European Commission

European Construction Sector Observatory

Country profile **Cyprus**

November 2020

In a nutshell

In 2019, Cyprus' GDP reached EUR 21.3 billion, exhibiting a 3.2% increase over the previous year (EUR 20.7 billion).

The growth of the Cypriot economy is driven by a steady rise in household consumption on account of strong employment growth

In parallel, the **number of enterprises** in the broad construction sector increased by 5.9%, from 13,670 in 2010 to 14,482 in 2019, with the real estate activities sub-sector registering the highest incline of 66.8%, followed by the architectural and engineering activities sub-sector (+46.0%) over the 2010-2019 period.

Number of enterprises in the real estate activities sub-sector between 2010 and 2019 ↑ **66.8%**

The **volume index of production** in the broad construction sector experienced a growth of 102.2% over the period of 2015-2019. This was driven by a 130.6% incline in production in the construction of buildings and a 10.9% incline in the production in construction of civil engineering.

Total turnover of the broad construction sector in 2017 reached EUR 3.8 billion, declining by 21.6% since 2010 (EUR 4.8 billion). Further, in 2019 it reached EUR 5.0 billion, marking a 3.9% increase since 2010. This overall increase was driven by the real estate activities and narrow construction sub-sectors, which turnover grew by 45.8% and 11.9% respectively, over the 2010-2019 period.

Similarly, the **gross operating rate** of the broad construction sector[1], an indicator of the sector's profitability, stood at 13.5% in 2017, marking a decline of 5.9 percentage points (pp) since 2010. This is below the EU-27 average of 16.6% in 2017. The architectural and engineering activities sub-sector was the most profitable sub-sector, with a gross operating rate of 41.0% in 2017.

In terms of employment, there were 47,446 **persons employed** in the broad construction sector, representing a decline of 5.0% in comparison with the 2010 levels (49,952 persons). This was primarily due to a 23.4% decline in the number of persons employed in the manufacturing sub-sector, followed by the declines in the narrow construction and architectural and engineering activities sub-sectors, by 3.6% and 0.6% respectively, over the 2010-2019 period. However, the number of persons employed in the real estate activities sub-sector witnessed a growth of 51.2% over the same period.

Number of persons employed in the real estate activities sub-sector between 2010 and 2019 ↑ **51.2%**

The Cypriot **housing market** continues to be largely driven by foreign demand, which accounted for almost 50.0% of total property sales since 2014.

The **non-residential construction and civil engineering** market is driven by the EU cohesion policy and its funds, which play a significant role. Cyprus received EUR 917.3 million from European Structural Investment Funds. Moreover, infrastructure and the promotion of public transport and urban mobility have been recognised as priority investment areas by Cyprus' Europe

2020 National Reform Programme. A total of 50 major infrastructure projects have been included in Cyprus' 2021 annual budget.

Presently, two main issues hinder the development of the Cypriot construction sector. First, the sector faces a shortage of skilled workers. Around 7.5% of firms in the construction sector reported a labour shortage in 2019, the highest among all sectors. Secondly, the sector faces issues relating to construction and demolition waste (CDW). The lack of treatment facilities for CDW in Cyprus gave rise to illegal dumping grounds in and around the capital city, Nicosia. As a result, in November 2019, a recycling unit for solid construction and demolition waste was inaugurated in Limassol.

The outbreak of the global COVID-19 pandemic has further significantly impacted the Cypriot construction sector. With the imposition of a nationwide lockdown, the construction sites and sales offices remained closed for a prolonged period. Moreover, travel restrictions limited foreign demand for construction related investments, which had been a key driver of the Cypriot property market since 2014. Nonetheless, with a significant number of projects lined up for 2021, the construction sector is expected to recover gradually, especially from 2021 onwards.

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Key figures

Construction market

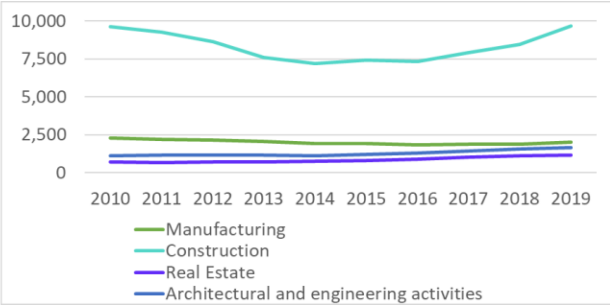
The **number of enterprises** in the broad construction sector in Cyprus totalled 14,482 in 2019[2] (Figure 1), which is the highest level reached over the past decade. This represents a 5.9% growth since 2010 (13,670). This growth was primarily driven by a 66.8% increase in the number of enterprises in the real estate activities sub-sector, followed by a 46.0% increase in the architectural and engineering activities sub-sector over the 2010-2019 period. In the narrow construction sub-sector, the number of enterprises increased by 0.8%, whereas in the manufacturing sub-sector it decreased by 10.6%, over the same period. The narrow construction sub-sector accounted for 66.8% of the total enterprises in 2019, the highest among the sub-sectors. This was followed by the manufacturing (14.0%), architectural and engineering activities (11.3%) and real estate activities (7.9%) sub-sectors.

Number of enterprises in the real estate activities sub-sector between 2010 and 2019 ↑ **66.8%**

The **volume index of production** in the broad construction sub-sector increased by 102.2% over the 2015-2019 period. This was largely driven by an increase in the index of production in the construction of buildings (+130.6%) and construction of civil engineering (+10.9%) over the same period.

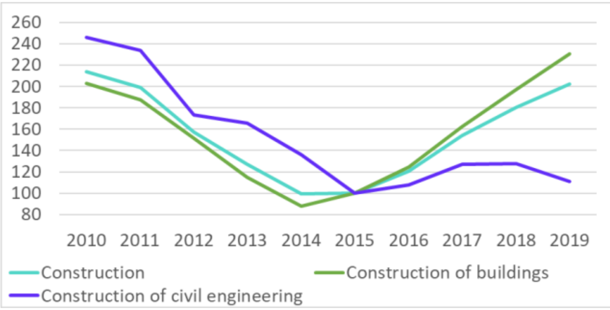
Volume index of production in construction of buildings between 2015 and 2019 ↑ **130.6%**

Figure 1: Number of enterprises in the Cypriot broad construction sector between 2010 and 2019



Source: Eurostat, 2020.

Figure 2: Volume index of production in the Cypriot construction sector between 2010 and 2019 (2015=100)

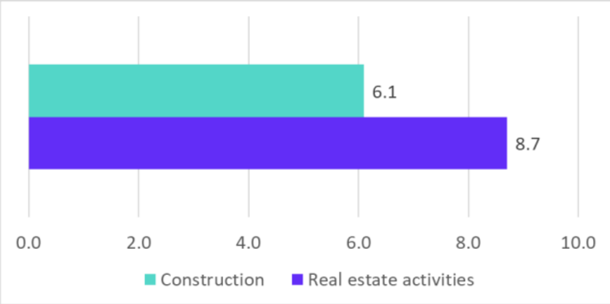


Source: Eurostat, 2020.

The total **value added at factor cost**[3] of the broad construction sector amounted to EUR 1.4 billion in 2019[4], representing a decrease of 28.0% since 2010. The narrow construction sub-sector contributed to 73.0% of the total[5] (EUR 1.5 billion). This was followed by the manufacturing (13.9% of the total, i.e. EUR 200.3 million), real estate activities (7.5% of the total, i.e. EUR 107.9 million) and architectural and engineering activities (5.6% of the total, i.e. EUR 81.3 million) sub-sectors.

The **share of gross value added** in the broad construction sector stood at 13.9% in 2017[6], below the EU-27 average of 16.4%. In 2019, the share of narrow construction and real estate activities sub-sectors stood at 6.1% (EU-27 average 5.0%) and 8.7% (EU-27 average 9.7%) respectively.

Figure 3: Gross value added as a share of GDP in the Cypriot broad construction sector in 2019 (%)



Source: Eurostat, 2020.

Productivity

Apparent labour productivity[7] in the broad construction sector decreased from EUR 40,062 in 2010 to EUR 30,332 in 2017[8], representing a decline of 24.3% over the period. This is below the EU-27 average of EUR 50,079.

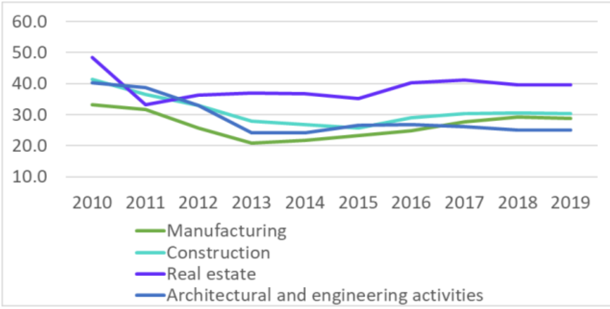
This decreasing trend is reflected in all sub-sectors. Specifically, labour productivity in the architectural and engineering activities sub-sector decreased by 34.8%, from EUR 40,200 in 2010 to EUR 26,200 in 2017. This was followed by the narrow construction sub-sector, which labour productivity decreased by 26.6%, from EUR 41,400 in 2010 to 30,400 in 2017 and the manufacturing sub-sector, which decreased by 16.5%, from EUR 33,100 in 2010 to EUR 27,700 in 2017. Lastly, the real estate activities sub-sector decreased by 14.9%, from EUR 48,400 in 2010 to EUR 41,200 in 2017.

Over the 2010-2019 period, the apparent labour productivity in the architectural and engineering activities sub-sector decreased by 37.7%, reaching EUR 25,062 in 2019. It was followed by the narrow construction sub-sector real estate activities and manufacturing sub-sectors, which decreased by 26.5%, 18.0% and 12.8% respectively over the same period (Figure 4).

Apparent labour productivity in the architectural and engineering activities sub-sector between 2010 and 2019 **↓ 37.7%**

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 on the job over-qualification, which suggests an underutilisation of employed labour (more information in Chapter 7 under the section on TO2 - Skills)[9].

Figure 4: Labour productivity in the broad construction sector in Cyprus between 2010 and 2019 (EUR k)



Source: Eurostat, 2020.

Turnover and profitability

The **total turnover** of the broad construction sector in 2017 stood at EUR 3.8 billion, representing a 21.6% decrease since 2010 (EUR 4.8 billion). In 2019, it further increased to reach EUR 5.0 billion, representing a 3.9% increase since 2010. This was driven by a growth in turnover in the real estate activities and narrow construction sub-sectors by 45.8% and 11.9% respectively, over the 2010-2019 period. Conversely, the turnover in the architectural and engineering activities and manufacturing sub-sectors declined by 28.0% and 27.7% over the same period, respectively.

Turnover in the real estate activities sub-sector between 2010 and 2019 **↑ 45.8%**

The **gross operating surplus** of the broad construction sector amounted to EUR 509.3 million in 2017, 45.4% below the 2010 level (EUR 932.1 million). This decline is explained by a decrease of the gross operating surplus in the narrow construction (-53.4%), architectural and engineering activities (-29.7%) and manufacturing (-25.2%) sub-sectors over the same period. On the contrary, the gross operating surplus in the real estate activities sub-sector increased by 11.0%.

In line with the decline of the gross operating surplus, the **gross operating rate** of the broad construction sector[10], which gives an indication of the sector's profitability, stood at 13.5% in 2017, representing a drop of 5.9 pp since 2010. In terms of sub-sectors, the real estate activities sub-sector had the highest gross operating rate (41.0%), followed by the architectural and engineering activities sub-sector (27.7%), the manufacturing sub-sector (13.4%) and the narrow construction sub-sector (11.5%).

Construction costs have a significant influence on the profitability of the sector. In Cyprus, construction costs have been fluctuating since 2015, to reach in 2019 a level 2.8% higher than in 2015. This was mainly driven by an increase in the labour cost index of 5.5% and the input materials' price index of 1.0% over the 2015-2019 period.

Figure 5: Construction cost index between 2010 and 2019 (2015=100)

Source: Eurostat, 2020.

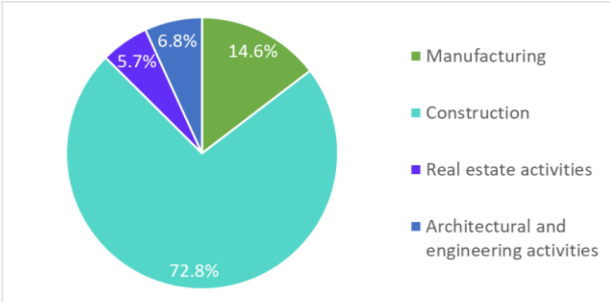
Employment

In 2019, there were 47,446 **persons employed** in the broad construction sector, marking a 5.0% decline as compared to the 2010 level (49,952 persons). With respect to the sub-sectors in 2019, the narrow construction sub-sector employed 72.8% of the total workforce (i.e. 34,547 persons), followed by the manufacturing (14.6%, i.e. 6,936 persons), the architectural and engineering activities (6.8%, i.e. 3,245 persons) and the real estate activities (5.7%, i.e. 2,717 persons) sub-sectors (Figure 6).

Except for the real estate activities sub-sector, which experienced an increase of 51.2% over the 2010-2019 period in terms of persons employed, all the other sub-sectors registered a decline. Specifically, the manufacturing sub-sector declined by 23.4%, followed by the narrow construction and architectural and engineering activities sub-sectors, which experienced a 3.6% and 0.6% decline respectively over the same period.

Number of persons employed in the real estate activities sub-sector between 2010 and 2019 ↑ **51.2%**

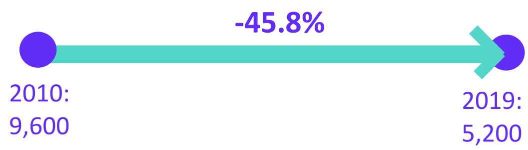
Figure 6: Percentage of people employed per construction sub-sectors in Cyprus in 2019



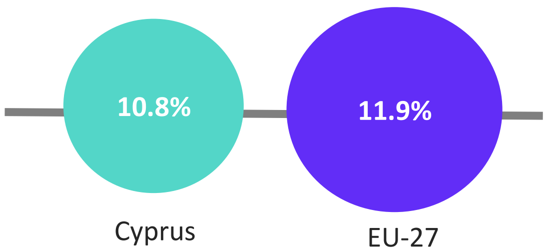
Source: Eurostat, 2020.

The number of **self-employed workers** in the narrow construction sub-sector declined by 45.8% over the 2010-2019 period. It represents 10.8% of the total number of self-employed workers in the general economy in 2019, lower than the EU-27 average (11.9%). Similarly, the number of self-employed workers in the real estate activities sub-sector decreased by 16.7% over the same 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%).

Number of self-employed workers in the narrow construction sub-sector in Cyprus



Self-employed workers in the narrow construction sub-sector as a share of self-employed workers in the general economy in 2019



In 2019, **full-time employment** in the narrow construction sub-sector decreased by 9.2% over the 2010 level. Similarly, in the manufacturing sub-sector it decreased by 5.4%, while, in the real estate activities sub-sector, it increased by 22.2% in the same reference period.

In terms of **part-time employment**, the narrow construction sub-sector registered an increase of 27.3% between 2010 and 2019. Conversely, in the manufacturing sub-sector, part-time employment decreased by 30.0% in the same period.

As for **employment by specific occupation** under the narrow construction sub-sector, demand for "technicians and associate professionals" increased by 80.0%, whereas, the demand for "plant and machine operators and assemblers" declined by 42.9% over the 2010-2019 period. With respect to the manufacturing sub-sector, demand for "professionals" increased by 120.0%, whereas demand for "service and sales workers" decreased by 41.7% over the same period. Lastly, the demand for "clerical support workers" in the real estate sub-sector increased by 40.0%, over the same period.

2

Macroeconomic indicators

Economic development

In 2019, the Cypriot economy reported its fifth consecutive year of GDP expansion though at a slower rate as compared to previous years. This is mainly due to a weakened international environment[11].

In 2019, the Cypriot **GDP** amounted to EUR 21.3 billion, representing a 3.2% growth over the previous year (EUR 20.7 billion) and a 10.0% growth from 2010 level (EUR 19.4 billion). The strong growth of the economy is driven by a continued rise in household consumption due to strong employment growth[12]. The country's **potential GDP** in 2019 amounted to EUR 20.1 billion, resulting in a positive **output gap** of 5.9%. The **inflation rate** in 2019 stood at 0.5%, lower than 0.8% in 2018.

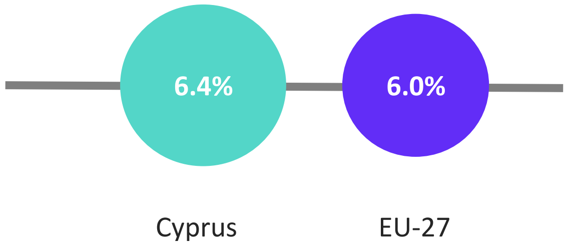
The decreased inflation rate is attributed to the decline in energy prices, due to a reduction in excise duties on fuels and the lower price of oil in 2019 compared to 2018[13].

Demography and employment

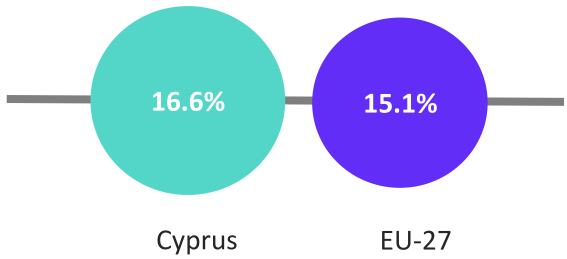
In 2019, the average unemployment rate (between 25-64 years) in Cyprus reached 6.4%, above the EU-27 average of 6.0%. This also shows a significant improvement compared to its peak (14.2%) in 2014 and 2018 level (7.4%).

Youth unemployment rate (below age of 25) also declined to 16.6% in 2019 against its peak of 38.9% in 2013 and 2018 level of 20.2%. However, it lies above the EU-27 average of 15.1%.

Unemployment rate in 2019



Youth unemployment rate in 2019

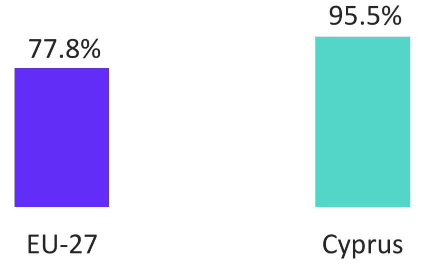


The **total population** of Cyprus amounted to 875,899 people in 2019. It is projected to increase by 19.4% by 2050, reaching 1.0 million. In parallel, the **net migration rate** reduced to 8,501 people in 2019 from 15,913 people in 2010 (-46.6%). This could exacerbate the workforce shortage in the country and lower the demand for housing.

In 2019, the **working age population** made up 67.8% of Cyprus' total population, slightly above the EU-27 average of 64.6%. By 2050, this share is expected to decrease by 4.7 percentage points (pp), to 63.1%. In parallel, the **elderly population** (people aged 65 and above) is expected to increase from 16.1% of the country's total population in 2019 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 sector[14].

Public finance

In 2019, **general government expenditure** represented 39.5% of GDP, as compared to the EU-27 average of 46.7%. It also lies below the 2010 level (41.8%) and 2018 level (43.4%). The **general government deficit** amounted to 1.7% of GDP in 2019, below the 3.0% threshold of the EU's Stability and Growth Pact (SGP), but above the EU-27 average of -0.6%. Last, general **government gross debt** dropped to 95.5% of GDP in 2019, from 100.6% in 2018. However, it lies above its 2010 level of 56.8% and the EU-27 average of 77.8%.



Government gross debt (% of GDP) in 2019

Entrepreneurship and access to finance

In 2019, Cyprus ranked 50th out of 190 countries, as per the Doing Business 2020 report, in terms of starting a business. This is an improvement compared to 2018 (52nd)[15].

As per the Small Businesses Act (SBA) Fact Sheet 2019, in terms of **entrepreneurship**, Cyprus performs in line with the EU-28[16] average having improved from previous years. An increase in entrepreneurial activity has been observed. However, early stage entrepreneurial activity as well as the number of high-growth companies in Cyprus is among the lowest in the EU-28. Cyprus has addressed some of the SBA recommendations for entrepreneurship, but still lacks specific support measures and respective schemes ensuring successful business transfers[17].

Recently, the "**Action Plan to strengthen the Social Enterprise Ecosystem**" (*Σχέδιο Δράσης για την ενίσχυση του οικοσυστήματος των Κοινωνικών Επιχειρήσεων*) was adopted as a measure to support social entrepreneurship with incentives and funding for social enterprises[18].

According to the SBA Fact Sheet 2019, **access to finance** in Cyprus remains the most challenging area[19]. The **loans to non-financial corporations** in the general economy for instance witnessed a decrease of 47.4% from 2010, reaching EUR 12,111 billion in 2019. Amid the presence of a high level of non-performing loans, the lending capacity of banks and credit supply is still limited. Alternative sources of funding such as venture capital, crowdfunding, business angel funding and equity financing are still restrained in the country[20].

However, the conditions of access to finance in Cyprus for small and medium-sized enterprises (SMEs) is slightly improving. Several grant schemes and financial instruments are being implemented and the setting up of a co-investment equity fund (Equity Fund for Cyprus with an initial public investment of around EUR 20.0 million) has been decided. It aims at increasing the availability of alternative financing sources, particularly for innovative companies and start-ups[21].

The Alternative Investment Funds Law (*Ο περίτων Οργανισμών Εναλλακτικών Επενδύσεων Νόμος*) was adopted and aims at simplifying access to finance for Cypriot SMEs by introducing alternative investment funds and making the SMEs more adaptable as a corporate vehicle for open-ended funds[22].

3

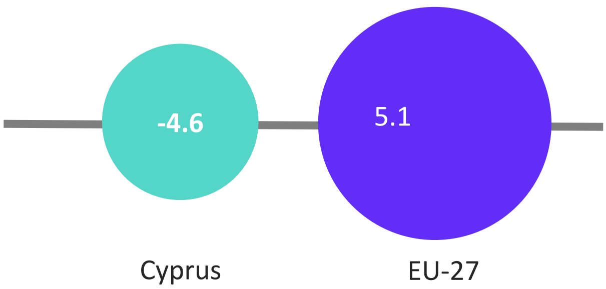
Key economic drivers of the construction sector

Business confidence

In 2019, consumer confidence and industry confidence indicators have worsened as compared to previous year. In addition, the construction confidence indicator, despite having improved from previous year, continues to lie in negative territory.

The **consumer confidence indicator** deteriorated to -6.9 in 2019 from -2.2 in 2018, remaining below the EU-27 average of -6.2. The **industry confidence indicator** also decreased to 5.3 in 2019, from 6.5 in 2018. However, this is above the 2010 levels of -7.2 and the EU-27 average of -4.8. Conversely, the **construction confidence indicator** increased to -4.6 in 2019 from -13.9 in 2018. This is well above the 2010 level of -45.5, but much below the EU-27 average of 5.1.

Construction confidence indicator in 2019



The **investment ratio** has seen little fluctuation over the 2010-2019 period with its current value standing at 18.3%, below the 21.8% ratio recorded in 2010. Similarly, the **investment per worker** has decreased to EUR 42,936 in 2017[23] from EUR 47,585 in 2010 (-9.8%).

In April 2020, the monthly business confidence indicator in Cyprus started deteriorating (reaching 77.0 points, from 98.9 points in March) due to the outbreak of the COVID-19 pandemic. In May 2020, it reached a bottom low of 72.9 points[24]. However, as the economy started picking up, following the substantial easing of the restrictions allowing businesses to reopen, the monthly indicator rose to 75.2 points in June and further to 79.7 in July in 2020[25,26].

Domestic sales

The ranking of the **top five domestically sold construction products** in Cyprus in 2019 have changed since 2010, except the second position which continues to be held by “Marble, travertine, alabaster, etc”. “Other worked ornamental or building stone and articles”, which held the first position in 2010, was replaced by “Ceramic tiles and flags”. “Plaster products for construction purposes”, ranking third in 2010, was replaced by “Other structures and parts of structures” in 2019. “Roofing tiles, chimney-pots”, ranking fourth in 2010, was replaced by “Particle board” in 2019. Similarly, “Mortars”, ranking fifth in 2010, was replaced by “Plaster products for construction purposes” in 2019. 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 56.9% of total domestic sales of Cypriot construction products in 2019.

Table 1: Five most domestically sold construction products in Cyprus and in the EU in 2019

	Cyprus			EU-27
	Product	Value (EUR m)	Share in construction product domestic sales (%)	Product
1	Ceramic tiles and flags (group 233110)	38.0	25.2	Other structures (group 251123)
2	Marble, travertine, alabaster, and articles thereof (group 237011)	15.6	10.3	Doors, windows and their frames (group 251210)
3	Other structures (group 251123)	13.1	8.7	Ready mixed concrete (group 236310)
4	Particle board (group 162112)	10.9	7.2	Prefabricated buildings of metal (group 251110)
5	Plaster products for construction purposes (group 236210)	8.2	5.4	Prefabricated structural components (group 236112)

Source: PRODCOM, 2020.

Export of construction-related products and services

The ranking of the **top five exported construction products** from Cyprus has changed over the 2010-2019 period. “Portland and aluminous cement”, ranking first in 2010, was replaced by “Other structures and parts” in 2019. “Windows, French windows and their frames”, holding the second position in 2010, was replaced by “Doors, windows and their frames” in 2019. Similarly, “Doors, windows and their frames” was replaced by “Plaster” for third position. “Bridges and bridge-sections”, ranked fourth in 2010, was replaced by “Portland and aluminous cement” in 2019. Lastly, “Plaster”, ranking fifth in 2010, was replaced by “Articles of cement, concrete or artificial stone”. 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 88.2% of total country exports of Cypriot construction products in 2019.

Table 2: Five most exported construction products in Cyprus and in the EU in 2019

	Cyprus			EU-27
	Product	Value (EUR m)	Share in construction product exports (%)	Product
1	Other structures (group 251123)	1.2	43.5	Ceramic tiles and flags (group 233110)
2	Doors, windows and their frames (group 251210)	0.8	27.6	Other structures (group 251123)
3	Plaster (group 235220)	0.3	9.0	Fibreboard of wood or other ligneous materials (group 162115)
4	Portland cement, aluminous cement (group 235112)	0.1	4.7	Doors, windows, etc. (group 251210)
5	Articles of cement, concrete or artificial stone (group 236919)	0.1	3.5	Marble, travertine, alabaster etc. (group 237011)

Source: PRODCOM, 2020.

In terms of the **cross-border provision of construction services**[27], Cyprus **exported** EUR 13.0 million worldwide in 2018[28], representing a 63.9% decline from the 2010 level. Export of construction services within EU-28[29] and the world declined by 76.2% and 53.3% in the same period. In parallel, Cyprus **imported** a total of EUR 6.0 million of construction products in 2018[30], a level 50.0% below the 2010. Out of EUR 6.0 million, EUR 3.0 million import of construction services came from EU-28 member states, showing the importance of the EU Single Market. Thus, Cyprus achieved a **trade surplus** of EUR 7.0 million in the cross-border provision of construction services in 2018.

Access to finance in the construction sector

According to the Survey on the Access to Finance of Enterprises (SAFE) results 2019, access to finance continues to be the biggest concern for around 12.0% of Cypriot SMEs, above the EU-28[31] average of 7.0%[32].

As per the report, banks loans are still the main source of financing for 38.0% of SMEs in Cyprus, slightly below the EU-28[33] average of 45.0%. Around 14.0% of SMEs reported using bank loans as a source of financing between April and September 2019, slightly below the EU-28 average (15.0%). In the same period, around 8.0% of SMEs did not apply for bank loan due to fear of rejection, which is double the EU-28 average (4.0%)[34]. Cyprus also ranks lowest in the EU-28 in terms of the non-bank financing for non-financial corporations[35].

As per the Global Competitiveness Report 2019, the overall financial system of Cyprus ranked 76th, within which, the financing of SMEs ranked 78th out of 141 economies[36].

Specific to the Cypriot construction sector**, access to finance** remained challenging in 2019, as banks had tightened the lending strategies. As of September 2019, a steep decline in new loans over EUR 1.0 million for large construction projects have been observed. The main reason behind the abrupt drop in new loans relates to the decrease in the total amount of cash lent out to bigger construction projects[37].

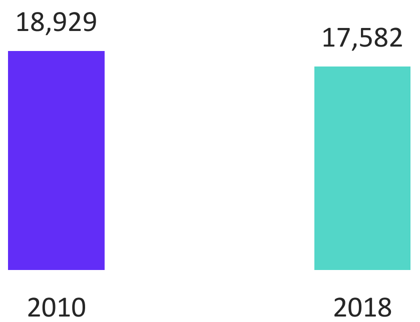
According to the EIB Investment Survey (EIBIS) 2019 report, around 27.0% of construction firms in Cyprus have reported being dependent on external sources of finance[38].

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 persons[39].

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 million[40].

Access to housing

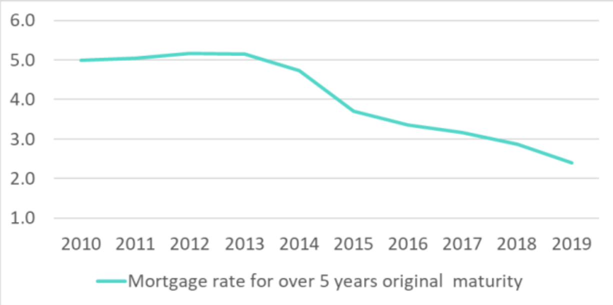
The **number of households** in Cyprus has been generally increasing since 2010. In 2019, it reached 332,100, representing a 16.7% incline over the 2010 level (284,600 units). At the same time, the share of the **total population living in cities and greater cities** decreased from 55.4% in 2010 to 50.7% in 2018[41]. The **mean equivalised net income** in Cyprus has also decreased by 7.1% since 2010, reaching EUR 17,582 in 2018[42].



Mean equivalised net income in Cyprus

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 2018[43], it amounted to EUR 8.7 billion, dropping by 27.8% since 2010. Generally, 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. As a result, domestic buyers funded their property transactions using their own savings[44]. Lastly, reflecting developments in the economy, **mortgage interest rates** (over 5 years original maturity) have been declining from 5.0% in 2010 to 2.4% in 2019 (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 2019

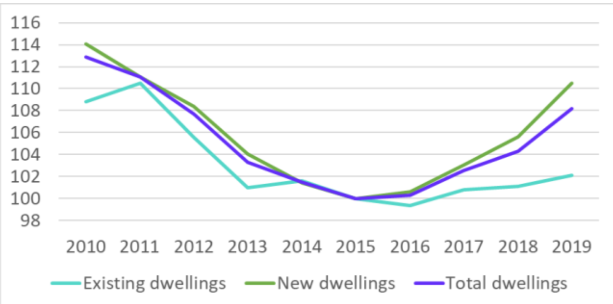


Source: ECB MFI Interest Rate Statistics, 2020.

In parallel, **housing prices** also witnessed an increase over the period 2015-2019. Specifically, the house price index for new dwellings rose by 10.5% over this period. The price index for existing dwellings rose by 2.1%. This has resulted in an overall 8.2% increase in the house price index for total dwellings. Regarding **rental property** in Cyprus, prices are increasing, and the market is divided in smaller segments, each having a distinct set of strategies, growth potential and targeted buyers[45]. Current rental prices for housing increased by 6.2% over the 2015-2019 period.

However, in the first quarter of 2020 housing prices witnessed a drop in comparison with previous quarters. According to the Central Bank of Cyprus (CBC), the Residential Property Price Index (RPPI) increased by 1.8% in the first quarter of 2020 compared with an increase of 2.2% in fourth quarter 2019[46].

Figure 8: House price index in Cyprus between 2010 and 2019 (2015=100)



Source: Eurostat, 2020.

Domestic demand in the Cypriot housing market remains restrained on the back of a decreasing urbanisation rate and decreasing mean equivalised income. 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 2019[47].

Specifically, in 2019, sales of properties rose by 12.2%, much higher than 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.

As a result, the number of residential **building permits** increased by 201.1% over the 2015-2019 period. In 2019, a total of 7,611 residential building permits were issued in Cyprus, 18.5% up from 2018. This comprises 33.6% (i.e. 2,554) of total permits for single dwellings, 58.7% (i.e. 4,464) of total permits for collective dwellings and 7.8% (i.e. 593) of total permits for other types of dwellings in 2019[48]. As per the Cyprus Property News, a total of 1,129 building permits were provided during January and February 2020, compared to 1,069 in the same period last year. The total value of these permits increased by 20.9%. The number of permits provided for the construction of new homes also rose by 4.2% during the same period. This reflects the increased demand for housing, which in turn has increased construction activity in the country[49].

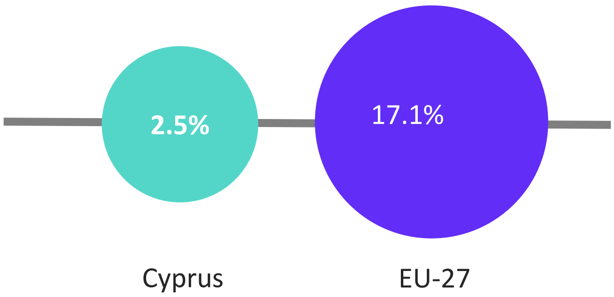
Number of building permits between 2015 and 2019

↑ **201.1%**

Most of the **building stock** in Cyprus is owner-occupied. In 2018, owners held 70.1%. However, the ownership rate reduced by 3.0 pp since 2010. Income plays a role in the likelihood of being a homeowner or tenant. Indeed, 75.0% of people earning **above 60.0% of median equivalised income** are homeowners, a figure that drops to 43.2% of people earning **below 60.0% of median equivalised income.**

Moreover, the **housing cost overburden rate** was at 2.0% in 2018, well below the EU-27 average of 9.6%. In 2019, it increased to 2.3%. Likewise, the **overcrowding rate** stood at 2.5% in 2018, well below the EU-27 average of 17.1%. In 2019, it decreased to 2.2%. Lastly, the **severe housing deprivation rate** corresponded to 2.1% in 2018, well below the EU-27 average of 6.5%. Nevertheless, the rate increased to 2.3% in 2019, the highest since 2015[50].

Overcrowding rate in 2018



Moreover, the ongoing global COVID-19 pandemic impacted the Cypriot housing market, which experienced an 80.0% decline in the sales in April 2020, as compared to the same month last year. A similar trend in sales has been observed in subsequent months, due to lockdown restrictions[51]. In fact, the market had come to a standstill until September 2020. With the easing 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 last year, as reported by the Department of Lands and Surveys[52].

With the purpose of alleviating the effects of the pandemic caused on the housing market and to help the market regain pace, the Cypriot government announced a scheme "Restart Housing Loan" ("Στεγαστικό Δάνειο Restart") subsidising home loan interest rates for a specific duration. 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 300,000.0, contracted as of 1 March 2020 until 31 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 opportunities[53].

Infrastructure

According to the 2019 Global Competitiveness Report, Cyprus ranked 48th out of 141 assessed economies in terms of its infrastructure[54].

Within the transport infrastructure, the country has 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). Moreover, as per the EU Transport Scoreboard 2018, Cyprus ranked 12th in quality of roads, 16th in completion of the TEN-T road core network, 17th in efficiency of air transport services, 21st in efficiency of seaport services and 23rd in timeliness of shipments[55].

The non-residential construction and civil engineering market in Cyprus is driven by EU cohesion policy and its funds, which play a significant role. Cyprus received EUR 917.3 million from European Structural Investment Funds[56].

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 and deaths decreasing in almost all sub-sectors. This has resulted in solid growth of construction enterprises.

In the narrow construction sub-sector, **company births** increased by 104.0% between 2010 and 2015[57], reaching a total of 557 companies. **Company deaths** on the other hand, decreased by 54.8% between 2010 and 2015[58], reaching a total of 382 companies. Similarly, the real estate activities sub-sector witnessed a growth of 228.6% in the number of company births, between 2010 and 2015, reaching 92 companies. Conversely, company deaths decreased by 45.7% between 2010 and 2015, reaching 434 companies. Lastly, company births in the architecture and engineering activities sub-sector increased by 100.0% between 2010 and 2015, reaching 108 in 2015. Unlike the other sub-sectors, the number of company deaths increased by 18.2% in the architectural and engineering activities sub-sector in the same period, reaching 52 in 2015[59].

Number of company births in the real estate activities sub-sector between 2010 and 2015 ↑ **228.6%**

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). Availing of building permits and project completions have been delayed due to imposed restrictions and limited access to relevant authorities. Moreover, lesser demand and transactions have led to a reduction in revenues and mounting liquidity pressure for enterprises[60]. Additionally, workers and developers had called on the government to include construction sites in lockdown, as the safety measures taken at sites were limited[61]. Collectively, these have financially weakened enterprises in the Cypriot construction sector and increased risks of bankruptcies.

To alleviate the impact of disruptions on enterprises in the general economy, the Cypriot government decided to provide loans to Cypriot SMEs and mid-cap companies. The government, together with the EIB, has decided to increase this lending scheme by EUR 500.0 million. This will benefit companies registered and working in Cyprus and employing up to 3,000 workers[62].

Even before the pandemic, the Cypriot authorities have notably been working with the European Commission in the area of access to finance to improve the insolvency framework[63].

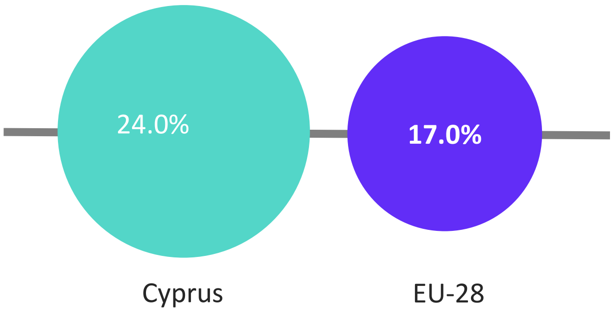
Trade credit

According to SAFE survey results 2019, trade credit constitutes a relevant source of financing for 44.0% of SMEs in Cyprus, above the EU-28[64] average of 31.0%[65], but less than the previous year (71.0%)[66].

In 2019, 24.0% of SMEs reported using trade credit, higher than the EU-28[67] average of 17.0%[68]. Around 11.0% of SMEs in Cyprus applied for trade credit in the same period (April – September 2019), much lower in comparison to the EU-28

(32.0%). Around 5.0% SMEs in Cyprus reported not applying due to high possibility of rejection. SMEs not applying because of sufficient internal funds stood at 46.0%, whereas 34.0% of SMEs did not apply due to other unspecified reasons[69].

Proportion of SMEs using trade credit between April and September 2019



Late payment

As per the SAFE 2019 report, late payment in Cyprus is a concern for almost half of SMEs (51.0%), slightly higher than the EU-28[70] average of 47.0%. Around 25.0% of SMEs reported facing late payment issues on a regular basis, much higher than the EU-28 average (15.0%).

The amount of time taken by customers to pay companies and the level of bad debt (i.e. the number of receivables being written off because of not being paid) lies among the highest in the EU-28[71,72].

As a result, 25.0% of SMEs reported that their payments to suppliers have been affected as a result of late payments by customers. For 13.0% of SMEs, late payment affected production or operations, and for 11.0% it impacted investments or new hiring. 8.0% of SMEs also reported that their loans repayments have been delayed, or they have had to seek additional financing, as a result of late payments[73].

Time and cost of obtaining building permits and licenses

According to 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)[74].

Eight procedures are required to complete the formalities to build a warehouse[75], 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%.

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 Municipality of Nicosia	100 days	EUR 3,983.0
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, Word Bank, 2020.

Skills shortage

The number of **job vacancies** in the narrow construction sub-sector witnessed a 24.4% decrease between 2010 and 2019, standing at 438. This points out a general improvement in recruitment since the Cypriot financial crisis of 2013 (when the job vacancies in the narrow construction sector stood at 26). In the real estate activities sub-sector, job vacancies experienced great fluctuations over the past decade. From 15 in 2010, it dropped to a historic low of 1 in 2012. It reached 48 in 2019, thereby representing a 225.4% growth since 2010.

Number of job vacancies in the narrow construction sub-sector between 2010 and 2019 **24.4%**

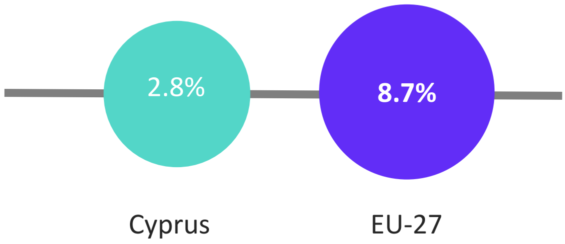
Number of job vacancies in the real estate activities sub-sector between 2010 and 2019 **225.4%**

In parallel, the **job vacancy rate** in the narrow construction sub-sector fluctuated over the 2010-2019 period, reaching 1.5% in 2019 from 1.8% in 2010. As for the real estate activities sub-sector, it increased to 1.7% in 2019, from 1.2% in 2010.

The **adult participation in education and training** in the Cypriot narrow construction sub-sector declined from 4.6% in 2010 to 2.8% in 2019, significantly lower than the EU-27 average (8.7%)[76]. Moreover, a mere 6.7% of adults aged 25-64 have had recent learning experience, compared to the EU-28[77] 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 Council Recommendations on Upskilling Pathways[78].

On the other hand, **tertiary students in engineering, manufacturing and construction** have increased notably from 324 in 2010 to 920 in 2018[79], representing a 184.0% increase. This is comprised of 557 graduates in engineering and engineering-related trades, 87 graduates in manufacturing and processing and 276 graduates in architecture and building.

Adult participation in education and training in the narrow construction sub-sector in 2019



Employers in Cyprus have reported **labour shortages** in many sectors, as a result of which newer challenges are emerging for upskilling and re-skilling the workforce[80]. Specific to the Cypriot construction sector, stakeholders reported having a tough time finding skilled labour in the country interested to work in the sector. 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 countries[81] for unskilled jobs with the intent of freeing existing skilled labour in Cyprus from doing auxiliary tasks at construction sites[82].

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 respectively[83].

Vocational education and training (VET) is a vital resource for improving the labour shortage situation however the participation rate remains low (See chapter 7 – TO 2). The Cypriot government is making continued efforts to improve VET capacity by building new technical schools and enhancing outreach to rural areas[84].

Sector and sub-sector specific issues

Material efficiency and waste management

In 2016[85], Cyprus reported a total amount of 1,029.0 kg per capita of waste by the construction sector, representing a decline of 20.1% since 2010. Out of this, 1,028.0 kg was categorised as non-hazardous, and rest as hazardous.

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 that it would transfer this waste to a designated waste treatment facility in Dali, and that it was awaiting a license to do so. 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 units[86].

For the time being, municipalities request that the government perform checks on units licensed to collect solid waste, to obtain proof of whether they are currently able to recycle it correctly. Additionally, the Environment Department is calling on citizens to report any illegal disposal of solid waste, threatening offenders with the imposition hefty fines[87].

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 recycling[88].

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 waste[89].

Climate and energy

Cyprus is among the Member States with the highest **greenhouse gas emissions** per capita in EU-28[90]. Cyprus landfills most of its municipal waste (75.0% in comparison with the EU-28 average of 24.0% in 2016[91]) which contributes to high greenhouse gas emissions. Amid the present recycling versus landfilling debate in the country, Cyprus is likely to miss its 2020 and 2030 greenhouse gas emission reduction targets. The projected gap from the target is expected to be 9.0% and 22.0% respectively.

Greenhouse gases emissions (carbon dioxide, methane and nitrous oxides) from activities related to the narrow construction sub-sector in Cyprus have reduced by 13.5% over the 2010-2018 period, reaching 121,654.4 tonnes in 2018[92]. Similarly, emissions in the real estate activities sub-sector have reduced by 39.8% over the same period, reaching 3,101.3 tonnes in 2018[93].

5

Innovation in the construction sector

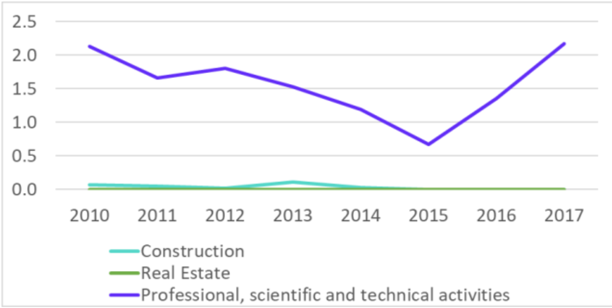
Innovation performance

According to the European Innovation Scoreboard 2020, Cyprus is classified as a moderate innovator[94].

According to the report, Cyprus' main strengths lie in attractive research systems, intellectual assets and human resources. It scored particularly well in international scientific co-publications, trademark applications and the amount of the population with tertiary education. Conversely, linkages, employment impacts and finance and support represent the country's weakest innovation dimensions. It scored low on the private co-funding of public research and development (R&D) expenditure, employment in fast-growing enterprises and R&D expenditure in the public sector[95].

Cyprus' performance in innovation in the construction sector in 2017 did not reveal any significant changes from that of 2010. In fact, **business enterprise R&D expenditure (BERD)**, though experiencing fluctuations over the years, stood close to the 2010 levels[96] (Figure 9). In the professional, scientific and technical activities BERD increased from EUR 2.1 million in 2010 to EUR 2.2 million in 2017[97], representing a 2.1% incline. However, BERD in the narrow construction sub-sector reduced from EUR 66,000 in 2010 to negligible levels in 2017[98].

Figure 9: Business enterprise R&D expenditure (BERD) per construction sub-sector in Cyprus between 2010 and 2017 (EUR m)[99]



Source: Eurostat, 2020.

Additionally, total **R&D personnel** (full-time equivalents – FTE)[100] in the professional, scientific and technical sub-sector registered a 22.9% incline from 48 in 2010 to 59 in 2017[101]. Total FTE in the narrow construction sub-sector registered a minimal decrease, from 1 to 0 FTE between 2010 and 2017[102].

At the same time, no construction-related patent applications have been registered since 2007 (which had one patent). Moreover, there were no Cypriot construction and materials firms ranking within the top 1,000 EU companies by R&D, according to the 2019 EU Industrial R&D Investment Scoreboard[103].

Number of R&D personnel in the professional, scientific and technical sub sector between 2010 and 2017

22.9%

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-28[104].

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[105,106].

The EU cohesion policy programmes for Cyprus have also allocated EUR 188.0 million for smart growth, which includes support for research & innovation and Cypriot SMEs[107].

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 had prepared a 2019-2023 national strategy framework for research and innovation in 2019. Additionally, 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 been launched during 2018 and the first quarter of 2019 under the 2016-2020 RESTART programme (*Προγράμματα RESTART 2016-2020*)[108].

Eco-innovation and digitalisation

According to the EU Eco-Innovation Index 2019, Cyprus ranked 26th out of EU-28[109] countries, above Hungary and Bulgaria, with a score of 56[110]. This represents an improvement from 2018, where Cyprus had ranked last (28th).

Except on eco-innovation outputs, Cyprus scored below the EU-28[111] average on four out of five indicators of the Eco-Innovation Index, namely eco-innovation inputs, eco-innovation activities, resource efficiency outcomes and socio-economic outcomes[112].

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-28[113] countries (average score: 52.6). As 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-28[114] 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%)[115].

Cyprus is also 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 sector[116].

According to the EIBIS 2019 report, the share of Cypriot construction firms using digital technologies is low. Specifically, around 24.0% of construction firms in Cyprus use drones, followed by 21.0% using 3D printing, 18.0% using the Internet of Things and 2.0% using augmented or virtual reality [117].

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 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 Egypt[118].

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 currently focuses specifically 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) and the Self-help Housing Programme on Private Land/Repair of Residence and the Rent Subsidy Plan (Σχέδιο Επιδότησης Ενοικίου)[119].

The **Scheme for the Purchase of a House/Apartment** (*Σχέδιο Αγοράς Έτοιμης Κατοικίας / Διαμερίσματος*) provides financial assistance to beneficiaries wishing to purchase a dwelling, depending 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 elderly. In fact, if elderly people over the age of 70 also reside with the applicant, additional financial assistance of EUR 3,000 is provided[120].

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 according to the size of the household, income and size of the property, as in the Scheme for the Purchase of a House/Apartment[121].

Finally, the SCRDP offers a **Rent Subsidy Plan** (*Σχέδιο Επιδότησης Ενοικίου*), which provides rent allowances to beneficiaries[122]. 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 country[123].

Cyprus launched a scheme to provide **affordable housing to low-income people**, which is based on the needs of young people at the start of the creation of a family 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 regions. People eligible for the scheme are those with a yearly income of EUR 25,000 gross for a single-parent family or a person living alone, EUR 45,000 for a couple with no children, EUR 50,000 for a three-member family, EUR 55,000 for a family of four, and EUR 65,000 for families of five-people and above[124]. As per the scheme, developers are entitled to hold part of the construction for their own purposes, with the remaining are used to house vulnerable groups[125].

Developers had until the end of 2019 to submit their interest in the affordable housing scheme. However, to date, none have done so. Authorities have commented that they may have to revise the scheme in order to attract their interest[126].

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 property[127].

Cyprus faces one of the highest rates of non-performing loans in Europe. Therefore, in an attempt 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 criteria[128].

The **ESTIA scheme** aims at incentivising the eligible household or SME to repay the loan by sharing the burden between the government, the banks and the borrower. The state takes up one-third of the monthly loan burden of eligible borrowers fulfilling some key criteria. The scheme applies to mortgages deemed non-performing on or before 30 September 2017. Additionally, the market value of the primary residence, which has been mortgaged must not exceed EUR 350,000. There is also an income criterion for households, based on the number of dependants in the family. Additionally, the applicant's net assets in the years 2016, 2017 and 2018 must not exceed 80.0% of the market value of the main residence, with the net assets capped at EUR 250,000. Finally, the loan will be written down to the market value of the primary residence[129].

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 Holdings[130]. 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 2019[131].

The **Cyprus Land Development Corporation** (*Κυπριακός Οργανισμός Ανάπτυξης Γης* - KOAG) is also a key actor in terms of the provision of social housing. The organisation aims to satisfy the housing needs of low and medium-income families, offering dwellings and building sites at affordable prices and attractive terms of sale[132].

The CLDC operates by acquiring land, separating it into plots and allocating it for the construction of residences. Generally, CLDC provides 20.0%-25.0% cheaper housing than the market price and has helped about 5,000 families since its establishment[133].

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 apartment[134].

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 available[135].

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 authority[136].

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 certification of electrical and mechanical installations and aspects associated with the qualification 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 building, staircases, drainage, as well as sewage systems, ventilation systems, fire safety, etc.[137].

The Town and Country Planning Law provides town and country 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 Plan[138].

The Ministry of Interior recently 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 present 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 procedures[139]. Other recommendations included the introduction of a comprehensive license that covers both town-planning permission and building permits, and the creation of a one-stop shop[140].

Insurance and liability related regulations

Professional indemnity insurance in Cyprus has been mandatory since 2013 for all construction design companies registered within the Cyprus Scientific and Technical Chamber (*Επιστημονικό Τεχνικό Επιμελητήριο Κύπρου* – ETEK)[141].

Furthermore, 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 minimum one year are mostly prevalent, with longer durations such as two or five years also available[142].

Liability in construction in Cyprus is ruled by the law of torts and the law of contract. The former is governed by the **Civil Wrongs Law**, Cap. 148, which sets out the rules of compensation in the case of damage due to an act or omission. Namely, article 68 of the Law establishes the limitation periods during which legal action can be taken. This amounts to 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 law of 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 project[143].

7

Current status and national strategies to meet Construction 2020 objectives

TO 1 – Investment conditions and volumes

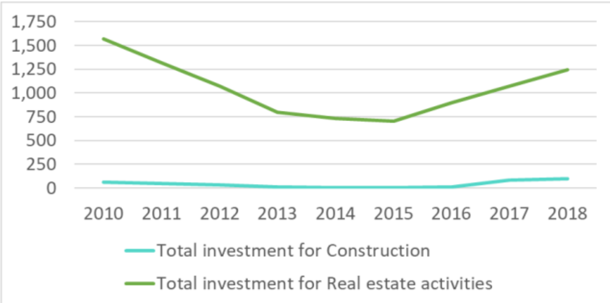
Total investment by the Cypriot broad construction sector[144] has gained pace from 2016 onwards and has been increasing annually, after experiencing continuous yearly declines since 2010.

In particular, total investments by the narrow construction sub-sector increased by 64.7% between 2010 and 2018, reaching EUR 99.3 million compared to EUR 60.3 million in 2010. Conversely, investments by the real estate activities sub-sector in 2018 stood at EUR 1.2 billion, which is 20.8% below 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 2018 ↑ **64.7%**

Investments by the real estate activities sub-sector between 2010 and 2018 ↓ **20.8%**

Figure 10: Investments by the Cypriot broad construction industry between 2010 and 2018 (EUR million)

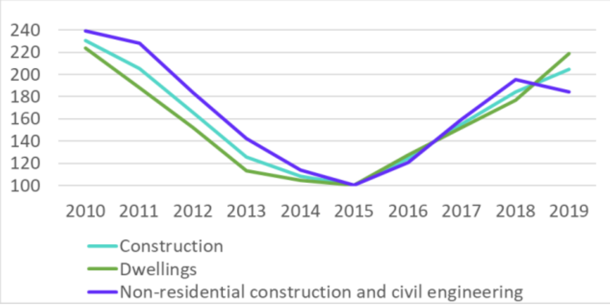


Source: Eurostat, 2020.

The **investment index in the broad construction sector**[145] has experienced a growth since 2015, rising by 104.4% over the 2015-2019 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 118.8% and 84.6% respectively between 2015 and 2019 (Figure 11). In absolute terms, investments in the broad construction sector totalled EUR 1.8 billion in 2017[146], out of which EUR 1.0 billion was invested in dwellings and EUR 776.7 million was spent on non-residential and civil engineering[147].

Investments in dwellings by the whole economy between 2015 and 2019 ↑ **118.8%**

Figure 11: Investment index in the Cypriot construction sector between 2010 and 2019 (2015=100)



Source: AMECO, 2020.

Additionally, **total household renovation spending** in Cyprus has been fluctuating since 2010. In 2018[148], it reached EUR 30.3 million, declining by 6.8% from its 2010 level (EUR 32.5 million), but up 2.7% up from previous year (EUR 29.5 million). The country's renovation spending as a percentage of total household disposable income has witnessed insignificant changes since 2010. In 2018[149], it stood at 0.2% of total household disposable income.

Internal mobility in Cyprus is highly dependent on the road network. Due to the non-feasibility of establishing and operating a railway network in the country, the reliance on road transport increases manifold. This brings in the need for the construction of a modern and safe road network. Presently, the public transport sector is mainly focusing on the upgrade and modernisation of the existing road network, which constitutes part of the Trans-European Networks (TEN-road projects)[150].

A total of 50 major infrastructure projects have been included in the Cyprus' 2021 annual budget. The projects range from the construction of roads in various districts to schools, water transport provisions and repairs to existing state buildings[151].

Amongst these planned projects, the construction of the Nicosia District Court is the topmost project 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)[152].

As per the **Europe 2020 National Reform Programme** for Cyprus, the European Commission has provided suggestions for priority investment areas for ESI funding in Cyprus. 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 areas[153].

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)[154].

Particularly, total investment in a project that connects the new Limassol Port with the Limassol – Paphos Motorway stood at EUR 100.0 million, out of which approximately EUR 85.0 million was a contribution from the EU Cohesion Fund. This project is classified under the "Competitiveness and Sustainable Development Cyprus" Operational Programme for the 2014-2020 period[155].

In parallel, Cyprus also benefited from investments from the **European Fund for Strategic Investments** (EFSI). As of September 2020, financing under EFSI amounted to EUR 65.0 million and is set to trigger additional investments of EUR 85.0 million. Under the infrastructure and innovation window, three projects have been approved, amounting to EUR 55.0 million, which are set to trigger EUR 102.0 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 26.0 million[156].

In 2019, the EIB Group invested close to EUR 8.0 million in Cypriot infrastructure[157].

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 2017[158] stood at 16.7%, much below the EU-28[159] average of 47.8%[160].

Furthermore, youth unemployment (17.2% in the third quarter of 2019) and the number of young people categorised as NEET (13.2% in the third quarter of 2019) remained at high levels compared to the EU-28[161] average (14.4% and 10%, respectively). This is also partially attributable to the low enrolment in VET[162].

In order to encourage engagement in VET, the Cypriot Ministry of Education, Culture, Sport and Youth (MoECSY) partnered with the Cyprus Chamber of Commerce and Industry on June 2019 and the Cyprus Employers and Industrialists Federation on 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 enterprises[163].

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 people[164].

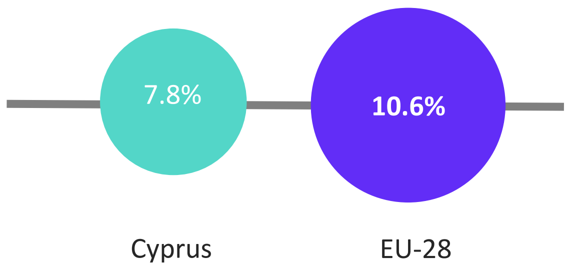
Moreover, the plan of establishing a national monitoring system of initial VET (IVET) and continuous VET (CVET) graduates, which will inform the upgrading of the VET system, is at the last stages of planning and the system is expected to be operational in 2020[165].

Thus, the **participation levels of upper secondary education students in VET** increased to 20.0% in 2019, in comparison to 2017[166] levels. Moreover, a national participation target of 35.0% has been set by authorities, to be achieved by 2025, post the completion of the new infrastructures. Regarding the **employment rate of recent VET graduates** in Cyprus, it also improved in 2018[167], reaching 67.3%, in comparison to 2017 levels of 51.8%. However, this was still below the EU-28[168] average of 79.5%[169].

Besides VET, **public expenditure on education as a percentage of GDP** in Cyprus stood at 5.7% in 2017[170], higher than the EU-28[171] average of 4.6%. This is due to private tutoring fees, which weighs heavily on parents' education spending in Cyprus. Additionally, the **share of early leavers from education and training** in Cyprus in 2018[172] stood at 7.8%, below the EU-28 average of 10.6% and below the 2017 level of 8.5%. The share of **tertiary educational attainment** in 2018[173] was also higher in Cyprus (57.1%) as compared to the EU-28 average (40.7%). In fact, it stands as the second highest among the EU-28, after Lithuania. In this space, women constitute a higher percentage (64.4%) than men (49.2%)[174].

However, the **employment rate of recent graduates** by educational attainment in Cyprus stood at 78.9% in 2018[175], below the EU-28[176] average of 81.6%. Likewise, share of **adult participation in learning** in Cyprus also stood at 6.7% in 2018[177], below the EU-28 average of 11.1%. Cyprus still lacks the legislative framework for adult learning. However, actions in adult education have been taken under the 2014-2020 national lifelong learning strategy[178].

Early leavers from education and training (age 18-24) in 2018



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 sector[179].

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 mitigation[180].

The NECP sets out a target of achieving final energy consumption of 2.0 Mtoe (million tonnes of oil equivalent) and 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. Based on the **National Energy Efficiency Action Plan of 2017 (4th NEEAP 2017)**, the national indicative target for energy efficiency for Cyprus was expressed in a primary energy consumption of 2.2 Mtoe in 2020[181].

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 saving for existing houses**. The scheme aims at encouraging the utilisation of RES and energy savings for existing residential buildings that belong to individual persons, reduce energy costs for consumers and lastly, achieve the national renewable and energy efficiency targets for 2020. The scheme was funded by Renewable Energy Sources and Energy Conservation Fund and provided financial incentives in the form of state grants for three categories of investments[182].

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 consumers[183].

The Renewable Energy Sources and Energy Conservation Fund planned to relaunch this scheme in the year 2020. It also planned to relaunch a scheme, which was last effective in 2018, that will cover the installation or replacement of hot water solar systems of existing houses. 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 2020[184].

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 fund 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 implementation[185].

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 consumption[186].

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)[187].

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 industry[188].

Therefore, the Energy Service has issued a "Technical Guide to Nearly Zero-energy Buildings". It aims to facilitate the project design team in looking into the most important NZEB design parameters[189].

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 Cyprus[190].

TO 4 – Single Market

According to the EU Single Market Scoreboard 2020, Cyprus performs well in terms of transposition, infringements and internal market information systems[191].

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-28[192] average (11.5 months). The conformity deficit stood at 0.6% in 2019, same as previous year and was 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)[193].

Cyprus maintained its excellent performance in terms of Internal Market Information Systems. However, the level of trade integration in the Cyprus' single market for goods was well below the EU-28[194] average[195].

As per the SBA Fact Sheet 2019, Cyprus' performance regarding the Single Market lies below the EU-28[196] average. The performance of the country has also deteriorated in comparison with last year, as it scored below the EU-28 average in majority of the SBA indicators[197].

Moreover, Cyprus' performance in public procurement in 2019 was also unsatisfactory. There is a high risk of corruption in Cyprus' public procurement. The majority of businesses opine that practices of favouritism hinder competition. The diversion of public funds is quite frequent. Tender regulations generally lack transparency, which leads to biasness in decisions made by the technical committees[198].

Thus, in order to broaden up the public procurement market and attract competition, significant measures have been 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 e-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 basis[199].

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 impoverished [200].

With regard to the Cypriot construction sector, almost half the respondents agreed that abuse and bribery are widespread among officials. The risk of corruption is moderate in land administration[201].

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 procurement[202].

TO 5 – International competitiveness

According to the Global Competitiveness Index 2019, Cyprus ranked 44th out of 141 economies, the same as 2018[203] but 20 positions higher in comparison to its ranking in 2017[204,205].

According to the index, in terms of trade openness, Cyprus performed well, ranking 7th and 17th out of 141 economies in trade tariffs and prevalence of non-tariff barriers respectively. It performed moderately in border clearance efficiency, ranking 37th out of 141 economies. Cyprus' worst performance was in the complexity of tariffs, where it ranked 113th out of 141 economies[206].

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 2.8 million in 2019, marking a decrease of 17.3%. Similarly, the export value of architectural services decreased from EUR 3,826 in 2010 to EUR 1,227 in 2019, representing a decrease of 67.9.

According to the SBA Fact Sheet 2019, Cyprus continues to perform above the EU-28[207] average in the internationalisation area. Particularly, the country has performed well and better than the EU-28 average in information availability, advance rulings and share of extra-EU online exporters. However, Cyprus had performed below the EU-28 average in involvement of the trade community and share of SMEs with extra-EU exports of goods[208].

The Cypriot government has introduced various policy measures to support the internationalisation of SMEs. However, a relative weakness in targeted financial support still exists in the economy. To address this, four significant measures were implemented by the government[209]:

- 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 countries[210].

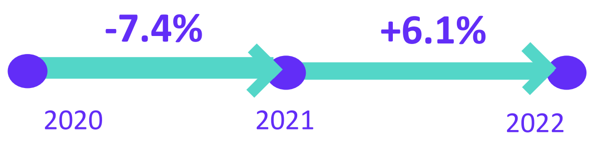
8

Outlook

The Cypriot economy is forecasted to contract in 2020, mainly due to the COVID-19 pandemic and associated restrictions. However, with the gradual relaxation of restrictions, the economy is expected to revive in 2021[211].

GDP in Cyprus is expected to decline by 7.4% in 2020 and then increase by 6.1% in 2021, reaching EUR 21.0 billion in 2021.

Expected GDP growth between 2019 and 2021



Mirroring the overall economy, the **volume index of production** in the broad construction sector is projected to decline by 12.2 index points (ip) annually in 2020 and then increase by 6.5 ip annually in 2021.

As a result, the **turnover** in the broad construction sector is projected to annually decline by 30.0% in 2020 before rising by 9.4% in 2021, to reach a value of EUR 4.8 billion. Likewise, the **total value added** of the broad construction sector is expected to annually decrease by 12.4% in 2020 and then increase by 10.8% in 2021, reaching EUR 1.4 billion.

In parallel, the number of **persons employed** in the broad construction sector is also expected to annually decrease by 13.4% to 41,105 in 2020 and then increase by 13.8% to 46,783 in 2021. Most of this decline is predicted to come from the narrow construction (-13.8%) and the manufacturing (-13.4%) sub-sectors.

The Cypriot **property market** witnessed a slow-down in the first six months of 2020 as a result of the financial crisis caused by lockdown restrictions amid the COVID-19 pandemic. The market is expected to deteriorate further, in terms of housing demand, throughout 2020 and contract severely by year-end, even though the economy has started to emerge from its successful lockdown[212]. Nonetheless, in 2021, the market is expected to rebound, and demand and prices are expected to rise again. Property sales are expected to increase backed by increased foreign demand[213].

Similarly, the impact of disruptions caused by the pandemic on **non-residential construction and civil engineering** in Cyprus is expected to last throughout 2020. However, with the re-opening of construction sites and the major **infrastructure** projects (construction of roads and repairs of existing state buildings) lined up for 2021, the non-residential construction is expected to recover from these impairments[214,215].

The aftermath of the disruptions due to the COVID-19 pandemic on the Cypriot broad construction sector is expected to be short-lived, as construction companies have resumed operations and project works have restarted. Additionally, as a result of remedial measures taken by the government, the construction sector's outlook remains optimistic in the long run with increased investments in housing driven by foreign demand, and in infrastructures.

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1 The gross operating rate is the ratio of Gross Operating Surplus to Turnover, and is an indicator of profitability.
2 Please note that this 2019 data is a nowcast - please refer to the methodology notes for further details.
3 Please note that the share of each sub-sector in the value added of the broad construction sector should not be compared to the shares of the Gross Value Added in the GDP, since the GDP also includes taxes and excludes subsidies.
4 Please note that this 2019 data is a nowcast - please refer to the methodology notes for further details.
5 Please note that the share of each sub-sector in the value added of the broad construction sector should not be compared to the shares of the Gross Value Added in the GDP, since the GDP also includes taxes and excludes subsidies.
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