

The Output Gap in Cyprus and EU-28

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Abstract

Output gap estimates are used in the calculation of structural fiscal balance indicators that are subsequently employed for the surveillance of economic growth and stability. The European Commission has adopted the production function approach for the estimation of output gap in the EU member states. This paper reviews the estimates and forecast for the output gap over the period 1998 to 2017 for Cyprus, which is obtained using the EU methodology, and compare them with the ones for EU-28. It also examines the sensitivity of the output gap estimates to the assumptions made by the EU for the wage share and for the construction of the capacity utilisation business survey (CUBS) indicator.

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