

## **HOW I VIEW THE MEMORANDUM WITH TROIKA**

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The present world economic crisis, in addition to arresting the forward movement of various economies, has brought to the surface the inherent structural weaknesses in many countries, which were hidden under normal conditions. As long as the countries showed a positive rate of economic growth they could operate smoothly, covering their financial needs with loans, as every household does. Thus, they always postponed taking the necessary measures to rectify imbalances. Politicians were not ready to be debited with the cost of necessary unpopular measures, whereas public services were not in a position to impose rational solutions to the new governments elected.

What do we do know? The recipe of Troika is known: Whatever you didn't do for so many years you should do it now. Cut expenditure and increase revenues in order to bring about the necessary equilibrium with your public finances and your economy. We will provide to you loans so that you may face the imbalances and your obligations including installments of our loan. Unfortunately this approach is a static one and of doubtful effectiveness, as it requires immediate correction of imbalances and mistakes of many years, with all the hardships to the people and the economy entailed, whereas it does not secure a final success to the whole operation. The underlying idea that by doing so you improve the competitiveness and hence you succeed the recovery of the economy is not at all sure as all depends on the available productive capacity, the reactions of competitors in a unified international market and other factors. Whenever this method was adopted, it only caused hardships and left painful memories behind.

It would have been a useful contribution to international community by little Cyprus if we managed to prepare a 'Development Memorandum' instead of the Troika's Classical Memorandum; a development programme which will combine both rectification of imbalances and structural weaknesses together with the reactivation of GDP. A combination of simultaneous actions on both terms of the fractions could bring about quickly positive results. The basic parameters in this exercise are the expenditure/revenues of the State in general and the public debt (numerator) and the GDP (denominator). Having agreed a priori the magnitude of the deficit and the financial needs during the next years, we should examine first all possible savings on expenditure and increases in revenues through the correction of distortions and other possibilities. Simultaneously an emergency development/reactivation plan should be prepared, both for the public and the private sector, the financing of which

will be included in the loan to be provided as well as in the structural and other funding sources of the EU. The increase of public revenues from the reactivation of the economy should be taken into account in the total financial requirements.

Outlining the themes and the parameters, that should be examined in this exercise, I would include the following in the first instance:

**Expenditure:** The main expenditure refers to the payroll, pensions, social benefits and the running expenditure of the Government. The augmentation of expenditure emanates from the small size of Cyprus and the duplication/multiplication of services. It should not be forgotten that Cyprus's size is not larger than that of a provincial town of Europe. Since salaries and other benefits of civil servants should be higher than those in the private sector in order to attract the best and secure devotion and impartiality, which we should impose on them, the first thing to be examined is the size of the civil service. A programme should be developed for the gradual shrinkage of the public service to its really necessary magnitude through the method of interchangeability, the abolition of services no longer required and perhaps the increase of working time. At the same time the increase of retirement age should be examined in line with the life expectancy norm and the experience in other European countries. The civil servants should be included in the earnings-related part of the social insurance scheme. There should be a similar increase to the retirement age in the case of the general social insurance scheme. Similar arrangements should be made in the public sector in general where the Government is asked to cover the deficits. Finally, the computerization of the civil services should be completed for the provision of better services to the public and economizing on personnel as well. Another important measure in the sector of social services is the introduction of the General Health Scheme. It is a paradox in present times that the Government bears the responsibility of providing free medical services to perhaps 85% of the population. Leave aside the fact that the system might break down by itself. In order to save expenses all social grants should be based on means tests and the real needs of beneficiaries except in cases when a special scheme is promoted.

**Revenues:** It has been repeatedly stressed that tax evasion and tax avoidance should be combated. In this regard, in addition to the full mechanization of the civil service, including the interconnection of the systems of various departments, the Government should ask the auditing and accounting firms to present the real financial position of the private economic units by avoiding charging personal and family expenses to their expenditure. A substantial increase of revenues could be anticipated from a more systematic implementation of town planning amnesty, as it happened with taxation amnesty, and the reviewing and updating of the estimated values of various assets etc.

Finally, as regards the emergency action plan, that will be part and parcel of the above, in addition to the public infrastructural projects, emphasis should be given to encouraging, assisting and facilitating the private sector, local and foreign, for reactivation in priority areas. Starting from the very simple, the private sector could be encouraged to undertake the construction of public buildings, private houses under the Organizations of Development of Land and Housing Financing and the programmes for the refugees, as well as other infrastructural projects with the system of BOT. In addition there are other areas for investment more difficult to be realized like foreign investment, infrastructure for exploiting the natural gas, research and development etc. It is here where Troika, in cooperation perhaps with the World Bank and other programmes of the EU, could make a positive contribution. Cyprus has important possibilities for growth and development which should not be suppressed by a narrow minded approach to the rectification of the present situation.