

Newsletter issue 18 – October 2009

The 18th issue of 'Economics Research' contains articles on the recent governmental pension reform, the analysis of tourist satisfaction and the efficient pricing of agricultural water use.

The reform of pensions that the government of Cyprus has recently implemented was necessary due to the high risk of poverty that exists among older people in Cyprus. Furthermore, it should be noted that this reform was targeted and is expected to have very positive social effects. However, the timing of the reform was not proper since, from an economic perspective, public investments and support of the private sector should have been a more important priority than the increase of public consumption expenditures. Moreover, measures should be taken in order to avoid potential side effects that might be caused by the increases of social pensions in labour supply and savings.

The analysis of Tourist Satisfaction data collected via personal interviews during the last four years has shown that Cyprus was perceived by foreign tourists as more expensive than other destinations mainly in years 2005 and 2008. Special attention should be paid to the areas of Larnaca and Ayia Napa, where the high cost of goods and services in relation to their quality does not seem to satisfy tourists.

The European Union's willingness to promote efficient and sustainable water management is evident in the reformed Water Framework Directive. Although agricultural water pricing that accounts for scarcity costs and environmental costs of water use is potentially a very effective tool for this purpose, its efficiency and effectiveness are not guaranteed unless pricing applies not only to irrigation but also to private groundwater extraction. Moreover, Cyprus needs to shift to a low water consuming agricultural sector by focusing on the cultivation of crops that are consistent with the changing climatic conditions and the increasing water scarcity of the country.