

**Wage Dynamics Network:  
SME Credit Constraints in Cyprus During the Period 2010-2013 and Effects on  
Employment, Wages and Prices<sup>+</sup>**

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**Abstract**

In the context of its participation in the ESCB Wage Dynamics Network (WDN), the Central Bank of Cyprus (CBC) conducted a survey regarding the wage- and price-setting policies of domestic firms covering the period 2010-2013. This paper focuses on the behaviour of small- and medium-sized enterprises (SMEs) employing between 3-19 workers driven by changes in financing conditions. This is particularly important given the unprecedented shock to the banking system following the March 2013 events. The survey results suggest that, in the run up to the crisis, SMEs focused primarily on the use of price reduction strategies in an attempt to increase or maintain their volume of sales as a response to a shift in demand from SMEs to larger firms. SMEs also resorted to cost reduction strategies, including wage cuts. Since 2012, SMEs increased the average wage cut to broadly match the reduction in prices. Overall, the survey suggests that SMEs' ability to maintain adequate liquidity for operational purposes via significant price and cost reductions, allowed a share of SMEs to overcome the obstacles related to the tighter financing conditions following the crisis.

**Keywords:** Wages, labour, prices, crisis, small- and medium-sized enterprises, access to finance, credit constraints, bail-in.

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