THE IMPACT OF THE COVID–19 CRISIS ON DIVIDED CYPRUS

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INTRODUCTION

The divided island of Cyprus reported its first case of COVID–19 to local media on 9 March. By 2 April, the number of cases in the southern (Greek Cypriot) part of the island, which is controlled by the internationally recognized government of the Republic of Cyprus and has a population of around 880,000, had reached 320 and the number of deaths from the virus had reached 9. The first case in the internationally unrecognized "Turkish Republic of Northern Cyprus" ("TRNC"), an area in which the EU's *acquis communautaire* is suspended, which has a population of around 400,000, was reported on 12 March. By 2 April it had reported 77 cases, with 2 fatalities. Because the "TRNC" is not recognized, the latter figures are not reported to the World Health Organization (WHO). So far, the infrastructure on both sides has been sufficient to deal with the cases but they are ill prepared for a significant increase of severe cases should the measures taken fail to contain the spread of the virus. For the purposes of this report, the southern part of the island will be referred to as the Greek Cypriot community (GCc), while the northern part of the island will be referred to as the Turkish Cypriot community (TCc). The use of terms does not imply recognition of the "TRNC" or its administrative bodies.

Despite calls by civil society peace groups, both communities have handled the issue without consultation and with little coordination with each other apart from the Bicommunal Technical Committee on Health, whose work is generally not publicized. The two approaches will therefore be discussed separately.

Summary (GCc): After a faltering start, both the public health and economy policy responses have been fairly robust, with policy consultation and coordination among all political parties and employer and employee stakeholders, albeit primarily only within the GCc. During the day a partial curfew is now in place, with a text-based permissions system for anyone who wants to go outside, and other measures in place for those who have to work. A full night-time curfew applies from 9 pm to 6 am apart from essential workers. As a member of the eurozone, both the government and the banks have access to considerable resources to withstand at least a short-term shock. However, there is a certain institutional blindness towards vulnerable non-Cypriot groups, and the crisis has been marked by breaches of the Republic of Cyprus' international treaty obligations towards asylum-seekers, whose living conditions are an additional cause for concern. In addition, the initial response to the crisis has also cemented, both physically and politically, the division of the island. There is a significant risk that the response to the crisis has extinguished any prospects for the reunification of the island.

Summary (TCc): The public health policy response in the TCc has been a little faster than in the GCc, with rapid moves to close down movement and activity, including quarantining entire villages. This quick response probably reflects the fact that the public health system was already in a poor state and is not equipped to deal with a large number of cases, that the TCc has no lender of last resort and that no "life-line" of funds from Turkey is expected. The room for manoeuvre is therefore severely limited. The economic policy response to date is probably insufficient, not least because it has ignored the large number of workers who are neither "TRNC" citizens nor Turkish citizens. As in the GCc, the lack of coordination and consultation on the closure of crossing points has also cemented the division of the island.

CROSSING POINT CLOSURES

In the GCc, before any cases had been diagnosed on any part of the island, the government announced on 28 February the closure of four of the nine crossing points across the UN-monitored buffer zone. The decision was difficult to defend on logical grounds, since the government left five crossings open, did not impose any travel restrictions or health checks at the two international airports (the first cases eventually came from the UK and Germany) and allowed the Limassol carnival to go ahead on 1 March. The move to close crossing points was unprecedented. Between 1974 and the opening of parts of the buffer zone (known as the Green Line) in 2003, it was essentially the Turkish army, which stations some 25,000-40,000 troops in the north, which had prevented Greek Cypriots from crossing. Inferring from official statements, it seems that the decision was taken without consultation either with the UN, which monitors the buffer zone between the two communities, or with the European Commission, which is supposed to have veto power over modifications to crossing-point movement under Regulation 866/2004 (the Green Line regulation). The Turkish Cypriot leader and president of the "TRNC", Mustafa Akinci, who leads negotiations to solve the long-standing Cyprus problem, confirmed that he had not been consulted by his counterpart in the negotiations, the Greek Cypriot leader and Republic of Cyprus president, Nicos Anastasiades. (Negotiations to solve the Cyprus problem have been suspended since July 2017.)

Moreover, the closure of the crossing points sparked protests, both by those against the closure of the crossing points and by far-right groups in favour. This brought the police, the National Guard (army) and the UN police into close quarters with protestors at a time when the international advice was to avoid crowds. After a scuffle with a National Guard recruit, a Greek Cypriot protestor was arrested and charged, *inter alia*, with assault and creating a disturbance. In a later protest, Greek Cypriot police used pepper spray to disperse mainly Turkish Cypriot protestors on the northern side of the barrier, with eight people including journalists needing hospital treatment. As noted below, all permitted movement across the buffer zone (Green Line) was effectively ended by the TCc on 14 March, although anecdotal reports suggest that the buffer zone remains porous.

PUBLIC HEALTH RESPONSE (GCC)

The GCc's first response with respect to air travel was to advise incoming travellers from certain highly affected regions abroad to "restrict their movement and monitor their health". By **5 March**, the authorities were testing travellers from highly affected regions and selectively quarantining those with symptoms. On **9 March**, after the first cases were reported, the government published a list with three categories: Category 1 (mandatory medical supervision), Category 2 (self-isolation) and Category 3 (self-monitoring). The UK, which is the largest source market for tourists (and the source of the first case), was not initially placed on the Category 2 list. Nor, apart from a few areas that excluded Athens, was Greece, despite the fact that Athens is an important air-transit hub. The UK and all of Greece were placed on the Category 2 list on **10 March** but were taken off again the same day, before being put back on again a day or so later. This suggests that there was initially interference from vested interests in public health responses.

On **10 March**, the first significant measures for residents were announced: school closures in the capital, Nicosia (followed by all schools from **13 March**); encouragement to avoid overcrowding in workplaces; and a ban on gatherings of more than 75 people. The latter effectively restricted restaurants and bars to take-away and delivery services only. It also limited religious services, although certain clerics in the Greek Orthodox church defied the order until all religious services were banned from the evening of 24 March. On **15 March**, all incoming travellers were obliged to self-isolate under telephone supervision, or in the case of certain countries/regions such as Italy, to go into mandatory quarantine. On the same day, the crossing points were closed to non-nationals (meaning only Greek Cypriots and Turkish Cypriots could cross).

In order to try to prevent a mass influx of the thousands of students who study abroad, the government announced late on 15 March that any traveller arriving after 6 pm on Monday **16 March** would need a certificate demonstrating that they were clear of the virus before they could board the plane. Admission would only be allowed for citizens and legal residents. However, two flights arrived after 6 pm and the passengers were eventually allowed to disembark, but were sent into quarantine. On **19 March**, the government placed all registered private doctors under instructions from the Ministry of Health. From **21 March**, hotels were closed and passenger flights were completely banned from 28 countries, except for the purposes of evacuating citizens. From **24 March**, a partial curfew was imposed, requiring residents to obtain permission via text message for a restricted range of activities. Employees who were obliged to work were required to carry documentation from their employers. On the spot fines of €150 were introduced for people found in violation of the partial curfew regulations. The government is also seeking parliamentary approval to increase the fines to €3,000. On **31 March** the partial curfew was extended to a full curfew between 9 pm and 6 am and the amount to be paid for on-the-spot fines was doubled to €300.

Only state hospitals are treating Covid-19 patients, while the private sector is taking over operations and other healthcare interventions that would otherwise have been done in state hospitals. Suspected Covid-19 cases are tested in dedicated health centres, then referred to Famagusta State Hospital if they are infected and then sent to ICU units in Nicosia and Limassol if they need intensive care. According to a press conference given by the State Health Service Organization (OKYPY) on 31 March, the GCc has 74 ICU beds: 60 in Nicosia General Hospital, 10 in Makarios Hospital in Nicosia and 4 in the Limassol General Hospital. Nicosia is due to add another 22 by 10 April and Limassol is due to add another 4. This would bring the total to 118, while the longer-term aim is to have 120 in total. While this means that there are enough ICU beds for the time being, the main weakness is that the GCc lacks sufficient numbers of intensive-care specialists, which is likely to cause additional problems.

PUBLIC HEALTH RESPONSE (TCC)

The TCc governing coalition (which is administratively separate from Mr Akinci's office) first took measures on **29 February**, barring entry from Italy, Iran, Iraq, China and South Korea. After reporting its first case on **10 March**, it banned charter flights; quarantined three hotels in which tourists who had tested positive were staying; closed schools and places of worship; banned festivities; barred crossings to the south of more than 10 people; and postponed presidential election campaign activities. On **12 March** the measures were extended: entry was barred from an additional 18 countries; two crossing points across the UN-monitored buffer zone were closed; foreign nationals with residency permits who entered were subject to a 14-day quarantine; and no new work permits were to be issued. The ban on activities was extended to universities, cultural and sports venues. The prices of masks, surgical gloves, antiseptic gels and disinfectants were regulated. The crossing point closures were enacted without consultation with Mr Akinci, the UN or the GCc. On 13 March Mr Anastasiades and Mr Akinci agreed in a phone call to exchange information via the Bicommunal Technical Committee on Health. Apart from coordinating the use of funds from the European Commission (see below), its work remains out of the public eye, therefore it is difficult to assess how effectively the Committee is operating.

The largest list of measures in the TCc was announced on **14 March**. All retail outlets except pharmacies, petrol stations, bakeries, supermarkets and "other businesses that are necessary for people's basic needs" were closed, including for takeaway or delivery services. Bus services were suspended and public-sector workers apart from police, fire brigade, civil aviation, finance and a few others were sent on administrative leave. Medical facilities, veterinary services and banks remained open. Only "TRNC" citizens and legal residents were allowed entry by land, air or sea, on condition that they self-isolated to 14 days. This measure effectively closed all movement of persons across the Green Line, including approximately 1,500 Turkish Cypriots registered as working in the GCc. On 18 March this measure was extended to Turkish Cypriots living on the "Greek Cypriot side" of the mixed village of Pyla that lies in the buffer zone. The only exceptions permitted were for the diplomatic community and urgent healthcare cases. Other measures by municipalities included the closure of public parks. On **15 March** court hearings were postponed. On **19 March** the entry ban was extended to all non-"TRNC" nationals including from Turkey, thus effectively closing down the tourism and higher education sectors. On **21 March** flights were reduced to one per day, mainly for repatriation purposes. Students who repatriated back to the TCc were placed in quarantine.

On **20 March** the presidential election due on 26 April was postponed until 11 October, one argument being that it would help the political parties work together on tackling the virus. On **22 March** a partial curfew was imposed, allowing people to leave their homes only for visits to supermarkets, pharmacies, petrol stations, hospitals and banks, where they must keep a 2-metre distance from others. Penalties include up to a year in prison or a fine or both. On **23 March** police began patrolling the streets to impose the partial curfew. On **24 March**, medical supplies arrived from Turkey by boat. On **24 March**, the European Commission (which has offices in the TCc) announced the release of €5 million to fund medical equipment. The funds will be spent via UNDP and overseen by the Bicommunal Technical Committee on Health. On **25 March,** pharmaceuticals for patients normally receiving medical treatment in the GCc were received via the same Committee. On **27 March**, the TCc authorities imposed a full curfew on 15 villages in the rural Karpass region and on 31 March imposed a full night-time curfew between 9 pm and 6 am. On **1 April**, in a sign that the political parties were coming together to tackle the issue, the prime minister, Ersin Tatar, appointed a member of the opposition CTP and former interim prime minister, Sibel Siber, to head a Covid-19 Coordination Committee.

The TCc is handling virus cases in a single (separate) hospital in Famagusta. On 17 March the Turkish Cypriot health minister said that they had 58 ventilators, of which 16 were being reserved for Covid–19 cases. The authorities are now working on procuring another 50. As in the GCc, the TCc is also short of specialist trained medical personnel who can handle the additional ICUs.

ECONOMIC POLICY RESPONSE (GCC)

In the GCc, the government had been running budget surpluses (apart from one-off expenditures such as the closure of the Cyprus Cooperative Bank) since 2015, had cut its debt/GDP ratio to below 100% of GDP and had a large amount of cash with the Central Bank, therefore had some fiscal space to tackle this crisis. Its relatively comfortable fiscal position may be why the Republic of Cyprus did not initially join the nine other eurozone member states in calling for a joint eurozone "corona bond". There is still no officially declared position from the Republic of Cyprus, and it is not clear whether the Council of Ministers is united on the position. However, the finance minister has indicated his support for the issuance of Eurobonds or other EU-level measures. He said that despite the fiscal buffer, the government will still need to borrow, international markets would be difficult to access and therefore there was a need for "a mechanism for securing cheap loans via the EU". The government first indicated that it planned to use €700 million (around 3.2% of GDP) in direct spending, deferred tax payments including VAT and the postponement of increases for the new National Health System (GESY). By 27 March, when parliament approved a range of measures, the amount had risen to €813 million. The main elements were as follows.

- €20 million to cover four weeks of special leave for working parents in the public or private sector with children under 15.
- €182 million to cover 60% of insurable salaries for four weeks, for businesses that have been ordered to close; 75% of salaries for small and medium-sized enterprises (SMEs) (under 50 employees) and 60% of salaries of larger companies that have partly suspended operations and have seen a decline in turnover of more than 25%.
- €20 million for the self-employed; €15 million for high-risk employees entitled to special sick leave.
- €100 million for healthcare expenditures.

- €15 million to compensate more than 20,000 students studying abroad to discourage them from returning, and €6m to repatriate Cypriots overseas.

- €11 million to stimulate tourism in the summer and winter season, assuming flights resume.

- Postponement until 10 November of VAT payments for certain categories of companies, such as those forced to close.

- A three-month postponement of increases in insurance contributions for the National Health System (GESY).

- Postponement until 31 December 2020 of the annual €350 company registration fee normally due in May.

- Suspension of bank foreclosures and tenant evictions.

The main battle was with the banks, which were initially reluctant to suspend loan-payments or approve new loans unless they received state guarantees. After various clarifications from the European Central Bank and European Banking Authority, they were ready to accept the suspension of instalments on loans that were not already in arrears for nine months until 31 December 2020. However, parliament has since postponed a vote on the issue twice–once on 29 March and again on 2 April. The proposal is for state guarantees to banks worth €2 billion (just over 9% of GDP), with the government guaranteeing 70% of losses on these loans. The key elements of the proposal are as follows:

- €1.75bn for new, low-interest loans to small businesses and the self-employed, as long as the companies retain employees until at least 31 December 2020.

- €250 million to part-subsidise interest rates paid by individuals, the self-employed and larger businesses, as long as the companies do not lay off workers until 31 December 2020.

- Suspension of loan payments until 31 December 2020. These loans will not be classified as non-performing.

ECONOMIC POLICY RESPONSE (TCC)

Unable to raise funds externally, the TCc governing coalition has focused on trying both to reduce its regular expenditure and on supporting businesses and individuals. In cutting public-sector salaries, it has gone against the trend elsewhere, largely because it has little room for manoeuvre (see below: Fiscal and Macroeconomic Impact). The coalition's first package of measures was announced on 25 March and is already being implemented. The main features are as follows.

- 25% cut in public-sector salaries above Turkish Lira (TL) 5,000 (€690), with some exceptions for "essential services", and a TL 8,500 cap on all public-sector salaries.

- Abolition of inflation-adjustment (the cost of living allowance) between March and June.

- 25% cut (theoretically reimbursable) in budget contributions to public bodies, local governments and political parties.

- An increase in the withholding tax on interest income to 15%.

- Tighter eligibility in social payments to those on pensions that exceed the minimum wage, which is TL 3,800 (€528) per month.

- TL 750 million (€104 million), or around 3.4% of GDP, support for private businesses. This includes TL 1,500 (€208) wage support via social insurance in April and May for businesses whose activities have been suspended and who do not lay off staff. The measure has been criticised for not being enough and applying only to "TRNC" and Turkish nationals. It therefore excludes 16,000 other nationals who work full time in the private sector and are insured, as well as an estimated 4,000 part-timers.

- Three-month suspension of employee and employer social insurance payments and provident fund (pension) payments (March to May), with a 10% discount offered to those who pay on time.

- Suspension of interest and penalties until 30-31 March (depending on the obligation) for social insurance contributions, provident fund premiums and tax payments that have already fallen due in February and March.

- Three-month suspension of rents for businesses forced to close.

- Interest-rate subsidies for businesses to maintain employment.

A second package was announced by the Mr Tatar, on 31 March. Its three main elements are as follows.

1. TL 1 billion (€139 million) in loan support for business funded as part of an agreement between the Turkish Cypriot central bank and the bankers' association. It includes a lower than usual interest rate on Turkish lira loans of 12%, of which 3% will be funded by the central bank. Loans are payable within a year and have a six-month grace period, where no interest payments are due.

2. TL 50 million (around €7 million) from the Turkish Cypriot Development Bank, which is offering four different packages depending on the type of business. Loans are payable within 36 months and have a six-month grace period.

3. TL 225,000 (around €31,000) from the commercial

bank, HalkBank, for 5-year loans to shop-owners and retailers at 4.5% interest.

FISCAL AND MACROECONOMIC IMPACT

As the economies in both communities depend to a large degree on tourism, the short-term impact on both the GCc and TCc economies will be severe. Sapienta Economics, a Nicosia-based consultancy, estimates that real GDP in the GCc could contract by between 3.5% and 9.5% in 2020, compared with growth of 3.2% in 2019. Officially the government expects a contraction of at least 5%. The longer-term impact will depend on a number of variables, including some beyond the control of either the GCc or the TCc. For the GCc, much will depend on how the UK handles the crisis, as the UK is the source of one-third of tourism arrivals. For the TCc, Turkey accounts for more than 70% of tourism arrivals and is also the main source of university students. Both of these key markets have been "behind the curve" in terms of virus response. Similarly, the US's response suggest that it will be affected for longer than other countries, which will have a negative impact on the global economy. Clearly, the longer the crisis continues, the larger the impact on public finances, the less the authorities will be able to do and the larger the impact on individuals. The GCc is in a much stronger position. It had a comfortable fiscal surplus at the beginning of the crisis and enjoys access to international markets. As a member of the eurozone, banks will be able to make use of the loosening of bank capital requirements and access to additional liquidity from the European Central Bank, while the loosening of Stability and Growth Pact rules allowed the government to pledge €813m in fiscal support. However, the government is still expected to need to borrow and the sharp rise in bond yields and spreads means that any market borrowing will be expensive.

The TCc is in a more difficult position. The regular funds it used to receive from Turkey had already dried up long before the virus crisis, and the general expectation is that there will be no funds from Turkey at all, apart from 127 million Turkish lira (€19 million) that had already been pledged. In addition, the TCc uses the Turkish lira. The only additional funds available are the abovementioned €5 million from the EU to buy medical equipment. Although the TCc has its own central bank, the central bank cannot print money or act as a lender of last resort. This severely limits the room for manoeuvre for an economy that depends heavily on tourism and higher education. The TCc authorities may ultimately have to borrow from the reserves of the Turkish Cypriot central bank–an "old school" practice that is not permissible in eurozone countries. In the short term it has relied on local banks, which for the moment are comfortably liquid.

IMPACT ON VULNERABLE GROUPS (GCC)

Access to technology. Schools were shut on 13 March and as of 30 March the public school system had only started online classes in subjects for which there are examinations this academic year, although there are plans to start classes from 5th grade elementary schools to 6th grade secondary schools. There are plans to roll out more online classes and the government has indicated that it will fund Office 365 subscriptions for teachers and students. However, as one teacher noted on social media, the requirement to use Office 365 is an issue for low-income groups who might not own laptops.

Overcrowded facilities and access to shelter for asylum-seekers. With more than 13,000 asylum seekers in 2019 alone, the GCc has the highest percentage of migrants per head of the population in the EU. Many are hosted in overcrowded facilities and in poor conditions. Any outbreak of the virus in those facilities is likely to have catastrophic results. Moreover, according to unconfirmed reports, when the GCc authorities decided to close all hotels, they also sought to evict some 860 asylum-seekers from hostels and to house them in tents in rural areas, but stepped back when they were reminded of multiple treaty obligations by the international community. If these reports are true, they are in line with a generally harsher rhetoric from the authorities in the past year as the number of arrivals increases.

Access to asylum. In an unprecedented move, the GCc authorities refused entry on 20 March to a boat approaching carrying 115 Syrians including 69 children, thus breaching the principle of non-refoulement in the 1951 Refugee Treaty. Media reports say that the passengers were given food and fuel but according to other reports officers threw the phones of the passengers into the sea before directing them elsewhere. The TCc authorities received the passengers and carried out tests for Covid–19, which returned negative.

Access to food and essentials. The Ministry of Labour and the Commissioner for Volunteerism announced plans on 26 March to establish a support network to deliver food and essentials to the elderly, those in self-isolation or quarantine, and others who are not mobile. Non-Cypriots are likely to be the most at risk, especially asylum-seekers (whose access to labour is more restricted than recognised refugees), undocumented residents and the homeless, since they are more likely to fall outside the social insurance system and depend on undocumented cash-in-hand labour (including prostitution). A change in December 2019 to posting food coupons to eligible asylum-seekers created practical problems and delays for those with no fixed abode or phone. Anecdotal reports suggest that basic food needs are not being met for the most vulnerable. Asylum-seekers also fall outside the new national health system (GESY), so do not have access to family doctors.

Overcrowded Prisons: Until 1 April between 800 and 840 prisoners were locked up in facilities built for about 540 inmates. 137 were released on 1 April which alleviated the problem but did not solve it. Any infection within the prison is likely to cause severe problems. Moreover, about 200 people are also held for deportation in overcrowded facilities and have to stay there because all deportations have been stopped.

IMPACT ON VULNERABLE GROUPS (TCC)

In their policy proposals, the ruling coalition have focused on protecting the incomes of "TRNC" and Turkish citizens. Even this support is at low levels and means that large parts of both the documented and undocumented labour force are exposed. Proposed cuts to the municipality budgets also mean that municipalities will be less able to provide support. For example, the north Nicosia municipality delivers food to low-income families. Schools have been closed since 10 March. The first attempt to conduct online classes by public schools was taken on 30 March. The prisons in the TCc are also overcrowded, with risks mirroring those faced by inmates in the GCc.

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