



**SPRING 2019 REFORM BAROMETER – CYPRUS**

**European Semester - Overall assessment of 2018 cycle**

	<b>To what extent do you agree with these statements:</b>		<b>Detailed comments</b>
1.	The National Reform Programme submitted by your Government (March 2018) is appropriate.	To a large extent	1.Reduce NPLs 2.boost investments 3.improve access to finance especially for SMEs, 4.public sector and healthcare reforms
2.	The Commission's country specific recommendations for your country are appropriate.	To a large extent	1. accelerate the reduction of NPLs 2. adopt legislative reforms to improve efficiency in the public sector, 3. implementation of key elements of the action plan for growth, in particular fast-tracking strategic investments, 4. additional measures to improve access to finance for SMEs
3.	The Commission assessment of reform implementation the year before is appropriate.	Yes, absolutely	The Commission's assessment on the progress of CSR's is excellent and fully adopted by OEB.
4.	The Commission assessment of excessive imbalances (in-depth review) is appropriate.	To a large extent	1. High share of NPLs and high stock of private debt which is slowly decreasing 2. renewed reform momentum is needed

**Assessment of Country Specific recommendations 2018 in detail**

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 1	Adopt key legislative reforms to improve efficiency in the public sector, in particular as regards the functioning of the public administration and the governance of state-owned entities and local governments.	Extremely important	Unsatisfactory	Regrettably few, if any, legislative reforms have been implemented regarding the public sector. Reforms of utmost importance for the improvement of civil service (including the introduction of a new civil servants' evaluation system, and the introduction of a fiscal cap on the rate of growth of state payroll) have failed to be implemented. On the contrary, the government reached an agreement with trade unions to gradually restore state payroll to pre-crisis levels.
CSR 2	Step up efforts to improve the efficiency of the judicial system by revising civil procedures, increasing the specialisation of courts and setting up a fully operational e-justice system. Take measures to fully operationalise the insolvency and foreclosure frameworks and ensure reliable and swift systems for the issuance of title deeds and the transfer of immovable property rights.	Extremely important	Mixed	The government has decided to introduce a Commercial Court to address relevant disputes and expedite cases which are currently pending in other courts, creating a backlog. OEB applauded the government's, which was also one of our demands, and we expect to see it operation. However, Cyprus needs also a Small Claims Court and a Technical Court to expedite the improvement of our judicial system and to introduce the expertise needed to address highly technical and complex cases.

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 3	Accelerate the reduction of non-performing loans by implementing a comprehensive strategy, including legislative amendments allowing for the effective enforcement of claims and facilitating the sale of loans. Integrate and strengthen the supervision of insurance companies and pension funds.	Extremely important	Mixed	Legislative measures, restructuring of loans, debt to assets swaps, the improved secondary market for NPLs and the sale of the state-owned Cooperative Bank have led to a significant decrease of NPLs. More measures are needed to further tackle NPLs. The establishment of the incentive scheme "ESTIA" for viable borrowers must be more targeted in order to limit moral hazard and exclude strategic defaulters.
CSR 4	Prioritise the implementation of key elements of the action plan for growth, in particular fast-tracking strategic investments, and take additional measures to improve access to finance for small and medium-sized enterprises. Improve the performance of state-owned enterprises including by resuming the implementation of privatisation projects.	Extremely important	Unsatisfactory	No progress for the regulatory framework of large investments and the establishment of one-stop-shop. OEB supports the establishment of Deputy Ministry for Development. Cyprus businesses have major difficulties in accessing finance due to strict lending criteria. Limited progress on many Privatisation projects after the annulment of the privatisation law.
CSR 5	Complete reforms aimed at increasing the capacity and effectiveness of the public employment services and reinforce outreach and activation support for young people who are not in employment education or training. Complete the reform of the education and training system, including teacher evaluation and actions to increase the capacity of vocational education and training. Take measures to ensure that the National Health System becomes fully functional in 2020, as planned.	Extremely important	Mixed	By and large, OEB's biggest concern regards the implementation of the NHS. In particular, we maintain strong reservations and objections to the system's architecture as well as it's possible impact to the economy. Regrettably, the government pulled back from its intention to conduct an impact assessment study. Furthermore, we are greatly concerned about the ability of public hospitals to become truly autonomous and operate in a competitive environment, without the need for continuous state subsidies.



## **Reform Progress in your Member State in 2018**

How would you assess reform progress in 2018, for the following broad areas:

<b>Taxation and Public Finances</b>	Mixed
<b>Business environment (regulation/access to markets)</b>	Mixed
<b>Labour market</b>	Mixed
<b>Innovation and skills</b>	Mixed
<b>Access to finance and Financial stability</b>	Mixed

Is there any example of an economic reform, specific to your country that BusinessEurope could highlight in its 2019 Reform Barometer?

The government needs to introduce legislation to regulate the right to strike in essential services. Cyprus remains one of the few developed countries whose essential services, especially in the area of transport, remain completely defenceless to the whims of small but powerful interest groups.



## Reform priorities for 2019

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
<b>Priority 1</b>	Bank lending conditions	More incentives / tools to access finance by SMEs	yes
<b>Priority 2</b>	Public sector efficiency	Introduce legislation that will limit the state payroll's rate of growth within the capacity of the economy. Introduce a Small Claims Court and a Technical Court.	no
<b>Priority 3</b>	Sector specific regulation (essential services)	Regulate the right to strike in essential services.	no
<b>Priority 4</b>	ICT	Speed up digital transformation of the economy	yes
<b>Priority 5</b>	Business Environment-Regulatory barriers to entrepreneurship	1. establishment of Under Ministry for Development in order to tackle red tape, pursue simplification and enhance a more business-friendly eco-system. 2. Implementation of the new national industrial strategy	yes