

## **Newsletter Issue 23 – June 2011**

The topics addressed in this issue of Economic Research are the following: (i) Poverty and employment of public assistance recipients, (ii) Factors explaining productivity in Cyprus, and (iii) Consumer expectations and private consumption.

The first study investigates the depth of poverty and the employment behaviour of public assistance recipients in Cyprus by combining data collected via questionnaire with data drawn from the EU-SILC dataset. Large income inequalities among public assistance recipients indicate the need for better targeting of benefits. Obstacles to employment are bad health, low education, lack of job experience, family dependants, old age and low self-esteem. Wrong perceptions about the labour market contribute to the failure of public assistance recipients to become/remain economically active. Policies aiming at increasing the labour market integration of public assistance recipients should place more emphasis on providing/enhancing: in-work benefits, child-care facilities, suitable working environment, training/education programs, self-esteem and understanding of conditions in the labour market.

The competitiveness and the economic growth are some of the most important aspects of a country. A productive economy can enhance both the competitiveness and the economic growth. The aim of this essay is to study the various factors that may help to increase total factor productivity and to propose public policy measures that can boost productivity. We focus primarily on three factors: human capital, infrastructure and taxation. Although these variables have the expected sign according to the theory, it does not seem to explain the productivity of the Cyprus Economy. Nevertheless, investment in human capital and new infrastructure are clearly two important factors that will boost productivity in Cyprus. Unlike that, high taxes, especially on labor and capital, tend to reduce the productivity of the economy and thus competitiveness in the international spotlight.

Econometric analysis shows that the Consumer Confidence Indicator constructed by the European Commission using a common methodology for all EU member states contains useful information for future movements in the Eurozone consumption growth. However, the Consumer Confidence Indicator for Cyprus is not informative about future changes in private consumption in Cyprus. A new Consumer Confidence Indicator for Cyprus is constructed which captures movements in private consumption much better than the Confidence Indicator of the European Commission. Consequently, the new Consumer Confidence Indicator could constitute a valuable tool for forecasting and monitoring the developments in private consumption in Cyprus.