

PRODUCTIVITY IN CYPRUS¹

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Executive Summary

The current crisis has highlighted the importance of increasing productivity in order for the economy to become more competitive and therefore increase its growth prospects. In this paper we analyse the productivity path of Cyprus utilizing various indices and compare those with the average performance in the Eurozone. We assess the performance of the Cypriot economy as a whole and also for each sector of economic activity separately. In particular, we distinguish between eight sectors, extracted utilizing the NACE2 classification scheme. The period under study is from 1995 to 2011 for the aggregate indices and from 2002 to 2010 for the sectoral disaggregation.

First, we calculate the total factor productivity also solely known as productivity or TFP, employing the growth accounting methodology. Then, we utilise these results to calculate the labour productivity growth and finally the real unit labour cost. All three indicators are interrelated since one depends on the other however, they consist separate tools therefore giving us the ability to infer results for different aspects of the economy and each sector. The TFP measure of productivity shows how effectively combined labour and capital inputs are used to generate GDP. TFP is usually referred to as ‘technology’ since it reflects phenomena such as advances in general knowledge, reductions in inefficiency and generally anything that would affect output production levels other than the inputs used, i.e. labour and capital. On the other hand, labour productivity shows the value of the additional goods and services produced per hour of work. Finally, the real unit labour cost measures the cost of labour required to produce a ‘unit’ of output. In this sense, this measure captures the competitiveness of a country or a sector with respect to labour.

Although labour productivity increased in Cyprus 1.7% on average during 2002-2007 and 0.9% during 2008-2010, our results suggest that the cost of labour per unit of output during the period 2002-2010 was higher compared to the Eurozone average, resulting in Cyprus becoming constantly less competitive. Furthermore, the ‘Manufacturing’, ‘Accommodation & Food’, ‘Electricity, Gas & Water’ and ‘Education’ were the sectors underperforming compared to their Eurozone counterparts, while on the other hand the best productivity performers were the ‘Constructions’, ‘Transport & Storage’, ‘Finance & Insurance’ and the ‘Health’ sector.

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