



MINISTRY OF FINANCE

LABOUR
MARKET
BULLETIN

1st SEMESTER
2023



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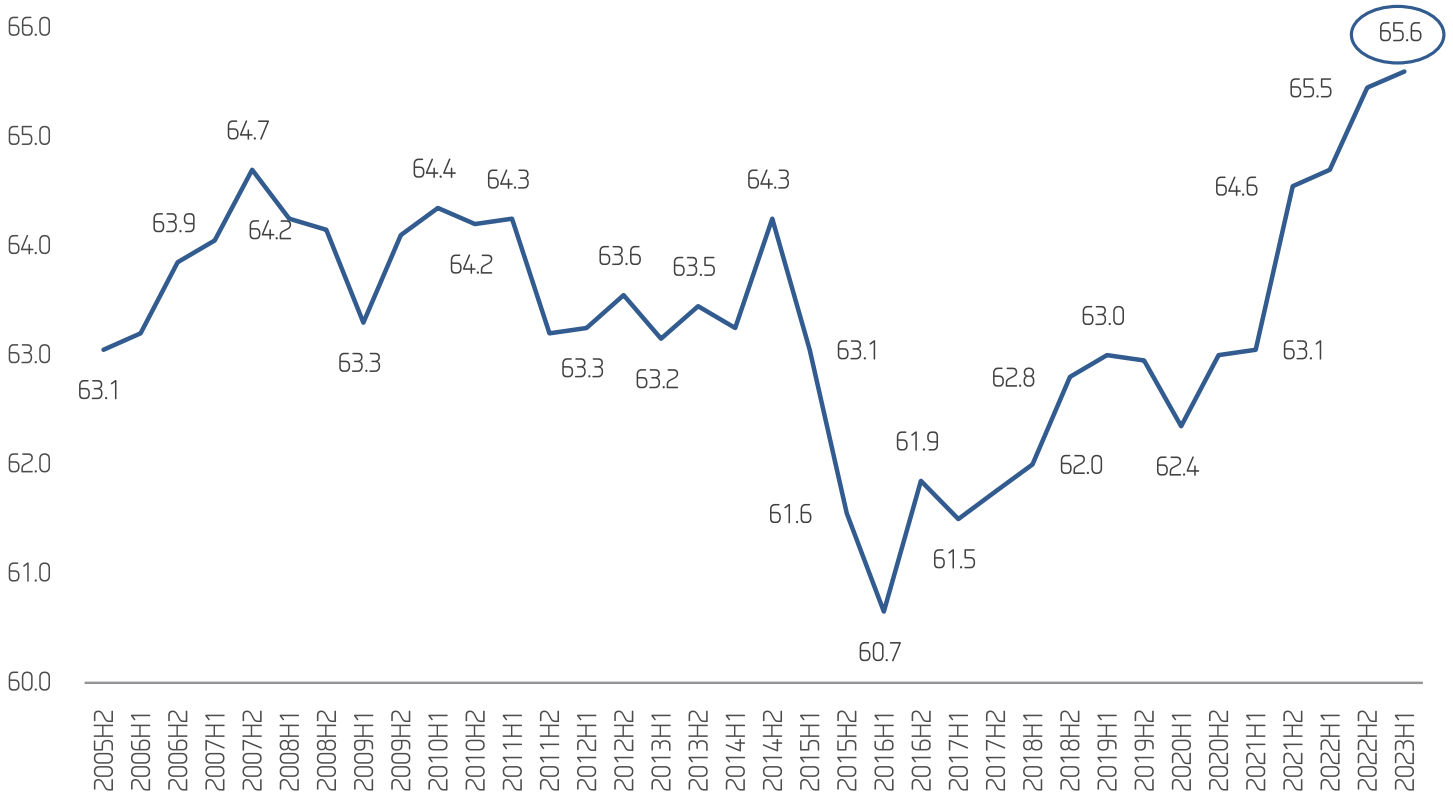
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A. Labour force statistics

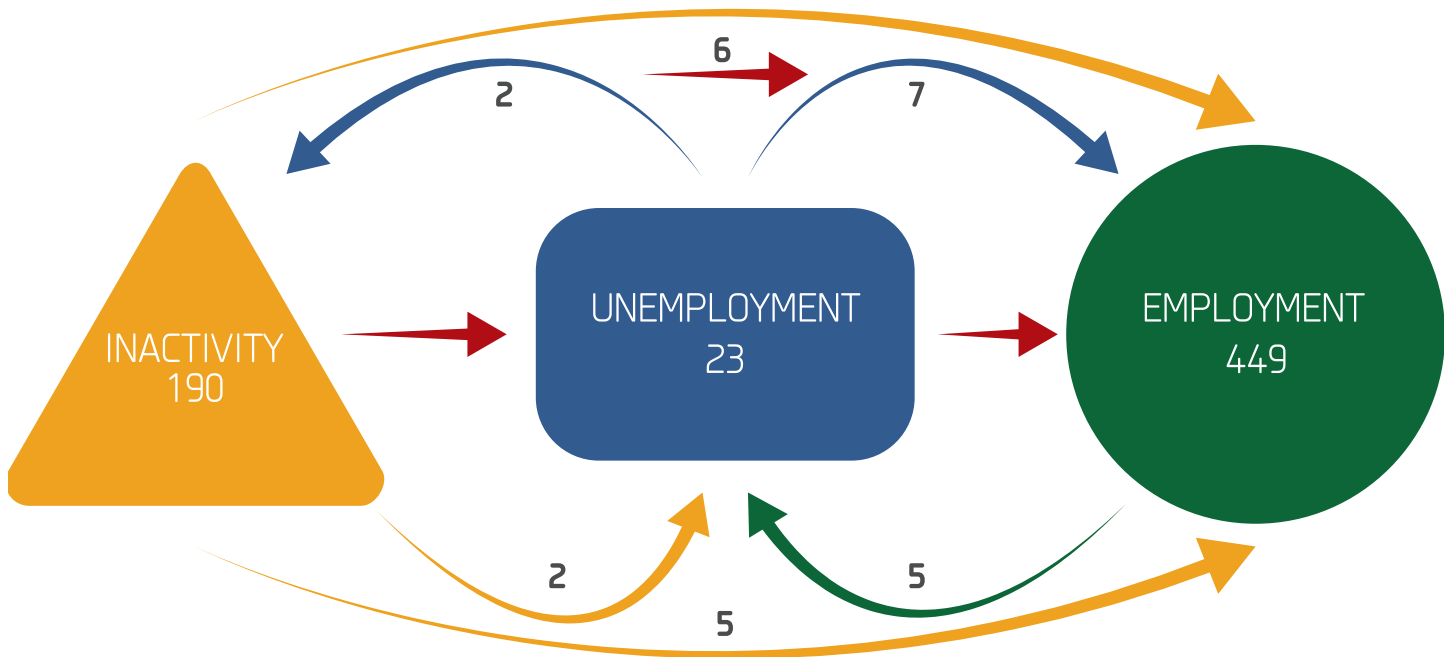
In the 1st semester of 2023, **labour force** (as a percentage of the population), increased from 64.7% to 65.6% in relation to the 1st semester of 2022 and it is at the highest level since data have been available, i.e. since 1999 (Figure 1).

Figure 1 - Labour Force to Population



With regard to the stocks and flows of Employed (Figure 2), Unemployed and Inactive persons, it appears that in the 2nd quarter of 2023 compared to the 1st quarter of the same year, the net flow of **Employment** was positive by 3,000 persons, while net **Unemployment** and **Inactivity** flows were decreased by 2,000 and 1,000 persons, respectively (Figure 2). The red arrows indicate the direction of the net flows; thus, they denote the movement of the labour force from inactivity to the labour market and from unemployment to employment.

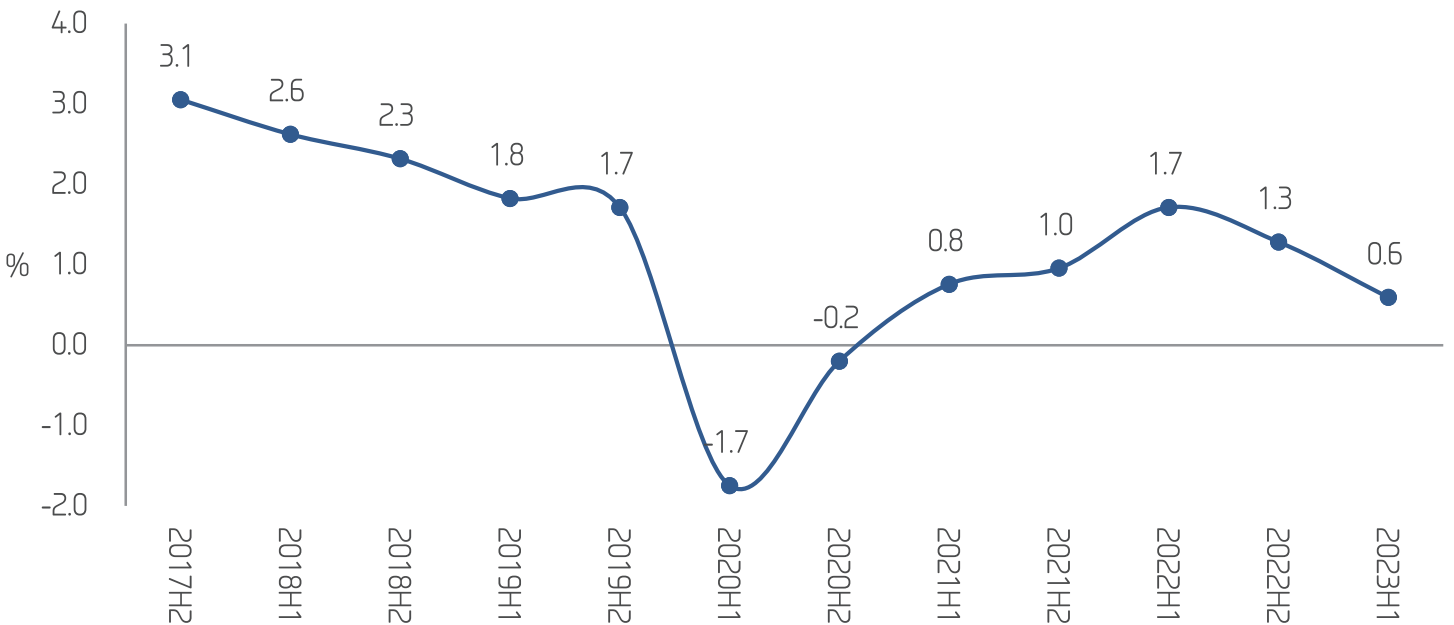
Figure 2 - Employment-Unemployment-Inactivity Stocks and Flows 2023T2¹



B. Labour Supply

During the 1st half of 2023, seasonally adjusted **employment** in persons increased by 0.6%, compared to the previous quarter while non-seasonally adjusted employment increased by 1.8%, compared to the same quarter of the previous year (Figure 3). Accordingly, seasonally adjusted **hours worked** increased by 0.8%, while non-adjusted hours increased by 2%.

Figure 3 - Seasonally adjusted employment (persons, %)



¹ The unit of measurement is thousands of persons

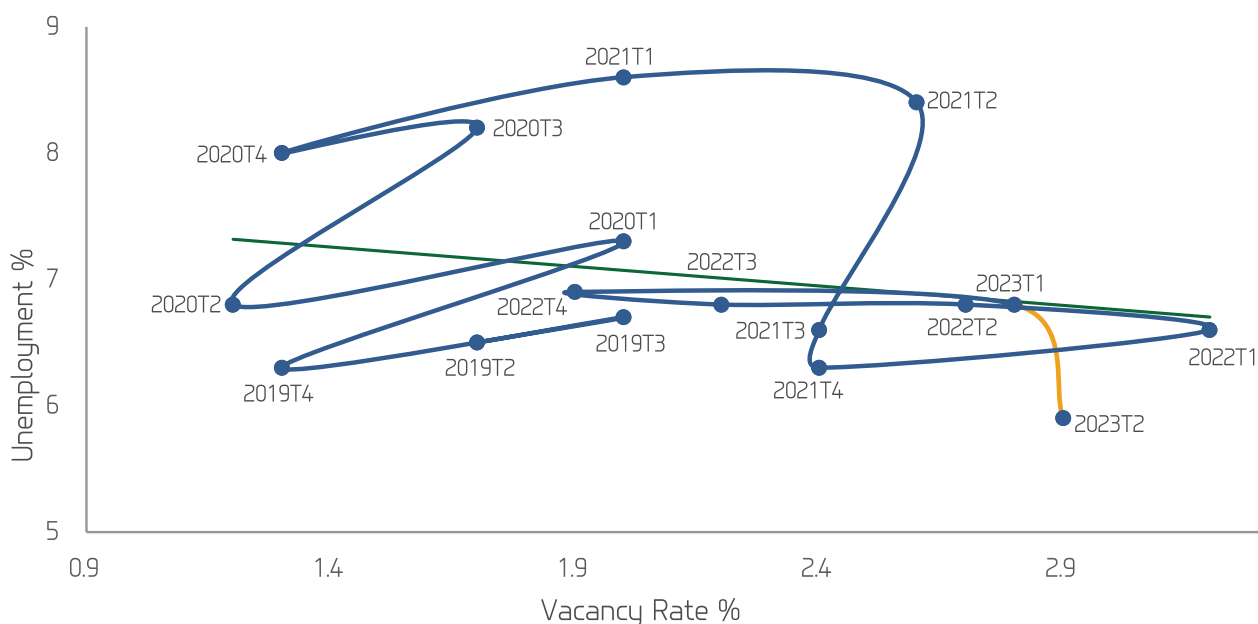
Regarding the **public sector**, employment in the 1st half of 2023 amounted to 49,295 persons and increased by approximately 637 more persons compared to the same period in 2022. Public sector employment corresponds to 10.6% of seasonally adjusted employment. The increase in employment is mainly attributed to the education and military personnel.

C. Labour Demand

In terms of labour demand, the unemployment rate in the 1st semester of 2023 compared to the 1st semester of 2022 decreased to 6.4% from 6.7%. **Vacancy rate** averaged at 2.9% in the 1st half of 2023 compared to 3% in the same period last year.

The **Beveridge curve**² (Diagram 4) follows a downward trend, which indicates a decrease in unemployment but stable vacancies.

Diagram 4 – Beveridge curve 2019T2-2023T2



The **Natural Rate of Unemployment**³ (NRU) in the 1st half of 2023, rose to 5.9%, while the rate of **Non-Accelerating Inflation Rate of Unemployment** (NAIRU) to 2.9%. The NAIRU ensures that at a given point in time, inflation will not be higher than the price level required to keep inflationary expectations stable and thus maintain macroeconomic stability. Therefore, the deviation of 3 percentage points between NRU and NAIRU is significant and essentially means that by exercising rational and targeted economic policy and restricting structural inefficiencies, the real unemployment rate can be further reduced.

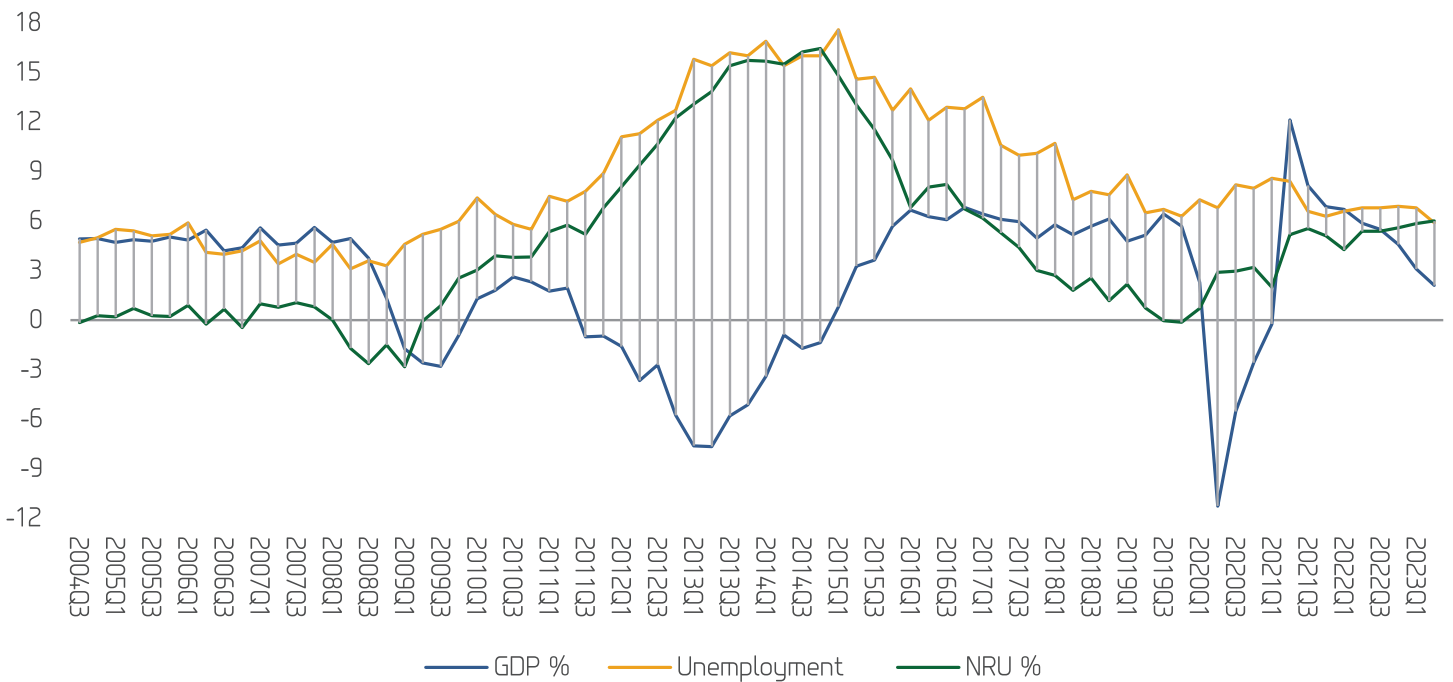
Long-term unemployment (12 months and more) as a percentage of the labour force in the 1st half of 2023 amounted to 2.1% of the labour force while in the 1st half of 2022, it was at 2.4%. The proportion of young people (15-29) who were not in Employment, Education or Training (NEET), as a percentage of the total number of young people in the corresponding age group, for the same period it fell to 13.3% from 13.6%.

The GDP growth rate appears to be correlated with the real unemployment rate and the natural unemployment rate. More specifically, when the GDP growth rates are positive (years 2004-2009 and 2015-2023 – with the exception of the period of the outbreak of the pandemic), unemployment rates have a parallel course, while when the GDP growth rate decreases (2010-2014) unemployment rates increase, with a one-year time lag. From the available data and as exhibited in Diagram 5, this relationship shows signs of reaching to a long-term macroeconomic stability trajectory.

² The Beveridge curve or UV curve is a graphical representation of the relationship between unemployment rates and the job vacancy rate (as a percentage of the labour force).

³ The natural rate of unemployment is the unemployment rate that occurs when the economy is at full employment.

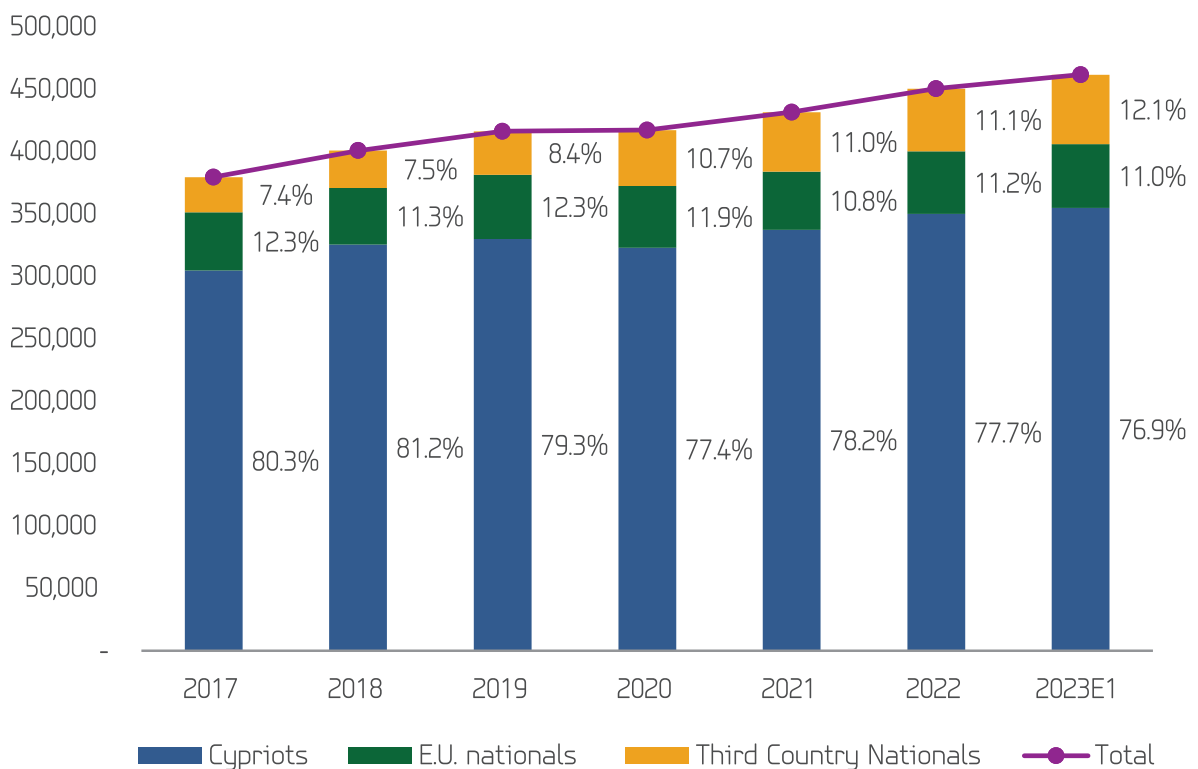
Diagram 5 – Relationship between GDP growth rate and unemployment rate



D. Third Country Nationals

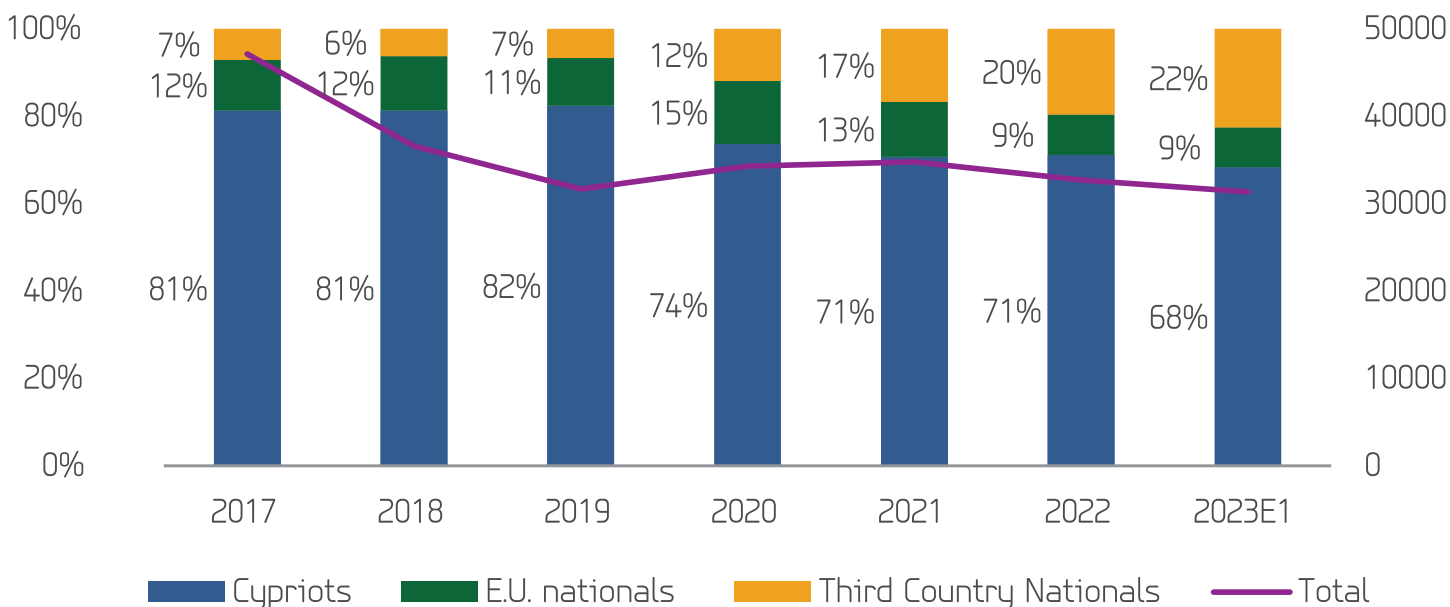
In the 1st semester of 2023, 76.9% of the employees were Cypriot citizens, 11% E.U. nationals and 12.1% Third Country Nationals (TCN). The employment of TCN exceeded in number the employment of EU nationals and recorded the highest percentage for the period 2017-2023H1 (Diagram 6).

Diagram 6 – Employment and Percentage Distribution by Nationality, 2017-2023H1



As mentioned above, the unemployment rate in the first half of 2023 has reached 6.4% of the labour force, the lowest level since 2011. The percentage of unemployed TCN, in terms of the total number of unemployed, increased from 7% in 2017, to 22% in the 1st half of 2023, while the percentage of Cypriot unemployed decreased from 81% in 2017 to 68%, respectively (Diagram 7).

Diagram 7 – Unemployment by Nationality, 2017-2023H1



E. Concluding Comments

The increase in real GDP growth by 2.6% on average in the 1st half of 2023, the decrease of the unemployment rate to 6.4% of the labour force, the increase in employment and working hours by 1.8% and 2% respectively, as well as the increase in the labour force are signs of a robust recovery of the labour market.

However, the natural unemployment rate exhibits an upward trend (2% in 2020, 4.5% in 2021, 5.2% in 2022 and 5.9% in the 1st half of 2023), which possibly reflects structural inefficiencies in the labour market. The unemployment rate has decreased almost to the percentage of the natural unemployment rate, a development that restricts the productive potential of the Cypriot economy, unless further policy measures will be promoted that may have an instant impact in employment, such as ICT.

The implementation of further reforms and investments related to employment and education in the context of the Recovery and Resilience Plan and the intensification of controls to confine undeclared work could ease this trend.