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Cyprus ICT 2022 Analysis and 2023–2025 Forecast

IN THIS WHITE PAPER

IDC and the Cyprus Computer Society (CCS) cooperated to produce this comprehensive report covering the Cypriot ICT market. The report focuses on all ICT market segments — including the IT equipment, IT services, software, and telecommunications markets — and covers 2023 market sizing, forecasts until 2025, and trend analysis. The in-depth analysis for 2023 covers the IT services segment. It is based, inter alia, on a representative end-user survey of Cypriot companies and a survey of ICT companies operating in the country.

CONTENTS

In This White Paper	1
Executive Summary.....	4
Situation Overview	6
<i>The IT Market in the Current Economic and Business Environment</i>	6
<i>Key IT Market Drivers</i>	7
Adoption of New Technologies	7
Governmental Strategic Measures	7
Broadband and 5G Rollouts	8
IT Talent Shortage.....	8
Digital Transformation	8
<i>Cypriot Companies' Internal Challenges and IT Investment Priorities</i>	9
<i>Hybrid Working Model and Uptake of the Digital Workplace</i>	13
<i>Sustainable IT</i>	13
<i>Impact of the Geopolitical Situation</i>	14
<i>Digital Transformation Challenges in Cyprus</i>	15
Analysis of the IT Services Market in Cyprus	16
<i>Overview of IT Services Spending in Cyprus by IDC Foundation Market</i>	16
Support and Training Services	17
Project Services.....	18
Outsourcing Services.....	18
<i>Overview of IT Services Spending in Cyprus by Vertical Market</i>	18
Combined Finance.....	19
Telecommunications.....	20
Government.....	21
Tourism.....	22
Shipping.....	22
<i>IT Services Trends</i>	23
Budgets and Sourcing	23
Emerging Service Types	24
Infrastructure Services	25
Future Outlook.....	30
<i>Market Forces</i>	30
<i>Market Forecast</i>	31
Advice for Technology Suppliers	32
Appendix.....	34
<i>List of Abbreviations</i>	34

<i>Research Sources</i>	35
Market Representation	35
Revenue Recognition.....	35
Notes on Forecasting	35
<i>About Cyprus Computer Society (CCS)</i>	36
<i>About IDC</i>	37

LIST OF FIGURES

Figure 1	Cyprus ICT Market by Segment (€M).....	5
Figure 2	ICT Market in Cyprus and Greece, 2021–2023 (€M).....	6
Figure 3	Challenges of Cypriot Companies in 2023	10
Figure 4	Cypriot Companies’ IT Investment Priorities in 2023.....	12
Figure 5	Sustainability Efforts in Cypriot Organizations	14
Figure 6	Challenges to Digital Transformation Strategies in Cyprus	15
Figure 7	Cyprus Spending Dynamics on External IT Services in 2023 ..	24
Figure 8	Cyprus IT Services Vendor Preference by Origin.....	24
Figure 9	Cyprus Emerging Technology Services in 2023	25
Figure 10	Cyprus Adoption of Infrastructure Services.....	26
Figure 11	Spending Dynamics for Datacenter and Infrastructure Management Services in Cyprus	27
Figure 12	Cloud Benefits for Companies in Cyprus	28
Figure 13	Barriers to Cloud Adoption for Companies in Cyprus.....	29

LIST OF TABLES

Table 1	Challenges of Cypriot Companies: Top Changes in Importance, 2023 vs. 2021.....	11
Table 2	Cyprus Companies’ IT Investment Priorities, 2023 vs. 2021 ...	12
Table 3	Skills Gaps Perceived by Cypriot Companies.....	16
Table 4	Cyprus Overview of IT Services Spending by IDC Foundation Market, 2022	17
Table 5	Cyprus Overview of IT Services Spending by Vertical Market, 2022.....	19
Table 6	Overview of ICT Markets in Cyprus, 2020-2025 (€M).....	31

EXECUTIVE SUMMARY

The Cypriot ICT market (including telecommunications) reached a value of €781 million in 2022, which represents year-on-year growth of 4.7%. The IT market (excluding telecommunications) was valued at €302 million, representing year-on-year growth of 8.4%. Spending on IT services reached €156 million, a 10.1% year-on-year increase.

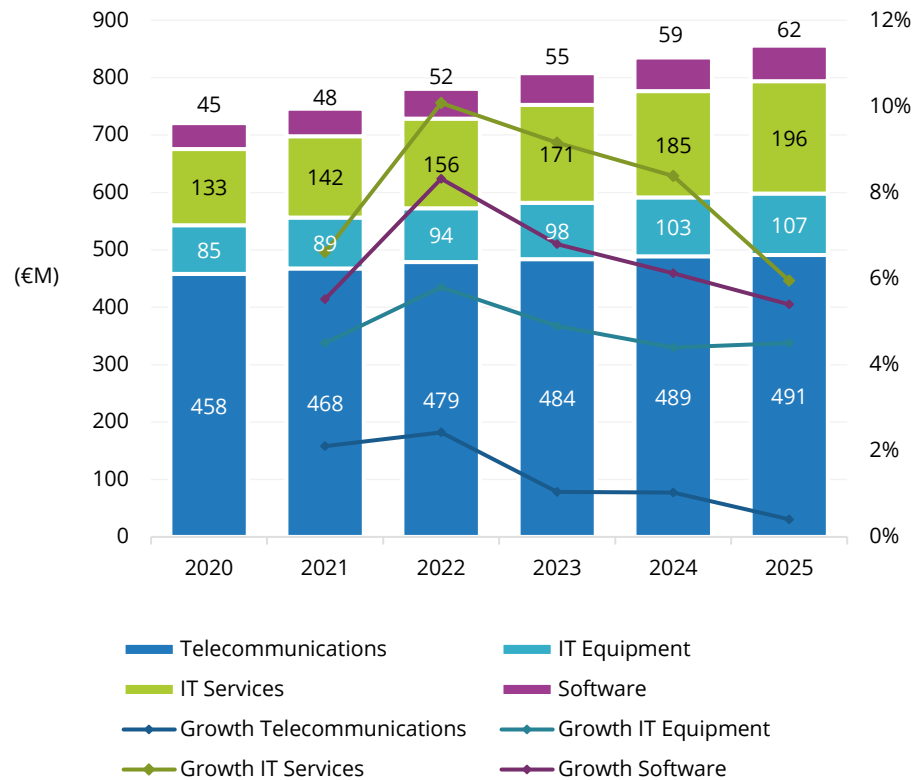
Over the past two years, the Cypriot economy recovered strongly from the negative effects of the COVID-19 pandemic. Despite the ongoing effects of the Russia-Ukraine War and the resulting international sanctions imposed on Russia, the Cypriot economy recorded significant growth of approximately 5.8% in 2022, almost matching the increase recorded a year earlier. Unemployment is also expected to trend downward, with the unemployment rate decreasing from 6.5% in 2023 to about 5.5% in 2025. On the other hand, inflation jumped to 8.1% in 2022 from 2.3% in 2021, although this was still below the European Union (EU) average. Inflationary pressures are expected to normalize gradually between 2023 and 2025, with the inflation rate falling below 2.0% in 2025.

The economic recovery and the digital transformation spurred by the pandemic drove the expansion of the ICT sector in 2022. The sector contributes significantly to the diversification of the country's growth model, as well as to the reduction of its trade deficit. The outlook for the near future is also positive, as the majority of ICT companies operating in Cyprus plan to launch new services. The same pattern of cybersecurity topics coming to the fore can be seen in terms of challenges, investment priorities, and the need for skills.

These positive trends are reinforced by the Cypriot government. An important step in its supportive activities was the establishment of the Deputy Ministry of Research, Innovation, and Digital Policy (DMRID), which has since played an essential role in the preparation of national ICT strategies and the promotion of emerging technologies. Remarkable achievements have been made in areas such as AI and blockchain (Cyprus is currently among the top 3 blockchain hotspots in the EU in terms of regulatory maturity and investment capital raised by start-ups). The government of Cyprus also encourages investment in 5G infrastructure and broadband connectivity, with special incentives to serve underdeveloped areas.

Project services have become the largest IT services primary market, overtaking support and training services, while outsourcing services remains in third position. The finance sector is the largest spender on IT services, followed by the public sector and telecommunications, as long-term tender-based projects are common, with extended revenue streams for contract winners. Around half of Cypriot companies expect to increase their IT services spending, while more than 21% will maintain their current level of investment.

FIGURE 1
Cyprus ICT Market by Segment (€M)



Source: IDC, 2023

This IDC White Paper examines the state of the IT industry in Cyprus in 2022 and 2023, with a focus on the IT services segment, and forecasts industry spending for 2023–2025. The study outlines market size and distribution by both foundation market and vertical market.

The study answers the following questions:

- What are IDC's predictions for ICT and IT services spending in Cyprus? What are the driving forces and the expected market dynamics, and what impact will the related issues have on the market in 2023–2025?
- What do end users in Cyprus say about their IT and IT services priorities, concerns, and preferences?
- What are the latest trends in IT services delivery in Cyprus, and what are the main drivers of change?

SITUATION OVERVIEW

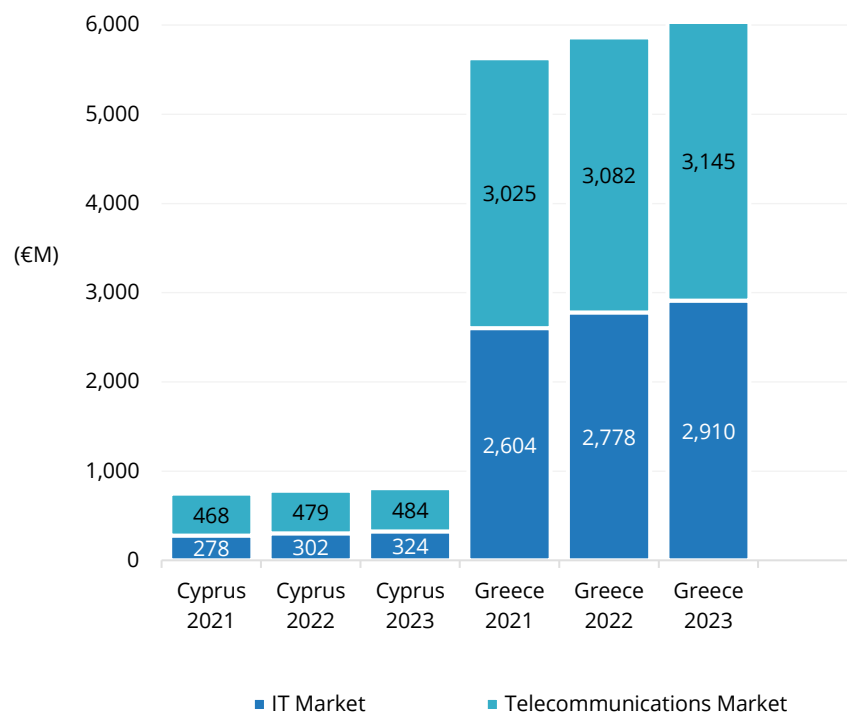
Spending on ICT (including the telecom market) grew 4.7% year on year in 2022 to reach €781 million.

Spending on IT (excluding the telecom market) grew 8.4% year on year in 2022 to reach €302 million.

The value of the IT services segment increased to €156 million in 2022, representing year-on-year growth of 10.1%. Figure 2 presents a comparison of ICT spending in Cyprus and Greece.

FIGURE 2

ICT Market in Cyprus and Greece, 2021–2023 (€M)



Source: IDC, 2023

In 2022, ICT spending in the whole of Western Europe (WE) totaled €779 billion, which can be broken down into IT spending of €592 billion and telecom spending of €187 billion.

The IT Market in the Current Economic and Business Environment

The post-pandemic economic growth in Cyprus has been solid, despite new challenges stemming from the Russia-Ukraine War. The GDP increased by approximately 5.8% in 2022, according to several national and EU sources. This growth was facilitated by ongoing investments and the reopening of the economy

after the worst phase of the pandemic, as well as a steady inflow of foreign companies, particularly in the technology sector.

However, as a result of adverse international economic conditions, Cyprus' GDP growth rate is expected to decrease to 2.5% in 2023 before reaching 3.1% in 2024 and 2025. The level of unemployment declined to 6.7% of the labor force in 2022 from the 7.7% recorded in 2021. The unemployment rate should decline steadily from 6.5% in 2023 to 5.5% in 2025.

The inflation rate, as measured by the Harmonised Index of Consumer Prices (HICP), soared to 8.1% in 2022 from just 2.3% in 2021, mainly as a result of the energy crisis. Despite rising inflation, private consumption remained quite strong due to targeted government measures to compensate for high energy prices. Inflation is expected to fall back to around 3.3% in 2023 and to decrease even further to below 2.0% in the subsequent two years.

Key IT Market Drivers

Adoption of New Technologies

Operational and business paradigms in almost all areas of the economy are undergoing revisions related to digital transformation, resulting in increased ICT usage. Cypriot companies now understand that adopting new technologies is necessary to remain competitive. The adoption of cutting-edge technologies is of great importance to the Deputy Ministry of Research, Innovation, and Digital Policy and other state organizations, with blockchain and artificial intelligence as their current top priorities. Cyprus is among the EU's top 3 blockchain hotspots in terms of regulatory maturity, industry size, academic initiatives, and investment capital raised by startups. A national European Blockchain Services Infrastructure node (currently in the preproduction phase) and a pilot use case on cross-border diploma verification have been developed in collaboration between the country's private sector and academia. Additionally, the national strategy and action plan for AI is aimed at ensuring the development of ethical and reliable AI. Cyprus has the potential to become a pioneer of emerging technologies at the European level. Its efforts are focused on investing in research, development, and infrastructure to leverage the full potential of these technologies and ensure their responsible and ethical implementation.

Governmental Strategic Measures

Cyprus has set ambitious targets and milestones for its digital transformation journey, aligned with the EU Digital Decade (program to empower businesses and people in a human-centered, sustainable, and more prosperous digital future). The 2022 progress report by the Digital Economy and Society Index recognizes that the Digital Strategy for Cyprus 2020–2025, as well as the actions included in the specific pillars (e.g., infrastructure and digital skills), create a strong foundation for accelerating the country's digital transformation. European and national funds are imperative to implement ambitious reforms and investment

plans. The National Recovery and Resilience Plan has allocated €282 million (23% of the total budget allocation of €1.2 billion) to the digital transition, and the European structural and investment funds have allocated approximately €112 million for the 2021–2027 financial period to support digital transformation projects.

Broadband and 5G Rollouts

Cyprus' new National Broadband Plan 2021–2025, announced in November 2021, is aimed at strengthening and developing new infrastructure, technologies, and connectivity services. The plan sets targets to be achieved by 2025; for example, all homes and businesses should have access to internet connectivity with download speeds of at least 100Mbps, upgradable to 1Gbps. As part of the Recovery and Resilience Plan, the government is planning to support the expansion of very high-capacity networks in underserved areas. In a public open tender procedure, up to three telecom operators will be selected to undertake the design, construction, and operation of the network in three different areas identified in the tender. Regarding take-up, providers have been successful in migrating a significant number of clients from low speeds to offers of at least 100Mbps. However, despite the good coverage of fiber networks, the take-up of gigabit speeds in Cyprus is significantly below the EU average.

Regarding 5G deployment, the 700MHz and 3.6GHz bands were authorized through an auction. All four mobile operators in Cyprus were awarded a portion of the spectrum in these two bands. Moreover, the Broadband Competence Office has been empowered to better respond to the wide range of measures that must be planned and implemented for Cyprus to achieve both EU objectives and the targets set out in its Recovery and Resilience Plan.

IT Talent Shortage

Based on current technological developments, the need for specific technical skills (e.g., those related to AI, agile development, data analytics or blockchain) is anticipated to increase over the next five years. The DMRID has developed the Digital Skills National Action Plan 2021–2025 under the National Digital Strategy 2020–2025, taking into consideration the latest advancements in the field. This action plan is intended to strengthen the digital fitness and capacity of citizens across demographics and economic activity. Emphasis is placed on meeting the labor market's growing needs, both in terms of general digital skills and specialized ICT skills. The plan is also aimed at redesigning the education system to better utilize digital tools in teaching and learning and to promote STEM as a career path. The action plan also takes into consideration other sector-specific strategies, such as the lifelong learning strategy developed by the Ministry of Education and the National Cybersecurity Strategy.

Digital Transformation

The pandemic has given new impetus to digital transformation in Cyprus. As internet connectivity speeds continue to improve, an increasing number of local

businesses are developing their online presence and related commercial activities. Foreign ecommerce businesses and high-tech entrepreneurs are also contributing to this ecosystem, attracted by its potential and the country's business-friendly environment. These factors have paved the way for Cyprus to become a regional digital commerce hub. The national strategy for digital transformation includes the following pillars:

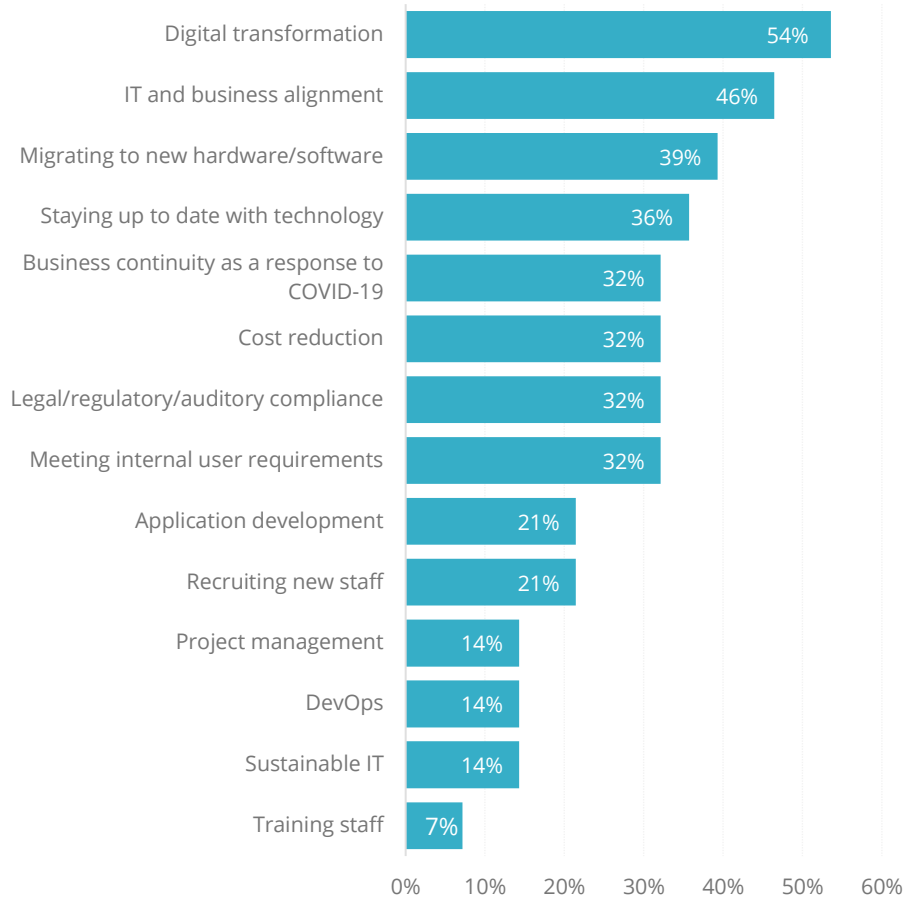
- Promoting eGovernment by redesigning the enterprise architecture and governance model
- Developing a stronger digital economy and increasingly digital and competitive industries
- Facilitating gigabit connectivity, including government intervention in areas that will not be covered by telecom operators
- Promoting an accessible and inclusive society with the skills and motivation to embrace the national digital transformation
- Ensuring security in data and infrastructures and increasing public trust in online transactions

Cypriot Companies' Internal Challenges and IT Investment Priorities

Digital transformation has become the most important challenge for Cypriot companies (see Figure 3) and was the only challenge mentioned by more than 50% of surveyed businesses. The COVID-19 pandemic has contributed significantly to the significance of this challenge. The alignment of IT and business environments has grown in importance, although not dramatically.

FIGURE 3 Challenges of Cypriot Companies in 2023

Q. What are the main internal challenges for your organization in 2023? [Choose up to five]



Source: IDC's Cyprus IT Buyer Survey, 2023

Compared with two years ago, the challenge of migrating to new hardware and software increased in importance by more than 20% (see Table 1). This was followed by meeting internal user requirements and remaining up to date with technology. This clearly shows the increasing digital maturity of Cypriot organizations and the greater focus on digital transformation initiatives.

Training staff no longer appears to be an top challenge, although room for improvement remains. This also applies to recruiting new staff, while the challenge of staff cutbacks has decreased greatly in importance, suggesting the improved economic conditions in Cyprus. However, cost reduction still ranks relatively high. New challenges included in the survey for the first time were not considered highly important, with the possible exception of application development. While regulation and compliance are generally regarded as cost generators that do not create new business value, they often trigger significant IT investment.

TABLE 1
Challenges of Cypriot Companies: Top Changes in Importance, 2023 vs. 2021

Increase	Decrease
Migrating to new hardware and software (20.3%)	Training staff (-18.8%)
Meeting internal user requirements (14.9%)	Staff cutbacks (-5.2%)
Staying up to date with technology (13.3%)	Business continuity as a result of COVID-19 (-4.1%)
Digital transformation (12.2%)	Recruiting new staff (-2.7%)

Source: IDC’s Cyprus IT Buyer Survey, 2023

Cybersecurity remains the top investment priority for Cypriot companies (see Figure 4), with its significance increasing dramatically. The proliferation of digital services has resulted in increased volumes of information stored on the internet. Organizations that do not take cybersecurity seriously risk suffering irreversible damage.

Government, health, and education organizations become more attractive to hackers as they expand their data architectures, collect more data on citizens and businesses, and adopt cloud and mobile solutions. These organizations’ lack of cybersecurity skills could also play a role. Some public-sector organizations in Cyprus have suffered serious attacks in the past 12 months.

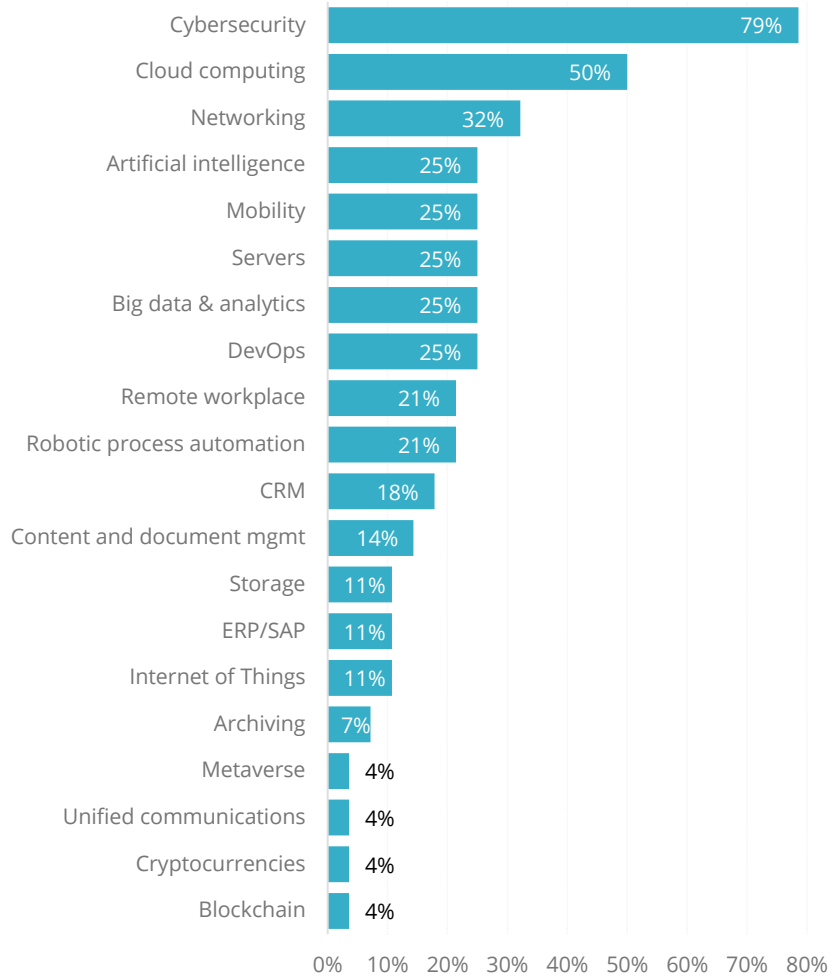
Trust is very important in the provision of digital services. Citizens rely on government organizations to ensure the security of their personal information in a responsible manner. Citizens’ trust in their government can be damaged as a consequence of cyberattacks.

Other pressing investment priorities mentioned in the survey include cloud computing (an increase was forecast in the previous edition of this report) and networking. Remote work, which became a priority due to the pandemic, has become less significant.

For details of changes in investment priorities, please refer to Table 2. It should be noted that the list of investment priorities was restructured for the survey. As a result, some non-IT areas were excluded, while others (e.g., storage, servers, and AI) were included for the first time.

FIGURE 4 Cypriot Companies' IT Investment Priorities in 2023

Q. How likely is your organization to invest in the following IT areas in 2023?
[Choose all that apply]



Source: IDC's Cyprus IT Buyer Survey, 2023

TABLE 2
Cyprus Companies' IT Investment Priorities, 2023 vs. 2021

	2023	2021
Top investment areas	Cybersecurity	Cybersecurity
	Cloud computing	Cloud computing
	Networking	Remote workplace
	Mobility	Mobility
	Artificial intelligence	Content and document management

Source: IDC's Cyprus IT Buyer Survey, 2023

Hybrid Working Model and Uptake of the Digital Workplace

The digital workspace is expected to impact future IT spending positively. More than 60% of surveyed technology providers and almost 60% of end users expect that the new working model will require increased adoption of particular technologies (e.g., portable devices, cybersecurity solutions, remote access environments, mobile device management technologies, and conferencing and collaboration tools).

Organizational responses to remote and hybrid work have evolved from treating them as emergency measures to longer-term strategies to address ongoing disruption and, in some cases, to capitalize on changing circumstances. The digital workspace was a key means of ensuring business continuity and supporting organizations' resilience efforts during the COVID-19 pandemic. However, the hybrid working model now represents a fundamental shift in how work is done. This translates to new organizational policies and practices that support a more holistic view of the employee experience, as well as a more dynamic business model designed to focus on outcomes over processes.

The key changes in employee experience delivered by the hybrid working model can be summarized as follows:

- It enables new skills and enhances worker experience by creating a connected, secure work environment, unlocking the full potential of collaboration and productivity tools.
- It fosters human-machine collaboration using augmentation technologies.
- It creates a new working culture and lifestyle, with a work environment that is not confined by time or physical space.

As dynamic, empowered teams increasingly emerge from new approaches to organizational structures, they will form a core element of the future enterprise. Technologies that remove the barriers between on-premises and remote work environments are taking center stage.

Sustainable IT

Consumers, investors, employees, and other stakeholders are pressuring technology providers to consider the environmental and social impact of their business activities. Technology providers must react and take a new look at their organizations and the larger ecosystems in which they operate. The overall aim is to determine where changes can be made to reduce waste and minimize carbon footprint, water usage, and energy, as well as addressing social compliance issues. Technology providers are defining a clear vision of fully integrating sustainability into organizational strategy.

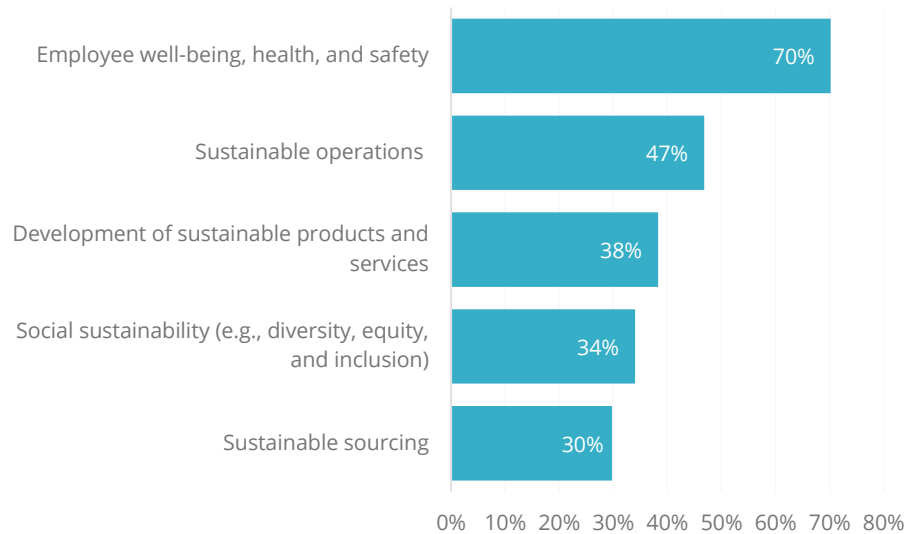
According to the survey, 80% of technology providers and 50% of end users believe the sustainability initiatives implemented in Cyprus over the next two

years will require increased digital technology adoption, thereby positively impacting ICT spending in the country.

Figure 5 provides more details regarding the sustainability efforts on which technology providers and end users will focus over the next two years.

FIGURE 5 Sustainability Efforts in Cypriot Organizations

Q. Which of the following areas will be the focus of sustainability efforts in your organization in the next 24 months [Choose all that apply]



Source: IDC’s Cyprus IT Buyer Survey and IT Provider Survey, 2023

Impact of the Geopolitical Situation

When asked about the impact of the current geopolitical situation on the IT market, Cypriot organizations gave somewhat ambiguous feedback. A large portion believe the current crisis will have a negative impact, but a large number of respondents expect the crisis to drive the adoption of digital technologies.

The ambiguous feedback received from the survey indicates that the current situation has created a great deal of uncertainty in organizations. This uncertainty must become a key consideration in terms of corporate strategies and ICT investments. It manifests on the market in several ways:

- The geopolitical crisis is creating a significant amount of chopiness in the market. Major political and economic challenges include high inflation rates, the energy crisis, vulnerable supply chains, fewer Russian investments, and the loss of the Russian tourist community.
- Post-pandemic business continuity and resiliency efforts will be tested further by worsening cybersecurity threats and business uncertainty. It is difficult for organizations to develop and implement long-term business strategies, as the economic situation is difficult to forecast. Instead,

companies are looking for new flexible business models that will allow them to scale up or down very quickly, or to reorient promptly to new customers or services in the event of future crises.

- IT departments are being asked to build more secure, resilient, flexible, and scalable IT infrastructures while decreasing overall costs. Public and hybrid cloud deployments are gaining more traction due to scalability and the opex pricing model. Cybersecurity also remains a focus area for IT executives.

Digital Transformation Challenges in Cyprus

Digital transformation continues to stand out clearly as the overarching priority of companies across all industries in Cyprus. While almost 93% of companies claim to have a digital transformation strategy in place, they struggle with a series of obstacles when executing it. Expertise shortages (arising from the gap between existing capabilities and business and technology needs) was identified as the most prominent of these obstacles, along with an overreliance on traditional work practices. Other important inhibitors are the difficulty of finding and hiring new talent, missing business cases, and the inability to measure digitalization progress.

FIGURE 6

Challenges to Digital Transformation Strategies in Cyprus

Q. Which of these challenges represent the most serious obstacles to the success of your digital transformation strategy? [Choose up to three]



Source: IDC's Cyprus IT Buyer Survey, 2023

Table 3 offers interesting insights into the skills gaps Cypriot companies perceive in terms of implementing their digital strategies. The skills demanded for security have increased, making this gap the most significant, echoing the abovementioned developments around investments and challenges. Skills gaps related to big data and DevOps (previously not included in this selection) are

considered equally important. More Cypriot companies now also lack skills related to AI or robotic process automation (RPA).

TABLE 3
Skills Gaps Perceived by Cypriot Companies

	2023	2021
Frequent gap (25%+)	Cybersecurity Big data/data science DevOps Artificial intelligence Cloud computing	Cloud computing Big data/data science Mobile technologies Cybersecurity
Moderately frequent gap (20-25%)	Robotic process automation	Artificial intelligence
Low-frequency gap (below 20%)	IoT technologies Content and document management Networking Blockchain CRM, ERP	Networking IoT technologies Robotic process automation

Source: IDC's Cyprus IT Buyer Survey, 2023

ANALYSIS OF THE IT SERVICES MARKET IN CYPRUS

Overview of IT Services Spending in Cyprus by IDC Foundation Market

This section of the study examines the IT services industry according to IDC's three primary markets, which are further divided into foundation markets. The 13 foundation markets presented in this study represent the total addressable IT services market (collectively exhaustive), and these individual markets do not overlap with each other (mutually exclusive).

The IT services market in Cyprus reached €156 million in value in 2022, representing growth of 17.4% from 2020 levels. Project services accounted for the largest share of IT services market revenue in 2022 (43.7%), followed by support and training services (41.2%), and outsourcing services (15.1%).

Support and Training Services

The support and training services primary market in Cyprus totaled €64.4 million in 2022, with a 41.2% share of the overall IT services market. Spending on these services was up 7.8% compared with 2020, with growth stemming primarily from software support and maintenance services.

The majority of Cypriot companies still prefer in-house management of their on-premises infrastructure and applications, using their own resources, rather than outsourcing or using managed services providers. This results in high demand for hardware support and maintenance services.

Cypriot companies continue to invest in software support services, as they are adopting new software-centric solutions for their front-end processes; business intelligence, analytics, and data management software for their back-end processes; and private and hybrid cloud infrastructure management for their infrastructure. These are all driving spending on software support and installation services.

IDC forecasts growth in IT training and education services spending due to a deficit of the skills required for digital transformation.

TABLE 4
Cyprus Overview of IT Services Spending by IDC Foundation Market, 2022

Foundation Markets	Value (€M)	Share (%)
Hardware support and installation	25.8	16.6%
Software support and installation	33.1	21.2%
IT training and education	5.4	3.5%
Support and training services subtotal	64.4	41.2%
Network consulting and integration	7.2	4.6%
Systems integration	27.2	17.5%
Information system consulting	12.0	7.7%
Application consulting and customization	10.8	6.9%
Custom application development	10.9	7.0%
Project services subtotal	68.1	43.7%
Application management outsourcing	2.2	1.4%
Information system outsourcing	4.5	2.9%
Network and desktop outsourcing services	2.9	1.9%
Hosted application management	2.7	1.7%
Hosting infrastructure services	11.2	7.2%
Outsourcing services subtotal	23.5	15.1%
Total IT services spending	156.0	100.0%

Source: IDC, 2023

Project Services

The project services primary market in Cyprus totaled €68.1 million in 2022; it has become the largest primary market in the country, with a 43.7% share. It also remains the fastest growing primary market, with a 17.3% increase in the past two years. Application customization accounted for the bulk of the growth, but systems integration also expanded healthily.

Companies are accelerating their digital transformation initiatives in response to the COVID-19 pandemic, application modernization, and technology-based service and product innovation. This has resulted in lucrative application consulting, customization, and development projects related to analytics, mobile and online channels, customer relationship and experience management, process digitalization, and cloud migration.

Although IT departments would like to keep all competencies in house, the skills shortage in emerging domains such as enterprise architecture, analytics, cloud services, and cloud and hybrid infrastructure management — and even in more traditional areas like application development, testing, and security — is forcing them to rely more strongly on external service providers.

Outsourcing Services

The outsourcing primary market reached a value of €23.5 million in 2022, making it the third-largest primary market in Cyprus, with a 15.1% share.

Hosting infrastructure services held the largest share of the outsourcing services primary market, with a 7.2% share of total IT services spending. Outsourcing services once again made up the smallest portion of the IT services market. Outsourcing adoption is still limited by the fear of lock-in and the lack of on-demand scalability of outsourcing contracts, as well as strong competition from cloud-based application and infrastructure services.

Overview of IT Services Spending in Cyprus by Vertical Market

The federal and central government was the largest vertical market for IT services in Cyprus in 2022, with €36.2 million in spending and 23.2% market share. This was closely followed by banking, with IT services spending of €35.5 million representing a 22.7% share. Telecommunications was the third-largest vertical market, with IT services investment of €29.3 million and a 18.7% market share.

TABLE 5
Cyprus Overview of IT Services Spending by Vertical Market, 2022

Vertical Markets	Value (€M)	Share (%)
Federal/Central government	36.2	23.2%
Banking	35.5	22.8%
Telecommunications	29.2	18.7%
Securities and investment services	8.8	5.6%
Education	7.7	4.9%
Retail	7.6	4.9%
Professional services	6.1	3.9%
Insurance	5.7	3.7%
Wholesale	3.3	2.1%
Utilities	2.9	1.9%
Personal and consumer services	2.6	1.7%
Other	10.4	6.7%
Total IT services spending	156.0	100.0%
Combined finance	49.9	32.0%
Telecommunications and media	31.4	20.2%
Combined government	36.7	23.5%

Source: IDC, 2023

Combined Finance

IT spending in the combined finance vertical (banking, securities and investment services, and insurance) in Cyprus totaled €49.9 million in 2022. The banking sector consists of two main tiers: banking institutions focused on the local market and about 30 international banks.

The banking sector in Cyprus is a fundamental pillar of the country's economy, with one of the highest gross value added contributions in the eurozone (EZ) — 6.6% compared with the EZ average of just 2.8%. The sector employs more than 7,400 people and usually contributes approximately 4% of the state's annual tax revenues. The banking sector emerged from the COVID-19 pandemic relatively intact. Nevertheless, it must still cope with the impact of the Russia-Ukraine War and the recent banking crisis.

Despite the loss of Russian tourism and investments, which have contributed greatly to the Cypriot economy in recent years, the war does not appear to pose a direct threat to the domestic banking sector. The reason is that exposure to Russian nationals is relatively limited, as they account for only 0.8% of total loans and 4.7% of total deposits. The banks in Cyprus have one of the highest liquidity coverage ratios in Europe, facilitating the absorption of any outflows in liquidity. However, 17,000 Russian and Ukrainian individuals filed work permit applications in 2022, a year-on-year increase of 200%. The indirect effects of the war, both on the banking sector and the economy in general, can be observed in increased

inflation (mainly due to the energy situation) and the corresponding rise in interest rates.

Similarly, the banking sector in Cyprus is set to survive the impact of the recent international banking crisis. The changes that have taken place in the private sector since the 2012–2014 crisis seem to have created more resilient conditions than those of a decade ago. Among other reasons, banks in Cyprus have very limited exposure to long-dated fixed-income securities, and they also have a great deal of liquidity. Additionally, total private debt in the economy has been reduced significantly over the past decade, and it now accounts for less than 80% of GDP (compared with 270% a decade earlier). However, the issues experienced in the Cypriot banking system are not quite comparable with the problems of banks in the United States or even those of Credit Suisse.

Similar to other countries, the banking sector in Cyprus is undergoing a major digital transformation process. More than half of Cypriot banks' customers interact with them via digital channels, and this trend has been accelerated by the COVID-19 pandemic. Considering the youngest generations' advanced digital skills, these numbers are projected to rise in the years ahead. Although the implementation costs can be high, digital transformation can have invaluable benefits for banks (e.g., enhancing customer experience, keeping pace with competitors, and moving closer to sustainable profitability).

Telecommunications

The telecom industry is capitalizing on the location of Cyprus at the crossroads of Europe, Asia, and Africa. The country has a fully digital network with stable connectivity, which uses fiber-optic submarine cables and dedicated fiber links to major international locations. In terms of telecom services, Cyprus has one of the cheapest call rates in the EU. The telecom market is largely supported by the mobile sector, which accounts for the greatest share of voice and data connections and the highest revenue. Four players compete on the Cypriot telecoms market — namely, Cyta, Cablenet, Epic, and Primetel.

Licensed providers' obligations include the development and operation of 5G networks that will reach 70% of the country's population and cover all highways by the end of 2025. Cyta has already announced the completion of the pan-Cypriot 5G mobile network, which offers state-of-the-art telecommunications services throughout the country, even in its remotest areas. This has made Cyprus the first EU country with 100% population coverage. In general, Cyprus surpasses the EU average in terms of connectivity.

However, the country is still lagging behind the EU average in terms of high-speed internet connections. Consequently, the government approved the Broadband Connectivity Grant Scheme, the main objective of which is to increase demand for ultra-high-speed internet connections while encouraging investments in high-speed networks. The grants for households will partially cover the set-up cost and monthly subscription cost for the first 12 months of using broadband services (regardless of technology) with download speeds of at least 200Mbps in high peak

times. The total value of the grant is a fixed amount of €120 per connection for one year.

Cyta also participates in the undersea East Med Corridor (EMC) venture. The EMC is a data cable that will link Europe with Asia. The initiative supports efforts to establish Cyprus as a regional data and business hub. It is a geostrategic project with state backing that capitalizes on the geographic position of Cyprus, Greece, and Saudi Arabia to create an international digital highway essential to the world economy.

Government

Thanks to favorable tax conditions, a number of international ICT companies have established regional or global headquarters in Cyprus, which is becoming a hub for software development, systems integration, testing services, research and development, and marketing and sales. Developments aimed at making Cyprus into a business hub accelerated in 2022. More than 1,200 international companies (not only from the ICT sector) relocated to the country in 2022, alongside 9,800 specialized staff members.

As already stated, the government has been supportive of the IT industry and aims to create a favorable environment for IT services companies. It promotes innovation and entrepreneurship leadership and investment by offering tax incentives and support for start-ups and technology companies. The start-up ecosystem in Cyprus used to be relatively small, but this has changed dramatically thanks to government initiatives offering incentives and support for new foreign business entrants in the industry. In 2022, Cyprus listed more than 450 start-ups with a total value of over €3.7 billion. Several non-profit IT associations started promoting Cyprus as an innovation and entrepreneurial hub for world-class talent. Similarly, the government has been supportive of the fintech industry, one of the new sectors driving the Cypriot economy.

An important step toward the modernization of state infrastructure and accelerating cloud adoption in Cyprus was made with the memorandum of understanding (MoU) signed between DMRID and Amazon Web Services (AWS). As AWS is a global leader in terms of cloud services, this collaboration represents a unique opportunity to boost Cyprus' transition to the cloud, which is an integral part of its national digital agenda.

In terms of bilateral relations, an MoU on digital transformation was signed between Cyprus and a number of European countries (including Austria, Estonia, Germany, Greece, Poland, and the United Kingdom). The memorandum stresses the importance of digital transformation for sustainable development and social progress. It is aimed at expanding relations between these countries in areas related to the modernization of governance and public administration.

Tourism

The tourism industry in Cyprus traditionally accounts for 14–15% of the country's GDP and is one of the main engines of GDP growth. However, the sector has recently had to cope with the negative effects of the COVID-19 pandemic and the loss of Russian tourists due to sanctions following the outbreak of the Russia-Ukraine War. In 2019, a record year for tourism in Cyprus, the country hosted 3.9 million visitors, more than 780,000 of whom were from Russia. Russian tourists are now mostly visiting Turkey.

In 2022, the country received 3.2 million foreign visitors, and revenues were at 90% of 2019 levels. Tourism arrivals were up 60% compared with 2021, when the COVID-19 pandemic limited global travel. An influx of tourists from Germany, Poland, Hungary, France, Austria, Italy, Israel, and Switzerland largely compensated for the lack of Russian tourists. Most visitors (25.5%) came from the United Kingdom, followed by Israel and Greece. In general, tourists from European countries visited Cyprus in record numbers in 2022. The average stay in the country increased to 10 days, up one day from 2019.

Cyprus has also been encouraging airlines to expand air connectivity to the island in recent years. Wizz Air and Ryanair have established new bases, and they have been adding routes and capacity and increasing the frequency of flights from Europe. The increase in air connectivity has been crucial in helping Cyprus to mitigate the decrease in Russian visitors. Efforts are also underway to cope with the effects of soaring energy prices. Electricity has become the second highest expenditure for the industry after wages.

Despite the challenges mentioned above, the prospects are promising for 2023 and beyond. According to hotel associations, this year might be even better than 2019 in terms of tourist numbers. Cyprus does not focus solely on increasing visitor numbers but rather on developing the tourism sector more sustainably and extending the country's image beyond that of a popular beach destination. This includes developing and promoting agrotourism and natural and cultural experiences on the island, as well as sharing the benefits of tourism with locals, throughout the year.

Shipping

The shipping sector is crucial for the Cypriot economy, as it handles 90% of the country's trade with the outside world, as well as being an integral part of the supply chain for most businesses both at the European level and worldwide. After a prolonged period of uncertainty and the global recession following the COVID-19 pandemic, 2022 saw a gradual return to normal life for the shipping sector. The shipping industry has also had to cope with the negative effects of the Russia-Ukraine War, which impacted the global supply chain and the energy sector (directly linked to shipping).

Shipping remains the most globalized industry in Cyprus, accounting for a 7% share of the country's GDP. Cyprus has the world's 11th largest merchant fleet

and the third largest in the European Union. The country is also the largest third-party ship management center in the EU. Companies in this sector working from Cyprus employ 9,000 highly qualified land-based personnel and 55,000 seafarers.

The following measures should be implemented to continue attracting foreign investment and create employment opportunities for graduates and other Cypriot employees, as well as supporting other sectors:

- A specialized “one-stop shipping center” should be established by the Shipping Deputy Ministry (SDM). This proposed new service would deal with issues involving the establishment and operation of shipping companies, the Registry of Cyprus Ships, merchant shipping taxation, selected flag state matters, registration issues with the Immigration Department of European Union (EU) countries’ citizens who will be employed in Cyprus by shipping companies/registration with the immigration department of EU citizens employed by shipping companies in Cyprus, as well as with issuance of residence and work permits in Cyprus for non-EU citizens that will be employed by Shipping Companies and residence and work permits for non-EU citizens employed in the country’s shipping industry.
- The formation of a Cyprus Shipping Company with limited liability has long been requested by those in the shipping industry. It will improve the competitiveness of the Cyprus flag internationally, as well as simplifying the operating regime for shipping companies in Cyprus.
- A strong need exists for the establishment of a specialized financing institution for the shipping and transport industry, which will focus exclusively on competitive financing for the purchase of ships or other forms of transport, supporting the industry’s “green” transformation efforts. The existing ship financing provisions from commercial banks in Cyprus cannot accommodate shipping companies’ operational liquidity requirements.
- The complete digitalization/automation of the SDM’s services for shipping companies will result in a more flexible, prompt, efficient, and integrated 24-hour customer-oriented service. This will contribute significantly to increasing the competitiveness of the shipping industry in Cyprus. The digitalization/automation of the SDM’s services will create a fully digital environment with a “one-stop service” support framework.

IT Services Trends

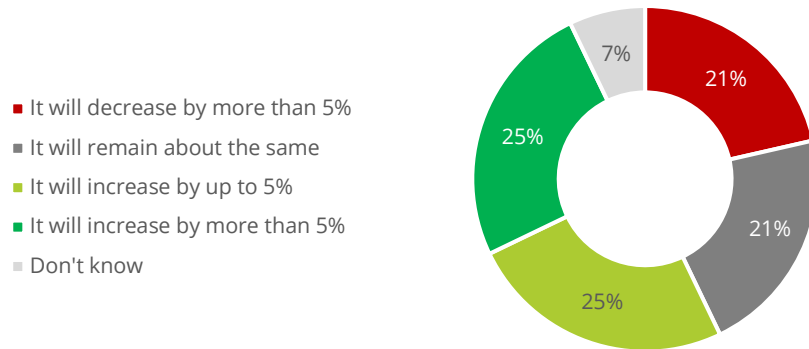
Budgets and Sourcing

The COVID-19 pandemic and the subsequent economic turmoil forced organizations to reconsider their costs, and IT services budgets were typically impacted. However, the improving economic environment has softened this impact — only 21% of surveyed organizations reduced their IT budgets, with the

same number keeping their budgets unchanged. Half of the surveyed companies plan to invest more in IT, with the anticipated increases being split equally between less than 5% and more than 5%.

FIGURE 7 Cyprus Spending Dynamics on External IT Services in 2023

Q. Compared with 2022, what do you expect will happen to your organization's total IT services spending in 2023?



Source: IDC's Cyprus IT Buyer Survey, 2023

In terms of preferences for working with local or international IT service providers, 32% of organizations (8% more than two years ago) would rather partner with local service providers, while only 4% stated a preference for international vendors.

FIGURE 8 Cyprus IT Services Vendor Preference by Origin

Q. Do you prefer to use local vendors or international vendors for IT services?



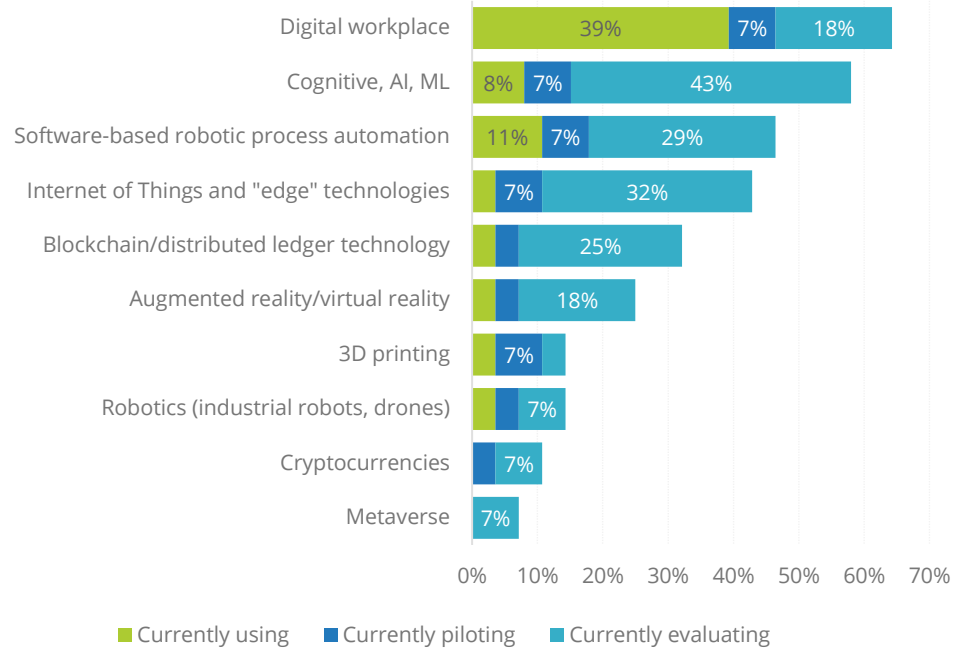
Source: IDC's Cyprus IT Buyer Survey, 2023

Emerging Service Types

Figure 9 displays interesting insights into Cypriot organizations' adoption of emerging technologies. As companies progress on their digital transformation journeys, many are exploring new technologies with their IT services partners and evaluating the potential business benefits of these technologies.

FIGURE 9 Cyprus Emerging Technology Services in 2023

Q. Is your organization currently using, or planning to use in the next 24 months, an external IT services provider to help plan, pilot, or deploy any of the following new technologies?



Source: IDC's Cyprus IT Buyer Survey, 2023

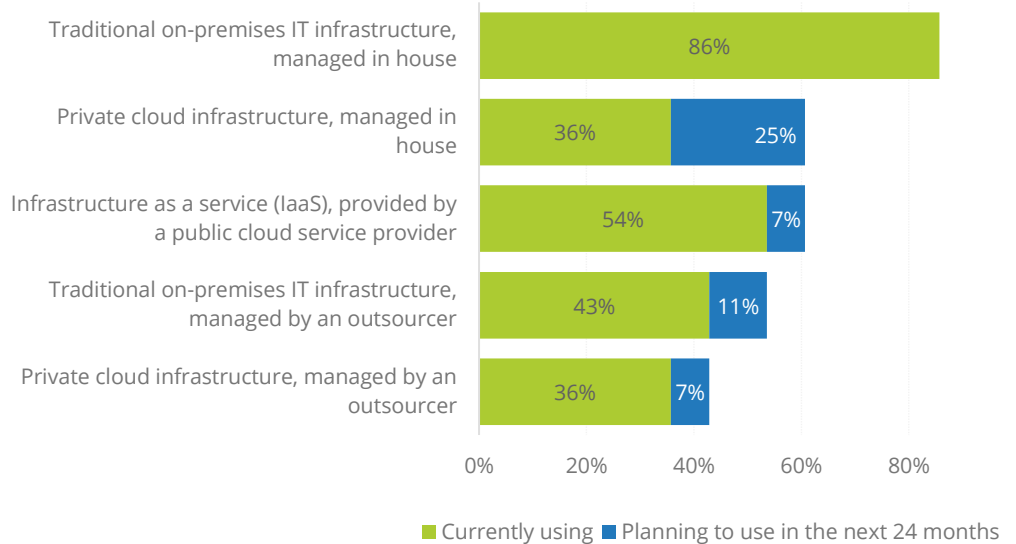
The survey delivered an interesting and important insight related to the adoption of cognitive technologies, AI, and machine learning technologies. While only a small number of organizations are currently deploying any AI solution, 43% are exploring the technology and its benefits. Thanks to the uptake of generative AI technologies, organizations are becoming more interested in the features and benefits of AI. The survey indicates that the demand for AI will increase dramatically over the next two years.

Infrastructure Services

The bulk of Cypriot organizations are managing their existing traditional infrastructure in house, with 41% of organizations relying on external service providers. No dramatic change is expected in the future; however, the adoption trend will be different for cloud services. As shown in Figure 10, many organizations are on a cloud adoption journey. Private cloud and infrastructure as a service (IaaS) are expected to become popular deployment models in the next 24 months. The main reasons, in terms of the cloud benefits recognized by Cypriot organizations, are analyzed in more detail later in this report.

FIGURE 10 Cyprus Adoption of Infrastructure Services

Q. Is your organization currently using, or planning to use in the next 24 months, any of the following infrastructure services?



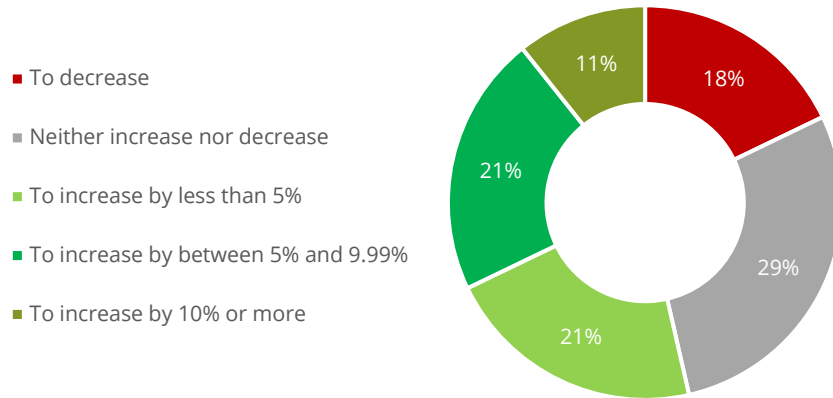
Source: IDC's Cyprus IT Buyer Survey, 2023

Organizations are generating, collecting, and processing ever-growing amounts of data. Additionally, they are investing in digital products and services, which are marketed and delivered to their clients through digital channels. As demonstrated by Figure 10, public and hybrid cloud deployments are becoming the preferred IT infrastructure models. These factors are creating unprecedented demand for datacenter and infrastructure management services.

Figure 11 illustrates Cypriot organizations' plans to invest in datacenter and infrastructure management services. A relatively small portion of organizations are expecting a decrease in spending. The majority — almost 54% of companies — are expecting significant investments in these types of services.

FIGURE 11 Spending Dynamics for Datacenter and Infrastructure Management Services in Cyprus

Q. How do you expect your overall spending on external datacenter outsourcing and IT infrastructure management services to evolve over the next 24 months?



Source: IDC's Cyprus IT Buyer Survey, 2023

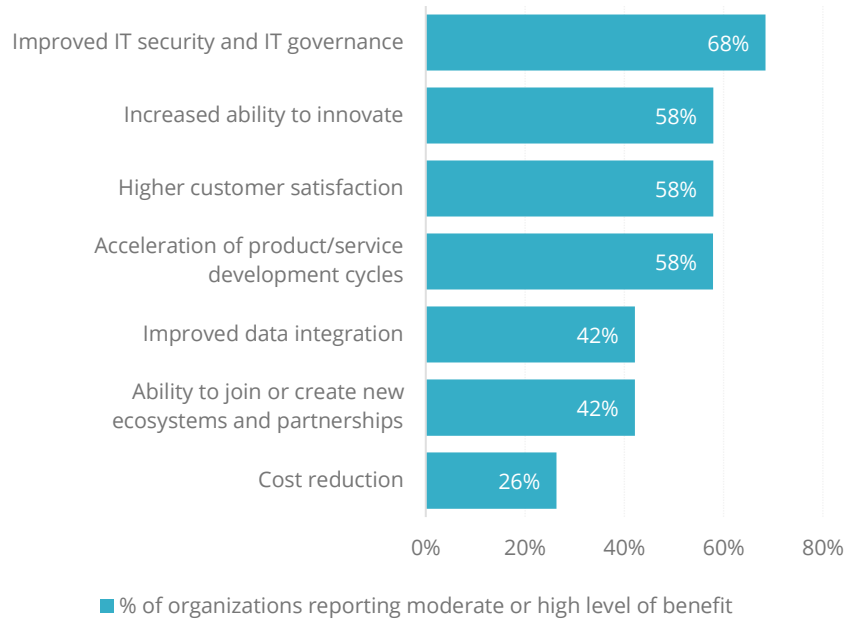
Cloud Services

Cloud, in all its permutations (public, private, hybrid, multi, and edge) and market segments (hardware, software, services, and as a service), will play an increasingly important role across the IT industry, becoming one of the industry's main drivers for the foreseeable future. Like any other technology that yields tangible benefits, cloud also introduces challenges that must be addressed.

In the past, organizations reported mainly IT-related benefits of cloud deployment (e.g., cost reduction, moving to an opex model, and improved IT governance). Today, the benefits of cloud go beyond the boundaries of IT departments, as it helps organizations to achieve business objectives. Figure 12 shows that Cypriot organizations have identified improved security and IT governance as the business areas most enabled and accelerated by the adoption of cloud services. Compared with the previous survey, it has overtaken other perceived benefits (e.g., the increased ability to innovate and higher customer satisfaction).

FIGURE 12 Cloud Benefits for Companies in Cyprus

Q: To what extent has your organization's deployment of cloud services produced the following tangible benefits?



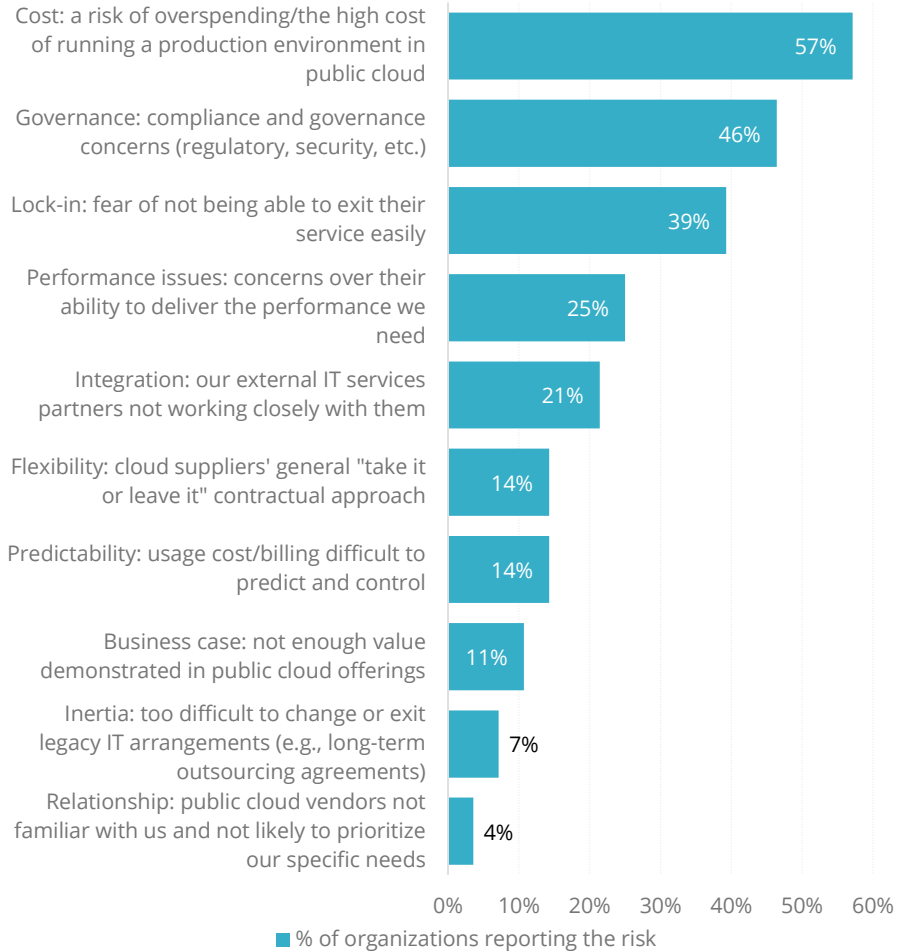
Source: IDC's Cyprus IT Buyer Survey, 2023

A number of challenges are still hampering the further adoption of public cloud. More than half of Cypriot organizations continue to see the high cost of running public cloud services as the main barrier. In-depth interviews with IT executives also indicate that for many use cases, the cost benefits are not as significant, with the main drivers of cloud adoption being the business and technology benefits it brings to the organization.

According to the survey, governance remains the second biggest barrier. This obstacle is not specific to Cyprus but is reported consistently across European countries. This stems not only from the increased focus on data protection and regulatory compliance, but also from recent concerns regarding data and cloud sovereignty. As a result, organizations are paying more attention to private and hybrid deployment models.

FIGURE 13 Barriers to Cloud Adoption for Companies in Cyprus

Q: Which of the following would be the most important reasons for your organization NOT to use public cloud services vendors or to restrict engagement with them?



Source: IDC's Cyprus IT Buyer Survey, 2023

FUTURE OUTLOOK

Market Forces

As reflected in our forecast, the following factors will have a major direct impact on the Cypriot ICT market in the coming years.

- **Embracing Emerging Technologies (e.g., AI):** The increased adoption of information technologies, particularly AI, is at the core of the changing structure of the economy and business activities. Organizations increasingly look to AI solutions to drive revenue and profit growth and to improve outcomes in areas such as customer satisfaction, operational efficiency, sustainability, process speed and accuracy, and speed to market for new products and services. However, many challenges remain, including employees' lack of data literacy and technology training; technical complexity; the lack of resources to support end users and maintain AI systems; and issues related to security, privacy, and governance.
- **Government Support for ICT Infrastructure:** The government is aware of ICT's potential to improve the performance of organizations in all major segments of the economy. Therefore, it introduced ambitious broadband plans for high-speed coverage. It has also paved the way for the rapid development of blockchain (mostly thanks to DMRID activities), resulting in a proper regulatory background and investment capital raised by startups. The same should be true for AI, thanks to the national strategy and action plan aimed at leveraging this technology to transform the government sector.
- **Recruitment of Qualified Personnel:** As a lack of qualified ICT personnel could limit the abovementioned drivers, the government also offers financial incentives for innovative start-ups and start-up visas for international talent from non-EU countries. An increasing number of multinational corporations and local companies look to promote local hires to grow their operations and scale up. This will result in significant employment opportunities in the near future for graduates with the adequate academic background and professional experience. According to estimates, ICT-related sectors in Cyprus may soon account for 10% of the country's GDP, creating thousands of new jobs that require special academic and professional skills.
- **Digital Transformation:** The digitalization of core processes is crucial for organizations in both the public and private sector to remain competitive in an increasingly dynamic environment and to offer improved services to both internal and external users. Digital transformation should result in the restructuring of organizational processes, especially those pertaining to customer service and data management. Digital capabilities are increasingly recognized as a

strategic differentiator for organizations and as a crucial means of accelerating their revenue growth.

Market Forecast

IDC expects ICT spending (including the telecom market) in Cyprus to increase 3.5% year on year in 2023 to total €808 million.

IT spending (excluding the telecom market) is expected to increase 7.4% year on year in 2023 to total €324 million.

IT services spending is expected to increase 9.2% year on year in 2023 to total €171 million.

The Cypriot economy is expected to thrive and digital transformation to accelerate as a result of the global pandemic. IDC predicts spending across all ICT market segments in Cyprus will grow.

IT services and software will be the highest-performing segments over the forecast period, posting a compound annual growth rate (CAGR) of 6.7% and 5.5%, respectively, due to increased demand for digitally enhanced solutions and services.

TABLE 6
Overview of ICT Markets in Cyprus, 2020-2025 (€M)

Market Segments	2020	2021	2022	2023	2024	2025	CAGR (%) 2020-2025
Total ICT market	721	746	781	808	835	856	2.9%
Total IT market	263	278	302	324	346	365	5.6%
Total telecommunications market	458	468	479	484	489	491	1.2%
Total IT equipment	85	89	94	98	103	107	3.9%
Total IT services	133	142	156	171	185	196	6.7%
Total software	45	48	52	55	59	62	5.5%

Source: IDC, 2023

ADVICE FOR TECHNOLOGY SUPPLIERS

Helping Customers Manage Cloud Complexity

Speed and complexity, a potentially dangerous combination, are dominant issues facing digital transformation leaders. Digital innovation is synonymous with cloud-based development, and for the foreseeable future, it will require the secure integration of on-premises infrastructure with private and public cloud infrastructure and services.

However, combining on-premises datacenters with private clouds and public clouds, each deployed in a siloed infrastructure, creates a complex hybrid IT environment. This complexity exists in terms of operations, security, network protection, data explosion, integration, governance, compliance, and skills, among others. All these factors create challenges when managing multicloud and hybrid cloud environments.

Initially, cloud adoption was often seen primarily as an alternative IT purchasing model representing a shift to opex-based spending. The justification has evolved — today, the potential of cloud is truly unlocked when it is adopted both as a technology platform and an operational model, which jointly enable agility and responsiveness.

Preparing for the Generative AI Era

Generative AI is currently creating a great deal of buzz on the market. ChatGPT has more than 100 million users, who make 1.8 billion website visits every month. These numbers have been achieved in less than three months. In Cyprus, 43% of the surveyed organizations are currently evaluating the potential of AI technologies.

Generative AI is expected to be a market disruptor. It has a number of promising use cases and benefits, including increasing labor productivity, personalizing customer experience, automating design or content development, improving knowledge management, and accelerating R&D. Healthcare, financial services, professional services, and manufacturing will be among the first sectors to see significant adoption of generative AI solutions.

As the availability and maturity of generative AI tools grow, end users will be looking at potential use cases they can pilot and implement in their organizations. They will naturally turn to the local vendor and IT service provider community for guidance on best practices and use cases, and they will seek advice on ethical and regulatory issues.

Helping CISOs Address Emerging Security Threats

Cybersecurity remains a key challenge and the top technology priority for IT executives at organizations across verticals in Cyprus.

Managing enterprise IT security is increasingly complex due to the emergence of sophisticated cyberattack strategies (e.g., ransomware, phishing, and social engineering), the growing adoption of complex multicloud and hybrid cloud environments, and expanding compliance and regulatory requirements (e.g., the Cyber Resilience Act or the NIS2 Directive). Additional challenges include vanishing perimeters, fluid workforces (joiners, movers, and leavers), and managing access control for partners and contractors.

Identity is also central to digital business, but it presents several issues, as well. Organizations must find a balance between security requirements and customer or employee experience. Top identity concerns are centered on two key areas — namely, poor password hygiene and fluid workforces, both of which introduce vulnerability to the organization and increase risk.

Organizations continue updating their systems and infrastructure for secure digital engagement with customers, while maintaining a strong focus on user experience. Nevertheless, one size will not fit all. Vendors should be ready to meet very different requirements in different verticals, from finance to food delivery companies.

APPENDIX

List of Abbreviations

AR/VR	— augmented reality/virtual reality
AWS	— Amazon Web Services
5G	— fifth generation (of mobile service technologies)
BI	— business intelligence
CAGR	— compound annual growth rate
CCS	— Cyprus Computer Society
COVID-19	— coronavirus disease 2019
CRM	— customer relationship management
DESI	— Digital Economy and Society Index
DX	— digital transformation
DMRID	— Deputy Ministry for Research, Innovation, and Digital Policy
EBSI	— European Blockchain Service Infrastructure
EMC	— East Med Corridor
ERP	— enterprise resource planning
EU	— European Union
EZ	— eurozone
GDP	— gross domestic product
GDPR	— General Data Protection Regulation
Gbps	— gigabits per second
GVA	— gross value added
IaaS	— infrastructure as a service
HICP	— Harmonised Indices of Consumer Prices
ICT	— information and communication technology
IDC	— International Data Corporation
IoT	— Internet of Things
IT	— information technology
Mbps	— megabits per second
MHz	— megahertz
Opex	— operating expenditure
SDM	— Shipping Deputy Ministry
STEM	— science, technology, engineering, and mathematics
UK	— United Kingdom
UX	— user experience

Research Sources

IDC utilizes both qualitative and quantitative approaches. For this study, analysts conducted interviews with both end users and major IT services providers operating in Cyprus. Qualitative interviews were complemented by quantitative online and offline surveys covering both the demand and supply side.

IDC also evaluated publicly available quantitative and qualitative information (e.g., annual reports, homepage listings of financial information, and filings with security commissions), as well as secondary source literature, academic texts, and publicly available government information. It is important to note that no one source is dominant. In each case, IDC analysts weight all sets of inputs and use their judgment as to which sources are more likely to be accurate. The weight of any one variable changes based on the revenue being evaluated, the relationship with the supplier, the detailed information available through public sources, and other relevant factors.

IDC also conducted the *IDC Cyprus IT Buyer Survey, 2023* among a representative sample of Cypriot companies of various business sizes to assess technology buyer priorities, preferences, and trends. Companies with more than 50 employees account for over 90% of the spending on IT services, software, and enterprise hardware in Cyprus; therefore, they constitute the primary target market for IT vendor companies. The survey was carried out online in April and May 2023.

Market Representation

All charts sourced from the *IDC Cyprus IT Buyer Survey, 2023* show results for the market composed of companies of all sizes. Companies with more than 100 employees constituted almost three quarters of the sample.

Revenue Recognition

To attain an aggregate number for the IT services market, IDC has isolated revenue that was generated through third-party IT services providers. It is necessary to understand subcontracting between service providers in order to comprehend this procedure. The prime contractor records a contract as a source of revenue, and so does the subcontractor, and so on. As IDC's 13 foundation market categories are based on demand-side spending (reporting on end-user purchases of services from third-party providers), subcontracted revenue to third parties must be eliminated when determining the total size of the IT services market.

Notes on Forecasting

IDC uses surveys, technology assessments, country demographics, and economic data to develop forecasts. All of these factors were important in this study. IDC is often asked about its economic assumptions and their relationship to spending trends in the technology marketplace under examination. IDC usually takes a neutral approach to the economy, essentially building its forecasts on historical

economic growth rates. Neutrality is also a goal in the treatment of areas such as inflation. For example, in the estimation of IT services-related expenditure, inflation is considered to be zero or insignificant.

About Cyprus Computer Society (CCS)

The Cyprus Computer Society (CCS) is a professional, independent not-for-profit organization seeking to improve and promote high standards among informatics professionals, in recognition of the impact that informatics has on the economy, society, organizations, and citizens' quality of life. Established in 1984, the CCS has been active in education and training, as well as research and development, through the organization of high-quality events and working groups, collaborations with local and foreign public and private organizations, the implementation of European projects, and active participation in international associations and consortia.

This report signifies the commitment of the CCS to enhance and expand the portfolio of services it offers to the ICT and business community. We envisage that it will prove useful for both foreign investors in the ICT field and the domestic business community.

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For almost 60 years, IDC has provided strategic insights to help our clients achieve their key business objectives.