



ANALYTICAL HIGHLIGHT

PROSPECTS FOR
Cyprus

- Cyprus' employment rate was 67.2% in 2013 – lower than both the national 2020 target of 75-77% and the EU-28 2020 target of 75%.
- The financial crisis has led to a contraction in employment, and high unemployment, which is not expected to be reversed until 2015.
- Early signs of recovery driven by tourism and the services sectors.
- New jobs are expected to be created through activities around new-found natural gas reserves in the medium and long term.
- Despite high investment in education, Cyprus does not perform as well as expected in skills indicators prompting consideration of wide scale reforms at all levels of education.

Contraction in employment; early signs of recovery

Cyprus experienced an unprecedented financial crisis between 2012 and 2013, with associated negative repercussions on employment. Up to 2010, Cyprus enjoyed high employment rates fluctuating around the EU average 2020 target of 75% and the national target of 75-77%. In 2013 employment stood at 67.2%, a decrease of 3.0% compared to 2012; this represents the highest reduction in employment levels across the EU-28, with Cyprus recording the fifteenth highest unemployment rate in the EU-28¹.

Youth unemployment has been most strongly affected by the financial crisis with the rate of unemployment in 2013 for the population aged 25 or under at 38.9%, compared to 13.5% for those in the 25-74 age group. Employment of recent graduates (aged 20-34) has fallen dramatically from 85.8% in 2008 to 62.1% in 2013².

In April 2013, Cyprus entered a Memorandum of Understanding with the European Central Bank, the European Commission and International Monetary Fund (IMF) committing to undertaking financial, fiscal and structural reform to rebalance its economy. In line with these requirements, there have been efforts to reduce the number of employees in the broader public sector. Public sector employment stood at above 70,000 in 2012 and has since been reduced to around 65,000 in the first half of 2014; the majority of reductions have come from companies and business controlled by the State³.

The economy in Cyprus has been contracting since 2011 with real GDP falling by 5.4% in 2013 compared to 2012. In-year data for 2014 shows that the economy has continued to experience negative economic growth rates in the first three quarters of the year⁴. As such negative economic growth is forecasted for the year 2014 as a whole, with positive growth rates forecast from 2015 at a moderate 0.5%⁵.

³ Cystat (2014), Employment in the Broad Public Sector, 31/10/14, http://www.mof.gov.cy/mof/cystat/statistics.nsf/labour_31main_gr/labour_31main_gr?OpenForm&sub=1&sel=2

⁴ Eurostat (2014), Flash estimate for the third quarter of 2014, News Release Euro Indicators, 14 November 2014, http://europa.eu/rapid/press-release_STAT-14-1764_en.htm

⁵ EY (2014), EY Eurozone Forecast for Cyprus, September 2014, [http://www.ey.com/Publication/vwLUAssets/EY-Eurozone-Sep-2014-Cyprus/\\$FILE/EY-Eurozone-Sep-2014-Cyprus.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Eurozone-Sep-2014-Cyprus/$FILE/EY-Eurozone-Sep-2014-Cyprus.pdf)

¹ Eurostat (2014)

² Ibid.

▼ Table 1 – Growth forecasts for Cyprus by sector 2014-2018 (annual percentage changes in gross added value)

	2013	2014	2015	2016	2017	2018
GDP	-5.4%	-2.6%	0.5%	0.9%	1.0%	1.8%
Manufacturing	-8.9%	12.2%	1.4%	3.2%	6.0%	5.3%
Agriculture	-1.1%	-25.8%	-1.9%	-1.5%	-1.7%	-1.4%
Construction	-30.7%	5.2%	0.8%	1.5%	3.8%	3.4%
Utilities	-6.5%	3.7%	0.9%	1.9%	1.6%	2.1%
Trade	-4.2%	19.4%	1.0%	1.2%	1.3%	1.8%
Financial and business services	-3.5%	20.3%	1.9%	2.2%	2.1%	2.4%
Communications	-2.0%	21.6%	4.6%	3.9%	2.4%	2.5%
Non-market services	-2.2%	-2.1%	-2.8%	-2.0%	-1.7%	0.4%

Source: Oxford Economics

In this context, the unemployment rate has continued to fall in 2014, largely due to reductions in the national labour force rather than through job creations⁶. European Commission forecasts have identified that the unemployment rate in Cyprus will average 16.2% in 2014⁷. IMF projections predict unemployment in Cyprus to remain above 15% in 2015 and 2016 and to drop to 13.7% in 2017, and to around 12.5% in 2018⁸.

Unlike other Eurozone economies, high rates of unemployment in Cyprus appear to have resulted in a decrease in overall wages with the cost of labour in Cyprus currently below 2005 levels. This is expected to assist Cypriot businesses to start hiring again⁹. Indicatively, the number of vacancies has reduced significantly from an annual average of 7,280 in 2009 (2.5% of employees) to 1,030 in 2013 (0.4% of employees); a reversal in the downward trend noted in 2014 with 3,787 vacancies available in the second quarter (1.2% of employees)¹⁰.

Natural Gas processing expected to create new jobs

In the short-term, IMF forecasts anticipate employment in Cyprus will grow at around 1.5% a year between 2015 and 2020 (being at a higher level than the Eurostat population growth projections); relatively lower growth compared to pre-crisis levels. Large flows of migrants, attracted by the boom in construction in Cyprus, are also not expected to be repeated¹¹.

Almost all sectors, with the exception of agriculture and non-market services, are forecasted to grow in 2014 and to continue to do so up to 2020, albeit at lower rates as (see Table 1). Growth in tourism and trade services were reported in the first half of 2014¹² and, along with financial and business services, are expected to continue to grow in the next few years¹³. However, the economic downturn in Russia and the volatile political situation in the Ukraine represent potential risks to tourism, given that 25% of visitors to Cyprus in 2013 came from Russia.

National employment and skills forecasts for the period 2014 to 2024 are currently being produced¹⁴. Forecasts for the period 2010 to 2020¹⁵ reflect the situation prior to the financial crisis and therefore have been superseded¹⁶.

Post-crisis, long-term strategic goals for growth in Cyprus are: improving competition and creating a positive business environment; establishing Cyprus as a regional centre for business and quality tourism; and, development of the hydrocarbons and renewable energy to reduce energy reliance on oil and create regional export opportunities. To support these goals, the following sectors have been identified as priorities for development: financial services (legal, financial, accounting, shipping); energy; environment technologies; ICT; tourism (improving quality and diversifying the current offer); health (with the aim of making Cyprus a regional provider of healthcare); and, developing high value-added product markets with high exportability potential¹⁷.

6 IMF (2014), Cyprus Selected Issues, IMF Country Report No. 14/314, October 2014, <http://www.imf.org/external/pubs/ft/scr/2014/cr14314.pdf>

7 European Commission (2014), European Economic Forecast – Autumn 2014, ECOFIN, http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee7_en.pdf

8 IMF (2014), Cyprus 2014 Article IV Consultation – Staff Report, IMF Country Report No. 14/313, October 2014, <http://www.imf.org/external/pubs/ft/scr/2014/cr14313.pdf>

9 Ibid.

10 Cystat (2014), Vacancies, Employees and Percentage of Vacancies by Economic Activity, 2009-2014, http://www.mof.gov.cy/mof/cystat/statistics.nsf/labour_31main_gr/labour_31main_gr?OpenForm&sub=1&sel=2

11 Ibid.6

12 Ibid.8

13 Ibid.5

14 Directorate General for European Programmes, Coordination and Development (2014), Government Strategy Statement, [http://www.dgepcd.gov.cy/dgepcd/dgepcd.nsf/4BD2B6D3AFCAC2C3C2257C7D00485741/\\$file/Government%20Strategy%20Document%20EL.pdf](http://www.dgepcd.gov.cy/dgepcd/dgepcd.nsf/4BD2B6D3AFCAC2C3C2257C7D00485741/$file/Government%20Strategy%20Document%20EL.pdf)

15 HRDA (2010), Employment Forecasts for the Cypriot Economy 2010-2020, http://www.anad.org.cy/easyconsole.cfm/page/project/p_id/27

16 For example, 2010-2020 forecasts anticipate expect that a large number of jobs would be created in the construction sector which has since experienced a major downturn.

17 Ibid.14

▼ Table 2 – Oil and gas sector, new jobs forecasted

Timeframe	Stage of development	Job forecasts	No. of jobs expected	Assessment of employment for domestic labour force	Occupational needs
Immediate / Short-term	Exploration	Research	40 jobs	limited	—
		Exploratory drilling	100 jobs	limited	
Short-term (up to 2019)	Infrastructure Construction	Construction of terminal	4000 jobs	very good	• Site supervisors and foremen
		Construction of undersea infrastructure	350 jobs	limited	• Skilled technicians (plastering, scaffolding, welding, metalwork, electric works, insulation fitting)
		Construction of pipeline infrastructure	200 jobs	very good	• Plant and crane operatives • Construction labourers
Medium-term	Production, Operation and Processing	Extraction and transport	100 jobs	good	• Supervisor of extraction and operation
		Operation and maintenance of terminal	400 jobs	very good	• Technicians and plant processors in extraction and operation
		Operation and maintenance of pipelines	30 jobs	very good	• Skilled maintenance technicians (machinery, plant)

Source: ANAD (2012), Timely Identification of Employment and Skills Needs for Effective Management of Natural Gas in Cyprus

Recent exploratory activities in Cyprus's off-shore natural gas fields have uncovered high volumes of natural gas. There are high expectations that this sector will lead to economic growth and create new job opportunities for the Cypriot workforce. Extraction and processing of natural gas is expected to commence from 2018. In the short-term this is expected to lead to new jobs in areas such as construction (of supporting infrastructures, processing terminals, and pipelines) by 2019 – forecasted to occupy around 4,000 people from the domestic labour force (see Table 2). In the medium-term, opportunities for Cypriot workers are forecast in areas such as maintenance and operations (for example of processing terminals) – forecasted to occupy around 400 jobs¹⁸.

Technical, engineering and language skills needed

Associated skills needs in the oil and gas sectors have been identified by the Human Resource Development Authority and a Strategy for Education and Training in Hydrocarbons was adopted in July 2014. The strategy includes actions in the following areas: revising the content of existing further and higher education programmes (for chemists, environmental engineers, mechanical engineers etc.); and the development of new further and higher education programmes (for engineering of oil and gas, drilling, geomechanics etc.). The strategy also includes actions to revise and develop new secondary school technical training programmes, including apprenticeships, in areas such as welding, drilling, and other manual operations.

Sectors in Cyprus with high numbers of vacancies in the first half of 2014 were: accommodation and food services; wholesale and retail trade; manufacturing; transport and storage; administration and support services; and, arts, entertainment and recreation¹⁹. Bottleneck vacancies exist in the agricultural and service sectors and affect mainly low-skilled occupations such as: agricultural labourers; refuse workers; bakers and pastry cooks; healthcare assistants; domestic assistants; and technical occupations such as sheet-metal workers, carpenters and joiners. Prior to the 2013 economic crisis, the majority of these vacancies would have been filled by migrant workers with Cypriot nationals unwilling to accept the poor conditions and pay²⁰. The data has not yet shown whether the higher unemployment rate experienced in Cyprus in recent years will lead to lower vacancy rates in these occupations.

Bottleneck vacancies for high skilled workers have been identified in the tourism and finance sectors, and relate in particular to translation and interpretation skills (Russian and Chinese languages). Demand relates to the need to accommodate and service high numbers of Russian and Chinese visitors, expatriates and investors in Cyprus²¹. However, overall, Cyprus performs well in relation to knowledge of a foreign language with 56.7% of the population self-reporting that they know one foreign language (the highest percentage in the EU-28) with a further 19.2% indicating knowledge of two foreign languages (English and French are the most commonly learned languages)²².

18 HRDA (2012), Timely Identification of Employment and Skills Needs for Effective Management of Natural Gas in Cyprus, http://www.anad.org.cy/easyconsole.cfm/page/project/p_id/131

19 Ibid.10

20 Ramboll (2014), Bottleneck Vacancies in Cyprus, Mapping and Analysing Bottleneck Vacancies on EU Labour Markets, Report prepared for the European Commission, September 2014, <http://ec.europa.eu/social/BlobServlet?docId=12646&langId=en>

21 Ibid.

22 Ibid.1

High investment and participation in education not translated into high skills levels

Public expenditure in education and training in Cyprus is the third highest in the EU (at 6.7% of GDP compared to 5.3% for the EU-28). Cyprus performs well in EU 2020 targets for early school leavers and tertiary participation rates. In 2013, 9.1% of 18-24 year olds had only secondary education and were not in any further education or training (compared to the EU-28 average of 12.0%)²³. Data from 2011/12 indicates that 76% of secondary school leavers continue their studies beyond secondary school level. Furthermore, the share of early education leavers in Cyprus has been declining every year since 2004²⁴.

Cyprus performs well above the EU-28 average in terms of the percentage of 30-34 year olds educated to university level (47.8% compared to the EU-28 average of 36.9%)²⁵. Student mobility has been traditionally very high with around 39% attending higher education institutions abroad, and a further 37% attending higher education institutions in Cyprus²⁶. University provision on the island remains relatively new (the first university accepted students in 1992), explaining why more than one in three Cypriot higher education students study abroad. The establishment of a second public university and series of reforms over the last decade has resulted in the establishment of private higher education provision. As a result the number of students enrolled in tertiary education (including higher and further education) in Cyprus grew from just over 15,000 in 2006 to nearly 25,000 in 2011/12²⁷. Historically, tertiary provision in Cyprus has been heavily skewed towards the social sciences and humanities; a University of Technology was established in 2007 (first cohort of graduates in 2012) in an effort to address this imbalance.

Results from the PIAAC and PISA international competency testing (made available for the first time for Cyprus in 2013) have, however, exposed intrinsic weaknesses in translating high investment and participation in education and training into strong skills performance^{28 29}. Cyprus performs below the OECD and European average in literacy and numeracy in PIAAC 2013 testing. Diverging from trends in other countries, younger adults in Cyprus did not perform as well in literacy and numeracy as older adults. However, the share of Cypriot adults with low skills in literacy (12%) and numeracy (16%) is lower than for the European adult population (20% literacy, 24% numeracy). PIAAC results also showed that Cyprus has a very high percentage, nearly one in four (24%), of adults with no or very limited ICT skills compared to the European (15%) and OECD (14%) average. The majority of adults with low or no ICT skills are aged

55-65 and have low prior educational attainment. Cyprus was also ranked amongst the low performing countries in PISA 2012 results in maths, reading and science³⁰.

In response, Cyprus is currently considering plans for widespread and fundamental reforms to the organisation and delivery of secondary, vocational, tertiary and lifelong learning education to improve the supply of skills for the labour market, including expanding vocational training and apprenticeship routes and opportunities³¹. Demand for higher level skills in health and applied sciences in particular has led to plans to expand tertiary provision by establishing schools of medicine and applied and fine arts at two public universities in the future³².

Furthermore, adult participation in lifelong learning (6.9% in 2013) is lower than the EU average (10.5%) and has been declining (7.7% in 2010), marking a considerable distance from the EU 2020 target of 15% and the national 2020 target of 12%. The National Strategy for Lifelong Learning 2014-2024 has now been adopted in Cyprus and includes a range of actions to increase supply of adult learning opportunities and encourage participation in LLL³³. ■

23 This figure does not accurately reflect reality as it does not capture the high number of Cypriots attending higher education outside of Cyprus and young males participating in mandatory military service, but does capture migrant workers in this age group that are early school leavers.

24 Ibid.1

25 Ibid.

26 Cystat (2014), Statistics of Education 2011/2013,

<http://www.mof.gov.cy/mof/cystat/statistics.nsf/All/EDB28F6AE6CE30E4C2257D51003FAF1B?OpenDocument&sub=4&sel=1&e=&print>

27 Ibid.

28 Ibid.8

29 World Bank (2014), Analysis of the Function and Structure of the Ministry of Education and Culture of the Republic of Cyprus (internal staff document)

30 Directorate General for European Programmes, Coordination and Development (2014), National Strategy for Lifelong Learning 2014-2020, [http://www.dgepcd.gov.cy/dgepcd/dgepcd.nsf/499A1CB95981643FC2257C7D00486172/\\$file/National%20Lifelong%20Learning%20Strategy%20in%20Greek.pdf](http://www.dgepcd.gov.cy/dgepcd/dgepcd.nsf/499A1CB95981643FC2257C7D00486172/$file/National%20Lifelong%20Learning%20Strategy%20in%20Greek.pdf)

31 Ibid.

32 Ibid.

33 Ibid.



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