



What should be the next steps for the Cypriot economy?

Description

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Cyprus has gone through a series of crises in recent years, after the government started to lose access to international money markets around 2012. This was followed by the banking crisis in 2013, with the closure of one systemic bank and a haircut on deposits in another, and later in 2018, the closure of the Cyprus Cooperative Bank.

Since then, Cyprus has slowly regained the confidence of the markets and achieved a series of sovereign credit upgrades that now take it above investment grade. But rather than dwell on the past, I would like to focus on the next steps we need to take as a state in our economic policy.

First, we should recognise that a major factor in the good fiscal outcomes we have had, particularly in recent years, has been the result of some of the State's development spending not being undertaken due to delays or the inability of contractors to meet their obligations. These delays are not without cost to the economy. In particular, some large investments, such as the Vasiliko LNG import terminal, which have huge costs for the economy, need to be monitored much more closely in terms of their implementation.

Related to this is the observation that we are lagging behind in green investments in the public sector. In other words, our good fiscal results are also due to low levels of such investments.

We have focused our attention on attracting foreign companies because of the positive effects of such policies on the country's GDP and its growth rate. Foreign companies contribute to GDP growth, but they also have other effects on the economy, such as high rents in some cities that make it difficult for locals to find housing.

The kind of foreign investment that we should be trying to attract should not just be that based on low tax rates and the general good for the economy. It must also be based on other factors such as the employment of local or European Union staff, the transfer of know-how, the impact on the environment and the specific needs of the economy such as energy storage, and others.

One element we need to focus on is the issue of national income distribution, so that we do not have two categories of citizens – too rich and too poor – and thus lose our social cohesion. Linked to this is the need to have a social policy so that economic growth has a positive impact on as many sections of the population as possible. Such a policy should include quality education for all, equal opportunities in employment, an end to nepotism and 'who you know' for public sector employment. It should also include a policy for more balanced development in all districts, including the mountainous areas.

Changes are also needed in the civil service, particularly in the procedures and bureaucracy that encourage the development of nepotism and the 'who you know' culture and discourage investors who do not know how to operate in such an environment, from investing in Cyprus.

A related issue is the introduction of new technologies in the public sector and procedures to ensure access to such services, for people who are not familiar with technology.

Changes are needed in the judiciary to drastically reduce the time taken to resolve civil disputes from the current 8-10 years, which discourages serious investors from doing business in Cyprus. Also important should be the modernisation of various pieces of legislation to reflect changes in society at large and the labour market, among others.

Tax reform has already been announced and the submission of the study commissioned from the University of Cyprus Research Centre is expected soon. What we can say at this stage is that any decisions after the publication of the study should be taken quickly, as tax uncertainty does not help the economy.

Changes are still needed in the insurance sector, with the establishment of an independent supervisory authority, which has been pending since the time of the Troika,

and the introduction of the third pillar in the pension system. This means that social security pensions will be the basic pension and private pensions, the third pillar, will be a supplementary amount.

Finally, Cyprus must make a serious effort to get rid of the image it created with the passport scandals, where investors acquired Cypriot citizenship if they invested in Cyprus for a certain period of time, five years, without much control over the origin of the money and the identity of the investors.

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