MINISTRY OF FINANCE

LABOUR
MARKET
BULLETIN

2nd SEMESTER
2023

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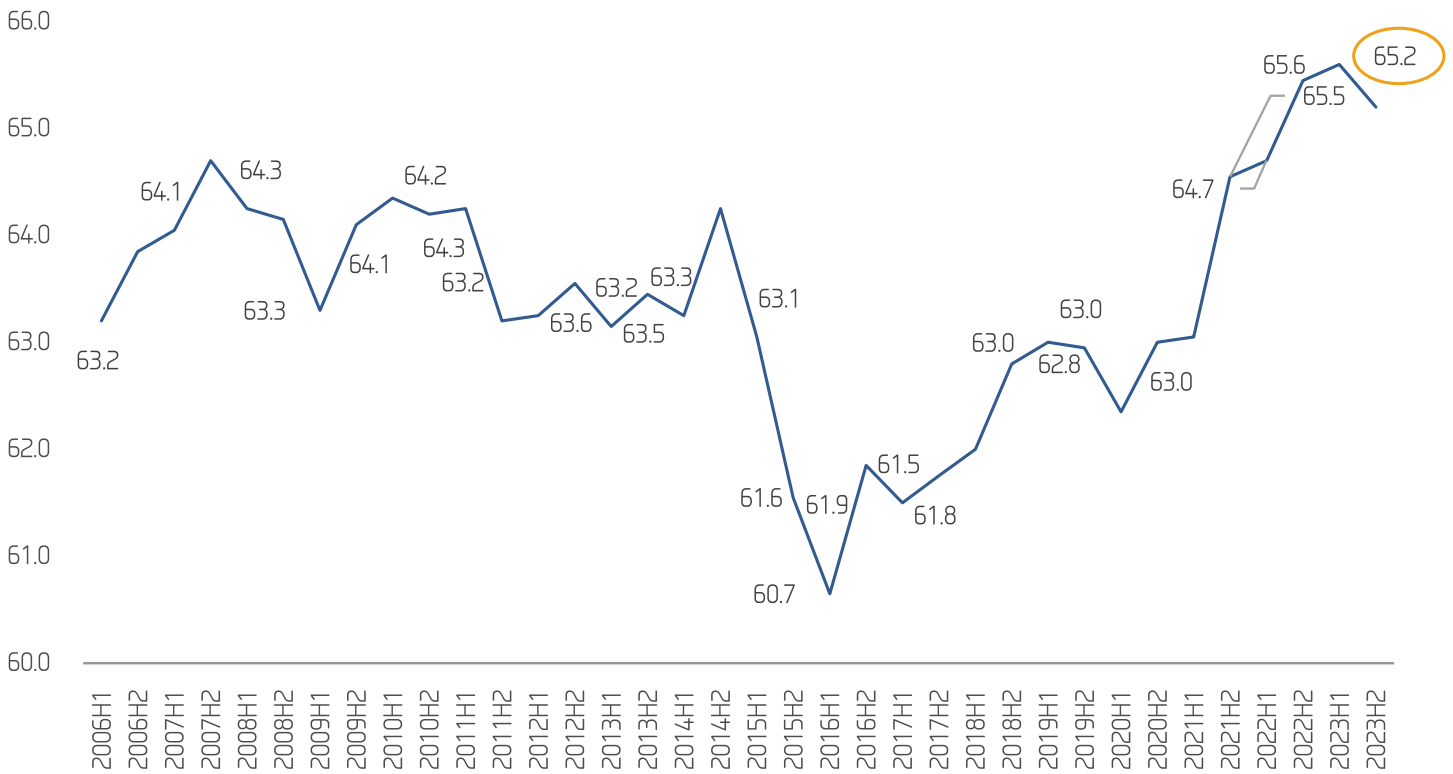
A. Labour force statistics

In the 2nd semester of 2023, labour force (as a percentage of the population), decreased from 65,5% to 65.2% in relation to the 2nd 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, Unemployed and Inactive persons (Figure 2), it appears that in the 4th quarter of 2023 compared to the 3rd quarter of the same year, the net flow of Employment was negative by 3,000 persons, while net Unemployment flows was also negative by 1,000 persons. On the other hand, Inactivity flows increased by 4,000 persons (Figure 2). The red arrows indicate the direction of the net flows; thus, they denote the movement of the labor force from employment to unemployment and from unemployment to inactivity.

Figure 2 - Employment-Unemployment-Inactivity Stocks and Flows 2023T4
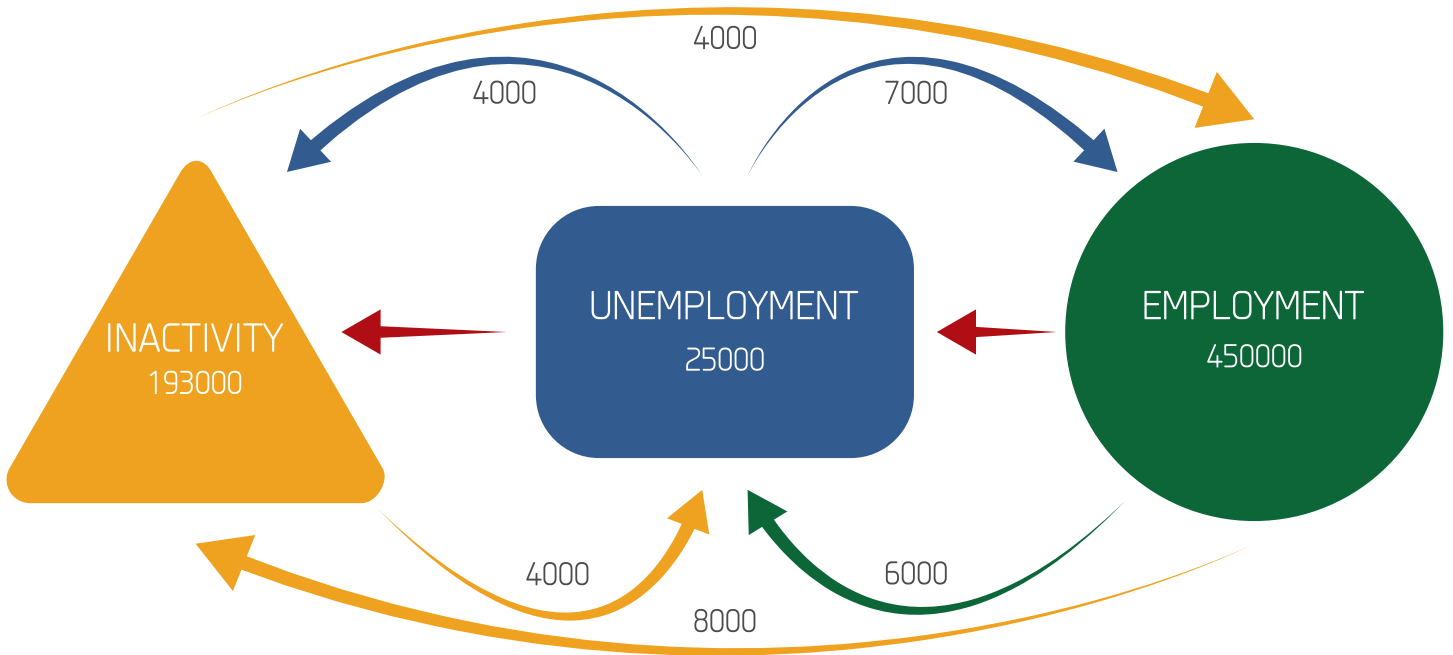
B. Labour Supply

During the 2nd half of 2023, seasonally adjusted employment in persons increased by 0.8%, compared to the previous semester, while non-seasonally adjusted employment increased by 1.2%, compared to the same semester of the previous year (Figure 3). Accordingly, seasonally adjusted hours worked increased by 1.4%, while non-seasonally adjusted hours worked increased by 1.6%.

Figure 3 - Seasonally adjusted employment (persons, %)
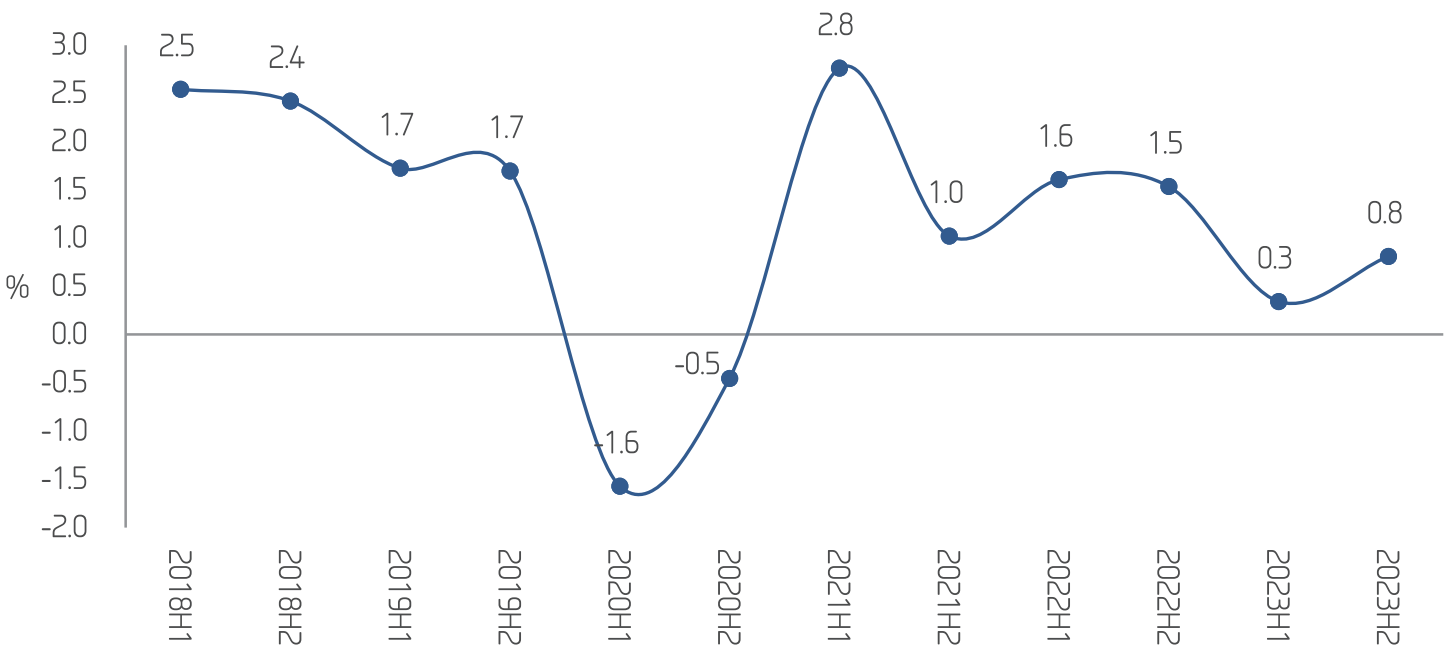
Regarding the public sector, employment in the 2nd half of 2023 amounted to 50830 persons and increased by approximately 1731 more persons compared to the same quarter of 2022. Public sector employment corresponds on average in the 2nd half of 2023 to 10.6Σ% of seasonally adjusted employment while 1 year before corresponded to 10.4%. 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 2nd semester of 2023 compared to the 2nd semester of 2022 decreased to 5.9% from 6.9% of the labour force. Vacancy rate averaged at 2.9% in the 2nd half of 2023 compared to 2.1% in the same period last year.
The Beveridge curve[1] (Diagram 4) follows a downward trend, which indicates a decrease in unemployment but relatively stable vacancies.

Diagram 4 – Beveridge curve 2019T4-2023T4
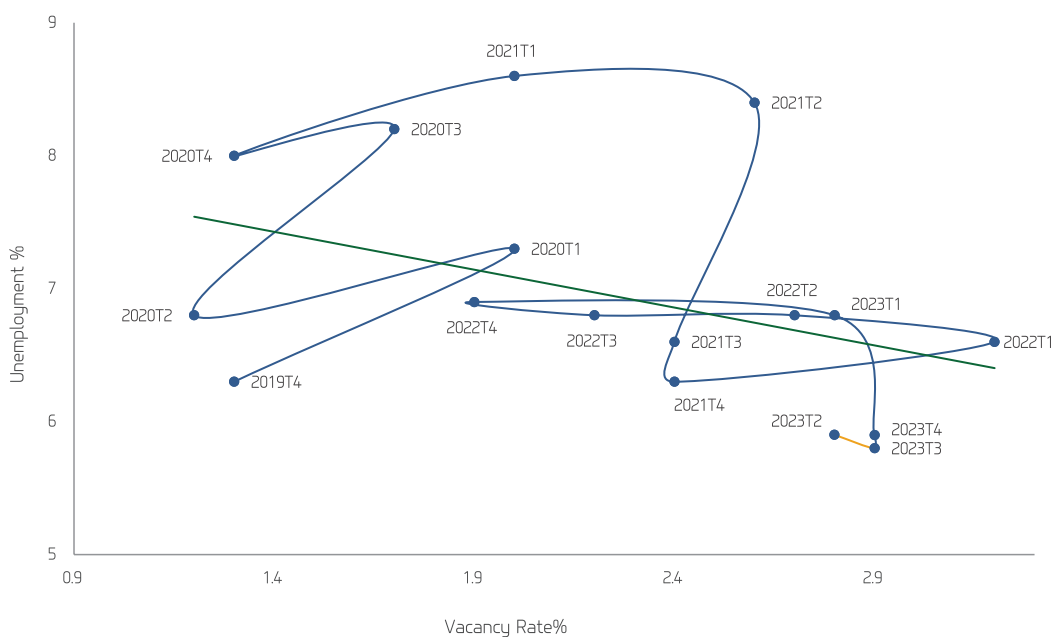
The Natural Rate of Unemployment[2] (NRU) in the 2nd half of 2023, was at 3,5% of the labour force from 4,2% in the first semester of 2023 and 3,6% one year earlier. Annually the NRU was at 3,9% in 2023.
The Non-Accelerating Inflation Rate of Unemployment (NAIRU) was at 2.5% in the 2nd semester of 2023.
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 1 percentage point 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 reduced at around 5% which is estimated to be the long run unemployment rate (NRU).
Long-term unemployment (12 months and more) as a percentage of the labour force in the 2nd half of 2023 amounted to 1.7% of the labor force while in the 2nd half of 2022, it was at 2.1%. 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 14,3% from 15,9%.
The GDP growth rate appears to be correlated with the 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 path, while when the GDP growth rate decreases (2010-2014) unemployment rates increase, with 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 equilibrium trajectory or full employment.

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[1] 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).
[2] 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
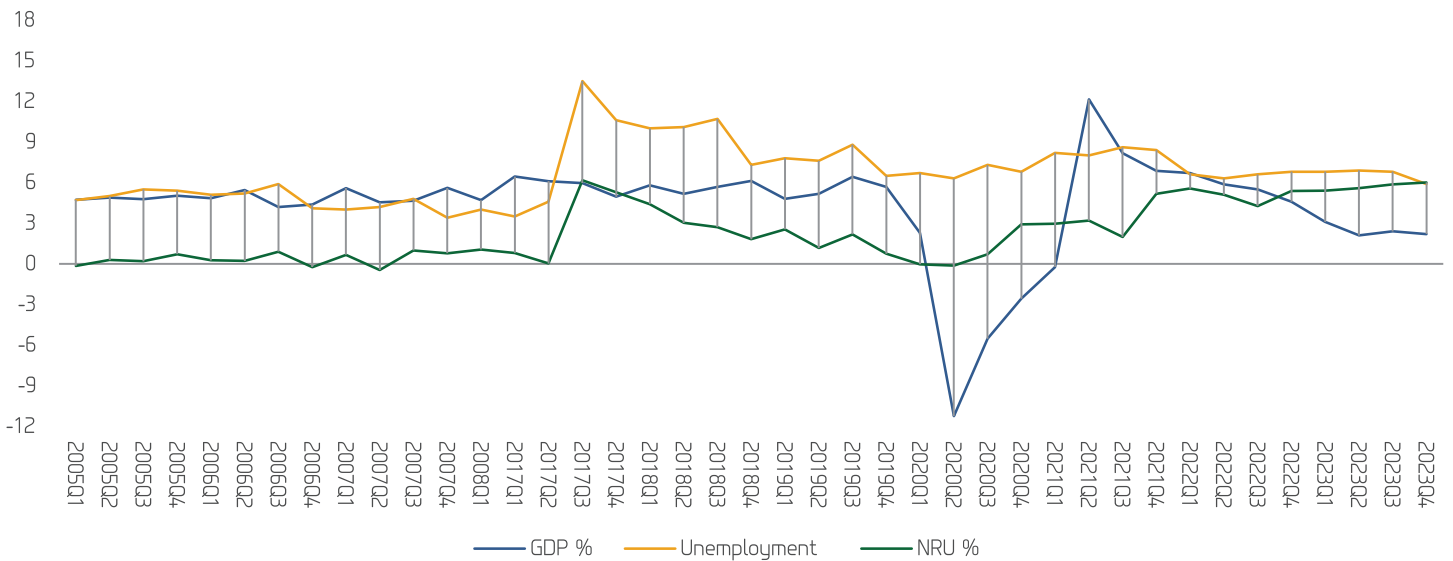
D. Third Country Nationals

In the 2nd semester of 2023, 74,5% of the employees were Cypriot citizens, 11,8% E.U. nationals and 13,7% Third Country Nationals (TCN). The employment of TCN has exceeded in number the employment of EU nationals since 2021 and recorded its highest percentage of the period 2017-2023 (Diagram 6). As shown in the diagram in 2023 the TCN correspeonded to 12,9% of total employment, the Cypriots to 75,7% and EU nationals to 11,4%. In 2023 Cypriot employees stabilized around 350 thousands, EU nationals at 52,800 persons and TCN at 59,800. In 2022 Cypriots cerresponded to 77,7% of the total number of employees and EU nationals to 11,2% and TCN to 11,1%.

Diagram 6 – Employment and Percentage Distribution by Nationality, 2017-2023
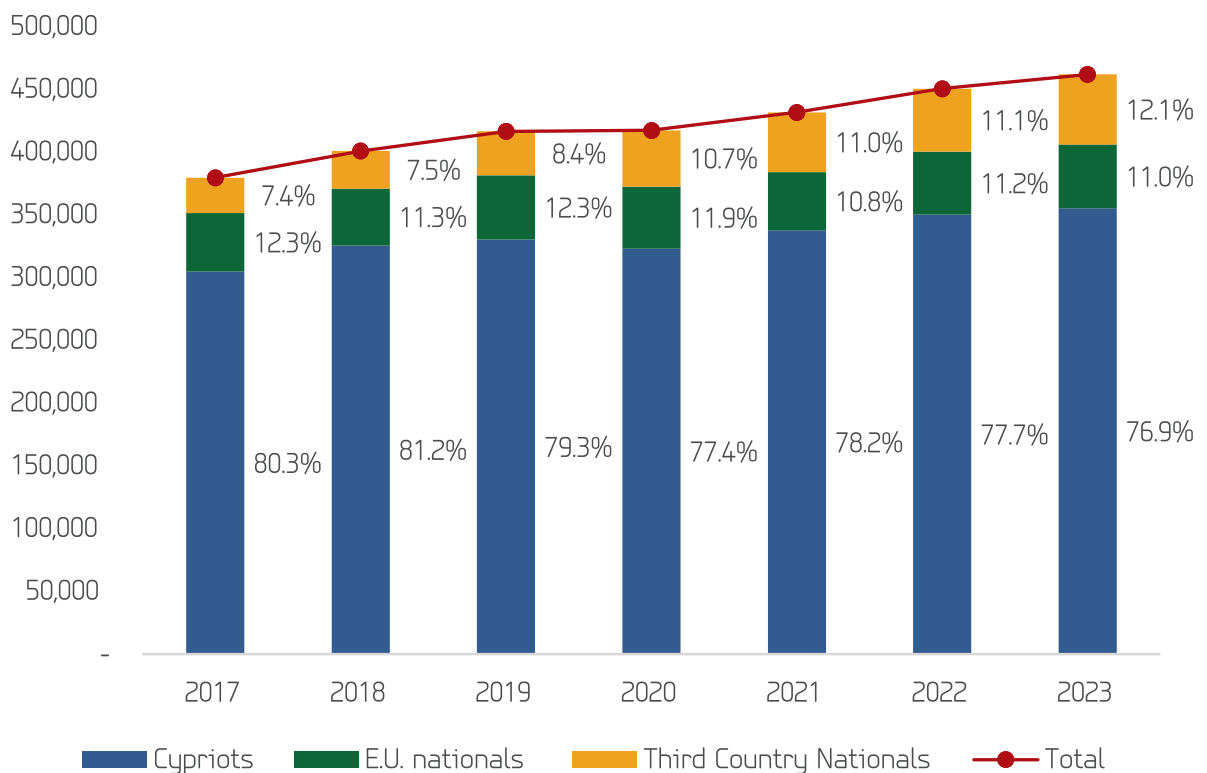
As mentioned above, the unemployment rate in the fsecond half of 2023 reached on average 5.9% of the labor force, the lowest level since 2011.

The percentage of unemployed TCN, in terms of the total number of unemployed, increased from 7% in 2017, to 22% in the 2nd half of 2023, while the percentage of Cypriot unemployed decreased from 81% in 2017 to 68% and the EU nationals decreased from 12% to 9% (Diagram 7).

Diagram 7 – Unemployment by Nationality, 2017-2023H1
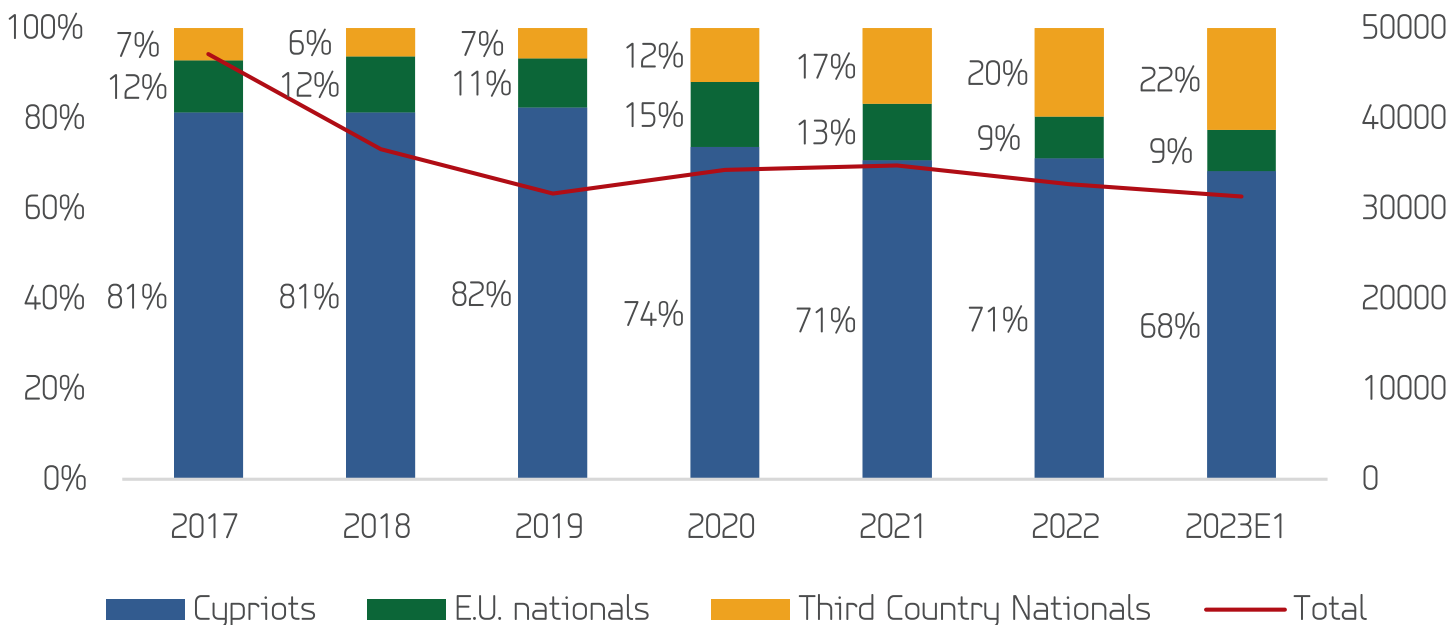
E. Concluding Comments

The increase in real GDP growth by 2.5% in 2023, the decrease of the unemployment rate to 6.1% of the labour force, the increase in employment and working hours by 1.5% and 1.7% respectively, as well as the increase in the labor force are signs of a resilient labor market.

The above positive picture is completed by the estimation that in 2023 the natural unemployment rate fluctuated to 3,9% of the labour force and neared to the estimated NRU, which is 5%. The decline of the long run unemployment rate from 2.2% in 2022 to 1.9% in 2023 is another signal that the labour market is tending towards long run macroeconomic equilibrium. The real unemployment rate of 6.1% has nearly reached the NRU of 5%, which implies that any further reduction of unemployment should face the labour market inefficiencies so as to raise production possibilities of the economy. In parallel, it is noted that the vacancy rate in 2023 was at 2.9% with a downwars trend of the unemplyment rate.

The implementation of further reforms and investments related to employment and education in the context of the Recovery and Resilience Plan, especially, reforms corresponding to the labour market needs could contribute to this end.