

# Survey-derived proxies for uncertainty: the case of Cyprus

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## Abstract

This paper uses survey data on business expectations to construct proxies for economic uncertainty at the sectoral and aggregate levels. The proxies are in the form of ex ante disagreement and ex post forecast errors. Ex ante disagreement proxies are estimated using the dispersion of optimistic and pessimistic responses to expectation questions. Ex post forecast errors are derived by comparing expectations and realisations stated by individual respondents; the proxies are computed using the dispersion of ex post forecast errors. The proxies in the latter group are further decomposed into adverse and positive uncertainty measures, depending on the direction of the errors. The proxies are estimated using firm-level data from monthly business surveys conducted in Cyprus. Uncertainty shocks measured by either ex ante disagreement or negative forecast errors result in significant negative effects on sectoral confidence, employment and output; the negative effects are more pronounced and protracted in the sectors of construction and industry. At the aggregate level, proxies are constructed using the most informative sectoral proxies and are compared to alternative measures from survey and non-survey data. Adverse shocks to aggregate uncertainty proxies generate negative and significant effects on total employment, aggregate output and investment, which are rather protracted.

**Keywords:** Uncertainty; Business Surveys; Cyprus

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