

## **Newsletter Issue 35, October 2017:**

This issue hosts the following topics: (I) *In-depth assessment of the energy efficiency potential in Cyprus* by Zachariadis, T., Michopoulos, A., Vougiouklakis, Y., Struss, B., Piripitsi, K. and C. Ellinopoulos, (II) *Modelling house price volatility states in Cyprus with switching ARCH models* by Savva S. C. and N. A. Michail, (III) *Social Protection in Cyprus: Overview and Challenges* by C. Koutsampelas and P. Pashardes, (IV) *Brexit Implications for Europe* by C. Pissarides, (V) *Preferences for redistribution in Cyprus* by A. Kourtellos and K. Petrou.

Short summaries of the articles are provided below:

(I) This paper presents results from the first in-depth study on the energy efficiency potential in Cyprus. Different energy models were combined in order to conduct simulations and provide recommendations to national authorities so that Cyprus can meet its targets in the frame of the EU energy and climate policies. The study assessed both the maximum theoretically available potential for energy efficiency improvements and the economically viable potential, and then translated these assessments to aggregate energy demand forecasts. The analysis shows that Cyprus cannot continue along a 'business-as-usual' path in improving the efficiency of its energy system if it is to achieve the EU decarbonisation goals for year 2030 and beyond. In theory, there is a large potential to increase the energy productivity of the Cypriot economy, its exploitation requires a very substantial mobilisation of financial resources, at a rate that has not been observed in the past. An intensification of smart financial tools to enable energy efficiency investments, coupled with a green tax reform that will gradually implement a carbon tax while reducing the tax burden of labour, can facilitate a smooth transition to a low-carbon economy.

(II) A switching ARCH model is used to estimate the dynamics of the housing market price change volatility in Cyprus during the period 2001q1-2016q2. The results indicate that two states exist: one with high and one with low volatility. Both volatility states exhibit a high degree of persistence. The probability of being in the high volatility state is close to one in the early stages of the sample, and started its decrease when the Cypriot housing boom was peaking around 2008-2010. The findings suggest that booms could be re-enforcing, given the degree of persistence. In addition, higher volatility can be associated with higher credit growth during the period, suggesting that credit expansion can bring more investors to the

housing market and increase speculation therein. As overall higher housing volatility increases systemic risk in the economy, the results point out that more regulation would perhaps be advisable.

(III) The aim of this paper is to provide an overview of the characteristics, recent reforms, shortcomings and policy challenges of the social protection system in Cyprus as it emerges in the aftermath of the crisis. As, Cyprus continues to recover, with its GDP being projected to grow by 3.1% in 2017 (Economics Research Centre), important challenges still exist in terms of high levels of unemployment, inequality, poverty and social exclusion; all unfortunate by-products of the recession. Upcoming demographic changes are also expected to exert pressure on the economic efficiency of the system. Therefore, mapping social policies in Cyprus is crucial at this point of time. In this spirit, the paper focuses on the following social policy fields: provision of income support to families, minimum income support, employment related policies, pensions, health care, long-term care, while other policy areas (early education and child care, education and provisions to asylum seekers) are also briefly addressed. The most important policy reforms that were implemented from 2009 and onward are presented and briefly assessed, while a section is devoted in discussing potential policies which might be needed in the near future.

(IV) This paper discusses the exit of the United Kingdom from the EU and the potential implications this will have for both the UK, as well as for Europe. After presenting a brief review of the history of the UK-EU relations, we discuss the economic implications of different Brexit arrangements for both Britain and Europe. Finally, we address what reforms Europe needs to undertake in order to function properly and avoid the risk of dissolution.

(V) This paper investigates the determinants of the preferences of redistribution in Cyprus using two complementary surveys, the European Social Survey and the World Values Survey. We find that current individual income and perceptions about fairness play a major role in determining the preferences for redistribution in Cyprus even when we account for model uncertainty. Both income and perceptions about fairness are negatively associated with demand for redistribution. From the perspective of policy evaluation our results can have important consequences on government size, inequality, intergenerational mobility,

and even long-run growth in Cyprus. The substantial reductions in individual income and perceptions about fairness during the recent economic crisis in Cyprus are expected to generate a higher demand for redistribution. Thus, policy makers will face the challenge to revise the mix of progressive and regressive taxation in Cyprus in the coming years in order to reduce the mismatch between preferences and actual policy outcomes.