

# European Union imposes austerity bailout on Cyprus

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9 April 2013

The loan terms dictated to Cyprus by the troika of the European Union, European Central Bank and the International Monetary Fund (IMF) are predicated on the destruction of the pay and conditions of the working class and an onslaught against vital social and welfare programs.

After the IMF finalised its €1 billion (US\$1.3 billion) portion of the recent €10 billion loan to Cyprus, IMF Managing Director Christine Lagarde said in a press release, “This is a challenging program that will require great efforts from the Cypriot population. We believe that it provides a durable and fully financed solution to the underlying problems facing Cyprus and provides a sustainable path toward a recovery.”

She added, “A combined financing package of €10bn is designed to help Cyprus cover its financing needs, including to service debt obligations, while it implements the policies needed to restore the health of the economy and regain access to capital market financing.”

The loan is expected to be approved by the IMF’s Executive Board in May.

The terms to be imposed include public sector cuts and tax rises estimated at around 5 percent of Gross Domestic Product (GDP). The IMF release said further cuts in pension and welfare benefits to save another 4.5 percent of GDP are required to “put debt on a firmly downward path”.

As with the devastating austerity programme enforced on Greece, the troika has placed the small Mediterranean island under its diktat.

The “Memorandum of Understanding” leaked last week, starkly reveals that not a single decision can be made by the Cypriot parliament on any aspect of domestic policy without the troika’s approval.

Regarding measures already in place for 2012-2014,

from its November 2012 memorandum agreement with the government, the document states, “The Cypriot authorities commit to the full implementation of these measures, to monitor the budgetary effect of the measures taken on a monthly basis and to address any deviation from the projected budgetary effect.”

The new memorandum outlines the government’s fiscal policy in detail for each year until 2017. It specifies, “In the event of underperformance of revenues or higher social spending needs due to adverse macroeconomic effects, the government should stand ready to take additional measures to preserve the programme objectives, including by reducing discretionary spending.”

Under the section on pension reform, it stipulates, “The overarching objectives of the reforms are ... to reduce the increase in pension spending”.

The document calls “for the potential risks and benefits of the planned introduction of the National Health System (NHS)” to be carefully studied before being enacted. The memorandum proposes to abolish “all exemptions for access to free public health care based on all non-income related categories except for persons suffering from certain chronic diseases depending on illness severity.”

It further demands the revision of “regular working hours and stand-by shifts of healthcare staff, including rules to increase the mobility of staff; revise current regulations on overtime pay and fully implement existing laws on recording/monitoring overtime payments.”

Central to the troika’s take-over of Cyprus is a privatisation programme marked to raise “at least EUR [1.4] bn in 2013-2016.” The memorandum requires authorities to “establish an inventory of assets, including real estate, owned by central government,

municipalities and regional administrations...”

The purpose of this inventory will be to “indicate which State-Owned Enterprises could be subject to divestment, which could be subject to restructuring and which could be considered for liquidation.” Targeted for privatisation are “state-owned enterprises (SOEs) and semi-governmental organisations (SGOs), including, inter alia, CyTA (telecom), EAC (electricity), CPA (ports authority), as well as real estate/land assets.”

“The legal and institutional framework on the privatisation process” will be “subject to the scrutiny of the EC/ECB/IMF”, the memorandum reads.

The troika’s loan to Cyprus is conditioned on cutting 5,000 public sector workers’ jobs—a substantial percentage, as the entire public sector workforce on the island is only 70,000 strong. The memorandum calls for moves “to further reduce overtime and related costs to the public sector wage bill by making working time more flexible.”

A review is to be commissioned to investigate the “appropriate system of remuneration and working conditions/conditions of employment in the public sector (e.g. annual vacation leave, sick leave, maternity leave, working time), in relation to the private sector and to other EU countries and based on best practices.” This will entail massive wage cuts, as a 2011 survey by the Cyprus Statistical Service found that public sector workers wages were around 30 percent higher than the private sector average.

The review must also look at the “introduction of a new performance based appraisal system in the public sector, for development and promotion purposes, linking performance with the remuneration system/increments.”

Noting that the “welfare system in Cyprus encompasses a broad range of individual benefits provided by different Ministries and Departments”, the memorandum calls for welfare cuts through “streamlining the number of benefits available through merging and phasing out”. It also calls for “the introduction or tightening of means-testing criteria” and “a review of the appropriate levels of individual benefits and the index for adjustment of benefit levels.”

Under the Labour Market section, the memorandum demands “reform of the system of wage indexation commensurate with ensuring a sustainable

improvement in the competitiveness of the economy and allowing wage formation to better reflect productivity developments” and to “help attenuate adverse competitiveness and employment effects by linking any change in the minimum wage to economic conditions.”

There is to be a lower frequency of adjustment of the Cost of Living Adjustment (COLA) of wages and salaries with “the base period for calculating the indexation (COLA) being lengthened from the current period of six months to twelve months.”

All levels of pay are to be strictly tied to servicing the debt of the banks. The memorandum states that reform of COLA will create, “a mechanism for automatic suspension of application and derogation procedures during adverse economic conditions.”

This assault on workers’ wages and conditions are on top of a suspension of wage indexation in the public sector that is to be in place until at least the first quarter of 2016.

The level of the national minimum wage now also falls under the troika diktat. The memorandum states, “any change in the minimum wage covering specific professions and categories of workers should be in line with economic and labour market developments *and will take place only upon consultation and agreement with the programme partners.*” (emphasis added)

For the unemployed, “measures aimed at activating benefit recipients by facilitating their reinsertion in the labour market” and “reducing disincentives to work and imposing job-search requirements for continued benefit receipt” will be enacted.



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