

Newsletter Issue 22 – February 2011

The topics addressed in this issue of Economic Research are the following: (i) Labour supply and taxation in Cyprus, (ii) Models for forecasting Cyprus GDP growth, and (iii) The quantification of the economic impacts of climate change in various sectors of the Cypriot economy.

Using a structural labour supply model, a micro-simulation model and data from the 2007 EU-SILC database, the effects of alternative income tax reforms on labour participation and working hours in Cyprus are investigated. The conclusion of the analysis is that there is no “best” tax reform which can simultaneously increase labour participation, working hours, income equity and has the highest efficiency (lowest deadweight loss). For improving the labour participation rate as well as income equality the most suitable tax system is the proportional with high income allowance. On the other hand, for increasing the working hours the best system is the proportional which also creates the lowest deadweight loss.

The Economic Forecasting Sector at ERC is currently developing the necessary infrastructure for the construction of short-term forecasts for a number of macroeconomic variables in Cyprus. ERC aims at the systematic publication of quarterly forecasts based on state-of-the-art techniques that are used by central banks and research institutions abroad. Current research at the Centre showed that the application of forecast combination methods leads to substantial gains in forecasting Cyprus GDP growth.

It is widely expected that Southern Europe will be adversely affected by climate change, in contrast to many regions of Central and Northern Europe, which -along with some negative effects- may also experience some positive impacts due to anthropogenic climate change in the coming decades. An ongoing research project at ERC attempts to quantify the economic impacts of climate change in various sectors of the Cypriot economy. The government of Cyprus has to take precautionary measures to adapt to these negative impacts, and proceed with actions at European level, jointly with other South European EU Member States, in an attempt to mitigate these adverse effects.