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The topics addressed in this issue of Economic Research are the following: (i) Cypriot LOP Deviations Before and After the Euro (ii) The Effects of Fiscal Consolidation on Macroeconomic Indicators in Cyprus (iii) Effect of climate change on electricity needs and the associated costs for Cyprus (iv) Governance, Growth and the Recent Economic Crisis: The Case of Greece and Cyprus and (v) (When) Does Austerity Work? On the Conditional Link between Fiscal Austerity and Debt Sustainability

Did Cyprus become more integrated with Europe after adopting the euro? How did this process affect its prices relative to its European partners? Does the degree of integration relative to European Union economies as implied by Cypriot price differences vary across goods? What can explain this variation in Cypriot price differences? We answer these questions using a panel of thousands of good-level prices before and after the adoption of the euro. We infer that Cyprus became significantly more integrated with EU economies and cheaper between 2005 and 2010. By 2010, its empirical distribution becomes statistically indistinguishable from that of core EZ economies like Germany.

A Factor-Augmented Vector Autoregression (FAVAR) is implemented, to estimate the dynamic effects of fiscal consolidation policies in Cyprus on key macroeconomic indicators. The results show that fiscal retrenchment efforts in the form of either a government expenditure reduction or a government revenue increase, lead to a fall in GDP driven by the negative responses of investment, private consumption and employment. As a result of the contractionary effects of consolidation on economic activity, inflation decelerates. The policy mix between expenditure cutbacks and tax increases matters as it influences the cost of fiscal consolidation in terms of lost output.

The effect of anthropogenic climate change on electricity demand until the mid-21st century was assessed for Cyprus, following an interdisciplinary approach that combines climate science with economics. An econometric model of electricity demand was used, in combinaion with state-of-the-art climate projections for the Eastern Mediterranean. Annual electricity demand is projected to rise by about 6% compared to a 'no climate change' case. Total costs up to 2050, which may exceed 730 million Euros at today's prices, imply that the country may need to forgo one or two years of economic growth in order to cope with extra electricity needs due to climate change. This indicates that a reasonable future energy path would involve substantial deployment of solar-powered electricity generation and investments in the improvement of the energy performance of the building stock.

Greece and Cyprus are two countries that have been affected gravely by the international economic crisis. As a result both countries were cut off from the international financial markets, and resorted to rescue packages financed by the IMF, the European Commission and the ECB (known as troika). Because of the austerity programs both countries have entered a period of deep recession. In this paper we argue that the length of the adjustment period does not depend only on the severity of the adjustment measures, but also on the quality of institutions and governance mechanisms of the two countries. On the basis of well accepted indicators for the quality of institutions and public governance, we argue that the shorter period of recession in Cyprus is due not only to the less severe policies imposed by troika, but also to the higher quality of its institutions and governance mechanisms.

The Eurozone crisis has given a new impetus to academic and policy debates about the merits and ills of fiscal consolidation policies (austerity). Fuelled by the huge contraction experienced by some 'bailout countries', and especially Greece, a new consensus seems to have emerged, that "austerity doesn't work". Yet, many Eurozone countries have seen a relatively fruitful implementation of fiscal consolidation programmes, with fiscal pressures

being successfully curtailed and the adverse growth effects of austerity being very short-lived. The literature has only recently shifted its attention to the qualitative characteristics of fiscal consolidation to explain variations in economic performance (growth) across countries in the course of austerity. Still, attention to political-institutional and structural-economic factors is generally lacking. This paper makes a contribution in this direction, by showing that two domestic-context parameters – trade openness and quality of government – exert significant influence on the impact that austerity has on growth and debt-sustainability. Factoring-in these parameters allows us to contextualise a number of ‘stylised facts’ of the Eurozone crisis, including the huge recession and large snowball effect for Greece, the relatively painless fiscal consolidation in parts of the Eurozone north, and the surprising decline in nominal interest rates seen is some of the most agile Eurozone countries.