

A stylized map of Cyprus composed of a grid of grey dots, with several dots highlighted in red to represent specific locations or data points.

# The social and political impact of the Cyprus economic crisis (2010–2017)

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- The economic crisis resulted in the shrinking of the economy and the austerity measures adopted led to the deterioration of living standards and the rise of social inequality.
- Emigration has increased substantially, resulting in shrinking but still strong immigrant communities and considerable brain drain from Cyprus.
- Despite the fact that the changes occurring in various dimensions were big and significant, most of them have not been of a structural order. The reforms occurring were primarily of a managerial form and operating at the policy level with no major transformations in the civil administration, the public services, the labour relations system and overall the Cypriot economic model.
- At the political level, the most important change has been the rise of disaffection, distrust and abstention, while at the same time these tendencies were channelled mostly into apathy rather than contention and mobilization against existing political practices.
- Beyond a severe, negative impact on the social fabric and economic prosperity, the crisis period is also one of worsening political and system legitimacy.



## Content

<b>1. Introduction: The context and the arrival of the crisis</b> .....	<b>2</b>
<b>2. The development of the crisis and the Memorandum of Understanding (MoU) with the Troika</b> .....	<b>3</b>
<b>3. The political conjuncture of austerity</b> .....	<b>6</b>
<b>4. The end of the emergency period</b> .....	<b>8</b>
<b>5. Privatizations, reform of the civil service and the General Health Scheme (GESY)</b>	<b>12</b>
<b>6. The labour market and labour relations</b> .....	<b>14</b>
<b>7. Conclusion: social inequality, brain drain and disengagement?</b> .....	<b>15</b>
<b>References</b> .....	<b>16</b>



## 1. Introduction: The context and the arrival of the crisis

From the standpoint of late 2017, more than a year after the official end of the emergency period and on the eve of the 2018 presidential elections, a sober evaluation of the impact of the crisis on Cypriot society, economy and politics is both possible and timely. This is because we can examine not only the political decisions made and the legislative changes that took place but also their actual influence on Cyprus' social reality. We will discuss both the reforms made and the reforms that were not made, as well as the dynamics that shaped policy that was implemented in the crisis years in order to map the field in the current moment. At the same time, we will consider how the political system, that is the political, state and government institutions and agents, has responded to the widespread phenomena of political disaffection and distrust, as well as how a generalized sense of apathy towards Cypriot politics is increasingly but not exclusively reflected in climbing levels of abstention.

The economy of the Republic of Cyprus, after the watershed of the 1974 war, experienced a continuous growth and a significant expansion, resulting in a broader social transformation in the last two decades of the 20<sup>th</sup> century. By the 1990s Cyprus had been converted from a labour-exporting into a labour-importing economy, attracting immigrants from the Middle East, South East Asia and Eastern Europe under the status of »guest worker«. At the turn of the century, the key industries shaping the economic model of Cyprus were tourism, construction and banking. The entry of Cyprus into the EU in 2004 led to further growth of firstly the banking industry, driven by offshore banking, and secondly of the construction sector, driven by holiday houses in the coastal areas, sold primary to EU and foreign citizens. Agriculture shrank further while manufacturing declined substantially as a result of its inability to compete with lower labour and production costs of Asia, leading to the complete domination of the service sectors (Ioannou, 2015). The living standard and educational level of Cypriots rose substantially in this period, albeit unequally and not universally, while poverty was not eradicated.

At the labour market level, the main trend at the turn of the century was the slow but steady erosion of trade union power and collective bargaining in the private sector and the creation of an expanding

peripheral workforce that was excluded from the rights and benefits deriving from collective agreements. Unemployment remained relatively low throughout the first decade of the 21<sup>st</sup> century, and in fact the number of immigrant workers continued to grow, but so did the degree of irregular employment. This enhanced the segmentation of the labour force as a whole and the fragmentation of the workforce at the workplace level (Ioannou 2015). Immigrants, women and youth are concentrated in the low-paid and precarious segment of the labour force, often distanced by circumstances and choice from the trade unions and usually excluded from regular employment. Underemployment and temporary employment in particular had been on the rise from before the onset of the economic crisis, hitting overwhelmingly the young and the new entrants into the labour market.

The crisis arrived in Cyprus in 2009 in the form of a mild depression, which Dimitris Christofias's government dealt with by increasing spending in order to boost demand in the sectors of construction, tourism and banking. Indeed, moderate growth returned in 2010, but the unfolding of the European crisis affected the construction sector negatively as sales dropped and unemployment began to rise. The government attempted to impose a mild increase in profit and property taxes, but it could not secure a parliamentary majority for this. At the same time, the overt expansion of the Cypriot banks, on the one hand, and their connection with the Greek banking system on the path towards collapse, on the other hand, increased the pressure on state finances, which were only temporarily solved with a Russian loan to refinance national debt. The state was not in a position to rescue the two systemic Cypriot banks, seen as »too big to fail«, and as this became obvious, the Cyprus economy suffered a series of down-grading assessments by the rating agencies, which resulted in the exclusion of the state from the international financial markets by mid-2011. After this, the pressure on the government to proceed to measures of fiscal restraint and cutting of salaries in the public and broader public sector began to rise, becoming insurmountable (Pegasiou, 2013). The accident in the naval base at the village of Mari, resulting in the death of 13 people, isolated AKEL as the main governing party further. The President's popularity dropped substantially and this may have led the government to adopt the first series of austerity measures under the pressure of mounting criticism of the economy.



The first austerity measures implemented in the autumn of 2011, chiefly through Finance Minister Kikis Kazamias, included a general freeze on all wages in the broader public sector, including the cost-of-living-adjustment (COLA),<sup>1</sup> a 10 % decrease in all new newcomers in the broader public sector (also affecting all employees with temporary contracts up for renewal), a series of increases in the contributions civil servants make to various state and social insurance funds, a 2 % VAT increase and a 3 % tax increase on income from dividends (PEO, 2011). They were also accompanied by a series of support measures to businesses, such as sponsoring the hiring of unemployed, investing in infrastructure and securing loans with state guarantees, easing licensing procedures, etc. These measures were adopted against the will of all trade unions and passed after a unanimous agreement of the parliamentary parties, by-passing »social dialogue«, which was seen as an unnecessary luxury in the crisis conditions.

The political context at the onset of the crisis was especially unusual for both Cypriot and European standards. The historical left-wing party in Cyprus, AKEL, had entered the executive in 2008 as the chief governing party for the first time. Beyond that, the President, Dimitris Christofias, was the party's long-serving General Secretary. Christofias had won the elections after facing right-wing candidate Yiannakis Kasoulides in the second round, in an especially polarised climate where both main issues dividing Greek Cypriot society – the Cyprus problem and the economy – played out in heavily ideological and confrontational ways. Five years later, by the end of 2012, the general political climate in relation to the left could not have been more different than in early 2008, eventually revealing that AKEL's endeavour in office was fraught with risks to begin with (see Charalambous and Ioannou, 2015).

1. COLA is an indexation system that automatically adjusts wages to the current inflation rates as estimated by a price index, based on a bundle of basic consumption products. It was instituted after prolonged worker mobilizations in the early 1940s, and it is included in collective agreements.

## 2. The development of the crisis and the Memorandum of Understanding (MoU) with the Troika

During 2012, unemployment in general and youth unemployment in particular were rising exponentially as the depression was deepening. Simultaneously, the new rules of the European Central Bank, which were about to come into force, effectively meant that the Cypriot banks would need extra capital, but they were unable to secure it. The state itself began to face increased difficulty in refinancing its debt and the savings achieved through the 2011 spending cuts proved insufficient to reverse the rapidly deteriorating situation. The second largest bank in Cyprus, Laiki Bank, turned to the state, which bailed it out, but when the Bank of Cyprus was unable to meet its capital needs – and in the absence of any available means at the disposal of the government – the Republic applied to the European Stability Mechanism for assistance.

At the level of the real economy, many small businesses faced increased liquidity problems with a substantial proportion of them having to shrink their operations or even close down. Rising unemployment put further pressure on wages and diffused job insecurity to previously secure and well-paid workers in most industries (Ioannou, 2016). Irregular employment, undeclared work and underemployment also rose as the only options for the unemployed, while a substantial proportion of those previously employed on a regular basis also began to experience job insecurity. Many employers began to unilaterally cut wages and benefits, while there were also many instances of delayed payment of wages in 2012. At workplaces with a strong trade union presence several strikes took place. However, the norm was to negotiate the temporariness of the various cuts and to sign interim memoranda or interim collective agreements in order to ensure that the labour retreat would happen in an organized manner.

The negotiations with the Troika took place in the second half of 2012, and, although an agreement was reached on the fiscal terms of the MoU by November, the Troika decided to wait for the completion of the data collection with respect to the banking sector that was due in January 2013 and to sign a comprehensive agreement with the new government that was to take over in February. Nevertheless, in December 2012, the Cypriot parliament voted for all the legislation needed for the fiscal part of the Memorandum and enforced all the austerity measures, except the increased property tax.



**Table 1:** Summary of main austerity measures in Cyprus (2011–2015)

	Social provisions	Taxation	Public Sector
2011	<ul style="list-style-type: none"> <li>• Re-examination of all state benefits, with a view to their reduction through the introduction of income criteria</li> <li>• 15% reduction in all shift benefits of nursing personnel for night shifts and 35% for Sundays and public holidays</li> <li>• Freezing of COLA</li> <li>• Immediate penalty of 6% for early retirement under the Government Employee Pension Scheme (GEPS).</li> </ul>	<ul style="list-style-type: none"> <li>• VAT increase of 2%, and a 3% tax increase on income from dividends</li> <li>• Increased excise duties for tobacco, alcoholic drinks, and motor fuel.</li> <li>• A 1% tax increase on dividends and 0.015% tax increase on deposits.</li> </ul>	<ul style="list-style-type: none"> <li>• General wage freeze in the broader public sector, a 10% wage decrease for all newcomers in the broader public sector (also affecting those on temporary contracts upon their renewal)</li> <li>• Small increases in public sector workers' contributions to various state and social insurance funds</li> <li>• Temporary and scaled contributions of all wages (including the private sector)</li> <li>• Introduction of a permanent contribution for all government employees towards pension entitlements</li> <li>• Salary cuts for all public sector health professionals</li> <li>• Reduction of 13th salary by 50% in the €1000–1500 bracket and 75% in the above €1500 bracket</li> </ul>
2012	<ul style="list-style-type: none"> <li>• Reduction in social transfers by 10%</li> <li>• Reduction in the Easter, Christmas and Food allowances as well as abolition of heating and funeral allowance</li> <li>• Abolition of marriage allowance</li> <li>• Increase in the statutory retirement age by 2 years, to 65, and permanent 12% cut in pensions for life for those retiring early, that is at 63</li> <li>• Further suspension of COLA in the greater public sector until COLA reform is implemented</li> <li>• Freeze in pensions 2013–2016</li> <li>• Increase in contributions to Social Insurance by 1% from 2014 onwards (0.5% for employees and 0.5% for employers)</li> <li>• Rationalisation of child allowance through income criteria</li> </ul>	<ul style="list-style-type: none"> <li>• Introduction of a 20% tax on National Lottery winnings of €5,000 or more</li> <li>• Taxation of allowances of upper level civil servants</li> <li>• Increase in the standard VAT rate from 18% to 19%</li> <li>• Increase in class hours for teaching staff in public sector.</li> <li>• Further reduction by 3% of pensions in greater public sector.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction of the number of government employees by 250 per year (1250 in total)</li> <li>• Reform of shift-work system to reduce overtime remunerations by 20% in 2013, an additional 10% in 2014 and maintain the amount paid for 2015</li> <li>• Reduction of preferential treatment for specific groups of employees, like members of the army and police force, regarding the occupational pension plans, particularly concerning the contribution to the lump-sum benefits</li> <li>• Reduction of the number of civil servants by at least 5,000 in 2012–16</li> <li>• Freeze on hiring hourly paid civil servants</li> <li>• Allowing only one new hiring for every five retiring in health and safety</li> </ul>



	Social provisions	Taxation	Public Sector
2013**	<ul style="list-style-type: none"> <li>• Reduction in provisions for housing plans by €36 million</li> <li>• Further rationalization of Easter allowance</li> <li>• Ending free health care and transport for pensioners.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in fees for public services by at least 17% of the current values</li> <li>• Increase in excise duties on tobacco products, in particular on fine-cut smoking tobacco, from €60/kg to €150/kg</li> <li>• Increase in excise duties on cigarettes by €0.20/per packet of 20 cigarettes</li> <li>• Increase in the statutory corporate income tax rate, from 10% to 12.5%</li> <li>• Increase in tax rate on interest income, from 15% to 30%</li> <li>• Reform of the tax system for motor vehicles, through the annual road tax, the registration fee and excise duties, including motor fuel duties</li> <li>• Update 1980 property valuations through application of the CPI index for the period 1980 to 2012 to raise at least €70 million in taxes.</li> </ul>	<ul style="list-style-type: none"> <li>• Privatization of the telecommunications, electricity and ports authorities</li> </ul>
2014–2015	<ul style="list-style-type: none"> <li>• Reorganisation of the public benefit system and introduction of the Minimum Guaranteed Income Scheme</li> <li>• Reorganisation of additional small pension scheme, resulting in the reduction of beneficiaries as many elderly were not able to complete the necessary forms</li> </ul>		<ul style="list-style-type: none"> <li>• Privatization of Ports Authority</li> </ul>

\* These are the dates the measures were decided, independent of when they were implemented.

\*\* The measures taken in 2013 concerned the specification or the reconsideration of measures that were discussed in 2012 and were incorporated into the MoU.

Austerity measures were severe in all fundamental respects, but they differed from other countries in Southern Europe and especially from the Greek example because only some of these were of a structural order. More specifically, the legally imposed changes in the employment field were concentrated in the public and semi-public sectors, as the Cyprus voluntarist system of industrial relations renders collective agreements not subsumed into legislation (Yannakourou, 2016). To be more specific, the situation in the labour market

deteriorated substantially and private sector employees suffered bigger losses during the depression (see further below), but at the same time the space was left open for future renegotiations of some of these cuts as there was no formal abolition of collective agreements (PEO, 2017).



### 3. The political conjuncture of austerity

After the Mari accident, the near economic collapse that followed with the banking crisis and its management and the MoU with the Troika, Christofias was not in a position to run in the 2013 elections. AKEL itself was inevitably damaged not only by the anti-communist<sup>2</sup> wave that resurfaced after the Mari accident and the intense hostility of the media, but also – and more importantly – by the inability of its government to offer any other alternative to the austerity measures negotiated with the Troika. AKEL opted for a moderate liberal as its candidate in the presidential elections and was able to endure and limit its electoral damage. After moving into opposition, AKEL was able to step up its anti-austerity rhetoric and staged some street protests and voted against several bills related to Memorandum. It even raised the issue of debating Cyprus remaining in the Eurozone, but after the other parties rejected it, it shelved its proposal. AKEL had some further electoral retreat in the European elections in 2014 but it retained its institutional power and managed to elect again two out of the six MEPs.

Since long before 2012, opposition to AKEL and the Christofias government had been five-party strong, criticising the party on multiple fronts simultaneously: a number of scandals involving public officials; the catastrophic explosion in the village of Mari; yet another stalemate on the Cyprus Problem, combined with accusations of the government compromising too much on key national issues; a bloated public sector, for which in fact previous governments had to be blamed; and the entrance of the country into the European Financial Stability Fund (EFSF) at a time when massive protests against austerity were happening in much of the rest of Southern Europe (Charalambous, 2014).

At the end of AKEL's particularly difficult trajectory inside executive government, a new right-wing government, headed by DISY leader Nicos Anastasiades, was elected into office in the second round of the 2013 elections,

riding on a 57.5 % share of the votes.<sup>3</sup> Voter abstention reached its highest levels since the establishment of the Republic, with approximately 16.5 % abstaining in the first and 18.5 % abstaining in the second round. A very sharp drop in turnout at the country's first-order elections was further accompanied by a record in blank and invalid votes cast, as well as a large number of new voters who had not even registered. Electoral behaviour, and in particular whether to vote or not for the incumbent party (AKEL), seems to have been considerably driven by a retrospective ›sociotropic‹ evaluation of the economy. Therefore, many votes lost by AKEL can be connected to deteriorating economic conditions (Kanof and Pirishis, 2017).

The 2013 Presidential elections did not, however, only witness the government alternate from left to right and a mediocre result for AKEL candidate, Stavros Malas, who lost to Anastasiades in the second round, but also one new player. Veteran politician and former AKEL ally, Giorgos Lillikas, was established as an important persona in the politics of the centre, attracting voters from across the spectrum. Although evidently a member of the political and social elite, Lillikas embraced an anti-party, anti-corruption, anti-left-right and pro-ordinary people profile, which attracted 25 % of the electorate; an unprecedented result given that he was backed only by the fourth party in size, EDEK.

The bail-in part of the Memorandum, agreed in March 2013, sent huge shock waves through the economy and constituted a significant moment not only for the evolution of the crisis in Cyprus but also for developments at the EU level. It was the first time that a bail-in agreement was enforced in the Eurozone and – had the original agreement been accepted – this would have been the first time the rule of guaranteeing deposits of up to €100,000 was to be violated. The original agreement stipulated a universal cut on all accounts at all banks in Cyprus at the level of 6.7 % for the first €100,000 and 9.9 % for anything above. This provoked serious reactions expressed through protests and other forms of pressure on the parliamentary parties which eventually voted against it in parliament. Even the main governing party DISY did not vote for the deal and abstained, reflecting the class divisions of its electorate.

2. The main characteristic of this anti-communism was that the ›incompetence‹ with which Christofias was accused was directly connected to his ideology and politics. The resurfacing of this anti-communism sentiment was instrumental in not placing any blame on the army leadership, although it had more direct responsibility for the accident in Mari, or the Central Bank Governor, although he was more directly responsible for the developing crisis in the banking sector.

3. This percentage nevertheless reflected a lower number of real votes than Christofias who had been elected with 53.4 % in 2008.



After one more week of negotiations, during which the banks were closed, the new agreement reached between the government and the Troika stipulated the closing of the already bankrupted Laiki Bank and its take-over by the Bank of Cyprus (BoC), as well as the restriction of the bail-in to the newly merged entity and to all accounts above €100,000. All deposits at Laiki Bank above €100,000 were practically completely lost, as the final liquidation of its assets is not expected to cover much. All deposits at the BoC that were above €100,000 suffered a »haircut« of 40 % being forcibly converted into new shares, as the old BoC shares lost their value.

This was a relative relief for the majority of the population in Cyprus, but it also prevented an escalation in the loss of confidence in the banking system across Europe. In fact, soon after that the EU strengthened the legal basis of state guarantees on accounts below €100,000. Still, the impact of the bail-in was not restricted to those owning shares, bonds and accounts above €100,000 in the two systemic banks of Cyprus. As many businesses suffered losses, there were further cuts in wages and a reduction of available jobs. With respect to savings, the loss was not restricted to the middle class as many provident and pension funds also suffered losses. Moreover, the capital controls created further liquidity problems that resulted in an additional slowdown of economic activity.

At the social level there was a significant shock in terms of the uncertainty that prevailed and in the sense of insecurity that was widespread for several months, peaking in the two weeks during which the banks were closed. Besides the practical inconvenience and the real economic consequences felt by many thousands, the social shock produced by the bail-in process cannot be overestimated. For many people it brought to mind images of the 1974 war, and that happened not only with lay people, but it was also discussed by politicians and analysts, journalists and specialists. For some months, various previously marginal opinions, such as »exit from the Eurozone« or »move away from the services based economic model«, came to the forefront of the public debate.

The European elections of 2014 were the first elections after the shock, and they gave the opportunity to some new persons with or with no alternative ideas to attempt to enter as candidates and thus to reshape the political system. These elections can be classified as one

of the most puzzling contests in the history of second order elections. The incumbent party, Democratic Rally (DISY), was not punished, despite the harsh economic environment in the country, while protest voting affected the opposition more. In fact, the governing party increased its percentages; the European elections in Cyprus both reflected a »honeymoon period« for the incumbent and resonated well with the unprecedented media and political hostility to the previous left-wing government, which clearly drove the vote to a certain extent.

Still, in real numbers, the four main pillars of the party system, AKEL, DISY, DIKO and EDEK, all lost thousands of votes, with EDEK being especially negatively affected. These elections had their part in furthering or consolidating conflict within the two centrist parties, EDEK and DIKO, which subsequently witnessed leadership changes and the composition of their main decision-making bodies. Giorgos Lillikas became a significant player in the 2014 elections, as his then newly established party, Citizens Alliance, polled an impressive 6.8 %, winning over votes from the left, right and centre. The far right achieved results multiple times higher than its 2009 polls, rising from 0.2 to 2.7 %. This election was in a sense the breakthrough for the far right, signalling the potential for them to enter national parliament in the not so distant future. By contrast, the far-left, bi-communal platform, DRASY-EYLEM, was restricted to 0.9 %. Effectively, this result confirmed the diachronic inability to build an alternative to AKEL and to counter its historical organizational advantage. Nevertheless, the result polled by DRASY-EYLEM may also have been the outcome of the group's own strategy, since no sharp distinction between itself and AKEL was established in the absence of polemics against the established left.

Turnout fell by more than 30 % since the parliamentary election of 2011 and by approximately 16 % since the 2009 European election, representing the continuation of a consistent downward path. Increasing apathy, as manifested in electoral behaviour, suggests voters may have sincerely abstained by expressing their true disappointment with all of the options on offer. The decision to vote or abstain was driven by attitudes towards both domestic institutions, on the one hand, and European/international institutions, on the other. Therefore, the European elections' result partly reflected Cypriots' attitudes towards the European Union (EU)





and European integration, in turn suggesting that voter criteria were not exclusively national or local (Charalambous et al. 2015).

#### 4. The end of the emergency period

As Cyprus returned to a positive growth rate with a moderate decline of unemployment, and especially as the Troika support mechanism was already due to expire before 2016, there was talk about »the end of the crisis« (Persianis, 2015). Government officials, however, were quick to add that, although the danger of economic collapse was averted, caution was needed and, in order to completely overcome the crisis, »reforms should continue«. Such statements, systematic and emphatic, have two dimensions: one signaling an acknowledgement that the real economy was still underdeveloped, as many of the government’s supporters could experience in their professional and domestic environments, and one of capitalizing on the crisis and the left’s weaknesses to impose a sort of permanent austerity, legislating more flexibility into the workings of the private market and thus benefiting the upper social strata, with large investments in commerce. The opposition parties pointed at the conditions prevailing at the societal level, such as the increase in poverty and inequality, emigration and a declining living standard, in order to counter the government’s narrative of »a success story«, and put forward the narrative of the »prosperity of numbers rather than people«. Obviously, there was stabilization in the economy and the end of the depression with the return to positive growth rates in terms of GDP. However, there has been little improvement so far in terms of living standards of the overwhelming majority of the population, and although some mild recovery occurred in some socio-economic realms, Cypriot society in 2017 lags far behind when compared to 2009. The construction of the narrative »Cyprus as a success story« can only

be based on a selective use of aggregated economic indicators and not a generalized view.

For example, the decrease in unemployment must be seen in terms of the decrease in employment since 2012 as well. Although post-2014, there is a progressive, declining trend in unemployment, the decrease becomes less impressive when actual numbers, rather than percentages, are examined. And this becomes even less impressive when keeping in mind that part-time employment, primarily involuntary, has increased during this period, from 10.7 % to 14.3 %, while Cyprus remains first in the EU in the proportion of involuntary fixed-term employment (17.1 %). Although it is true that the fear of imminent economic collapse has ended and the generalised work insecurity of 2013–2014 has been somehow eased for a significant proportion of the working population, wages have not recovered, relative poverty has increased and so has income inequality. According to Eurostat figures, income inequality in Cyprus measured by the Gini coefficient remained very high, 32.1 % in 2016. Cyprus had, among the EU member states, the biggest rise in inequality since 2008, while in 2016, 28.9 % of the population is at risk of poverty and social exclusion. Around 10,600 families continued in 2015 to obtain their food from the public food banks. In 2016, Cyprus was the most unequal society in terms of income in the EU after Latvia and Lithuania.

This is a result of the emigration, including several thousand EU and third country nationals, the crisis produced which resulted in a net population decrease.

The crisis also resulted in the significant decline of the number of registered firms as many became inactive and deregistered, while there were also many bankruptcies and voluntary dissolutions. A decline in the propensity of entrepreneurial activity to grow is most evident in the large drop in the number of newly registered firms.

**Table 2:** Employed and unemployed per year

	2012	2014	2016	2017*
Number of employed	385,227	362,741	363,060	379,842
Number of unemployed	51,515	69,547	54,010	44,965

Labour Force Survey, CYSTAT.

\*For 2017, the numbers are estimates based on the 2nd term.



**Table 3:** Emigration per year

	Cypriots	EU and third country nationals	Totals
2012	1,050	17,055	18,105
2013	3,579	21,648	25,227
2014	2,106	22,048	24,154
2015	1,025	16,158	17,183

PEO (2017) based on CYPSTAT figures.

**Table 4:** Registered and newly registered firms and bankruptcies and closures of firms

	2010	2012	2014	2016	2017*
Total number of registered firms	237,372	269,345	251,748	208,493	214,757
Number of newly registered firms	19,278	17,999	11,169	13,645	9,556
Bankruptcies and voluntary dissolutions of registered firms	921	1,277	1,837	2,532	1,907

Company Registrar. Figure for 2017 refers to the period up until 30/9/2017.

The 2016 parliamentary elections, coming literally immediately after the expiration of the MoU between the Republic of Cyprus and the Troika, were a significant indicator of the impact of the crisis and its management on the political system. The actual results of the 2016 elections, as illustrated in Table 5, signalled a state of fluidity and realignment. The governing right-wing party, DISY, could claim a sufficient legitimisation of its austerity policies since 2013 if only because, compared with other parties of the centre-left and centre-right that implemented austerity in post-2008 southern Europe, it has coped well electorally. Capitalizing on the end of the MoU, the party contested the elections with arguments of economic success during its time in office until then.

Left-wing AKEL was punished a second time (the first being the European elections of 2014) for the unpopularity of the Christofias government (2008–2013) and perhaps also for the onset of austerity. DISY lost two seats and AKEL three. EDEK lost approximately one-third of its real numbers and two out of its five seats. Although the pivotal party, DIKO, lost fewer than the other ›big three‹, it retained its nine seats and claimed a ›victory‹. All four parties that have so far constituted the main pillars of the party system in the post-1974 period suffered losses in the tens of thousands of votes since 2011; they lost almost 100,000 votes compared to the previous parliamentary elections.

The big winner of the elections was ELAM, the far-right party that was established in 2008 and has close relations with Greece’s Golden Dawn, initially even starting out as a Golden Dawn branch. This is the second main change in the party system. ELAM more than tripled its percentages and more than doubled its real numbers, attracting both those who are positioned on the far right on national and ethnic issues and those who chose ELAM as an alternative or protest vote against corruption, establishment politics and austerity.

ELAM benefited from a higher fragmentation of the vote that mostly affected the centre of the political spectrum, in spite of the recent increase in the electoral threshold from 1.08% to 3.60%. If one includes the Greens, then currently ›the centre‹ or the ›in-between space‹ is occupied by five political parties that all happen to be also quite nationalist. There are, therefore, no fewer than six parties (adding ELAM), with a total of approximately 130,000 votes, that position themselves, either implicitly or explicitly, against the bi-zonal, bi-communal federation as a solution to the Cyprus Problem.

Abstention reached 33.6%; the election had the lowest turnout for a parliamentary election in the history of the Republic of Cyprus. The results also documented a rapid deterioration in electoral participation that started after 2001 and now continued with a 13% increase (one in



**Table 5:** Results of parliamentary elections in the Republic of Cyprus (2011–2016)

Party	2016			2011		
	Votes	%	Seats	Votes	%	Seats
DISY – Democratic Rally	107,825	30.7	18	138,682	34.3	20
AKEL – Progressive Party of the Working People	90,204	25.7	16	132,171	32.7	19
DIKO – Democratic Party	50,923	14.5	9	63,763	15.8	9
EDEK – Social Democrats	21,732	6.2	3	36,113	8.9	5
Citizens’ Alliance	21,114	6.0	3	–	–	–
Solidarity*	18,424	5.2	3	15,711	3.9	2
Greens	16,909	4.8	2	8,960	2.2	1
ELAM – National Popular Front	13,041	3.7	2	5,354	1.1	–
Others	11,217	3.2	–	4,823	1.19	–
Invalid/blank votes (real numbers and %)	11,153		3.1 %	13,670		3.3 %
Abstention (real numbers and %)	180,664		33.6 %	113,216		21.3 %
Registered voters	543,186			531,463		

Source: Cyprus Ministry of Interior. Figures for Solidarity in 2011 refer to the figures of its predecessor party EVROKO.

eight out of those who voted in 2011 did not vote in 2016). There is a clear case to be made for a crisis of representation. Considering that more than 30,000 new voters did not register to vote, then currently, only about 60 % of the population with the right to vote is being represented by the process of election in parliament.

Change should not be overemphasized in the sense that it is not unlimited. Bipolarism is still substantive, and most of AKEL’s losses went to abstention rather than other formations. More importantly, politicians of the establishment still constitute by far the majority in the new parliament. Whether they belong to an old or new party, a left-wing or a right-wing one, experienced and partisan politicians have been the most popular choice among those who voted in the election.

By 2017, a number of popular tendencies reflecting wider European trends in political behaviour can be evidenced in the Republic of Cyprus. Beyond abstention, a general sense of political distrust has emerged, which concerned above all political parties and the national parliament, and then the national government. While the lowest levels of political trust are expressed in parties, the largest drop since the onset of the crisis is evident in the trust in the

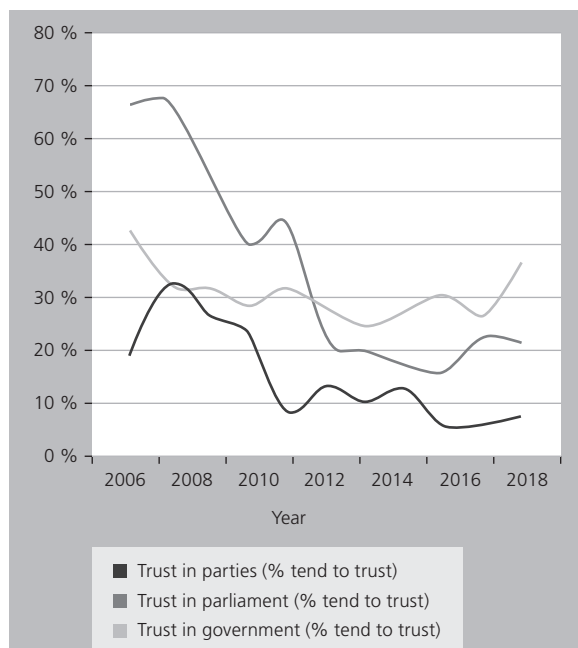
national parliament (Figure 3). Still, trust in government, while not fluctuating much, remains consistently below 40 %. Overall, a crisis of legitimacy is at stake. The trend was evident before the onset of austerity and is thus not driven exclusively by economic concerns but signals also a deficit in democratic representation that lies deeper than worsening living standards.

Importantly, political apathy is the main social characteristic of the crisis period rather than social contention or mobilization. Where contention has been somewhat evident is mostly sectional trade unions rather than citizen groups and social movements. Several years into the crisis, mass protest has been essentially absent in Cyprus and demonstrations almost exclusively involve those directly and immediately affected by specific policy measures. Hence, a sense of trans-sectional solidarity remains absent from Cypriot patterns of social mobilization. Disillusionment with politicians was aligned to disillusionment with politics as a whole, which has come to be seen as a field of incompetence and corruption. As people, especially the youth, has lost trust in institutions and the political process, indifference and cynicism has stepped in. This process of alienation with politics may have been more pronounced among people



without a partisan family background, but the increasing levels of abstention suggest that this has also involved the development of partisan voters who are substantially dissatisfied with the political process as a whole and “de-identify» with parties in the sense of losing a previous psychological bond with an organised political space.

**Figure 1:** Political trust in the Republic of Cyprus (2007–2017)



\* Eurobarometer (spring/summer waves)

At the same time, the political and ideological vacuum created as a result of disaffection and withdrawal, has allowed for more simplistic explanations and populist trends to come to the surface. The rise of populism in crisis Cyprus follows the European pattern in some respects, but is neither as spectacular nor as capable to produce fundamental shifts in the existing political dynamics. Still, the right-wing and «centrist» politicians satisfy the main condition of populism in its native Greek Cypriot sense that is used to reveal an identity of demagoguery, a rhetoric devoid of policy or strategic detail. Among the diachronic and multiple appearances of a demagogic rhetorical style in the Republic of Cyprus – flattering of the audience, projecting the blame away, avoiding any sort of reflectivity or self-criticism – stands out not only the figure of the Republic of Cyprus’s first president, Archbishop Makarios himself, but also those of other successive Archbishops and clerics patently intervening in politics,

as well as the legacies of multiple party leaders across the left-right axis, including Vassos Lyssarides (long-time former leader of EDEK) and Spyros Kyprianou (long-time former leader of DIKO and president from 1977–1988).

These two leading personas of Greek Cypriot politics, Kyprianou and Lyssarides, among others, were personas not because they devised an original political strategy or novel theoretical view on social and political issues, but on the basis of identity-based appeals that spoke of the «just cause» of Greek Cypriots and the «evilness» of Turkish inflexibility, in the attempts to resolve the Cyprus Problem. In fact, even Glafkos Clerides, the historic right-wing leader, famous for his moderation and pragmatism, had occasional populist moments both before and during his presidency. Thus, contemporary leaders, such as Nicholas Papadopoulos, Eleni Theocharous, Marinos Sizopoulos and Giorgos Perdakis, whose parties have currently allied in support of Papadopoulos’s presidential candidacy, are effectively continuing a well-established tradition of ethnopopulism rather than constituting a novel development. In so far as all these actors blame a national enemy in the name of the «Cypriot people», «Cypriot Hellenism» or the «Greek Cypriots», they combine ethnic with populist appeals (see Madrid, 2012, p. 8) without however embracing an anti-establishment stance, as most of these actors are, for the most part, establishment politicians and key institutional players.

At the same time, the more explicit manifestations of contemporary populist politics in Cyprus, which fit well within the wider European picture, are today to be found on the far right of the political spectrum, which as a political space is only partly reminiscent of the anti-Makarios, authoritarian and ultra-nationalist forces of the 1960s and 1970s. ELAM, the far-right party which was established in 2008 and won two seats in parliament in 2016, is today the most representative example of populism in the Republic of Cyprus, both within and outside the context concerning the Cyprus Problem. As an ultra-nationalist far-right party ELAM has capitalised on the socially deteriorating and politically fluid environment of the post-crisis period in all the ways that are familiar in countries like France, Greece, the UK and the Netherlands. In its repertoire one can find the people exclusively understood («Hellenes of Cyprus»), the elites (viewed as both internal and external), an emphasized acknowledgement of political disaffection, as well as an urgent call to «wake up» in the midst of decay.



Although the chief ideological enemy justifying the party's identity is the 'national enemy' (that is, Turkey and the Turkish Cypriots), anti-political establishment rhetoric is now ELAM's key distinctive feature among the Greek Cypriot nationalists. In its rhetoric, the national enemy is more explicitly associated within a larger framework of elitist and oligarchic behaviour of foreign powers and organizations at the expense of the people's desires. In the spirit of populism, for ELAM, the elites are corrupt, incompetent, but in particular working against the interests of the people which populists claim to represent. Internal elites are to be found across the main pillars of the party system, the state and the media, while external elites denote foreign, self-interested and manipulating interventions into the domestic affairs of the country, thus signalling consecutive violations of, and threats to, national (and by extension ethnic) sovereignty.

## 5. Privatizations, reform of the civil service and the General Health Scheme (GESY)

Because the Cyprus crisis was essentially a banking crisis that developed into a sovereign debt crisis and not a crisis provoked by fiscal deficit and public debt, there were significant differences with respect to its treatment compared to other South European countries, such as Greece. The Troika, of course, suggested analogous sets of measures of state reforms, some of which became preconditions, but the emphasis was placed on the reform of the banking industry rather than the reform of the state. Privatizations for example were initially suggested as a possible means of covering public debt, and then the change of their legal status (that would allow for their privatization) became obligatory. But the actual decision whether or not and if to what extent public utilities were to be privatized was left open. Similarly, the reform of the civil service and the introduction of the General Health Scheme were approved by the Troika but were not set as a precondition for the bail-out programme.

The three main profitable public utilities that were to be privatized were the Telecommunications Authority (CYTA), the Electricity Authority (AIK) and the Ports Authority. Although privatizations are part of DISY's ideological set of principles, as well as a policy that it had attempted during its previous time in government in the late 1990s, in 2013, President Anastasiades had even

given a pre-election pledge that he would refrain from doing so. Nevertheless, using the Troika's presence and its recommendations, the government agreed to set the three profitable public utilities on the privatization path by changing their legal status as entities. AKEL was firmly opposed, while the rest of the political parties did not oppose the privatization potential in principle but voiced their disagreements concerning the scope, the logic and the form of the bill proposed by the government. The key party holding the balance in the parliament was DIKO, the party traditionally tied to the state and with which most public sector employees and trade unions were affiliated with.

The bill was eventually voted into a framework law on March 2014 as DIKO sided with DISY after significant contention in society and within DIKO. Trade unions staged protests and short strikes and issued many opposing statements. Even though one of the trade union leaders in CYTA was also a leading DIKO member and many of the employees who would be directly affected were DIKO members and supporters, DIKO was not persuaded against voting for the framework law, although it probably played a role in delaying the process in the following years. Indeed, the government was only able to privatize the Ports Authority, as despite its efforts, CYTA and AIK proved more difficult. With AIK there were additional practical issues involved, such as the substantial reform of the organization and the separation of its functional and logistical parts in order to privatize only the former. The trade unions – although supporting various measures of reform in AIK – have resisted having their organisation split into two entities with different proprietary regimes: one involved in production and distribution and the other controlling the infrastructure and the network. They have thus managed to block the government's privatization plan and to push it further into the future through a variety of measures including strikes, protests and appeals to the court. However, even with CYTA, the government proved unable to push through its privatization plan despite its pledges to maintain a series of employee benefits. As with AIK, the unions staged a number of protests, including short duration strikes, and finally the privatization bill was rejected by a parliamentary majority in March 2016.

The only privatization scheme that was completed was that of the Cyprus Ports Authority. The privatization process was partial and gradual and, as with CYTA,



it included generous lump sums for the personnel to be made redundant. Although the employees of the Cyprus Ports Authority and the trade unions continued to voice their objections, also staging some protests and strikes, the government was able to proceed handing over the commercial services to a private company. The transition from public to private ownership was, however, particularly troublesome, provoking serious delays in cargo transportation that continued for weeks in early 2017. Eurogate, the private firm running the Limassol port today, introduced new systems and procedures which proved ineffective and costly, provoking reactions not only from the workers and traders directly affected but also from political parties and the Chamber of Commerce itself. Trade unions went on strike as well as resorted to legal measures with respect to the diverging interpretations of the agreement. The Auditor General characterized the deal made between the government and Eurogate problematic, several opposition parties called for the resignation of the Minister while AKEL went as far as to propose the renationalisation of the Limassol port.

There was little progress with respect to reforming the civil service despite some agreements having been reached between the government and the main public sector trade union, PASIDY. Although some minor steps were taken with respect to the evaluation of employees, such as the easing of their transfer from one department to another according to the needs that arose, no major changes have taken place although there is a new agency specifically oriented towards public sector reform. The suspicion that prevails about the sincerity of the government has also been reinforced by the many corruption scandals that have surfaced and the conflicts between the government and independent institutions, such as the Attorney General, the Central Bank Governor and the Auditor General. The series of scandals that have taken place since the onset of the crisis were especially noteworthy in terms of numbers, alleged legal violations as well as the positions of the individuals involved.

Beginning with the bail-in in 2013, it was revealed that several persons, including President Anastasiades' family members, had privileged information and were able to transfer money abroad immediately before and during the period in which all bank transactions were frozen (16/3/2013 – 28/3/2013). Middle-ranking politicians from various parties were found implicated

in corruption scandals in municipalities and semi-public organizations, and bankers and state officials were forced to resign. Former top politicians, such as Christodoulos Christodoulou and Dinos Michaelides, were sent to jail in Cyprus and Greece respectively for past corruption cases that were revealed. Several scandals are currently still under investigation, while some others reached the public sphere but without hard evidence and/or political will of the state to act. The biggest scandal of historic magnitude has been the conviction and sentencing of the Deputy Attorney General in 2017 for several cases of corruption and abuse of authority. The significance of these developments lies in the fact that they might also disrupt the broader domestic tradition which has so far allowed politicians to behave and act with a sense of impunity.

The General Health Scheme had a turbulent path. Although the general plan, based on the initial 2002 law, was ready in 2010, there were serious delays in deciding the details, and, most importantly, the political will to enforce it was absent. Although its implementation was originally included in the Memorandum of Understanding with the Troika, Anastasiades' government asked for and gained a postponement until the end of the Support Programme in order to better plan the transition and take final decision on some of its aspects, such as financing the scheme and managing the labour issue. This allowed the various organized interest groups that were opposed to it to step up their campaign against the General Health Scheme as planned and to demand the government reconsider some of its aspects or even change its philosophy. Some high-ranking public sector doctors who own private clinics questioned the organizational logic on which it was based. Simultaneously, private health insurance companies and their associations, soon followed by the Employers' and Industrialists' Association (OEB) and, to a lesser extent, the Chamber of Commerce (CCCI), the second employers' association, suggested a multi-insurance rather than a single-insurance scheme and lobbied the government and the parties extensively. Although the Finance Minister sided with these interest groups and proceeded to call for further studies, which would delay the scheme's implementation, as well as to make public statements in favour of the multi-insurance scheme that would allow the private insurance companies to play a role in the General Health Scheme, the reaction from most civil society groups and political parties led the president and the head of the political



parties to an unanimous political decision in 2016 to proceed as originally planned.

The last issue that came to the forefront as a factor delaying the General Health Scheme for another year was the scale of contributions from the different parties. Eventually, an agreement was reached stipulating 2.65 % would come from employees, 2.9 % from employers, 4.7 % from the state, 4 % from the self-employed and 2.65 % from pensioners and rentiers. The trade unions and CCCI, on behalf of the employers, compromised on a higher contribution than the one originally decided on in order to avoid further delay, while OEB alone insisted on its position for an equal employee-employer contribution and deserted the dialogue. Although rumours about overturning the bill in parliament through proposals for alterations were dominant in the public sphere, the firm stance of the Health Minister probably played its role in ensuring that the bill was finally passed in parliament in 2017. The implementation of the system is expected to start in 2018.

## 6. The labour market and labour relations

In the crisis years, there was a significant devaluation of labour. Real wages dropped on average by 22 %, and purchasing power returned to the levels of the mid-1990s (INEK-PEO, 2014). Wages however did not decline uniformly across sectors and labour force groups. Different sectors were affected to different degrees and in different ways, while as a general rule it was the new entrants into the labour market and the recently hired employees that bore the brunt of the crisis, with the youth being over-represented in this group. Due to Cyprus's voluntarist economy, whereby collective agreements are not part of the law, wages in the private sector were not cut by law in the context of the Memorandum with the Troika as it was the case in the public sector. They were not cut via legislative changes (as was the case in other countries) but cut as a result of unilateral employer action or as a result of collective or interim collective agreements between employers and trade unions

The sudden massive rise of unemployment and youth unemployment, from 5.4 % and 13 % in 2009 to 16 % and 32.3 % respectively in 2015 (Ioannou and Sonan, 2016), was the most important development in the

labour market and shapes the prevailing conditions. Not only did it exert huge pressure on the wages of those in employment, but it also expanded irregular employment (fixed-term, part-time and other essentially precarious employment regimes) and diffused the feeling of insecurity to broader sections of the labour force, including the well paid and more secure segments (Soumeli, 2014; Ioannou, 2016; Trimikliniotis, 2016). More importantly, it normalized and more or less institutionalized low starting wages in all jobs and part-time, low paid publically subsidized employment through the various schemes aiming to combat unemployment and youth unemployment.

With respect to unionized workers in the private sector, the main development and general trend during the crisis years was freezing or not renewing collective agreements and making special or interim agreements that stipulated reduced salaries and most often reduced other indirect monetary benefits, such as employer contributions to welfare and provident funds (Ioannou, 2016; PEO, 2017). It is important to note that there was no collapse of collective bargaining despite the pressures it faced and the reinforcement of pre-existing trends, such as decentralization, declining coverage and control of collective agreements and, of course, deteriorating conditions (Ioannou and Sonan, 2018 forthcoming). Gradually, as economic growth returned, the overwhelming majority of the collective agreements pending at the end of 2016 were renewed. According to PEO, while assessing its »dynamic offensive« launched in its extraordinary December 2015 conference, in more than half of those agreements, the trade unions managed to take back either fully or partially the wage and benefits cuts agreed during the crisis (PEO, 2016).

The most significant development with possible structural consequences has been the framework agreement reached in the semi-public sector which was then followed by a similar agreement in the public sector proper. This agreement between the trade unions and the government, made in January 2017, instituted a mechanism whereby a ceiling will be enforced in the percentile salary increases at the level of the nominal GDP. The framework agreement and subsequently the collective agreements cover the period 2015–2018. This takes place after the failure of the government to push through legislation to make this mechanism a permanent and automatic one in the public sector.



Although PEO and SEK in the semi-public sector and then PASIDY in the public sector saw this as a compromise worth making, the rest of the public sector unions (the smaller trade union ASDIK, the nurses' union PASINO and the education unions, which were excluded from the negotiations) opposed the agreement seeing it as unfair and unbalanced and threatened legal measures.

## 7. Conclusion: social inequality, brain drain and disengagement?

Social inequality rose steeply during the crisis in Cyprus, accompanying the steep rise of unemployment in general and youth unemployment in particular, as already mentioned earlier. It must also be stressed that long term unemployment, in which Cyprus is again number one in the EU, is the most serious type of unemployment, as it implies primarily a structural form. The social consequences of unemployment, although already evident, have not yet exhausted their impact. Cyprus has been converted, during the crisis, from a country of immigration to a country of emigration, placing it in first position in the EU in terms of population decline in general and labour force contraction in particular. This is related to the structural unemployment prevailing in Cyprus, placing the country at the forefront of long-term unemployment in the EU. Emigrating is never an easy decision and many persons prefer to work in jobs much below their skill levels and qualifications and to earn low salaries rather than emigrate. Yet, as the situation began to stabilize without substantial improvement, emigration became an increasingly rational choice for many, especially the younger and more highly educated people, resulting in considerable brain drain from Cyprus.

On the social policy realm, besides the overall shrinking of welfare budgets (for education, research, health, etc.), the most significant change was the introduction of the Minimum Guaranteed Income scheme (GMI). The idea behind it was to improve efficiency and to unify the various welfare benefit schemes in operation, which were considered to be fragmented. A comprehensive social governance was thus decided on and a single welfare benefit administration service was created with an appropriate national registry and other control and check mechanisms. The GMI Scheme, which ultimately replaced the public assistance benefit, was implemented in July 2014 with the aim to provide assistance to

individuals and families that cannot, despite their efforts, gain enough income to support themselves. Although the GMI Scheme increased the number of persons eligible for public assistance, its criteria, procedures and strict implementation process rendered it effectively a measure of managing poverty rather than dealing with it and has been frequently criticized as being insufficient. The government is very proud of the GMI and seeks ways to also use it as a labour market instrument through which it can deal with »voluntary unemployment«, by obliging recipients to attend training schemes and accept temporary jobs to gain work experience.

Despite the crisis having a severe impact on the social fabric, the political and system legitimacy and the economic prosperity of the majority of the population, there were limited reactions and generally a low level of unrest in Cyprus society. At the political and professional levels, conflict did happen and has been taking place with increased intensity; yet again, this was neither analogous to the intensity of the social dislocation nor corresponded to it. At the same time, movements do exist and more participatory practices have been adopted and are enacted daily outside of political parties. Nevertheless, they have a marginal role in shaping the agenda and exerting pressure on the political system, let alone effecting significant change. The only exception to this is the occasional public opinion outbursts through social media or on radio shows regarding individual cases that have moderate success in opening issues or pushing politicians into taking a stance.

Furthermore, the collapse of the peace process, which has been on-going since 2008, at the Conference for Cyprus in Switzerland in 2017, and the significant blow that had for the potential reunification of Cyprus on a federal basis is already producing negative results. Nationalism is being further strengthened, serving not only as an outlet to the pressures of the crisis, but also as a means of managing the de facto partition and ethnic antagonism which is being seen more and more as a quasi-permanent state of affairs.





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