Fiscal policy measures to curb the main effects of the COVID-19 pandemic in Cyprus

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The socio-economic impact of the pandemic in Cyprus has been by no means insignificant. The biggest blow was to the tourism sector, a key sector of the Cypriot economy. Immediately after the first COVID-19 case was recorded (on 9 March 2020), the government took several measures to support the economy and social cohesion. The strength of the second wave of the pandemic has shattered any hopes of a quick recovery.

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Description

The first COVID-19 case in Cyprus was recorded on 9 March 2020. Immediately after, the country took a series of stringent restrictive measures in order to prevent spread, beginning with the closure of schools on 10 March, which very soon led to a complete lockdown. In hindsight, the measures seem to have helped the country recover relatively quickly from the first wave, initiating relaxation measures as early as 30 April 2020.

Many Ministries and related state services were mobilised early, taking measures to protect society and the economy from the impact of the pandemic. The Council of Ministers swiftly announced an emergency budgetary programme for employees and businesses (on 15 March) totalling €700 million; this included the disbursement of €100 million for public health purposes, a 10% reduction in the electricity price for a period of two months, the suspension of divestments for three months by the Cyprus Asset Management Company (KEDIPES), a three-month extension for submitting supporting documents to the "ESTIA" scheme (which aims to address the problem of debt-overburdened households; see Andreou and Koutsampelas, 2019) and a temporary "freeze" on contributions to the new National Health System (NHS).

An important piece of legislation was soon after approved by the Parliament (on 29 March). It concerned suspension measures aiming at protecting borrowers (physical and legal entities previously up-to-date with their obligations) unable to pay back their loans due to the pandemic, and also covering the repayment of capital instalments and interest loans to financial institutions. This was of great importance since the banking sector already had a considerable number of non-performing loans. At the same time, the Ministry of Labour, Welfare and Social Insurance initiated a series of extraordinary support schemes to address the effects of COVID-19, almost all of them still in effect at the time of this report (January 2021), more specifically: a) special sick leave allowances for persons who have tested positive and their close contacts; b) special leave of absence for parents caring for their children under the age of 15; c) support plans for businesses which have had to suspend their activity (the intensity of support depends on the degree to which their operations have been affected); and d) support schemes for provision of unemployment allowances (both for those who have become unemployed and for those with a prolonged unemployment history). The Ministry of Finance introduced additional support measures, including an extension of the deadline for tax declarations for companies and self-employed and the temporary suspension of social insurance fund instalments. The Association of Cyprus Banks took steps to facilitate the procedures for opening new accounts for citizens without an account, particularly those over 60, issuing debit cards free of charge. The central government announced the suspension of evictions or any proceedings to recover possessions and the subsidisation of housing loan interest rates. An additional €11 million were allocated to support activities related to tourist inflow to Cyprus between June and September 2020 (the peak tourist season).

Outlook and commentary

The blow inflicted on society by the pandemic was by no means insignificant. The economy had only recently begun to recover from the unprecedented recession of 2011-2016. One of the biggest worries of the government was the damage to the tourist industry, in view of the approaching summer season; all hopes for a positive outcome and a decent recovery would then disappear in the face of a global scene of travel bans and suspensions of airline operations (a 90% decline in airline flights). The initial predictions of a massive reduction in tourist arrivals were confirmed with a staggering 70% reduction compared to 2019, accompanied by an 84% reduction in revenue. Considering that tourism accounts for approximately 20% of GDP, the consequences have also been devastating for employment and by extension social cohesion (a 90% increase in the number of unemployed in October 2020 compared to October 2019 [Statistical Service, 2020]).

The opening of Cyprus to tourists was announced in the last week of May 2020 and was perceived by many as the outcome of the successful management of the first wave of the pandemic. A new injection of €6.3 million was announced on 10 June to strengthen the sector, along with the introduction of an innovative incentive for attracting tourists: all expenses would be covered if the tourist tested positive for the virus while on holiday in Cyprus (accommodation, food and hospitalisation for persons testing positive and their family members). The measure to reactivate the tourist industry also targeted domestic tourism and permanent residents by subsidising accommodation costs.

The pandemic has had a negative impact on the revenues of the recently established NHS, which come mainly from contributions levied on the income of beneficiaries and retirees and from employers. It is estimated that monthly revenues have been reduced by more than 50%, attributed primarily to the increased unemployment, the reduction in wages and the fact that the various allowances granted to employees via the state support plans are exempt from any taxes or deductions (allowances are not subject to deductions for contributions to the NHS). Through these emergency support programmes, the State covers around 60% of employee-beneficiaries' wages in the form of allowances, and since state benefits are not taxed, the revenues of the new NHS have been reduced accordingly.

The COVID-19 pandemic has upset everyday life and continues to pose a threat to public health, while significantly affecting the economy and businesses. Unfortunately, the second and much worse wave of the pandemic has brought a new escalation of the crisis with possibly even more serious economic consequences. Despite the steep 7% reduction in the GDP growth rate projected for 2020, there was, in the summer of 2020, a climate of cautious optimism and hope of a relatively quick recovery in 2021 (with a 5.9% GDP growth rate projected for 2021). This has changed following the huge second wave surge in the pandemic, which started in Cyprus in late October 2020 (Mallis & Matsi, 2020).

According to the Cypriot Finance Minister, the prevailing uncertainty regarding the development of the disease makes it very difficult to make reliable predictions about the economy (Finance Minister's Press Office, 2020). It is certain, however, that after the negative effects of the second wave, a strong economic recovery (at least in the first half of 2021) is a fairly remote scenario.

Further reading

Andreou, S.N. and Koutsampelas, C. (2019), "The 'Estia' scheme in Cyprus: A social policy mirage?", ESPN Flash Report 2019/03, European Social Policy Network (ESPN), Brussels: European Commission.

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