

European Construction Sector Observatory

Country profile **Cyprus**

November 2021



In a nutshell


In 2020, Cyprus' GDP reached EUR 20.6 billion, representing a 5.1% decline over 2019 (EUR 21.7 billion) and a 5.8% growth from 2010 level (EUR 19.5 billion).

The annual decline in the GDP is mainly due to the outbreak of the global COVID-19 pandemic and the subsequent containment restrictions.

Mirroring the broader economic trend, the **number of enterprises** in the Cypriot broad construction sector totalled 13,545 in 2020, exhibiting a 0.9% decline since 2010 (13,670), which is driven by 5.4% decline in 2020 in comparison to 2019.

In contrast, the **volume index of production** in the broad construction sector increased by 88.7% over the 2015 - 2020 period. This was mainly driven by an increase in the index of production in the construction of buildings (+114.6%) and construction of civil engineering (+5.1%) over the same period.

Volume index of production in the construction of buildings between 2015 and 2020

 **114.6%**

Total turnover of the broad construction sector in 2018 stood at EUR 4.5 billion, a 5.8% decrease since 2010 (EUR 4.8 billion). In 2020, it increased to EUR 4.9 billion, representing a 2.4% increase since 2010 – thus mirroring the increasing production of the sector. However, the **gross operating rate** of the broad construction sector¹, which gives an indication of the sector's profitability, stood at 13.3% in 2018, representing a drop of 6.0 pp (percentage points) since 2010.

With regards to the housing market, the Cypriot government, through the **Special Service for the Care and Rehabilitation of Displaced Persons** (Υπηρεσία Μερίμνης Αποκατάστασης Εκτοπισθέντων - SCRDP), offers several housing support schemes. The **affordable housing to low-income people scheme** is focused on the needs of young people with growing families and low-income families. In November 2020, the government revised the affordable housing plan by increasing the number of eligible communities from 128 in the original July 2019 plan to 259.

In July 2021, the Ministry of Finance of Cyprus announced the approval of 802 applications for the ESTIA scheme, around 18.0% of the total 4,374 completed application².

The ESTIA scheme boosts borrowers' (households or SMEs) ability to repay their loans, as the government subsidises part of the repayment instalments by one third of the restructured loan.

The **non-residential construction and civil engineering** market is driven by the EC and the EIB funding, which play a significant role in supporting infrastructure development in the country. In June 2021, the Republic of Cyprus and the EIB entered into a loan agreement for an amount of EUR 112.0 million for the financing of National Roads III Project. This consists of the construction and improvement of roads and motorways that are prioritised as strategic roads of national importance and includes investment in fixed and mobile speed enforcement cameras.

The Cyprus annual budget for 2021 also includes a total of 50 major infrastructure projects. The projects range from the construction of roads in

various districts to schools, water transport provisions and repairs to existing state buildings.

Under the Recovery and Resilience Facility (RRF) Cyprus has been allotted EUR 1.0 billion in grants³.

Cyprus will invest 41.0% of the plan's total allocation in reforms and investments to support climate objectives. It has allocated EUR 89.0 million towards energy efficiency and renewable energy, and EUR 887.0 million for sustainable and green mobility⁴. The country has also planned to invest around EUR 53.0 million for enhancing access to communication infrastructure for all citizens and EUR 133.0 million towards the digitalisation of public services, including justice⁵.

Presently, two main issues hinder the development of the Cypriot construction sector. First, although companies in the sector often have overqualified

workers, the sector still faces a shortage of workers with the required skillset, meaning that there might be a mismatch between the level of skills that the workforce currently possesses and the companies' needs. Around 7.5% of firms in the construction sector reported a labour shortage in 2019, the highest among all sectors. Secondly, the persisting issue of **late payments** has had an unfavourable impact on the construction sector. As per the Survey on the Access to Finance of Enterprises 2020 report, around 13.2% of SMEs in Cyprus reported facing late payment issues on a regular basis.

Overall, the Cypriot construction sector has a positive outlook in the medium and long term. Public sector infrastructure and transport system upgrades, supported by EU funding, are expected to dominate the broad sector growth.

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Key figures

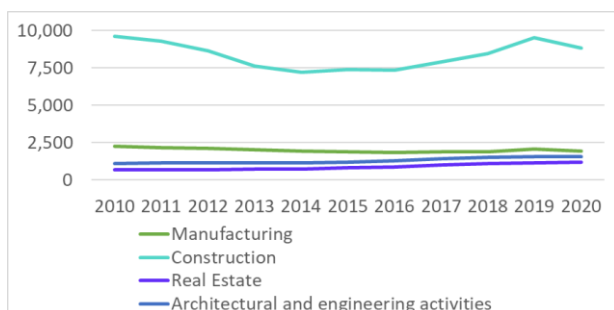
Construction market

The **number of enterprises** in the broad construction sector in Cyprus totalled 13,545 in 2020⁶ (Figure 1). This represents a 0.9% decline since 2010 (13,670). The decline was mainly due to a 15.7% decrease in the number of enterprises in the manufacturing sub-sector, followed by a 7.9% decrease in the narrow construction sub-sector over the 2010-2020 period. In the real estate activities sub-sector, the number of enterprises increased by 76.8%, whereas in the architectural and engineering activities sub-sector it increased by 41.3%, over the same period. The narrow construction sub-sector accounted for 65.3% of the total enterprises in 2020, the highest among the sub-sectors. This was followed by the manufacturing (14.1%), architectural and engineering activities (11.7%) and real estate activities (8.9%) sub-sectors.

Number of enterprises in the narrow construction sub-sector between 2010 and 2020

↓ 7.9%

Figure 1: Number of enterprises in the Cypriot broad construction sector between 2010 and 2020



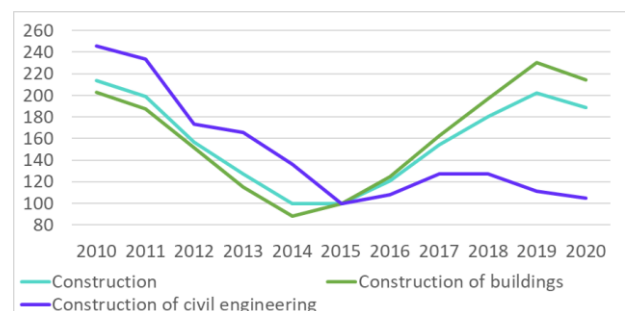
Source: Eurostat, 2021.

The **volume index of production** in the broad construction sub-sector increased by 88.7% over the 2015-2020 period. This was largely driven by an increase in the index of production in the construction of buildings (+114.6%) and construction of civil engineering (+5.1%) over the same period.

Volume index of production in construction of buildings between 2015 and 2020

↑ 114.6%

Figure 2: Volume index of production in the Cypriot construction sector between 2010 and 2020 (2015=100)

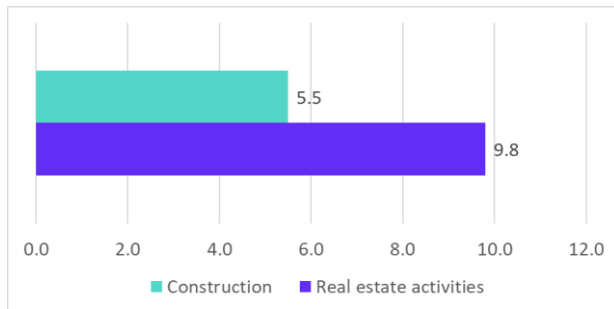


Source: Eurostat, 2021.

The total **value added at factor cost**⁷ of the broad construction sector amounted to EUR 1.5 billion in 2020⁸, representing a decrease of 26.8% since 2010. The narrow construction sub-sector contributed to 71.1% of the total⁹ (EUR 1.0 billion). This was followed by the manufacturing (14.4% of the total, i.e., EUR 210.4 million), real estate activities (8.5% of the total, i.e., EUR 125.2 million) and architectural and engineering activities (6.0% of the total, i.e., EUR 87.7 million) sub-sectors.

The **gross value added as a share of GDP** of the broad construction sector stood at 15.2% in 2018¹⁰, below the EU-27 average of 16.5%. In 2019, the share of narrow construction and real estate activities sub-sectors stood at 9.8% (EU-27 average 5.1%) and 5.5% (EU-27 average 10.3%) respectively.

Figure 3: Gross value added as a share of GDP in the Cypriot broad construction sector in 2020 (%)



Source: Eurostat, 2021.

Productivity

Apparent labour productivity¹¹ in the broad construction sector decreased from EUR 40,062 in 2010 to EUR 31,155 in 2018¹², representing a decline of 22.2% over the period. This is below the EU-27 average of EUR 51,960.

This decreasing trend is reflected in all sub-sectors. Labour productivity in the architectural and engineering activities sub-sector decreased by 34.1%, from EUR 40,200 in 2010 to EUR 26,500 in 2018. This was followed by the narrow construction sub-sector, which decreased by 25.4%, from EUR 41,400 in 2010 to 30,900 in 2018 and the real estate activities sub-sector, which decreased by 12.8%, from EUR 48,400 in 2010 to EUR 42,200 in 2018. Lastly, labour productivity in the manufacturing sub-sector decreased by 8.7%, from EUR 33,116 in 2010 to EUR 30,227 in 2018.

Over the 2010-2020 period, labour productivity in the architectural and engineering activities sub-sector decreased by 34.1%, reaching EUR 26,475 in 2020. It was followed by the narrow construction sub-sector, real estate activities and manufacturing sub-sectors, which decreased by 24.8%, 12.8% and 8.4% respectively over the same period (Figure 4).

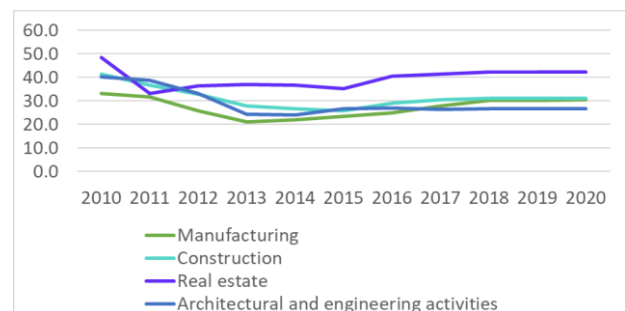
Apparent labour productivity in the narrow construction sub-sector between 2010 and 2020

↓ 24.8%

Labour productivity in Cyprus remains low and weighs on the country's competitiveness. This is partly explained by two factors: i) the limited investment activity, especially relating to research and innovation; and ii) the high rate of over-qualification, which suggests an underutilisation of

employed labour. This phenomenon suggests that currently some companies in the Cypriot construction sector might have a fairly skilled workforce that could even be overqualified for their needs, while they might require more blue-collar workers. This leads to underutilisation of the skilled workforce. (more information in Chapter 7 under the section on TO2 - Skills)¹³.

Figure 4: Labour productivity in the broad construction sector in Cyprus between 2010 and 2020 (EUR k)



Source: Eurostat, 2021.

Turnover and profitability

Total turnover of the broad construction sector in 2018 stood at EUR 4.5 billion, representing a 5.8% decrease since 2010 (EUR 4.8 billion). In 2020, it increased to reach EUR 4.9 billion, representing a 2.4% increase since 2010. This was driven by a growth in turnover in the real estate activities and narrow construction sub-sectors by 64.7% and 8.2% respectively, over the 2010-2020 period. Turnover in the manufacturing and architectural and engineering activities sub-sectors declined by 24.4% and 22.2% over the same period, respectively.

Turnover in the narrow construction sub-sector between 2010 and 2020



8.2%

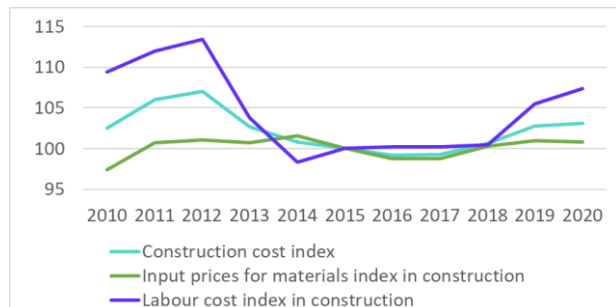
The **gross operating surplus** of the broad construction sector amounted to EUR 604.8 million in 2018, 35.1% below the 2010 level (EUR 932.1 million). This decline is explained by a decrease of the gross operating surplus in the narrow construction (-44.8%), architectural and engineering activities (-17.2%) and manufacturing (-6.2%) sub-sectors over the same period. Gross operating surplus in the real estate activities sub-sector, however, increased by 26.8%.

In line with the decline of the gross operating surplus, the **gross operating rate** of the broad

construction sector¹⁴, which gives an indication of the sector's profitability, stood at 13.3% in 2018, representing a drop of 6.0 pp since 2010. In terms of sub-sectors, the real estate activities sub-sector had the highest gross operating rate (40.4%), followed by the architectural and engineering activities sub-sector (29.3%), the manufacturing sub-sector (13.7%) and the narrow construction sub-sector (11.3%).

Construction costs have a significant influence on the profitability of the sector. In Cyprus, construction costs have been fluctuating since 2015, increasing by 3.1% by 2020. This was mainly driven by an increase in the labour cost index of 7.4% and the input materials' price index of 0.8% over the 2015-2020 period.

Figure 5: Construction cost index between 2010 and 2020 (2015=100)

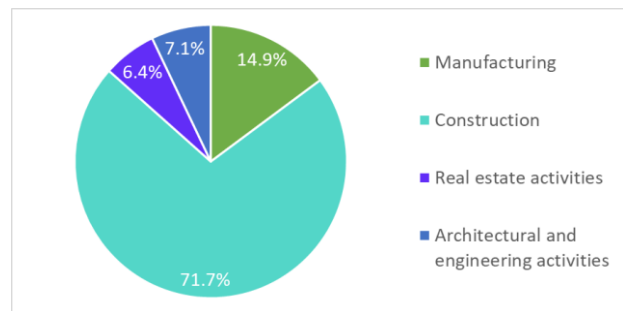


Source: Eurostat, 2021.

Employment

In 2020, there were 46,692 **persons employed** in the broad construction sector, marking a 6.5% decline compared to the 2010 level (49,952 persons). With respect to the sub-sectors in 2020, the narrow construction sub-sector employed 71.7% of the total workforce (i.e. 33,477 persons), followed by the manufacturing (14.9%, i.e. 6,935 persons), the architectural and engineering activities (7.1%, i.e. 3,310 persons) and the real estate activities (6.4%, i.e. 2,969 persons) sub-sectors (Figure 6).

Figure 6: Percentage of people employed per construction sub-sectors in Cyprus in 2020



Source: Eurostat, 2021.

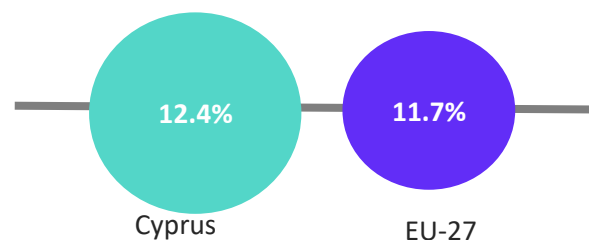
The real estate activities and the architectural and engineering activities sub-sectors experienced an increase of 65.2% and 1.4% respectively, over the 2010-2020 period in terms of persons employed. The manufacturing sub-sector declined by 23.4%, followed by the narrow construction sub-sector, which experienced a 6.6% decline over the same period.

Number of persons employed in the real estate activities sub-sector between 2010 and 2020

↑ 65.2%

The number of **self-employed workers** in the narrow construction sub-sector declined by 36.5% over the 2010-2020 period. This represents 12.4% of the total number of self-employed workers in the general economy in 2020, higher than the EU-27 average (11.7%). However, the number of self-employed workers in the real estate activities sub-sector decreased by 16.7% over the 2010-2019¹⁵ period. This represents 1.0% of the total number of self-employed workers in the general economy in 2019, lower than the EU-27 average (1.4%).

Self-employed workers in the narrow construction sub-sector as a share of self-employed workers in the general economy in 2020



In 2020, **full-time employment** in the narrow construction sub-sector decreased by 0.7% from the 2010 level. Similarly, in the manufacturing sub-sector it decreased by 1.7%, while in the real estate activities sub-sector, it increased by 33.3% in the same reference period.

In terms of **part-time employment**, the narrow construction sub-sector registered an increase of 36.4% between 2010 and 2020. In the manufacturing sub-sector, part-time employment decreased by 20.0% in the same period.

As for **employment by specific occupation**, in the narrow construction sub-sector, demand for “technicians and associate professionals” increased by 90.0%, whereas, the demand for “clerical support workers” declined by 39.3% over the 2010-2020 period. With respect to the manufacturing sub-sector, demand for “professionals” increased by 130.0%, whereas demand for “clerical support workers” decreased by 38.2% over the same period. Lastly, the demand for “technicians and associate professionals” in the real estate sub-sector increased by 27.3%, over the same period.

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Macroeconomic indicators

Economic development

In 2020, Cyprus' GDP reached EUR 20.6 billion, representing a 5.1% decline over 2019 (EUR 21.7 billion) and a 5.8% growth from 2010 level (EUR 19.5 billion).

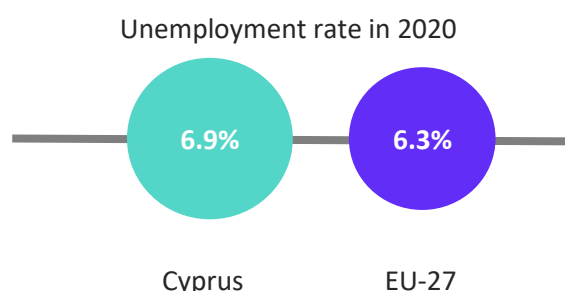
This fall GDP is due to the outbreak of the global COVID-19 pandemic and subsequent containment restrictions¹⁶. The country's **potential GDP** in 2020 amounted to EUR 21.0 billion, resulting in a negative **output gap** of 1.9%. The **inflation rate** in 2020 stood at -1.1%, lower than 0.5% in 2019. The negative inflation was driven by lower energy prices and non-energy industrial goods¹⁷. On the other hand, as part of a global inflationary trend, in 2021 inflation in Cyprus is expected to rise by 1.9% Y-o-Y¹⁸.

Demography and employment

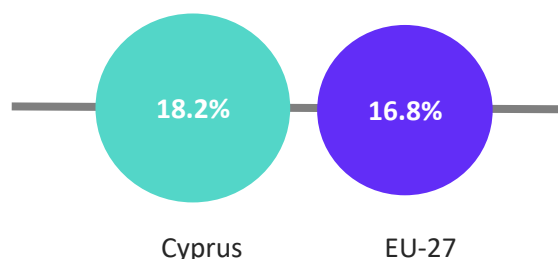


In 2020, the average unemployment rate (between 25-64 years) in Cyprus reached 6.9%, above the EU-27 average of 6.3%. However, this is a significant improvement compared to its peak (14.2%) in 2014.

The youth unemployment rate (below the age of 25) also declined to 18.2% in 2020 against its peak of 38.9% in 2013. However, it lies above the EU-27 average of 16.8%.



Youth unemployment rate in 2020



The **total population** of Cyprus amounted to 888,005 people in 2020. It is projected to increase by 17.9% by 2050, reaching 1.0 million. The **net migration rate** reduced to 4,521 people in 2020 from 15,913 people in 2010 (-71.6%). This could exacerbate the country's workforce shortage and lower the demand for housing.

In 2020, the **working age population** made up 67.6% of Cyprus' total population, slightly above the EU-27 average of 64.3%. By 2050, this share is expected to decrease by 4.5 percentage points (pp), to 63.1%. In parallel, the **elderly population** (people aged 65 and above) is expected to increase from 16.4% of the country's total population in 2020 to 22.3% by 2050. This highlights the country's ageing population, which implies an increasing need for healthcare facilities such as care homes in the country. It also puts pressure on the labour supply for the construction sector¹⁹.

Public finance

In 2020, **general government expenditure** represented 46.3% of GDP, compared to the EU-27 average of 53.4%. It also lies above the 2010 level (41.8%) and above the 2019 level (39.7%). The **general government deficit** amounted to 5.7% of GDP in 2020, below the 3.0% threshold of the EU's Stability and Growth Pact (SGP), and the EU-27 average deficit of 6.9%. Lastly, general **government gross debt** increased to 118.2% of GDP in 2020, from 94.0% in 2019. It lies above its 2010 level of 56.4% and the EU-27 average of 90.7%.

Entrepreneurship and access to finance

According to the World Bank Doing Business 2020 report, Cyprus ranked 50th out of 190 countries in ease of starting a business in 2019. This is an improvement compared with the previous year's ranking (52nd)^{20,21}.

As per the report, starting a business in Cyprus requires five procedures, taking six days and costing 5.6% of income per capita²². In terms of entrepreneurship, 21.1% of the Cypriot adult population perceive that there are good opportunities in starting a firm in the country, and 20.5% of the adult population, currently not involved in entrepreneurial activities, intend to start a business in the coming three years²³.

In 2020, the COVID-19 pandemic had a major impact on Cypriot SMEs in terms of their value added and employment. However, with the government taking numerous policy measures to support the economy, these indicators are forecasted to grow by 6.8% and 2.5% respectively in 2021²⁴.

The government adopted measures to provide liquidity support to SMEs during the COVID-19 crisis in 2020, including a suspension of loan interest and certain tax contributions, and an unemployment support scheme for the private sector²⁵.

According to the World Bank Doing Business 2020 report, in terms of access to finance, Cyprus ranked 80th out of 190 countries for the ease of getting credit²⁶.

Access to alternative sources of finance remains the key challenge for Cypriot SMEs and poses a major obstacle to their development and the research & innovation ecosystem. Cyprus performs well below the EU average in terms of access to venture capital, equity funding, professional business angels and crowdfunding. To address these barriers, Cyprus launched financial support schemes for start-ups and entrepreneurs with innovative products. In May 2020, the Research and Innovation Foundation of Cyprus provided a grant (PRE-SEED 0719B) of EUR 2.0 million to support international market-oriented and fast-growing start-ups²⁷.

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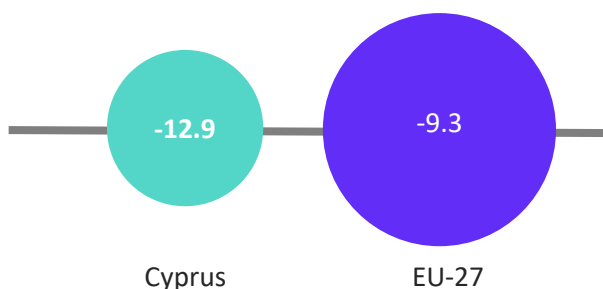
Key economic drivers of the construction sector

Business confidence

In 2020, consumer confidence and industry confidence indicators worsened compared to 2019. The construction confidence indicator also deteriorated from previous year and continues to lie in negative territory.

The **consumer confidence indicator** deteriorated to -24.6 in 2020 from -6.9 in 2019, remaining below the EU-27 average of -14.6. The **industry confidence indicator** also decreased to -21.0 in 2020, from 5.3 in 2019. This is below the 2010 levels of -7.2 and the EU-27 average of -14.4. Similarly, the **construction confidence indicator** decreased to -12.9 in 2020 from -4.6 in 2019. This is well above the 2010 level of -45.5, but below the EU-27 average of -9.3.

Construction confidence indicator in 2020



In September 2021, the construction confidence indicator deteriorated slightly as a result of downward revisions in employment expectations²⁸, despite more favourable assessments of the current levels of order books in 2020²⁹. However, in October 2021, the construction confidence indicator showed signs of improvement while consumers showed less confidence about the future economic conditions in Cyprus³⁰.

The **investment ratio** has seen little fluctuation over the 2010-2020 period with its current value standing at 19.2%, below the 21.7% ratio recorded in 2010. **Investment per worker increased** to EUR 49,105 in 2018³¹ from EUR 47,585 in 2010 (+3.2%).

Domestic sales

The **top five domestically sold construction products** in Cyprus in 2020 has remained the same since 2017. The ranking of the top five domestically sold construction products has also remained the same since 2017, except for “Particle Board”, which held the third position since 2017, was replaced by “Other structures and parts of structures” in 2020. The top five most domestically sold construction products are presented in Table 1, including a comparison with the most sold in the EU-27.

The top five domestically sold construction products in Cyprus accounted for 55.0% of total domestic sales of Cypriot construction products in 2020.

Table 1: Five most domestically sold construction products in Cyprus and in the EU in 2020

Cyprus				EU-27
	Product	Value (EUR m)	Share in construction product domestic sales (%)	Product
1	Ceramic tiles and flags (group 233110)	39.9	25.2	Other structures (group 251123)
2	Marble, travertine, alabaster, and articles thereof (group 236310)	13.5	10.3	Ready mixed concrete (group 236310)

Cyprus				EU-27
	Product	Value (EUR m)	Share in construction product domestic sales (%)	Product
	237011)			
3	Other structures (group 251123)	12.6	8.7	Doors, windows and their frames (group 251210)
4	Particle board (group 162112)	10.7	7.2	Prefabricated buildings of metal (group 251110)
5	Plaster products for construction purposes (group 236210)	9.2	5.4	Prefabricated structural components (group 236112)

Source: PRODCOM, 2021.

Export of construction-related products and services

The top five exported construction products from Cyprus have not changed since 2013 except for the 2015-2017 period. The ranking of the top five exported construction products has changed since 2010. “Other worked ornamental or building stone”, ranking first in 2010, was replaced by “Doors, windows and their frames” in 2020. “Doors, windows and their frames”, holding the second position in 2010, was replaced by “Pallets, box pallets and other load boards of wood” in 2020. Similarly, “Plaster” was replaced by “Other structures and parts of structures” for third position. “Pallets, box pallets and other load boards of wood”, ranked fourth in 2010, was replaced by “Articles of cement, concrete or artificial stone” in 2020. Lastly, “Articles of cement, concrete or artificial stone”, ranking fifth in 2010, was replaced by “Plaster”. The top five exported construction products are presented in Table 2, including a comparison with the most exported in the EU-27.

The top five exported construction products in Cyprus accounted for 87.5% of total construction exports in 2020.

Table 2: Five most exported construction products in Cyprus and in the EU in 2020

Cyprus				EU-27
	Product	Value (EUR m)	Share in construction product exports (%)	Product
1	Doors, windows and their frames (group 251210)	0.6	30.2	Ceramic tiles and flags (group 233110)
2	Pallets, box pallets and other load boards of wood (group 162411)	0.4	21.8	Other structures (group 251123)
3	Other structures (group 251123)	0.4	18.8	Fibreboard of wood or other ligneous materials (group 162115)
4	Articles of cement, concrete or artificial stone (group 236919)	0.2	8.5	Doors, windows, etc. (group 251210)
5	Plaster (group 235220)	0.2	8.1	Builders joinery and carpentry, of wood, n.e.c (group 162319)

Source: PRODCOM, 2021.

In terms of the **cross-border provision of construction services**³², Cyprus exported EUR 9.0 million worldwide in 2019³³, representing a 75.0% decline from the 2010 level. Export of construction services within the EU-28³⁴ and the world declined by 85.7% and 60.0% in the same period respectively. Cyprus **imported** a total of EUR 6.0 million of construction products in 2019, 50.0% below the 2010 level. Out of the EUR 6.0 million, EUR 4.0 million came from EU-28 member states, showing the importance of the EU Single Market. Thus, Cyprus achieved a **trade surplus** of EUR 3.0 million in the cross-border provision of construction services in 2019.

Access to finance in the construction sector

According to the Survey on the Access to Finance of Enterprises (SAFE) 2020, access to finance continues to be the biggest concern for around 13.5% of Cypriot SMEs, above the EU-27 average of 9.9%³⁵.

As per the report, bank loans are still the main source of financing for 31.1% of SMEs in Cyprus, significantly below the EU-27 average of 47.6%. 10.1% of SMEs reported using bank loans as a source of financing between April and September 2020, below the EU-27 average (17.9%). In the same period, 8.4% of SMEs did not apply for a bank loan due to fear of rejection, which is almost double the EU-27 average (3.9%)³⁶.



According to the EIB Investment Survey (EIBIS) 2020, 54.0% of construction firms in Cyprus consider the availability of finance as a long-term impediment to investment³⁷.

In June 2020, in order to address companies' liquidity shortages arising from the COVID-19 pandemic, the Cypriot government introduced a stimulus measure in the form of a financial package amounting to EUR 1.2 billion. The package features direct grants amounting to EUR 100.0 million for SMEs and self-employed persons³⁸.

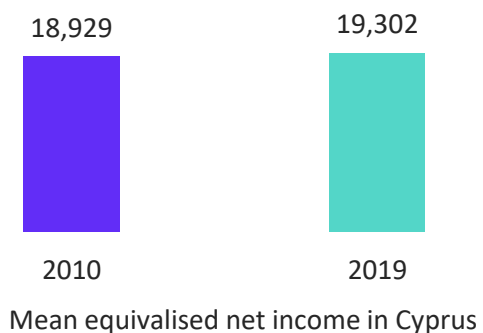
Additionally, in May 2020, the Cypriot government announced a major investment of EUR 1.7 billion from the European Investment Bank (EIB). This measure targets the SMEs and large-scale businesses in Cyprus impacted by the COVID-19 pandemic. The investment will be in the form of loans, along with interest rate subsidies. The interest rate on business loans will be subsidised for four years and is applicable to all loans contracted between March 2020 and December 2020. The measure will also primarily focus on SMEs which employ up to 250 people with a liquidity grant amounting to EUR 800.0 million³⁹.

In June 2021 the EIB entered into an agreement with the Cypriot Ministry of Finance to provide EUR 250.0 million of financial assistance to support businesses impacted by the COVID-19 pandemic. This includes EUR 200.0 million of targeted business financing

under the Cyprus Entrepreneurship Scheme II designed to address specific challenges facing SMEs and midcap companies in Cyprus. EUR 50.0 million is to be provided through local partner the Hellenic Bank, under the first operation in the country to be backed by the European Guarantee Fund (EGF). This financing will be made available to local firms so they can overcome challenges, grow and create new jobs⁴⁰.

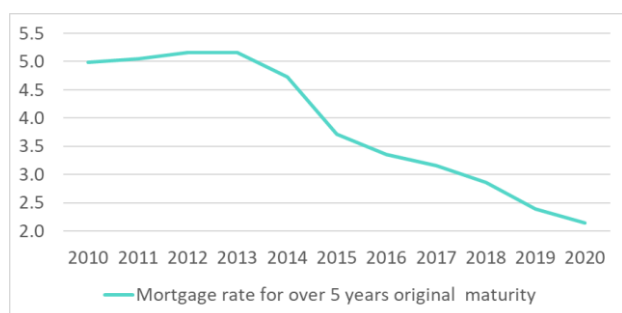
Access to housing

The **number of households** in Cyprus has been increasing since 2010. In 2020, it reached 334,100, representing a 17.4% increase over the 2010 level (284,600 units). At the same time, the share of the **total population living in cities and greater cities** decreased from 55.4% in 2010 to 51.8% in 2019⁴¹. The **mean equivalised net income** in Cyprus has slightly increased by 2.0% since 2010 (EUR 18,929), reaching EUR 19,302 in 2019⁴².



At the same time, **total outstanding loans to households**, which expanded by 6.4% from 2010 to 2012, rising to reach EUR 12.7 billion, have witnessed a continuous decrease since then. In 2019⁴³, it amounted to EUR 8.6 billion, dropping by 27.8% since 2010. This reflects the risk-averse behaviour of the Cypriot banking industry, which still needs to address the issue of non-performing loans (NPL) of residential loans. In mid-2019, the share of non-performing loans still accounted for 33.5% of total loans, one of the highest proportions in the EU⁴⁴. The share of NPL, however, has been decreasing rapidly since then, reaching 15.3% in September 2021⁴⁵. Lastly, reflecting developments in the economy, **mortgage interest rates** (over 5 years original maturity) have been declining from 5.0% in 2010 to 2.1% in 2020 (Figure 7). This may partially strengthen the demand for housing loans.

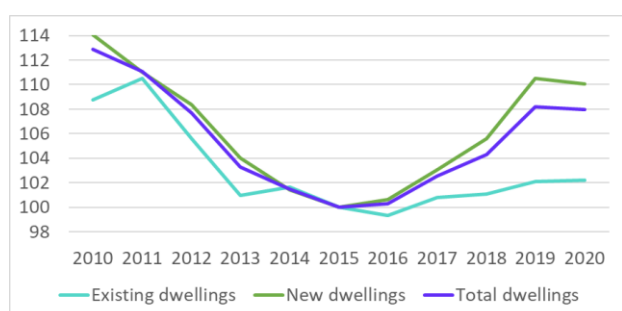
Figure 7: Mortgage rates for loans for over 5 years original maturity (%) between 2010 and 2020



Source: ECB MFI Interest Rate Statistics, 2021.

Housing prices also witnessed an increase over the period 2015-2020. Specifically, the house price index for new dwellings rose by 10.1% over this period. The price index for existing dwellings rose by 2.2%. This has resulted in an overall 8.0% increase in the house price index for total dwellings. In the first quarter of 2021 housing prices witnessed a recovery in comparison with previous quarters. According to the Central Bank of Cyprus (CBC), the Residential Property Price Index (RPPI) recorded an increase of 0.5% in the first quarter of 2021 compared with a decrease of 0.2% in fourth quarter 2020⁴⁶. However, in the second quarter of 2021, house prices experienced a fall. The RPPI recorded a decrease of 0.3% in the second quarter of 2021⁴⁷.

Figure 8: House price index in Cyprus between 2010 and 2020 (2015=100)



Source: Eurostat, 2021.

Domestic demand in the Cypriot housing market remains restrained on the back of a decreasing urbanisation rate. However, the market is primarily driven by a buoyant foreign demand for new luxury residences since 2014. In 2019, this demand spiked further as a result of the amendments made to the investor citizenship scheme in May 2019⁴⁸.

Specifically, in 2019, sales of properties rose by 12.2%, much higher than the 5.8% in 2018. This was mostly driven by foreigners, predominately non-EU nationals, who accounted for almost 50.0% of the

total properties sold since 2014. This is partially due to the “Investor citizenship schemes” for non-EU nationals, which Cyprus repealed only on the 1st of November 2020 and it is currently the object of an infringement procedure⁴⁹. The ongoing global COVID-19 pandemic impacted the Cypriot housing market, which experienced an 80.0% decline in the sales in April 2020, compared to the same month the previous year. A similar trend in sales has been observed in subsequent months, due to lockdown restrictions⁵⁰. In fact, the market had come to a standstill until September 2020. With the easing of restrictions, and gradual re-opening of the economy, the Cypriot housing market witnessed a double-digit growth (14.0%) of sales in September 2020 compared to the same month the previous year, as reported by the Department of Lands and Surveys⁵¹.

From January to August 2021, a total of 6,089 properties were sold in Cyprus, compared to 7,044 properties in the same period of 2019. However, sales in 2021 surpassed the 2018 figure of 6,019 properties. According to the Department of Lands and Surveys, in August 2021, property sales in the country increased by 29.0% compared to August 2020 from 561 to 724 in August 2021⁵². However, the properties sold in October 2021 were 14.0% down compared to October 2020⁵³.

The number of residential **building permits** increased by 190.6% over the 2015-2020 period. During the period January to October 2020, a total of 5,689 residential building permits were issued in Cyprus, 2.9% down from the same period in 2019. This comprises 32.6% (i.e. 2,510) of total permits for single dwellings, 61.3% (i.e. 4,730) of total permits for collective dwellings and 6.1% (i.e. 469) of total permits for other types of dwellings in 2020⁵⁴. As per the Cyprus Statistical Service, building permits constitute a leading indicator of future activity in the construction sector. During the period January to August 2021, a total of 5,240 building permits were provided, compared to 4,416 in the same period last year. The total value of these permits decreased by 4.5%. The number of permits provided for the construction of new homes also rose by 12.1% during the same period, from 6,102 to 6,840 new homes⁵⁵.

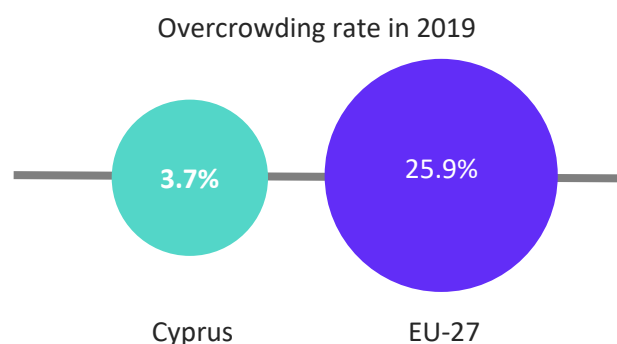
Number of building permits between 2015 and 2020

↑ 190.6%

Regarding **rental property** in Cyprus, prices are increasing and the market is divided into smaller segments, each having a distinct set of strategies, growth potential and targeted buyers⁵⁶. Rental prices for housing increased by 8.8% over the 2015-2020 period.

Most of the **building stock** in Cyprus is owner-occupied. In 2019, owners held 67.9% of the total stock. However, the ownership rate has reduced by 5.2 pp since 2010. Income plays a role in the likelihood of being a homeowner or tenant. Indeed, 72.7% of people earning **above 60.0% of median equivalised income** are homeowners, a figure that drops to 39.6% of people earning **below 60.0% of median equivalised income**.

The **housing cost overburden rate** was at 2.3% in 2019, well below the EU-27 average of 9.4%. In 2020, it decreased to 1.9% compared to the EU-27 average of 9.9%. Likewise, the **overcrowding rate** stood at 3.7% in 2019, well below the EU-27 average of 25.9%. In 2020, it increased to 4.2%. Lastly, the **severe housing deprivation rate** was 1.3% in 2019, well below the EU-27 average of 4.0%. Nevertheless, the rate slightly increased to 1.6% in 2020, the highest since 2011⁵⁷.



In order to alleviate the effects of the COVID-19 pandemic on the housing market and to help the market regain pace, the Cypriot government announced the Restart Housing Loan scheme (Στεγαστικό Δάνειο Restart), subsidising home loan interest rates for a specific duration⁵⁸.

As per the scheme, the Ministry of Finance will subsidise loans for four years, at a 1.5% interest rate. This will include all loans up to EUR 300,000, contracted as of March 2020 until December 2020. The average interest rate on such loans is 2.0%, at present. The Cypriot construction sector is expected

to benefit as this will potentially create further market opportunities⁵⁹. In February 2021, the Finance Minister of Cyprus raised the value of housing loans from EUR 300,000 to EUR 400,000. The duration of the loan was also extended until the end of December 2021⁶⁰.

Infrastructure

As per the 2019 Global Competitiveness Report, Cyprus ranked 48th out of 141 economies in terms of its infrastructure⁶¹.

With regard to transport infrastructure, the country performed well in terms of the quality of its roads (29th), followed by the efficiency of air transport services (45th). However, it performs poorly in terms of road connectivity (89th), liner shipping connectivity (67th), airport connectivity (66th) and efficiency of seaport services (64th).

As per the EU Transport Scoreboard 2018, Cyprus ranked 12th in quality of roads, 16th in completion of the Trans-European Transport Network (TEN-T) road core network, 17th in efficiency of air transport services, 21st in efficiency of seaport services and 23rd in timeliness of shipments⁶².

The non-residential construction and civil engineering market in Cyprus is driven by the EU Cohesion Policy and its funds. Cyprus received EUR 917.3 million from European Structural Investment Funds. As part of this, the Cohesion Fund played an important part in supporting Cyprus' infrastructure development⁶³.

The Recovery and Resilience Plan (RRP) of Cyprus includes various investments in infrastructure to enhance growth and improve the resilience of the economy. EUR 87.0 million will be mobilised for promoting sustainable and green mobility by encouraging a shift from private cars to public transport, cycling, walking and promoting the use of clean vehicles. An additional investment of EUR 6.8 million for the development of an electro-mobility infrastructure will be made. Also, EUR 29.0 million for the construction of a collaborative marine aquaculture infrastructure in the Pentakomo coastal area is included in the plan⁶⁴.

4

Key issues and barriers in the construction sector

Company failure

Business demography in the Cypriot broad construction sector has shown a gradual recovery, with company births increasing more than the company deaths in the narrow construction and real estate activities sub-sectors. This has resulted in a growth of construction enterprises.

In the narrow construction sub-sector, **company births** increased by 231.9% between 2010 and 2018⁶⁵, reaching a total of 906 companies. **Company deaths** on the other hand, decreased by 55.6% between 2010 and 2018⁶⁶, reaching a total of 376 companies. Similarly, the real estate activities sub-sector witnessed a growth of 435.7% in the number of company births, between 2010 and 2018, reaching 150 companies. Company deaths decreased by 35.8% between 2010 and 2018, reaching 52 companies. Lastly, company births in the architecture and engineering activities sub-sector increased by 192.6% between 2010 and 2018, reaching 158. Unlike the other sub-sectors, the number of company deaths increased by 52.3% in the architectural and engineering activities sub-sector in the same period, reaching 67 in 2018⁶⁷.

Number of company births in the narrow construction sub-sector between 2010 and 2018



231.9%

Amid the ongoing global COVID-19 pandemic, enterprises in the Cypriot broad construction sector have been impacted to a high degree due to government decrees disrupting construction activities. Most construction enterprises have reported facing supply chain disruptions relating to

construction materials (both logistics and actual production). The obtention of building permits and project completions have been delayed due to imposed restrictions and limited access to relevant authorities. Moreover, decreased demand and transactions have led to a reduction in revenues and mounting liquidity pressure for enterprises⁶⁸. Additionally, workers and developers called on the government to include construction sites in the lockdown as the safety measures taken at sites were limited⁶⁹. Collectively, these have financially weakened enterprises in the Cypriot construction sector and increased risks of bankruptcies.

In May 2020, to alleviate the impact of disruptions on enterprises in the general economy, the Cypriot government provided loans to Cypriot SMEs and mid-cap companies. The government, together with the EIB (European Investment Bank), has decided to increase this lending scheme by EUR 500 million. This will benefit companies registered and working in Cyprus and employing up to 3,000 workers⁷⁰.

Even before the pandemic, the Cypriot authorities had been working with the European Commission in the area of access to finance to improve the insolvency framework⁷¹.

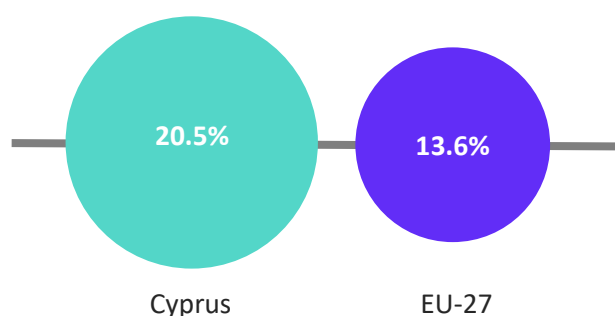
Trade credit

According to the SAFE 2020 survey, trade credit constitutes a relevant source of financing for 28.2% of SMEs in Cyprus, above the EU-27 average of 27.7%⁷², but less than the previous year (44.0%).

Between April and September 2020, 20.5% of SMEs reported using trade credit, higher than the EU-27 average of 13.6%. Additionally, out of 13.2% of

SMEs in Cyprus who applied for trade credit during the period April – September 2020, 55.0% received everything they applied for in comparison to the EU-27 average of 69.7%⁷³. There is no indication of an increased need to use trade credit with over 48.4% of SMEs reporting that their credit needs have remained unchanged over the last six months.

Proportion of SMEs using trade credit between April and September 2020



Late payment

As per the SAFE 2020 report, around 13.2% of SMEs reported facing late payment issues on a regular basis, on par with the EU-27 average (13.2%)⁷⁴.

As per the report, 43.5% of SMEs reported that their payments to suppliers have been affected as a result of late payments by customers. For 33.3% of SMEs, late payment affected production or operations, and for 21.8% it impacted investments or new hiring. 32.8% of SMEs also reported that their loan repayments have been delayed, or they have had to seek additional financing as a result of late payments⁷⁵.

Cyprus was one of the first EU member states to adopt the Late Payment Directive 2011/7/EU and implement its provisions to protect against late payments in commercial transactions. Law No. 123(I)/2012 on combating late payments in commercial transactions, was passed by the Parliament of the Republic of Cyprus and states that payments in the EU must be made within 30 days. The directive also includes penalties for delays⁷⁶.

Time and cost of obtaining building permits and licenses

As per the World Bank Doing Business 2020 report, Cyprus ranked 125th with respect to “dealing with construction permits”. This is a slight improvement from previous year’s rank (126th)⁷⁷.

Eight procedures are required to complete the formalities to build a warehouse⁷⁸, lower than the OECD high-income average of 12.7 and the Europe & Central Asia average of 16.2. It takes 507 days in Cyprus to complete the formalities to build the warehouse, which is much higher than the OECD high-income average (152.3) and Europe & Central Asia average (170.1) (Table 3). However, the cost required to cover all fees associated with completing the formalities to build a warehouse represented 0.9% of the value of the warehouse, below the OECD high-income average of 1.5% and Europe & Central Asia average of 4.0%.

In assessing the Cypriot RRP, the European Commission reports that the business environment in Cyprus, although improving, continues to present obstacles to boosting investments in the country. The law aiming to simplify the procedure for strategic investors to obtain permits and licences to invest in Cyprus has been amended, but it is still pending enactment. The procedures for issuing building permits are deemed complex and lengthy⁷⁹.

Cyprus’ RRP includes reforms for enhancing the e-system for issuing building permits to allow for a fully digital process, as well as addressing the inefficiencies of the justice system through the digitalisation of currently manual or paper-based processes⁸⁰.

Table 3: Construction procedures, timing and costs in Cyprus

Procedure	Time to complete	Associated costs
Request copy of the site plan	1 day	EUR 2.0
Apply for the town planning permit at the Town Planning Department	90 days	EUR 4,125.0
Apply for building permit at the	100 days	EUR 3,983.0

Municipality of Nicosia		
Apply for final approval and final inspection	75 days	EUR 199.0
Receive final inspection and obtain certificate of final approval	1 day	no charge
Update land title	240 days	EUR 115.0
Request and obtain sewerage connection	10 days	EUR 100.0
Request and obtain water connection	10 days	EUR 2,439.0

Source: Doing Business overview for Cyprus, World Bank, 2020⁸¹.

Skills shortage

The number of **job vacancies** in the narrow construction sub-sector witnessed an 11.7% decrease between 2010 and 2020, standing at 487. In the real estate activities sub-sector, job vacancies experienced fluctuations over the past decade. From 14 in 2010, it dropped to a historic low of nil in 2012 and 2013. It reached 50 in 2020, thereby representing a 247.4% growth since 2010.

Number of job vacancies in the narrow construction sub-sector between 2010 and 2020

↓ 11.7%

The **job vacancy rate** in the narrow construction sub-sector also fluctuated over the 2010-2020 period, reaching 1.5% in 2020 from 1.8% in 2010. As for the real estate activities sub-sector, it increased to 1.8% in 2020, from 1.1% in 2010.

Adult participation in education and training in the Cypriot narrow construction sub-sector declined from 4.6% in 2010 to 1.9% in 2020, significantly lower than the EU-27 average (7.4%)⁸². 6.7% of adults aged 25-64 have had recent learning experience, compared to the EU-28⁸³ average of 11.1% in 2019. In response to the lower adult participation rate, Cyprus is currently developing a new lifelong learning strategy covering 2021-2027. The authorities intend to upskill 4,000 people, most of whom are not in education, employment or training (NEETs), as part of national efforts to implement the EU Council Recommendations on Upskilling Pathways⁸⁴.

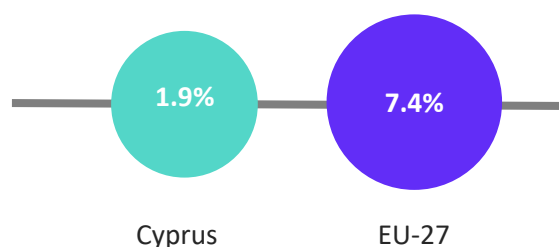
Tertiary students in engineering, manufacturing and construction have increased notably from 324

in 2010 to 836 in 2019⁸⁵, representing a 158.0% increase. This is comprised of 486 graduates in engineering and engineering-related trades, 83 graduates in manufacturing and processing and 267 graduates in architecture and building.

Number of Tertiary students in engineering, manufacturing and construction between 2010 and 2019

↑ 158.0%

Adult participation in education and training in the narrow construction sub-sector in 2020



Employers in Cyprus have reported **labour shortages** in many sectors, as a result of which new challenges are emerging for upskilling and re-skilling the workforce⁸⁶. Specific to the Cypriot construction sector, stakeholders reported struggling finding skilled labour interested to work in the sector. Although companies in the sector often have overqualified workers, the sector still faces a shortage of workers with the required skillset, meaning that there might be a mismatch between the level of skills that the workforce currently possesses and the companies' needs.

In 2019, the Federation of Cyprus Building Constructors Associations (OSEOK) requested that the Ministry of Labour allow developers to hire foreign students and asylum seekers in the sector, as this was the only measure available to alleviate the problem of labour shortages in short term. As per the federation, developers were seeking to hire workers from third countries⁸⁷ for unskilled jobs with the intent of freeing existing skilled labour in Cyprus from doing auxiliary tasks at construction sites⁸⁸.

In 2019, 7.5% of the total firms reported a labour shortage in the Cypriot broad construction sector, the highest in comparison to the 3.0% and 2.3%

labour shortages in the industry and services sectors respectively⁸⁹.

According to the Cyprus Employers and Industries Federation (OEB), Cypriot businesses need 4,160 employees until the end of 2021, and an additional 4,497 employees will be needed by the halfway point of 2022⁹⁰.

Vocational education and training (VET) is a vital resource for improving the labour shortage situation in Cyprus, however the participation rate remains low (See chapter 7 – TO 2). The government is making continued efforts to improve VET capacity by building new technical schools and enhancing outreach to rural areas⁹¹.

Sector and sub-sector specific issues

Material efficiency and waste management

The main piece of legislation encompassing all national legislations 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 set out the measures and conditions for the efficient management of excavation, construction and demolition waste⁹².

Construction and demolition waste (CDW) represents about one third of the total waste generated by the Cyprus economy and households.

Over the 2010-2018 period⁹³, mineral waste from construction and demolition activities in Cyprus reached 0.3 million tonnes in 2018⁹⁴. In 2018, Cyprus recycled only 17.0% of waste, well below the EU-27 average for recycling (38.0%) and considerably lower than the 2025 target of 55.0%⁹⁵.

In August 2019, Cyprus had serious concerns over the illegal dumping of domestic and construction waste. The areas encircling the capital city, Nicosia, had turned into illegal tipping sites as residents and rubbish collectors started dumping home and construction wastes in fields and riverbeds. This in turn threatened the environment and public health. In response, the country's Environment Department announced that it would transfer this waste to a designated waste treatment facility in Dali. However, Nicosia itself has just a single

construction waste treatment unit with the required machinery and, until now, the government has not demonstrated interest in promoting the creation of other units⁹⁶. In November 2019, to address the issue of the shortage of construction waste treatment facilities in the country, a recycling unit for solid construction and demolition waste was inaugurated in Limassol. The project sets higher quality standards in the sector of mixed waste management from excavation, construction and demolition, and contributes significantly to meeting national goals for recycling⁹⁷. A way to turn that waste into a value-added product is the Defeat project launched in 2020. This project involves cutting down on the waste in landfills by turning rubbish into reusable goods. The method uses advanced technologies such as robots and 3D cameras. It will reduce and reuse the waste produced by the construction industry and help to create safer and better insulated buildings⁹⁸.

Climate and energy

Cyprus is among the member states with the highest **greenhouse gas emissions** per head in EU-27⁹⁹. Cyprus landfills most of its municipal waste (75.0% in comparison with the EU-28 average of 24.0% in 2016¹⁰⁰), which contributes to high greenhouse gas emissions. Amid the present recycling versus landfilling debate, Cyprus is likely to miss its 2030 greenhouse gas emission reduction targets. The projected gap from the target is expected to be 24 percentage points¹⁰¹.

Greenhouse gas emissions (carbon dioxide, methane and nitrous oxides) from activities related to the narrow construction sub-sector in Cyprus have reduced by 20.2% over the 2010-2019 period, reaching 122,137.2 tonnes in 2019¹⁰². Similarly, emissions in the real estate activities sub-sector have reduced by 25.4% over the same period, reaching 4,196.1 tonnes in 2019¹⁰³.

The Recovery and Resilience Plan of Cyprus dedicates 41.0% of the total allocation to measures contributing to the green transition.

With a total climate allocation of approximately EUR 491.0 million, the plan includes an investment of EUR 20.0 million for the reduction of carbon dioxide emissions in industries, businesses and organisations¹⁰⁴.

5

Innovation in the construction sector

Innovation performance

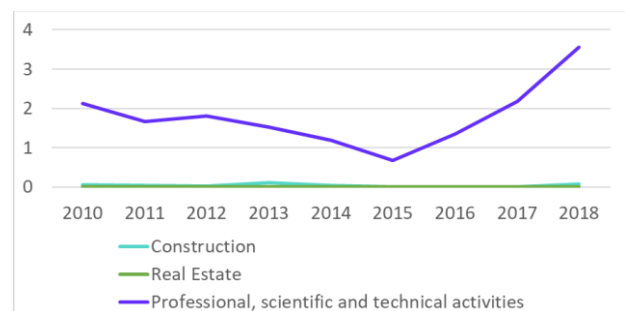
As per the European Innovation Scoreboard 2021, Cyprus is classified as a Moderate Innovator, same as in 2020¹⁰⁵.

The top three indicators of the Cypriot innovation system include international scientific co-publications, innovative SMEs collaborating with others as well as population with tertiary education. The country also demonstrated strong performance in linkages, innovators, and employment impacts indicators¹⁰⁶.

As per the scoreboard, Cypriot innovation performance improved between 2019 and 2021 primarily driven by substantial performance improvement in several indicators including venture capital, broadband penetration, product innovators along with innovative SMEs collaborating with others. Nonetheless, the country achieved below average scores on the climate change related indicators¹⁰⁷.

Cyprus' performance in innovation in the construction sector in 2018 did not reveal any significant changes from that of 2010. In fact, **business enterprise R&D expenditure (BERD)** in 2018, though experiencing fluctuations over the years, stood close to the 2010 levels¹⁰⁸ (Figure 9). In the professional, scientific and technical activities BERD increased from EUR 2.1 million in 2010 to EUR 3.5 million in 2018¹⁰⁹, representing a 66.8% increase. Similarly, BERD in the narrow construction sub-sector increased by 3.0%, from EUR 66,000 in 2010 to EUR 68,000 in 2018¹¹⁰.

Figure 9: Business enterprise R&D expenditure (BERD) per construction sub-sector in Cyprus between 2010 and 2018 (EUR m)¹¹¹



Source: Eurostat, 2021.

Additionally, total **R&D personnel** (full-time equivalents – FTE)¹¹² in the professional, scientific and technical sub-sector registered an increment of 89.6%, from 48 in 2010 to 91 in 2018¹¹³. Total FTE in the narrow construction sub-sector increased from 1 in 2010 to 2 FTE in 2018¹¹⁴. No construction-related patent applications have been registered since 2007 (which had one patent).

There were no Cypriot construction and materials firms ranking within the top 1,000 EU companies by R&D, according to the 2020 EU Industrial R&D Investment Scoreboard¹¹⁵.

Number of R&D personnel in the professional, scientific and technical sub-sector between 2010 and 2018

↑ 89.6%

There were no Cypriot construction and materials firms ranking within the top 1,000 EU companies by R&D, according to the 2020 EU Industrial R&D Investment Scoreboard¹¹⁶.

The business landscape in Cyprus is not conducive to a high level of research and innovation activities. As a result, research and innovation intensity among Cypriot SMEs is the lowest in the EU Member States

Therefore, in September 2019, the authorities approved a bill for the establishment of a **Deputy Ministry of Innovation and Digital Policy** (formed in March 2020), which aims to make Cyprus a dynamic and competitive economy, driven by research, scientific excellence, innovation, technological development and entrepreneurship, and a regional hub in these fundamental areas^{117,118}.

Furthermore, in order to increase the competitiveness of SMEs through research and innovation (R&I) activity, the **National Board for Research and Innovation** of Cyprus prepared a 2019-2023 national strategy framework for research and innovation in 2019. To boost the R&I capacity of SMEs, the **Eurostars Cyprus** programme, aiming to encourage innovative SMEs to participate in transnational research activities, was also launched during 2018 and the first quarter of 2019 under the 2016-2020 RESTART programme (*Προγράμματα RESTART 2016-2020*)¹¹⁹.

Eco-innovation and digitalisation



As per the 2021 Eco-Innovation Scoreboard (Eco-IS), Cyprus scored 79, considerably below the EU-27 average of 121¹²⁰.

As per the report, in 2019¹²¹, Cyprus' performance was well below EU averages despite improving significantly in recent years. The country's performance was extremely poor in relation to eco-innovation inputs. This was followed by low performances in eco-innovation activities and socio-economic outputs. It even scored below EU averages in resource-efficiency outcomes. However, Cyprus performed slightly above the EU average in eco-innovation outputs¹²².

According to the report, Cyprus has no distinct and mature eco-innovation sectors. The country mostly benefits from its significant natural resources in renewable energies – solar and wind. As such, new developments in harnessing solar and wind energies could promote eco-innovation activities in the country. Cyprus' continuous efforts to increase its energy efficiency also acts as a major driving factor for eco-innovation.

While there are several R&D funding schemes (often supported by the European Commission (EC) in the country, the lack of innovative businesses, as well as market dominance by SMEs, further result in a low participation rate of firms in R&D activities. In addition, research activities undertaken in Cyprus are often not led by local businesses¹²³.

Cyprus also plans investments in research and innovation focusing on the green transition in its RRP. Component 3.2 (Enhanced research and innovation) includes a thematic research and innovation support programme on the green transition. The objective of the measure is to provide grant funding through thematic research and innovation (R&I) programmes focusing on green transition. The supported projects should focus on renewable energy, energy efficiency and sustainable transport. They should entail collaboration with Centres of Excellence for R&I and facilitate the commercialisation of research results¹²⁴.



According to the European Commission Digital Economy and Society Index (DESI) 2020, Cyprus ranked 24th, with a score of 44.0, out of the EU-28¹²⁵ countries (average score: 52.6).

Compared to the previous year, Cyprus improved its performance in connectivity, human capital, use of internet services, integration of digital technology and digital public services. However, the level of basic digital skills among the general public remains below the EU-28¹²⁶ average. In 2019, 45.0% of people (16 to 74 years of age) had basic digital skills (against the EU-28 average of 58.0%)¹²⁷.

Cyprus is achieving a higher level of **digitalisation** in its economy, with the support provided by the EU Cohesion Policy. For instance, the policy has helped in developing **e-government** services in the Cypriot administration. The number of persons using e-government services increased in 2019 compared to 2018, but the number of digital public services provided in the country is still low. Around 20 projects related to e-government are underway, with a total budget of more than EUR 250.0 million. These projects aim to promote the further digitalisation of the public sector¹²⁸.



According to the European Investment Bank (EIB) Investment Survey 2020, the most frequent long term impacts of COVID-19 on Cypriot construction firms were changes in the increased use of digital technologies (55.0%) and in their services and products portfolio (53.0%), followed by changes in supply chains (32.0%), as well as permanent reductions in employment (4.0%)¹²⁹.

As per the report, 60.0% of Cypriot construction sector firms are expected to have implemented digital technologies within their business, either fully or partially by the end of 2020. The top digital technologies implemented by businesses in Cyprus, either partially or fully, in the broad construction sector include the internet of things (27.0%), 3-D printing (24.0%) and drones (15.0%)¹³⁰.

As a part of its EUR 1.2 billion Recovery and Resilience Plan (RRP), Cyprus has allocated EUR 133.0 million for the digitalisation of public services, EUR 87.0 million for supporting connectivity and digital transformation, EUR 30.0 million for promoting digital education and skills, as well as EUR 10.0 million for launching the digital health transition of its economy¹³¹.

The country plans to develop a secured, integrated and modern digital architecture to accelerate the

digital transition of public services. Cyprus also intends to upgrade its digital infrastructure to provide the required digital training and upskilling and re-skilling facilities for its workforce. Although indirectly, all these measures will benefit the Cypriot broad construction sector and its businesses in the long-run¹³².

Cyprus is also a member of BIM (Building Information Modelling) for the Energy Efficiency in the Public Sector (BEEP) project, represented by the Cyprus Institute (CYI). The project is funded by the

European Neighbourhood Instrument Cross-Border Cooperation Mediterranean (ENI CBC MED) for a period of 36 months, spanning from September 2019 to August 2022. It aims at strengthening the use of BIM and fostering the application of the methodologies and solutions suggested and developed in the cross-border case studies already widespread in Mediterranean area. The project also aims at enhancing the capacity of local public administrations to use BIM in the design and realisation of innovative energy rehabilitation interventions on existing public buildings. The project runs in partnership with six other countries – Italy, Spain, Jordan, Palestine, Lebanon and Egypt¹³³.

6

National and regional regulatory framework

Policy schemes

Housing policy in Cyprus is under the responsibility of the **Ministry of Interior**, together with other associated government organisations, offering 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 displaced Greek Cypriot refugees. The SCRDP focuses on housing and manages three main programmes. It is accessible to any qualifying beneficiary. The three key programmes under SCRDP are:

- the Scheme for the Purchase of a Home/Apartment (*Σχέδιο Αγοράς Έτοιμης Κατοικίας/ Διαμερίσματος*);
- the Self-help Housing Programme on Private Land/Repair of Residence; and
- the Rent Subsidy Plan (*Σχέδιο Επιδότησης Ενοικίου*)¹³⁴.

The **Scheme for the Purchase of a House/Apartment** (*Σχέδιο Αγοράς Έτοιμης Κατοικίας / Διαμερίσματος*) provides financial assistance to beneficiaries willing to purchase a dwelling, depending on both the size of the property, as well as the income and the composition of the household. Separate levels of subsidies exist for households with different ranges of income. Moreover, the scheme supports home living for the elderly¹³⁵.

The **SCRDP Self-help Housing Programme on Private Land/Repair of Residence** provides direct support not only for access to housing, but also to residential constructions. 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 as per the size of the household, income and size of the property, as in the Scheme for the Purchase of a House/Apartment¹³⁶.

Likewise, the SCRDP offers a **Rent Subsidy Plan** (*Σχέδιο Επιδότησης Ενοικίου*) which provides rent allowances to beneficiaries¹³⁷. The amount of the subsidy depends on the number of family members and the yearly income. This can vary from EUR 133 for a single person with a yearly salary of EUR 30,000, to EUR 260 for families with six or more members and with a yearly salary below EUR 45,000. In 2019, the government announced an increase in the subsidies linked to the growth of rental prices in the country¹³⁸.

In July 2019, Cyprus launched a scheme to provide **affordable housing to low-income people**, which is based on the needs of young people with growing families and low-income families. The scheme aims to create affordable housing for vulnerable groups of the population based on eight pillars; the introduction of planning incentives and tools to produce affordable housing and create an affordable rental market, rent subsidies, the introduction of new simplified and targeted housing schemes for areas neighbouring the buffer zone which divides the island, as well as for the mountain regions¹³⁹.

As per the scheme, developers are entitled to hold part of the construction for their own purposes, with the remainder used to house vulnerable groups¹⁴⁰.

In November 2020, the Cypriot government revised the affordable housing plan for vulnerable groups, young families and incentives for constructing more urban rental properties¹⁴¹.

The government increased the number of communities in these areas from 128 eligible villages in the original July 2019 affordable housing plan to 259. Cash incentives for young couples to move to the specified communities has been increased from EUR 30,000 to EUR 40,000. Those under 41 with children can now avail of EUR 45,000 instead of EUR 35,000. Also, large families with four or more children can receive EUR 50,000, up from the original EUR 40,000. Grants for single people will remain at EUR 20,000¹⁴².

In February 2021, the Cyprus Land Development Corporation (KOAG), in cooperation with the Ministry of the Interior, announced that 190 apartments will be built in Nicosia. The first batch is expected to be commissioned in December 2022, and the entire project will be completed by December 2025¹⁴³.

In February 2021, the Cypriot government also introduced the new **Housing Support Scheme**, intended to address rural depopulation, particularly in the mountains. The new scheme will be extended to 130 communities, bringing the total to 258. Beneficiaries will be granted financial assistance up to EUR 55,000 and up to EUR 15,000 for special constructions such as retaining walls, and up to EUR 10,000 for people with disabilities. The second scheme will extend the already existing policies to areas not covered by the previous scheme by providing grants to 128 additional communities. Families of four-persons will be granted EUR 20,000 while single people and families of up to three will be entitled to EUR 15,000¹⁴⁴.

The issue of **homelessness and housing exclusion (HHE)** in Cyprus is tackled by general poverty reduction policies and through the **guaranteed minimum income (GMI) scheme**. The scheme aims to ensure a socially acceptable minimum standard of living for all persons and families legally residing in Cyprus whose economic resources are

insufficient to meet their basic and special needs. GMI is provided in the form of a top-up cash benefit whose entitlement depends on fulfilling a number of complex criteria as set by the relevant legislation. Recipients of this scheme are entitled to receive a housing allowance. Eligibility covers not only tenants paying rents, but also households who face difficulties in paying off their mortgage in relation to the property¹⁴⁵.

Cyprus faces one of the highest rates of non-performing loans in Europe. Therefore, to protect the first residence of distressed borrowers and contribute to financial stability, the government proposed the ESTIA scheme in July 2019 as a solution based on social policy criteria¹⁴⁶. The ESTIA scheme boosts borrowers' (households or SMEs) ability to repay their loans, as the government subsidises part of the repayment instalments by one third of the restructured loan. Under the initial ESTIA scheme conditions, eligible borrowers with loans using their primary residence as collateral and with a value of up to EUR 350,000 would be granted a state subsidy amounting to one third of the monthly instalment required by the restructured loan facility¹⁴⁷.

The key participating banks and other financial institutions in the ESTIA scheme are the Bank of Cyprus, the Hellenic Bank, the Cyprus Asset Management Company (Kedipes), Alpha Bank, Astrobank, Eurobank, the National Bank of Greece and Gordian Holdings¹⁴⁸. Administration of the scheme has been assigned to the Ministry of Labour, Welfare and Social Insurance, which officially announced the commencement of the scheme on July 2019¹⁴⁹.

In July 2021, the Ministry of Finance of Cyprus announced the approval of 802 applications for the ESTIA scheme, around 18.0% of the total 4,374 completed applications¹⁵⁰.

Based on government's estimates, the 802 approved applications correspond to a total sum of EUR 200.0 million in non-viable loans¹⁵¹.

The **Cyprus Land Development Corporation** (Κυπριακός Οργανισμός Ανάπτυξης Γης – KOAG or CLDC) 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 sale¹⁵². The CLDC

operates by acquiring land, separating it into plots and allocating it for the construction of residences. CLDC provides 20.0-25.0% cheaper housing than the market price and has helped about 5,000 families since its establishment¹⁵³.

There are also programmes organised by the Welfare and Rehabilitation Service for Displaced Persons (WRSDP) of the Ministry of Interior in Cyprus. The housing benefits provided include rent subsidies, the provision of units in specific housing estates, the provision of land for self-building and grants for the purchase or construction of an apartment¹⁵⁴.

In January 2020, the Cypriot government outlined guidelines for the establishment of a Citizens' Information Centre, which intends to keep the public updated on issues related to housing policy and the various categories of beneficiaries of the support programmes available¹⁵⁵.

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, latest updated in 2013) and the **Town and Country Planning Law** (approved in 1972, latest amended in 2011).

The Streets and Buildings Law makes it mandatory to get a building permit for the construction of buildings and streets, which are otherwise regarded as illegal structures, and requires the application for the building permit to include architectural and structural drawings, calculations and other information depending on the type of the construction (e.g. electrical installation studies, environmental studies). Furthermore, it specifies that the owner of the building must assign a supervising engineer before issuing 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. Additionally, upon accomplishment of works, and before the building can be used, a Certificate of Approval must be obtained from the local authority¹⁵⁶.

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 regulates 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, while the latter regulates the certification of electrical and mechanical installations and aspects associated with the qualifications of the responsible engineers. The regulations also contain the minimum requirements for the design of various elements of the building, such as the area of rooms, height of the building, staircases, drainage, as well as sewage systems, ventilation systems, fire safety, etc.¹⁵⁷.

The Town and Country Planning Law provides planning controls regarding the use and development of immovable property. It lays down development plans, segregated into three tiers – Island Plan, Local Plan 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. Local matters are addressed by Local Plans, which reflect the aims and purposes of the Island Plan¹⁵⁸.

The Ministry of Interior carried out the revision of the construction development legislation framework in Cyprus. The revision was timely, due to a complicated and non-flexible legislative framework related to building and construction works. The framework led to delays in issuing building permits and final certificates, resulting in a request for its revision. The project team for the revision, consisting of experts in construction law, construction regulations as well as zoning and planning have recommended the creation of a new legislative framework, as well as several radical changes including the creation of a building licensing system and procedures¹⁵⁹. Other recommendations include the introduction of a comprehensive license that covers both town-planning permission and building permits, and the creation of a one-stop shop¹⁶⁰.

As part of the agreement on affordable housing signed between the Limassol municipality and the Cyprus land development corporation (KOAG), the Limassol city of Cyprus will construct 150 apartments. The 150-apartment complex will consist of 600 residential units of various sizes built over three blocks in an area of over 3,000 square metres. Tenders for the construction of the same will be announced by the end of 2021. The project will cost around EUR 100.0 million and will be the largest housing project in Cyprus¹⁶¹.

Insurance and liability related regulations

Professional indemnity insurance in Cyprus has been mandatory since 2013 for all construction design companies registered with the Cyprus Scientific and Technical Chamber (*Επιστημονικό Τεχνικό Επιμελητήριο Κύπρου – ΕΤΕΚ*)¹⁶².

Several other types of insurance are available and prevalent. These include **Contractor's All Risk**, covering 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 post-delivery defects to the building arising from negligence or from non-compliance with the clauses of the construction contract. Minimum guarantees of a minimum one year are mostly prevalent, with longer durations such as two or five years also available¹⁶³.

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. Article 68 of the Law establishes the limitation periods during which legal action can be taken. This amounts to two years from the date of the damage incurred and two years from the date of the discovery, in the case of defects unfairly hidden. The contract is governed by the **Contract Law**, Cap. 149, defining matters related to contractual liability. In this regard, limitation periods can be defined through the contract by the parties involved in the construction project¹⁶⁴.

Current status and national strategies to meet Construction 2020 objectives

TO 1 – Investment conditions and volumes

Total investment by the Cypriot broad construction sector¹⁶⁵ gained pace from 2016 onwards and has been increasing annually after experiencing continuous yearly declines since 2010 (Figure 10). In particular, total investments by the narrow construction sub-sector increased by 123.4% between 2010 and 2019, reaching EUR 134.7 million compared to EUR 60.3 million in 2010. Similarly, investments by the real estate activities sub-sector in 2019 stood at EUR 1.7 billion, which is 10.0% above the 2010 level of EUR 1.6 billion. While these indicators are still far from the 2007-2008 levels, their improvements reflect the positive economic dynamic experienced by the Cypriot broad construction sector.

Investments by the narrow construction sub-sector between 2010 and 2019



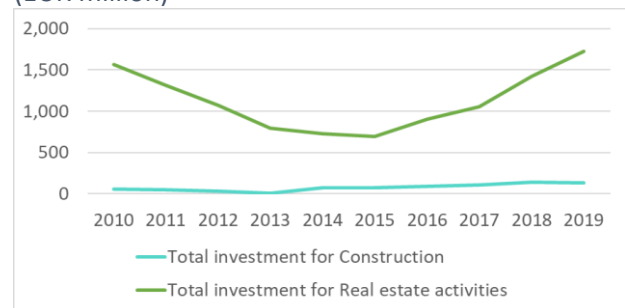
123.4%

Investments by the real estate activities sub-sector between 2010 and 2019



10.0%

Figure 10: Investments by the Cypriot broad construction industry between 2010 and 2019 (EUR million)



Source: Eurostat, 2021.

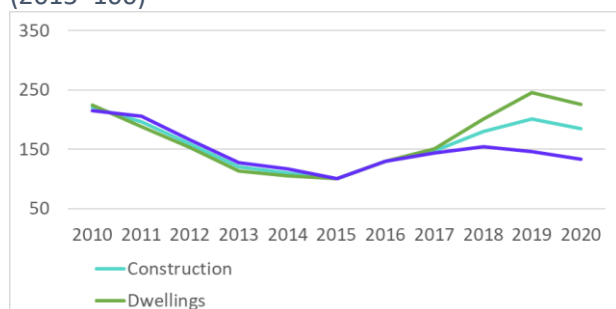
The **investment index in the broad construction sector**¹⁶⁶ has experienced a growth since 2015, rising by 84.1% over the 2015-2020 period. This growth was mainly driven by investment in dwellings by the whole economy, as well as non-residential construction and civil engineering, which increased by 125.6% and 33.0%, respectively, between 2015 and 2020 (Figure 11). In absolute terms, investments in the broad construction sector totalled EUR 2.3 billion in 2018¹⁶⁷, out of which EUR 1.4 billion was invested in dwellings and EUR 873.4 million was spent on non-residential and civil engineering¹⁶⁸.

Investments in dwellings by the whole economy between 2015 and 2020



125.6%

Figure 10: Investment index in the Cypriot construction sector between 2010 and 2020 (2015=100)



Source: AMECO, 2021.

Total household renovation spending in Cyprus has been fluctuating since 2010. In 2019¹⁶⁹, it reached EUR 40.5 million, increasing by 24.6% from its 2010 level (EUR 32.5 million), and up 3.1% from previous year (EUR 39.3 million). The country's renovation spending as a percentage of total household disposable income has witnessed insignificant changes since 2010. In 2019¹⁷⁰, it stood at 0.3% of total household disposable income.



The Cypriot 2021 annual budget includes a total of 50 major infrastructure projects. The projects range from the construction of roads in various districts to schools, water transport provisions and repairs to existing state buildings¹⁷¹.

Amongst the planned projects, the construction of the Nicosia District Court is the topmost in terms of cost at EUR 96.39 million. Other projects in the pipeline are the Paphos-Polis Chrysochous road (EUR 86.84 million), the Astromeritis-Evrychou motorway (EUR 83.0 million), part of the Anayia-Kalo Chorio Klirou road construction (EUR 72.59 million) and the Nicosia bypass (EUR 72.28 million)¹⁷².

As per the **Europe 2020 National Reform Programme** for Cyprus, the European Commission has provided suggestions for priority investment areas for ESI funding. These suggestions are based on policy objectives stipulated in the European Commission's proposal for the regulatory framework governing **Cohesion Policy in the 2021-2027** period. Infrastructure and the promotion of public transport and urban mobility have also been indicated as priority investment areas¹⁷³.

EU cohesion funding also contributed to major transformations in Cypriot infrastructure. As a result of investments by the European Regional Development Fund (ERDF) and the EU Cohesion Fund, by 2019, Limassol Port had been connected to the main motorway in the Trans-European Transport Network (TEN-T)¹⁷⁴.

Out of the total investment of EUR 100.0 million in the Paphos motorway connecting the new Limassol Port with the Limassol, approximately EUR 85.0 million came from the EU Cohesion Fund¹⁷⁵.

Cyprus also benefited from investments from the **European Fund for Strategic Investments (EFSI)**. As of December 2020, financing under EFSI amounted to EUR 156.0 million and is set to trigger additional investments of EUR 400.0 million. Under the infrastructure and innovation window, five projects have been approved, amounting to EUR 145.0 million, which are set to trigger EUR 375.0 million in total investments. Under the SME window, two agreements have been approved, involving a total financing of EUR 10.0 million, and are set to trigger investments of up to EUR 28.0 million¹⁷⁶.

In 2020, the EIB (European Investment Bank) Group invested close to EUR 226.0 million in Cypriot infrastructure¹⁷⁷.

In June 2021, the Republic of Cyprus and the EIB entered into a loan agreement for an amount of EUR 112.0 million for the financing of the National Roads III Project which consists of the construction and improvement of roads and motorways that are prioritised as strategic roads of national importance, including investment in fixed and mobile speed enforcement cameras¹⁷⁸.

In October 2021, the Cyprus investment promotion agency, Invest Cyprus, received a EUR 180.0 million investment from NCH Capital - a New York based private-equity firm. The investment includes construction of three major hotel and apartment projects near Larnaca West Coast. It will create over 1,000 jobs during the construction phase in 2022 and another 800 once the projects are fully operational¹⁷⁹.

Moreover, the Cypriot RRP is expected to create jobs through stimulating public and private investment. The overall plan serves the purpose of providing a stimulus to the economy, directly and indirectly. The post-pandemic recovery and job

creation should be particularly helped by rolling out investments into green construction sector activities (both building and reconstructions), renewables, sustainable transport and digital infrastructure and systems falling under various components of the plan¹⁸⁰.

TO 2 – Skills

The vocational education and training (VET) plays an important role in the Cypriot labour market. However, the participation rate is not sufficient to alleviate the labour crisis (which has been further impeded by the onset of the COVID 19 pandemic).

The participation rate of upper secondary education students in VET for 2018¹⁸¹ stood at 16.7%, below the EU-27 average of 48.4%¹⁸². In addition, the number of young people categorised as "Not in Education, Employment, or Training" (13.2% in the third quarter of 2019) remained at high levels compared to the EU-28¹⁸³ average (10.0%). This is also partially attributable to the low enrolment in VET¹⁸⁴.

To encourage engagement in VET, the Cypriot Ministry of Education, Culture, Sport and Youth (MoECSY) partnered with the Cyprus Chamber of Commerce and Industry in June 2019 and the Cyprus Employers and Industrialists Federation in July 2019. The agreement included measures for developing new, and reviewing existing VET curricula, so as to align it with changing labour market needs. They also include measures for the facilitation of the industrial placement of 45 VET students in enterprises¹⁸⁵.

MoECSY has also been designated as the agency responsible for the preparation, implementation and evaluation of the new Lifelong Learning (LLL) Strategy of VET for the 2021-2027 period.

Together with the other stakeholders, it established a Lifelong Learning and Adult Education Unit in September 2019 for the development and monitoring of the new LLL Strategy. In October 2019, the unit also submitted a request (which has now been approved) to receive support under the Structural Reform Support Programme (SRSP) of the European Union to assist in the preparation of the new LLL Strategy for the years 2021-2027. This strategy is expected to serve as a suitable medium

to target the lower participation of adults in education and training, the upskilling and reskilling of low-skilled adults and the existing high percentage of unemployment among young people¹⁸⁶.

The plan of establishing a national monitoring system of initial VET (IVET) and continuous VET (CVET) graduates is currently being piloted for initial VET graduates. It aims to facilitate communication between initial graduates of secondary VET and of post-secondary, higher VET institutes and potential employers¹⁸⁷.

The **employment rate of recent VET graduates** by educational attainment in Cyprus stood at 81.7% in 2019¹⁸⁸, above the EU-27 average of 80.9%. The share of **adult participation in learning** in Cyprus stood at 5.9% in 2019¹⁸⁹, below the EU-27 average of 10.8%. In 2020, it further reduced to 4.7% compared to the EU-27 average of 9.2%¹⁹⁰. Cyprus lags behind other EU countries in lifelong learning counselling and monitoring mechanisms for the professional and educational careers of learners, especially those belonging to vulnerable groups. In addition, online adult learning opportunities are limited so far, partly due to the low attractiveness of the learning environment¹⁹¹.

The **European Social Fund (ESF)** has been contributing to major transformations in the Cypriot labour market. In 2019, ESF supported more than 10,500 unemployed persons. The ESF also contributes to the upgrading of technical and vocational education and training. Around 3,200 people have successfully been employed after participating in such work/training schemes. Through its policies, it aims to train almost 3,000 people by 2023, partially benefiting the country's construction sector¹⁹².

Under the European Commission's Structural Reform and Support Programme, Cyprus is also currently implementing a project to address students' disengagement and dropout from secondary school, which was completed by April 2021¹⁹³.

In March 2021, the Circular Economy Research Centre of the Ecole des Ponts Business School, the Cyprus Chamber of Commerce and Industry and the Circular Economy Alliance signed a memorandum of collaboration to provide the workforce of Cyprus with credible, research-

based knowledge in the domain of circular economy.

The trilateral collaboration agreement will support the efforts of the Cyprus Chamber of Commerce and Industry to ensure the workforce of the almost 8,000 enterprises of Cyprus will be equipped with the right skills to support the transition to a circular economy and safeguard the competitiveness of the Cyprus products and services¹⁹⁴.

As per the Recovery and Resilience Plan (RRP) of Cyprus, in 2020, 59.8% of people aged 30-34 have tertiary education qualifications. However, health as well as science, technology, engineering and mathematics (STEM) graduates remain scarce, and skills mismatches prevail. Although VET offers several new and updated curricula to improve links to the labour market, low participation rates in upper secondary VET make it difficult to meet labour demands. Participation in adult learning remains low, especially among the low-skilled and the unemployed who are in most need of upgrading their skills and acquiring new ones. Accelerating the education reform and developing a national skills strategy that addresses the challenges that have been identified in an integrated manner could support Cyprus' post-COVID-19 crisis recovery and contribute to the green and digital transitions¹⁹⁵.

Accordingly, the RRP plans to address key skills mismatches in the labour market and promotes employment through two components. First, a total investment of EUR 94.0 million to address the challenges of low participation in VET and lifelong learning, rising skills mismatches, particularly among young graduates, and poor digital skills.

The second component involves an investment of EUR 78.9 million and aims to reach out to young people not in employment, education or training (NEETs) and put them in employment. There are also measures to facilitate the activation of young unemployed people and women, as well as persons with caring responsibilities. In addition, VET is planned to be expanded by the construction of two model technical schools with state-of-the-art equipment and improved geographical accessibility¹⁹⁶.

TO 3 – Resource efficiency / Sustainable construction

In January 2019, the Council of Ministers approved the National Energy and Climate Plan (NECP) for Cyprus for the period 2021-2030. Among other objectives, the plan aims to meet key investment needs in the areas of renewable energy, energy efficiency and climate change mitigation¹⁹⁷.

The NECP sets out a target of achieving a final energy consumption of 2.0 Mtoe (million tonnes of oil equivalent) and a primary energy consumption of 2.4 Mtoe by 2030. The national obligatory target for achieving cumulative end-use energy savings is 243.04 Ktoe (kilogram tonnes of oil equivalent) during the 2021-2030 period. The country also plans to increase its share of renewable energy sources from 13.9% to 22.9% in the period 2021-2030¹⁹⁸.

The Cypriot RRP includes measures which aim at making a substantial contribution to the achievement of the national targets in energy efficiency and renewable energy for 2030 NECP¹⁹⁹.

With regards to investments in energy efficiency, in 2018, the Cypriot Ministry of Energy, Commerce and Industry launched a support scheme for the promotion of the utilisation of Renewable Energy Sources (RES) and energy savings for existing houses. The scheme aims at encouraging the utilisation of RES and energy savings for existing residential buildings that belong to individual persons, reducing energy costs for consumers and achieving the national renewable and energy efficiency targets for 2020. The scheme was funded by Renewable Energy Sources and the Energy Conservation Fund and provided financial incentives in the form of state grants for three categories of investments²⁰⁰.

In the first category, which covered the installation of thermal insulation on the roofs of existing houses, around 877 applications were received. In the second category, which covered the installation of thermal insulation on the roofs of existing houses in combination with the installation of a photovoltaic system (PV) with the net metering method, around 77 applications were received. Lastly, in the third category, for the installation of a photovoltaic system with the net metering method for existing houses, 3616 applications were

received, out of which 739 concerned energy vulnerable consumers²⁰¹.

The fund had also planned to launch a scheme for large-scale RES and energy conservation investments by general government entities and a scheme which will subsidise the charging of electric cars from PV systems, both within 2020²⁰².

Improvement of the energy efficiency of buildings is an essential milestone in achieving economic, social and environmental benefits. Most buildings in Cyprus were constructed with no or low levels of thermal protection, a substantial source of energy inefficiency.

Several measures are being implemented to support energy efficiency in households, SMEs and public buildings, with the help of the EU funds. Additional funds that have been announced, primarily through the **Energy Financial Instrument**, were expected to be activated from 2020 onwards. However, as the budgets for some grants schemes from national funds were decided on an annual basis, it hindered long-term investment planning. Additionally, a shortage of skilled labour in the energy-efficient building sector has also hindered implementation²⁰³.

As per the report “**Cyprus’ Integrated National Energy and Climate Plan for the period 2021-2030**”, building stock comprises 431,059 residential buildings and more than 30,000 non-residential buildings. The building sector is expected to play a key part in the achievement of the national energy targets for 2020, up to almost 98.0% of the energy savings target. There is high potential for this since 91.0% of all buildings (94.0% of residential buildings 83.0% in the service sector) were built before the introduction of mandatory energy performance requirements and 50.0% do not have any kind of thermal insulation. As per the report, the household sector accounts for 19.0% of the final energy consumption²⁰⁴.

The Minimum Energy Performance Requirements for New Buildings (Law 142/2006) in Cyprus for 2020 stood at 76,721.6 tonnes of oil equivalent (toe). This contributes to 20.5% of the indicative primary consumption target (375,000 toe)²⁰⁵. Directive 2010/31/EU on the energy performance of buildings sets out a number of measures aimed at utilising the large unused potential for energy savings in buildings. A provision under which all new

buildings must be **nearly zero energy buildings (NZEB)** by 31 December 2020, is also included in the directive. However, NZEBs are a new topic for the construction industry²⁰⁶. Therefore, the Energy Service has issued a “Technical Guide to Nearly Zero-energy Buildings”. It aims to facilitate project design teams in looking into the most important NZEB design parameters²⁰⁷.

Regarding NZEB, the EU framework programme Horizon 2020 also financed a project named “MENs – Meeting of Energy Professional Skills”, aiming to provide professionals in the building sector with NZEB training, with the emphasis placed on the renovation of existing buildings. In particular, the MENS project aims to increase the NZEB related skills and knowledge of around 1,800 professionals in 10 countries, including Cyprus²⁰⁸.

In December 2020, the EIB provided 15-year EUR 76.0 million loan to the Electricity Authority of Cyprus for the construction of a new power plant at Vasilikos. Once operational, the new 160 MW natural gas CCGT (Combined Cycle Gas Turbine) plant will contribute to ensuring sufficient generation capacity to support the shutdown of outdated oil fuelled power plants. It will enable a shift away from fossil fuels, reduce greenhouse gas emissions and other forms of air pollution²⁰⁹.

The Ministry of Energy launched the Save-Upgrade Homes programme in March 2021 with a total budget of EUR 30.0 million. As per the scheme, residents across Cyprus were offered a financial incentive to make their homes more energy efficient. Up to 60.0% of their total eligible renovation budget will be reimbursed, and for lower-income residents, this increases to 80.0%. The ministry allocated another EUR 5.0 million to the budget due to high demand²¹⁰.

The ministry will launch the second phase of the Save-Upgrade Homes programme, for which another EUR 35.0 million will be allocated. As a result, the total cost of improving the energy efficiency of Cypriot houses will reach EUR 70.0 million. The ministry will also be announcing a similar scheme for businesses and the broader public sector in the second quarter of 2022. The total budget for this project will be EUR 40.0 million. The money will be allocated from the European Fund for Recovery and Resilience Facility²¹¹.

In July 2021, the Cypriot Ministry of Energy, Trade and Industry announced a strategy for a rapid transition to a green economy, aiming to reach an economy of low to zero emissions by 2050. The ministry sets a target of a 36.0% reduction in final energy consumption. The ministry also set a new mandatory target of 3.0% for the annual renovation of all public buildings and 1.7% annual energy saving in public buildings²¹².

With regard to the reduction of energy consumption, the Bank of Cyprus has introduced environmentally friendly loans to renovate a primary residence or holiday house. The loan is provided to permanent residents of Cyprus who want to renovate and upgrade the energy efficiency of their primary or holiday home. The maximum amount of funding is EUR 30,000 and the minimum repayment period is five years²¹³.

The Recovery and Resilience Plan (RRP) of Cyprus includes reforms and investments for meeting the energy efficiency and sustainability objectives. The largest contribution of EUR 269.0 million goes towards climate neutrality, energy efficiency and renewable energy penetration²¹⁴.

The plan supports the EuroAsia Interconnector project, which will connect Cyprus to the EU electricity network and boost renewable energy production with a total financing of EUR 100.0 million²¹⁵.

The plan also includes the financing of various support schemes to implement energy efficiency measures and renewable energy investments and to combat energy poverty. The schemes involve a total budget of EUR 89.0 million. Specifically, EUR 20.5 million will be invested for promoting renewables and individual energy efficiency measures in dwellings and tackling energy poverty in households with people with disabilities. Further funding of EUR 12.5 million to encourage the use of renewables and energy savings by local/wider public authorities as well as Non-Governmental Organisations and facilitate the transition of local communities towards climate mitigation & adaptation will be provided.

In addition, the plan includes the construction of energy efficient buildings as well as the energy efficient renovation of existing ones, including investments related to the energy upgrade of public

buildings. EUR 30.1 million will be invested in energy efficient renovation, enhancement, modernisation and the upgrade of the Cyprus State Hospitals²¹⁶.

TO 4 – Single Market

As per the EU Single Market Scoreboard 2020, Cyprus performs well in terms of transposition, infringements and internal market information systems²¹⁷.

The transposition deficit for Cyprus in 2019 reached 1.0%, representing an improvement from the previous year (1.4%). Overdue directives also improved in 2019, reaching 10 from 14 in the previous year. Average delay, despite having increased to 9.1 months in comparison to the previous year (5.8 months), stood below the EU-28²¹⁸ average (11.5 months).

The conformity deficit stood at 0.6% in 2019, same as the previous year, and lower than the EU-28 average (1.2%). Pending cases under infringement stood at 19, lower than the EU-28 average (29 cases). The average case duration stood at 27.8 months, higher than previous year (25.6 months), but lower than the EU-28 average (34.8 months)²¹⁹.

Cyprus maintained its excellent performance in terms of internal market information systems. However, the level of trade integration in the Cypriot single market for goods was well below the EU-28²²⁰ average²²¹. Cyprus' performance in public procurement in 2019 was also unsatisfactory.

According to the GAN report, the majority of businesses opine that practices of favouritism hinder competition. Tender regulations generally lack transparency, which leads to biases in decisions made by the technical committees²²².



Regarding the Cypriot construction sector, close to 50% of surveyed businesses agreed that abuse and bribery are widespread among officials. The risk of corruption is moderate in land administration²²³.

In order to broaden up the public procurement market and attract competition, significant measures were taken by authorities, such as simplifying award procedures to ease out participation for economic operators and generalising the use and enhancing the capacities of the existing procurement system.

However, these measures did not prove sufficient for enhancing the public procurement market. Additional measures pursued by the government, such as enhancing central purchasing, training and professionalising contracting authorities, and supporting smaller contracting authorities, are expected to have a positive impact on public procurement on a short-term basis²²⁴.

An action plan against corruption was approved by the Council of Ministers in May 2019 and is currently in the implementation phase. Pivotal points have been designated to public bodies and codes of conduct for the Council of Ministers and public prosecutors have been adopted. These point to the fact that the implementation of actions to fight corruption is strongly progressing. However, Cyprus' coordination capacity is not sufficient enough to tackle the existing corruption. The administration unit for transparency and prevention of corruption, the unit responsible for coordinating the implementation of the action plan, remains impoverished²²⁵.

The Recovery and Resilience Plan of Cyprus includes reforms for strengthening administrative capacity and transparency through the professionalisation of public procurement and further digitalisation of its process. The reform includes an investment of EUR 4.0 million²²⁶.

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. Regulation 479/2011 introduces Eurocodes as an obligatory means for structural design and L12(I)/2006 enforces their use in public procurement²²⁷.

TO 5 – International competitiveness

According to the World Bank Doing Business 2020 report, Cyprus ranked 50th out of 190 countries in ease of trading across borders in 2019²²⁸.

As per the report, in Cyprus it takes 2 hours and 18 hours to be documentary and border compliant, respectively. In terms of costs, business need to spend some USD 50.0 (EUR 44.0) for documentary compliance and some USD 300.0 (EUR 264.0) for border compliance²²⁹.

The internationalisation of construction products in the Cypriot construction sector has shown signs of decline for the past few years. The export values of all construction-related products decreased from EUR 3.4 million in 2010 to EUR 1.9 million in 2020, marking a decrease of 43.3%. Similarly, the export value of architectural services decreased from EUR 3,826 in 2010 to zero value in 2020.

Export value of all construction-related products between 2010 and 2020



43.3%

The Cypriot government has introduced various policy measures to support the internationalisation of SMEs. However, a weakness in targeted financial support still exists in the economy. To address this, three significant measures were implemented by the government²³⁰:

- The EUREKA Cyprus programme (Πρόσκληση Υποβολής Προτάσεων του Προγράμματος EUREKA Κύπρου) aims to cultivate and grow the competitiveness of Cypriot SMEs by conducting international research and development projects.

- The launch of **Two Calls for Proposals for the International Collaboration Programme — dual targeting** (Πρόσκληση Υποβολής Προτάσεων του Προγράμματος Διεθνής Συνεργασία — Διττή Στόχευση). This programme aims at promoting collaboration between national and international research organisations. The first of the two calls targets research organisations from countries outside the EU-28 and the second targets the United States of America.
- **The Cyprus-Israel Call for Proposals for the Bilateral Collaborations Programme** (Πρόσκληση Υποβολής Προτάσεων Κύπρος-Ισραήλ του Προγράμματος Διακρατικές Συνεργασίες). This aims at promoting joint research and technological development projects on selected themes of interest for both countries²³¹.

8

Outlook

After witnessing an annual decline of 7.0% in GDP in 2020 due to the COVID-19 pandemic, the Cypriot economy is expected to recover and grow post 2021.

Cyprus' GDP is expected to grow annually by 3.1% in 2021, reaching EUR 21.3 billion and then by 3.8% in 2022, reaching EUR 22.1 billion.

Mirroring the overall economy, the **volume index of production** in the broad construction sector is projected to grow by 4.9 index points (ip) annually in 2021 and then increase by 5.9 ip annually in 2022. As a result, the **turnover** in the broad construction sector is projected to annually increase by 2.1% in 2021, reaching a value of EUR 5.0 billion. Likewise, the **total value added** of the broad construction sector is expected to annually grow by 2.8% in 2021, reaching EUR 1.5 billion.

Turnover of the broad construction sector between 2020 and 2021

 **2.1%**

In parallel, the number of **persons employed** in the broad construction sector is also expected to annually increase by 3.4% to 48,285 in 2021. This growth is predicted to come from all sub-sectors including architectural and engineering activities (+10.3%), real estate activities (+8.0%), manufacturing (+6.6%) and the narrow construction (+1.7%) sub-sectors.

Number of persons employed in the broad construction sector between 2020 and 2021

 **3.4%**

In the context of housing market, it is expected to improve in the coming years, mainly driven by government measures. In particular, the **affordable housing to low-income people** scheme which is

focused on the needs of young people with growing families and low-income families. The government, in November 2020, revised the affordable housing plan by increasing the number of eligible communities from 128 villages in the original July 2019 affordable housing plan to 259. In February 2021, the Cyprus Land Development Corporation (KOAΓ), in cooperation with the Ministry of the Interior, announced the construction of 190 apartments in Nicosia.

With regard to the **civil engineering** market, it is projected to be driven by the RRP as well as the EU Cohesion Policy and its funds, which play a significant role. In June 2021, the Republic of Cyprus and the EIB entered into a loan agreement for an amount of EUR 112.0 million for the financing of the National Roads III Project. It consists of the construction and improvement of roads and motorways that are prioritised as strategic roads of national importance and includes investment in fixed and mobile speed enforcement cameras. Additionally, the **Cyprus' 2021 annual budget** includes a total of 50 major infrastructure projects. These projects range from the construction of roads in various districts to schools, water transport provisions and repairs to existing state buildings.

Cyprus has allocated EUR 89.0 million towards energy efficiency and renewable energy and EUR 887.0 million for sustainable and green mobility as part of its RRP²³².

With regard to the digital transition, it has allocated EUR 15.0 million for upskilling and reskilling measures to help at least 25, 000 people²³³.

Overall, the Cypriot construction sector is forecast to recover from 2021 onwards, driven by the housing and large infrastructure projects, backed by public domestic and EU funds.

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