

## **Newsletter Issue 30 – March 2015**

The topics addressed in this issue of Economic Research are the following: (i) Utilising information from large unbalanced datasets (ii) Multilateral Comparisons of Productivity among European Countries and Cyprus (iii) The Collapse of the Cypriot Banking System: A Bird's Eye View (iv) Testing the Waters for GeSY: Patients' Opinion of Cost-sharing Arrangements in the Public Health Care System in Cyprus (v) Uncertainty Shocks in Eurozone Periphery Countries and Germany and (vi) Environmental Fiscal Reforms in Europe and their Prospects for Cyprus - Some Introductory Remarks

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 monthly common factors extracted from a large unbalanced dataset of monthly economic and financial series. Forecasts for the previous and current quarter (also known as back-casts and now-casts respectively) are constructed via bridge equations at the beginning of each month and prior to the official publication of the National Accounts. The bridge equations are found to enhance the precision of projections in the case of GDP, private consumption, investment and exports.

The objective of this study is to analyze differences between levels of total factor productivity among European countries. Our results indicate that countries in West and Central Europe are doing better with respect to the level of productivity, when compared to other Mediterranean and East European countries. We also observe that most of the countries experienced increases in their productivity throughout the years. It is important to note that Mediterranean and East European countries show a faster productivity growth compared to the West – Central European ones. Boosting productivity is critical to each country's future economic welfare (well-being). If countries want to catch-up with the West and Central European ones, making productivity growth the center of their economic policy is important.

The depositor bail-in of March 2013 was an unprecedented event that shocked Cyprus and reverberated around the world. Up until 2000, Cyprus ran a closed and tightly controlled financial system and its banks were conservative, inward-looking institutions. The turn of the century brought the liberalization of the financial system, EU entry and adoption of the euro. These watershed events drastically altered the environment. Banks, supervisors and the political system did not handle this transition well, setting the stage for a major crisis. Government inability to act decisively when problems first appeared gave the crisis catastrophic proportions.

User charges constitute a common practice for most health policy makers, and are mainly used to discourage unnecessary demand and to generate extra revenues. Cyprus joined the group of countries with cost-sharing arrangements in August 2013, when user charges were imposed for some outpatient services. The objective of this study was to investigate Cypriot patients' knowledge and understanding of a number of different co-payment aspects, to lead to useful policy considerations and recommendations for the future. The main results from multivariate logistic regression analysis indicate that a) lower income was associated with increased rates of those who judged the charges to be high or very high and of those who borrowed to pay the charges, b) as educational level dropped, a higher percentage considered the charges to be high or very high, and c) being male, being older and having a higher educational level were associated with increased percentages of those who agree that charges should be made for all health services.

High levels of uncertainty regarding macroeconomic aggregates indicate that the overall efficient functioning of economies is worsening. This paper examines the extent to which

uncertainties lurking in the formulation of economic policy and the decisions made by policy makers are major constraints to Eurozone periphery countries (Portugal, Italy, Greece and Spain). An Uncertainty Index is constructed based on the volatility of the stock market, from the euro's adoption in January 2001 up to December 2013. We conduct a VAR analysis and examine the impulse responses of an uncertainty shock of 2% and conclude that the shock significantly affects manufacturing production. Such an uncertainty shock dissipates after 5 months for Portugal, 7 months for Spain, 8 months for Germany, 10 months for Greece, and 13 months for Italy.

An international conference on environmental fiscal reforms took place in Nicosia in June 2014. The latest issue of the Cyprus Economic Policy Review publishes three papers summarizing presentations from that conference. They are based on experience from various European countries and put emphasis on the fiscal and environmental effectiveness of such reforms, their political acceptability and equity concerns. The timing is appropriate for implementing such a reform in Cyprus too; lessons learnt from around Europe can provide valuable information to policy makers in this regard.