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ΥΠΟΥΡΓΕΙΟ ΟΙΚΟΝΟΜΙΚΩΝ



STUDY ON CIP

Study on CIP



- The study focuses on the effects of the programme on (i) property prices, (ii) employment in construction and (iii) finally on GDP.
- The study focuses mainly on the effects in the property prices and GDP. The rest of the investments (shares, bonds, deposits, corporate participation) that were carried out under the program have not been examined since their contribution in both absolute terms and in per cent have been significantly lower.
- Investments in real estate, during the period 2013-2018, account for more than 50% of total investments made through the programme with the second largest category business investment at 15% of total while each of the other categories are substantially lower.



Main Findings



Main Findings

- The impact of the Program is positive but relatively small to the overall economy but not negligible in terms of value added and employment for the construction sector.
- In particular, the contribution of construction investments made in the framework of the CIP to GDP growth over the period 2013-2018 has accumulated to around **1.2%** compared to a cumulative GDP growth of 13% over the period.
- Employment in the construction sector is gradually recovering since 2015, due to the investments made in view of the Program. Cumulatively during the period 2013-2018, investments carried out in view of the Programme led to the creation of **2,000 jobs**, increasing employment in the sector by about 8%.
- As far as property prices, there is a strong impact on prices of apartments in Limassol. The index is growing at significantly higher rates than other provinces, surpassing the average and showing further growth trends.

Main Findings



- The exposure and risks to the domestic banking sector in the financing of investments are quite limited as financing is predominantly foreign sourced or from own resources of the respective investors.
- Furthermore, the Programme contributed substantially to the stabilization of this sector of the economy, which was characterised by a long period of negative growth rates and high unemployment, while providing for new source of financing the economy at a period when banks were unable to cope.
- However, if domestic demand rebounds may create risks of stabilization of the real estate sector. Systematic monitoring is therefore necessary.



Scheme Performance



Scheme Performance



- In 1/6/13 - 15/8/18 **1.864** investors
- Within the framework of the Scheme transactions amounting to **€6.6** billion were recorded.
- **It is noted that transactions do not amount to real investments or a contribution to GDP.**
- Regarding the nationality of investors, the majority are Russian followed by Chinese, and to a lesser extent Ukrainian, Lebanese and Saudi Arabia.

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2013-18</u> |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| <u>Number of Investors</u> | 37 | 210 | 337 | 425 | 503 | 352 | 1.864 |

| | |
|---|-----------------|
| Combination of Criteria | €133.6 |
| Shares | €7.9 |
| Bonds (corporate and government) | €579.8 |
| Corporate | €1,024.5 |
| Deposit Impairment | €519.1 |
| Deposits | €713.3 |
| Property | €1,400.6 |
| Residency | €2,263.9 |
| Total | €6,642.6 |

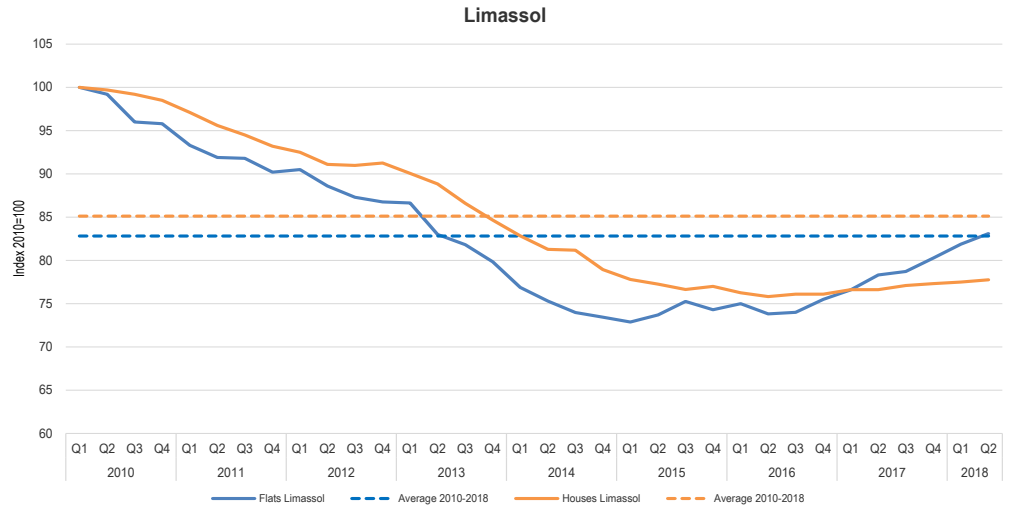


Results from the study



Only the apartments in Limassol have a price above the average and show signs of overheating.

Property Prices





Working Assumption

- In 2018, the percentage of transactions involved in the Program stood at about 38%. It is also important to increase the share from 2015 to 19.5%.

| | 2015 | 2016 | 2017 | 2018 |
|------------------------|-------|-------|-------|-------|
| Simple ratio | 24.9% | 21.6% | 23.2% | 34.6% |
| Weighted average ratio | 19.5% | 17.3% | 21.1% | 37.7% |



Effect on Employment

- The impact of the Program on employment is 341 in 2016, 638 in 2017 and 1,265 in 2018/9m.
- There is an upward trend but not excessive.

| | 2015 | 2016 | 2017 | 2018H1 | 2018/9m |
|--|--------|--------|--------|--------|---------|
| Employment in Construction | 25.362 | 27.332 | 30.352 | 32.739 | 33.028 |
| Change in persons | -9 | +1.970 | +3.020 | +3.447 | +3.357 |
| Percentage change | 0.0 | 7.8 | 11.0 | 11.8 | 11.3 |
| Increase due to the program (number of persons) | --- | +341 | +638 | +1.299 | +1265 |



Effect on Construction sector

- The added value in the construction sector increased by €110 million in 2016, €207 million in 2017, €93 million in 2018H1 and €150 million in 2018/9m.
- The impact of the Program on Value Added (VA) was 0.1 pp in 2016, 0.3 pp in 2017 and around 0.4 pp in 2018/6m-2018/9m.
- The corresponding increase in total value added was 4.8% in 2016, 4.2% in 2017 and around 4% in 2018.

| | 2015 | 2016 | 2017 | 2018H1 | 2018/9m |
|--|----------|----------|----------|---------|----------|
| Value Added – Total (€ mn) | 15,713.0 | 16,469.2 | 17,166.0 | 8,837.6 | 13,311.1 |
| % increase | 2.0% | 4.8% | 4.2% | 4.0% | 3.9% |
| Value Added - Construction (€ mn) | 661.4 | 771.2 | 978.0 | 560.2 | 866.3 |
| % change | -1.9% | 16.6% | 26.8% | 19.9% | 20.9% |
| Change in absolute values (€ mn) | -- | 109.8 | 206.8 | 93.1 | 150.0 |
| Sector contribution to VA | -- | 0.7 | 1.3 | 1.1 | 1.2 |
| Program contribution to VA | -- | 0.1 | 0.3 | 0.4 | 0.4 |



Effect on GFCF

- For all investment in construction, ie buildings and infrastructure, out of 2.0 per cent in 2017 0.4 p.p. were due to the Program and out of 1.5 per cent in 9m/2018 0.6 p.p.
- Cumulatively, the impact of the Program during the period 2016-2018 was 1.2 p.p. from a cumulative growth of almost 13% for the period.
- As far as dwellings alone, out of 1.1 per cent contribution to growth in 2017 0.2 p.p. were due to the Program and out of 0.7 contribution to growth in 9m/2018 0.3 p.p.
- Cumulatively, the effect during the period 2016-2018 was 0.6 p.p. to the growth rate.

| | 2015 | 2016 | 2017 | 2018H1 | 2018/9m |
|---|----------|----------|----------|----------|----------|
| GDP (constant prices) | 17.839,1 | 18.697,5 | 19.488,7 | 10.034,9 | 15.111,8 |
| % change | 2.0 | 4.8 | 4.2 | 4.0 | 3.9 |
| | | | | | |
| Gross Fixed Capital Formation | | | | | |
| ... Construction (Buildings and works) | 1.220,9 | 1.486,0 | 1.855,3 | 1.021,4 | 1.559,5 |
| Change to the previous period | -32.9 | 265.1 | 369.3 | 131.3 | 217 |
| Contribution to GDP | -0.2 | 1.5 | 2.0 | 1.4 | 1.5 |
| Program contribution to GDP | ... | 0.2 | 0.4 | 0.5 | 0.6 |
| ... Dwellings | 674.0 | 811.0 | 1,017.0 | 560.2 | 851.2 |
| Change to the previous period | 24.2 | 137.0 | 206.0 | 67.5 | 102.6 |
| Contribution to GDP | 0.1 | 0.8 | 1.1 | 0.7 | 0.7 |
| Program contribution to GDP | ... | 0.1 | 0.2 | 0.3 | 0.3 |



Multiplier

- The analysis has been made only for the years 2015-2017.
- The multiplier is very small near 0 which means that the increase in program investments did not lead to a multiple increase in value added. It is noted that, initially, ready-made properties were purchased, which led to a reduction in the residential stock.
- The program has also favoured debt to asset swaps, which is beneficial to liquidity in the economy.

| € mn | 2014 | 2015 | 2016 | 2017 |
|------------------------|---------|---------|---------|---------|
| Purchase of Property | 226.0 | 138.5 | 136.9 | 452.0 |
| Own Residency | 176.5 | 424.8 | 724.9 | 485.7 |
| Total | 402.5 | 563.4 | 861.8 | 937.8 |
| Difference (1) | ... | 160.9 | 298.4 | 76.0 |
| Value Added | 15445.4 | 15586.0 | 16199.7 | 16995.8 |
| Difference (2) | ... | 140.6 | 613.7 | 796.2 |
| Multiplier = (1) / (2) | ... | 1.1 | 0.5 | 0.1 |



NPEs

- With respect to NPEs in the construction sector, according to data from the Central Bank on September 30, 2018, they amounted to €1.5 bn in construction and €0.8 bn in real estate management, showing a significant decrease as shown in the table below amounting to €3.6 bn and €1.6 bn respectively:

| € ths | 31.12.2014 | 31.12.2015 | 31.12.2016 | 31.12.2017 | 30.9.2018 | 2014-2018 |
|---------------------|------------|------------|------------|------------|------------|------------|
| Construction | 5.128.115 | 4.913.362 | 3.817.,251 | 3.154.375 | 1.487.508 | |
| Difference | | -214.753 | -1.096.111 | -662.876 | -1.666.867 | -3.640.607 |
| Real Estate | 2.368.793 | 2.374.107 | 2.036.665 | 1.515.695 | 769.317 | |
| Difference | | 5.314 | -337.442 | -520.970 | -746.378 | -1.599.476 |



Thank you!

