[58]. Forecast scenarios project that the country will fall short of the Management Solid Waste 50% recycling target in 2020, unless it does not increase its recycling rate by 3% annually, which would mean increase recycling by 18,000 tonnes each year[59]. Nevertheless, improvements are expected for 2016, as Cyprus is putting in place a treatment facility and implementing selective collection of waste[60].

Climate and energy

Emissions of greenhouse gases (carbon monoxide and dioxide, methane and nitrous oxides) from activities related to construction and real estate in Cyprus amounted to a total of 73,673 and 2,357 tonnes in 2014, respectively. Emissions in the construction sub-sector have decreased by 52.9% during the period 2010-2014, while the real estate sub-sector experienced a 52.2% drop.

5

Innovation in the construction sector

Innovation performance

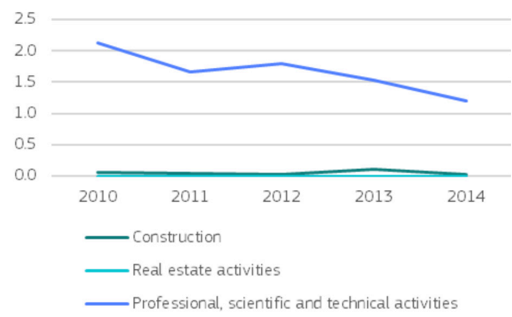
Cyprus has moved down the ranking in the European Innovation Scoreboard in 2017, being classified as a **moderate innovator**. It is the country, after Romania, that has seen its rank decrease the most between 2010 and 2016. The performance relative to the EU peaked in 2011 (95%), but has declined to 74.8% in 2016. Its relative strengths lie in Attractive research systems, Human resources, and Intellectual assets while its relative weaknesses are in Linkages, Finance and support and Firm investments[61].

> Cyprus faces a persistent lack of investment in RDI. R&D expenditure accounted for 0.43% of GDP in 2011, compared to 0.48% in 2014.

In addition, the **National Reform Programme** sets a very modest R&D intensity target of 0.5% for 2020, the lowest R&D intensity target in the EU, and similar to 2010 levels[62]. According to the European Commission's Researchers Report, 70.6% of total R&D expenditure was financed by government in 2011, the highest percentage in the EU and significantly above the EU average of 34.9%, highlighting the lack of private funding in innovation[63]. According to the European Semester Country Report on Cyprus, investment in R&D carried out by the private sector amounted to only 0.08% of GDP, the lowest of all Member States. The report stresses that this can notably be explained by structural limitations in Cyprus, due to its small market size, remote location and service-oriented economy[64].

In addition, **business enterprise R&D expenditure** (BERD) in the broad construction sector has shown a generally decreasing trend since 2010 (Figure 12). Indeed, BERD in the professional, scientific and technical activities sub-sector experienced a 43.9% decrease over 2010-2014, from EUR 2.1 million to EUR 1.2 million, remaining the highest among the sub-sectors. Conversely, BERD in the construction sub-sector has increased by 68.2%, from EUR 66,000 in 2010 to EUR 111,000 in 2013. In 2014, however, BERD in the construction sub-sector dropped significantly to EUR 33,000, representing a 50.0% decrease since 2010. No values have been registered regarding BERD in real estate activities during that period.

Figure 10: Business enterprise R&D expenditure (BERD) per construction sub-sector in Cyprus (EUR m)[65]



Source: Eurostat, 2017.

In parallel, the **total R&D personnel** (full-time equivalents – FTE)[66] in the broad construction sector reflected the trend in BERD. Indeed, total FTE in the professional, scientific and technical sub-sector experienced a 39.6% decrease over 2010-2014, from 48 to 29, the highest among the sub-sectors. The total FTE in the construction sub-sector registered a minimal decrease, from 1 to 0 FTE during the same period of time, and no data have been registered regarding BERD in real estate activities during this period. At the same time, no construction-related patent applications have been registered since 2007 (1 patent), due to the market size.

Eco-innovation and digitalisation

In order to boost innovation in the construction sector and bring about the scaling-up of innovations from the company level to the market, several initiatives have been launched. For instance, the **Smart Specialisation Strategy for Research and Innovation (S3CY)**[67] has been approved by the Council of Ministers in March 2015. The main objective of this Strategy is to maximise the knowledge-based development potential of the Cyprus economy by supporting targeted sectors in which Cyprus has a competitive advantage. In addition, this Strategy includes an extensive analysis of the national R&I priorities, as well as an Action Plan, to be implemented over the period 2016 – 2020, with measures amounting to EUR 139.5 million combining European Structural and Investment Funds (ESIF) and National funds. This Strategy is expected to foster the inclusion of SMEs in RDI activities and the attraction of private investments[68].

Moreover, the National Energy Efficiency Action plan of 2014 includes a list of measures to be implemented to foster the innovation, particularly for SMEs[69]. The Ministry of Energy, Commerce, Industry and Tourism (MECIT) organises seminars and workshops especially directed to professionals in the construction sector on the benefits of improving energy efficiency. For the period 2014-2020, **MECIT** announced a new improved **scheme** with a total amount of EUR 10 million to encourage new enterprises and start-ups to turn to innovation. This scheme is also intended to encourage cooperation between construction companies and research centres and universities.

In 2016, a new multi-annual program, namely "**RESTART 2016-2020**" was launched in order to further promote research and innovation focusing, inter alia, on the construction sector[70]. Endowed with a budget of EUR 100 million, the program aims to foster smart development, ensure the sustainability and potential of the Research, Technological Development and Innovation (RTDI) system, as well as support the operational framework of the RTDI system[71].

Lastly, the introduction of Building Information Modelling (BIM) technology is slowly picking up in Cyprus with new research papers being published and construction companies introducing the practice in Cyprus[72] [73].

6

National & Regional Policy & Regulatory Framework

Policy schemes

Housing policy in Cyprus is under the responsibility of the Ministry of Interior, together with other associated government organisations, which offer several housing support schemes targeting both low and middle income households. One such organisation is the **Special Service for the Care and Rehabilitation of Displaced Persons** (*Υπηρεσία Μερίμνης Αποκαταστάσεως Εκτοπισθέντων* - SCRDP), initially established in 1974 to support the Greek Cypriot displaced refugees. The SCRDP currently focuses specifically on housing, and manages three main programmes, accessible to any beneficiary who qualifies[74].

The **Scheme for the Purchase of a House/Apartment** *(Σχέδιο Αγοράς Έτοιμης Κατοικίας / Διαμερίσματος)* provides financial assistance to beneficiaries wishing to purchase a dwelling, depending both on the size of the property, the income and the composition of the household. Thus, for a family with a maximum income of EUR 30,000, the subsidy ranges from EUR 20,000 for a one-bedroom property, to EUR 26,000 for a three-bedroom one. If the income exceeds EUR 30,000 but is not higher than EUR 45,000, the subsidy is reduced to EUR 15,000 and EUR 21,000 for a one-bedroom and a three-bedroom property, respectively. For single beneficiaries, the maximum income to benefit from the subsidy is EUR 20,000, entitling the individual to a EUR 8,500 grant. Moreover, the scheme supports home living for the elderly. Indeed, if elderly people over the age of 70 also reside with the applicant, additional financial assistance of EUR 3,000 is provided[75]. To be noted that the full housing allowance is granted only when the area of the property to be purchased does not exceed 200 m2. For properties up to 250 m2, the housing allowance is cut by 25%. Cuts of 50% and 75% apply to properties up to 300 m2 and exceeding 300 m2, respectively[76].

> The SCRDP **Self-help Housing Programme on Private Land/Repair of Residence** provides direct support to access to housing but also to residential construction

The scheme covers part of the beneficiaries' construction costs of building their own house on their own land by providing grants. The amount of the grant varies according to the size of the household, income and size of the property, as in the Scheme for the Purchase of a House/Apartment. The full grant can be obtained only if the property for which the assistance is requested will be completed after the date of application. Properties completed up to two years before the date of the application can benefit from a reduced subsidy (50%), whereas those completed more than two years before the application date cannot benefit from the support. Moreover, the same cuts in the amount of support granted based on the size of the dwelling apply, as in the Scheme for the Purchase of a House/Apartment. As for the applicants who did not benefit from financial support for the construction of their home, these are eligible for aid for the refurbishment and renovation of their property, provided it is older than 20 years. The amount of aid for this purpose cannot exceed EUR 10,000[77].

Finally, the SCRDP offers a **Rent Subsidy Plan Plan** *(Σχέδιο Επιδότησης Ενοικίου)*, which provides rent allowances to beneficiaries[78]. The amount of the subsidy depends on the number of family members and the yearly income, and can vary from EUR 133 for a single person with a yearly salary of EUR 30,000, to EUR 260 for families with 6 or more members and with a yearly salary above EUR 45,000. This subsidy is expected to increase in 2018 by up to 35%. The Ministry of the Interior is expected to spend EUR 8.4 million in subsidies in 2018, which is almost twice as much as in 2016 (EUR 4.7 million)[79].

> The **Cyprus Land Development Corporation** (*Κυπριακός Οργανισμός Ανάπτυξης Γης* - KOAG) is also a key actor in terms of the provision of social housing. The organisation aims to satisfy the housing needs of low and medium income families, offering dwellings and building sites at affordable prices and attractive terms of sale.

To do so, it acquires land throughout the country and divides it into building sites or develops it into housing estates and apartment buildings[80].

Thus, the KOAG offers several schemes, such as a **Medium-Income Housing Scheme** *(Σχέδιο Στέγασης Μέτρια Αμειβομένων)*, which is available to beneficiaries whose annual income ranges between EUR 22,000 and EUR 72,000, depending on the number of children. The programme offers accessible and flexible repayment terms on mortgages, with subsidised interest rates and an initial deposit of 25% of the value of the property being required[81]. The **Low-Income Housing**

Scheme (*Σχέδιο Στέγασης Χαμηλά Αμειβομένων*) which provided financial support to low-income families for the purchase of their own dwelling has been discontinued[82].

Furthermore, the KOAG launched a new 4-year programme in September 2016, known as the **Primary Residence Protection Plan** *(Σχεδίου Προστασίας Κύριας Κατοικίας)*. The programme is following a commitment of the Cypriot government to reduce the size of the housing schemes by streamlining and consolidating them in exchange of the EU financial assistance. The scheme provides beneficiaries with a grant to cover up to 60% of the value of the instalments of the mortgage loan on their primary property, and amounts to up to EUR 10,000 per year, for a maximum of 3 years. By doing so, the Plan aims to prevent the risk of insolvency and eviction for low income households. For individuals to be eligible, the market value of the property should not exceed EUR 250,000 and the amount of the outstanding loan should be a maximum of EUR 300,000, depending on the situation of the applicant[83].

Another state institution offers financial aid for housing, namely the **Home Financing Organisation** of Cyprus. The new loan scheme is open to applicants from April 2017 to March 2018 and provides loans with favourable conditions in order to purchase or build a property as well as for renovations or energy upgrades. For the former, loans up to the amount of EUR 450,000 are available for a repayment period of up to 40 years with an interest rate floating between 2.6% and 3.0%. Regarding renovation or energy upgrades, loans can amount to up to EUR 60,000 with a repayment period of 15 years and a floating interest rate of 3.3%. Additional advantages include low insurance premiums, no charge for early repayment and no initial banking charges[84].

Insurance and liability related regulations

> In Cyprus, **professional indemnity insurance** was made compulsory in 2013 for all construction design companies registered within the Cyprus Scientific and Technical Chamber Chamber (*Επιστημονικό Τεχνικό Επιμελητήριο Κύπρου* – ETEK)[85]

Furthermore, various other types of insurances are available and widespread. These include Contractor's All Risk, which covers damage to the construction works during the construction phase, as well as third party liability. Financial guarantees are also a common way to cover the risk of defects to the building after handover, arising from negligence or from non-compliance with the clauses of the construction contract. Guarantees of minimum 1 year are the most widespread, with longer durations such as 2 or 5 years being also available[86].

Liability in construction in Cyprus is ruled by the law of torts and the law of contract. The former is governed by the **Civil Wrongs Law**, Cap. 148, which sets out the rules of compensation in the case of damage due to an act or omission. Namely, article 68 of the Law establishes the limitation periods during which legal action can be taken. This amounts to 2 years from the date of the damage incurred and 2 years from the date it was discovered, in the case of defects fraudulently concealed. The law of contract is governed by the **Contract Law**, Cap. 149, which defines matters related to contractual liability. In this context, limitations periods can be defined through the contract by the parties involved in the construction project[87].

Building regulations

The main pieces of legislation which regulate the construction of all buildings and civil engineering works, thus defining the development and building control system in Cyprus, are the **Streets and Buildings Regulation Law** (first issued in 1959) and the **Town and Country Planning Law** (approved in 1972, but enforced in 1990).

The Streets and Buildings Law makes it mandatory to obtain a building permit for the construction of buildings and streets, which are otherwise considered illegal structures, and requires the application for the building permit to include architectural and structural drawings, calculations and any other information depending on the type of the construction (e.g. electrical installation studies, environmental studies). Moreover, it stipulates that the owner of the building must appoint a supervising engineer prior to the issue of the permit. The rights, duties and liabilities of the supervising engineer, as well as the rules that define the relationship between the engineer and the Local Authority, are also provided for in the Law. Furthermore, upon completion of the works, and before the building can be put in use, a Certificate of Approval must be obtained from the Local Authority[88].

> Based on this Law, several regulations have been issued, namely the **Streets and Building Regulations (Energy efficiency of Buildings)** and the **Streets and Building Regulations (Electrical and Mechanical Installations)**. The former regulate the requirements and procedures for the issue of building permits with respect to the provisions of Directive 2002/91/EC on the energy efficiency of buildings, whereas the latter regulate the certification of electrical and mechanical installations and aspects related to the qualification of the responsible engineers.

The Regulations also include the minimum requirements for the design of various elements of the building, such as area of rooms, height of building, staircases, drainage systems, sewerage systems, ventilation systems, fire safety, etc.[89]

Finally, the Town and Country Planning Law provides for town and country planning, regulates the use and control of immovable property and promotes its development. The Law establishes Development Plans, which are divided in three tiers, namely the Island Plan, Local Plans and Area Schemes. The Island Plan indicates the general policy to be followed at the national level in promoting and controlling regional spatial planning, and is tightly linked to the overall national economic and social policy. It sets out the Government's stance on the definition of areas of special social, historic or cultural interest or natural beauty, and other matters of national importance. Conversely, local matters are addressed by the Local Plans, which reflect the aims and purposes of the Island Plan[90].

Foreign experts have recently reviewed the construction development legislation framework in Cyprus and have recommended the creation of a new legislative framework and several radical changes, including to the building licensing system and procedures[91]. Other recommendations included the introduction of a comprehensive license covering both town planning permission and building permit, and the creation of a one-stop shop[92].

7

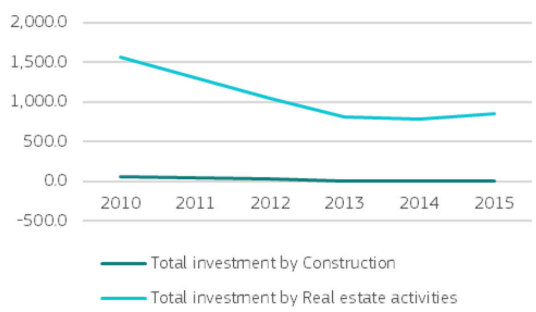
Current Status & National Strategy to meet Construction 2020 Objectives

TO 1 - Investment conditions and volumes

Total **investment by the broad construction sector**[93] has been relatively stable since 2010 (Figure 11). In fact, investment by the narrow construction sector increased by 3.9%, from EUR 1.32 billion in 2010 to EUR 1.37 billion in 2015. On the other hand, investment by the real estate sub-sector dropped slightly (-3.1%) from EUR 19.59 billion in 2010 to 18.99 billion in 2015.

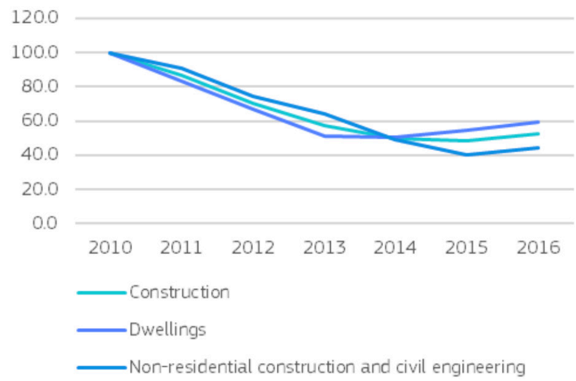
Investment by construction sub-sector 2010-2015 ↓ **100,7%**

Figure 11: Investment by the Cypriot broad construction industry between 2010-2015 (EUR m)



Source: Eurostat, 2017.

Figure 12: Investment in the Cyprus construction sector between 2010-2016 (2010=100)



Source: AMECO, 2017.

In contrast, total household renovation spending decreased only marginally despite a 13.1% decrease in **gross disposable income** from 2010 to 2015. Indeed, **renovation spending** amounted to EUR 22.9 million in 2010 and decreased to EUR 22.1 million in 2015 (-3.5%).

Similarly, following the burst of the housing market, **investment in construction** dropped significantly. Notably, total investment in construction[94] declined by 51.6% over 2010-2015, while picking but slightly in 2016 (Figure 14). Investment in dwellings experienced a hard decline as well, reflecting the downturn after the housing bubble dropping by 49.4% between 2010 and 2013. Since then, investment has been recovering by 17.6%. Non-residential and civil engineering saw the hardest decline in investment with a 59.5% decrease from 2010 to 2015. Again, there are signs of stabilisation and recovery with a 8.9% increase between 2015 and 2016. In absolute terms, investment in the construction sector totalled EUR 1.27 billion in 2014, out of which EUR 721 million were invested in dwellings and EUR 550 million were spent on non-residential and civil engineering[95].

Overall, Cyprus is one of the main beneficiaries of **ESIF** with a total allocated enveloped of EUR 908 million for 2014-2020, which amounts to 37.6% of the expected national **public investment** in policy areas covered by ESIF[96]. From its share of ESIF, Cyprus will dedicate EUR 99.3 million to investments in transport infrastructure, with 14.5 million coming from the European Regional Development Fund (ERDF) and EUR 85 million coming from the Cohesion Fund (CF)[97].

In the transport sector, Cyprus is focusing on policies for **Sustainable Transport**, as part of an overarching sustainable development strategy. This includes the promotion of integrated mobility master plans and the promotion of public transport[98]. Despite a recovery starting 2014, investments in transport have been depressed and stood well below 2008 levels[99].

Furthermore, the Cypriot government created a **working group** composed by the Ministry of Transport, Communications and Works and the Ministry of Energy Commerce, Industry and Tourism (MECIT) dedicated to the renovation of buildings used by the central government. Notably, for 2014-2020, EUR 20 million from EU funds have been earmarked for the renovation of public buildings[100].

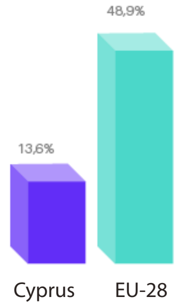
The European Investment Bank (EIB) is also active in supporting infrastructure investment in Cyprus. Notably, it provides a framework loan worth EUR 100 million for **infrastructure investment** to be implemented over 2014-2020[101]. A further loan agreement amounting EUR 40 million will go to improving Nicosia's drinking water supply, while an additional EUR 15 million will be invested in anti-flooding infrastructure[102]. Under the framework of the Connecting Europe Facility (CEF), Cyprus signed agreements worth EUR 4 million for transport projects[103]. Overall, the total lending in Cyprus from 2012 to 2016 amounted to EUR 1.3 billion, including EUR 643 million for small and medium-scale projects and EUR 402 million for water, sewerage, solid waste and urban development[104].

The EBRD also invests in the Cypriot economy, notably by supplying funding to the Hellenic Bank and the Bank of Cyprus. As part of its strategic mandate, the EBRD supports private sector participation and PPP financing of transport infrastructure, notably ports, and municipal and environmental infrastructure[105]. In its current portfolio, totalling EUR 195 million, EUR 9 million are targeted to infrastructure investments, while EUR 10 million are target to energy investments. The remaining 90% are going to fund industry, commerce and agribusiness as well as financial institutions[106].

In May 2017, the President of Cyprus announced that between 2015 and 2017, 23 development projects totalling EUR 60 million will have been completed, including the Tombs of the Kings Avenue, important to improve road networks. Overall, the budget for 2017 going to infrastructure projects amounted to EUR 270 million, including EUR 40 million for Paphos[107].

TO 2 – Skills

The relevance of **vocational education and training** (VET) in Cyprus is limited given its very low **participation rate** of 13.6% in 2013, compared to the EU average of 48.9[108]. This seems to be on the rise. In fact for **upper secondary education** pre-vocational and vocational programmes, the rate has increased from 12.7% for school year 2010/2011 to 15.6% for school year 2014/2015[109]. Still, there is a lack of employer engagement in the education, and there is a weak component of work-based education and training in schools. Nevertheless, the **employment rate** of recent upper secondary VET graduates is comparable to EU peers standing at 70.3% in 2015, compared to 73% in the EU. **Adult learning** was recorded at 13.4% in 2015 and is on a rising trend, despite the fact that it still compares poorly to the EU[110]. Moreover, only 10.3% of **tertiary education** graduates studied engineering, manufacturing and construction in Cyprus, compared to 14.4%, on average in the EU, in 2014[111].



Vocational education and
training participation rate 2013

Recently, the **National Youth Strategy 2017-2022** was established by the Youth Board of Cyprus. The main goal is to set a cross-sectoral mechanism allowing to develop policies, specifically in the field of education and training. Two three-year action plans will be elaborated and the implementation of the policies will be monitored[112].

More targeted efforts are ongoing to strengthening the quality and attractiveness of its VET system, namely the Council of Ministers adopted the **Strategic Plan for the System of Technical and Vocational Education and Training 2015-2020** in 2015. The Plan aims to reform and upgrade vocational education, particularly by enhancing cooperation with industry and making curricula more practically oriented. Among others, the overall Strategic Plan also foresees improving evening technical schools and the apprenticeship system[113].

Specific programmes dedicated to construction, and particularly energy efficiency in buildings are progressively entering the curricula. For instance, Cypriot universities have introduced undergraduate courses on energy resources and energy efficiency in buildings and masters programmes dedicated to energy systems in the built environment. However, training offer related to the upgrade of existing buildings remains limited. Furthermore, a number of specialities related to energy performance of buildings is offered at secondary and VET level, such as Hydraulic, thermal and cooling systems, or Electric machinery, automation and control systems, among others. Finally, upper secondary initial technical and vocational education provides various fields of studies related to the construction sector, such as mechanical engineering, electrical engineering, civil engineering and architecture. Two streams are available, allowing to focus more on theoretical or practical aspects and last for three years[114].

> An **apprenticeship programme** was further introduced in 2007 to strengthen the link between teaching and labour market needs[115].

This has been replaced in 2013 by the **New Modern Apprenticeship** (NMA). It is co-funded by the European Social Fund and the government of Cyprus and includes preparatory and core components lasting one and three years, respectively. New curricula developed for the construction sector include plumbing/central heating, welding/metal constructions, carpentry/furniture making and electrical installations[116]. This program was further upgraded in 2015. This, inter alia, enabled greater flexibility to meet labour market needs and increased the ease of access to formal education[117].

In April 2017, the post-secondary institutes of vocational education and training were accredited as public schools of higher vocational education and training, by the Quality Assurance and Certification Agency of Higher Education. This is an important step in decreasing skills mismatch and reducing unemployment, with employment rates reaching 85% in some programmes. Courses related to the construction sector include woodworking industry.

Furthermore, the project **WE-Qualify "Improving Skills and Qualifications in the Building Workforce"** co-founded by the EU programme Intelligent Energy Europe is a key initiative to upgrade the construction skills in Cyprus. Between November 2013 and October 2016 the project promoted VET and training of workers in construction to address the skills gaps related to the implementation of energy efficiency in buildings. A number of activities were carried out as part of the WE-Qualify project, such as the launch of training programmes in the area of thermal insulation, and pilot trainings for the installation of thermopanels as well as for the installation and maintenance of biomass heating systems. The certified installers are listed on the project website[118].

Finally, since 2006 the Federation of the Building Contractors has been active in organising training for the construction sector aimed at enhancing the professionalisation of the construction, as well as increasing awareness of the industry's social and environmental impact[119].

TO 3 - Resource efficiency / Sustainable construction

Cyprus introduced its third **National Energy Efficiency Action Plan (NEEAP III)** in 2014, setting the target to achieve a 14.5% increase in energy savings in the projected primary energy consumption by 2020, as well as reach a primary energy consumption of 2.2 Mtoe by 2020. In terms of energy demand, the NEEAP stresses the importance of improving energy efficiency in the construction sector, as supported by the by the implementation of Directive 2010/31/EU on the Energy Performance of Buildings and Directive 2012/27/EE on Energy Efficiency. This will be achieved by making all new buildings Nearly Zero Energy Buildings (NZEB) by December 2020, and by upgrading the existing building stock to improve its energy efficiency. To this end, the NEEAP introduced the Building renovation strategy to encourage investments in building renovation and energy saving. The implementation of the strategy is expected to result in energy savings of 4,488 toe and 10,472 toe in 2016 and 2020, respectively[120]. The draft version of 4th National Energy Efficiency Action Plan was published in October 2017 and is currently at the public consultation phase[121]. In February 2017, legislation aimed to establish a renewable energy agency was in the preparation. This would enable to centralise the work done to fulfil the aims of the above Action Plan[122].
The **Special Fund for Renewable Energy Sources** was set up to support renewable energy sources and energy saving investments in Cyprus, and is funded by consumers originally through an additional tax ("green charge") of EUR 0.005/kWh on their electricity bills. This was increased to EUR 0.01/kWh except for vulnerable households, since January 2017[123]. The Fund has been offering grant schemes since 2004, which have allocated a total of EUR 100 million to RES investments by the public sector, natural and legal persons over 2005-2013. Out of these, EUR 67 million were granted specifically for renewable energy and energy efficiency measures in the building sector, such as the installation of solar systems for hot water, heating and air conditioning, thermal insulation, energy-efficient lighting and energy recovery. The energy savings achieved in the life cycle of buildings through implementation of such measures are expected to amount to 1 million toe[124]. In 2017, the revenues of the fund are expected to reach EUR 50 million, out of which EUR 46 million are coming from the green charge[125].

The energy efficient renovation of existing privately owned buildings is expected to entail the largest amounts of investments. Namely, investments of EUR 4.1 billion and EUR 9.2 billion will be required for residential buildings and for buildings in the tertiary sector, respectively[126]. A scheme for the energy efficient renovation of existing private buildings was therefore launched for the period 2014-2020 but closed prematurely due to the exhaustion of available funding[127]. The **Save and Upgrade schemes**, co-financed by the European Structural and Investment Funds (ESIF)[128], had a budget of EUR 32.1 million, EUR 15.6 million of which is available for SMEs for energy upgrade interventions on their buildings, and EUR 16.5 million being allocated to households. Eligible measures include interventions to upgrade the energy class building certificate to B or to make a building a nearly-zero energy one[129].

A different type of support scheme for energy efficiency are the **Net-metering scheme** and the **Solar Energy for All scheme** promoting the installation of photovoltaic (PV) systems in residential and commercial/industrial buildings by consumers, turning them in consumers and producers of electricity at the same time. The former scheme credits owners of photovoltaic installations for the electricity they produce up to 5kW per unit. Since 2016, companies have also been allowed to participate in the scheme, which used to be available only to households[130]. The second scheme is targeting vulnerable households, by supporting the installation of photovoltaic systems with a capacity up to 5kW offering a subsidy of EUR 900 for every installed kWh, with a maximum amount of support of EUR 2,700 per PV system and beneficiary[131]. The total budget foreseen for the subsidies under the scheme is EUR 1 million[132].

Furthermore, a funding **Scheme for the replacement of existing Solar Water Heaters** with more efficient ones was also launched in 2016. The initiative offers EUR 350 in assistance per household for replacing solar water heaters and EUR 175 per unit to replace existing solar panels[133]. The total budget of the scheme amounts to EUR 200,000[134]. A second call under this scheme was launched in September 2017[135]. Another scheme related to heating, was announced in May 2017. The Co-operative Central bank together with the employers' association (OEV), a loan of up to EUR 10,000 with an interest rate of 3% for the installation of heat-proofing roofs[136].

As for public buildings, the renovation of 3% per year of their total surface is estimated to require a budget of EUR 18 million for the period 2014–2020[137]. Thus, for this period, EU financing of EUR 20 million has been secured for the implementation of energy efficiency measures and deep renovation in central government buildings[138].

The Ministry of Interior has also decided to **promote building renovation** to higher energy efficiency standards than the legal requirement by providing the incentive of an increase of the maximum number of square metres allowed for construction by the building permits (known as building factor). This will be applicable to buildings that achieve the A energy class on the Energy Performance Certificate, as well as a minimum contribution from RES of 25%[139]. Moreover, in December 2016 the Ministerial Order for Minimum Energy Performance Requirements adopted in 2013 was amended in order to increase the minimum energy efficiency requirements for new buildings. Thus, as from January, all buildings that are renovated should at least reach the energy class B, given technical and financial constraints[140].

Finally, the government approved a **lower VAT rate** of 5% on all residential renovations, compared to 19%, including on properties that are not used as a primary residence. The reduced rate will also be paid by vulnerable consumers and residents of remote areas on works related to repairs, improvements to private homes, energy efficient upgrades and structural integrity interventions[141].

TO 4 - Single Market

> Cyprus boasts a good performance with respect to the metrics of the EU Single Market Scoreboard 2017, particularly in Infringements, Internal Market Information System, as well as trade integration in the single market for services, which is one of the highest in the EU-28[142]. Cyprus performed particularly well in the 2016 Scoreboard in terms of Transposition of Law

However, this year, the transposition deficit grew significantly from 0.7% to 2.7% becoming the Member State with the second highest deficit. Cyprus also deteriorated with regards to average delay and is now below the EU average. Moreover, trade in services for 'closed professions' including engineering and architecture is limited by a restrictive regulatory environment[143]. Cyprus' trade integration in the single market for goods is very low, and its performance in Public Procurement is unsatisfactory. Namely, it scores poorly in terms of the One Bidder (i.e. the proportion of contracts awarded where there was just one bidder), No Calls for Bids (i.e. the proportion of procurement procedures negotiated without a call for tender) and Award criteria (i.e. the proportion of procedures awarded only on the basis of lowest price) indicators. Indeed, in 2016, in 38% of public procurement procedures there was only one bidder and in 38% of cases no calls for tender, a huge increase from 2015, when it stood at 24%. This is by far the highest number in the EU[144].

Moreover, 87% of Cypriot companies believe that corruption and bribery hamper business competition in Cyprus[145]. In particular, the risk of corruption is especially high in the areas of public procurement and land administration, with a recent survey highlighting that over half of the interviewees believe that abuse and bribery are common among construction inspectors and officials issuing building permits. The land registry is particularly problematic in this respect, with corruption cases including the sale of real estate at inflated prices by a legal entity with the support of corrupt officials within the administration[146].

Furthermore, there have been cases of cartels in the construction sector, with a recent one involving 10 large firms accused by the Commission for the Protection of Competition (CPC) of bid rigging concerning public tenders for the maintenance of roads and motorways between 2007 and 2014. The CPC also raided the premises of various concrete manufacturers in connection with competition violations in construction projects in Limassol between 2011 and 2012[147]. A similar currently ongoing case involves the bribing of officials from the Paphos Sewerage Board (PSB) by seven construction contractors to secure construction and waste management contracts. This entailed substantial additional costs (EUR 40 million more than the original budget) to be incurred by the Paphos municipality, due to often unnecessary extra works on the project[148].

> Cyprus is the 6th most restrictive country in the EU-28 in terms of its regulatory environment in the business service sector.

Namely, it is the 4th most restrictive when it comes to authorisation requirements for architects and engineers, as well as having strict insurance and shareholding requirements in place for these professions[149]. In fact, Cyprus interdicts the provision of architectural services through public limited liability companies[150]. Other regulated activities and professions include the provision of consulting services in the field of civil engineering and real estate agents. In Cyprus, the regulation of such professions is justified through arguments related to the protection of the natural and urban environment, public security, consumer protection and as a way to ensure that the activities will be performed by suitably qualified professionals. In addition, Cyprus attributes particular importance to membership in the professional body, in order to guarantee control over professionals and ensure that professionals will perform their activity appropriately[151]. Although reforms to regulated professions in the business service sector have been started and completed for most, those in the engineering professions (including engineers, architects, land surveyors etc.) still need to be finalised[152].

Finally, with regard to the implementation of **Eurocodes**, all Parts are published as National Standards (except EN 1990-A1), and all published National Annexes are available in English. The use of all Eurocode Parts is compulsory and is set out in a regulatory framework. Namely, Regulation 479/2011 introduces Eurocodes as obligatory means for structural design, whereas L12(I)/2006 enforces their use in Public Procurement[153].

TO 5 - International competitiveness

> Cyprus ranks 64th out of 137 economies in the 2017-2018 Global Competitiveness Index, which represents a jump of 21 positions compared to the 2016-2017 Index[154]

It performs relatively poorly in terms of internationalisation of its SMEs, with the time and cost required to export being below the EU average. Namely, the cost to export for documentary compliance was estimated at USD 50 (EUR 43) in 2016, compared to the EU average of USD 16.4 (EUR 14). This took on average 2 hours, versus 1.4 on average in the EU[155].

The **Section for the Promotion of Trade in Services of the Ministry of Energy, Commerce, Industry and Tourism** plays an important role in encouraging the export of services and the promotion of Cypriot companies to overseas markets. The Section operates two subsidy schemes which are particularly relevant to companies in the construction sector, granting financial support to Cypriot exporters of services to participate in specialised international service exhibitions[156].

The first programme provides financial assistance to Cypriot exporters of services and land development companies, which participate at their own expenses in specialised fairs and exhibitions abroad. The scheme was first introduced in 2014 and is planned to run until 2021. It is open to companies operating across a variety of sectors, including construction, real estate and architectural and engineering services. The grant covers up to 50% of the expenses associated with participation, such as rental of the exhibition space, the cost of renting equipment, assembling/dismantling the stand and participation fees, up to a maximum of EUR 2,563 per company[157].

The second provides financial support to exporters of services and land developers, which participate in overseas exhibitions organised by the Ministry of Energy, Commerce, Industry and Tourism. For instance, for the year 2017, attendance to several international events have so far been organised by the Ministry specifically for Cypriot real estate and land development companies. These included the Dubai International Property Show and A Place in the Sun, the largest overseas property exhibition in Europe held in London[158]. The scheme covers up to 85% of the expenses associated with participation, such as rental of the exhibition space, the cost of renting equipment, assembling/dismantling the stand and participation fees[159]. Other international exhibitions supported by the Ministry in 2017 for Cypriot building material companies include Project Iran, The Big Five in Dubai and the Salone Internazionale del Mobile in Milan[160].

Two other measures exist which apply more generally. First an **Export Help Desk** is available since September 2015. Launched by the Ministry of Energy, Commerce, Industry and Tourism and in cooperation with 10 Cypriot Embassies, it is aiming to match Cypriot companies with international customers. Since its launch, 50 companies have sought support from the help desk. Moreover, the **Trade facilitation programme of EBRD**, which runs between July 2015 and December 2018, helps Cypriot companies by providing guarantees and by covering the political and commercial risk of transactions. Around 40 companies are expected to make use of this programme which has a total budget of EUR 20 million[161].

8 Outlook

> Following a 10.0% continuous decline in its GDP between 2010 and 2014, the year 2015 marked the start of a reversal of the trend in Cyprus, with GDP increasing by 1.7% and by 2.8% in 2016.

Following a 10.0% continuous decline in its GDP between 2010 and 2014, the year 2015 marked the start of a reversal of the trend in Cyprus, with GDP increasing by 1.7% and by 2.8% in 2016. This improvement is expected to continue in the coming years, with GDP being predicted to experience a 2.5% in 2017 and a 2.3% increase in 2018, to EUR 19 billion. Indeed, Cyprus officially exited its EUR 10 billion Economic Adjustment Programme in March 2016, a year earlier than foreseen, having made considerable progress in improving its public finances and reforming the banking sector. Private consumption is picking up again, encouraged by the negative inflation rate and the decrease in interest rates, with tourism, shipping, and professional services being set to drive the recovery of the economy[162].

Nevertheless, the number of workers employed in the broad construction sector is projected to decrease by 39.8% in 2017 relative to 2010, to 30,090 people, and by 40.4% in 2018 (compared to 2017), falling to 29,795. This represents a slight drop of 1.0% year-on-year between 2017 and 2018. Similarly, the number of enterprises in the broad construction sector is forecast to decline by 12.9% in 2017 relative to 2010, and by 13.3% in 2018 compared to 2010 levels, reaching 11,655. Again, there is only a slight drop of 0.5% between 2017 and 2018, which showcases the stabilisation in the sector. The value added of the broad construction sector is also expected to decline substantially between 2017 and 2010, with a forecast drop of 61.7%. However, from 2017 and 2018, the drop is only of 1.1% reaching EUR 759 million. These figures will be accompanied by a decline in the turnover of the broad construction sector, projected to drop by 49.9% in 2017 compared to 2010. Yet, the decrease between 2018 and 2017 will be very moderate, standing at -2.0% to attain EUR 2.4 billion.

However, the government's focus on strengthening the tourism industry is expected to have positive repercussions on the construction sector, particularly for civil engineering and non-residential construction. Indeed, the government is introducing a number of major infrastructure projects as part of a 10-year strategic plan to support the growth in tourism. These include increasing the construction of golf courses and marinas, as well as developing a new casino resort[163]. Moreover, foreign investment into such projects is also expected to boost the construction industry. For instance, the construction of a new luxury marina in Agia Napa is backed by Middle Eastern investors. The development, which has a total construction cost of EUR 220 million, will also include hotels, retail outlets, restaurants and other amenities, thus stimulating non-residential construction and employment in the sector. Indeed, the project is expected to employ 800 people, and an additional 250 for its operation. Furthermore, the construction of an additional four new marinas in the country, namely Paphos, Paralimni, Limassol and Larnaca, will also particularly benefit the maritime infrastructure segment, opening up new prospects for the construction sector and for the economy in general, and creating new jobs in the retail and service sectors[164]. The demand for such investment is expected to increase during 2017 and 2018[165].

Similarly, the tourism industry is also set to support residential construction, particularly in the high-end segment. For instance, the Agia Napa project also entails the construction of 30 luxury villas and 25 residential buildings with 68 luxury apartments. Likewise, the Paphos marina project, with an estimated cost of EUR 400 million, includes the construction of about 42,000 m2 of residential and commercial developments, whereas the Limassol marina project foresees the construction of 191 luxury apartments and 74 villas[166]. Indeed, the housing market in Cyprus has been showing signs of recovery following a seven-year decline, with the fall in house prices starting to slow down and residential construction and property transactions beginning to pick up again[167]. The recovery of the housing markets is also being boosted by increasing demand from foreign buyers, due to low interest rates, the citizenship-by-investment program, high levels of security and quality of life, low crime and good climate[168]. This dynamic of growth is expected to continue in the coming years and could be further sustained if the momentum in foreign investment continued, as assessed by the IMF's Staff Concluding Statement on Cyprus[169].

> Despite the first signs of stabilisation in the construction sector, challenges still remain, particularly in relation to the banking sector, with liquidity and high levels of non-performing loans still being restrictive factors that may hamper the financing of new projects[170].

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