

## **Newsletter Issue 28 – March 2014**

The topics addressed in this issue of Economic Research are the following: (i) Child Poverty, Family Policies and the Effect of Economic Crisis (ii) Privatization and Competitiveness in Europe and Cyprus: The Case of Telecommunications and Electricity (iii) Nowcasts for GDP and its demand components and (iv) Measuring the inefficiency and distributional effects of free state schooling.

The analysis provides an assessment of changes in child poverty in Cyprus using microsimulation techniques in order to construct the 2013 income distribution from 2009 microdata drawn from the 2009 Cyprus Family Expenditure Survey. According to our estimates, child poverty in Cyprus slightly increased from 2009 to 2013. Child poverty varies across age groups, with single parent families and multi-child families continuing to face the highest risk and intensity of poverty. Family transfers were found to be playing a significant role in providing income support to families and thus fencing off child poverty.

A condition for the continuation of the financial assistance of Cyprus from the ESM is the privatization of semi-governmental organizations, namely the Cyprus Telecommunications Authority, the Electricity Authority of Cyprus, and the Cyprus Ports Authority. Undoubtedly, privatization will help to achieve the objective of reducing public debt. However, there are questions about the results of implementing the privatization plan, particularly regarding productivity and competitiveness, prices, wages of workers, and jobs. In this study we utilise data from the Eurozone to estimate the extent to which alternative ownership schemes in the electricity and telecommunication sectors, are associated with productivity and competitiveness. The results reveal that in both sectors the private ownership structure is the most productive in the sense that it implies the lowest unit labour cost. This result is more prominent in the telecommunications sector.

In an effort to expand the econometric tools used for monitoring macroeconomic developments in Cyprus, the Economics Research Centre has developed models that link the quarterly growth rate of GDP, private and government consumption, investment, exports and imports with timely available monthly indicators. Such models, known as ‘bridge equations’ can be used to provide early estimates of GDP (and its demand components) for the previous and current quarter, prior to the publication of the official National Accounts data. Combining the nowcasts from the bridge equations using the ‘recent best’ forecast combination method can yield substantial forecasting gains over simple univariate models and alternative forecast combination methods.

Most studies examine the effects of free of charge state schooling on income distribution by allocating government education outlays to households. This approach assumes that the public provision of education is efficient in the sense that production costs equal the household willingness to pay. To investigate the validity of this assumption, this study proposes a demand analysis approach to estimating the value of state education as perceived by consumers. Empirical analysis based on household data from Cyprus suggests that the cost of state schooling is twice the amount households are willing to pay for it. The implications of this finding for the equality and anti-poverty effects of state education are considered.