



CENTRAL BANK OF CYPRUS
EUROSYSTEM

FOREIGN DIRECT INVESTMENT 2021

INTRODUCTION

This report provides an overview of the main developments in foreign direct investment (FDI) statistics¹ for 2021², as published by the Statistics Department of the Central Bank of Cyprus (CBC).

The CBC compiles FDI statistics in accordance with the International Monetary Fund's (IMF) Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) and the European System of Accounts, 2010 (ESA 2010). Data compiled on the basis of BPM6 methodology, which covers the period from 2008³ onwards, is based on the current residency definition of Cyprus, for statistical purposes⁴, and includes, inter alia, data of "special purpose entities" (SPEs)⁵, which are registered in Cyprus and thus classified, by definition, as residents. In order to present FDI statistics in a more objective manner for Cyprus, however, this report also presents

some supplementary series, adjusted for the impact of SPEs, that is, treating them as non-residents.

FDI plays an important role in the global economy. According to the Organisation for Economic Co-operation and Development (OECD), FDI is a key driver of international economic integration and, with the right policy framework, it can maintain financial stability, promote economic development and enhance economic well-being. Likewise, the importance of FDI in the economy of Cyprus is significant and has been increasing over the years.

The key points of this analysis are summarised as follows:

- Net FDI stock remained negative⁶ at a lower level in 2021 (i.e. inward FDI stock exceeded outward FDI stock).
- Net FDI transactions remained negative for the sixth consecutive year in 2021.
- Outward and inward FDI returns increased in 2021.
- FDI stock invested in/from Cyprus, originated mainly from/to Europe.
- Most of the FDI invested in/from Cyprus was related to the tertiary sector, in particular, "financial and insurance activities".
- Net FDI stock when treating SPEs as non-residents recorded a small decrease in 2021, thus remaining in negative territory (i.e.

¹ For more information on the definition and scope of FDI statistics please refer to the Appendix.

² Comprehensive annual FDI statistics are transmitted to Eurostat nine months after the end of the reference year and usually released within the following two months.

³ In the content of Macroeconomic Imbalance Procedure, starting from 2004, the CBC estimated time series for the period 2004-2007 in BPM6 format for the main external statistics indicators.

⁴ Please refer to the Appendix for the definition of "resident" for statistical purposes.

⁵ Please refer to the Appendix for the criteria under which an entity is considered an SPE.

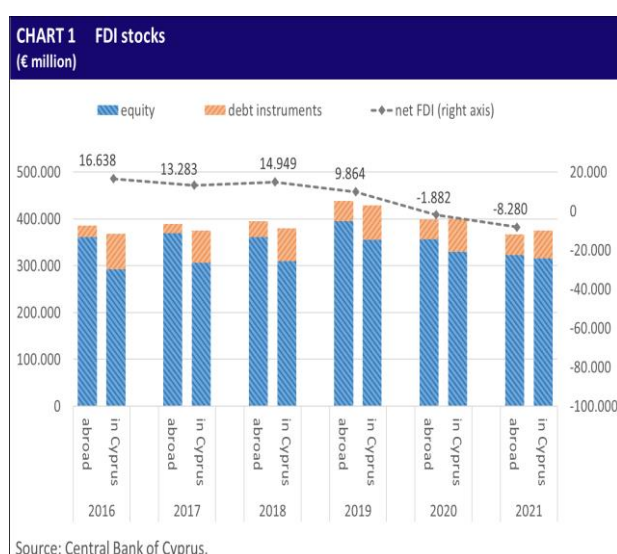
⁶ More information on the meaning of sign convention is provided in the Appendix.

adjusted inward FDI stock exceeded adjusted outward FDI stock).

FOREIGN DIRECT INVESTMENT

Stocks

The **net FDI stock** of Cyprus decreased further in 2021, thus still remaining negative. More specifically, in 2021, net FDI stock reached -€8.280,1 million, compared with -€1.881,6 million, in 2020 (**Chart 1**). This was due to the fact that the decrease in outward FDI was greater than that in inward FDI.



More analytically, **Chart 1** shows that:

- Outward FDI stock reached €366.978,8 million in 2021, compared with €398.151,1 million in 2020. The said decrease was exclusively attributed to the decrease in equity as debt instruments recorded a small increase. The majority of outward FDI stock in 2021 comprised of equity (88%) and, to a lesser extent, debt instruments (12%). The composition of outward FDI does not change much over time with equity always remaining above 88%.
- Inward FDI stock amounted to €375.258,9 million in 2021, compared with €400.032,7 million in 2020. This development was mainly due to the decrease in equity and, to a lesser extent, the decrease in debt instruments. As

regards the composition of inward FDI in 2021, it comprised of 84% equity and 16% debt instruments. Similar to outward FDI, the composition of inward FDI does not change much over time with the equity share of inward FDI ranging between 78% - 86%.

The similarities between inward and outward FDI with regard to their changes, are attributed to the large share of SPEs in both, inward and outward FDI stock. In particular, since these entities have no or little interaction with the domestic economy, their assets vis-à-vis non-residents are very similar to their respective liabilities. Consequently, any movements in SPEs assets are reflected in their liabilities and vice versa. It should be noted that movements in SPEs assets and/ or liabilities can also affect investment categories other than FDI, such as portfolio investment and other investment, although, they mainly relate to FDI.

As regards the changes recorded in FDI stocks over consecutive years, these are attributed not only to transactions but also to changes arising from:

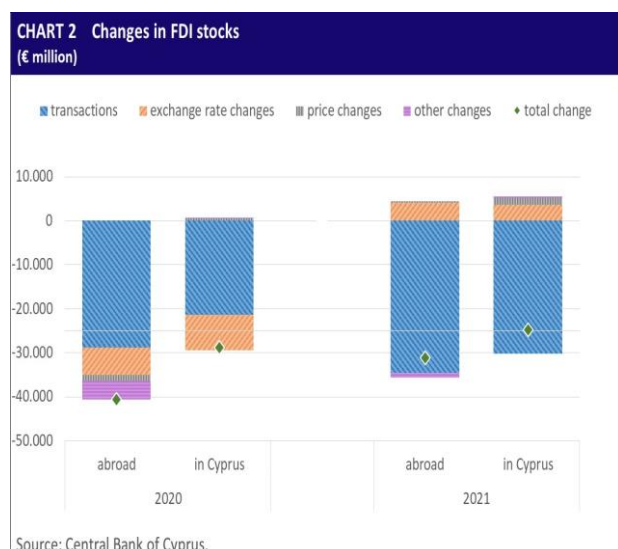
- (i) Exchange rate changes;
- (ii) Other price changes; and
- (iii) other changes in volume (e.g. reclassifications, write-offs, etc.).

Although over the long run changes in FDI stocks seem to be primarily determined by FDI transactions, in the short run they can also be determined by the aforementioned changes, which, in some cases, dominate FDI transactions.

As regards the decreases in outward and inward FDI stocks in 2021, these were mainly driven by transactions and, to a lesser extent, in the case of outward FDI by other changes in volume. On the other hand, other prices changes, exchange rate changes and, in the case of inward FDI, other changes in volume were positive and mitigated the above decreases. (**Chart 2**).

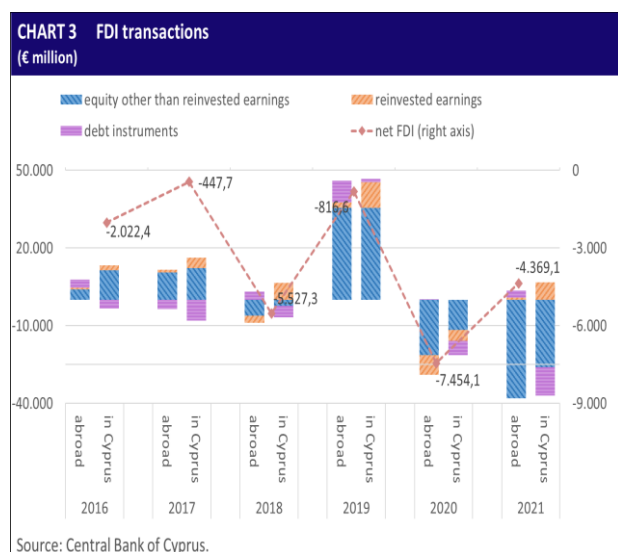
As mentioned above, over the long run, it is transactions that dominate the change in stocks. Specifically, the ratio of outward transactions of

the 2009 – 2021 period to the change in outward stock between end 2008 and end 2021 is at 99,9%. This means that the total transactions for the 2009 – 2021 period underestimate the change in stocks by only 0,1% (the 0,1% is also the total (positive) impact of the changes other than transactions on the change in outward stock for the period 2009 – 2021). The respective ratio of inward FDI is similar at 95,6%.



Transactions

Net FDI transactions remained negative in 2021. In particular, net FDI transactions in 2021 were recorded at -€4.369,1 million, following negative net outward FDI transactions which surpassed the negative net inward FDI transactions (**Chart 3**).



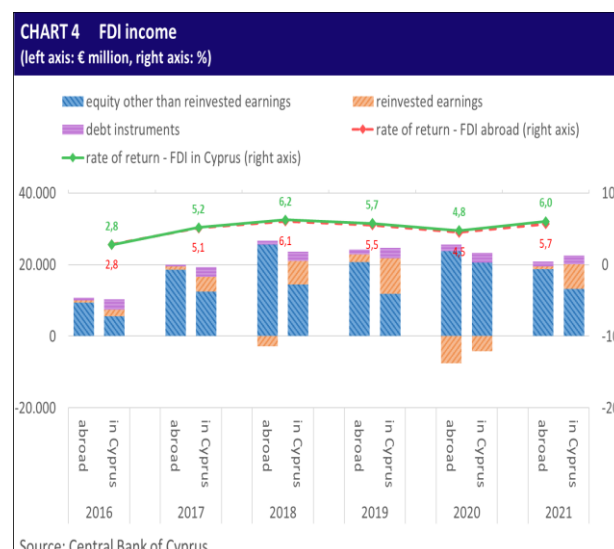
As regards outward FDI transactions in 2021, these reached -€34.590,3 million (**Chart 3**), of which, -€38.130,2 million was equity other than reinvested earnings. On the other hand, reinvested earnings and debt instruments were both positive and moderated the above decrease.

Inward FDI transactions reached -€30.221,1 million in 2021, of which, -€26.083,5 million was equity other than reinvested earnings and -€10.940,1 was debt instruments. Contrary to other components, reinvested earnings were positive and reached €6.802,4. (**Chart 3**).

Income

Net income from FDI remained negative in 2021 (i.e. inward FDI income exceeded outward FDI income). More specifically, net FDI income was recorded at -€1.818,8 million in 2021, down from -€1.160,6 million in the previous year.

As regards income from outward FDI, this reached €20.775,8 million in 2021, compared with €17.923,3 million in 2020 (**Chart 4**). The said increase was due to the increase in income from reinvested earnings which was mitigated by decreases in income from equity other than reinvested earnings (dividends) and income from debt instruments.



Income from inward FDI amounted to €22.594,7 million in 2021, compared with €19.083,9 million in 2020 (**Chart 4**). Similarly to income from outward FDI, the increase was attributed to the

income from reinvested earnings while the other two categories recorded decreases which mitigated the said increase.

It is evident from the aforementioned analysis that, when compared with 2020, profitability (rate of return) in 2021 improved for both outward and inward FDI. More specifically, the rate of return was 5,7%, for outward FDI and 6,0% for inward FDI in 2021, while the respective return in 2020 was at 4,5% for outward investment and 4,8% for inward investment (**Chart 4**).

It should be noted that the rates of return of outward and inward FDI are very similar over time as, not only do they move together, they are also almost identical in levels. There is almost perfect correlation between the two rates of return over 2016 – 2021, with the annual differential ranging between -0,4% and 0,0%.

A possible explanation lies in the large contribution of SPEs in Cypriot FDI, and the fact that these entities have similar inward and outward income due to the structure of their financial assets and liabilities.

Regional analysis

The Cyprus FDI stock, both inward and outward, is dispersed in all continents, with Europe being the dominant partner (**Table 1**).

Outward FDI stock destined to Europe amounted to €232.632,4 million in 2021, up from €219.923,8 million in 2020 (**Table 1**). The second most important continent, in terms of value, was America, with an outward investment value of €72.498,9 million, down from a respective amount of €116.358,0 million in 2020. It should be noted that there is an amount of €49.295,0 million which refers to unallocated data (i.e. data that cannot be allocated to a specific country) in 2021. As regards the euro area and the European Union (excl. UK), the share of FDI destined to those groups in 2021 amounted to 12,4% and 14,0%, respectively.

Concerning inward FDI, this is mostly channelled from Europe and, to a much lesser extent, from

America. More specifically, inward FDI stock from Europe reached €299.384,2 million in 2021, down from €322.986,8 million in 2020 (**Table 1**). Inward FDI stock from America (the second most important continent as regards inward FDI) was recorded at €38.041,1 million, thus decreasing by €613,5 million compared with the previous year. The unallocated amount in 2021 reached €21.697,2 million.

Table 1: FDI stock by region				
€ million				
	Abroad		In Cyprus	
	2020	2021	2020	2021
By continent				
Europe	219.923,8	232.632,4	322.986,8	299.384,2
America	116.358,0	72.498,9	38.654,6	38.041,1
Africa	4.080,6	5.052,3	5.972,1	6.039,5
Australia, Oceania and polar regions	249,1	167,6	528,4	532,6
Asia	6.655,9	7.332,7	7.568,4	9.564,3
Unallocated	50.883,7	49.295,0	24.322,3	21.697,2
Selected groups				
EU27	50.359,3	51.369,8	119.888,2	115.445,2
EA	44.695,4	45.607,1	115.544,1	109.703,0
OECD	87.997,3	90.650,5	191.812,7	144.543,2
Selected countries				
United Kingdom	13.623,9	15.199,4	5.951,7	6.186,9
Germany	10.718,2	12.176,1	8.401,8	8.333,9
Luxembourg	13.938,5	13.112,0	68.336,9	66.522,8
Greece	-3.468,4	-2.994,5	3.778,5	4.762,4
Netherlands	13.267,8	12.858,4	12.664,3	10.809,4
Russian Federation	115.256,6	125.517,2	100.896,7	120.396,6
United States	C*	C*	C*	C*
* C denotes confidential information				
Source: Central Bank of Cyprus.				

The share of inward FDI stock from the euro area and the European Union (excl. UK) is much higher than the respective share of outward FDI in 2021, as it accounted for 29,2% and 30,8%, respectively.

The outward FDI stock of Cyprus in 2021 was dispersed to at least 137 countries, whilst inward FDI stock was channelled to Cyprus from at least 162 countries⁷. Of these, 125 are common to both outward and inward FDI stock.

Although the number of partner countries for both inward and outward FDI stock is large, there is a high concentration in a small number of countries. More specifically, the top 10 countries responsible for both inward and outward FDI stock accounted for more than 81% of the total allocated stock, with Russia being the top partner for both outward and inward FDI.

⁷ It should be noted that the actual number of countries might be higher because some FDI stock is not allocated to a specific country.

Analysis by economic activity

Most of Cyprus's inward FDI stock was channelled to the tertiary sector (i.e. services). In particular, inward FDI stock channelled to the tertiary sector in 2021 amounted to €372.813,1 million, down from €397.644,8 million in 2020 (**Table 2**). Most of the investments in the tertiary sector are directed to the financial and insurance activities. This reflects Cyprus's specialisation in the provision of financial services. Concerning the primary and secondary sectors, these totalled €2.445,8 million in 2021, compared with €2.387,9 million in 2020.

	Abroad		In Cyprus	
	2020	2021	2020	2021
Primary and secondary sectors	131.078,6	76.592,1	2.387,9	2.445,8
Tertiary sector	220.327,3	243.870,0	397.644,8	372.813,1
of which				
Financial and insurance activities	140.804,1	156.038,7	366.159,2	339.654,4
Transportation and storage activities	6.549,4	6.632,2	10.856,8	10.867,0
Real estate activities	24.048,9	24.317,6	9.129,7	9.867,4
Unallocated by sector	46.745,1	46.516,7	0,0	0,0

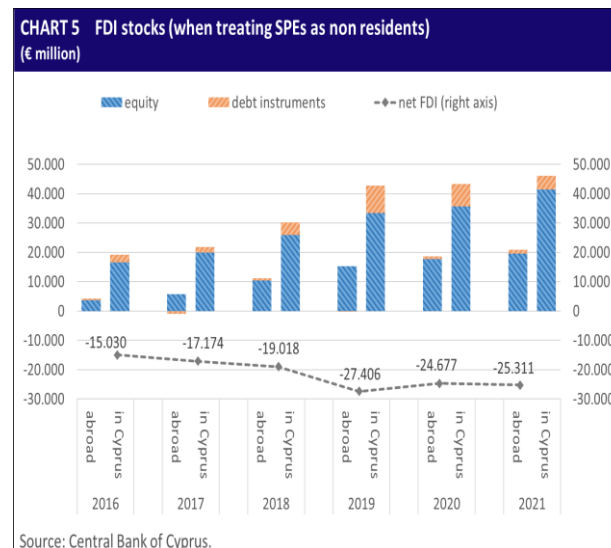
As regards outward FDI, this is mainly channelled to the tertiary sector. Specifically, outward FDI stocks to the tertiary sector in 2021 amounted to €243.870,0 million, compared with €220.327,3 million the previous year. Most of the investments in the tertiary sector are directed to the financial and insurance activities. The primary and secondary sectors reached €76.592,1 million in 2021, down from €131.078,6 million in 2020. It should be noted that an amount of €46.516,7 million in outward investment in 2021 remains unallocated (i.e. it cannot be allocated to a specific economic activity).

IMPACT OF SPEs ON FDI STATISTICS

The presence of SPEs (i.e. the treatment of SPEs as residents) in FDI statistics distorts the picture portrayed by the said statistics. This is due to the fact that their transactions and positions in their entirety are "cross border". The analysis in this section treats SPEs as non-residents so as to remove the impact those entities have on FDI statistics.

When treating SPEs as non-residents, net FDI stock in Cyprus decreases further (**Chart 5**). More

specifically, in 2021 net FDI stock reached - €25.311,4 million, compared with -€24.676,6 million, in 2020.



Outward FDI stock reached €20.865,0 million in 2021 while inward FDI stock was recorded at €46.176,4 million the same year. It is evident that the data treating SPEs as non-residents are substantially lower compared with treating them as residents.

Similar to the case when SPEs are treated as residents, most of the inward FDI stock is channelled to the tertiary sector. Specifically, inward FDI stock channelled to the tertiary sector in 2021 amounted to €43.690,76 million (**Table 3**) while inward FDI to primary and secondary sectors totalled €2.485,7 million.

	Abroad		In Cyprus	
	2020	2021	2020	2021
Primary and secondary sectors	2.414,5	2.437,5	2.427,8	2.485,7
Tertiary sector	15.110,0	16.168,6	40.879,7	43.690,7
Unallocated by sector	1.106,4	2.258,9	0,0	0,0

As regards outward FDI, this is mainly channelled to the tertiary sector (€16.168,6 million in 2021) and, to a lesser extent, to the primary and secondary sectors (€2.437,5 million in 2021). An amount of €2.258,9 million remains unallocated.

APPENDIX: SOURCES AND DEFINITIONS/ GLOSSARY

Sources

FDI data are compiled using various sources as follows:

- *Survey on External Financial Statistics* conducted by the CBC on a quarterly basis, which collects information on stocks, transactions and income from investments. The aforementioned survey collects data for all types of investments and not only for the FDI category, giving the opportunity to gather comprehensive data for each specific company.
- Annual financial statements of resident entities.
- Data collected from a number of sources (other direct surveys to entities, mirror data, data from the “Department of land and surveys”, international transactions reporting system-ITRS for earlier years), which are mainly used for the compilation of the real estate assets and liabilities.
- Data from the *Shipowning Survey* conducted by the CBC, in collaboration with the Statistical Service of Cyprus, on an annual basis. These data are reported in aggregate form by the audit firms that represent those companies and they include statistics on resident entities which are the economic owners of ships.

Definitions/ glossary

The definitions used for the FDI data for Cyprus are in line with the definitions used in the IMF’s Balance of Payments and International Investment Position Manual, 6th Edition (BPM6) and the OECD Benchmark Definition of Foreign Direct Investment, fourth edition (BD4).

Foreign direct investment (FDI)

FDI is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment

enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship. An exception to the above rule are the issues and holdings of investment funds shares which are considered portfolio investment, irrespective of the percentage holdings.

Foreign direct investor

A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10% of the voting power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy.

Foreign direct investment enterprise

A foreign direct investment enterprise is an enterprise resident in one economy and in which an investor resident in another economy owns, either directly or indirectly, 10% or more of its voting power if it is incorporated or the equivalent for an unincorporated enterprise.

Equity capital

Equity consists of all instruments and records that acknowledge claims on the residual value of a corporation or quasi-corporation, after the claims of all creditors have been met. Equity is treated as a liability of the issuing institutional unit (a corporation or other unit). It comprises: i) equity/participation in branches; ii) all shares in subsidiaries and associates (except non-participating, preferred shares that are treated as debt securities and included under direct investment, debt instruments); and iii) other contributions of an equity nature.

Debt instruments

Debt instruments are those instruments that require the payment of principal and/or interest

at some point(s) in the future. For FDI purposes, debt instruments consist of deposits, debt securities, loans, trade credits and other accounts receivable/payable which are transacted between companies with an FDI relationship. There are some exceptions in case of transactions in debt instruments between certain financial companies in which case they fall in a category different than FDI.

Reinvested earnings

Reinvested earnings refer to earnings on equity accruing to direct investors less distributed earnings, proportionate to the percentage ownership of the equity owned by the direct investor(s).

Inward direct investment

Inward direct investment is investment by a non-resident direct investor in a direct investment enterprise resident in the host economy; the direction of the influence by the direct investor is “inward” for the reporting economy. Also referred to as direct investment in the reporting economy.

Outward direct investment

Outward direct investment is investment by a resident direct investor in a non-resident direct investment enterprise; the direction of the influence by the direct investor is “outward” for the reporting economy. Also referred to as direct investment abroad.

Special purpose entity (SPE)

According to the “Final Report of the Task Force on SPEs”⁸, an entity is considered as an SPE if it meets the criteria listed below:

- It is resident in an economy, i.e. it is a formally registered and/or incorporated legal entity recognized as an institutional unit, with:
 - no or little employment up to maximum of three⁹ employees,

⁸ Prepared by the Statistics Department of the International Monetary Fund.

⁹ Although the Task Force decided to set the threshold for the number of employees to five, this upper limit is not representative in the case of Cyprus, since there is no legal

- no or little physical presence and
- no or little physical production in the host economy.
- It is directly or indirectly controlled by non-residents.
- It is established to obtain specific advantages provided by the host jurisdiction with an objective to:
 - grant its owner(s) access to capital markets or sophisticated financial services; and/or
 - isolate owner(s) from financial risks; and/or
 - reduce regulatory and tax burden; and/or
 - safeguard confidentiality of their transactions and owner(s).
- It transacts almost entirely with non-residents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities.

Signs

- Transactions: a positive sign denotes an increase in inward/outward FDI while a negative sign denotes a decrease in inward/outward FDI transactions.
- Income: income is usually shown with a positive sign which indicates an increase in inward/outward income. There are some exceptions with the most common being the realisation of net losses for an entity in a given period.
- Changes in stocks other than transactions (exchange rate, price and other changes): a positive sign represents an increase in the said changes while a negative sign represents a decrease.
- Stocks: stocks are usually depicted with a positive sign although there are some exceptions. The most common exception is negative stocks which arise due to accumulated losses of an entity (i.e. reserves of the entity turn negative and exceed the value of equity).

provision for minimum employment in the CY law. Thus, the threshold for the said criterion is set to three employees

Definition of the Term “resident of Cyprus” for Statistical Purposes:

"Resident" has the meaning assigned to it in the Definition of the Term "resident of Cyprus" for Statistical Purposes Directive, 2008;

In this directive:

- (1) A **legal entity** is resident in the economic territory under whose laws the entity is incorporated or registered. This applies also to legal entities with little or no physical presence, e.g. investment funds (as distinct from their managers), securitisation vehicles, and some special purpose entities (SPEs). If the entity is not incorporated, it is considered to be resident in the country whose legal system governs the creation and continued existence of the entity.

The residence of the enterprise that owns a ship is determined by the criterion of economic ownership. Specifically, the economic ownership is the right of a natural or legal person to claim the benefits associated with the use of a vessel in the course of an economic activity by virtue of accepting the associated risks.

- (2) A **natural person** is a resident in the country that has a centre of economic interest. A centre of economic interest exists when a unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale in or from a location, dwelling, place of production or other premises within a territory.

For practical reasons, actual or intended location for one year or more is used as an operational threshold. However, the following are examples of **borderline cases** in the determination of residency:

- Students who go abroad to study full-time generally continue to be resident in the territory in which they were resident prior to studying abroad. This treatment is adopted even though their course of study may exceed a year.
- Patients who go abroad for medical treatment maintain their predominant centre of interest in the territory in which they were resident before they received the treatment, even if the treatment lasts one year or more.
- Crews of ships, aircraft, oil rigs, space stations or other similar equipment which operate outside a territory or across several territories are treated as being resident in their home country.
- National diplomats, peacekeeping and other military personnel, and other civil servants employed abroad in government enclaves, as well as members of their households are considered to be residents of the economic territory of the employing government.
- Staff of international organisations, including those with diplomatic status and military personnel are resident in the territory of their principal dwelling.
- Border workers, seasonal workers and other short-term workers who cross borders for a short period to undertake a job are considered residents in the economic territory in which they maintain a dwelling used by members of the household as their principal dwelling.