Problems have solutions where there is the political will

Description

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The last two years have proven that the well-known clichés about the Cypriot economy are indeed true. Our economy is resilient, robust, highly adaptable and highly resistant to shocks, both endogenous and external. It is also fair to say that while international turbulence, even in our neighbourhood, poses a significant risk to the economy, at the same time we are finding ways to ensure macroeconomic stability despite the developments.

The management of public finances remains on a prudent path, while government revenues continue to grow – to an extent that defies analysts, including the Cyprus Fiscal Council, who have not yet been able to arrive at a universal and comprehensive explanation of the deeper source of these increases.

The combination of a resilient and highly adaptable economy, on the one hand, and a prudent and cautious management of public finances, on the other, has made the upgrading of the government's credit rating inevitable. A progressive economic stance that takes measured risks and favours "openness", coupled with a conservative fiscal stance, is a powerful combination for growth and stability.

At the same time, however, the assessment of economic developments cannot be confined to distant, hands-off exercises. In addition to external pressures, commodity prices, possible trade contraction and a generalised European anaemia of aggregate demand, there are other reasons for concern.

The two major risk episodes of recent years – the pandemic and the Russian invasion of Ukraine, together with the inflationary episode they triggered – precipitated an economic crisis which, precisely because of the resilience of the Cypriot economy, was not recognised as a "crisis". And like all crises, it has left its residue.

Firstly, it has increased inequalities in society, not only between citizens, but also between companies, with small and medium-sized enterprises losing the dynamism that the larger companies in our economy compensate for on their own.

Secondly, the gap between the private and public sectors has widened. The gap is partly wage-related, but it is also technological, with the private sector advancing by leaps and bounds, while the state apparatus is stagnating at an alarming rate. This gap is creating tensions as the state is increasingly unable to keep pace with the technological upgrading of society and the economy in general.

Third, a number of structural problems, which may not be urgent but are serious, have been allowed to fester without being addressed and are slowly beginning to ripen. The delay and "lack of ambition", according to the EU Commission, in Cyprus' response to climate change challenges, is translating into higher costs for infrastructure upgrades in the coming years. Actuarial deficits in the pension funds have been allowed to grow, and now the increasing pace of retirements has begun to pull up the carpet under which they were hidden. The central government's reliance on the Social Security Fund for financing has encouraged inefficient spending structures. And more generally, the inefficiency of the state apparatus has been taken for granted for years as inevitable, with the result that it has now reached unsustainable levels, as evidenced, for example, by the serial failures of major public works projects.

There are solutions, but they require political will and courage. Government digital policies cannot be limited to those areas that are visible to the citizen. The state apparatus itself should be an urgent target for digitisation. Infrastructure projects should be radically overhauled to meet our needs and obligations in the face of climate risk. Social spending, the effectiveness of which has fallen dramatically in the last two years, must be redesigned, and the yardstick for measuring the success of social policy can no longer be 'how much the state has spent', but the social footprint of spending. There are also serious and comprehensive proposals on other issues.

At this stage, the social problems of the economy are more urgent. For the rest, we have a little more time, and if we start addressing them immediately, the solutions need not be socially and economically painful. On the contrary, if we delay, we will face difficult choices – politically, socially and economically.

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