

## **Cyprus**

### **Combatting the Effects of Coronavirus COVID-19 on Public Health and the Economy (especially the Florists\*)**

#### **Introduction**

It is a useful aid to understanding the current measures in place in Cyprus to say something of the country and its socioeconomic profile.

Cyprus is one of the smallest countries in Europe. It is an island located in the eastern Mediterranean and is the eastern most part of the EU. It can best be described as a conundrum of a country with population of 1m and a GDP of circa USD 25bn, smaller than many corporations.

The mainstays of the Cyprus economy are tourism and services.

Despite this the people of the southern sector of Cyprus remain among the most affluent in the world. According to the World Bank's Development Report, Cyprus is ranked 16th in terms of per capita income adjusted for purchasing power.

The northern sector of Cyprus does not fare so well. It has been occupied by the Turkish army since 1974 and in 1983 it declared a so called "independent republic of Northern Cyprus" which is recognized only by Turkey.

However, the relative wealth in the Southern part of Cyprus is by no means evenly spread. Additionally, Cyprus is recovering from a severe economic recession and only last year came out of austerity measures imposed by the Eurogroup/World Bank/IMF "troika" in 2013. Many of you will recall that Cyprus achieved notoriety at that time when as part of the "bail out" all bank deposits of over Euro 100.000 were subject to a "haircut" without compensation by Cyprus largest banks, which were insolvent, for the stated purpose of inter alia "rescuing the Cyprus economy".

The coronavirus and its effects therefore potentially poses a major economic problem that risks putting the Cyprus economy back into recession.

Additionally, it is a certainty that unless contained the coronavirus outbreak will overwhelm Cyprus' under-funded national health service which is ill-equipped to cope with anything other than a contained Coronavirus outbreak.

## State of Emergency – Protecting the Public Health System

In a bid to avert the pandemic overrunning Cyprus and its national health system, as has been the case in other European countries, the government of Cyprus declared a **State of Emergency** on 16<sup>th</sup> March 2020.

These measures are universally regarded as a wise and a necessary step with a view to containing the coronavirus pandemic.

Since the declaration of the state of emergency, Cyprus has been in **almost total “lockdown”**.

As of 6am on 31.3.2020, save for persons going to work there will be a curfew from 9pm to 6am until further notice.

Movement is restricted to one outing per day and only for those who obtain (by sms) prior approval to leave their homes provided that they can bring themselves within a fixed of reasons.

These are:

- visiting a supermarket / food outlet or pharmacy;
- visiting a doctor or retail outlet for essential items e.g. medical supplies;
- exercise, or exercising a pet within your own vicinity (not more than 950m away from one's house);
- visiting somebody in self-quarantine or someone who cannot look after themselves for the purposes of assistance;
- going to a family wedding, christening, funeral etc. (maximum of ten persons);
- visiting a bank / atm machine.

Those persons who are under 65 and leaving their home must obtain an sms consent which is granted for either one or two hours depending upon the reason for the excursion.

Those over 65 may carry prescribed documents evidencing that they comply with one of the reasons.

The only exemption to the above is persons travelling to work and who are in possession of an employer's certificate stating that they need to be at work.

No gatherings are allowed other than in places of work. Only residents of houses may be in their houses. No visitors even by family are permitted.

Fines for breach of the above provisions are set out Euro 300 for a first offence. Second time offenders will be sent to court and are subject to a fine of up to Euro 3.000- and three-months imprisonment or both.

All hotels, travel agencies, airlines, construction sites all retail goods and services outlets such as hairdressers, spas, casinos, betting shops, cinemas etc. have been **ordered by decree of the Minister of health to close**.

The only businesses permitted to stay open for the public are chemists, supermarkets, bakeries, butchers, grocers, convenience stores and for some inexplicable reason florists\*. The public areas of cafes and restaurants have been ordered to close. These outlets are only permitted to sell to the public on a takeaway or delivery basis.

As part of the containment measures outlined above many businesses have been obliged to cease operations altogether such as hotels, hair dressers, spas, cinemas, casinos, gymnasiums, all sports facilities, building sites and a number of other businesses where persons may congregate in groups of over two people such as car showrooms, cycle shops, betting shops etc.

Additionally, all public and private nurseries, schools, colleges and universities and hospital outpatient departments have been ordered to close.

Remote working or advanced paid annual leave are the order of the day the norm for 80% of the services sector.

Further, all inward passenger flights to Cyprus and entries to Cyprus ports have been stopped and the crossing points between the unoccupied south of Cyprus and the occupied north have also been closed.

Strict government quarantine for 14 days for all persons entering Cyprus from 18<sup>th</sup> March 2020 have been imposed along with self-monitored quarantine measures also of 14 days for those who entered Cyprus before then.

The number of positive coronavirus cases is however rising, not at an alarming rate admittedly, around 15-20 people a day in a population of 1m people, but sufficient to make

people very aware of not only the risk of infection but more significantly the greater risk of having to put of having to put oneself into the hands the health service for a life threatening condition.

This has resulted in a high level of obedience to the containment measures and 70% to 90% remote working in the services sector and almost all retail outlets (other than those providing essential supplies) and factories being closed.

The necessarily robust containment measures will undoubtedly have a profoundly negative effect on the economy.

It was therefore an absolute necessity for Cyprus to present **robust economic support measures for business**.

### **Economic Support Package**

On Friday, 28<sup>th</sup> March 2020 the Cyprus House of Representatives, with all political parties bar one supporting the government's proposals, approved and passed into law the following economic support measures.

#### **Strengthening the Protection of Workers and Vulnerable Population Groups.**

##### 1. Special Scheme for Total Suspension of Business Operations

Businesses falling within the economic activities that are subject to compulsory suspension of operations on the basis of Decisions of the Council of Ministers and Orders of the Minister of Health may submit an application by email to the web page: [www.coronavirus.misi.gov.cy](http://www.coronavirus.misi.gov.cy) , so that they can obtain unemployment benefit for up to 90% of their employees. The said unemployment benefit shall be for up to 60% of the "assured" income of each employee (*NB: the maximum assured income is set at Euro 4572 by the Cyprus Social (National) Insurance Laws*) The calculation of the level of assured income is made with reference to employees income as declared for the purposes of national insurance and is subject to usual preconditions for obtaining unemployment benefit as contained in the Social Insurance Laws.

The above provisions apply to all employees of a business that has totally suspended its operations. This is taken to mean those businesses such as hotels, leisure venues and private sector schools that have been ordered by the government to close.

Employees of those businesses that are expressly excluded from benefits under the scheme are General Managers, Director – Shareholders and high-ranking employees and such persons who carry out administrative functions that are indispensable for the operation of the business – whatever this may mean.

If the Business employs up to 9 people then the condition set out in paragraph (2) above shall apply to Director – Shareholders etc. only and the unemployment benefit shall be payable to the all the remaining employees.

## 2. Special Scheme for the Partial Suspension of Business Operations

The businesses that have not completely suspended their operations on the basis of Decisions of the Council of Ministers and Orders of the Minister of Health but have suffered a loss of turnover in excess of 25% as a result of the pandemic may take part in the scheme for partial suspension of operations by submitting an application by email to the web page: [www.coronavirus.misi.gov.cy](http://www.coronavirus.misi.gov.cy).

The unemployment benefit for businesses that employ up to 50 people may amount to 75% of employees and 60% of employees for businesses employing in excess of 50 people. The said unemployment benefit shall be 60% of the assured income of each employee based upon the salary of each employee as declared for the purposes of national insurance and subject to preconditions for obtaining unemployment benefit as contained in the Social Insurance Laws.

The total number of persons who are expected to benefit from the above schemes for total and partial suspension of business operations are estimated at 220.000 private sector employees equating to around 70% of the private sector workforce.

**The current duration for both schemes is for the period 16<sup>th</sup> March to 12<sup>th</sup> April 2020.** This may however be extended.

**All businesses taking part in the above schemes are not permitted to declare their employees redundant or to dismiss them for other than disciplinary reasons for a period of six months after the cessation of the support scheme.**

In addition to the above a further scheme has been formulated that allows employees of qualifying firms to obtain unemployment benefit if they are asked to stay off work provided that the employer undertakes not to dismiss an employee on

this scheme to continue to employ the employee for a period of at least one month following the termination of the scheme

### 3. Self Employed Persons

Approximately 40.000 self-employed persons can benefit from a special economic support scheme for the suspension of business operations which has been launched for the period between 16<sup>th</sup> March 2020 and 12<sup>th</sup> April 2020 and involves the payment of unemployment benefit equating to 55% of the employee's assured income as described above but subject to an upper limit of Euro 800 per month and subject to the same preconditions for unemployment benefit as contained in the Social Insurance Laws for employees. Self-employed persons who are active in the sectors which have not been affected by the present situation (i.e. essential retail outlets) are excluded.

#### General Conditions / Preconditions for Taking Part in the Schemes

The above benefits are subject to certain conditions / preconditions and processes.

These are as follows:

- (a) In relation to the scheme for partial cessation of activities the employers must make up the full salaries of employees and pay their social insurance contributions in full. The state shall pay only the percentages stated above. Payments of the unemployment benefits for March are expected by the second week of April.
- (b) Businesses are obliged to state the identity of their employees that will be working normally and those for whom they are applying for assistance. The schemes accept and allow for the fact that even where the activities of a business are suspended a certain number of employees will need to work in order to plan for the remobilization of the business and of those of its employees who will be temporarily laid off.
- (c) Businesses will have to submit an electronic application for inclusion in the schemes. This has to be submitted by a person who binds the business. The reduction in turnover for the corresponding period (March / April) last year (2019) will be on the basis of a self-assessment taking into account the factors pertaining to the market sector in which the business operates.

- (d) It is a basic pre-requisite of inclusion within the schemes that no employee shall have been dismissed (for any financial – non disciplinary) reason since 1<sup>st</sup> March 2020 and that no employee shall be dismissed for a period of six months from the provision of the unemployment benefit.
- (e) Certain businesses are excluded from the schemes. These are licensed banking institutions and public sector organizations (government and semi-government organizations).
- (f) Employees who fall under the parental care scheme described below are also excluded.

4. Special Parental Leave for Parents of Children Under 15 years of Age.

In view of the closure of schools and nurseries parents who need to stay home in order to care for children under 15 years of age are permitted to stay at home. It is anticipated that 50.000 people will be on special parental leave.

Those on Special parental leave will be paid their salary in full up to the sum of Euro 2.500 as follows:

- (i) For the first Euro 1.000 pcm: 60%
- (ii) For the next Euro 1.000 pcm: 40%

5. Sickness Benefits

Sickness benefits will also continue to be paid to those entitled as was the case before the state of emergency.

6. Postponement of Payments and Obligations

In addition to schemes relating to employees as described above a number of measures aimed at improving the cashflow of businesses have been announced. These are the following:

- (i) Extension for payment of social insurance contributions for two months in respect of payments for March and April 2020.

- (ii) Postponement of contribution to the national health scheme which was due on 31.3.2020 for three months.
- (iii) A three-month postponement for payment of VAT for the periods ending February, March and April 2020. Businesses will be permitted to pay gradually until 10<sup>th</sup> November 2020. Businesses that do not encounter cashflow problems such as chemists, supermarkets and public utilities are excluded from this relaxation.
- (iv) Postponement from paying the Euro 350 annual corporate fee for all Cyprus companies to 31.12.2020.
- (v) Postponement in submission of Companies 2019 annual returns to the Registrar of Companies to 28.1.2021.
- (vi) Credits of Euro 11m to promote tourism into Cyprus from June 2020 to March 2021.
- (vii) Government Guarantees of Euro 2.5 bn. to licensed banking institutions for increasing liquidity in the economy. The scheme for this involves Euro 1.750 bn in low interest loans to businesses and the subsidizing of interest payments for physical persons, self-employed and businesses to the amount of Euro 250m. **All businesses availing themselves of the above-mentioned credit facilities are prohibited from declaring employees redundant or dismissing employees for other than disciplinary reasons within 2020.**
- (viii) Postponement of all payments of loans and interest to licensed banking institutions to 31.12.2020, available for all customers who are fully up to date with their loan payments.
- (ix) Universal reduction in the price of electricity by 10% for a period of two months.
- (x) Special payment of Euro 750 to all Cypriot students studying abroad who cannot or will not return to Cyprus for the Easter vacations.

### **Special Measures Aimed at Alleviating the Effects of the Coronavirus Pandemic on Business and Income**

In addition to the above the government has proposed and parliament passed the following measures which are aimed at alleviating contractual and economic hardship caused by the coronavirus pandemic.

- (i) Extensions of time for the performance of all public and private sector projects will be granted in accordance with the circumstances of each project without the imposition of liquidated damages.
- (ii) Postponement of payments of loans and interest to banks for those who experiencing difficulties in paying due to the effects of the coronavirus pandemic provided that the debtor did not have loan payments outstanding for more than 30 days. It is anticipated that this postponement will last until the end of the year.
- (iii) Postponement of legal actions against creditors by credit organizations (banks and housing loans organizations).
- (iv) Postponement of submissions of financial statements by credit organizations (banks and housing loans organizations).
- (v) Postponement of repossessions for a period of three months.
- (vi) Expedition of the process of examination of application for citizenship by investment.

### **Conclusions**

The economic support measures have been announced have been welcomed. There is no doubt that these measures are the most widespread economic support measures that have ever been announced in Cyprus and they represent a departure from the attitude of total disregard and abandonment of depositors in 2013. The government are to be commended for this. In times like these one must be grateful for even the smallest of mercies.

Not surprisingly, however, the claims of certain local politicians (not made by the government itself) that the Cyprus government has presented the most robust and generous economic support package in Europe are wildly inaccurate.

The economic support package that was announced and voted by the House of Representatives on Friday 28<sup>th</sup> March with cross party agreement is at this time barely adequate. It is touch and go as to whether it will avert a recession. Only time will tell.

The government was faced with an unenviable task. It had to act quickly and in order to do so it had to obtain cross-party support. The economic support measures were therefore a creature of compromise so it has something for everyone but only enough for the few.

To be fair, the economic support package does not try to hide the fact that its main aim is to **avoid redundancies (they are funded by a redundancy fund in Cyprus) and seeking to protect the financially vulnerable sectors of the population**. Ministers and party leaders have been very clear about these objectives. The government has also stated that the intention behind the government's guaranteeing of banks for the provision of low interest loans to businesses is aimed at **pumping money back into the economy**.

There is of course nothing wrong with pursuing such objectives. A cold analysis however reveals that the government has largely failed to "*put its money where its mouth is*": to coin a phrase. The government has offered the minimum possible to the private sector in terms of keeping businesses afloat in their current form.

As is the want of governments the world over the Cyprus government has given with one hand and taken away with the other.

The burning question is whether the private sector will be in a position to carry the financial strains that it has been burdened with. There is a real fear that many businesses may unavoidably fall foul of the provisions / conditions set by the government for businesses seeking to avail themselves of the economic support that has been made available.

Given that the Cypriot market is insufficient to sustain local business in the main sectors of the economy, namely tourism and services it is clear that in a protracted and long term general economic slowdown as a result of the Coronavirus the financial assistance package will be insufficient.

As a result, employers will be unable to maintain their commitment to continuing to pay and employ their workforce at pre-crisis levels even if they do take part in the economic support schemes outlined below.

The responsible employers will plan accordingly and instigate consensual part time working and /or reduced salaries until the time is right for full mobilization.

Others as many did in 2013 will seek to take advantage of the situation and make employees redundant and reduce the salaries of the rest who will be in fear of losing their jobs.

Others will take the measures and fail to comply with the conditions for not reducing salaries or making employees redundant that are part and parcel of the financial assistance schemes as outlined above and will seek to protect themselves in court should the government ever decide to hold them to account This may lead to fines and corporate and individual bankruptcy scenarios.

**For Cyprus containing the coronavirus in Cyprus is not enough.** Cyprus is devoid of a large internal market and does not have any notable industrial output that can be a source of foreign earnings. Cyprus is an international business centre that was seeking to reinvent itself and was slowly regaining its footing after 2013. It is also an established tourism destination. The coronavirus is affecting business travel and holiday travel and will continue to do for an indeterminate period.

It does not take a financial genius to appreciate the particularly precarious situation that Cyprus finds itself in as a result of the coronavirus pandemic.

In conclusion therefore, and to quote Churchill: the economic support measures announced on 28<sup>th</sup> March 2020 ***are not the end, they are probably not even the beginning of the end, they are only the end of the beginning.***

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