

MACROECONOMIC DEVELOPMENTS

1. General Evaluation of the 2003 – 2007 Period

TRNC Economy has experienced a rapid rate of growth trend between 2003 – 2006, due to positive effect of expectations on solution on Cyprus Problem and EU perspective framework, stability reached in Turkish Lira, process of partial integration with South Cyprus market and fiscal policies put into practice by the government. In this period the real growth rate of GDP and GNP progressed between 10.6% - 14.2 % and 11.4% – 15.4%, respectively.

Especially high growth rate of private investments has affected increase in imports, trade volume, production and employment and provided high growth rate on public disposal income. Increase in Public income provided expansion on public current expenditures and public investments also created decrease on public saving deficit. As private sector investment expenditures have increased more than consumption expenditures, improvement has been achieved in private sector savings designated for investments.

Increase in consumer price index realized as 19.2 % which was expected to be 5% in 2006 provided increase in public current expenditures, also created negative effects on the state budget and general balance of public sector.

In 2007, value-raising period of Turkish Lira caused a relative increase in real interest rates, which was already high, and it is estimated that decrease in investments and consumption will occur due to increased cost and prices. Especially in the second period of the year, exceed of estimated inflation rate in spite of reduced value in exchange rates, created negative effect on risk taking tendency of economic actors and investment decisions. Inflation rate realized as higher than expected, created stagnation on private investments, increase the share of current expenditures, decrease the share of investment in budget expenditures and reduced the investments in the general of public sector.

GDP will decrease by 2.1% and GNP will decrease by 2.5% due to 2007 provisional figures. According to expectations in negative developments, an annual average growth rate of GNP and GDP is estimated to be 10% and 9.7% respectively (table 1).

Table 1 - Real Growth Rates of GNP, GDP and Sectors (%)

Sectors	2003	2004	2005	2006	2007 ¹	2003-2007 Annual Avg. Change (%)
1. Agriculture	7.3	8.5	2.8	-3.2	-4.3	2.1
1.1. Crop Production	4.1	9.4	-6.0	-6.3	-9.4	-1.9
1.2. Livestock Production	13.1	6.0	12.4	5.7	-2.4	6.8
1.3. Forestry	-16.6	99.2	19.2	-31.8	2.8	6.8
1.4. Fishing	13.3	-5.5	29.8	-23.1	32.2	7.1
2. Industry	7.7	10.6	6.4	20.0	-3.2	8.1
2.1. Quarrying	24.5	8.6	11.0	47.2	-10.2	14.7
2.2. Manufacturing	7.3	10.2	5.1	21.5	-6.1	7.2
2.3. Electricity - Water	7.2	13.3	11.7	8.6	13.1	10.7
3. Construction	30.8	5.3	18.9	68.1	-12.9	19.1
4. Trade-Tourism	12.5	25.5	20.8	9.5	-6.3	11.8
4.1. Wholesale and Retail Trade	14.6	27.2	24.9	13.6	-8.4	13.6
4.2. Hotels and Restaurants	5.0	18.9	3.3	-11.2	7.6	4.2
5. Transport-Communication	4.2	8.8	14.2	-0.7	-2.2	4.7
6. Financial Institutions	6.7	-0.3	4.2	8.9	2.0	4.2
7. Ownership Of Dwellings	2.4	2.4	3.4	20.1	1.4	5.7
8. Business and Personal Services	5.7	26.0	19.1	12.5	3.2	13.0
9. Public Services	4.1	5.2	6.8	2.4	3.6	4.4
10. Import Duties	36.9	46.8	29.7	-0.6	10.9	23.5
11. GDP	10.6	14.2	13.8	12.7	-2.1	9.7
12. Net Factor Income From Abroad	123.6	88.4	4.2	34.1	-16.3	37.6
GNP	11.4	15.4	13.5	13.2	-2.5	10.0

¹ Provisional Figures

Source: State Planning Organization

In the last five year period of time, average growth rate of sectors has been expected as 2.1% in agriculture, 8.1% in industry, 4.7% in transportation – communication, 4.2% in financial institutions, 5.7% in ownership of dwellings, 13% in business and personal services and 4.4% in public services.

With the effect of negative climatic conditions for the last three years, the lowest rate of increase has been experienced in agricultural sector. The general agriculture sector growth rate has been limited by 2.1% growth rate, by the 1,9% decrease in crop production, 6.8% increase in livestock production and forestry sector and 7.1% increase in fishing sector in real terms annually.

Industrial sector's real growth rate realized as 8.1% with the effect of developments by 14.7% in quarrying, 7.2% in manufacturing, 10.7% electricity-water sub-sector.

In construction sector with the effect of positive expectations and high foreign demand and as the result of the highest increase in construction investments, annual average growth rate has been realized as 19.1 % despite of the estimated decrease in 2007.

Wholesale and retail trade has average annual growth rate as 13.6% in real terms with the effect of increase in investments and national income per capita which has created high growth in imports based on consumption increase.

In 5 years period Tourism (hotel-restaurant) sector has average annual real growth rate of 4.2% with unstable growth trend and below the expectations.

Business and personal services sector has been developed by 13% with the effect of positive developments in higher education sub sector and high rate of growth in the whole economy.

Transportation-communication, financial institutions, ownership of dwellings and public services sector have been effective in the development of the economy with growth rates between 4.2% - 5.7%.

GDP increased by 10% with the effect of net factor income from abroad which increased by 37.6 % in real terms.

Positive developments and increase in physical production experienced during the 2003-2007 period has also been due to increase in foreign demand that is to say increase in exports. Exports

expected to increase to 81.1 million \$ in 2007 which was realized as 68.1 million \$ in 2006 and 50.8 million \$ in 2003.

According to final figures (up to 2006) structure of important export production developed in favor of industrial products (table 2).

Export share of Citrus, which is one of the important export products reduced to 28.1% in 2006 from 35.1% in 2003. In other words, in four year period export of citrus fruits increased by 2.8%, while halloumi and cheese by 27.5% and 29.8% respectively, citrus concentrates increased by 28.9%, within the annual average growth rate of total export as 10.6%. Increasing share of the industrial products in the exporting goods which have high value added, has positive effect on production and employment. The stagnation in the ready made clothing sector caused by ECJ decisions and high competition factors in the global world.

Table-2 Significant Export Items at Dollar Basis
(2002-2006)

	2002		2003		2004		2005		2006		(000' US\$)
	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)	4 Years Avg. Change (%)
Total	45,427.5	100.0	50,805.2	100.0	61,977.4	100.0	68,076.5	100.0	68,063.0	100.0	10.6
Citrus	17,137.9	37.7	17,809.5	35.1	20,076.1	32.4	20,195.2	29.7	19,134.5	28.1	2.8
Concentrated Citrus	1,808.2	4.0	1,329.4	2.6	1,515.8	2.5	2,982.0	4.4	4,991.7	7.3	28.9
Leather	907.7	2.0	570.5	1.1	700.8	1.1	730.4	1.1	724.5	1.1	-5.5
Ready Made Clothing	10,895.2	24.0	10,242.7	20.2	11,762.2	19.0	9,954.1	14.6	7,786.2	11.4	-8.1
Cigarettes	926.4	2.0	1,237.3	2.4	1,377.8	2.2	1,371.0	2.0	1,121.7	1.7	4.9
Medicine	931.6	2.1	1,049.8	2.1	1,419.9	2.3	820.0	1.2	835.8	1.2	-2.7
Hellim	2,740.2	6.0	2,666.6	5.2	3,401.9	5.5	6,273.8	9.2	7,246.2	10.7	27.5
Cheese	3,244.6	7.1	5,195.6	10.2	8,195.6	13.2	10,305.2	15.1	9,211.9	13.5	29.8
Raki	1,175.5	2.6	2,946.6	5.8	3,894.7	6.3	5,277.5	7.8	2,942.6	4.3	25.8
Other	5,660.2	12.5	7,757.2	15.3	9,632.6	15.5	10,167.3	14.9	14,067.9	20.7	25.6

Source: State Planning Organization

Changeable growth rates between the sectors created differences in the structure of TRNC economy (table 3). The share of the agricultural sector decreased from 10.6% to 7.6% also the share of public sector decreased from 15.1% to 12.5%, while the shares of other sectors decreased by much lower levels.

Table - 3 Sectoral Distribution of GNP

Sectors	(GDP Based, %)				
	2003	2004	2005	2006	2007 ¹
1. Agriculture	10.6	10.0	9.1	7.8	7.6
1.1. Crop Production	6.0	5.7	4.7	3.9	3.7
1.2. Livestock Production	3.9	3.6	3.6	3.3	3.3
1.3. Forestry	0.1	0.2	0.2	0.1	0.2
1.4. Fishing	0.5	0.5	0.5	0.4	0.5
2. Industry	11.6	11.2	10.5	11.2	11
2.1. Quarrying	0.4	0.3	0.3	0.4	0.4
2.2. Manufacturing	9.3	9.0	8.3	8.9	8.6
2.3. Electricity - Water	1.9	1.9	1.8	1.8	2.1
3. Construction	10.1	9.3	9.8	14.6	13
4. Trade-Tourism	15.9	17.5	18.6	18.1	17.3
4.1. Wholesale and Retail Trade	12.7	14.1	15.5	15.7	14.6
4.2. Hotels and Restaurants	3.2	3.4	3.1	2.4	2.7
5. Transport-Communication	12.0	11.4	11.4	10.1	10.1
6. Financial Institutions	4.2	3.6	3.3	3.2	3.3
7. Ownership Of Dwellings	5.0	4.4	4.0	4.3	4.5
8. Business and Personal Services	8.5	9.4	9.8	9.8	10.3
9. Public Services	15.1	13.9	13.1	11.9	12.5
10. Import Duties	7.1	9.1	10.4	9.2	10.4
11. GDP	100.0	100.0	100.0	100.0	100.0
12. Net Factor Income From Abroad	1.6	2.6	2.4	2.8	2.4
GNP	101.6	102.6	102.4	102.8	102.4

¹ Provisional Figures

Source: State Planning Organization

Decrease in the shares of the agriculture and public sectors, which have disguised unemployment in developing countries, can be evaluated as positive development, but there is necessity to take measurements about increasing capacity usage in sectors which have lower growth rate than general average. Construction and trade sector have been effective in providing positive action and liveliness in the economy with increase in their share; however idle capacity creation must be prevented in these sectors.

Increase in the import duties which have caused increase in public revenues, should be evaluated in keeping negative effects in price competition limited within the economy.

During the 2002-2007 periods annual average growth in GNP has been 10%, while increase in total resources has been 11.5% due to developments in current account deficit (table 4). Consequently, marginal increase in resources has been designated for investments and total investments increased by 19.5% in annual average. The public sector has the biggest contribution in the increase of investments.

Public sector fixed capital investment increased by 13.8% while private sector fixed capital investments increased by 24.5%. Public sector has been more effective than private sector in the increase of total consumption. The average growth rate of the total consumption has been 9.6% annually while public and private consumption increased by 12.9% and 8.3% respectively.

Table - 4 General Balance of the Economy

(1977 Prices, YTL)

	2002	2003	2004	2005	2006	2007 ¹	Annual Average Change (%)
1. Total Resources	9,000.7	10,023.3	11,833.4	14,908.9	16,170.6	15,483.9	11.5
1.1. GNP	9,133.1	10,177.1	11,739.6	13,327.0	15,090.7	14,719.0	10.0
1.2. Current Account Deficit	-132.4	-153.8	93.8	1,581.9	1,079.9	764.9	..
2. Total Investments	1,444.9	1,757.2	2,374.3	2,908.2	3,745.8	3,519.3	19.5
2.1. Fixed Capital	1,282.6	1,634.0	2,173.0	2,736.3	3,556.7	3,328.2	21.0
2.1.1. Public	466.3	574.4	683.0	740.9	1,134.8	891.1	13.8
2.1.2. Private	816.3	1,059.6	1,490.0	1,995.4	2,421.9	2,437.1	24.5
2.2. Changes in Stocks	162.3	123.1	201.3	171.9	189.1	191.1	3.3
2.2.1. Public	39.7	-6.5	5.1	26.9	27.1	26.5	-7.8
2.2.2. Private	122.6	129.7	196.2	145.0	162.0	164.6	6.1
3. Total Consumption	7,555.8	8,266.1	9,459.0	12,000.7	12,424.8	11,964.6	9.6
4. Public Disposable Income	696.8	1,730.9	2,288.0	2,571.5	2,954.5	3,094.0	34.7
4.1. Public Consumption	2,079.1	2,555.1	2,784.7	3,175.8	3,638.5	3,812.8	12.9
4.2. Public Savings	-1,382.3	-824.2	-496.8	-604.3	-684.0	-718.8	-12.3
4.3. Public Investments	506.0	567.9	688.1	767.7	1,161.9	917.6	12.6
4.4. Difference in Public Savings- Investments	-1,888.3	-1,392.1	-1,184.9	-1,372.0	-1,845.9	-1,636.4	-2.8
5. Private Disposable Income	8,436.4	8,446.2	9,451.6	10,755.5	12,136.2	11,625.0	6.6
5.1. Private Consumption	5,476.7	5,711.0	6,674.3	8,824.9	8,786.3	8,151.8	8.3
5.2. Private Savings	2,959.6	2,735.2	2,777.4	1,930.7	3,349.9	3,473.2	3.3
5.3. Private Investments	938.9	1,189.3	1,686.2	2,140.5	2,583.9	2,601.7	22.6
5.4. Difference in Private Savings- Investments	2,020.7	1,545.9	1,091.2	-209.8	766.0	871.5	-15.5
Private Savings Rate (%)	35.1	32.4	29.4	18.0	27.6	29.9	..
6. Total Domestic Savings	1,577.3	1,911.0	2,280.6	1,326.3	2,665.9	2,754.4	11.8
Investments/GNP (%)	15.8	17.3	20.2	21.8	24.8	23.9	..
Savings/GNP (%)	17.3	18.8	19.4	10.0	17.7	18.7	..

¹ Provisional Figures

Source: State Planning Organization

In the parallel of growing economy public disposable income increased by 34.7% while private disposable income increased by 6.6%. The public savings deficit reduced by 12.3% annually in average with the effect of increase in revenues. In addition to that private savings increased by 3.3% annually in average thus total savings growth by 11.8% in real term.

In spite of the expectation of the shrink in the economy in 2007, the investment rate which was 17.3% in 2003 and above 20% in last four years, remained as 24%.

The most effective factor in the general economic growth has been the 21% annual average increase rate in the total fixed capital investments.

The highest growth rate in average was observed in electricity-water sector investments with 42.6% in the five year period. Capacity increasing investments on the electricity production and water distribution network had positive effect on the increase in investment growth rate of this sector.

Intensity of machine and equipment investments due to acceleration in construction and infrastructural facilities caused increase in investments of construction sector as 34.1% and quarrying sector as 27.7%.

Investments on capacity increase, new technologies, developing standards and renovation investments increased investments of business and personal services as 28.9%, manufacturing industry as 19.8% and tourism as 21%.

Table-5 Sectoral Distribution and Development of Fixed Capital Investments

Sectors	(1977 Prices YTL)						5 years
	2002	2003	2004	2005	2006	2007 ¹	Average Change (%)
1. Agriculture	102.2	104.1	116.8	128.4	136.3	130.4	5.0
2. Industry	145.0	216.8	329.2	358.5	568.4	528.6	29.5
2.1. Quarrying	1.5	3.1	3.4	5.1	5.5	5.1	27.7
2.2. Manufacturing	94.2	143.5	260.6	253.2	245.2	232.3	19.8
2.3. Electricity - Water	49.3	70.2	65.2	100.2	317.7	291.2	42.6
3. Construction	27.9	47.6	99.0	183.4	127.6	121	34.1
4. Trade-Tourism	123.9	188.7	259.2	291.8	333.6	304.7	19.7
4.1. Trade	56.9	75.8	119.4	132.9	131.7	130.7	18.1
4.2. Tourism	67.0	112.9	139.8	158.9	201.9	174	21.0
5. Transport-Communication	191.3	238.6	296.3	364.9	462.5	376	14.5
6. Financial Institutions	8.8	10.4	35.1	38.6	37	35.7	32.3
7. Ownership of Dwellings	427.1	486.2	565.3	865.7	1300.3	1351.1	25.9
8. Business and Personal Ser.	51.5	67.9	102.5	110.1	180.6	183.3	28.9
9. Public Services	204.9	273.7	369.6	394.9	410.4	297.4	7.7
Total	1,282.60	1,634.0	2,173.0	2,736.30	3,556.70	3,328.20	21.0

¹ Provisional Figures

Source: State Planning Organization

Investments on transport-communication, financial institutions and trade sectors have been usually about road repair, construction of new roads and using new technologies.

Developments in ownership of the dwellings sector was caused by increase in building constructions.

Increase in investments of public sector realized as the result of investments on the building and equipments of the public education and health services.

The investments growth rate of agricultural sector has been the lowest in the general investments growth rates of the economy. Investments on agricultural equipments and machines created some increase in the investments of the agricultural sector.

The total investments have been realized as 3,430,576,760.5 NTL in current values at 2003-2007 period (table 6). Ownership of the dwellings has the highest share in the total investments with 34.8% then transportation-communication with 12.8% and public sector with 10.3%. Investment share of manufacturing industry is 8.2%, electricity-water sector 6.7% and tourism sector 5.8% in total investments.

Table-6 Sectoral Distribution of Fixed Capital Investments

(Current Prices YTL)

Sectors	2003	2004	2005	2006	2003-2007 Period		
					2007 ¹	Total Investments Share(%)	
1. Agriculture	19,505,376.0	25,067,329.5	30,288,995.7	37,031,696.5	40,964,483.4	152,857,881.1	4.5
2. Industry	40,640,073.2	70,693,090.7	84,573,998.0	154,480,514.6	166,070,402.9	516,458,079.4	15.1
2.1. Quarrying	581,744.8	730,071.1	1,210,690.9	1,494,338.6	1,609,547.0	5,626,392.4	0.2
2.2. Manufacturing	26,897,248.7	55,959,681.7	59,725,765.6	66,640,455.5	72,964,683.4	282,187,834.9	8.2
2.3. Electricity - Water	13,161,079.7	14,003,337.9	23,637,541.5	86,345,720.5	91,496,172.5	228,643,852.1	6.7
3. Construction	8,909,608.5	21,259,857.0	43,258,675.4	34,687,310.1	38,022,508.4	146,137,959.4	4.3
4. Trade-Tourism	35,370,682.2	55,650,643.9	68,847,433.3	90,649,789.0	95,729,755.8	346,248,304.2	10.1
4.1. Trade	14,210,973.8	25,636,774.0	31,365,312.0	35,800,632.3	41,058,391.5	148,072,083.6	4.3
4.2. Tourism	21,159,708.4	30,013,869.9	37,482,121.3	54,849,156.7	54,671,364.3	198,176,220.6	5.8
5. Transport-Communication	44,707,365.5	63,636,784.3	86,087,316.9	125,687,146.5	118,132,669.4	438,251,282.6	12.8
6. Financial Institutions	1,953,076.3	7,523,937.0	9,103,826.6	10,069,587.4	11,212,337.2	39,862,764.5	1.2
7. Ownership of Dwellings	91,113,091.2	121,390,563.7	204,215,564.9	353,405,768.1	424,474,231.8	1,194,599,219.7	34.8
8. Business and Personal Ser.	12,718,481.6	22,014,944.9	25,959,956.5	49,092,282.6	57,586,817.1	167,372,482.7	4.9
9. Public Services	51,285,602.2	79,363,510.0	93,124,289.1	37,031,696.5	93,451,165.5	354,256,263.3	10.3
Total	306,203,356.7	466,600,661.0	645,460,056.4	966,659,314.9	1,045,644,371.5	3,430,567,760.5	100.0

¹ Provisional Figures

Source: State Planning Organization

Developments on the credit/deposit rates of the commercial banks have been effective in the increase of investments. Credit/deposit rates have increased in the last five years and reached to 49.7% in 2007 which was 28% in 2003 (table 7). Bank deposits have increased by 24% annually in average and reached to 4,982,343,909.8 YTL in 2007 which was 2,108,550,667 YTL in 2003. Bank credits have increased by 43.1% annually in average and reached to 2,478,266,454.8 YTL which was 590,335,264.0 YTL in 2003.

Annual average increase rate of credit usage realized as 56.2% in trade sector, 55.5% in business and personal services, and 47.9% in construction. On the other hand, credit usage from commercial banks in industry and tourism was naturally not high, because of credit opportunities

from the Development Bank and Incentive Fund. As a positive improvement, Public institutions' credit usage rate decreased 30.1% which was 45.6% in 2003.

Increase in usage of domestic and foreign trade credits resulted from, the expand in trade sector due to 36.2% annual average increase in imports parallel to increase in investments and consumption.

Table-7 Bank Deposits and Credits

(YTL)											
Sectoral Credits	2003 August	Share (%)	2004 August	Share (%)	2005 August	Share (%)	2006 August	Share (%)	2007 August	Share (%)	Annual Avg. Change (%)
1. Public Institutions and	269,398,366.0		404,993,015.0	41.7	475,523,194.7	34.4	575,682,327.0	29.2	745,382,470.7	30.1	29.0
2. Agriculture	4,001,984.0	0.7	4,975,601.0	0.5	8,434,894.2	0.6	12,637,958.7	0.6	12,836,407.7	0.5	33.8
3. Industry	6,383,666.0	1.1	6,955,946.0	0.7	9,154,020.1	0.7	6,099,048.8	0.3	2,892,076.6	0.1	-18.0
4. Transportation	9,298,855.0	1.6	1,427,086.0	0.1	2,435,300.9	0.2	10,485,567.3	0.5	6,559,862.7	0.3	-8.4
5. Foreign and Domestic	96,360,740.0	16.3	199,402,373.0	20.5	380,893,675.9	27.6	484,067,419.6	24.6	574,241,214.5	23.2	56.2
6. Building and Construction	23,092,521.0	3.9	31,609,734.0	3.3	54,497,407.5	3.9	83,247,990.8	4.2	110,532,681.5	4.5	47.9
7. Tourism	6,300,753.0	1.1	6,497,670.0	0.7	4,855,077.9	0.4	16,047,475.6	0.8	17,596,519.1	0.7	29.3
8. Business and Personal	172,426,079.0	29.2	308,188,082.0	31.7	444,997,807.9	32.2	781,618,491.2	39.7	1,008,225,222.2	40.7	55.5
9. Bills Discounted	3,072,300.0	0.5	7,547,029.0	0.8	-	-	-	-	-	-	-
TOTAL CREDITS	590,335,264.0	100.0	971,596,536.0	100.0	1,380,791,379.1	100.0	1,969,886,278.9	100.0	2,478,266,454.8	100.0	43.1
TOTAL DEPOSITS	2,108,550,667.0		3,015,002,017.0		3,468,268,218.2		4,444,871,769.7	225.6	4,982,343,909.8	210.0	24.0
CREDIT/DEPOSIT (%)	28.0		32.2		39.8		44.3		49.7		

Source: Central Bank, State Planning Organization

In 2007 the imports are expected to reach 1453.3mil.\$ from 477.8 mil.\$ in 2003 (table 8). On the other hand the exports are expected to reach to 81.1mil.\$ from 50.8 mil.\$ during the same period, and finally foreign trade deficit will reach to 1,372.2 mil.\$ Invisibles' surplus will reduce the deficit as always and the current account deficit is expected to be 178 mil.\$ in 2007. In 2007 the balance of capital movements will reach to 316.7 mil.\$ and general balance estimated will be 138.7 mil.\$ and reserves are expected to increase 264 mil.\$.

Table-8 Balance of Payments

	Million US\$						Annual Avg. Change(%)
	2002	2003	2004	2005	2006	2007 ¹	
1. Current Accounts							
1.1. Foreign Trade							
1.1.1. Exports	45.4	50.8	62.0	68.1	68.1	81.1	12.3
1.1.2. Imports	309.6	477.8	853.1	1,255.5	1,376.2	1,453.3	36.2
Foreign Trade Balance	-264.2	-427.0	-791.1	-1,187.4	-1,308.1	-1,372.2	39.0
1.2. Invisible Accounts							
1.2.1. Tourism (Net)	114.1	178.8	288.3	328.8	303.2	376.2	26.9
1.2.2. Other Invisibles (Net)	163.8	267.6	488.7	582.3	801.3	818.0	37.9
Invisible Accounts Balance	277.9	446.4	777.0	911.1	1,104.5	1,194.2	33.9
Current Accounts Balance	13.7	19.4	-14.1	-276.3	-203.6	-178.0	..
2. Capital Movements							
2.1 Loans From Turkey	202.3	178.7	175.3	217.2	218.0	166.7	-3.8
2.2 Other Short Term Capital Movements (Net)	14.4	46.8	79.4	66.0	172.9	150.0	59.8
Capital Movements Balance	216.7	225.5	254.7	283.2	390.9	316.7	7.9
General Balance	230.4	244.9	240.6	6.9	187.3	138.7	-9.7
3. Change In Reserves (- Increase, +Decrease)	-219.0	-281.0	-322.0	-53.0	-433.3	-264.0	3.8
4. Net Errors and Omissions	-11.4	36.1	81.4	46.1	246.0	125.3	..
Average US\$ Exchange Rate :YTL	1.5071	1.4856	1.4281	1.3505	1.4415	1.35	-2.2

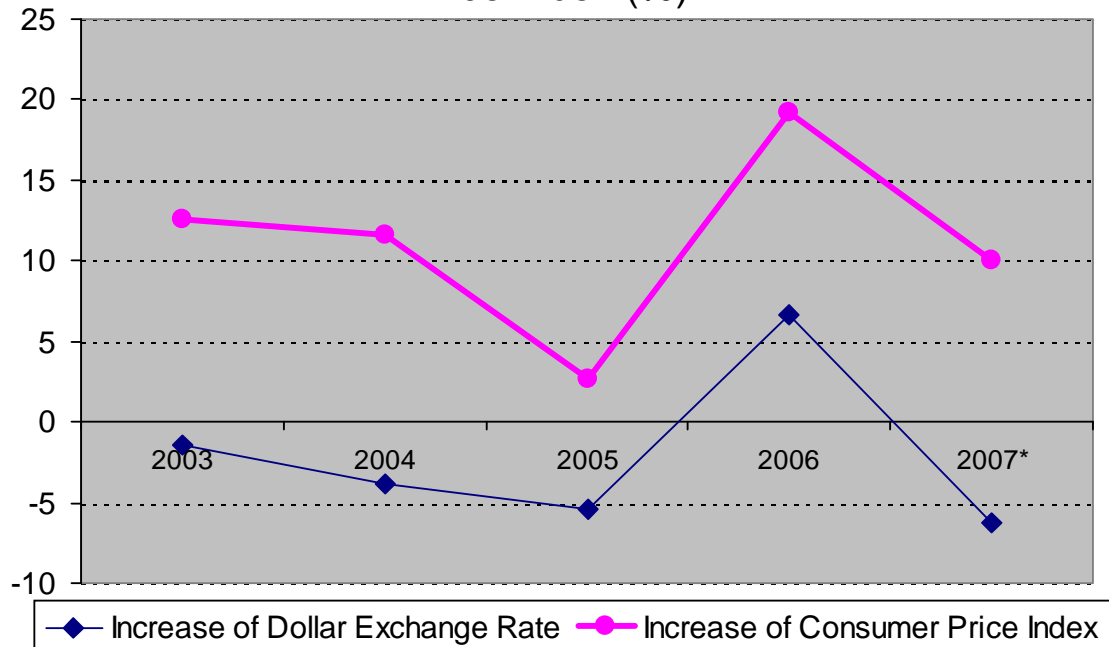
¹ Provisional Figures

Source: State Planning Organization

Developments in retail price indices which show the price movements in the country, follow development trends parallel to average dollar exchange value. In other words, decrease in exchange rates reduce increase rate of consumer price index, although not in the same level every year. During this period (2003-2007) both exchange rates and CPI movements have been unstable.

These unstable developments create negative effect on the foresightedness of the economy and this situation makes the economic actors' risk perceptions and decision making difficult.

Changes in Exchange Rates and Consumer Price Index (%)



In the light of these general evaluation of the economy, despite of economic shrinkage estimated for 2007, many important changes have been experienced in the general balance and sectoral structure of the economy with the effect of high economic growth realized in the last five years. Negative developments in previous improvements in public finance, although decreasing the ongoing price instability, high dependency of foreign finance, necessity of increasing our competitiveness and acceleration of structural changes and transformation in the economy will be the main strategic priority of the 2008 Program.

Middle term development strategy aimed in 2006 Program reserves its validity in 2008 Program. The completion of structural changes and transformations successfully, improvement and efficiency of the coordination between public institutions and establishments is necessary. The effective usage of manpower and financial resources will decrease high dependency of foreign resources. Following the harmonization of objectives, policies and applications in every

area and giving importance to healthy data collection for necessary controlling, has strategic importance in increasing administrative capacity.

2. Growth Rate and GNP in 2007

The growth trend reached in last years at TRNC economy did not carry on in 2007. The GNP real growth rate is expected to reduce 2.5% in 2007 which was realized as 13.2% in 2006 (table 9). In 2007, current growth is expected to decrease from the level of 21.1% in 2006 to 12.8 % and GNP is expected to reach 4,624,378,492.2 YTL. The real decrease in GNP in 2007 is caused by; decrease in construction, quarrying and related manufacturing industry sectors as the result of decrease in demand, reduce in investments and slowing down in the increase rate of imports. At the same period GNP in US\$ reached to 3,425.5 mil.\$ with an increase of 20.4% as YTL has gained value of 6.3% in average against the US dollar.

According to sectoral developments; Agricultural sector has decreased by 4.3% due to the negative improvements in crop and livestock production sub-sector.

In 2007 a real reduction is expected in industrial sector. Electricity-water which is one of sub-sectors of industry increased by 13.1% but decrease in quarrying and manufacturing by 10.1% and 6.1% respectively kept the reduction of the sector as 3.2%.

In service sectors; the highest growth is expected in the hotel and restaurant sub-sector of trade with 7.6% with the effect of increase in the number of bed nights according to 2006 and improvements in restaurant sector. Construction sector, which has shown positive developments in the past years, is expected to reduce by 12.9% due to decrease in public construction investments. Trade-tourism sector decreased by 6.3% by the effect of 8.4% decrease in wholesale-retail trade sub-sector as a result of reduction in trade volume, crop and livestock production.

Business and personal services increased by 3.2% in total due to increase in higher education sub-sector, in spite of decrease in most of other sectors.

As a result of sectoral developments, GDP is expected to reduce by 2.1%. Net factor income from abroad which has reduced by 16.3%, resulted in 2.5% decrease of GNP.

According to sectoral shares in GDP; Public sector has the biggest share with 21.8% and the following sectors are; trade-tourism sector by 13.8%, transportation-communication by 11.8%, industry by 11.1% and business and personal services sector by 10.4%.

According to GNP which has increased by 12.8% with current prices in 2007, annual price increase is expected as 15.7%. The highest price increases are observed in electricity-water with 47.3% then transportation-communication with 24.6%, livestock production with 22.1%, public sector with 17.9% and manufacturing industry sector with 17.8%.

Table-9 Sectoral Distribution of GDP and GNP

Sectors	2006		2007 ¹		Growth Rate(%)		Share (%) ²	
	Current	1977 Prices	Current	1977 Prices	Current	1977 Prices	2006	2007 ¹
	(YTL)							
1. Agriculture	249,446,249.5	1,141.7	267,279,018.5	1,092.5	7.1	-4.3	6.3	5.9
1.1. Crop Production	128,152,058.0	579.3	121,875,748.0	524.6	-4.9	-9.4	3.2	2.7
1.2. Livestock Production	107,632,385.8	489.6	128,272,843.0	477.9	19.2	-2.4	2.7	2.8
1.3. Forestry	810,420.5	21.2	717,586.7	21.8	-11.5	2.8	..	..
1.4. Fishing	12,851,385.2	51.6	16,412,840.8	68.2	27.7	32.2	0.3	0.4
2. Industry	377,504,439.0	1,638.4	498,971,515.2	1,586.4	32.2	-3.2	9.5	11.1
2.1. Quarrying	41,080,997.3	64.1	39,722,622.6	57.6	-3.3	-10.1	1.0	0.9
2.2. Manufacturing	180,786,026.1	1,313.3	199,953,084.9	1,233.6	10.6	-6.1	4.5	4.4
2.3. Electricity - Water	155,637,415.6	261.0	259,295,807.7	295.2	66.6	13.1	3.9	5.7
3. Construction	314,785,285.7	2,136.9	300,118,635.9	1,861.0	-4.7	-12.9	7.9	6.6
4. Trade - Tourism	617,508,618.1	2,650.7	624,262,540.5	2,483.8	1.1	-6.3	15.5	13.8
4.1. Wholesale and Retail Trade	455,028,113.5	2,296.6	443,693,173.8	2,102.8	-2.5	-8.4	11.4	9.8
4.2. Hotels and Restaurants	162,480,504.6	354.1	180,569,366.7	381.0	11.1	7.6	4.1	4.0
5. Transport and Communication	437,242,766.0	1,478.0	533,093,078.5	1,445.0	21.9	-2.2	11.0	11.8
6. Financial Institutions	259,316,015.9	470.7	293,545,553.1	479.9	13.2	2.0	6.5	6.5
7. Ownership of Dwellings	117,722,525.7	631.8	130,672,003.5	640.8	11.0	1.4	3.0	2.9
8. Business and Personal Services	441,919,623.1	1,440.2	469,690,401.5	1,486.8	6.3	3.2	11.1	10.4
9. Public Services	808,000,153.1	1,741.0	986,199,250.4	1,802.9	22.1	3.6	20.3	21.8
10. Import Duties	364,654,029.4	1,344.5	410,953,500.0	1,491.1	12.7	10.9	9.1	9.1
11. GDP	3,988,099,705.5	14,673.9	4,514,785,497.2	14,370.2	13.2	-2.1	100.0	100.0
12. Net Factor Income from Abroad	113,287,485.0	416.8	109,593,000.0	348.8	-3.3	-16.3	2.8	2.4
GNP	4,101,387,190.5	15,090.7	4,624,378,497.2	14,719.0	12.8	-2.5	102.8	102.4

¹ Provisional Figures

² Current Prices

Source: State Planning Organization

3. The Use of Available Resources in 2007

3.1. Balance of the Economy

The growth trend reached in the economy in TRNC in the recent years is not expected to continue in 2007. In 2007, total resources which consist of GNP and the current account deficit are expected to decrease by 4.2 % and reach to 4,864,678,497.2 YTL in current prices. In 2007, GNP will reduce by 2.5% and will constitute 95.1% of total resources, while current account deficit will decrease by 29.2% and will be 4.9 % of total resources (table 10).

The decrease in total resources is expected to influence negatively the total investments and to reduce by 6% as a result of 21.5% decrease in public fixed capital investments. In 2007, total investments will constitute 22.7 % of total resources, reaching to 1,105,680,795.5 YTL. Total investments will be constituted from 94.6% fixed capital investments and 5.4 % changes in stocks. In 2007 26.8 % of total fixed capital investments are expected to be realized by public sector, whereas private sector will realize 73.2%.

In 2007, total consumption is expected to decrease by 3.7% in real terms and reach to 3,758,997,701.7 YTL. The share of public and private consumption in total consumption will be 31.9 % and 68.1 % respectively.

In 2006, public disposable income will be increased by 4.7 % in real terms and the share of public disposable income in GNP will be 21 %. On the other hand private disposable income will be decreased by 4.2 % and the share within the GNP will be 79 %.

Total domestic savings is expected to increase by 3.3 % in real terms, due to 5.1 % increase in public savings deficit and 3.7 % increase in private savings in 2007. While private savings rate is being realized as 29.9 % with an increase of 2.3 points, total domestic savings share in GNP is being estimated to be 18.7 %, by increasing one point.

Table - 10 General Balance of the Economy

	(YTL)					
	2006		2007 ¹		Change %	
	Current Prices	1977 Prices	Current Prices	1977 Prices	Current Prices	1977 Prices
1. Total Resources	4,394,876,590.5	16,170.6	4,864,678,497.2	15,483.9	10.7	-4.2
1.1. GNP	4,101,387,190.5	15,090.7	4,624,378,497.2	14,719.0	12.8	-2.5
1.2. Current Account Deficit	293,489,400.0	1,079.9	240,300,000.0	764.9	-18.1	-29.2
2. Total Investments	1,018,044,241.0	3,745.8	1,105,680,795.5	3,519.3	8.6	-6.0
2.1. Fixed Capital	966,659,314.9	3,556.7	1,045,644,371.5	3,328.2	8.2	-6.4
2.1.1. Public	308,425,110.5	1,134.8	279,966,231.5	891.1	-9.2	-21.5
2.1.2. Private	658,234,204.4	2,421.9	765,678,140.0	2,437.1	16.3	0.6
2.2. Changes in Stocks	51,384,926.1	189.1	60,036,424.0	191.1	16.8	1.1
2.2.1. Public	7,362,476.2	27.1	8,322,200.0	26.5	13.0	-2.2
2.2.2. Private	44,022,449.9	162.0	51,714,224.0	164.6	17.5	1.6
3. Total Consumption	3,376,832,349.5	12,424.8	3,758,997,701.7	11,964.6	11.3	-3.7
4. Public Disposable Income	802,973,134.0	2,954.5	972,050,153.3	3,094.0	21.1	4.7
4.1. Public Consumption	988,884,634.8	3,638.5	1,197,884,610.6	3,812.8	21.1	4.8
4.2. Public Savings	-185,911,500.8	-684.0	-225,834,457.3	-718.8	21.5	5.1
4.3. Public Investments	315,787,586.7	1,161.9	288,288,431.5	917.6	-8.7	-21.0
4.4. Difference in Public Savings-Investments	-501,699,087.5	-1,845.9	-514,122,888.8	-1,636.4	2.5	-11.3
5. Private Disposable Income	3,298,414,056.5	12,136.2	3,652,328,343.9	11,625.0	10.7	-4.2
5.1. Private Consumption	2,387,947,714.7	8,786.3	2,561,113,091.1	8,151.8	7.3	-7.2
5.2. Private Savings	910,466,341.8	3,349.9	1,091,215,252.8	3,473.2	19.9	3.7
5.3. Private Investments	702,256,654.3	2,583.9	817,392,364.0	2,601.7	16.4	0.7
5.4. Difference in Public Savings-Investments	208,209,687.5	766.0	273,822,888.8	871.5	31.5	13.8
Private Savings Rate (%)	27.6	27.6	29.9	29.9		
6. Total Domestic Savings	724,554,841.0	2,665.9	865,380,795.5	2,754.4	19.4	3.3
Investments/GNP (%)	24.8	24.8	23.9	23.9		
Savings/GNP (%)	17.7	17.7	18.7	18.7		

¹ Provisional Figures

Source: State Planning Organization

3.2. Sectoral Distribution of Fixed Capital Investments

In 2006, total fixed capital investments which was 966,659,314.9 YTL in current prices, is expected to be 1,045,644,371.5 YTL in 2006 as a result of 6.4 % decrease in real terms (table 11).

In 2007, fixed capital investments are expected to decrease in all sectors, except ownerships of dwellings and business and personal services. Increase is expected as 3.9 %, in ownership of dwellings and 1.5% in business and personal services. The greatest real decrease is expected as 27.5% in public sector, 23.3% in transportation and 13.8% in tourism sector.

In 2007, 424,474,231.8 YTL of the fixed capital investments was performed by dwellings sector. The dwellings sector has a share of 40.6% in total investments, followed by public services with a share of 8.9%, electricity-water with the share of 8.7%, transportation with the share of 8.5% and manufacturing with a share of 7%.

3.3. Consumption Expenditures

In 2007, GNP per capita which was 17,063 YTL in 2006. It is expected to reach 18,963 YTL in current prices. In USD terms, GNP per capita was 11,837 \$ in 2006 and it is expected to increase by 18.7% and reach to 14,047 \$ in 2007 (table 12).

In 2006 the total consumption per capita realized as 14,048 YTL in current prices. The total consumption per capita is expected to reach 15,414 YTL in 2007. Total consumption will decrease by one point in GNP and reach to 81.3% in GNP (table 12).

Table -11 Sectoral Distribution of Fixed Capital Investments

Sectors	(YTL)					
	2006		2007 ¹		Change (%)	
	Current Prices	1977 Prices	Current Prices	1977 Prices	Current Prices	1977 Prices
1. Agriculture	37,031,696.5	136.3	40,964,483.4	130.4	10.6	-4.3
2. Industry	154,480,514.6	568.4	166,070,402.9	528.6	7.5	-7.0
2.1. Quarrying	1,494,338.6	5.5	1,609,547.0	5.1	7.7	-7.3
2.2. Manufacturing	66,640,455.5	245.2	72,964,683.4	232.3	9.5	-5.3
2.3. Electricity - Water	86,345,720.5	317.7	91,496,172.5	291.2	6.0	-8.3
3. Services	775,147,103.8	2,852.0	838,609,485.2	2,669.2	8.2	-6.4
3.1. Construction	34,687,310.1	127.6	38,022,508.4	121.0	9.6	-5.2
3.2. Trade	35,800,632.3	131.7	41,058,391.5	130.7	14.7	-0.8
3.3. Tourism	54,849,156.7	201.9	54,671,364.3	174.0	-0.3	-13.8
3.4. Transportation	100,676,011.1	370.4	89,272,347.9	284.1	-11.3	-23.3
3.5. Communication	25,011,135.4	92.1	28,860,321.5	91.9	15.4	-0.2
3.6. Financial Institutions	10,069,587.4	37.0	11,212,337.2	35.7	11.3	-3.5
3.7. Ownership of Dwellings	353,405,768.1	1,300.3	424,474,231.8	1,351.1	20.1	3.9
3.8. Business and Personal Services	49,092,282.6	180.6	57,586,817.1	183.3	17.3	1.5
3.9. Public Services	111,555,220.1	410.4	93,451,165.5	297.4	-16.2	-27.5
Total	966,659,314.9	3,556.7	1,045,644,371.5	3,328.2	8.2	-6.4

¹ Provisional Figures

Source: State Planning Organization

Table-12 Consumption Expenditures

	(YTL)					
	2006		2007 ¹		Change (%)	
	Current Prices	1977 Prices	Current Prices	1977 Prices	Current Prices	1977 Prices
1. GNP	4,101,387,190.5	15,090.7	4,624,378,497.2	14,719.0	12.8	-2.5
2. Total Consumption	3,376,832,349.5	12,424.8	3,758,997,701.7	11,964.6	11.3	-3.7
2.1. Public Consumption	988,884,634.8	3,638.5	1,197,884,610.6	3,812.8	21.1	4.8
2.2. Private Consumption	2,387,947,714.7	8,786.3	2,561,113,091.1	8,151.8	7.3	-7.2
Total Consumption/GNP (%)	82.3	82.3	81.3	81.3		
Consumption Per Capita	14,048	0.0517	15,414	0.0491	9.7	-5.1
GNP Per Capita	17,063	0.0628	18,963	0.0604	11.1	-3.9
GNP Per Capita (\$)	11,837		14,047		18.7	

¹ Provisional Figures

Source: State Planning Organization

4. Balance of Finance

4.1. Public Revenues

Public revenues which realised as 1,570,994,590.6 YTL in current prices in 2006 are estimated to rise to 1,853,301,039.0 YTL in 2007. In 2006 public deficit which was 501,699,087.5 YTL in current prices, is estimated to increase by 2.5% and reach to 514,122,888.8 YTL in 2007 (table 13).

The real total tax revenues are expected to rise 11.6% in 2007. On the other hand, the expected 3.7% decline in income other than taxes and 9.5% decrease in factor and fund revenues will cause 2% limited increase in public revenues. The decrease in loss of the most important public enterprise Cyprus Fruit and Vegetable Enterprise "Cypfruvex" Ltd. and expectations about serious loss of Turkish Cyprus Airlines' in 2007 has been the major cause of the expected decrease in factor and fund revenues.

4.2. Public Expenditures

Total public expenditures are estimated to reach to 2,367,423,927.8 YTL at current prices in 2007 from 2,072,693,678.1 YTL in 2006. In 2007, current expenditures will increase by 4.8 %, investments will decrease by 21 % and transfers will achieve a decrease by 0.7 % in real terms.

4.3 General Balance of Public Sector

The estimated decrease in transfer expenditures as 0.7 % and small increase in public revenues as 2 % will cause a 4.7 % real increase at the public disposable income in 2007. In savings deficit, 5.1 % real increase is estimated due to 4.8 % real increase in public current expenditures. On the other hand in 2007, 21 % decrease is estimated in public investments, which will cause 11.3 % real decrease in public deficit.

Table-13 General Balance of Public Sector

	(YTL)					
	2006		2007 ¹		Change (%)	
	Current Prices	1977 Prices	Current Prices	1977 Prices	2007 ¹ Current Prices	1977 Prices
1. Public Revenues	1,570,994,590.6	5,780.4	1,853,301,039.0	5,898.9	18.0	2.0
1.1. Taxes	794,702,097.2	2,924.1	1,025,220,064.8	3,263.2	29.0	11.6
1.1.1. Direct Taxes	329,772,826.9	1,213.4	421,573,004.1	1,341.8	27.8	10.6
1.1.2. Indirect Taxes	464,929,270.3	1,710.7	603,647,060.7	1,921.4	29.8	12.3
1.2. Income Other Than Taxes	235,432,009.5	866.3	262,219,188.4	834.6	11.4	-3.7
1.3. Income From Factors and Funds	540,860,483.9	1,990.0	565,861,785.8	1,801.1	4.6	-9.5
2. Transfers	768,021,456.6	2,825.9	881,250,885.7	2,804.9	14.7	-0.7
3. Public Disposable Income	802,973,134.0	2,954.5	972,050,153.3	3,094.0	21.1	4.7
4. Public Current Expenditures	988,884,634.8	3,638.5	1,197,884,610.6	3,812.8	21.1	4.8
5. Public Savings	-185,911,500.8	-684.0	-225,834,457.3	-718.8	21.5	5.1
6. Public Investments	315,787,586.7	1,161.9	288,288,431.5	917.6	-8.7	-21.0
6.1. Fixed Capital	308,425,110.5	1,134.8	279,966,231.5	891.1	-9.2	-21.5
6.2. Changes in Stocks	7,362,476.2	27.1	8,322,200.0	26.5	13.0	-2.2
7. Public Deficit	501,699,087.5	1,845.9	514,122,888.8	1,636.4	2.5	-11.3

Provisional Figures ¹

Source: State Planning Organization

4.4 General Balance of Private Sector

In 2007, in spite of %4.2 decrease in private disposable income, the low increase rate of 7.2 % in private consumption in real terms will cause a limited increase in private savings by 3.7 %. The real increase in private investments by 0.7 % will cause the transfer to public sector to reach to a level of 871.5 YTL in 2007 (table 14).

Table-14 General Balance of Private Sector

	(YTL)					
	2006		2007 ¹		Change (%)	
	Current Prices	1977 Prices	Current Prices	1977 Prices	Current Prices	1977 Prices
1. Private Disposable Income	3,298,414,056.5	12,136.2	3,652,328,343.9	11,625.0	10.7	-4.2
2. Private Consumption	2,387,947,714.7	8,786.2	2,561,113,091.1	8,151.8	7.3	-7.2
3. Private Savings	910,466,341.8	3,350.0	1,091,215,252.8	3,473.2	19.9	3.7
4. Private Investments	702,256,654.3	2,583.9	817,392,364.0	2,601.7	16.4	0.7
4.1. Fixed Capital	658,234,204.4	2,421.9	765,678,140.0	2,437.1	16.3	0.6
4.2. Changes in Stocks	44,022,449.9	162.0	51,714,224.0	164.6	17.5	1.6
5. Transfer to Public Sector	208,209,687.5	766.1	273,822,888.8	871.5	31.5	13.8

¹ Provisional Figures

Source: State Planning Organization

4.5 Balance of State Revenues and Expenditures

At the end of the year 2007, budget volume of the government, is estimated to realize as 2,145,303,712.8 YTL with 11.5 % increase (table 15).

The total revenues are expected to increase by 4.1 % in 2007. This increase is caused by the 9.7 % real increase estimated for tax revenues and 8.4 % increase for fund revenues. According to tax revenues; 6.9% real increase in direct taxes and 11.7% real increase in indirect taxes is estimated in 2007. Local revenues are expected to increase by 6.3%, whereas foreign aid will decrease 5.2 %.

At budget expenditures 3.5 % decrease is expected for 2007. Investment expenditures are expected to realize the biggest decline in the expenditure items with 16.7 %. On the other hand,

transfers and defense expenditures are estimated to decrease by 6.8% and 9% respectively. Transfer expenditures have the biggest share with 18.3 % and personnel expenditures have the second biggest share with 16.4 % in 2007. In spite of the fact that, current increase in budget expenditures has been lower than the revenues as the inflation rate has exceeded the 5% target, the share of current expenditures has increased, transfer expenditures with their 39.4 % share in total expenditures, has continued to be heavy burden on the budget and the share of investments has decreased.

Budget balance shows that, the budget which resulted with a need of finance of 414,169,280.4 YTL in 2006 will have a deficit of 328,752,571.3 YTL in 2007. The account of finance needed will be covered by interior loans which will increase by 17.1% in current prices.

Table-15 Balance of State Revenues and Expenditures

	(YTL)									
	2006				2007 ¹				Change	
	Current Prices	1977 Prices	Change %	GNP %	Current Prices	1977 Prices	Change %	GNP %	Current	1977
I. REVENUES	1,509,540,794.2	5,554.2	100.0	36.8	1,816,551,141.5	5,781.9	100.0	39.3	20.3	4.1
1. Local Revenues	1,215,615,338.9	4,472.8	80.5	29.6	1,494,444,691.3	4,756.7	82.3	32.3	22.9	6.3
1.1. Tax Revenues	765,387,680.3	2,816.2	50.7	18.7	970,642,896.9	3,089.5	53.4	21.0	26.8	9.7
1.1.1. Direct Taxes	323,571,931.7	1,190.6	21.4	7.9	399,993,428.2	1,273.1	22.0	8.6	23.6	6.9
1.1.2. Indirect Taxes	441,815,748.5	1,625.6	29.3	10.8	570,649,468.7	1,816.3	31.4	12.3	29.2	11.7
1.2. Other Income	193,558,294.4	712.2	12.8	4.7	202,219,188.4	643.6	11.1	4.4	4.5	-9.6
1.3. Fund Revenues	256,669,364.3	944.4	17.0	6.3	321,582,606.0	1,023.6	17.7	7.0	25.3	8.4
2. Foreign Aid and Credits	293,925,455.2	1,081.5	19.5	7.2	322,106,450.2	1,025.2	17.7	7.0	9.6	-5.2
2.1 Republic of Turkey	293,778,605.0	1,080.9	19.5	7.2	321,989,912.3	1,024.9	17.7	7.0	9.6	-5.2
2.2. Other	146,850.2	0.5	..	..	116,537.9	0.4	..	..	-20.6	-31.4
II. EXPENDITURES	1,923,710,074.6	7,078.1	100.0	46.9	2,145,303,712.8	6,828.3	100.0	46.4	11.5	-3.5
1. Current Expenditures	742,526,703.9	2,732.1	38.6	18.1	907,818,360.6	2,889.5	42.3	19.6	22.3	5.8
1.1. Personnel Expenditures	624,001,846.5	2,296.0	32.4	15.2	759,498,415.9	2,417.4	35.4	16.4	21.7	5.3
1.2. Other Current Expenditures	118,524,857.4	436.1	6.2	2.9	148,319,944.7	472.1	6.9	3.2	25.1	8.3
2. Transfers	784,546,989.9	2,886.7	40.8	19.1	845,050,666.8	2,689.7	39.4	18.3	7.7	-6.8
3. Defence	118,843,456.0	437.3	6.2	2.9	125,000,000.0	397.9	5.8	2.7	5.2	-9.0
4. Investments	277,792,924.8	1,022.1	14.4	6.8	267,434,685.4	851.2	12.5	5.8	-3.7	-16.7
III. FISCAL BALANCE	-414,169,280.4	-1,523.9	100.0	-10.1	-328,752,571.3	-1,046.4	100.0	-7.1	-20.6	-31.3
IV. FINANCE	414,169,280.4	1,523.9	100.0	10.1	328,752,571.3	1,046.4	100.0	7.1	-20.6	-31.3
1. Credits from Republic of Turkey	320,091,287.0	1,177.7	77.3	7.8	218,552,783.5	695.6	66.5	4.7	-31.7	-40.9
2. Internal Loans	94,077,993.4	346.2	22.7	2.3	110,199,787.8	350.8	33.5	2.4	17.1	1.3

¹ Provisional figures

Source: State Planning Organization

5. Balance of Payments in 2007

5.1. Foreign Trade

The foreign trade volume is expected to reach to 1,534.4 million \$ in 2007, due to 19.1 % change in exports and 5.6 % in imports. Exports which realized as 68.1 million \$ in 2006 is expected to be 81.1 million \$ at the end of 2007 and imports which realized as 1,376.2 million \$ in 2006 will be 1,453.3 million \$. Due to these developments foreign trade deficit will reach to 1,372.2 million \$ from 1,308.1 million \$ (table 16). As the share of exports increased within the foreign trade volume, exports are expected to meet 5.5 % of the imports in 2007.

5.2. Invisibles Account

Net tourism revenues are estimated to increase by 24.1 % due to increase in number of tourist arrivals and bednights in 2007 and realize as 376.2 million \$. On the other hand, other invisibles item that realized as 801.3 million \$ in 2006 is estimated to increase by 2.1 % in 2007 and reach to 818 million \$. With these developments, invisibles account balance will increase by 8.1 % and reach to 1,194.2 million \$ in 2007.

In 2007, as a result of the developments in foreign trade balance and invisibles account balance, current accounts balance that had, 203.6 million \$ deficit in 2006, is estimated to have 178 million \$ deficit.

5.3. Capital Movements

Loans provided from Republic of Turkey in 2007, is estimated to decrease by 23.5 % and reach to 166.7 million \$.

Other capital movements, will decrease by 13.2% in 2007 compared to 2006 and is estimated to reach to 150 million \$.

Due to the developments in the capital movements, capital movements balance is estimated to decrease by 19 % in 2007 and reach to 316.7 million \$.

As a result of the developments in current accounts balance and capital movements balance, general balance is estimated to have a surplus of 138.7 million \$ in 2007.

5.4. Reserve Movements

In 2007, foreign exchange reserves are estimated to decrease by 264 million \$ compare to 2006.

Table-16 Balance of Payments

Sectors	(Million \$)		
	2006	2007 ¹	Change (%)
1. Current Accounts			
1.1. Foreign Trade			
1.1.1. Exports	68.1	81.1	19.1
1.1.2. Imports	1,376.2	1,453.3	5.6
Foreign Trade Balance	-1,308.1	-1,372.2	4.9
1.2. Invisible Accounts			
1.2.1. Tourism (Net)	303.2	376.2	24.1
1.2.2. Other Invisibles (Net)	801.3	818.0	2.1
Invisible Accounts Balance	1,104.5	1,194.2	8.1
Current Accounts Balance	-203.6	-178.0	-12.6
2. Capital Movements			
2.1. Loans by Turkey	218.0	166.7	-23.5
2.2. Other Short Term Capital Movements(Net)	172.9	150.0	-13.2
Capital Movements Balance	390.9	316.7	-19.0
General Balance	187.3	138.7	-25.9
3. Change In Reserves (- Increase, +Decrease)	-433.3	-264.0	-39.1
4. Net Errors and Omissions	246.0	125.3	-49.1
Average US\$ Exchange Rate:YTL	1.4415	1.3500	-6.3

¹ Provisional Figures

Source: State Planning Organization

6. Price Movements in 2007

Price movements in our country are to large extent, under the influence of policies implemented and developments realised in the Republic of Turkey, as the same currency is used. As a result of the economic program put into action by the Government of Turkey and stable process over exchange rates caused price stability at YTL and YTL continued its tendency to get stronger in 2007. In addition to these positive developments, new arrangements in taxes and funds also influence price movements in TRNC(table 17).

According to 11 month period in 2006 and 2007; inflation rate which reached to 19.2% in 2006 due to high fluctuation in foreign exchange rates, realized as 9 % in November 2007 in spite of decrease in foreign exchange rates

The reason of that was the increase in rates of VAT and stoppages and changes in prices of diesel fuel, meat, and services sector and also negative effects of global warming on vegetable and fruit production .

Considering the inflation rate estimated in the 2007 Program as 5 %, these developments show that the target has highly been exceeded.

Table-17 Retail Price Index

Months	2006	Index (December 2005=100)	Monthly Change (%)	2007	Index (December 2006=100)	Monthly Change (%)	Yearly Change (%)
January	749.4	101.04	1.04	895.7	101.35	1.35	19.52
February	747.3	100.76	-0.28	901.5	102.00	0.65	20.63
March	760.5	102.53	1.77	914.5	103.47	1.44	20.25
April	773.2	104.25	1.67	920.9	104.20	0.70	19.10
May	789.0	106.38	2.04	921.5	104.27	0.07	16.79
June	804.8	108.51	2.00	913.8	103.39	-0.84	13.54
July	817.7	110.25	1.60	915.7	103.61	0.21	11.98
August	834.9	112.57	2.10	936.1	105.92	2.23	12.12
September	860.0	115.95	3.01	951.4	107.65	1.63	10.63
October	879.5	118.58	2.27	965.9	109.29	1.52	9.82
November	882.9	119.04	0.39	963.3	109.00	-0.27	9.11
December	883.8	119.16	0.10	-	-	-	-

¹December 2005 Index: 741.7

Source: State Planning Organization

The economy of TRNC is highly dependent on imports, most of the production inputs and consumption goods are provided through imports. Therefore, changes in value of YTL against foreign exchange affects costs and prices. The recent finance, money and foreign exchange policies implemented by the Turkish Government resulted in value increase of YTL against foreign currency. However, these positive developments did not continue in 2007 and increase in demand caused the foreign exchange rates to rise for some period.

In 2007, not only decrease at pressure over demand, but also stability achieved through liquidity and interest rate operations after global fluctuations over foreign financial markets and decrease in US dollar value, caused YTL to maintain its strong position against foreign exchange.

Table-18 Changes in Average Exchange Rates

Months	USDollar						Sterling						Euro											
	2006		Index		Monthly		2007		Index		Change		2006		Index		Monthly		2007		Index		Change	
	Exchange (December		Change		Exchange (December		Monthly		Yearly		Exchange (December		Change		Exchange (December		Monthly		Yearly		Exchange (December		Change	
	Rate	2005=100) ¹	(%)	Rate	2006=100)	(%)	Rate	2005=100) ²	(%)	Rate	2005=100) ³	(%)	Rate	2005=100) ³	(%)	Rate	2006=100)	(%)	Rate	2006=100)	(%)	Rate	2006=100)	(%)
January	1.3283	98.23	-1.77	1.4259	99.59	-0.40	7.35	2.3447	99.32	-0.68	2.7926	99.34	-0.66	19.10	1.6049	100.09	0.09	1.8537	98.03	-1.97	15.50			
February	1.3261	98.07	-0.16	1.3960	97.50	-2.10	5.27	2.3209	98.31	-1.02	2.7314	97.17	-2.19	17.69	1.5856	98.89	-1.20	1.8234	96.42	-1.64	15.00			
March	1.3340	98.65	0.59	1.4000	98.42	0.93	5.62	2.3271	98.57	0.27	2.7443	97.62	0.47	17.93	1.6028	99.96	1.08	1.8645	98.60	2.26	16.33			
April	1.3372	98.89	0.24	1.3599	94.98	-3.49	1.69	2.3578	99.88	1.32	2.7007	96.07	-1.59	14.54	1.6373	102.11	2.16	1.8359	97.09	-1.54	12.13			
May	1.4269	105.52	6.71	1.3390	93.52	-1.54	-6.16	2.6658	112.93	13.06	2.6563	94.49	-1.64	-0.36	1.8217	113.62	11.26	1.8098	95.71	-1.42	-0.65			
June	1.5985	118.21	12.03	1.3219	92.33	-1.27	-17.30	2.9501	124.97	10.66	2.6218	93.27	-1.30	-11.13	2.0249	126.29	11.15	1.7725	93.73	-2.06	-12.47			
July	1.5568	115.13	-2.61	1.2841	89.69	-2.86	-17.51	2.8703	121.59	-2.70	2.6082	92.78	-0.52	-9.13	1.9759	123.23	-2.42	1.7590	93.02	-0.76	-10.98			
August	1.4685	108.60	-5.67	1.3174	92.02	2.59	-10.29	2.7763	117.61	-3.27	2.6467	94.15	1.48	-4.67	1.8803	117.27	-4.84	1.7934	94.84	1.96	-4.62			
September	1.4824	109.63	0.95	1.2648	88.34	-3.99	-14.68	2.7988	118.56	0.81	2.5518	90.77	-3.59	-8.83	1.8895	117.84	0.49	1.7547	92.79	-2.16	-7.14			
October	1.4775	109.26	-0.33	1.1984	83.71	-5.24	-18.89	2.7704	117.35	-1.02	2.4486	87.10	-4.04	-11.62	1.8655	116.35	-1.27	1.7034	90.08	-2.92	-8.69			
November	1.4583	107.84	-1.30	1.1899	83.11	-0.71	-18.40	2.7847	117.96	0.52	2.4657	87.71	0.70	-11.45	1.8762	117.01	0.57	1.7444	92.25	2.41	-7.02			
December	1.4317	105.88	-1.82	-	-	-	-	2.8111	119.08	0.95	-	-	-	-	1.8910	117.94	0.79	-	-	-	-			

¹December 2005 IS=1.3522 YTL

²December 2005 IS=2.3607 YTL

³December 2005 IS=1.6034 YTL

Source: State Planning Organization

7. Bank Deposits and Credits in 2007

The problems occurred, due to the banks with weak financial structure between 2000-2002 were eliminated by the measures taken and trust has been achieved in the sector again.

According to the Central Bank's data, at the end of 2006 the balance sheet size of the banking sector reached to 5,577,406 thousand YTL.

On the other hand, by September 2007 banking balance sheet increased by 8.35% and reached to 6,043,200 thousand YTL. During the August 2006-2007 period, total credits increased by 25.8% and total deposits by 12.1%. According to these developments, the gross credit/ deposit ratio reached to 49.7% in August 2007 from 44.3% in August 2006. During the same period the share of gross credits in assets increased to 41% from 37.8%.

7.1. Bank Deposits

The total amount of deposits increased by 12.1% and reached to 4,982,343.9 thousand YTL in August 2007.

7.1.1. Turkish Lira Deposits

During the August 2006-August 2007 period Turkish Lira deposits increased by 15.6% and reached to 2,550,698,704.6 YTL (table 19). The increase in Retail Price Index which realised

as 12.1 % shows that there has been an increase in total Turkish Lira deposits in real terms (table 19). Sight deposits increased by 14.5 % during this period, whereas time deposits increased by 15.7 %.

Table-19 Turkish Lira Deposits
(August 2006-2007)

(YTL)					
Type of Deposit	August 2006	Share (%)	August 2007	Share (%)	Change(%)
1. Sight	251,102,623.5	11.4	287,443,687.6	11.3	14.5
2. Time	1,955,696,438.7	88.6	2,263,255,017.0	88.7	15.7
Total	2,206,799,062.2	100.0	2,550,698,704.6	100.0	15.6

Source: Central Bank, State Planning Organization

7.1.2. Foreign Currency Deposits

Total foreign currency deposits with current value increased by 8.6 % during August 2006-August 2007 and reached to 2,238,072,707.6 YTL (table 20). The increase in Retail Price index shows that there has been a real decrease in foreign currency deposits. The decrease in sight deposits realised as 4.8 % during August 2006-August 2007 period, and its share in the total foreign currency deposits decreased from 18% to 15.8%. On the other hand during the same period time deposits increased by 11.6% and its share in the total foreign currency deposits increased from 82% to 84.2%.

Table-20 Foreign Currency Deposits
(August 2006-2007)

(YTL)					
Type of Deposit	August 2006	Share (%)	August 2007	Share (%)	Change (%)
1. Sight	402,597,139.5	18.0	383,119,676.5	15.8	-4.8
2. Time	1,835,475,568.0	82.0	2,048,525,528.7	84.2	11.6
Total	2,238,072,707.5	100.0	2,431,645,205.2	100.0	8.6

Source: Central Bank, State Planning Organization

7.2 Credits

During the August 2006- August 2007 period total credits increased by 25.8 % and reached to 2,478,266,454.8 YTL under the influence of latest years increasing internal demand (table 21). This indicates an increase in credits in real terms, as the increase in Retail Price Index during the same period was much lower i.e. 12.1 %.

Sectoral developments of credits show that, during this period credits have been more intense in business and personal loans, public institutions and foreign and domestic trade sectors. Business and personal loans realised the highest share by 40.7%.

Table-21 Sectoral Distribution of Bank Credits
(August 2006-2007)

Sectors	August 2006	Share	August 2007	(YTL)	
				Share	Change
		(%)		(%)	(%)
1. Public Enterprises and Institutions	575,682,327.0	29.2	745,382,470.7	30.1	29.5
2. Agriculture	12,637,958.7	0.6	12,836,407.7	0.5	1.6
3. Manufacturing	6,099,048.8	0.3	2,892,076.6	0.1	-52.6
4. Transportation	10,485,567.3	0.5	6,559,862.7	0.3	-37.4
5. Foreign and Domestic Trade	484,067,419.6	24.6	574,241,214.5	23.2	18.6
6. Building and Construction	83,247,990.8	4.2	110,532,681.5	4.5	32.8
7. Tourism	16,047,475.6	0.8	17,596,519.1	0.7	9.7
8. Business and Personal Loans	781,618,491.2	39.7	1,008,225,222.2	40.7	29.0
Total	1,969,886,278.9	100.0	2,478,266,454.8	100.0	25.8

Source: Central Bank of TRNC, State Planning Organization

8. Labour Force Requirement and Employment in 2007

Recent developments in the economy and increase in sectoral production had a positive effect on employment in 2007.

Employment data published by State Planning Organization since 1977, has been determined according to sectoral employment demand based on developments in GDP. However, as economic, social and technological changes which could not be predicted beforehand, the estimated labour force estimated by this methodology has been very different from the figures of 2006 General Population and Housing Unit Census. Because of that, while working on 2007 estimated and 2008 targeted figures 2006 General Population and Housing Unit data has been taken as base.

Based on the increase in production it is estimated that there will be an increase of 1.5% in total employment and the labour force requirement will reach to 93,393 level in 2007 (table 22).

According to the 2006 Population and Housing Unit Census people employed in agricultural sector are 2,926.

Employment figures based on increase in production for 2007 show that, the highest increase is estimated in hotels and restaurants and electricity-water sectors. The estimated increase in these sectors is 5.5% and 4% respectively.

Table - 22 Sectoral Distribution of Labour Force Requirement

Sectors N	(Excluding Agriculture)				Change (%)
	2006		2007		
	Number	Share (%)	Number	Share (%)	
1. Industry	8,729	9.5	8,742	9.4	0.1
1.1. Quarrying	259	0.3	259	0.3	0.0
1.2. Manufacturing	8,149	8.9	8,149	8.7	0.0
1.3. Electricity - Water	321	0.3	334	0.4	4.0
2. Construction	14,313	15.5	14,313	15.3	0.0
3. Trade - Tourism	20,661	22.4	20,973	22.4	1.5
3.1. Wholesale and Retail Trade	14,953	16.2	14,953	16.0	0.0
3.2. Hotels and Restaurants	5,708	6.2	6,020	6.4	5.5
4. Transport - Communication	5,690	6.2	5,690	6.1	0.0
5. Financial Institutions	2,900	3.2	2,941	3.1	1.4
6. Business and Personal Services	19,313	21.0	19,758	21.2	2.3
7. Public Services	20,446	22.2	20,976	22.5	2.6
Total	92,052	100.0	93,393	100.0	1.5

Source: State Planning Organization

MAIN OBJECTIVES, MACROECONOMIC TARGET, PRINCIPLES AND POLICIES

1. Main Objectives and Medium-term Development Strategies of the Program

Medium-term development strategy for 2006-2008 aimed at “**establishment of an economic structure in Turkish Republic of Northern Cyprus which is able to produce goods in EU standards and share its income equally; establishment of a state structure which ensure human rights, superiority of law and democratic participation, achievement of a well-informed community and improve the quality of life.**” At the same time, it aimed to develop all aspects in order to compete successfully in all areas with the Greek Cypriots and become a politically, economically and democratically equal half in the final solution goal.

The objectives of this strategy were defined as; re-structuring of the government, increasing the public education and health level, improving the income distribution balance, extending the common use of science and technology, raising the standards of infrastructural services, increasing production, investments and employment, raising the productivity, registering the economy and preserving the environment in order to provide sustainable development. Although some positive developments took place on basic targets and objectives during 2006-2007 time period, programming and application process is still slower in each area.

According to 2006-2009 medium-term strategic frame, annual growth rate has been exceeded for 2006 but for 2007 economy is expected to shrink. The high growth rate that has been achieved between 2003-2006, could only be sustainable by putting in force the necessary structural reforms. In the context of social reconciliation and improvement of the administration, the necessity of reforms should be explained to the community and especially to related civil society, in order to speed up the implementation.

In 2008, governmental organizations that would handle technical preparations, law adaptations or new law preparation and applications of reform process have to improve their administrative capacities.

On the other hand, necessary legal and administrative actions must be taken to improve private organizations' administrative and financial structure and support must be given to

such organizations to improve their infrastructure, production standard and productivity in order to increase competitive ability .

According to main aims and objectives in medium-term strategies in 2008 Program period, in addition to TRNC's human and economic resources, financial and technical aids from Republic of Turkey, EU and other foreign countries will be optimally used for:

- Accelerating the physical planning process and expanding the environmental sensitivity with the aim of providing sustainable growth,
- Improving human resources by increasing the educational and healthcare level,
- Raising the competition power by increasing production through increasing productivity, improving standards and providing technical support countrywide,
- Improving distribution of income by spreading economic activities to all around the country by focusing on rural and regional development,
- Increasing public sector's infrastructural investments and standards,
- Providing effective administration and institutionalization in order to establish productivity, participation, transparency and accountability within public sector.

All these changing, transforming and reform activities which have taken place since 2006, are going to be accelerated and completed in 2008 Program period.

Main aims, targets and provisions are revised in 2008 under the light of developments between 2006-2007 time period. Such that:

- The harmonization process of EU standards and acquis will accelerate and this transforming period will be realized within the framework of a Harmonization Program.
- All opportunities, in order to develop economic, social and cultural relationship with EU countries will be evaluated. The reconciliation culture will be essential in all relationships within the country and other countries. In this frame the efforts for peace in Cyprus will continue in stability.
- During the 2006- 2009 time period; law process of social security reform that has been programmed to come into action, has been finalized by the end of 2007 and will come into force at the beginning of 2008 ; under the public reform scope, performance evaluation system put in to practice and law studies that cause changes in many areas has been accelerated. Before the e-government applications all necessary legal arrangements have been prepared and most of necessary technical infrastructure for automation system in public sector have been finalized. On the other hand technical studies and projects that increase

environmental sensitivity and find solution to most important environmental problems have been started.

- In the three years period, an annual average growth rate of 7% was projected. In 2006, GNP growth was 13.2%, but according to estimations, GNP will shrink by 2.5% in 2007. Under these negative circumstances, for 2008 Program GNP growth rate is estimated to be realized as 5%.
- The main aim is reaching to a production structure that sets the local resources into action in conditions which suits international standards, sustainability, be scientific, with intensive technology and with high value added for strengthening competition in all production process of goods and services.
- Reducing the dependency on foreign resources, equal distribution of increasing income, optimal use of country resources according to sustainable development principles shall be the main objectives.
- In order to strengthen the public finance balance, dependency of current financing shall be decreased, budget deficit and public debt stock shall be brought to an acceptable level according to EU economic criteria. Within this context, foreign aid and credit opportunities shall be used to large extent for investment and reform requirements.
- Private sector dynamism and production will be increased by improving the skills and opportunities of the entrepreneurship and competition conditions. On the other hand, the share of public sector in the growing economy will be decreased. In this way the competition between public and private sectors will be eliminated and by providing complementary roles for public and private sectors, the arrangement, control and supervision functions of the state will be activated.
- The main aim should be attainment of, educational system which trains people according to the requirement of information age, health services structure to fulfil the necessity and expectations of the society, working life and social security systems to modern norms.
- In order to improve modern life standards, priority shall be given to infrastructural investments in areas such as, continuous and secure energy production, telecommunication services, secure domestic and external transportation services and water, wastewater and solid waste. Public infrastructural investments will be directed to these areas and all required measures will be taken to ensure the improvement of administration in these areas.
- The amount of investment expenditures and its share in GNP reached to the highest level in all of the times. The investment rate exceeded 20% and increasing domestic savings and activating investment policies in order to increase the investment rate at the level of 25% is aimed.

- Accelerating the reorganization studies, expanding the authority and service areas and strengthening the financial structure of the local administrations which are the basis of regional development, will be essentially considered.
- In the social change and transformation process, civil society organizations will be supported in order to establish an organized, democratic and participant perceptiveness.

2. Main Principles and Policies of the Development Strategy

2.1. Sustainable Development Principle

High rate of investment growth, while increasing production and employment, causes unplanned constructions, natural resources erosion, decrease in agricultural production areas, ruins natural and historical wealth and creates irreversible environmental problems, which is serious threat for sustainable development.

Therefore, the basic principle of the TRNC's economic and social policies is attainment of sustainable development in the economy. In this scope, a structure supervising the environmental awareness, environmental protection principle and standards must be established, in the same parallel the countrywide and regional physical planning process to provide planned construction must be completed and implemented effectively.

2.2 Administrative Principles

In order to have good administration mechanisms, we need to ensure that we are able to make correct decisions and have a healthy political structure. The main precondition is the improvement of information and statistical data infrastructure. Therefore the main aim is to ensure that the statistical infrastructure of our country is strengthened, all registration systems developed and all data processing technologies are used and distributed as necessary.

Participation, transparency and accountability are the dynamic requirements needed to develop the decision making mechanisms. In the decision implementation process, providing cooperation and coordination are considered the main principles of a good management.

Improving and strengthening the communication between the Government and the people governed will lead to more effective democratic system and active society.

By Public Administration Reform, institutionalization and administrative capacity will be improved. Adopting a management system focused on human being, training facilities of human resources will be developed and relations between manager and employee will reach to a level at which both sides are satisfied.

Usage of data processing technologies, will be wider and effective, bureaucratic procedure and process will be simplified and electronic service delivery will start and become widespread.

2.3. Fiscal Policy

The main aim of the fiscal policy is to have a sustainable financial structure and to minimize the dependency on foreign finance. Within this context, income and expenditure policies will need to be more coherent and effective.

Transparency and accountability mechanism in public administration will be developed, in order to provide financial discipline, distribute public resources in accordance with strategic priority and use such resources efficiently. For the attainment of fiscal discipline, all administrative and legal measures will be taken in public institution and enterprises in the direction of not exceeding budget allocation.

For effective revenue policies, the tax system will need to be simplified, documentation will be produced for auto control mechanism and tax auditing system will need to be widespread. The main purpose will be to broaden the tax base, prevent tax evasion and finally ensure all economic activities are recorded.

Within expenditure policies, priority will be given to investments in order to improve public services and investment projects will include initial investment and maintenance expenditures and costs.

Resources will be allocated according to service cost relationship. Especially, transfer expenditures will be used effectively in order to minimize its share in public expenditures.

Public debts will be taken under discipline, an active debt management system will be implemented and dependency on foreign resources will be reduced. All organizations who receive public financial support are expected to abide by this principle.

The fiscal policies' main aim is to reduce budget deficits and debt stocks to an acceptable level within EU criteria. Within the EU harmonization process and the reforms required for a sustainable public finance, taxation and incentive policies, transparency and accountability in public finance, control and supervision functions in all areas will be reorganized.

While the financial sector will be strengthened and more effective by undertaking incentive policies for strengthening the capital structure of banks; all other institutions and organizations will be registered and taken under control.

2.4. Privatization /Autonomy Policies

State economic enterprises and other government business institutions will be restructured in order to increase productivity, effective usage of resources and reduce the share of the public sector within the economy.

Within this context every enterprise will be evaluated according to their aims, functions, production, usage of public resources and their contributions to the general economy and their privatization or autonomy process will be completed within three years. In any case, the management of these institutions must be in accordance with modern business principles, considering service-cost balance and fair competition conditions against private sector. Transparency will be ensured in all their facilities for effective public control.

2.5. Investment Policies

Public and private investments will need to be complementary to each other not competitive but should also comply with the environmental protection principles and development regulation and laws.

Public investments will be intense in sectors which create bottlenecks in economic development and basic public services like education and health services, according to medium and long term sectoral master plans and necessities of regions for reducing development differences. The creation of equal opportunities in education, health and other social services of public sector, effectiveness and productivity will be the fundamental principles.

Private investments will be supported to increase competitiveness and to improve the capacity usage rate; incentives will be given to increase productivity, employment, export and the use

of new technology. Effective control over usage of public aid through incentives will be ensured so that the incentives will not turn into subsidy. Measures will be taken to prevent the investments to become intensive in specific sectors and regions.

2.6. Foreign Trade Policies

Special importance will be shown towards increasing the potential of competition and standards, creating necessary changes in the direction of regional trade tendency in order to provide a stable and sustainable increase in the export of goods and services.

The Government will support activities in standardization, the reduction of transportation costs, advertising, branding and the increase in the variety of destination.

The modernization and automation of customs in order to improve the registration system and improvement in bureaucratic procedures will be achieved. With the aim to improve the productivity and control ability of customs, operations of the warehouses will be scrutinized. During the importation process preventative measures will be put in place to stop any unfair competition, to protect consumer rights, to ensure that the environment and general health conditions are not affected negatively. Custom duties and related practices will be in the form and limit which would not influence price competition negatively. Besides, measures protecting against dumping facilities in imported goods will be accelerated.

The stocking and warehousing activities which are not production based will be reduced and the control ability of customs will be more effective in the Free Zone.

The importation of old technology will be restricted by age and standard of the goods.

3. Macroeconomic Targets

3.1. GNP

In 2008 Program period, GNP is projected to increase by 5 % in real terms, thus GNP which was 4,624,378,497.1 YTL in current prices in 2007, is expected to reach 4,855,049,456.5 YTL (2007 prices) in 2008 (table 23). GDP is projected to increase by 5% and the net factor income from abroad is projected to increase by 4.5 %. In the total economy, since the indirect tax is projected to increase by 6.6 %, projected GNP increase is 4.8 % in factor prices.

According to 5 % projected growth rate in GNP, the sectoral real growth targets are; agriculture by 4.1 %, industry by 6.3 %, construction by 5.4 %, wholesale and retail trade by 6.1 %, tourism by 9.8 %, transport - communication by 5.6 %, financial institutions 4.9 %, ownership of dwellings by 5.5%, business and personal services by 6.3 % and public services by 1.9 %.

As a result of the realization of economic developments targeted in 2008, the shares of industry, construction, trade, tourism, transport-communication and business- personal services in GDP will increase, while the share of public sector will decrease and agriculture, financial institutions and ownership of dwellings will preserve their share in GDP (table 23).

Table - 23 Sectoral Value Added and GNP Targets

	(2007 Prices, YTL)				
	2007 ¹		2008 (Target)		Real
	Value	Share (%)	Value	Share (%)	Change (%)
1.AGRICULTURE	267,279,018.5	5.9	278,240,361.0	5.9	4.1
1.1.Crop Production	121,875,748.0	2.7	126,415,574.1	2.7	3.7
1.2.Livestock Production	128,272,843.0	2.8	133,782,349.6	2.8	4.3
1.3.Forestry	717,586.7	0.0	749,002.9	0.0	4.4
1.4.Fishing	16,412,840.8	0.4	17,293,434.4	0.4	5.4
2.INDUSTRY	498,971,515.2	11.1	530,512,127.2	11.2	6.3
2.1.Quarrying	39,722,622.6	0.9	41,602,845.4	0.9	4.7
2.2.Manufacturing	199,953,084.9	4.4	212,688,384.4	4.5	6.4
2.3.Electricity-Water	259,295,807.7	5.7	276,220,897.4	5.8	6.5
3.CONSTRUCTION	300,118,635.9	6.6	316,311,515.4	6.7	5.4
4.TRADE	624,262,540.5	13.8	669,162,995.8	14.1	7.2
4.1.Wholesale and Retail Trade	443,693,173.8	9.8	470,819,439.3	9.9	6.1
4.2.Hotels and Restaurants	180,569,366.7	4.0	198,343,556.5	4.2	9.8
5.TRANSPORT-COMMUNICATION	533,093,078.5	11.8	563,070,051.0	11.9	5.6
6.FINANCIAL INSTITUTIONS	293,545,553.1	6.5	307,802,273.4	6.5	4.9
7.OWNERSHIP OF DWELLING	130,672,003.5	2.9	137,807,055.1	2.9	5.5
8.BUSINESS AND PERSONAL SERVICES	469,690,401.5	10.4	499,281,550.0	10.5	6.3
9.PUBLIC SERVICES	986,199,250.4	21.8	1,004,569,344.9	21.2	1.9
IMPORT DUTIES	410,953,500.0	9.1	433,767,497.7	9.2	5.6
GDP(market prices)	4,514,785,497.1	100.0	4,740,524,771.5	100.0	5.0
NET FACTOR INCOME FROM ABROAD	109,593,000.0		114,524,685.0		4.5
GNP (market prices)	4,624,378,497.1		4,855,049,456.5		5.0
Indirect Taxes	603,647,060.7		643,261,296.3		6.6
GNP (Factor Prices)	4,020,731,436.4		4,211,788,160.2		4.8

¹ Provisional Figures

Source: State Planning Organization

3.2 General Balance of the Economy

In 2008, due to 5 % increase in GNP and 2 % limited increase in current account deficit, the total resources is projected to increase by 4.6 % (table 24). Public investments, which are allocated mainly for infrastructural requirements, are projected to increase by 5.2 % while the 5.1 % growth rate is being projected in private sector investments.

The share of total investments in GNP will be 23.9 % and the share of total consumption will constitute 80.9 % of GNP in 2008. As a result of limitation of current account deficit, the total marginal savings tendency is expected to be 26.8 % in 2008. In order to provide an increase in total savings, 18.2 % decrease in the public savings deficit and 1.9 % increase in the private savings is projected. In this way the total domestic savings share in GNP will increase to 18.7 % from 19.1 % (table 24).

Table - 24 General Balance of the Economy

	(2007 Prices, YTL)				
	2007 ¹		2008 (Target)		Change (%)
	Value	GNP Share (%)	Value	GNP Share (%)	
1. TOTAL RESOURCES	4,864,678,497.2	105.2	5,090,543,457.0	104.9	4.6
1.1. GNP	4,624,378,497.2	100.0	4,855,049,457.0	100.0	5.0
1.2. Current Account Deficit	240,300,000.0	5.2	235,494,000.0	4.9	-2.0
2. TOTAL INVESTMENTS	1,105,680,795.5	23.9	1,162,683,916.1	23.9	5.2
2.1. Fixed Capital Investments	1,045,644,371.5	22.6	1,099,457,239.4	22.6	5.1
2.1.1. Public	279,966,231.5	6.1	294,654,540.2	6.1	5.2
2.1.2. Private	765,678,140.0	16.6	804,802,699.2	16.6	5.1
2.2. Changes in Stocks	60,036,424.0	1.3	63,226,676.7	1.3	5.3
2.2.1. Public	8,322,200.0	0.2	8,771,598.8	0.2	5.4
2.2.2. Private	51,714,224.0	1.1	54,455,077.9	1.1	5.3
3. TOTAL CONSUMPTION	3,758,997,701.7	81.3	3,927,859,540.9	80.9	4.5
4. PUBLIC DISPOSABLE INCOME	972,050,153.3	21.0	1,052,730,316.0	21.7	8.3
4.1. Public Consumption	1,197,884,610.6	25.9	1,237,414,802.7	25.5	3.3
4.2. Public Savings	-225,834,457.3	-4.9	-184,684,486.7	-3.8	-18.2
4.3. Public Investments	288,288,431.5	6.2	303,426,139.0	6.2	5.3
4.4. Difference in Public Savings-Investments	-514,122,888.8	-11.1	-488,110,625.7	-10.1	-5.1
5. PRIVATE DISPOSABLE INCOME	3,652,328,343.9	79.0	3,802,319,141.0	78.3	4.1
5.1. Private Consumption	2,561,113,091.1	55.4	2,690,444,738.2	55.4	5.0
5.2. Private Savings	1,091,215,252.8	23.6	1,111,874,402.8	22.9	1.9
5.3. Private Investments	817,392,364.0	17.7	859,257,777.1	17.7	5.1
5.4. Difference in Private Savings-Investments	273,822,888.8	5.9	252,616,625.7	5.2	..
Private Savings Rate (%)	29.9		29.2		
Marginal Private Savings Tendency (%)	51.1		13.8		
6. TOTAL DOMESTIC SAVINGS	865,380,795.5	18.7	927,189,916.1	19.1	7.1
Total Marginal Savings Tendency (%)	26.9		26.8		
Total Investments/GNP (%)	23.9		23.9		
Savings/GNP (%)	18.7		19.1		

¹ Provisional Figures

Source: State Planning Organization

3.3 Balance of Resources and Expenditures

The basic components of total resources; GNP and current account deficit are projected to increase by 5 % and decrease by 1.9% respectively in 2008. According to the provisional figures of 2007, current account deficit has a share of 5.2 % in GNP. In 2008 the share of current account deficit will decrease to the level of 4.9 % and total resources will constitute 104.9 % of GNP (table 25).

Total consumption is projected to increase by 4.5 %, provided by 3.3 % increase in public consumption and 5 % increase in private consumption (table 26).

GNP per capita is projected to increase by 5% in real terms while the increase in consumption per capita is projected to realize as 2.6 %, aiming to increase the savings. In the parallel of increase expected in exchange rates, GNP per capita in US\$ basis, is estimated to increase by 3.1 % in current prices and reach to 13,537 \$ in 2008 (table 25, 26).

Table - 25 Balance of Resources and Expenditures

	(2007 Prices, YTL)				
	2007 ¹		2008 (Target)		
	Value	GNP Share (%)	Value	GNP Share (%)	Real Change (%)
I. TOTAL RESOURCES	4,864,378,497.2	105.2	5,090,543,457.0	104.9	4.6
1.1. GNP	4,624,378,497.2	100.0	4,855,049,457.0	100.0	5.0
GDP	4,514,785,497.1	97.6	4,740,524,772.0	97.6	5.0
Net Factor Income From Abroad	109,593,000.0	2.4	114,524,685.0	2.4	4.5
1.2. Current Account Deficit	240,000,000.0	5.2	235,494,000.0	4.9	(1.9)
2. TOTAL INVESTMENTS	1,105,680,795.5	23.9	1,162,683,916.1	23.9	5.2
2.1. Fixed Capital Investments	1,045,644,371.5	22.6	1,099,457,239.4	22.6	5.1
2.1.1. Public	279,966,231.5	6.1	294,654,540.2	6.1	5.2
2.1.2. Private	765,678,140.0	16.6	804,802,699.2	16.6	5.1
2.2. Changes in Stocks	60,036,424.0	1.3	63,226,676.7	1.3	5.3
2.2.1. Public	8,322,200.0	0.2	8,771,598.8	0.2	5.4
2.2.2. Private	51,714,224.0	1.1	54,455,077.9	1.1	5.3
3. TOTAL CONSUMPTION	3,758,997,701.9	81.3	3,927,859,540.9	80.9	4.5
3.1. Public	1,197,884,610.6	25.9	1,237,414,802.7	25.5	3.3
3.2. Private	2,561,113,091.3	55.4	2,690,444,738.2	55.4	5.0
4. TOTAL DOMESTIC SAVINGS	865,380,795.3	18.7	927,189,916.1	19.1	7.1

¹ Provisional Figures

Source : State Planning Organization

Table - 26 Consumption Expenditures

	(2007 Prices, YTL)				
	2007 ¹	2008 (Target)		Change (%)	
		2007 Prices	Current Prices	Real	Current
GNP	4,624,378,497.2	4,855,049,457.0	5,097,801,929.9	5.0	10.2
I.Total Consumption	3,758,997,701.7	3,927,859,540.9	4,124,252,517.9	4.5	9.7
1.1. Public Consumption	1,197,884,610.6	1,237,414,802.7	1,299,285,542.8	3.3	8.5
1.2. Private Consumption	2,561,113,091.1	2,690,444,738.2	2,824,966,975.1	5.0	10.3
TOTAL CONSUMPTION / GNP (%)	81.3	80.9	80.9		
TOTAL CONSUMPTION PER CAPITA	14,412	14,785	15,524	2.6	7.7
GNP PER CAPITA	17,730	18,275	19,189	3.1	8.2
GNP PER CAPITA (\$)	13,133		13,537		3.1

¹ Provisional Figures

Source: State Planning Organization

3.4 Balance of Investment and Savings

Investments and savings are projected to increase by 5.2 % in 2008 Program period (table 27). Total savings are aimed to constitute 23.9 % of GNP by increase of 7.1% in domestic savings. The improvement of total savings to a large degree is projected to be provided by improvement in public savings deficit.

Increase in total investments is aimed to be provided by fixed capital investments and changes in stocks' increase of 5.1 % and 5.3 % respectively. Public fixed capital investments are projected to constitute 27 % of GNP and be allocated according to social and economic infrastructural requirements and improvement of traditional public services.

In 2008 Program public and private fixed capital investments are projected to have 6.1 % and 16.6 % share in GNP respectively, therefore total fixed capital investments share will be 22.6 % in GNP (table 27).

Table - 27 Balance of Investments and Savings

	(2007 Prices, YTL)				
	2007 ¹		2008 (Target)		
	Value	GNP Share (%)	Value	GNP Share (%)	Real Change (%)
1. TOTAL INVESTMENTS	1,105,680,795.5	23.9	1,162,683,916.1	23.9	5.2
1.1. Fixed Capital Investments	1,045,644,371.5	22.6	1,099,457,239.4	22.6	5.1
1.1.1. Public	279,966,231.5	6.1	294,654,540.2	6.1	5.2
1.1.2. Private	765,678,140.0	16.6	804,802,699.2	16.6	5.1
1.2. Changes in Stocks	60,036,424.0	1.3	63,226,676.7	1.3	5.3
1.2.1. Public	8,322,200.0	0.2	8,771,598.8	0.2	5.4
1.2.2. Private	51,714,224.0	1.1	54,455,077.9	1.1	5.3
2. TOTAL SAVINGS	1,105,680,795.5	23.9	1,162,683,916.1	23.9	5.2
2.1. Domestic Savings	865,380,795.5	18.7	927,189,916.1	19.1	7.1
2.1.1. Public	-225,834,457.3	-4.9	-184,684,486.7	-3.8	-18.2
2.1.2. Private	1,091,215,252.8	23.6	1,111,874,402.8	22.9	1.9
2.2. External Savings	240,300,000.0	5.2	235,494,000.0	4.9	-2.0
Difference in Private Savings - Investments	273,822,888.8	5.9	252,616,625.7	5.2	-7.7
Difference in Public Savings - Investments	-514,122,888.8	-11.1	-488,110,625.7	-10.1	-5.1
Difference in Total Domestic Savings - Investments	-240,300,000.0	-5.2	-235,494,000.0	-4.9	-2.0
Public Fixed Investments/ Total Fixed Investments (%)	26.8		26.8		
Private Savings Rate (%)	29.9		29.2		
Public Savings Rate (%)	-23.2		-17.5		
GNP	4,624,378,497.2	100.0	4,855,049,457.0	100.0	5.0

¹ Provisional Figures

Source: State Planning Organization

3.5 Capital Accumulation and Fixed Capital Investments

Fixed capital investments are projected to reach 1,099,457,239.3 YTL in 2007 prices due to 5% growth target of GDP in 2008 Program period (table 28).

The fixed capital investment required is expected to reach 1,154,430,101.3 YTL in 2008 prices due to projected 5% inflation rate in 2008. The sectoral distribution of fixed capital investments will be as follows; ownership of dwelling 22.7%, industry 18.4%, Public sector 16.7%, transport and communication 12.3%, business and personal services 10.8% and tourism 8.1% (table 28).

Table - 28 Sectoral Fixed Capital Investment Requirement for 2008

	(YTL)		
	2007 Prices	Current Prices	Share (%)
1.AGRICULTURE	34,097,228.1	35,802,089.5	3.1
1.1.Crop Production	15,889,391.3	16,683,860.9	1.4
1.2.Livestock Production	16,528,519.8	17,354,945.8	1.5
1.3.Forestry	94,248.6	98,961.0	0.0
1.4.Fishing	1,585,068.4	1,664,321.8	0.1
2.INDUSTRY	202,468,460.6	212,591,883.6	18.4
2.1.Quarrying	3,760,445.6	3,948,467.9	0.3
2.2.Manufacturing	80,232,387.0	84,244,006.4	7.3
2.3.Electricity-Water	118,475,628.0	124,399,409.4	10.8
3.CONSTRUCTION	32,385,759.0	34,005,047.0	2.9
4.TRADE	129,560,347.1	136,038,364.5	11.8
4.1.Wholesale and Retail Trade	40,689,398.3	42,723,868.2	3.7
4.2.Hotels and Restaurants	88,870,948.8	93,314,496.2	8.1
5.TRANSPORT-COMMUNICATION	134,896,377.9	141,641,196.8	12.3
6.FINANCIAL INSTITUTIONS	14,256,720.3	14,969,556.3	1.3
7.OWNERSHIP OF DWELLING	249,726,806.7	262,213,147.0	22.7
8.BUSINESS AND PERSONAL SERVICES	118,364,594.1	124,282,823.8	10.8
9.PUBLIC SERVICES	183,700,945.5	192,885,992.8	16.7
TOTAL	1,099,457,239.3	1,154,430,101.3	100.0

Source: State Planning Organization

3.6 General Balance of Public Sector

In 2008 Program, aiming to achieve some improvement in general balance of public sector, public revenues are projected to increase by 5.4 %. Within this context, taxes will increase by 9 %, income other than taxes by 0.9 % and income from factors and funds by 1% (table 29). Increase in direct taxes is projected to reach 12.5 % as a result of broadening tax base and increasing controls. Indirect taxes, income other than taxes and income from factors and funds are projected to increase less than direct taxes, in order to reduce the effect of indirect taxes and funds on price increases (table 29).

3.7 General Balance of Private Sector

In 2008 Program period, parallel to high increase projected in public disposal income, the private disposal income is projected to increase by 4.1 % (table 30). As a result of 5 % growth target in private consumption, its share in GNP will be 55.4 % in 2008. In the parallel of 1.9 % increase in private savings and the expected improvement in incentives, investments will increase by 5.1 % (table 30).

Table - 29 General Balance of Public Sector

	(YTL)						
	2007 ¹		2008 (Target)		Change		Current (%)
	Current Prices	GNP Share (%)	2007 Prices	GNP Share (%)	Current Prices	Real (%)	
1.Public Revenues	1,853,301,037.0	40.1	1,953,630,488.6	40.2	2,051,312,013.1	5.4	
1.1.Taxes	1,025,220,064.8	22.2	1,117,530,925.9	23.0	1,173,407,472.2	9.0	14.5
1.1.1.Direct Taxes	421,573,004.1	9.1	474,269,629.6	9.8	497,983,111.1	12.5	18.1
1.1.2.Indirect Taxes	603,647,060.7	13.1	643,261,296.3	13.2	675,424,361.1	6.6	11.9
1.2.Income Other Than Taxes	262,219,186.4	5.7	264,579,159.1	5.4	277,808,117.0	0.9	5.9
1.3.Income From Factors and Funds	565,861,785.8	12.2	571,520,403.7	11.8	600,096,423.8	1.0	6.1
2.Transfers	881,250,885.7	19.1	900,900,172.6	18.6	945,945,181.3	2.2	7.3
3.Public Disposable Income	972,050,151.3	21.0	1,052,730,316.0	21.7	1,105,366,831.8	8.3	13.7
4.Public Current Expenditures	1,197,884,610.6	25.9	1,237,414,802.7	25.5	1,299,285,542.8	3.3	8.5
5.Public Savings	-225,834,457.3	-4.9	-184,684,486.7	-3.8	-193,918,711.0	-18.2	-14.1
6.Public Investments	288,288,431.5	6.2	303,426,139.0	6.2	318,597,446.0	5.3	10.5
6.1.Fixed Capital	279,966,231.5	6.1	294,654,540.2	6.1	309,387,267.2	5.2	10.5
6.2.Changes in Stocks	8,322,200.0	0.2	8,771,598.8	0.2	9,210,178.7	5.4	10.7
7.Public Deficit	514,122,888.8	11.1	488,110,625.7	10.1	512,516,157.0	-5.1	-0.3

¹ Provisional Figures

Source: State Planning Organization

Table - 30 General Balance of Private Sector

	(YTL)						
	2007 ¹		2008 (Target)		Change		Current (%)
	Current Prices	GNP Share (%)	2007 Prices	GNP Share (%)	Current Prices	Real (%)	
1.Private Disposable Income	3,652,328,343.9	79.0	3,802,319,141.0	78.3	3,992,435,098.1	4.1		9.3
2.Private Consumption	2,561,113,091.1	55.4	2,690,444,738.2	55.4	2,824,966,975.1	5.0	10.3
3.Private Savings	1,091,215,252.8	23.6	1,111,874,402.8	22.9	1,167,468,122.9	1.9	7.0
4.Private Investments	817,392,364.0	17.7	859,257,777.1	17.7	902,220,666.0	5.1	10.4
4.1.Fixed Capital	765,678,140.0	16.6	804,802,699.2	16.6	845,042,834.2	5.1	10.4
4.2.Changes in Stocks	51,714,224.0	1.1	54,455,077.9	1.1	57,177,831.8	5.3	10.6
5.Transfer to Public Sector	273,822,888.8	5.9	252,616,625.7	5.2	265,247,457.0	-7.7	-3.1

¹ Provisional Figures

Source: State Planning Organization

3.8 Balance of State Revenues and Expenditures

Local revenues are projected to increase by 4.5% in 2008 Program period (table 31). Projected increase in local revenues in real terms will be realized by 10.0% in tax revenues, while no increase in funds revenues and other revenues is projected. In 2008, budget expenditures are programmed to increase by 3.6% and aimed to be behind the increase in local revenues which is expected to be 4.5%. Personnel expenditures will increase by 2.6% and other current expenditures are projected to decrease by 7.3%.

Defense expenditures which are financed from Republic of Turkey have been programmed to have 2.9 % share in GNP.

Investments to be financed from state budget are projected to realize as 305,828,464.9 YTL in current prices with 8.9% increase.

Investments which are projected to increase by 8.9 % in real terms, will increase their share in GNP from 5.8 % to 6 %. In this way a relative improvement will be displayed at budget expenditure structure.

Table - 31 Balance of State Revenues and Expenditures

	(YTL)						
	2007 ¹		2008 (Target)		Change		
	Current Prices	GNP Share (%)	2007 Prices	GNP Share (%)	Current Prices	Real (%)	Current (%)
I. REVENUES	1,816,551,141.5	39.3	1,881,558,568.2	38.8	1,975,636,496.6	3.6	8.8
1. Local Revenues	1,494,444,691.3	32.3	1,561,558,568.2	32.2	1,639,636,496.6	4.5	9.7
1.1. Tax Revenues	970,642,896.9	21.0	1,067,932,484.6	22.0	1,121,329,108.8	10.0	15.5
1.1.1. Direct Taxes	399,993,428.2	8.6	450,950,476.1	9.3	473,497,999.9	12.7	18.4
1.1.2. Indirect Taxes	570,649,468.7	12.3	616,982,008.5	12.7	647,831,108.9	8.1	13.5
1.2. Other Income	202,219,188.4	4.4	174,566,467.6	3.6	183,294,791.0	-13.7	-9.4
1.3. Fund Revenues	321,582,606.0	7.0	319,059,616.0	6.6	335,012,596.8	-0.8	4.2
2. Foreign Aid and Credits	322,106,450.2	7.0	320,000,000.0	6.6	336,000,000.0	-0.7	4.3
2.1. Republic of Turkey	321,989,912.3	7.0	320,000,000.0	6.6	336,000,000.0	-0.6	4.4
2.2. Other	116,537.9	0.0	0.0	0.0	0.0	..	..
II. EXPENDITURES	2,145,303,712.8	46.4	2,242,913,063.5	46.2	2,355,058,716.7	4.5	9.8
2.1. Current Expenditures	907,818,360.6	19.6	916,604,711.3	18.9	962,434,946.9	1.0	6.0
2.1.1. Personnel Expenditures	759,498,415.9	16.4	779,140,264.7	16.0	818,097,277.9	2.6	7.7
2.1.2. Other Current Expenditures	148,319,944.7	3.2	137,464,446.6	2.8	144,337,668.9	-7.3	-2.7
2.2. Transfers	845,050,666.8	18.3	905,519,338.0	18.7	950,795,304.9	7.2	12.5
2.3. Defence Expenditures	125,000,000.0	2.7	129,523,809.5	2.7	136,000,000.0	3.6	8.8
2.4. Investments	267,434,685.4	5.8	291,265,204.7	6.0	305,828,464.9	8.9	14.4
III. FISCAL BALANCE	-328,752,571.3	-7.1	-361,354,495.3	-7.4	-379,422,220.1	9.9	15.4
3. FINANCE	328,752,571.3	7.1	361,354,495.3	7.4	379,422,220.1	9.9	15.4
3.1. Credits from Republic of Turkey	218,552,783.5	4.7	214,285,714.3	4.4	225,000,000.0	-2.0	2.9
3.2. Internal Loans	110,199,787.8	2.4	147,068,781.0	3.0	154,422,220.1	33.5	40.1

¹ Provisional Figures

Source : State Planning Organization

3.9 Balance of Payments

The foreign trade volume is projected to increase by 5.6 % and reach to 1,619.6 million \$ in 2008, due to provisional figures of 2007 which is estimated as 1,534.4 million \$ (table 32).

Exports which are estimated to realize as 81.1 million \$ in 2007, are projected to increase by 5.1 % and reach to 85.2 million \$ in 2008. The lower cost of work force, increase in production and productivity, measures to be taken to solve marketing problems, the estimated increase in the agricultural and industrial production and increase in exports to TR, will be effective on reaching this target.

In 2008 imports are projected to increase by 5.6 % and reach to 1,534.4 million \$ in the direction of the required growth and investment targets. Therefore foreign trade deficit will increase by 5.6 % and reach to 1,449.2 million \$ from 1,372.2 million \$.

Net tourism revenues which have share of 31.5 % in invisible accounts balance are projected to increase by 13.5 % and other invisibles item to increase by 3.6 %. These positive developments will cause an increase of 6.7 % in the invisible accounts balance, which will reach to 1,274.8 million \$ in 2008.

According to provisional figures of 2007, current accounts deficit which was 178 million \$ will decrease by 2 %, and realize as 174.4 million \$ in 2008.

Loans provided from Republic of Turkey in 2008 are projected to decrease by 4.8 % and reach to 158.7 million \$. While other capital movements will increase by 3.1 %, the capital movements balance which realized as 316.7 million \$ in 2007 is projected to decrease by 0.9 % and be 313.9 million \$ in 2008. As a result of these developments General Balance which was 137.8 million \$, is projected to be 138.9 million \$ in 2008.

Consequently increase in change in reserves, is projected to decrease by 47.4 % and reach to 138.9 million \$ in 2008, while it was 264 million \$ in 2007.

Table - 32 Balance of Payments

	(Million\$)		
	2007 ¹	2008 Target	Change %
1. CURRENT ACCOUNTS			
1.1. Foreign Trade			
1.1.1. Exports	81.1	85.2	5.1
1.1.2. Imports	1,453.3	1,534.4	5.6
Foreign Trade Balance	-1,372.2	-1,449.2	5.6
1.2. Invisible Accounts			
1.2.1. Tourism (Net)	376.2	427.1	13.5
1.2.2. Other Invisibles (Net)	818.0	847.7	3.6
Invisible Accounts Balance	1,194.2	1,274.8	6.7
Current Accounts Balance	-178.0	-174.4	-2.0
2. CAPITAL MOVEMENTS			
2.1. Loans by Turkey	166.7	158.7	-4.8
2.2. Other Capital Movements (Net)	150.0	154.6	3.1
Capital Movements Balance	316.7	313.9	-0.9
General Balance	138.7	138.9	0.1
3. CHANGE IN RESERVES	-264.0	-138.9	-47.4
(- Increase, + Decrease)			
Net Errors And Omissions	125.3	-	-
Average US\$ Exchange Rate:YTL	1.35	1.41	5.0

¹ Provisional Figures

Source : State Planning Organization

3.10. Labor Force Requirement and Employment

Due to GDP and sectoral growth targets, 3,123 extra employments, except agriculture, is required in 2008 Program period.

The shares of additional labor force requirement of sectors in total, excluding agriculture are; 6.5 % in industry, 18.6 % in construction, 13.2 % in trade, 13.6 % in tourism, 7.0 % in transport and communication, 3.2 % in financial institutions, 28.7 % in business and personal services and 9.2 % in public services.

Table - 33 Additional Labour Force Requirement for 2008

Sectors	Marginal Increase in GDP (YTL)	Additional Labour Force Requirement		Share (%)
		Excluding Agriculture		
1. Industry	31,540,612.0	203	6.5	
1.1. Quarrying	1,880,222.8	6	0.2	
1.2. Manufacturing	12,735,299.5	190	6.1	
1.3. Electricity-Water	16,925,089.7	7	0.2	
2. Construction	16,192,879.5	580	18.6	
3. Trade	44,900,455.3	837	26.8	
3.1. Wholesale And Retail Trade	27,126,265.5	412	13.2	
3.2. Hotels And Restaurants	17,774,189.8	425	13.6	
4. Transport-Communication	29,976,972.5	219	7.0	
5. Financial Institutions	14,256,720.3	101	3.2	
6. Business and Personal Services	29,591,148.5	896	28.7	
7. Public Services ¹	18,370,094.5	287	9.2	
Total	184,828,882.6	3,123	100.0	

¹ Including PEE and Municipalities

Source: State Planning Organization