



Trends in Labour Market developments and policy implications

May, 2016



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Introduction

- ✓ Examine trends in the labour market after dissemination of LFS Q4-2015 results.
- ✓ Compare average results for 2015 with 2014.
- ✓ Evaluate prospects for 2016 and identify challenges stemming from the situation existing in the labour market.
- ✓ Consider policy priorities and propose measures, necessary to address the situation in the labour market.

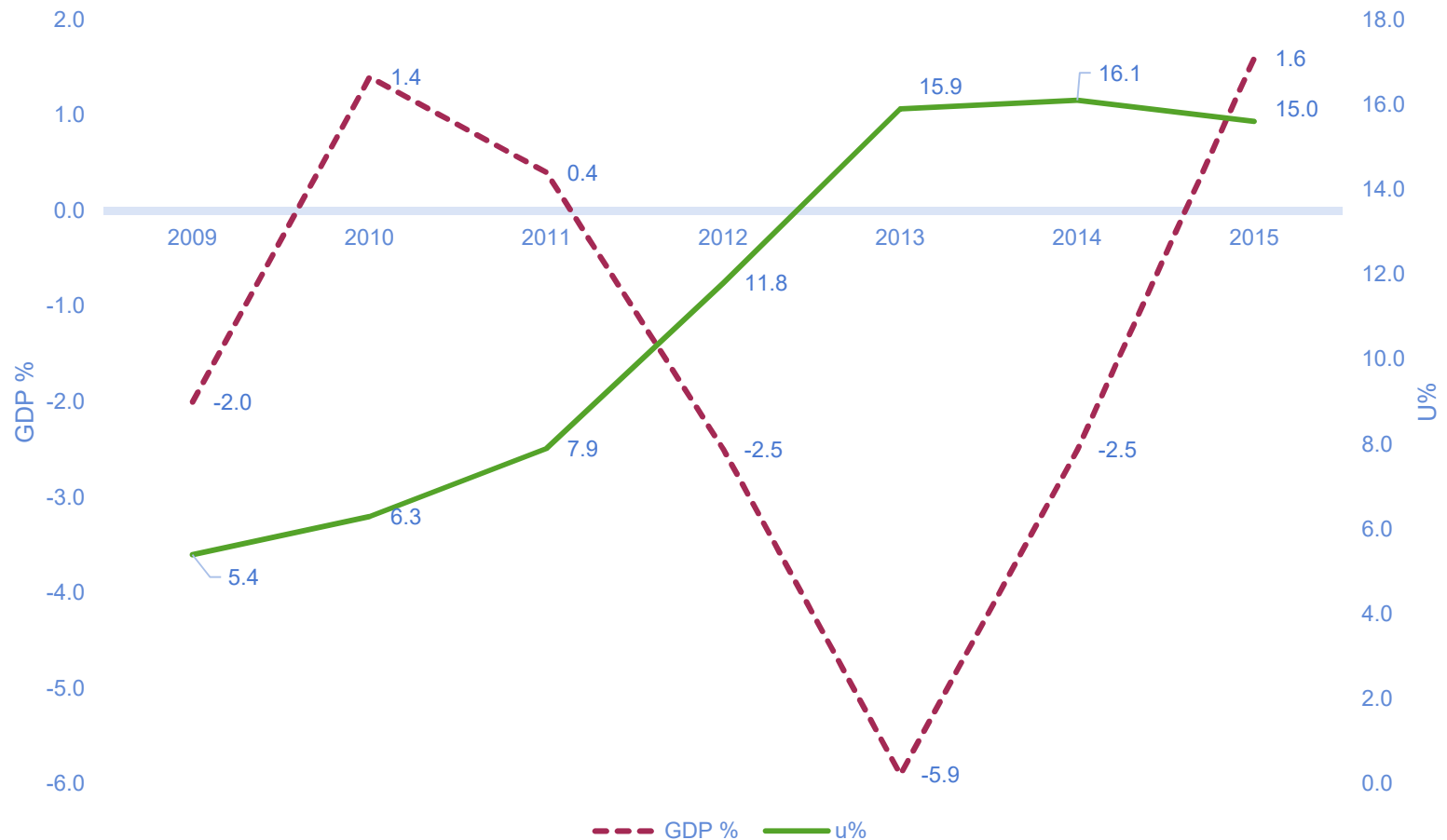


Introduction

- ✓ GDP in 2015 has increased by 1.6% compared with -2.5% in 2014 (figure 1).
- ✓ As figure 1 depicts, the movement of unemployment and GDP growth for 2009-2015 validates the Okun's law indicating the inverse relationship between unemployment with growth.
- ✓ As unemployment is a lagging indicator, GDP rebound needs time since business firms delay to add labour.
- ✓ The economy has been exhibiting positive growth rates for the last four successive quarters reflecting an exit from the financial downturn.
- ✓ Figure 2 depicts the relationship between inflation rate with the unemployment rate for Cyprus in 2006 to 2016 (figure 2).
- ✓ However, some challenges still remain in the financial market and in the implementation of structural reforms.

Employment and GDP movement

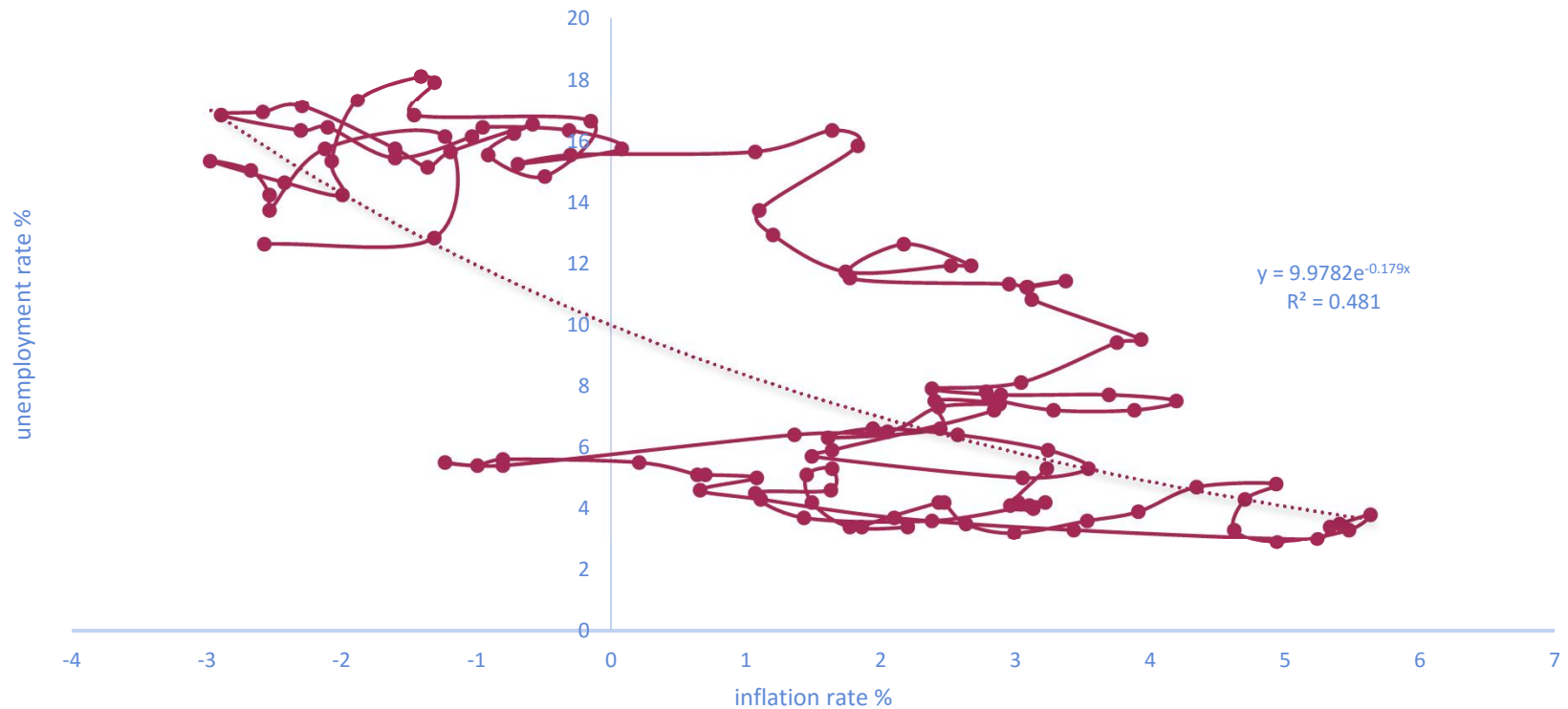
Figure 1: Unemployment & GDP movement, 2009-2015



Labour Supply and Demand outlook



Figure 2: Cyprus Philips curve, 2006-2016



Labour Supply and Demand outlook

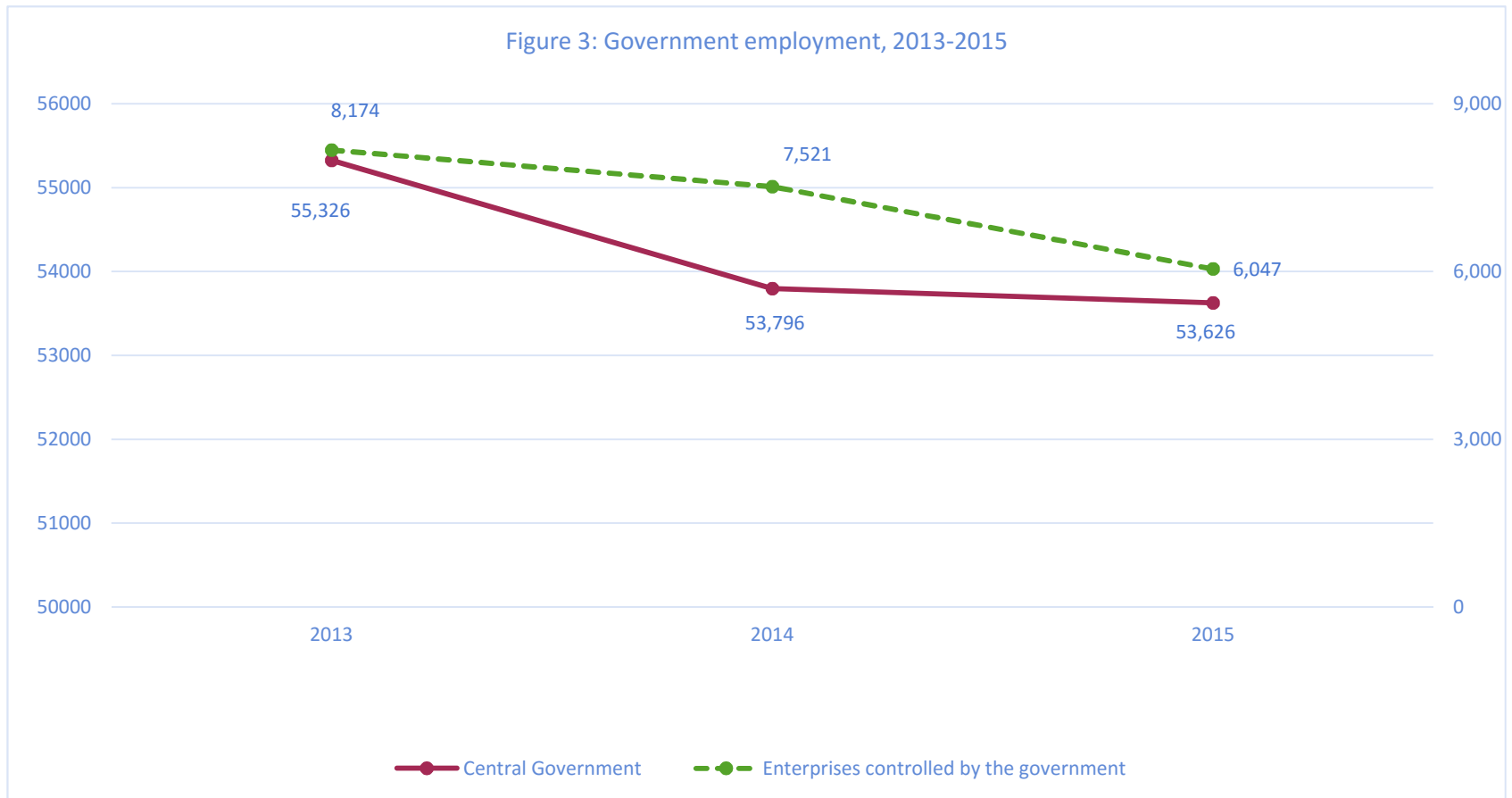


- ✓ Real economy data exhibit a change in trend for employment and hours worked.
- ✓ As a result, productivity growth measured in hours worked per employee has risen by nearly 1% compared to 2014.
- ✓ Moreover, positive productivity growth is associated with negative compensation per employee by 1.1% leading to competitiveness gains while the nominal unit labour cost has fallen by 0.9% in 2015.
- ✓ At the same time, self-employed in numbers increased by 1% in 2015 compared to 2014.
- ✓ Central government employment continued declining by 0.3% in 2015 compared to 2014 while employment by enterprises controlled by the government contracted employment in 2015 by 20% as the next graph depicts.

Labour Supply and Demand outlook



Figure 3: Government employment, 2013-2015



Labour Supply and Demand outlook

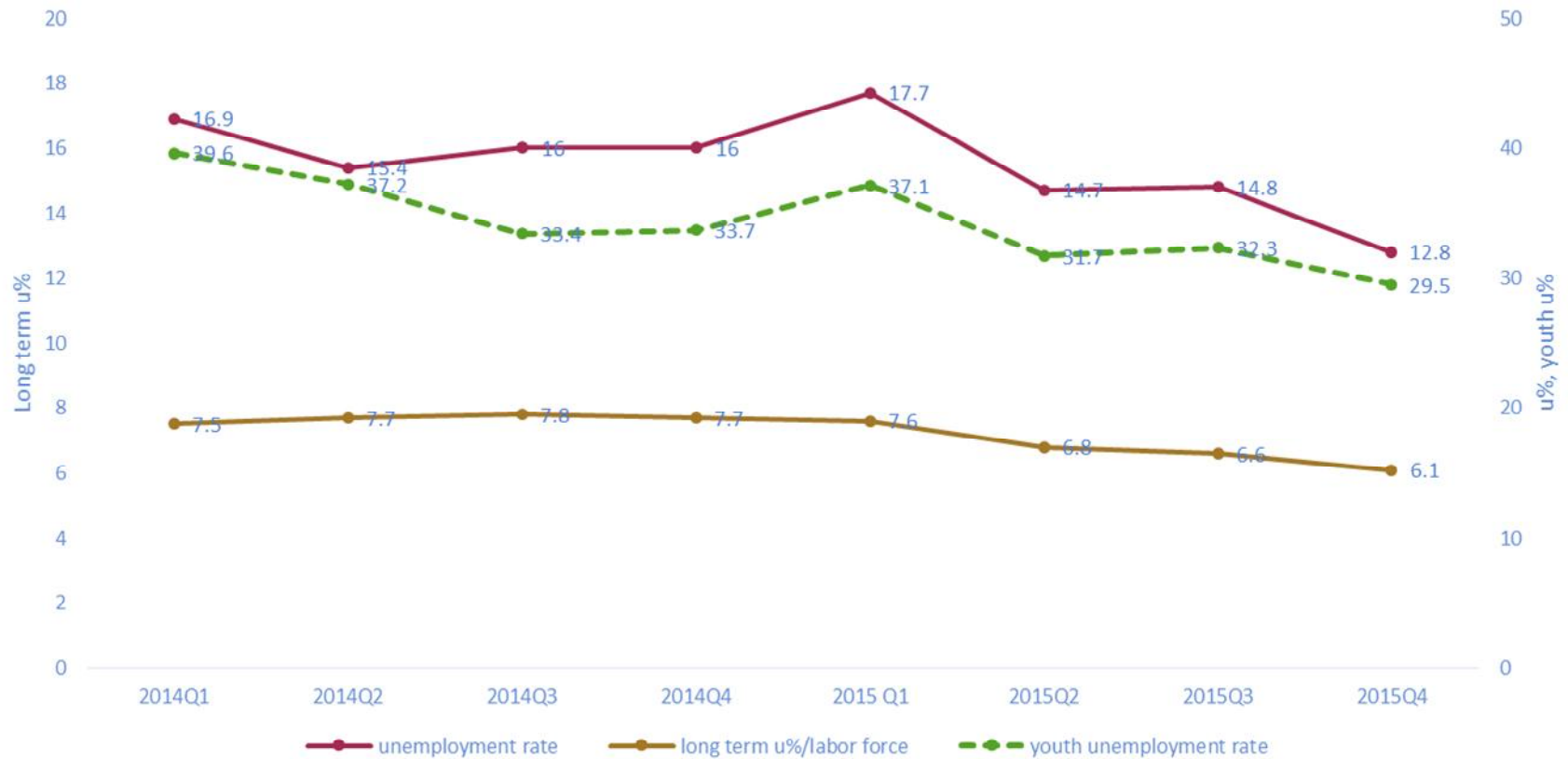


- ✓ Unemployment rate in 2015 fell to 15% of the labour force from 16.1% in 2014.
- ✓ Youth unemployment rate continued declining falling by 3.3 p.p in 2015 compared with 2014.
- ✓ Long-term unemployment as a ratio of the labour force fell to 6.8% from 7.7% in 2014.
- ✓ The above inferences are depicted in figure 4 further down.

Labour Demand and Supply outlook



Figure 4: Unemployment rates 2014-2015

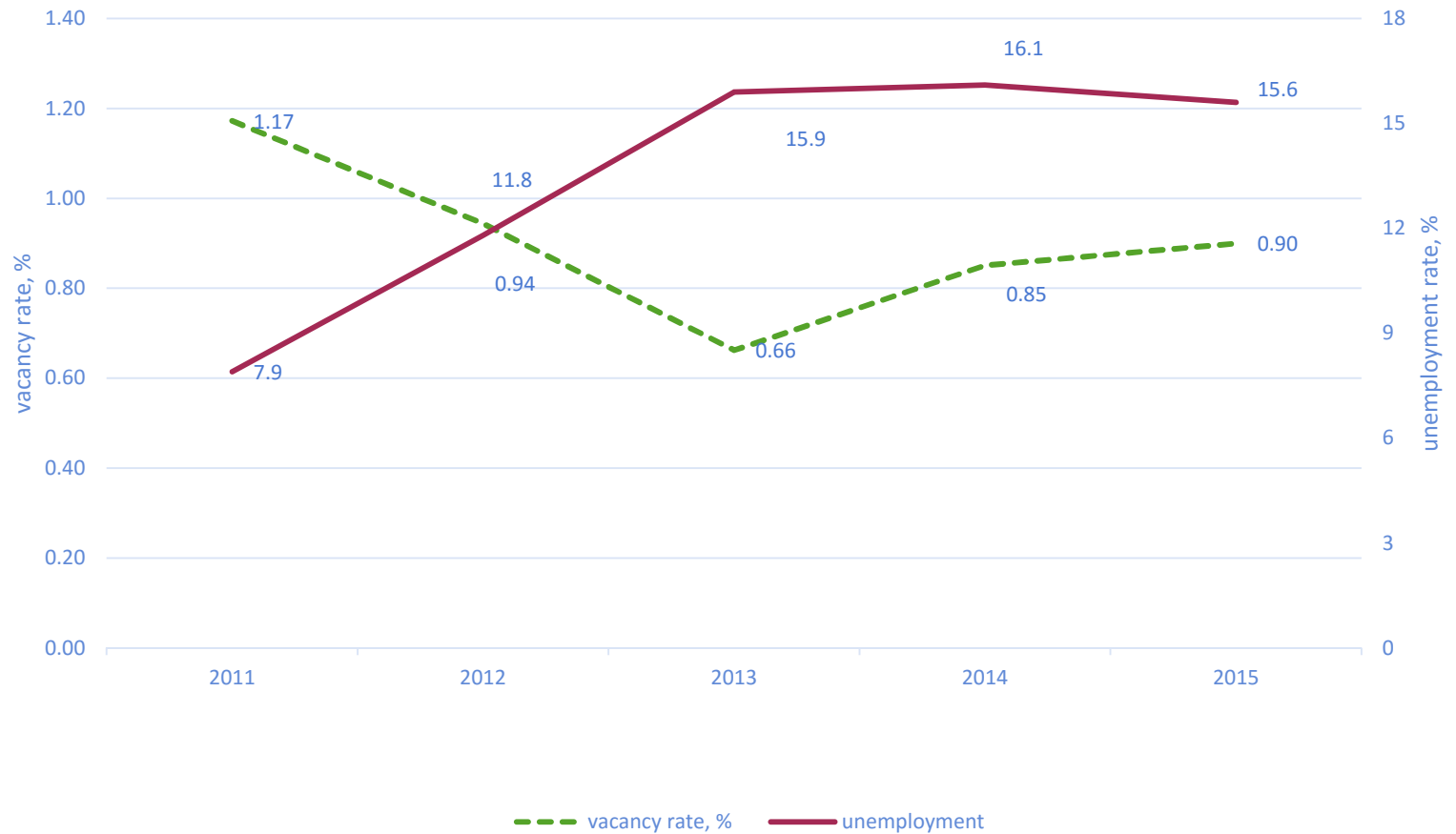


Labour Demand and Supply outlook

- ✓ The vacancy rate continued increasing in 2015 and reached 0.9 while the unemployment rate declined by 1.1 p.p. (figure 5).
- ✓ This pushed the Beveridge curve upwards and slightly rightwards with respect to the number of vacancies.
- ✓ When only the vacancy rate rises substantially, the jobless rate can move downwards and a job creation recovery can be denoted.

Labour Demand and Supply outlook

Figure 5: Beveridge curve 2011-2015



Prospects & Challenges, 2016

- ✓ Recent forecasts indicate that the Cyprus economy is rebounding in 2015 with growth at 1.6% and the growth rate to continue increasing in 2016 by 2.2%.
- ✓ In the labour market employment growth is projected to increase by 1.2% and unemployment rate to fall further to 13.5% of the labour force.
- ✓ For the following years, the growth rate is projected to accelerate reaching the potential growth by 2018.
- ✓ In the labour market employment growth will turn positive as from 2016 onwards and unemployment is expected to be placed on a permanent declining path.

Policy implications and measures



- ✓ Economic policy could target the following areas to address labour market challenges and reduce unemployment :
 1. Expand growth enhancing capital expenditure on infrastructure through reallocation of resources and promote private investment projects.
 2. Mitigate tax burden on employment for private enterprises to encourage labour demand of the private sector to increase employment.
 3. Upgrade monitoring and evaluation of labour market schemes by introducing criteria to foster labour market performance.
 4. Associate the provision of GMI with active labour market policies and with the coordination of programmes offered by the Human Resources and Development Authority aiming to entering and reentering of unemployed to the labour market.
 5. Provide tax incentives to foreign enterprises willing to invest in Cyprus to attract foreign direct investment necessary to facilitate unemployment to decline.

Policy implications and measures



- ✓ Continue implementing labour market schemes to maintain jobs as a means to address long run unemployment and retain contact with the labour market.
- ✓ Provide incentives to voluntary and non-governmental organizations to enable them dealing with labour, social and health activities.
- ✓ The state universities to offering a number of courses at all levels in English language to attract foreign students from neighbouring countries utilizing Cyprus as a regional educational center.
- ✓ Associate high school courses with market's needs to facilitate after school employment.



Concluding remarks

- ✓ Mitigate tax burden on employment and promote efficient taxation without crowding out private investment and maintaining fiscal sustainability.
- ✓ These measures can facilitate unemployment to decline if combined with higher value added policy initiatives and growth friendly measures.
- ✓ However, the unemployment tendency to fall when output rebounds can be mitigated by shortages of workers' skills mismatch of the available vacancies and thus, takes time for unemployment to be reduced fast.
- ✓ The decline of the unemployment rate in Cyprus seems to be associated with lower financial risk related to lower corporate interest rates paid by firms.

Summary

- ✓ Growth is supported by higher liquidity in the money market while the government can more easily absorb liquidity from foreign markets.
- ✓ Lower financial risk, reflected in lower corporate interest rates and interest rate spread with the relevant German rate, contributes to reducing pressures on unemployment.
- ✓ The economic adjustment programme is concluding successfully apart from the implementation of structural reforms, which anyway take more time to complete.
- ✓ Deflationary expectations shall begin mitigating in 2016 and unemployment reduction is expected to pursue.