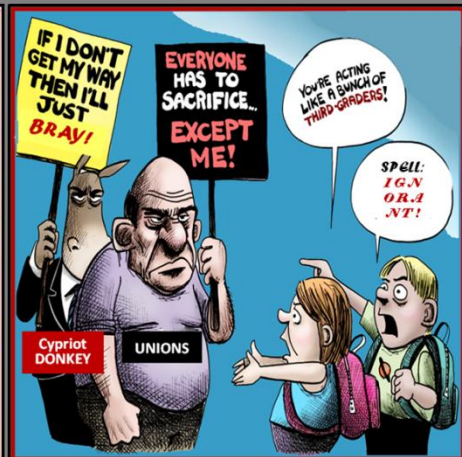


December 2011

Cyprus – A country “ruled” by benighted labor union leaders?



I would suggest government, they never go to jail



About to lose everything and they only bray!

By Harris A. Samaras



About the Author – Harris A. Samaras

An Economist and presently the Chairman & CEO of [Pytheas](#), an international investment management organization, Harris has also worked with the Bank of America Group, Thomson Financial BankWatch, and Moody's Investors Service. His expertise lies primarily in the areas of investment and corporate banking, private equity and finance, risk management and business development. His research and extensive publications in these areas range across practice rather than theory, economic and business thought, entrepreneurship and geopolitics.

He has been an adviser to various governments, central banks, financial institutions, and other corporates and has been a member of the board of directors of multinational organizations.



The epitome and the writing of the final chapter of the calamity of the economy of Cyprus commenced on 14 December with the approval by parliament of insufficient austerity measures that only scratch the surface and continued on 15 December with the Pancyprian strike of the civil servants ordered by PASYDY (the civil servants labor union)! What preceded 14 December was the lack of vision and inability of the Government and political leadership of the Island to tangibly explain to the Cypriots and make them realize the obvious: that if Cyprus does not change it will suffer!

The austerity measures to be adopted by the Government will buy Cyprus a few months, maybe a year, but will not solve the systemic problems of the Cyprus economy that contributed to the crisis. On the contrary, the approved €855 million fiscal consolidation package (over three years) will force the economy to slow down even further to complete stagnation, as private consumption growth, the main driver of the expansion in the past, will evaporate completely and will compel households to zero credit growth. Over and above the leveraged balance sheets and the rising unemployment (8.2% and 24% with ages under 25 as at end-October 2011), incorporated and absent components in the Package demote growth and productivity and discourage FDIs.

Cyprus cannot be productive or competitive when **the COLA** defeats each and every purpose for competing; Cyprus cannot seek for excellence when entrepreneurship and innovation is "massacred" by a system that is not based on merit and performance but instead promotes mediocrity and injustice. Freezing the COLA for a period of time is only an interim measure; **the COLA must be abolished immediately!** Simply, apply a fair formula to incorporate the COLA into the salaries of the public servants and base future increments on performance.

The fiscal pressures generated by **the public pension system** and the disproportionate to the more productive private sector **public wages** are disastrous – as population aging and rising dependency ratios feed through to large increases in pension outlays and overbearing and unfoundedly increased public salaries exacerbate public finances.

Note that Cyprus has the largest public sector payroll in the Eurozone as a proportion of output (15.4% of GDP at end-2010) which along with social benefits they consume an immense 45% of total generated government spending! Even after the recent reforms the pension plan remains one of the most generous by international standards. The public pension system has to undergo restructuring, i.e. revise contribution rate and retirement age, base benefits on career average not on final salary, index pensions to the CPI, etc.

Also public sector employees receive an estimated 30% higher salaries than those in the private sector! Automatic salary increment must stop, public sector wages must be contained and the size of public employment must be reduced.

In view of these undisputable facts one can only wonder why **the labor unions** hold such stance and one can only deduct that their behavior is ignorant, irresponsible and anachronistic. What else can it be? Could it be that they put their own interests before the wellbeing of all their members? Could it be that they desperately try to find a reason for their existence? Because, if they are, their actions are equal to the most despicable crime!

The labor unions must realize that unless they support the fiscal consolidation process unreservedly, unless the cancer is scraped to the bone and not just the surface, in a very short period of time their role will be diminished to obscurity. When their members (if drastic measures are not undertaken) in the very near future are laid off, one after the other, they, their members, will realize only too late that the labor unions were more than ignorant...

NOTICE that the day Cyprus is forced to join the **European Financial Stabilisation Mechanism** (EFSM), that very same day Cyprus will stop being an international business and financial center, Cyprus will not be allowed to have a privileged 10% corporate tax; even worse, Cyprus will not be deciding for its own future alone.

Bold corrective actions can set the stage for resumption of economic growth only if a spirit of collectiveness and pride is adopted. Will the labor unions give the example or not?



Sources (Alphabetically)

- ▶ Cyprus Mail – Civil servants stage 12-hour strike
 - ▶ Cyprus Mail – Unions dig their heels in on pay freeze
 - ▶ Cyprus Mail – Unions not disposed to austerity measures
 - ▶ Cyprus Weekly – Austerity pain
 - ▶ Europa – Cyprus: Subdued growth prospects while fiscal challenges persist
 - ▶ Financial Mirror – Cyprus unemployment rate increases in October
 - ▶ Financial Mirror – Plain Stupid! Cyprus strikes ground flights, austerity voted
 - ▶ Financial Mirror – IMF: Cyprus has largest public sector wage bill in euro zone
 - ▶ Financial Mirror – Cyprus unemployment rate increases in October
 - ▶ IMF – Cyprus: 2011 Article IV consultation. Staff report; supplement; Public information notice on the Executive Board discussion; and statement by the Executive Director for Cyprus
 - ▶ IMF – Cyprus: Selected issues paper
 - ▶ IMF – IMF Executive Board concludes 2011 Article IV consultation with Cyprus
-

See also other related publications by Pytheas on Cyprus (Chronologically)

- ▶ Cyprus – A country in denial and a scandalous political leadership (December 2011)
- ▶ Cyprus – Finally, energy security for the EU in the pipeline? (November 2011)
- ▶ Turkey unveiled and the dawn of a new energy opportunity for the EU (October 2011)
- ▶ Cyprus – Why the C.O.L.A. must be abolished immediately! (March 2011)
- ▶ Cyprus must change or suffer! (February 2011)
- ▶ Investing in Cyprus, an EU bridge to the world of business (February 2011)
- ▶ Cyprus – The economy calls for immediate action! (December 2010)
- ▶ Cyprus – Real estate and construction industries optimistic despite the slowdown (October 2010)
- ▶ The Cyprus real property market contracted... (October 2009)

Disclaimer

The above notes have been compiled to assist you; however, actions taken as a result of this document are at the discretion of the reader and not PYTHEAS or Harris A. Samaras.

All rights reserved. The material in this publication may not be copied, stored or transmitted without the prior permission of the publishers. Short extracts may be quoted, provided the source is fully acknowledged.