

Newsletter Issue 33, October 2016:

The topics addressed in this issue of Economic Research are the following: (i) Proposal for a Green Tax Reform in Cyprus, by T. Zachariadis, (ii) Factors Affecting Housing Prices: International Evidence, by C. Savva, (iii) The Cypriot GMI scheme and comparisons with other European countries, by C. Koutsampelas, (iv) Recent trends in the Cypriot electronic communications sector, by Clerides, S. and C. Karagiannakis, (v) Estimates of Public, Housing and Other Private Sectors Net Capital Stocks for the Cyprus Economy: 1995Q1-2015Q4, by Nektarios A. Michail and Marios C. Polemidiotis, (vi) The Output Gap in Cyprus and EU-28, by A. Polycarpou.

Short summaries of the articles:

(i) Cyprus is faced with serious energy and environmental challenges, which may be exacerbated in the future because of climate change. This paper formulates a proposal for a fiscally neutral green tax reform, which can significantly contribute towards the transition to a path of economically and environmentally sustainable development. We propose the gradual implementation of a carbon tax to those sectors that are not subject to the EU Emissions Trading System, a water scarcity charge and a landfill tax for municipal and industrial waste that is disposed of in landfills. We demonstrate the environmental benefits and the increase in public revenues that these taxes will bring about in the medium and long run, and assess the effect of these taxes on firm competitiveness and social equity.

(ii) This paper investigates how changes in key macroeconomic variables influence the growth in house prices, using a panel data methodology for a sample of 24 countries under. The main findings suggest that population; economic growth, stock returns and inflation are key factors for the increase in the housing price index. Moreover, as expected, construction cost is associated with the housing prices. In contrast, interest and unemployment rates adversely affect housing prices.

(iii) This paper examines the Guaranteed Minimum Income (GMI) reform that took effect in Cyprus in 2014 with the aim of substituting the previous public assistance scheme with a new policy. In that period, the economy of Cyprus was experiencing a severe economic contraction with harsh social repercussions. The intended aim of the reform was to increase the effectiveness of social protection as the previous minimum income system was judged to be unequal to the task. After providing a fairly comprehensive description of the new scheme, the paper proceeds to a comparison of its basic statutory requirements and

provisions with what pertains in Europe, in general. We find that the institutional commonalities are much more frequent than any particularities, meaning that Cyprus possesses a modern minimum income system. Nevertheless, there is also space for transfusing good practices and innovative approaches from countries with a long tradition in welfare policies and much more sophisticated public administrations.

(iv) The electronic communications sector has experienced rapid growth and dramatic change in recent years. We quantify the development of the sector in Cyprus in two ways. First, we measure the sector's contribution to the economy and to economic growth and provide comparisons with other European countries. Second, we construct a price index for internet services using the hedonic methodology. The sector grew rapidly relative to the rest of the economy from 1995 until 2005 but much more slowly in the last decade. Quality-adjusted prices of internet services dropped by 69% between 2005 and 2013 and have been relatively stable since.

(v) The Cyprus Statistical Service (Cystat) computes annual data for the net capital stock and capital depreciation by NACE Rev. 2 classification using the Perpetual Inventory Method (PIM). This data is available with a two-year lag, whilst quarterly data, including a breakdown by institutional sector, is not produced. On the basis of the latest vintage of annual data, this paper provides a quarterly breakdown of net capital stock for the total economy and its depreciation for the period 1995-2015 in constant 2005 prices. We further present a quarterly breakdown by institutional sector, namely public, housing and other private sector.

(vi) Output gap estimates are used in the calculation of structural fiscal balance indicators that are subsequently employed for the surveillance of economic growth and stability. The European Commission has adopted the production function approach for the estimation of output gap in the EU member states. This paper reviews the estimates and forecast for the output gap over the period 1998 to 2017 for Cyprus, which is obtained using the EU methodology, and compare them with the ones for EU-28. It also examines the sensitivity of the output gap estimates to the assumptions made by the EU for the wage share and for the construction of the capacity utilisation business survey (CUBS) indicator.