

The Effect of China's Limit on Capital Outflows in Cyprus Real Estate Market

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DISSERTATION

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I want to dedicate this dissertation to my wife for the support and understanding she shows since the beginning of my Masters degree.

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Contents

Introduction.....	7
ABSTRACT	9
LITERATURE REVIEW	10
Summary of Findings	21
METHODOLOGY.....	22
Chapter 1: Theoretical concept of Capital controls.....	23
1.1 Introduction	23
1.2 The target of capital Control Policy	23
1.3 The history of Capital Controls	24
1.4 Capital flow control measures	25
1.5 Diversification of Capital Controls	25
1.6 Capital Controls From China’s point of view	27
1.7 Advantages of Capital Controls	31
1.8 Disadvantages of Capital Controls	31
1.9 Recap	32
Chapter 2: Real Estate Sector in the Economy of Cyprus.....	32
2.1 PANCYPRIAN STATISTICAL DATA FOR TRANSFER OF SALES AND CONTRACT OF SALES TO FOREIGN BUYERS	36
2.2 Cyprus Investment Program	39
2.3 Post and Pre CIP Analysis of Real Estate Market of Cyprus	41
2.4 Cyprus revenues since Citizenship Program (CIP)	42
2.5 Covid-19 impact in Cyprus economy and Real Estate Market	44
Chapter 3: Survey Data Analysis.....	46
Chapter 4: Conclusions and Recommendations.....	66

Appendices	68
List of Figures	68
List of Tables	69
Referencing.....	70

Introduction

Cyprus is on the way of a new economic era. After the economic crisis period 2009-2015, the country has recorded promising data on Gross Domestic Product (GDP) and Inflation growth. Public debt since 2017 has dropped below 100% (97.5%) and in 2018 International rating agencies like Standard & Poor's and Fitch have recently rated Cyprus as capable to be back in the investment category. Central Bank of Cyprus (CBC) was also rated from steady long term prospective to positive, by Fitch. The same year, a positive rating was also been evaluated by Moody's, however they put Cyprus one step below the investment category. Recently, on September 2019, Moody's has set Cyprus rating to Ba2 category that means is judged to be speculative and is subject to credit risk but the outlook of this is positive, they add.

Inflow and outflow capital controls are set by the government or the central bank of a country. The reasons of doing that vary but mostly we are going to see how these measures impact in real estate sector. Basically, such measures give the ability to governments to control the economy and manage risks like excessive fund out of the country. For example, locals buy property abroad or foreign people buy domestic property, excessively. These measures may have negative effects on equities, bonds and foreign exchange trades. In order to outcome the economic crisis, the Ministry of finance and CBC made a lot of modifications on the management of economics and the parliament has put a lot of effort in order to re-attract foreign investors. As a fact, currently Cyprus's economy depends on a huge percentage in Foreign Direct Investment (FDI). The progressive rating along with the crisis recovery has a lot to do with foreign capital inflows, especially from China and Russia. Both are highly benefitted from the Cypriot citizenship so they invest or buy properties in order to gain the advantages offered.

On the other hand, many questions need to be answered under the circumstance of Chinese government setting a limit on capital outflows. Cyprus

citizenship not only benefits the Chinese but also Cyprus economy. Undoubtedly, this financial measure forced the economy of Cyprus to start moving upwards again. Construction sector was recovered as all kind of building projects are in demand. Local people could find jobs again, unemployment was reduced and by receiving salaries they could build, shop, rent or buy accommodation.

As a fact, Cyprus is being accused as a state of entanglement, fraud and money laundering. Since 2013 the government of Mr. Anastasiades (ΔΗΣΥ) has published over 5000 passports with 0% of rejection. This has urged opposition party (Progressive Party of Working People, AKEL), along with unshakable evidence, to put pressure on the ruling party when investigating future applicants. Adding this, the prevailing impression of Europeans, perhaps with substantiated evidence, is that most passports were issued through a well-established network with a mixture of political entanglement and selfish economic interests. Another crumple of this topic is whether an applicant is coming from trouble regions or encounter visa restrictions. An additional passport with significantly less restrictions allows easier movement and opportunities for business (Williams and Hosein, 2019).

Despite their attractiveness, Visa and passport schemes were set to a limited number. However, this number has long ago been over exceeded due the economic advantages exchanged. This policy is one of the major reasons that reconstructed real estate market in Cyprus.

ABSTRACT

This dissertation mainly investigates the effects and risks that theoretically can arise in Cyprus' real estate market due to China's Capital Control Policy. To achieve this we have compared construction and real estate activity in Cyprus by Foreign Buyers and investors based on a 10 year period. Initially, we have collected RE transaction data based on foreign people. These data were collected from the Statistical Service of Cyprus to see if there is any possible change in Chinese capital inflow before and after the Chinese capital restrictions. Also, we have contacted real estate professionals along with China's and Russia's Embassy in Cyprus in order to collect information about foreign buyers and how many of them have Cyprus Citizenship, a major "KEY" in real estate development. More, a questionnaire was sent to Real estate professionals for further information.

Some of our findings show that Real estate sector is a pillar of Cyprus economy and a big percentage of cash-flow comes from abroad. Even though, Chinese Capital Controls have not affected Cyprus real estate (RE) industry that much. Chinese people can outflow their money with different ways out of China. Even more, China is not our biggest RE foreign investor so Cyprus is not facing a high level risk in this industry. Unfortunately, the exact number of Chinese Buyers was not accessible but we strongly believe that our assumptions along with our indisputable questionnaire data have resulted to the most accurate conclusions for this topic.