

# Comparisons of Productivity among European Sectors and Cyprus: The Case of Tourism Sector

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## Executive Summary

The importance of the tourism industry for economic, social and cultural development in Europe and the role of tourism as a driver of development are well known. In Cyprus tourism industry is one of the five biggest industries with a 7% share in the GDP of the economy. The tourism sector was and will be very important in the future as far as the economic growth of the Cypriot economy is concerned. For the tourism sector to continue to grow it needs to improve its competitiveness, especially since lately we are facing large competition not only from the south Mediterranean countries but from new star performers in Central and Eastern Europe. One way to improve competitiveness is via increasing its productivity.

In this paper we examine how factors such as the quality of service, quality of the environment, public infrastructure, culture and safety can explain the observed output and productivity differences among Cyprus and 21 European countries. In addition to these factors, the output difference of tourism industry is decomposed to capital and labor input differences and productivity differences. For our analysis we have collected recent data from Eurostat, covering a period before and after the economic crisis (2000-2012) on the tourism sectors of 21 European countries. Our sample consists of the following countries: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Italy, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain and UK.

We find that the countries with the highest output difference are: Spain, Italy, UK, France and Germany, followed by, Greece, Austria, Netherlands, Portugal and Belgium. The rest of the countries are below the hypothetical

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country with respect to output of the tourism industry. Those with the lowest output are Estonia, Denmark, Lithuania and Czech Republic. We observe that in most of the countries the major contributor to output differences is traditional inputs. This result indicates that countries with a large labor force (size) and high investment will have larger positive output differences, while countries with a smaller labor force and less investment will tend to be below the average with respect to output. After controlling for the size of the labor force and investment in a country we observe that quality of services and the government expenditures on safety, culture and infrastructure have a positive contribution to the output difference of the sector. As expected, quality of the environment captured by waste generated has a negative contribution to output. Finally, with respect to productivity differences we see that its contribution varies and it's a significant one.

Cyprus is below the hypothetical country with respect to output, and close with respect to observed productivity. As in the other countries, the major role comes from traditional inputs. It seems though that government expenditures on safety, culture and infrastructure and quality of services are not sufficient to enhance Cyprus to a better position.