POLICY NOTE

An evaluation of the social and employment aspects and challenges in Cyprus

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Abstract

This paper examines economic, social and employment developments in Cyprus since 2009, when the impressive economic performance turned to a deep recession, eventually placing the country in a rescue programme. Austerity measures introduced for fiscal consolidation are targeting high incomes, mainly in the public sector; while private sector incomes are hit hard by recession. Coping with the fast rising unemployment emerges as the most urgent social challenge, and several schemes are initiated in this direction. Reforms of the pension and health care systems are also urgently needed. Social policy is changing away from universal and towards targeted benefits, raising new challenges such as combating state dependency, eradicating income underreporting and avoiding labour market disincentives and poverty traps. Meantime, the recession is testing the ability of the traditional tripartite - trade unions, employers and government - bargaining process to cope with new labour market challenges.
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Summary

Cyprus exhibited an impressive economic performance until 2009. After this year the economy slowed down, first due to the world financial crisis; and then because of structural weaknesses and the mounting problems from the oversized, loosely regulated and overexposed to toxic assets banking system. To avoid the looming bankruptcy a rescue plan was agreed with Troika (ECB, EU and IMF) in March 2013. Unlike other Eurozone countries, however, Cyprus had to accept a substantial haircut of uninsured deposits that led to the bankruptcy of its second and insolvency its largest bank.

The main macroeconomic developments in Cyprus between 2009 and 2012 are as follows: GDP per capita drop by 2.6% and is expected to fall by a further 8.7% in 2013; unemployment increased from 5.3% to 11.7% (17.3% in November 2013); the fiscal balance changed to a deficit above 6.0%; and the debt-to-GDP ratio rose from 58.5% to 86.6%, and it will increase considerably in the next few years. An alarming feature is the substantial increase in the long-term unemployment rate from 0.6% to 3.6%.

As regards social developments, poverty and employment are diverging while education is converging to the EU2020 targets. Over the period 2009 to 2012 the share of population at-risk-of-poverty or social exclusion increased from 23.5% to 27.1%. Over the same period child poverty rose from 12.3% to 13.9%, albeit it continues to be low relative to the EU27 average. In-work poverty also increased from 6.8% to 8.0%, and is expected to increase further due to the on-going recession. In contrast, elderly poverty has fallen remarkably, from 46.4% to 29.3%. The minimum wage is set at a relatively sufficient level, 835 euro at hiring and 887 euro after six months of employment. However, it covers only certain low-paid occupations. Part-time work is not prevalent in Cyprus, but has increased from 8% in 2009 to 11.5% in the second quarter of 2013 and further increase is likely.

A series of scaled reductions in salaries and wages introduced in 2012 and 2013 cumulate to around 10% for low and nearly 20% for high incomes in the public sector. This is on top of increased contributions to health care and the Widows and Orphans Fund, the suspension of COLA (Cost of Living Allowance) and the freeze of salaries, wages and pensions. Private sector income experienced smaller cuts from the austerity measures, but have been hit hard by the recession.

Coping with unemployment emerges as the most urgent social and economic challenge. The government has initiated several schemes (co-funded by the ESF) aimed at boosting employability and designed upon four main axes: SMEs, young unemployed, hotel industry and social cohesion. They appear to be suited to building more inclusive labour markets and providing financial incentives to employers. Other challenges include: the reform of the pension system to fend off the threat from the increasing dependency ratios; improve the childcare and long-term services that are currently having a negative effect on family welfare and female employment; and introduce the long-awaited National Health Insurance System to address the inefficiencies of the current scheme, while securing universal, undeterred and equal access to health care services.

At the heart of labour relations in Cyprus is the process of tripartite bargaining between trade unions, employers’ organisations and the government. The voluntary nature of this process safeguards social and labour peace by encouraging consensus-based policy decisions. Trade union density in Cyprus is among the highest in the EU, albeit it has been declining over time. Although there have been no changes in the relevant legislation, industrial relations are harmed by recession insofar as policies are often established without the effective participation of all social partners.

The landscape of social policy in Cyprus is likely to change substantially in the near future, starting with the introduction of a General Minimum Income scheme intended to replace public assistance and other benefits. Overall, the economic crisis is prompting the government to shift away from universal and towards targeted benefits. This change in social policy orientation raises new challenges such as addressing the problems of income underreporting, finding effective ways to combat state dependency, and avoiding poverty traps and labour market participation disincentives.
### 1. General Overview

#### 1.1 Introduction

Cyprus is a small open services-based economy. It became a member of the European Union (EU) on 1st May 2004 and adopted the euro on 1st January 2008. Until 2009 the Cyprus economy exhibited an impressive performance: real GDP increased by 5.1% in 2007 and 3.6% in 2008, while unemployment and inflation rates were kept low. However from 2009 the economy slowed down due to the international crisis - and the absence of an effective policy to fend off the negative impact of this crisis. The fiscal deficit and public debt were also rising fast, prompting the ECOFIN to place Cyprus under the excessive deficit procedure in July 2010. At the same time, a target to reduce fiscal deficit by 1.5 percentage points per annum for the following two years was announced by the European Council.\(^1\)

The economic climate in Cyprus continued to worsen after 2011, despite the improvement which was observed in other countries as the negative effects of the international financial crisis begun to subside. The financial sector was in deep trouble, originating from its hypertrophic, loosely regulated and overexposed to toxic assets Cypriot banking system. Many politicians and political analysts put the blame on the Greek debt restructuring and the Private Sector Involvement (PSI) agreement of 26th October 2011, which effectively forced banks to write off 53.5% of the face value of the Greek bonds they were holding.\(^2\) Soon the commercial banks had to proceed with recapitalisation plans in a non-conducive economic environment, as private investors were fleeing the country and the government itself was in deep debt and unable to support the banks’ efforts. Political tension and conflicts evolved around the issue of bank recapitalisation, the role of European Financial Stability Facility (EFSF) and the potential impacts on the economy.

In parallel, the banking crisis brought to the surface many structural weaknesses of the economy: public-private sector pay imbalances, labour and product market obstacles and other distortions keeping productivity and competitiveness low, a non-sustainable state pension system, a wasteful social insurance and health care system etc. Eventually, the economy of Cyprus and its banking system were downgraded by the international credit rating agencies deep into the junk territory and the country was locked out of the capital markets. In a desperate attempt to rescue the country from going bankrupt during its own rein, the left-wing government of Demetris Christophias turned to Russia (that had a year earlier lent Cyprus 2.5 billion euro) for help. It was soon realised, however, that the only way to avoid the looming bankruptcy was to seek the assistance of Troika (ECB, EU and IMF).

A prolonged period of negotiations followed, with the government of Demetris Christophias trying to buy time rather than reach an agreement with Troika; a practice that, retrospectively, proved to be disastrous for the country’s economy and ended abruptly in spring 2013. On 16th March 2013 Cyprus reached an agreement with Troika on the terms of its financial rescue. The most protruding part of this agreement was a highly controversial levy on all deposits in Cyprus banks and co-operatives that made headlines across the world. After rejection of this agreement by the Cyprus House of Representatives, a new agreement was finally reached providing for a substantial haircut of uninsured (over 100.000 euro) deposits held at the two main commercial banks (Bank of Cyprus and Cyprus Popular Bank). This unprecedented event was combined with the free transfer of Cypriot bank branches in Greece to Greek banks and led to the closure of Cyprus Popular Bank and the placement of the Bank of Cyprus under insolvency procedures.

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2. The collapse of the banking sector is also linked to extensive exposure to non-performing loans (NPLs). Accusations of bad governance and poor supervision by (central and commercial) bank officials are now under police investigation.
The economy is now in deep recession and expected to continue to be so in the foreseeable future, with social problems arising from high unemployment and reduced incomes. This paper analyses the main developments in employment and social aspects that took place during the period starting from 2009 to today against this economic background.

1.2 Recent developments

The economic climate in Cyprus has been deteriorating sharply since 2011, culminating in the rescue plan agreed with Troika in spring 2013, as mentioned above. Meanwhile, the latest news on the economy is unpleasant. According to the most recent labour market data from the Statistical Service of Cyprus (CYSTAT) on the number of unemployed, the (annual) percentage change of the unemployed has been increasing continuously over the last months, reaching 17.3% in November 2013. Projections show a dire 2014 too, characterised by a further reduction in real GDP and increase in unemployment.\textsuperscript{3}

Cyprus is now receiving financial and technical assistance from Troika and is expected to make the best of this situation. The economic adjustment programme, described in the Memorandum of Understanding (MoU) signed by the government of Cyprus and its lenders, is orientated towards slashing public spending and implementing reforms to restructure, among others, the civil service, pensions, health and social security systems and public utilities. These policies come on top of the austerity measures which were implemented during 2011-2012 and included: salary cuts and increased contributions by public and private sector employees; increased personal income taxation and taxes on interest and dividend income; a new national insurance contribution by public sector employees; and spending cuts on child benefit and student grant.\textsuperscript{4}

Additional measures, implemented or planned for 2014 include: the abolition of the automatic inflation adjustment (COLA) of wages and salaries in the public sector; further cuts in public sector pay and reduction in the number of government employees; increase of the VAT rate from 18% to 19% and increases of consumption taxes on petrol, tobacco and alcohol; and cuts in social benefits. As one would expect, political parties and trade unions oppose to these measures but their reactions can be considered moderate reflecting the relatively high level of social cohesion pertaining to Cyprus.

The economic adjustment programme for Cyprus, besides fiscal consolidation measures and structural reforms, includes the restructuring and downsizing of the hypertrophic (seven times the country’s GDP) and poorly supervised financial system. Towards this aim, the branches of all Cypriot banks in Greece were transferred to Greek banks. Furthermore the second largest bank (Cyprus Popular Bank) was declared bankrupt and absorbed by the largest bank (Bank of Cyprus) in the country. The latter bank is recapitalised by converting 47.5% of uninsured deposits to shares, and is now in a restructuring process. Other Cypriot banks are trying to be recapitalised by attracting foreign investors (e.g. Hellenic Bank); while the co-operatives are to receive €1.5b in taxpayer’s money for restructuring. Strict capital controls initially enforced on all banks and co-operatives to stop deposits fleeing the country have been gradually relaxed and planned to be fully abolished early in 2014.

1.3 Macroeconomic indicators

As said earlier, until 2009 the economy of Cyprus was performing remarkably well. Real GDP increased by 5.1% and 3.6% in 2007 and 2008, respectively; albeit this was mainly the result of public rather

\textsuperscript{3} Economic Outlook, Issue 13/4, October 2013, Economics Research Centre, University of Cyprus.

\textsuperscript{4} It should be emphasised here that the government has been keen to implement tax increases and benefit cuts affecting mostly high-income households. In general, the government has been deliberately trying to introduce austerity measures with a progressive effect on income distribution.
private sector expansion. Nonetheless, this economic expansion led to the creation of new jobs and, consequently, to low unemployment.

The macroeconomic developments in Cyprus after 2009 are briefly as follows:

- the GDP contracted by 1.7% in 2009 (Table 1) and returned to positive, but meagre, growth in 2010;
- in 2012 the real GDP fell by 2.4%, and is forecasted by the European Commission to contract by a further 8.7 per cent this year and 3.9 per cent in 2014;
- after 2009, the unemployment rate has been rapidly increasing, from 5.3% in 2009 to 6.3% in 2010 and 11.9% in 2012; and rising to 17.3% in November 2013 (the latest figure available);
- 2014 is expected to be the worst year in terms of job losses, with the unemployment rate expected to approach 20%;
- fiscal balance changed from a surplus of 0.9% in 2008 to a deficit hovering above 6.0% over the 2009-2012 period; and
- the debt-to-GDP ratio rose from 58.5% in 2009 to 86.6 in 2012 and, according to the MoU forecast, will increase to over 120% in the next few years.

The chronic current account and trade balance deficits (shown in Table 1) reflect loss of the economy’s competitiveness. In the context of a non-flexible exchange rate, as in the case of Cyprus and other countries in Eurozone, the loss of competitiveness cannot be recovered through devaluation of the nominal exchange rate to improve the terms of trade. Instead, wages and prices need to be flexible in order to absorb the loss of competitiveness. If this cannot happen due to obstacles and other distortions, then the export sector is doomed to contract and a painful contractionary adjustment is inevitable. This adjustment involves high unemployment and the falling domestic demand and output. This has happened to Cyprus and other Mediterranean countries in Eurozone. The remedy is to liberalise the labour and product markets; or, else, depart from the euro currency and suffer the entailed social and political costs.

### Table 1: Main Macroeconomic Indicators

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>-1.9</td>
<td>1.3</td>
<td>0.4</td>
<td>-2.4</td>
<td>-8.7*</td>
</tr>
<tr>
<td>Unemployment</td>
<td>5.3</td>
<td>6.3</td>
<td>7.9</td>
<td>11.9</td>
<td>17.0**</td>
</tr>
<tr>
<td>Inflation</td>
<td>0.2</td>
<td>2.6</td>
<td>3.5</td>
<td>3.1</td>
<td>1.0**</td>
</tr>
<tr>
<td>Public deficit (% GDP)</td>
<td>-6.1</td>
<td>-5.3</td>
<td>-6.3</td>
<td>-6.4</td>
<td>-7.8**</td>
</tr>
<tr>
<td>Public debt (% GDP)</td>
<td>58.5</td>
<td>61.3</td>
<td>71.5</td>
<td>86.6</td>
<td>113.7**</td>
</tr>
<tr>
<td>Current account (% GDP)</td>
<td>-10.7</td>
<td>-9.9</td>
<td>-10.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade balance (% GDP)</td>
<td>-5.5</td>
<td>-6.2</td>
<td>-3.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Eurostat and Cyprus NRP 2013.
*European Commission’s macroeconomic forecast.
** European Commission (2013)

As regards future developments, forecasts from various sources suggest that output contraction will continue in 2014, with the real GDP growth ranging between by -4.8% and -8.0%. Furthermore, recent studies by Pashardes and Pashourtidou (2013) and Pashourtidou and Savva (2013) show that most macroeconomic indicators will keep deteriorating for several years and the economy is unlikely to return to its potential growth before 2018. Meantime the output loss from the negative impact of the contraction of bank deposits on several leading macroeconomic indicators will be considerable. Besides the negative wealth effects on demand, similar effects are expected from the loss of investor confidence combined with the reduction in liquidity available to finance investment. This sets off a vicious circle of falling

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demand for goods and services, falling employment, output and income, leading to further fall in demand and so on.

The findings of the aforementioned studies suggest that besides output decline, the adverse impact on unemployment will be large and also likely to persist for a long-time. The estimated increase in unemployment rate attributed to the banking sector shock is found to be around 6 percentage points.

1.4 The social situation

In 2009, the share of population ‘at-risk-of-poverty (AROP) or social exclusion’ was 23.5\%\(^6\). Since then it has been increasing to reach 27.1\% in 2012. In contrast, the AROP index itself decreased slightly over the 2009-2012 period. This decrease, however, reflects a statistical artefact rather than a true improvement in social protection, insofar as it relates to a decrease of the poverty line caused by a reduction in the median income. As the latter reduction is reflecting more falls in high rather than increase of low incomes, a number of households moved above the poverty line. Thus, the drop in AROP indicates reduction in income inequality rather than improvement in material wellbeing.

- The small percentage of persons living in households with very low work intensity in 2009 reflects the high rates of employment at the time. After this year this indicator is increasing.
- The percentage of severely materially deprived persons, an indicator capturing non-income aspects of poverty, rose from 9.5\% in 2009 to 11.7\% in 2011. This rise can be attributed to deteriorating items such as “keeping the home adequately warm”, “ability to pay for one week’s annual holiday away from home” and “capacity to face unexpected financial expenses”.
- The relative median poverty risk gap\(^7\) increased from 17.2\% to 19.0\% over the 2009-2012 period.

Overall, most social indicators deteriorated over the period 2009 and 2012, reflecting the deteriorating conditions of the economy. However, we should point to the fact that their levels do not, at the moment, compare unfavourably with other EU countries. They mostly fluctuate around the EU averages.

<table>
<thead>
<tr>
<th>Table 2: Main Social Indicators</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>AROP or Social Exclusion</td>
<td>23.5</td>
<td>24.6</td>
<td>24.6</td>
<td>27.1</td>
</tr>
<tr>
<td>AROP</td>
<td>15.8</td>
<td>15.6</td>
<td>14.8</td>
<td>14.7</td>
</tr>
<tr>
<td>% of persons in households with very low work intensity</td>
<td>4.0</td>
<td>4.8</td>
<td>4.9</td>
<td>6.4</td>
</tr>
<tr>
<td>Severely materially deprived persons</td>
<td>9.5</td>
<td>11.2</td>
<td>11.7</td>
<td>15.0</td>
</tr>
<tr>
<td>Relative median poverty risk gap</td>
<td>17.2</td>
<td>18.0</td>
<td>19.0</td>
<td>19.0</td>
</tr>
</tbody>
</table>

Source: Eurostat Online Database.

2. Towards EU2020 strategy: employment and social challenges

The Europe 2020 growth strategy is quantified through headline targets, as those presented in Table 3 (first and second column). The EU states have translated these headline targets into national targets taking into consideration each country’s specific needs and potential. The Cyprus national targets with respect to

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\(^6\) The AROP rate is defined as the share of people with disposable income below the poverty threshold; and the ‘AROP or Social Exclusion’ the share of people in at least one of the following three conditions: at risk of poverty, in severe material deprivation and living in a household with very low work intensity.

\(^7\) Measures the intensity of poverty and is calculated as the difference between the median equivalised disposable income of people below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold, expressed as percentage of the at-risk-of-poverty threshold.
employment and social challenges are presented in the third column of Table 3; and progress can be checked by comparing targets with the corresponding indicators presented in the next columns.

### 2.1 Education

As shown in the first and second rows of Table 3, Cyprus is close to achieving its educational targets. The dropout rate increased above 12% in 2010, but fell back to 11.2% in 2011 approaching the 10% target. To achieve this target the government pursues the inclusion of students from disadvantaged backgrounds through targeted actions, such as the establishment of Educational Priority Zones (ZEP) in areas with high concentrations of ethnic minorities, refugees and Roma. The share of people aged 30-34 having completed tertiary (or equivalent) education the 2011 figure almost coincides with the 2020 target. Education is energetically promoted in Cyprus. Public expenditure on education has been increasing over time, reaching almost 8% of GDP in 2009, a figure above the EU average. The private education sector has also been expanding over time at a rapid rate, currently representing 24.2% of total expenditure on education. Together, the private and public expenditure on education in the country accounts for 10.6% of GDP. Noteworthy, during the past decade there has been a marked expansion of higher education in Cyprus, increasing the available tertiary education opportunities.

There has been some criticism, however, because the education expansion (especially of higher education) has not taken into consideration the patterns of labour demand resulting in a mismatch between graduates’ skills and the needs of the labour market.

**Table 3: EU Headline and National Targets**

<table>
<thead>
<tr>
<th>EU Headline Targets</th>
<th>National Targets</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early school leavers</td>
<td>10%</td>
<td>10%</td>
<td>11.7%</td>
<td>12.7%</td>
<td>11.3%</td>
</tr>
<tr>
<td>% of 30-34 years old having completed tertiary (or equivalent) education</td>
<td>40%</td>
<td>46%</td>
<td>45%</td>
<td>45.3%</td>
<td>46.2%</td>
</tr>
<tr>
<td>Employment rate</td>
<td>75%</td>
<td>75%-77%</td>
<td>75.3%</td>
<td>75.0%</td>
<td>73.4%</td>
</tr>
<tr>
<td>Promoting social inclusion through the reduction of poverty</td>
<td>Lift at least 20 mln people out of the risk of poverty and social inclusion</td>
<td>19.3% or 27.000 people out of the risk of poverty</td>
<td>23.5%</td>
<td>24.60%</td>
<td>24.60%</td>
</tr>
</tbody>
</table>

Source: Cyprus National Reform Programme 2012, Eurostat Online Database.

### 2.2 Employment

The good performance of Cyprus with respect to its educational targets is not repeated in the case of its employment and, as we shall see later, poverty targets. As shown in Table 3, the deep economic recession and the consequent deteriorating conditions in the labour market took their toll on the employment rate, which decreased from 75.7% in 2009 to 70.2% in 2012. This constitutes a large diversion from the national target of 75%-77%. Even worse, this diversion will be difficult to bridge in the foreseeable future, as further job destruction is expected from the continuation of recession in 2014 and, according to some analysts, in 2015.

The strong growth of the economy over the period 2000-2009 helped the formation of a booming labour market, characterised by high wages and high employment. The unemployment rate over the same period was corresponding to full employment levels. As seen from Table 4, however, after 2009 this sanguine picture changed, as the employment rate started to decrease both for males and females. The decrease was
been higher for males, because the employment rate for females was already low and, therefore, without much scope for a further reduction. It should be noted here that for many years Cyprus has been trying to increase female participation in the labour market through various active labour market policies (ALMPs). Since the onset of the current recession in 2011, however, female employment is falling.

Table 4: Main labour market indicators

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Employment¹ Rate</td>
<td>75.3</td>
<td>75.0</td>
<td>73.4</td>
<td>70.2</td>
</tr>
<tr>
<td>Employment rate (men)</td>
<td>82.8</td>
<td>81.7</td>
<td>79.6</td>
<td>76.1</td>
</tr>
<tr>
<td>Employment rate (women)</td>
<td>68.3</td>
<td>68.8</td>
<td>67.7</td>
<td>64.8</td>
</tr>
<tr>
<td>Unemployment</td>
<td>5.4</td>
<td>6.3</td>
<td>7.9</td>
<td>11.9</td>
</tr>
<tr>
<td>Long-term unemployment</td>
<td>0.6</td>
<td>1.3</td>
<td>1.6</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: Eurostat Online Database, Note: ¹ Employment rate (20 to 64 years old).

An alarming feature of the rising unemployment in Cyprus is the substantial increase in the number of long-term unemployed (from 0.6% in 2009 to 3.6% in 2012). This means that the group of people who become increasingly unemployable is rising, with worrisome long-term economic and social consequences. These problems are unprecedented in Cyprus and should be stressed that the authorities with the responsibility to combat the cause and treat the symptoms of long-term unemployment do not yet have the capacity and/or expertise to undertake such task.

2.3 Poverty

As shown in the last row of Table 3, Cyprus has set the goal of reducing the number of people at risk of poverty and social exclusion by 18,000; or, equivalently, decrease the percentage of people at risk of poverty and social exclusion to 20% by 2020. Yet, the relevant indicator has recently climbed up to 27.1%. In this subsection we examine various aspects of poverty, trying to trace their main causes and consider their policy implications.

2.3.1 Child poverty

Child poverty in Cyprus fluctuated around 13% during the period 2009-2012. It stood at 12.3% in 2009 and increased to 13.9% in 2012. These levels still stand lower than the overall rate in the population, as Table 5 indicates. They are also below corresponding level in the EU27 (last column of the table).

Table 5: Child poverty in Cyprus

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child poverty</td>
<td>12.3</td>
<td>12.6</td>
<td>12.8</td>
<td>13.9</td>
</tr>
<tr>
<td>Overall poverty</td>
<td>15.8</td>
<td>15.6</td>
<td>14.8</td>
<td>14.7</td>
</tr>
<tr>
<td>Child poverty E27</td>
<td>20.1</td>
<td>20.7</td>
<td>20.8</td>
<td>20.8(^e)</td>
</tr>
</tbody>
</table>

Source: Eurostat Online Database.

The relatively low level of child poverty in Cyprus can be attributed to the high participation of parents in the labour market, the low share of mono-parental families and to certain family policies supporting the income of parents (Pashardes, 2007). For example, child benefit, the most important family support

\(^8\) Child poverty is defined as the share of children (aged 0-17) living in households that are at risk of poverty.
benefit in Cyprus, is a non-contributory cash benefit and its impact on poverty reduction has been found to be considerable (Koutsampelas, 2011).

- Until 2011 the child benefit consisted of a basic and a supplementary means-tested part; in 2011 it was reformed and the eligibility rules of the benefit changed. In particular, means testing was introduced and the child age for defining dependency was reduced. The short-run impact of this reform on child poverty was found to be moderate (Koutsampelas and Polycarpou, 2013).
- In 2013, the government introduced a single parent benefit as a top-up to child benefit, substituting other benefits targeting poor mono-parental families. The number of beneficiaries widened and the impact of the benefit was found to be both progressive and poverty reducing (Koutsampelas and Polycarpou, 2013).

There are also other family support benefits in place, targeting special groups, such as the financial aid to multi-children families for purchasing a car and the financial aid to families with disabled children. Overall, until now family policies in Cyprus appear to deliver their promises in terms of poverty relief. However, the negative impact of recession on the labour market and the austerity measures introduced in 2012 for fiscal consolidation may be ominous omens for the welfare of children in low income families.

2.3.2 In-work poverty

Labour market participation is, generally, considered to be the most effective way of escaping poverty. Indeed, poverty indicators show that being at work reduces the risk of poverty by more than half in Cyprus. On the other hand, the downward pressure on salaries and wages caused by the on-going recession steadily raises the number of working poor. According to the Pancyprian Federation of Labour (PEO) working conditions in the country have been affected by widespread job insecurity, lay-offs, falling wages and increasing illegal and undeclared work.

In 2009 in-work poverty stood at 6.8%, and increased to 8.0% in 2012. This may be considered a moderate increase compared to what pertains in other EU countries. Nonetheless, the rising unemployment is expected to continue to exert a downward pressure on wages in the foreseeable future. The minimum wage is set at a relatively sufficient level (835 euro at hiring and 887 euro after six months of employment) providing protection against further reduction of earning among low-paid employees. However, the Minimum Wage Law applies only to certain occupations: sales staff, clerical workers, auxiliary healthcare staff, auxiliary staff in nursery schools, crèches and schools, guards and caretakers. The government should extend the coverage of minimum wage to the entire working force. Part-time work is not prevalent in Cyprus, but there are signs that this may change in the near future. In 2009 part-time employment as a percentage of total employment was below 8% and increased to 11.5% in the second quarter of 2013 (Eurostat Online Database). Further increase in this figure is likely due to the fact that the recently introduced measures to reduce unemployment are orientated towards flexible working arrangements. We shall return to this point in the next section of the paper.

2.3.3 Poverty in the old-age

Cyprus has a negative record with respect to poverty among the elderly. This point is highlighted in several reports and fuelled EU recommendations towards measures to raise low incomes among persons of old age. Econometric analysis performed by Koutsampelas (2012) shows that:

i. persons aged between 74 and 84 years face 6.7% higher probability of poverty compared with those aged 63-73, while for the very old (above 84) the risk of poverty increases steeply;

ii. older couples face a lower probability of poverty than a lone elderly, as do old persons who live in extended families and, thus, benefiting from income sharing with working-age adults and economies of scale in consumption;
education offers protection against the risk of poverty reflecting the fact that the well-educated have better-paid jobs, higher contribution records and, therefore, higher pensions after retirement; and

old age persons living in rural areas are more vulnerable to poverty, but this may be hide to the fact that income in kind (consumption of own produce) is ignored.

Approaching the issue from a dynamic perspective, there are reasons to believe that other things being equal - elderly poverty in Cyprus will shrink in the future. First, the gradual maturation of the pension system will increase the aggregate replacement ratio and decrease poverty in the old-age. Furthermore, in 2009 and later, in 2011, the government decided to increase the national insurance contribution rates by one percentage point every five years; at the same time a new contribution rate of 3% on gross salaries was imposed on public sector employees, along with an increase of the contribution to Widows and Orphans Fund from 0.75% to 2%. Bearing in mind that the poverty risk is measured relative to the median income, the phased increase of contribution rates will improve the income position of retirees relative to those in employment, thereby, reduce elderly poverty in the statistics.

The figures in Table 6 (based on EU-SILC data) appear to vindicate the arguments above. At-risk-of-poverty among the elderly decreased from 46.4% in 2009 to 29.3% in 2012. The proportion of people ‘AROP or social exclusion’ reported in the penultimate column of Table 5 shows a similarly drastic decline. Aggregate replacement rate increased, too. Finally, the poverty risk is lower among men than women; and this gap has been increasing over the period 2009-2012, albeit slightly.

<table>
<thead>
<tr>
<th>Year</th>
<th>AROP (All)</th>
<th>AROP (Males)</th>
<th>AROP (Females)</th>
<th>AROP or social exclusion</th>
<th>Aggregate replacement rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>46.4</td>
<td>42.4</td>
<td>49.6</td>
<td>48.6</td>
<td>0.37</td>
</tr>
<tr>
<td>2010</td>
<td>39.9</td>
<td>36.8</td>
<td>42.4</td>
<td>42.6</td>
<td>0.37</td>
</tr>
<tr>
<td>2011</td>
<td>35.5</td>
<td>31.7</td>
<td>38.8</td>
<td>39.8</td>
<td>0.39</td>
</tr>
<tr>
<td>2012</td>
<td>29.3</td>
<td>24.2</td>
<td>33.6</td>
<td>33.4</td>
<td>0.39</td>
</tr>
</tbody>
</table>

Source: Eurostat

We conclude by remarking that the pension system in Cyprus is also characterised by inequities between the private and the public sector. According to Simone (2011) the pension schemes of public sector retirees are more generous than those of private sector retirees by: (i) having a lower effective retirement rate by about 6.5 years; (ii) calculating the pension level on the basis of final salary (normally the highest in a job career) instead of mean lifetime earnings; and (iii) paying a large lump sum gratuity upon retirement. These differences suggest that there are not income disparities only between the elderly and the non-elderly, but also within the group of elderly. This discrimination between public and private sector retirees has surfaced recently and is the main reason why the austerity packages are oriented towards raising the social insurance contribution rates of public rather than private employees.

3. Social and labour rights and economic adjustment

3.1 ILO Conventions and the European Social Charter

Cyprus is actively safeguarding human rights through the enforcement of all the fundamental treaties, conventions and agreements set forth by international organisations. As regards labour rights, it has

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9 Actuarial analysis (Ministry of Labour and Social Insurance, 2011), projects an increase in the replacement ratios of the supplementary part of old-age pensions over time. Notably, these ratios were 24% for males and 22% for females in 2010 and are expected to increase to 31% and 36%, respectively, in 2020.
ratified and abides to all the ILO Fundamental Human Rights Conventions. Furthermore, it has also ratified a substantial number of other ILO Conventions covering the entire spectrum of international labour standards. In particular, the Department of Labour Relations of the Ministry of Labour and Social Insurance has the responsibility of safeguarding the following Conventions on labour rights:

- **Convention 87 - Freedom of Association and Protection of the Right to Organise Convention, 1948**
- **Convention 95 - Protection of Wages Convention, 1949**
- **Convention 98 - Right to Organise and Collective Bargaining Convention, 1949**
- **Convention 100 - Equal Remuneration Convention, 1951**
- **Convention 105 - Right to Organise and Collective Bargaining Convention, 1955**
- **Convention 106 - Weekly Rest (Commerce and Offices) Convention, 1957**
- **Convention 135 - Workers' Representatives Convention, 1971**
- **Convention 154 - Collective Bargaining Convention, 1981**
- **Convention 171 - Night Work Convention, 1990**
- **Convention 172 - Working Conditions (Hotels and Restaurants) Convention, 1991**
- **Convention 175 - Part-Time Work Convention, 1994**

A vast and comprehensive array of social and civil rights is also respected and promoted through the ratification of the European Social Charter in 1968 and the Revised European Social Charter in 2000, accepting 63 of its 98 paragraphs. In 2011 Cyprus accepted nine additional provisions of the Revised Charter. Furthermore, the country is subjected to all monitoring and supervisory procedures followed by international bodies authorised to safeguarding human rights.

### 3.2 Labour and social rights and economic adjustment

This sub-section considers the extent to which the process of economic adjustment, which is currently taking place, has harmed the capacity of Cyprus to make further progress in the development of effective mechanisms for safeguarding labour and social rights.

Judging from what has happened in other programme countries Troika is likely to demand reforms that impact on labour and social rights. One can say that the philosophy underlining economic adjustment programmes enforced by Troika (EE, ECB and IMF) favours a strategy encouraging economic growth through increased competitiveness and labour market deregulation. So far the Troika’s attention in the case of Cyprus has focussed on the tax-benefit system and is aimed at short-term fiscal consolidation rather than far-reaching changes of the labour market and social protection.

Our concern is that as the economy slides deeper in recession it will be increasingly difficult for the government to safeguard labour and social rights. This is because the deteriorating economic situation may increase the attractiveness and/or reduce the associated political costs of promoting economic efficiency at the expense of social justice. For instance, part-time and temporary jobs helping to reduce public spending, albeit offering short-term and insecure employment, might be desirable in an economy plagued by a very high and rising unemployment rate. In simple words, the economic crisis may not alter the country’s will to respect the Conventions; but will probably weaken its capacity to realise their full effectiveness.

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10 The fundamental Conventions enforce the following principles and rights at work: freedom of association and the effective recognition of the right to collective bargaining; elimination of all forms of forced or compulsory labour; effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

11 http://www.coe.int/t/dghl/monitoring/socialcharter/countryfactsheets/Cyprus_en.pdf

12 Four types of labour reforms have been promoted in other programme countries affecting: (i) working time, (ii) atypical employment, (iii) rules on redundancy, and (iv) industrial relations. In some cases reforms have been introduced using emergency procedures bypassing social partners (Clauswaert and Schömann, 2013).

13 The European Committee of Social Rights (supervising the European Social Charter) has identified a number of cases of non-conformity; but also areas of progress. For instance, it claims that social pension and the sickness, unemployment, work injury and
3.3 Equal Pay in Cyprus

The labour market in Cyprus is characterised by a relatively large gender wage gap, constituting a violation of the equal remuneration for work of equal value for men and women as formulated by the Equal Remuneration Convention, 1951 (No. 100). This problem has been acknowledged by the government and certain policy initiatives have been launched such as the project “Actions for reducing the gender pay gap” included in the 2012 National Reform Programme. This initiative consists of a broad mix of actions aiming at reducing occupational segregation and raising awareness among employees, employers and the public.

Meanwhile, none of the measures implemented in the framework of MoU has a direct impact on gender inequalities. Furthermore, no evidence exists to suggest that women have been affected more than men by the recession, in terms of remuneration gaps and employment opportunities. Instead the gender wage gap in Cyprus is attributed to stereotypes and inadequate child care forcing mothers to avoid time-demanding and rewarding career trajectories.\(^\text{14}\)

3.4 Minimum wage

There is no comprehensive statutory minimum wage in Cyprus. As noted previously, the minimum wage legislation covers certain occupations. To some extent, the idea behind this policy is to exclude from the minimum wage legislation occupation categories for which the wage is determined by a collective or otherwise effected agreements. The minimum wage is revised annually following consultations with the social partners. As of April 1\(^\text{st}\) 2012, the minimum wage increased to 870 euro at hiring and 924 euro after six months of employment.

So far there have been no changes in the minimum wage legislation in the context of reforms agreed with Troika. However, according to the Memorandum of Economic and Financial Policies, pg. 46, “the Cypriot authorities commit that, over the programme period, any change in the minimum wage covering specific professions and categories of workers should be in line with economic and labour market developments and will take place only after consultation with the programme partners”, thus paving the way for reductions in minimum wage. Needless to say, that the reduction of minimum wage is strongly supported by employers’ federations and opposed by trade unions.

3.5 Labour relations and economic adjustment

Economic crisis has had an impact on labour relations insofar as some policies have been decided without proper consultation with and participation of the social partners. This modus operandi may signify a major shift away from the traditional and evidently successful, as pointed out later in the paper, tripartite mode of managing labour relation in Cyprus; or may be a short-lived phenomenon attributed to urgent contingencies caused by recession.

At the moment the situation is unclear. All one can say is that so far the trade unions have not reacted forcefully to their reduced participation in deciding measures that affect some long-established rights of their members, such as the introduction of legislation allowing shops to stay open in weekends and outside normal working hours during weekdays; and the failure of some employers to pay an extra salary to their employees in December 2012, as they are obliged to do every year by long-established labour market practices and collective agreements.

maternity benefits are inadequate in Cyprus and do not conform to Article 12§1 of the Revised Charter (http://www.coe.int/t/dghl/monitoring/socialcharter/CountryFactsheets/Cyprus_en.pdf).

\(^{14}\) Christofides et al (2013)
3.6 Wages and economic adjustment

Employees and pensioners in the public and private sectors have been subjected to a series of scaled reductions in their remuneration introduced in 2012 and 2013:

- Scale reduction in the remuneration of public and broader public sector pensioners and employees from 1 December 2012 until 31st December 2013:
  - 6.5% for income €1,001-€1,500 per month,
  - 8.5% for income €1,501-€2,000 per month,
  - 9.5% for income €2,001-€3,000 per month,
  - 11.5% for income €3,001-€4,000 per month, and
  - 12.5% for above €4,001 per month.

- Temporary contribution by public and private sector employees and pensioners until 31st December 2014 at the following rates (levied on gross wages and pensions):
  - 0% for income 0-€2,500 per month,
  - 2.5% for income €2,500-€3,500 per month,
  - 3% for income €3,501-€4,501 per month, and
  - 3.5% for income above €4,500 per month.

- Scaled reduction in emoluments of public and broader public sector employees and pensioners:
  - 0.8% for income 0-€2,000 per month,
  - 1.0% for income €2,001-€3,000 per month,
  - 1.5% for income €3,001-€4,000 per month, and
  - 2.0% for income above €4,001 per month.

- Permanent social insurance contribution by public sector employees equal to 3% of earnings.

- Increase from 0.75% to 2% of the contribution of public sector employees to the Widows and Orphans Fund.

- Introduction of a 1.5% compulsory health care contribution by public sector employees and pensioners (applied to gross wages and pensions).

Furthermore, for public sector employees the government decided the suspension of COLA (Cost of Living Allowance) until the end of the first quarter of 2016; and the freeze of salaries, wages and pensions until 31st December 2016.

3.7 Working time

Weekly hours (currently at 38)\(^\text{15}\) have not changed, but the timetable of the civil service has shifted by half an hour to reduce costs associated with overtime, as agreed in the MoU with Troika. As said earlier, however, since the middle of 2013 there has been a change in shopping hours. More specifically, following a government decree, shops can open on Sundays and stay open late all days of the week. This decree is opposed by trade unions and small shop owners, but supported by the government and employer federations on grounds that it encourages employment.

The shops must cover at least half of the extra opening hours by hiring unemployed persons. The wage of these persons is subsidised by the government at a rate of 65% for eight months. Trade unions claim that shops fire permanent employees to hire replacements who are forced to work under worse conditions in violation of labour rights. The employers’ organisations dismiss these accusations on grounds that they are not substantiated. As the decree in question has been in action for a short time, not enough evidence has been accumulated to support the validity of claims made by one or the other party in the dispute.

\(^\text{15}\) http://www.eurofound.europa.eu/eiro/country/cyprus.pdf
4. Social dialogue and the role of social partners

4.1 The structure of labour relations

In the heart of labour relations in Cyprus is the process of tripartite bargaining between trade unions, employers’ organisations and the government.

- The main and most influential trade unions are: Pancyprian Federation of Labour (PEO), Cyprus Employees Confederation (SEK), Pancyprian Union of Public Servants (PASYDY), Union of Cyprus Banking Employees (ETYK) and the Pancyprian Union of Public Servants (PASYDY). PEO was established in 1941 and is the oldest trade union. It is left-leaning and particularly dominant among blue collar workers. In contrast, SEK is influential among white collar workers, mainly employed in public utilities.

- Employers are mostly represented by the Employers’ and Industrialists’ Federation (OEB), the Pancyprian Association of Hoteliers (PASYXE) and the Cyprus Chamber of Commerce and Industry (CCCI). CCCI was established in 1927 aiming at monitoring developments in trade and industry, as well as promoting the interests of industrialists in these sectors. OEB was established in 1960, has large bargaining power and takes active part in all negotiations with PEO and SEK. Both organisations have an active role in shaping the framework of industrial relations in Cyprus.

The unionisation rates are high in the public sector, but the same is true only for banking in the private sector. Overall, trade union density in Cyprus is among the highest in the EU; albeit, it has been declining over time. According to Trade Union Registrar estimates, union density dropped below 50% in 2011 from 76.16% in the 1990s. In unionised sectors, the existing collective agreements offer job protection to indigenous employees, but the same does not hold true for foreign workers from other EU or third countries. The pertinent authority to judge disputed dismissals is the Industrial Disputes Court whose decisions can be appealed at the Supreme Court.

The tripartite social dialogue is framed by the voluntary Industrial Relation Code, which has successfully mapped industrial relations in Cyprus for decades. The Industrial Relations Code was signed by PEO, SEK and OEB on the 25th of April 1977. It describes, inter alia, the procedures for settling disputes and establishes fundamental mutual commitments, such as the right to organise in trade unions and the right to bargain. As the provisions of the Code are not legally binding, good will and mutual trust are catalysts for its effectiveness. At the same time, the voluntary nature of the Code safeguards social and labour peace by encouraging consensus-based policy decisions. A number of tripartite social dialogue bodies are hosted by the Ministry of Labour and Social Insurance. Their role is to offer consultation on issues regarding labour legislation and employment policies.

4.2 Social dialogue during the economic crisis

Labour relations as well as the underlying social dialogue have been affected by the current economic crisis. The adverse effects of economic downfall in terms of rising unemployment reduces workers’ real

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18 The collective agreements between social partners are not legally enforceable documents, while the legislation provides the framework for regulating matters beyond the jurisdiction of negotiating sides.
20 For example, Labour Advisory Board is responsible for examining in detail the proposed draft legislation. The tripartite technical committees are manned with representatives of the trade unions and employers organisations (OEB, KEVE) and presided by the director of the Department of Labour Relations.
bargaining power vis-à-vis their employers, while fuelling employers’ incentive to push for lower wages and more harsh work arrangements. This comes on top of the austerity measures implemented by the government which reduce (in particular the net) wages both in the public and private sector.

Although there have been no changes in the relevant legislation, industrial relations have been harmed insofar that agreements between employers (including the government) and employees are reached through minimal or pretexted consultations with social partners. It is not clear, however, if these developments constitute a permanent or temporary disruption in labour relations. Admittedly, during periods of emergency and severe economic hardship, trade-offs between efficiency and participatory democracy may arise. In this particular socioeconomic context, participatory democracy can be sacrificed for measures that are considered harsh but promising a better future.

4.3 Other social partners and their intervention in social policy

In the past decade the role of NGOs has been upgraded in the area of social economy. Partly this can be attributed to norms and practices met in other European countries with richer tradition in organised social participation that are gradually transmitted to Cyprus via the institutions and initiatives of the European Union.

Below, we list the NGOs which are most relevant to social and employment issues:

- Pancyprian Volunteerism Coordinative Council (PVCC), a non-profit organisation responsible for the coordination of voluntary organisations in Cyprus.
- Cyprus Confederation of Organisations of the Disabled (CCOD), a non-profit organisation to protect, promoting the human rights of persons with disabilities.
- National Anti-Poverty Network (NAPN), an informal agency with the objectives to identify victims of social exclusion, exercise pressure for policies to eradicate poverty and social exclusion.
- Union of Cyprus Municipalities, an association with core functions to develop local autonomy and promote the interests of its members vis-à-vis central government and other national institutions.

The analysis provided in section 4.1 about trade unions and their role during the crisis largely pertains to other non-governmental social partners.

5. Short and medium term policy challenges

5.1 Policies for fighting unemployment

Coping with unemployment emerges as the most urgent social and economic challenge. At the moment the rate of unemployment continues to rise reaching very high levels. Moreover, even if the economy returns to growth, as macroeconomists predict for 2015 or 2016, the recovery is likely to be slow and take time to help reduce unemployment. Meantime, the prolonged unemployment among the youth is likely to have negative long-run economic and social consequences.

As an antidote to the rising unemployment the government initiated several schemes to boost the employability of jobless persons. Some of these schemes also encourage demand of labour by providing financial incentives to employers. These policies are mostly co-funded with European Structural Funds and, in many cases, their raison d’être is to target groups at risk of exclusion from the labour market such as economically inactive women, individuals with disabilities, immigrants and older people. The following schemes are examples of ALMPs in Cyprus:

- The Employment Subsidy Scheme with Flexible Settings, implemented by the Cyprus Productivity Centre with a total budget of €6.8 million, is designed to attract unemployed persons who want to work under flexible conditions, while at the same time help businesses to achieve efficient organisation and improve their competitiveness. The target is set at nearly 1,000 jobs.
The Subsidy Scheme for Unemployed in the Tourist Industry, implemented by the Department of Labour of the Ministry of Labour and Social Insurance, has a budget of €20 million and provides financial aid to employers up to 40% of the wage for the first 8 months (if the employment period lasts at least 12 months) and 30% of the wage for the first 5 months (if the employment period lasts at least 7 months).

The Scheme for unemployed young graduates to gain work experience in companies/organisations, directed by the Human Resource Development Authority. It has a budget of €8 million and targets registered unemployed persons, who are below 35 years old, hold tertiary qualifications and have at least one month work experience that is not related to their education.

In a similar fashion, on 11 December 2013, President Nicos Anastasiadis announced ten measures for 2014 costing €340 million and designed around four axes: SMEs, young unemployed, hotel industry and social cohesion. The most important are:

- the establishment of an entrepreneurship fund, co-financed by the European Investment Bank (€150 million) and national resources (€150 million), to help commercial banks provide loans to SMEs to low interest rates;
- the employment scheme for retail trade enterprises, with a budget of €7 million to subsidise 70% of the wage cost to enable qualified businesses to retain existing employees; and
- an €8.5 million plan for unemployed young graduates to acquire work experience, aiming at aiding about 5,000 unemployed young graduates, up to 35 years old.

The mix of the employment measures listed above appears to be well suited for building more inclusive labour markets. The question is how far these measures can go towards meeting the large unemployment problem - especially among the youth - generated by the on-going deep recession. In our opinion, given the negative impact of recession on local demand, ALMPs are likely to be more effective towards enhancing employment opportunities if channelled to export-oriented sectors of the economy (e.g. tourism).

### 5.2 Pensions reform

The pension system of Cyprus will face formidable challenges in the future. Fertility was 1.51 in 2009 and is expected to remain at this low level in the foreseeable future. At the same time, life expectancy is at a relatively high level.\(^{21}\) According to Eurostat projections (Table 7), these demographic trends will increase dependency ratios from 18.6 in 2010 to 39.8 in 2050 and to 47.6 in 2060. As a result, pension expenditures as a percentage of GDP will more than double after 2050. The on-going recession is expected to further undermine the long-run sustainability of the pension system.

| Table 7: Projections of pension expenditures and old-age dependency ratio |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                             | 2007 | 2010 | 2020 | 2030 | 2040 | 2050 | 2060 |
| Pension expenditures as a % of GDP |       |       |       |       |       |       |       |
| Cyprus                       | 6.3  | 6.9  | 8.9  | 10.8 | 12.8 | 15.5 | 17.7 |
| EU27                         | 10.1 | 10.2 | 10.5 | 11.4 | 12.1 | 12.3 | 12.5 |
| Old-age dependency ratio     |       |       |       |       |       |       |       |
| Cyprus                       | 18.6 | 25.0 | 27.4 | 33.3 | 39.8 | 47.6 |       |
| EU27                         | 25.9 | 31.4 | 38.3 | 45.5 | 50.1 | 52.6 |       |

Source: Eurostat Online Database

\(^{21}\) For example, life expectancy at age of 65 has increased from 17.4 years in 2007 to 18.12 in 2009 for men; and from 19.64 in 2007 to 20.87 in the same period for women.
The above implies that a reform of the pension system is urgently needed to secure its long-term sustainability. However, pension reforms are complex insofar they do not only affect the well-being of people in old age but also the labour market and can give rise to intergenerational conflicts. For example, an increase of the contribution rates reduces employees’ net wage, while the increase of the statutory retirement age can have repercussions for employment.

5.3 Access to services

Childcare arrangements in Cyprus are not so well developed. This has a negative effect on the employment opportunities of mothers and single parents. Due to relatively high costs\(^\text{22}\) and inadequate supply of services\(^\text{23}\) many parents rely on their grandparents for the care of their children: a suboptimal choice in terms of child development. The Social Welfare Services, as part of their work-life harmonising policies, have launched several programs financing part of the childcare cost. In 2012, a program was implemented aimed at subsidising the cost of child care for 1,200 unemployed or economically inactive women. A similar program has been announced for 2014, subsidising the childcare costs of economically disadvantaged population groups. Yet, more is needed in this sensitive social policy area.

The provision of health care in Cyprus suffers from gross inefficiencies. The weaknesses stem from the large and widening gap between demand and supply of medical care services. The poor quality and long waiting lists in the public sector lead a large proportion of patients entitled to free public health care to seek out-of-pocket paid healthcare treatment in the private sector. During the period of 2009-2013 no serious effort was made to reform the system. The government has sporadically announced several initiatives for the implementation of the National Health Insurance System to address the inefficiencies of the current system, while securing universal, undeterred and equal access to health care services.

During 2013 the government initiated measures to enhance the financial sustainability of public healthcare provision. In particular, it increased fees for medical services so as to reflect the associated costs of medical services, created financial disincentives to restrain abuse of the emergency care services and introduced medical co-payments to curb overconsumption of pharmaceuticals.

The supply of long-term care services is currently provided free of charge (or at reduced price) by the government, local communities and voluntary organisations; and at a charge by the private sector, which has the biggest share. Few changes have taken place during the last few years with regard to long-term care, in spite of the fact that the problem is aggravated over time by the changing demographics, loosening family bonds and the high rate of poverty in the old-age.

5.4 Income policies

Several policy instruments help to ensure income support to those at high risk of poverty. The most important is the public assistance; a quasi-minimum income scheme assigned the task of eradicating extreme poverty. Child benefit is also an important income support policy; as is social pension and financial assistance to low income pensioners. A number of other benefits target specific disadvantaged groups (blind, disabled etc); while a comprehensive set of contributory benefits provide insurance against contingencies such as injury, unemployment, maternity, birth and death.

The austerity measures have impacted on social policy mainly by introducing income and asset criteria for the previously universal child benefit and student grant. Furthermore, the landscape of social policy is likely to experience more changes in the near future. The government plans the introduction of a GMI (General Minimum Income) scheme in mid-2014 to replace public assistance and other benefits. The

\(^{22}\) According to a past inquiry, child care cost in the private sector was calculated to be between 250 and 300 euro per month.

\(^{23}\) Most child care stations operate until noon and only during school term time (September to June, excluding Christmas, Easter and other school holidays).
Ministry of Labour and Social Insurance is now in the process of assessing the distributional and poverty impact of this social policy reform. The expectation is that the GMI will offer the same level of income protection to those at high risk of poverty, at a substantially reduced administrative cost.

Overall, the crisis era is marked by a shift from universal to more targeted ones. This change in policy orientation creates new challenges such as combating income underreporting, discouraging welfare state dependency and avoiding labour market disincentives. These issues need to be successfully tackled in order to enhance the efficiency and adequacy of the social protection system.
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