

MACROECONOMIC DEVELOPMENTS

General Evaluation of the 2002-2006 Period

The TRNC economy which has experienced a high rate of growth since 2002 reached to 10.9 % annual average growth rate during the last five year (2002-2006). Problems in the banking sector and failure of the foreign currency policy of Turkey, started an economic crisis, caused a decrease in investments and public revenues and an increase in inflation rate and employment problems, which resulted in a recession in the economy during the years 2000 and 2001. In 2002, the economy has recovered as a result of measures taken in the banking system and finance supplied from Turkey and hopes arisen for peace and solution in the island. 2003 has been a year in which, the perspective of a solution in the Cyprus problem and EU membership has increased and opening of the gates positively affected investments and foreign investors and new employment opportunities has accelerated the economic growth. The economy grew by 11.4 % in 2003 and reached to 15.4 % in 2004. In 2005 and according to the estimated figures for 2006, although lower than 2004, the economy continued to grow higher than the target rates. The growth rates for these years are 13.5 % and 7.8 % respectively (table 1).

During the 2002-2006 period according to the sectoral developments, construction, wholesale and retail trade, quarrying and business and personal services sectors reached the highest growth rates.

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

Sectors						(%)
	2002	2003	2004	2005	2006 ¹	Annual Average Change
1. Agriculture	18.9	7.3	8.5	2.8	-0.1	7.3
1.1. Crop Production	30.5	4.1	9.4	-6.0	-3.5	6.2
1.2. Livestock Production	4.7	13.1	6.0	12.4	5.0	8.2
1.3. Forestry	23.6	-16.6	99.2	19.2	-2.3	19.1
1.4. Fishing	7.3	13.3	-5.5	29.8	-3.9	7.5
2. Industry	5.0	7.7	10.6	6.4	5.9	7.1
2.1. Quarrying	7.4	24.5	8.6	11.0	21.1	14.3
2.2. Manufacturing	5.7	7.3	10.2	5.1	5.1	6.7
2.3. Electricity - Water	1.2	7.2	13.3	11.7	6.4	7.9
3. Construction	15.9	30.8	5.3	18.9	35.2	20.7
4. Trade-Tourism	13.9	12.5	25.5	20.8	2.3	14.7
4.1. Wholesale and Retail Trade	12.0	14.6	27.2	24.9	5.5	16.5
4.2. Hotels and Restaurants	21.6	5.0	18.9	3.3	-13.8	6.2
5. Transport-Communication	3.7	4.2	8.8	14.2	4.8	7.1
6. Financial Institutions	-10.1	6.7	-0.3	4.2	2.9	0.5
7. Ownership Of Dwellings	2.0	2.4	2.4	3.4	4.4	2.9
8. Business and Personal Services	0.9	5.7	26.0	19.1	17.5	13.5
9. Public Services	-0.5	4.1	5.2	6.8	6.3	4.3
10. Import Duties	6.7	36.9	46.8	29.7	0.2	22.8
11. GDP	6.2	10.6	14.2	13.8	7.8	10.5
12. Net Factor Income From Abroad	594.1	123.6	88.4	4.2	5.1	100.0
GNP	6.9	11.4	15.4	13.5	7.8	10.9

¹ Provisional Figures

Source: State Planning Organization

The growth rates of physical production sectors i.e. agriculture and industry, have been below the general growth rate of the economy, due to high dependency on climatic conditions of the agricultural production and insufficient development of export potential of the industrial and agricultural products because of embargo and isolations on the country. Therefore growth in these sectors was usually due to increase in local demand and export increase in some production goods i.e. hellim, cheese and rakı (table 2).

**Table-2 Significant Export Items at Dollar Basis
(2001-2005)**

(000' US\$)

	2001		2002		2003		2004		2005		Annual Average Change(%)
	Value	Share(%)	Value	Share(%)	Value	Share(%)	Value	Share(%)	Value	Share(%)	
Total	34,617.5	100.0	45,427.5	100.0	50,805.2	100.0	61,977.4	100.0	68,076.5	100.0	18.4
Citrus	9,902.9	28.6	17,137.9	37.7	17,809.5	35.1	20,076.1	32.4	20,195.2	29.7	19.5
Concentrated Citrus	1,714.0	4.9	1,808.2	4.0	1,329.4	2.6	1,515.8	2.5	2,982.0	4.4	14.8
Leather	651.9	1.9	907.7	2.0	570.5	1.1	700.8	1.1	730.4	1.1	2.9
Ready Made Clothing	11,110.5	32.1	10,895.2	24.0	10,242.7	20.2	11,762.2	19.0	9,954.1	14.6	-2.7
Cigarettes	411.1	1.2	926.4	2.0	1,237.3	2.4	1,377.8	2.2	1,371.0	2.0	35.1
Medicine	1,161.4	3.4	931.6	2.1	1,049.8	2.1	1,419.9	2.3	820.0	1.2	-8.3
Hellim	2,069.2	6.0	2,740.2	6.0	2,666.6	5.2	3,401.9	5.5	6,273.8	9.2	32.0
Cheese	3,016.6	8.7	3,244.6	7.1	5,195.6	10.2	8,195.6	13.2	10,305.2	15.1	36.0
Raki	240.7	0.7	1,175.5	2.6	2,946.6	5.8	3,894.7	6.3	5,277.5	7.8	116.4
Other	3,754.7	10.9	5,660.2	12.5	7,757.2	15.3	9,632.6	15.5	10,167.3	14.9	28.3

Source: State Planning Organization

On the other hand the tourism sector, which has a very important share in export of services, had an annual average increase of 6.2 % during 2002-2006 period. The negative developments experienced in hotels and restaurants sector in 2006 was the reason of this low average growth rate. However, the positive developments in higher education which is another important services export sector of the economy, resulted in high rate of growth in business and personal services sector.

During the 2002-2006 period, the share of public services, agriculture, industry, hotels-restaurants, transportation-communication, financial institutions and ownership of dwellings in GDP has decreased, while the share of construction, wholesale and retail trade, business and personal services has increased (table 3). The positive outcome of these structural developments is; the share of public sector in the economy has been reduced by 3.1 points. Furthermore, developments in higher education sub-sector of business and personal services have contributed positively to GDP and invisibles account balance of balance of payments. On the other hand, the negative side has been the growth in wholesale and retail trade due to increase in imports which also increased the foreign trade deficit. This is the natural result of development in our economy, which is highly dependent on imports and is experiencing increase in investments and prosperity.

The construction sector has increased its share in the economy as a result of speeding up of the infrastructural investments. Apart from capacity increasing new investments in tourism, increase in renovation investments, increase in local and foreign demand for dwelling investments and public infrastructural investments have caused the rapid growth in the sector.

Table - 3 Sectoral Distribution of GNP

Sectors	(GDP Based, %)				
	2002	2003	2004	2005	2006 ¹
1. Agriculture	10.9	10.6	10.0	9.1	8.4
1.1. Crop Production	6.4	6.0	5.7	4.7	4.3
1.2. Livestock Production	3.8	3.9	3.6	3.6	3.5
1.3. Forestry	0.2	0.1	0.2	0.2	0.2
1.4. Fishing	0.5	0.5	0.5	0.5	0.5
2. Industry	11.9	11.6	11.2	10.5	10.3
2.1. Quarrying	0.3	0.4	0.3	0.3	0.4
2.2. Manufacturing	9.6	9.3	9.0	8.3	8.1
2.3. Electricity - Water	2.0	1.9	1.9	1.8	1.8
3. Construction	8.6	10.1	9.3	9.8	12.2
4. Trade-Tourism	15.7	15.9	17.5	18.6	17.6
4.1. Wholesale and Retail Trade	12.3	12.7	14.1	15.5	15.2
4.2. Hotels and Restaurants	3.4	3.2	3.4	3.1	2.4
5. Transport-Communication	12.7	12.0	11.4	11.4	11.1
6. Financial Institutions	4.3	4.2	3.6	3.3	3.2
7. Ownership Of Dwellings	5.4	5.0	4.4	4.0	3.9
8. Business and Personal Services	8.9	8.5	9.4	9.8	10.7
9. Public Services	16.0	15.1	13.9	13.1	12.9
10. Import Duties	5.7	7.1	9.1	10.4	9.7
11. GDP	100.0	100.0	100.0	100.0	100.0
12. Net Factor Income From Abroad	0.8	1.6	2.6	2.4	2.3
GNP	100.8	101.6	102.6	102.4	102.3

¹ Provisional Figures

Source: State Planning Organization

During the 2002-2006 period annual average increase in total resources (GNP and external savings) has been 12.8 %, while total investments and consumption increased by 22 % and 10.9 % respectively (table 4). Consequently, marginal increase in resources has been designated for investments rather than consumption and public investments increased 20.1 %, while private investments increased by 22.1 %. In 2002 and 2003 total investments share in GNP was behind 20 %, below domestic savings share, but in the last 3 years total investments exceeded 20 % of GNP and reached a level above domestic savings. Being above domestic savings, some part of total investments was financed by external savings.

Table - 4 General Balance of the Economy

(1977 Prices, YTL)

	2001	2002	2003	2004	2005	2006 ¹	Annual Average Change (%)
1. Total Resources	8,706.7	9,000.7	10,023.3	11,833.4	14,908.9	15,906.9	12.8
1.1. GNP	8,545.9	9,133.1	10,177.1	11,739.6	13,327.0	14,364.0	10.9
1.2. Current Account Deficit	160.8	-132.4	-153.8	93.8	1,581.9	1,542.9	57.2
2. Total Investments	1,255.7	1,444.9	1,757.2	2,374.3	2,908.2	3,398.7	22.0
2.1. Fixed Capital	1,123.7	1,282.6	1,634.0	2,173.0	2,736.3	3,202.5	23.3
2.1.1. Public	327.3	466.3	574.4	683.0	740.9	936.2	23.4
2.1.2. Private	796.4	816.3	1,059.6	1,490.0	1,995.4	2,266.3	23.3
2.2. Changes in Stocks	132.0	162.3	123.1	201.3	171.9	196.2	8.2
2.2.1. Public	55.2	39.7	-6.5	5.1	26.9	19.0	-19.2
2.2.2. Private	76.8	122.6	129.7	196.2	145.0	177.2	18.2
3. Total Consumption	7,451.0	7,555.8	8,266.1	9,459.0	12,000.7	12,508.2	10.9
4. Public Disposable Income	1,040.4	696.8	1,730.9	2,288.0	2,571.5	2,875.9	22.6
4.1. Public Consumption	1,864.5	2,079.1	2,555.1	2,784.7	3,175.8	3,489.6	13.4
4.2. Public Savings	-824.1	-1,382.3	-824.2	-496.8	-604.3	-613.7	-5.7
4.3. Public Investments	382.5	506.0	567.9	688.1	767.7	955.2	20.1
4.4. Difference in Public Savings- Investments	-1,206.6	-1,888.3	-1,392.1	-1,184.9	-1,372.0	-1,568.8	5.4
5. Private Disposable Income	7,505.5	8,436.4	8,446.2	9,451.6	10,755.5	11,488.1	8.9
5.1. Private Consumption	5,586.5	5,476.7	5,711.0	6,674.3	8,824.9	9,018.6	10.1
5.2. Private Savings	1,919.0	2,959.6	2,735.2	2,777.4	1,930.7	2,469.5	5.2
5.3. Private Investments	873.2	938.9	1,189.3	1,686.2	2,140.5	2,443.5	22.9
5.4. Difference in Private Savings- Investments	1,045.8	2,020.7	1,545.9	1,091.2	-209.8	25.9	-52.3
Private Savings Rate (%)	25.6	35.1	32.4	29.4	18.0	21.5	
6. Total Domestic Savings	1,094.9	1,577.3	1,911.0	2,280.6	1,326.3	1,855.8	11.1
Investments/GNP (%)	14.7	15.8	17.3	20.2	21.8	23.7	
Savings/GNP (%)	12.8	17.3	18.8	19.4	10.0	12.9	

¹ Provisional Figures

Source: State Planning Organization

Fixed capital investments have increased by 23.3 % annually in average during 2002-2006 (table 5-6). The highest increase was observed in the construction sector, which supplies input to other sectors. The second highest increase was in electricity-water sector, with an annual average increase of 44.5 %, due to the Government's determination on removing shortages in electricity infrastructure and the projects carried out in the sector will add to continue. The quarrying sector, being the sub-sector providing input to the construction sector has increased by 35.9 % annually. Moreover, manufacturing, tourism, transportation, health, education and financial institutions sectors have speed up their investments in order to increase capacity, renovation, use of new technology and standards for EU harmonisation.

As mentioned before, total investments have increased more than the increase in domestic savings, therefore some investments were financed by external savings. From the point of external balances and growth, it would be more positive and sustainable to finance most of

investments with domestic savings, therefore required measures must be taken to increase both public and private savings.

Table-5 Sectoral Distribution and Development of Fixed Capital Investments

(1977 Prices YTL)

Sectors	2001	2002	2003	2004	2005	2006 ¹	Annual Average Change (%)
1. Agriculture	90.0	102.2	104.1	116.8	128.4	139.7	9.2
2. Industry	122.0	145.0	216.8	329.2	358.5	500.4	32.6
2.1. Quarrying	1.4	1.5	3.1	3.4	5.1	6.5	35.9
2.2. Manufacturing	80.2	94.2	143.5	260.6	253.2	239.6	24.5
2.3. Electricity - Water	40.4	49.3	70.2	65.2	100.2	254.3	44.5
3. Construction	20.3	27.9	47.6	99.0	183.4	174.6	53.8
4. Trade-Tourism	90.1	123.9	188.7	259.2	291.8	343.1	30.7
4.1. Trade	43.7	56.9	75.8	119.4	132.9	148.8	27.8
4.2. Tourism	46.4	67.0	112.9	139.8	158.9	194.3	33.2
5. Transport-Communication	113.4	191.3	238.6	296.3	364.9	406.1	29.1
6. Financial Institutions	9.6	8.8	10.4	35.1	38.6	37.0	31.0
7. Ownership of Dwellings	469.2	427.1	486.2	565.3	865.7	1,124.6	19.1
8. Business and Personal Ser.	44.0	51.5	67.9	102.5	110.1	116.2	21.4
9. Public Services	165.1	204.9	273.7	369.6	394.9	360.8	16.9
9.1. Health	13.0	8.4	28.3	18.1	18.5	43.5	27.3
9.2. Education	60.0	97.3	125.2	192.0	230.5	177.8	24.3
9.3. Other	92.1	99.2	120.2	159.5	145.9	139.5	8.7
Total	1,123.7	1,282.6	1,634.0	2,173.0	2,736.3	3,202.5	23.3

¹ Provisional Figures

Source: State Planning Organization

Table-6 Sectoral Distribution of Fixed Capital Investments

(Current Prices YTL)

Sectors	2001	2002	2003	2004	2005	2006 ¹
1. Agriculture	11,273,995.9	15,876,418.2	19,505,376.0	25,067,329.5	30,288,995.7	37,024,259.9
2. Industry	15,288,051.7	22,529,433.0	40,640,073.2	70,693,090.7	84,573,998.0	132,599,300.7
2.1. Quarrying	180,013.0	240,120.0	581,744.8	730,071.1	1,210,690.9	1,711,000.0
2.2. Manufacturing	10,043,659.0	14,629,250.3	26,897,248.7	55,959,681.7	59,725,765.6	63,506,914.2
2.3. Electricity - Water	5,064,379.7	7,660,062.7	13,161,079.7	14,003,337.9	23,637,541.5	67,381,386.5
3. Construction	2,544,432.3	4,327,423.0	8,909,608.5	21,259,857.0	43,258,675.4	46,271,874.6
4.Trade-Tourism	11,290,015.6	19,239,532.6	35,370,682.2	55,650,643.9	68,847,433.3	90,929,715.5
4.1. Trade	5,467,604.9	8,838,609.5	14,210,973.8	25,636,774.0	31,365,312.0	39,432,513.4
4.2. Tourism	5,822,410.7	10,400,923.1	21,159,708.4	30,013,869.9	37,482,121.3	51,497,202.1
5.Transport-Communication	14,193,791.5	29,705,307.4	44,707,365.5	63,636,784.3	86,087,316.9	107,632,260.5
6. Financial Institutions	1,193,000.5	1,371,729.5	1,953,076.3	7,523,937.0	9,103,826.6	9,804,493.2
7. Ownership of Dwellings	58,768,951.8	66,347,993.9	91,113,091.2	121,390,563.7	204,215,564.9	298,036,500.0
8. Business and Personal Ser.	5,518,412.4	7,999,201.9	12,718,481.6	22,014,944.9	25,959,956.5	30,811,351.2
9. Public Services	20,678,926.6	31,834,567.3	51,285,602.2	79,363,510.0	93,124,289.1	95,624,167.9
9.1. Health	1,632,706.7	1,298,629.4	5,313,311.2	3,884,086.9	4,354,195.6	11,520,000.0
9.2. Education	7,516,154.7	15,117,508.0	23,454,844.6	41,220,862.1	54,362,203.5	47,120,000.0
9.3. Other	11,530,065.2	15,418,429.9	22,517,446.4	34,258,561.0	34,407,890.0	36,984,167.9
Total	140,749,578.3	199,231,606.8	306,203,356.7	466,600,661.0	645,460,056.4	848,733,923.5

¹ Provisional Figures

Source: State Planning Organization

Apart from measures to be taken in order to increase domestic savings, more deposits in the banks must be directed to credit usage. Developments in commercial bank deposits and credits show that, since 2001 deposits have increased by 31.3 % and credits by 21.8 % annually (table 7). According to sectoral developments, business and personal loans, building and construction, trade and transportation have reached the highest annual average increase rates. The low rate of increase in public institutions and enterprises show that, the need for domestic loans has decreased parallel to improvement in public savings deficit. On the other hand, credit usage from commercial banks in industry and tourism is naturally not high, because of credit opportunities from the Development Bank and the Incentive Fund and in agriculture due to credit opportunities from the cooperatives.

Table-7 Bank Deposits and Credits

(YTL)

Sectoral Credits	2001	2002	2003	2004	2005	2006 (September)	Annual Average Change (%)
1.Public Institutions and Enterprises	481,539,949.0	287,261,386.0	398,683,042.0	480,546,727.0	550,228,705.9	579,051,234.0	3.8
2. Agriculture	9,657,861.0	6,451,867.0	5,714,941.0	7,549,728.0	8,020,849.6	12,656,577.5	5.6
3. Industry	5,328,570.0	6,917,211.0	6,891,959.0	6,891,552.0	5,449,898.3	6,381,942.1	3.7
4. Transportation	2,708,014.0	1,606,019.0	1,402,365.0	1,755,784.0	14,386,490.4	9,564,295.7	28.7
5. Foreign and Domestic Trade	128,922,316.0	108,548,238.0	109,899,026.0	260,780,135.0	429,522,517.3	496,426,143.8	30.9
6. Building and Construction	13,501,013.0	28,079,824.0	25,357,955.0	34,524,407.0	64,886,021.9	87,773,690.0	45.4
7. Tourism	10,454,780.0	6,394,108.0	7,745,439.0	6,145,152.0	2,924,765.1	16,642,680.1	9.7
8. Business and Personal Loans	95,888,115.0	149,965,412.0	221,109,179.0	374,344,084.0	494,505,355.3	806,552,572.6	53.1
9. Bills Discounted	4,698,063.0	2,670,773.0	5,156,888.0	-	-	-	-
TOTAL CREDITS	752,698,681.0	597,894,838.0	781,960,794.0	1,172,537,569.0	1,569,924,603.8	2,015,049,135.8	21.8
TOTAL DEPOSITS	1,159,524,711.7	1,899,965,909.0	2,492,801,806.0	3,228,713,962.0	3,632,739,926.6	4,528,317,055.9	31.3
CREDIT/DEPOSIT (%)	64.9	31.5	31.4	36.3	43.2	44.5	

Source: Central Bank, State Planning Organization

In the Balance of Payments, which shows external balances in US\$ basis, during the 2002-2006 period the foreign trade deficit increased 961.7 mil.\$, while invisible accounts increased 666 mil.\$. The current account surplus which realised as 13.7 mil.\$, resulted with a 282 mil.\$ deficit according to 2006 estimates (table 8).

Table-8 Balance of Payments

	Million US\$					
	2002	2003	2004	2005	2006 ¹	Marginal Change
1. Current Accounts						
1.1. Foreign Trade						
1.1.1. Exports	45.4	50.8	62.0	68.1	65.1	19.7
1.1.2. Imports	309.6	477.8	853.1	1,255.5	1,291.0	981.4
Foreign Trade Balance	-264.2	-427.0	-791.1	-1,187.4	-1,225.9	-961.7
1.2. Invisible Accounts						
1.2.1. Tourism (Net)	114.1	178.8	288.3	328.8	258.3	144.2
1.2.2. Other Invisibles (Net)	163.8	267.6	488.7	582.3	685.6	521.8
Invisible Accounts Balance	277.9	446.4	777.0	911.1	943.9	666.0
Current Accounts Balance	13.7	19.4	-14.1	-276.3	-282.0	-295.7
2. Capital Movements						
2.1 Loans From Turkey	202.3	178.7	175.3	217.2	180.0	-22.3
2.2 Other Short Term Capital Movements (Net)	14.4	46.8	79.4	66.0	70.7	56.3
Capital Movements Balance	216.7	225.5	254.7	283.2	250.7	34.0
General Balance	230.4	244.9	240.6	6.9	-31.3	-261.7
3. Change In Reserves (- Increase, + Decrease)	-219.0	-281.0	-322.0	-53.0	42.6	261.6
4. Net Errors and Omissions	-11.4	36.1	81.4	46.1	-11.3	0.1
Average US\$ Exchange Rate:YTL	1.5071	1.4856	1.4281	1.3505	1.4500	-0.0571

¹ Provisional Figures

Source: State Planning Organization

Price movements in TRNC have been stable since 2002 and increase rate in Retail Price Index (RPI) has improved. Within this context RPI increase which was 76.8 % in 2001, reduced to 24.5 % in 2002, 12.6 % in 2003, 11.6 % in 2004 and finally to 2.7 % in 2005. These positive developments were as a result of the economic program put into action in Turkey and fund and VAT rate adjustments done parallel to price policies in our country. However, in 2006, due to increase in foreign currency rates, price increases were observed. In TRNC price movements are very sensitive to changes in foreign currency rates. Not being able to have a money policy of its own, due to using the same currency with Turkey, TRNC is highly dependent on changes in the external balances of Turkey, therefore inflation in TRNC, to large extent, is a variable imported from Turkey.

1. Growth Rate and GNP in 2006

The growth trend reached in 2002 in the TRNC economy is expected to continue in 2006 by 7.8 % (table 9). The GNP is expected to reach 3,806,769,899.6 YTL at current prices and 2,625 million at dollar basis.

The most effective sectors in real growth are; construction by 35.2 %, business and personal services by 17.5 %, public services by 6.3 %, industry by 5.9 % and transportation-communication by 4.8 %. The decrease of 0.1 % expected in the agricultural sector is due to the negative developments in crop production, forestry and fishing sub-sectors.

In 2006, 5.9 % real growth rate is being expected in the industrial sector. The highest growth rate is being expected as 21.1 % in the quarrying sub-sector, due to developments in the construction investments.

In service sectors the highest growth is expected in the construction sector by 35.2 %. Business and personal services follows this sector by 17.5 %. Due to the slow down in the increase of imports, the wholesale and retail trade sub-sector is expected to grow by 5.5 %. For the transportation-communication sector the growth rate reached to 4.8 %. The most negative development among the service sectors was observed in the hotels and restaurants sub-sector, due to decrease in the number of bed nights. This caused a decrease of 13.8 % in the sector.

Imports have displayed great increase in 2003, 2004 and 2005, but in 2006 there was a slow down and this resulted in an increase of 0.2 % in the import duties.

In 2006 GDP is expected to increase by 7.8 %. In net factor income from abroad, the growth rate of 5.1 % shows that, the effect of earnings of workers who work in the South Cyprus, although still continuing, has slowed down.

According to estimated figures of 2006, trade sector has the biggest share in GDP with 17.6 %. The following sectors in GDP are public sector by 12.9 %, construction sector by 12.2 %, transportation-communication by 11.1%, business and personal services by 10.7 % and industry by 10.3 %.

Table-9 Sectoral Distribution of GDP and GNP

Sectors	(YTL)							
	2005		2006 ¹		Growth Rate (%)		Share (%)	
	Current	1977 Prices	Current	1977 Prices	Current	1977 Prices	2005	2006 ¹
1. Agriculture	214,199,034.4	1,179.5	241,457,791.9	1,177.9	12.7	-0.1	9.1	8.4
1.1. Crop Production	114,550,000.4	618.1	125,009,860.0	596.6	9.1	-3.5	4.7	4.3
1.2. Livestock Production	85,190,495.1	463.2	98,217,605.6	486.4	15.3	5.0	3.6	3.5
1.3. Forestry	995,504.6	31.1	1,000,882.2	30.4	0.5	-2.3	0.2	0.2
1.4. Fishing	13,463,034.3	67.1	17,229,444.1	64.5	28.0	-3.9	0.5	0.5
2. Industry	281,023,837.1	1,364.7	359,528,200.9	1,444.7	27.9	5.9	10.5	10.3
2.1. Quarrying	17,596,564.2	43.5	23,763,875.8	52.7	35.0	21.1	0.3	0.4
2.2. Manufacturing	146,091,419.9	1,080.9	172,515,011.5	1,136.3	18.1	5.1	8.3	8.1
2.3. Electricity - Water	117,335,853.0	240.3	163,249,313.6	255.7	39.1	6.4	1.8	1.8
3. Construction	164,910,647.6	1,271.0	271,053,946.3	1,718.1	64.4	35.2	9.8	12.2
4. Trade - Tourism	541,407,692.0	2,420.9	580,370,695.2	2,476.3	7.2	2.3	18.6	17.6
4.1. Wholesale and Retail Trade	370,648,370.3	2,021.9	420,438,976.9	2,132.4	13.4	5.5	15.5	15.2
4.2. Hotels and Restaurants	170,759,321.7	399.0	159,931,718.3	343.9	-6.3	-13.8	3.1	2.4
5. Transport and Communication	328,773,502.2	1,487.8	402,237,436.7	1,558.5	22.3	4.8	11.4	11.1
6. Financial Institutions	195,523,141.4	432.4	239,440,186.4	445.0	22.5	2.9	3.3	3.2
7. Ownership of Dwellings	70,261,205.2	526.0	95,803,183.7	549.4	36.4	4.4	4.0	3.9
8. Business and Personal Services	307,873,501.9	1,280.0	385,565,851.0	1,504.1	25.2	17.5	9.8	10.7
9. Public Services	628,119,921.8	1,700.8	772,820,741.5	1,807.8	23.0	6.3	13.1	12.9
10. Import Duties	338,288,483.0	1,353.1	371,970,366.0	1,355.6	10.0	0.2	10.4	9.7
11. GDP	3,070,380,966.6	13,016.2	3,720,248,399.6	14,037.5	21.2	7.8	100.0	100.0
12. Net Factor Income from Abroad	73,318,645.0	310.8	86,521,500.0	326.5	18.0	5.1	2.4	2.3
GNP	3,143,699,611.6	13,327.0	3,806,769,899.6	14,364.0	21.1	7.8	102.4	102.3

¹Provisional Figures

Source: State Planning Organization

2. The Use of Available Resources in 2006

2.1. Balance of the Economy

The growth trend reached in the economy in TRNC in the recent years is expected to continue in 2006. In 2006, total resources which consist of GNP and the current account deficit is being expected to increase by 6.7 % and reach to 4,215,669,899.6 YTL in current prices. In 2006, GNP will constitute 90.3 % of total resources while current account deficit will be 9.7 % of total resources (table 10).

The increase in total resources is expected to influence positively the increase of total investments which reached 16.9 %. In 2006, total investments will constitute 21.4 % of total resources, reaching to 900,737,729.5 YTL. Total investments will be constituted from 94.2 % fixed capital investments and 5.8 % changes in stocks. In 2006 29.2 % of total fixed capital investments are expected to be realized by public sector, whereas private sector will realize 70.8 %.

In 2006, total consumption is expected to increase by 4.2% in real terms and reach to 3,314,932,170.1 YTL. The share of public and private consumption in total consumption will be 27.9 % and 72.1 % respectively.

In 2006, public disposable income will be increased by 11.8 % in real terms and the share of public disposable income in GNP will be 20 %. On the other hand private disposable income will be increased by 6.8 % and the share within the GNP will be 80 %.

Total domestic savings is expected to increase by 39.9 % in real terms, due to 1.6 % increase in public savings deficit and 27.9 % increase in private savings in 2006. While private savings rate is being realized as 21.5 % with an increase of 3.5 points, total domestic savings share in GNP is being estimated to be 12.9 %, by increasing 2.9 points.

Table - 10 General Balance of the Economy

	2005		2006 ¹		Change (%)	
	Current	1977	Current	1977	Current	1977
	Prices	Prices	Prices	Prices	Prices	Prices
1. Total Resources	3,516,842,761.6	14,908.9	4,215,669,899.6	15,906.9	19.9	6.7
1.1. GNP	3,143,699,611.6	13,327.0	3,806,769,899.6	14,364.0	21.1	7.8
1.2. Current Account Deficit	373,143,150.0	1,581.9	408,900,000.0	1,542.9	9.6	-2.5
2. Total Investments	686,011,306.8	2,908.2	900,737,729.5	3,398.7	31.3	16.9
2.1. Fixed Capital	645,460,056.4	2,736.3	848,733,923.5	3,202.5	31.5	17.0
2.1.1. Public	174,763,841.3	740.9	248,115,682.4	936.2	42.0	26.4
2.1.2. Private	470,696,215.1	1,995.4	600,618,241.1	2,266.3	27.6	13.6
2.2. Changes in Stocks	40,551,250.4	171.9	52,003,806.0	196.2	28.2	14.1
2.2.1. Public	6,335,935.7	26.9	5,029,348.0	19.0	-20.6	-29.4
2.2.2. Private	34,215,314.7	145.0	46,974,458.0	177.2	37.3	22.2
3. Total Consumption	2,830,831,454.8	12,000.7	3,314,932,170.1	12,508.2	17.1	4.2
4. Public Disposable Income	606,582,467.7	2,571.5	762,185,038.4	2,875.9	25.7	11.8
4.1. Public Consumption	749,134,768.6	3,175.8	924,816,444.9	3,489.6	23.5	9.9
4.2. Public Savings	-142,552,300.9	-604.3	-162,631,406.5	-613.7	14.1	1.6
4.3. Public Investments	181,099,777.0	767.7	253,145,030.4	955.2	39.8	24.4
4.4. Difference in Public Savings-Investments	-323,652,077.9	-1,372.0	-415,776,436.9	-1,568.8	28.5	14.3
5. Private Disposable Income	2,537,117,143.9	10,755.5	3,044,584,861.2	11,488.1	20.0	6.8
5.1. Private Consumption	2,081,696,686.2	8,824.9	2,390,115,725.2	9,018.6	14.8	2.2
5.2. Private Savings	455,420,457.7	1,930.7	654,469,136.0	2,469.5	43.7	27.9
5.3. Private Investments	504,911,529.8	2,140.5	647,592,699.1	2,443.5	28.3	14.2
5.4. Difference in Private Savings-Investments	-49,491,072.1	-209.8	6,876,436.9	25.9	..	..
Private Savings Rate (%)	18.0	18.0	21.5	21.5		
6. Total Domestic Savings	312,868,156.8	1,326.3	491,837,729.5	1,855.8	57.2	39.9
Investments/GNP (%)	21.8	21.8	23.7	23.7		
Savings/GNP (%)	10.0	10.0	12.9	12.9		

¹ Provisional Figures

Source: State Planning Organization

2.2. Sectoral Distribution of Fixed Capital Investments

In 2005, total fixed capital investments which was 645,460,056.4 YTL in current prices, is expected to reach to 848,733,923.5 YTL in 2006 as a result of 17 % increase in real terms (table 11).

In 2006, fixed capital investments are expected to increase in all sectors, except manufacturing, construction, financial institutions and public services sectors, as to 2005. The greatest real increase is expected as 153.8 % in electricity-water, due to the Government's investments in order to solve the electricity problem. Dwellings sector follows this sector by 29.9 %, quarrying by 27.5 % and tourism by 22.3 %.

In 2006, 298,036,500 YTL of the fixed capital investments was performed by dwellings sector. The dwellings sector has a share of 35.1 % in total investments, followed by public services with a share of 11.3 %, transportation with the share of 11.1 %, electricity-water with the share of 7.9 % and manufacturing with a share of 7.5 %.

Table -11 Sectoral Distribution of Fixed Capital Investments

Sectors	(YTL)					
	2005		2006 ¹		Change (%)	
	Current Prices	1977 Prices	Current Prices	1977 Prices	Current Prices	1977 Prices
1. Agriculture	30,288,995.7	128.4	37,024,259.9	139.7	22.2	8.8
2. Industry	84,573,998.0	358.5	132,599,300.7	500.4	56.8	39.6
2.1. Quarrying	1,210,690.9	5.1	1,711,000.0	6.5	41.3	27.5
2.2. Manufacturing	59,725,765.6	253.2	63,506,914.2	239.6	6.3	-5.4
2.3. Electricity - Water	23,637,541.5	100.2	67,381,386.5	254.3	185.1	153.8
3. Services	530,597,062.7	2,249.4	679,110,362.9	2,562.4	28.0	13.9
3.1. Construction	43,258,675.4	183.4	46,271,874.6	174.6	7.0	-4.8
3.2. Trade	31,365,312.0	132.9	39,432,513.4	148.8	25.7	12.0
3.3. Tourism	37,482,121.3	158.9	51,497,202.1	194.3	37.4	22.3
3.4 Transportation	74,761,669.2	316.9	93,813,122.1	354.0	25.5	11.7
3.5 Communication	11,325,647.7	48.0	13,819,138.4	52.1	22.0	8.5
3.6. Financial Institutions	9,103,826.6	38.6	9,804,493.2	37.0	7.7	-4.1
3.7. Ownership of Dwellings	204,215,564.9	865.7	298,036,500.0	1,124.6	45.9	29.9
3.8. Business and Personal Services	25,959,956.5	110.1	30,811,351.2	116.2	18.7	5.5
3.9. Public Services	93,124,289.1	394.9	95,624,167.9	360.8	2.7	-8.6
Total	645,460,056.4	2,736.3	848,733,923.5	3,202.5	31.5	17.0

¹ Provisional Figures

Source: State Planning Organization

2.3. Consumption Expenditures

In 2005 GNP per capita was 14,271 YTL in current prices. It is expected to increase by 6.7 % in real terms and reach to 17,114 YTL in current prices in 2006. In USD terms, GNP per capita was 10,567 \$ in 2005 and it is expected to increase by 11.7 % and reach to 11,802 \$ in 2006 (table 12).

In 2005 the total consumption per capita realized as 12,851 YTL in current prices. The total consumption per capita is expected to increase by 3.2 % and reach to 14,902 YTL in 2006.

Table-12 Consumption Expenditures

Sectors	(YTL)					
	2005		2006 ¹		Change (%)	
	Current Prices	1977 Prices	Current Prices	1977 Prices	Current Prices	1977 Prices
1. GNP	3,143,699,611.6	13,327.0	3,806,769,899.6	14,364.0	21.1	7.8
2. Total Consumption	2,830,831,454.8	12,000.7	3,314,932,170.1	12,508.2	17.1	4.2
2.1. Public Consumption	749,134,768.6	3,175.8	924,816,444.9	3,489.6	23.5	9.9
2.2. Private Consumption	2,081,696,686.2	8,824.9	2,390,115,725.2	9,018.6	14.8	2.2
Total Consumption/GNP (%)	90.0	90.0	87.1	87.1		
Consumption Per Capita	12,851	0.0545	14,902	0.0562	16.0	3.2
GNP Per Capita	14,271	0.0605	17,114	0.0646	19.9	6.7
GNP Per Capita (\$)	10,567		11,802		11.7	

¹ Provisional Figures

Source: State Planning Organization

3. Balance of Finance in 2006

3.1. Public Revenues

Public revenues which realised as 1,298,682,412.7 YTL in current prices in 2005 are estimated to rise to 1,488,609,157.4 YTL in 2006. In 2005 public deficit which was 323,652,077.9 YTL in current prices, is estimated to continue its rising trend and reach to 415,776,436.9 YTL in 2006 (table 13).

The tax policies implemented in 2006 and limited increase in imports due to value loss of YTL will cause an increase in tax revenues by 7.7 %. On the other hand, the expected decline

in income other than taxes by 22.5 % and 7.6 % increase in factor and fund revenues will cause a very limited increase in public revenues by 2 %. The decrease in loss of the most important public enterprise Cyprus Fruit and Vegetable Enterprise “Cypfruvex” Ltd. in the year 2006 and increase in revenues of Provident Fund has been the major cause of the expected increase in factor and fund revenues.

3.2. Public Expenditures

Total public expenditures are estimated to reach to 1,904,385,594.3 YTL at current prices in 2006 from 1,622,334,490.6 YTL in 2005. In 2006, current expenditures will increase by 9.9 %, investments will increase by 24.4 % and transfers will achieve a decrease by 6.6 % in real terms.

3.3 General Balance of Public Sector

The estimated decrease in transfer expenditures as 6.6 % and small increase in public revenues as 2 % will cause a 11.8 % real increase at the public disposable income in 2006. In savings deficit, 1.5 % real increase is estimated due to 9.9 % real increase in public current expenditures. On the other hand in 2006, 24.4 % increase is estimated in public investments, which will cause 14.3 % real increase in public deficit.

Table-13 General Balance of Public Sector

(YTL)

	2005		2006 ¹		Change (%)	
	Current	1977	Current	1977	Current	1977
	Prices	Prices	Prices	Prices	Prices	Prices
1. Public Revenues	1,298,682,412.7	5,505.5	1,488,609,157.4	5,616.9	14.6	2.0
1.1. Taxes	657,295,032.8	2,786.5	795,289,181.5	3,000.8	21.0	7.7
1.1.1. Direct Taxes	245,324,036.9	1,040.0	291,910,192.7	1,101.5	19.0	5.9
1.1.2. Indirect Taxes	411,970,995.9	1,746.5	503,378,988.8	1,899.4	22.2	8.8
1.2. Income Other Than Taxes	242,667,510.5	1,028.7	211,257,660.2	797.1	-12.9	-22.5
1.3. Income From Factors and Funds	398,719,869.4	1,690.3	482,062,315.7	1,819.0	20.9	7.6
2. Transfers	692,099,945.0	2,934.0	726,424,119.0	2,741.0	5.0	-6.6
3. Public Disposable Income	606,582,467.7	2,571.5	762,185,038.4	2,875.9	25.7	11.8
4. Public Current Expenditures	749,134,768.6	3,175.8	924,816,444.9	3,489.6	23.5	9.9
5. Public Savings	-142,552,300.9	-604.3	-162,631,406.5	-613.7	14.1	1.5
6. Public Investments	181,099,777.0	767.7	253,145,030.4	955.2	39.8	24.4
6.1. Fixed Capital	174,763,841.3	740.9	248,115,682.4	936.2	42.0	26.4
6.2. Changes in Stocks	6,335,935.7	26.9	5,029,348.0	19.0	-20.6	-29.3
7. Public Deficit	323,652,077.9	1,372.0	415,776,436.9	1,568.8	28.5	14.3

¹ Provisional Figures

Source: State Planning Organization

3.4 General Balance of Private Sector

In 2006, in spite of limited increase by 6.8 % in private disposable income, the low increase rate of 2.2 % in private consumption in real terms will cause an increase in private savings by 27.9 %. The real increase in private investments by 14.2 % will cause the transfer to public sector to reach to a level of 6,876,436.9 YTL in 2006 (table 14).

Table-14 General Balance of Private Sector

	(YTL)					
	2005		2006 ¹		Change (%)	
	Current Prices	1977 Prices	Current Prices	1977 Prices	Current Prices	1977 Prices
1. Private Disposable Income	2,537,117,143.9	10,755.5	3,044,584,861.2	11,488.1	20.0	6.8
2. Private Consumption	2,081,696,686.2	8,824.9	2,390,115,725.2	9,018.6	14.8	2.2
3. Private Savings	455,420,457.7	1,930.7	654,469,136.0	2,469.5	43.7	27.9
4. Private Investments	504,911,529.8	2,140.5	647,592,699.1	2,443.5	28.3	14.2
4.1. Fixed Capital	470,696,215.1	1,995.4	600,618,241.1	2,266.3	27.6	13.6
4.2. Changes in Stocks	34,215,314.7	145.0	46,974,458.0	177.2	37.3	22.2
5. Transfer to Public Sector	-49,491,072.1	-209.8	6,876,436.9	25.9	..	..

¹ Provisional Figures

Source: State Planning Organization

3.5 Balance of State Revenues and Expenditures

At the end of the year 2006, budget volume of the government, is estimated to realize as 1,744,990,966.5 YTL with 16.3 % increase (table 15).

The total revenues are expected to decrease by 1.3 % in 2006. This decrease is caused by the decrease in other revenues and loans. As a result of 5.6 % real increase estimated for direct taxes and 7 % increase for indirect taxes total tax revenues are expected to increase by 6.5 %. On the other hand, fund revenues are expected to increase by 10.9 % in real terms. This is caused by the addition of fund revenues which were not included in the budget in 2005. These funds are; Tourism Incentive Fund, Antiquities Fund, Sports Fund, Organised Industries Zone Fund, Security Forces Support Fund and Shelter Fund.

At budget expenditures 3.5 % increase is expected for 2006. Investment expenditures are expected to realize the biggest increase in the budget expenditure items with 28.8 %. When we look at the shares in the GNP, other current expenditures have the smallest share in expenditures item with 2.4 %, transfer expenditures have the biggest share with 19.2 % and personnel expenditures have the second biggest share with 16 % in 2006. These developments indicate that, transfer expenditures with their 41.9 % share in total expenditures, are still heavy burden on the budget.

Budget balance shows that, the budget which resulted with a surplus of 42,872,077.5 YTL in 2005 will have a deficit of 34,424,471.4 YTL in 2006. This is caused by the advances and deposits accounts which could not be recorded according to the analytical budget, as the allocation is not indicated at the 2006 Budget Law.

Table-15 Balance of State Revenues and Expenditures

	(YTL)									
	2005				2006 ¹				Change(%)	
	Current Prices	1977 Prices	Share (%)	GNP Share (%)	Current Prices	1977 Prices	Share (%)	GNP Share (%)	Current Prices	1977 Prices
I. REVENUES	1,543,093,055.6	6,541.6	100.0	49.1	1,710,566,495.1	6,454.4	100.0	44.9	10.9	-1.3
1. Local Revenues	1,042,305,418.6	4,418.6	67.5	33.2	1,166,212,341.4	4,400.4	68.2	30.6	11.9	-0.4
1.1. Tax Revenues	635,864,588.4	2,695.6	41.2	20.2	760,625,840.5	2,870.1	44.5	20.0	19.6	6.5
1.1.1. Direct Taxes	241,992,465.0	1,025.9	15.7	7.7	287,208,457.0	1,083.7	16.8	7.5	18.7	5.6
1.1.2. Indirect Taxes	393,872,123.4	1,669.7	25.5	12.5	473,417,383.5	1,786.3	27.7	12.4	20.2	7.0
1.2. Other Income	215,236,518.1	912.4	13.9	6.8	167,336,653.0	631.4	9.8	4.4	-22.3	-30.8
1.3. Fund Revenues	191,204,312.1	810.6	12.4	6.1	238,249,847.9	899.0	13.9	6.3	24.6	10.9
2. Foreign Aid and Credits	500,787,637.0	2,123.0	32.5	15.9	544,354,153.7	2,054.0	31.8	14.3	8.7	-3.2
2.1. Foreign Aid	207,604,760.5	880.1	13.5	6.6	283,402,953.7	1,069.4	16.6	7.4	36.5	21.5
2.1.1. Republic of Turkey	207,526,730.8	879.8	13.4	6.6	283,260,922.7	1,068.8	16.6	7.4	36.5	21.5
2.1.2. Other	78,029.8	0.3	..	..	142,030.9	0.5	..	..	82.0	62.0
2.2. Credits	293,182,876.5	1,242.9	19.0	9.3	260,951,200.0	984.6	15.3	6.9	-11.0	-20.8
2.2.1. Republic of Turkey	293,182,876.5	1,242.9	19.0	9.3	260,951,200.0	984.6	15.3	6.9	-11.0	-20.8
II. EXPENDITURES	1,500,220,978.1	6,359.8	100.0	47.7	1,744,990,966.5	6,584.3	100.0	45.8	16.3	3.5
1. Current Expenditures	571,203,866.0	2,421.5	38.1	18.2	698,912,430.3	2,637.2	40.1	18.4	22.4	8.9
1.1. Personnel Expenditures	483,139,433.7	2,048.2	32.2	15.4	607,941,137.8	2,293.9	34.8	16.0	25.8	12.0
1.2. Other Current Expenditures	88,064,432.3	373.3	5.9	2.8	90,971,292.5	343.3	5.2	2.4	3.3	-8.1
2. Transfers	700,234,763.2	2,968.5	46.7	22.3	731,024,119.1	2,758.4	41.9	19.2	4.4	-7.1
3. Defence	80,145,649.0	339.8	5.3	2.5	100,000,000.0	377.3	5.7	2.6	24.8	11.1
4. Investments	148,636,700.0	630.1	9.9	4.7	215,054,417.1	811.5	12.3	5.6	44.7	28.8
III. BALANCE OF BUDGET	42,872,077.5	181.7	100.0	1.4	-34,424,471.4	-129.9	100.0	..	..	..

¹ Provisional Figures

² : Excluding Advance and Deposits

Source: State Planning Organization

4. Balance of Payments in 2006

4.1. Foreign Trade

The foreign trade volume is expected to reach to 1,356.1 million \$ in 2006, due to 4.4 % decrease in exports and 2.8 % increase in imports. Exports which realized as 68.1 million \$ in 2005 is expected to be 65.1 million \$ at the end of 2006 and imports which realized as 1,255.5 million \$ in 2005 will be 1,291 million \$. Due to these developments foreign trade deficit will reach to 1,225.9 million \$ from 1,187.4 million \$ (table 16). As the share of exports decreased within the foreign trade volume, exports are expected to meet 5 % of the imports in 2006.

4.2. Invisible Accounts

Net tourism revenues are estimated to decrease by 21.4 % due to fall in bed night numbers in 2006 and realize as 258.3 million \$. On the other hand, other invisibles item that realized as 582.3 million \$ in 2005 is estimated to increase by 17.7 % in 2006 and reach to 685.6 million \$. Higher education revenues are the most important part of the other invisibles item. With these developments, invisible accounts balance will increase by 3.6 % and reach to 943.9 million \$.

According to 2005, as a result of the developments in the Balance of Payments revenues, current accounts balance that had, 276.3 million \$ deficit, is estimated to have 282 million \$ deficit in 2006.

4.3. Capital Movements

Loans provided from Republic of Turkey in 2006, is estimated to decrease by 17.1 % and reach to 180 million \$.

Other capital movements, will increase by 7.1% in 2006 compared to 2005 and is estimated to reach to 70.7 million \$.

Due to the developments in the capital movements, capital movements balance is estimated to decrease by 11.5 % in 2006 and reach to 250.7 million \$.

As a result of the developments in current accounts balance and capital movements balance, general balance is estimated to have a deficit of 31.3 million \$ in 2006.

4.4. Reserve Movements

In 2006, foreign exchange reserves are estimated to decrease by 42.6 million \$ compare to 2005.

Table-16 Balance of Payments

	(Milyon \$)		
	2005	2006 ¹	Change (%)
1. Current Accounts			
1.1. Foreign Trade			
1.1.1. Exports	68.1	65.1	-4.4
1.1.2. Imports	1,255.5	1,291.0	2.8
Foreign Trade Balance	-1,187.4	-1,225.9	3.2
1.2. Invisible Accounts			
1.2.1. Tourism (Net)	328.8	258.3	-21.4
1.2.2. Other Invisibles (Net)	582.3	685.6	17.7
Invisible Accounts Balance	911.1	943.9	3.6
Current Accounts Balance	-276.3	-282.0	2.1
2. Capital Movements			
2.1. Foreign Aid and Loans by Turkey	217.2	180.0	-17.1
2.2. Other Short Term Capital Movements (Net)	66.0	70.7	7.1
Capital Movements Balance	283.2	250.7	-11.5
General Balance	6.9	-31.3	..
3. Change In Reserves (- Increase, + Decrease)	-53.0	42.6	..
4. Net Errors and Omissions	46.1	-11.3	..
Average US\$ Exchange Rate:YTL	1.3505	1.4500	7.4

¹ Provisional Figures

Source: State Planning Organization

5. Price Movements in 2006

Price movements in our country are 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, price stability has been achieved in the recent years, but during 2006 some fluctuations happened in the rate of exchange.

According to the changes in the retail price index; the inflation rate which reached 2.3 % by the end of November 2005, realised as 19 % in November 2006 mostly affected by the

increase in rate of foreign exchange (table 17). Considering the inflation rate estimated in the 2006 Program as 5 %, this development shows that the target has highly been exceeded.

Table-17 Retail Price Index

Months	Index ¹		Monthly Change (%)	Index ²		Monthly Change (%)
	2005	(December 2004=100)		2006	(December 2005=100)	
January	715.3	99.09	-0.91	749.4	101.04	1.04
February	715.3	99.09	0.00	747.3	100.76	-0.28
March	715.5	99.11	0.03	760.5	102.53	1.77
April	725.2	100.46	1.36	773.2	104.25	1.67
May	720.8	99.85	-0.61	789.0	106.38	2.04
June	718.8	99.57	-0.28	804.8	108.51	2.00
July	720.4	99.79	0.22	817.7	110.25	1.60
August	725.5	100.50	0.71	834.9	112.57	2.10
September	736.1	101.97	1.46	860.0	115.95	3.01
October	740.0	102.51	0.53	879.5	118.58	2.27
November	738.8	102.34	-0.16	882.9	119.04	0.39

¹December 2004 Index: 721.9

²December 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 2006 and increase in demand caused the foreign exchange rates to rise for some period.

In 2005 exchange rates have shown a stable progress during the 11 month period and the US\$ exchange rate realised as 3.1 % less than the value in 2004 (table 18). But in 2006 fluctuations happened and at the end of November the value loss of YTL against US\$ realised as 7.9 %.

Table-18 Changes in Average \$ Rates

Months	2005 Exchange Rate	Index ¹ (December 2004=100)	Monthly Change (%)	2006 Exchange Rate	Index ² (December 2005=100)	Monthly Change (%)
January	1.3539	96.51	-3.49	1.3344	98.68	-1.32
February	1.3147	93.71	-2.90	1.3261	98.07	-0.62
March	1.3090	93.31	-0.43	1.3340	98.65	0.60
April	1.3608	97.00	3.96	1.3372	98.89	0.24
May	1.3704	97.68	0.71	1.4269	105.52	6.71
June	1.3604	96.97	-0.73	1.5985	118.21	12.03
July	1.3375	95.34	-1.68	1.5568	115.13	-2.61
August	1.3448	95.86	0.55	1.4685	108.60	-5.67
September	1.3400	95.52	-0.36	1.4831	109.68	0.99
October	1.3578	96.79	1.33	1.4774	109.26	-0.38
November	1.3596	96.91	0.13	1.4583	107.85	-1.29

¹ December 2004 1\$=1.4029 YTL

² December 2005 1\$=1.3522 YTL

Source: State Planning Organization

6. Bank Deposits and Credits in 2006

The problems occurred, due to the banks with weak financial structure at the beginning of 2002 were eliminated by the measures taken and trust has been achieved in the sector again. According to the Central Bank's data, during the December 2005-September 2006 period the balance sheet size of the banking sector increased by 25.9 % and reached to 5.3 billion YTL. On the other hand, by September 2006 the gross credit deposit ratio realised as 44.5 % and share of gross credits in total assets realised as 37.9 %.

6.1. Bank Deposits

The total amount of deposits which was 3.5 billion YTL in September 2005 increased by 29.9 % and reached to 4.5 billion YTL in September 2006.

6.1.1. Turkish Lira Deposits

During the September 2005-September 2006 period Turkish Lira deposits increased by 35.5 % and reached to 2,199,281,636.6 YTL (table 19). The increase in Retail Price Index which realised as 16.8 % shows that there has been an increase in deposits in real terms.

Sight deposits increased by 8.2 % during this period, whereas time deposits increased by 40 % and their share in total deposits realised as 11.2 % and 88.8 % respectively.

**Table-19 Turkish Lira Deposits
(September 2005-2006)**

Type of Deposit	September 2005	Share (%)	September 2006	Share (%)	(YTL) Change (%)
1. Sight	227,268,644.0	14.0	245,879,493.7	11.2	8.2
2. Time	1,395,505,108.5	86.0	1,953,402,142.9	88.8	40.0
Total	1,622,773,752.5	100.0	2,199,281,636.6	100.00	35.5

Source: Central Bank, State Planning Organization

6.1.2. Foreign Currency Deposits

Foreign currency deposits increased by 25 % during September 2005-September 2006 and reached to 2,329,035,419.3 YTL (table 20).

The increase in sight deposits realised as 13.4 %, whereas time deposits increased by 27.8 % and their share in total reached to 17.7 % and 82.3 % respectively.

**Table-20 Foreign Currency Deposits
(September 2005-2006)**

Type of Deposit	(YTL)				
	September 2005	Share (%)	September 2006	Share (%)	Change (%)
1. Sight	363,387,265.0	19.5	412,225,428.9	17.7	13.4
2. Time	1,499,863,660.6	80.5	1,916,809,990.4	82.3	27.8
Total	1,863,250,925.6	100.0	2,329,035,419.3	100.00	25.0

Source: Central Bank, State Planning Organization

6.2 Credits

The positive developments in the economy, stability in foreign exchange rates and slow down of interest rates since 2002, has resulted in increase in credits. During the September 2005-September 2006 period total credits increased by 44.7 % and reached to 2,015,049,135.8 YTL (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. 16.8 %.

Sectoral developments of credits show that, tourism sector realised the highest increase by 384.1 %. The construction sector follows by 97.4 % and business and personal loans by 65 %. During this period it is observed that credits have been more intense in business and personal loans, public institutions and foreign and domestic trade sectors.

**Table-21 Sectoral Distribution of Bank Credits
(September 2005-2006)**

Sectors	September 2005	Share (%)	September 2006	Share (%)	(YTL)
					Change (%)
1. Public Enterprises and Institutions	461,043,937.5	33.1	579,051,234.0	28.7	25.6
2. Agriculture	9,031,653.2	0.6	12,656,577.5	0.6	40.1
3. Manufacturing	7,169,241.5	0.5	6,381,942.1	0.3	-11.0
4. Transportation	6,791,509.9	0.5	9,564,295.7	0.5	40.8
5. Foreign and Domestic Trade	371,807,865.6	26.7	496,426,143.8	24.6	33.5
6. Building and Construction	44,454,217.2	3.2	87,773,690.0	4.4	97.4
7. Tourism	3,438,006.6	0.2	16,642,680.1	0.8	384.1
8. Business and Personal Loans	488,880,955.7	35.1	806,552,572.6	40.0	65.0
9. Bills Discounted	-		-		
Total	1,392,617,387.2	100.0	2,015,049,135.8	100.0	44.7

Source: Central Bank of TRNC, State Planning Organization

7. Labour Force Requirement and Employment in 2006

Recent developments in the economy and increase in sectoral production had a positive effect on employment in 2006.

Based on the increase in production it is estimated that there will be an increase of 3.9 % in total employment and the labour force requirement will reach to 113,399 level (table 22). Following the definite results of the Population and Housing Unit Census conducted in 2006, it will be possible to finalise the results of the Household Labour Force Survey of 2006 and thus the data on labour force and employment will be revised.

Employment figures based on increase in production for 2006 show that, the highest increase is estimated in quarrying, construction and business and personal services sectors. Due to this development the shares of these sectors and public services sector in total employment will increase, whereas the other sectors' will decrease. As the high rate of increase in labour force

of construction is mostly provided from abroad, it appears that the increase in foreign labour has continued in 2006.

The intense efforts to register the informal labour force since 2004 resulted in control of employment of foreign labour due to permission and thus revenues of social security funds increased.

Table-22 Sectoral Distribution of Labour Force Requirement

Sectors	2005		2006 ¹		Change (%)
	Number	Share (%)	Number	Share (%)	
1. Agriculture	13,077	12.0	12,423	11.0	-5.0
2. Industry	9,848	9.0	10,157	9.0	3.1
2.1. Quarrying	1,417	1.3	1,567	1.4	10.6
2.2. Manufacturing	6,903	6.3	7,031	6.2	1.9
2.3. Electricity - Water	1,528	1.4	1,559	1.4	2.0
3. Construction	21,160	19.4	23,022	20.3	8.8
4. Trade - Tourism	13,474	12.3	13,683	12.1	1.6
4.1. Wholesale and Retail Trade	8,420	7.7	8,629	7.6	2.5
4.2. Hotels and Restaurants	5,054	4.6	5,054	4.5	-
5. Transport - Communication	9,952	9.1	10,280	9.1	3.3
6. Financial Institutions	2,583	2.4	2,635	2.3	2.0
7. Business and Personal Services	18,735	17.2	20,019	17.7	6.9
8. Public Services (including public economic enterprises and municipalities)	20,261	18.6	21,180	18.7	4.5
Total Employment	109,090	100.0	113,399	100.0	3.9

¹ Provisional Figures

Source: State Planning Organization

**MAIN OBJECTIVES, MACROECONOMIC TARGET,
PRINCIPLES AND POLICIES**

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

The 2006 Annual Program, which was prepared in the light of all existing rapid economic, social and political developments that took place in the TRNC after 2002, considered a medium-term development strategy and 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, increasing the standards of infrastructural services, expanding the production and investments, raising the productivity, registering the economy and preserving the environment in order to provide sustainable development.

There are certain number of positive improvements realized in 2006 headed for reaching these aims and objectives. On the one hand, economic growth realized more than the provisional targets and on the other hand, many steps have been taken in re- structuring the government, increasing the public education and health level, improving the income distribution balance, extending the common use of science and technology, increasing the standards of infrastructural services, expanding the production and investments, raising the productivity, registering the economy and preserving the environment. With the aim of transforming the high growth rate which was reached in recent years to a sustainable structure, reforms should be done in public consensus. In the following period of time, developing the administrative

and institutional structures to facilitate improvement of managerial capacity, developing the infrastructure and production standards in order to increase the power of competition and harmonizing with the EU acquis, is an important changing and transforming process that needs special programming and scheduling. Within this context, in 2007 a Harmonization Program which should consider the unique situation of the TRNC, determine the priorities of harmonization with the EU acquis and targeted harmonization timing and which balances economic, social and political costs and benefits in an optimal level, has to be prepared.

According to main aims and objectives in medium-term strategies in 2007 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 productivity and improving standards 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 and transforming activities which have taken place since 2006, are going to be accelerated and completed in 2009.

According to determined and detailed objectives and targets of medium-term development strategy; targets of economic growth and GNP per capita have been exceeded and sectoral growth rates realized in different ratios. Moreover the changing/transforming activities have been started in various sectors and by the approval of the Financial Aid Regulation positive steps have been taken in usage of financial and technical aids provided from EU.

Main aims, targets and provisions are still preserving their importance and validity in 2007. Such that:

- The harmonization process of EU standards and aquis will accelerate and this transforming period will be realized within the framework of a Harmonization Program in 2007. The high average education level, young and dynamic population and determination of harmonizing with EU norms and standards will provide positive values in the realization of the social and institutional changes in our country.
- 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.
- In the following three years period, an annual average growth rate of 7 % is projected to be realized as a result of public sector reform, social security reform and similar transformation projects and in addition by increasing productivity, competitiveness and sustainability in all production process. By the realization of targeted growth rate, the national income per capita will increase from 10,567 \$ in 2005 to 11,802 \$ in 2006 and reach to 12,367 \$ with current prices in 2007 and is estimated to approach to 13,000 \$ in 2008.
- 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, waste water 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 opportunities of the local administrations which are the basis of regional development, will be essentially considered.
- In the social change and transformation process, non governmental 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

One of the most important threats in our country which has experienced a high rate of growth in the recent years is, the natural resources erosion created by unplanned construction parallel to rapid increase in investments. Therefore, development will not be sustainable in the future years, because of the irreversible problems created in agricultural production, in marketing of the tourism services and moreover in the quality of life of next generations.

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 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.

In order to reach effective and wider scale usage of the data processing technologies, the infrastructure will be strengthened and bureaucratic methods and procedures will be renewed.

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 actively implemented, while resource allocation will have to take into account social costs and benefits.

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.

In order to activate 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, sectoral priorities will be given special importance and Government 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.

For transition to a modern budgeting system the necessary legal and administrative arrangements will be made and a study will start on multi-year budgeting.

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 loan stocks to an acceptable level within European criteria. Within this context, all financial practices will ensure the public deficit to come to a sustainable level and decrease foreign finance dependency.

Within the EU harmonization process and the reforms required for a sustainable public finance, public administration, social security, 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.

In order to direct domestic savings towards investments needed in the economy and to increase credit/deposit ratio necessary steps will be taken.

2.4. Privatization /Autonomy Policies

State economic enterprises and other government business institutions will be restructured in order to increase their productivity and reduce the share of the public sector within the economy, thus increasing the private sector dynamism. 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 services-cost balance and fair competition conditions against private sector.

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.

Public investments will be intense in sectors which create bottlenecks in economic development and traditional public 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. 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, harmonizing with EU 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 functions in standardization, the reduction of transportation costs, advertising, branding and the increase in the number and variety of destination.

The establishment of marketing departments within the producer firms or state service units that will assist and support such facilities will be provided.

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 and all necessary legal and administrative arrangements will be given top priority.

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.

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

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.

3. Macroeconomic Targets

3.1. GNP

In 2007 Program Period, GNP is projected to increase by 7 % in real terms, thus GNP which was 3,806,769,899.6 YTL in current prices in 2006, is expected to reach 4,072,014,130.0 YTL (2006 prices) in 2007 (table 23). GDP is projected to increase by 7 % and the net factor income from abroad is projected to increase by 5.1 %. In the total economy, since the indirect tax is projected to increase by 6.3 %, behind GNP growth rate; projected GNP increase is 7.1 % in factor prices.

In the light of 7 % projected growth rate in GNP, the sectoral real growth targets are; agriculture by 6.9 %, industry by 8.3 %, construction by 7 %, wholesale and retail trade by 7.3 %, tourism by 14.3 %, transport – communication by 8.9 %, financial institutions 5.8 %, dwellings income by 7.2 %, business and personal services by 8.6 % and public services by 4.5 %. High rate of growth experienced in exports in recent years, has slowed down in 2006 and therefore import duties are projected to increase by 4.5 %.

As a result of the realization of economic developments targeted in 2007, the shares of industry, tourism, transport-communication and business- personal services in GDP will increase, while the share of public sector will decrease and agriculture, construction and ownership of dwellings will preserve their share in GDP.

Table - 23 Sectoral Value Added and GNP Targets

	(2006 Prices, YTL)				
	2006 ¹		2007 (Target)		Real Change (%)
	Value	Share (%)	Value	Share (%)	
1.AGRICULTURE	241,457,791.9	6.5	258,070,776.2	6.5	6.9
1.1.Crop Production	125,009,860.0	3.4	134,785,997.2	3.4	7.8
1.2.Livestock Production	98,217,605.6	2.6	103,765,750.6	2.6	5.6
1.3.Forestry	1,000,882.2	0.0	1,074,880.2	0.0	7.4
1.4.Fishing	17,229,444.1	0.5	18,444,148.2	0.5	7.1
2.INDUSTRY	359,528,200.9	9.7	389,226,066.9	9.8	8.3
2.1.Quarrying	23,763,875.8	0.6	25,343,286.7	0.6	6.6
2.2.Manufacturing	172,515,011.5	4.6	186,416,076.6	4.7	8.1
2.3.Electricity-Water	163,249,313.6	4.4	177,466,703.6	4.5	8.7
3.CONSTRUCTION	271,053,946.3	7.3	289,919,078.7	7.3	7.0
4.TRADE	580,370,695.2	15.6	633,860,840.4	15.9	9.2
4.1.Wholesale and Retail Trade	420,438,976.9	11.3	451,051,584.1	11.3	7.3
4.2.Hotels and Restaurants	159,931,718.3	4.3	182,809,256.3	4.6	14.3
5.TRANSPORT-COMMUNICATION	402,237,436.7	10.8	437,906,197.2	11.0	8.9
6.FINANCIAL INSTITUTIONS	239,440,186.4	6.4	255,662,248.3	6.4	6.8
7.OWNERSHIP OF DWELLING	95,803,183.7	2.6	102,670,965.2	2.6	7.2
8.BUSINESS AND PERSONAL SERVICES	385,565,851.0	10.4	418,574,277.6	10.5	8.6
9.PUBLIC SERVICES	772,820,741.5	20.8	806,558,260.7	20.3	4.4
IMPORT DUTIES	371,970,366.0	10.0	388,589,100.8	9.8	4.5
GDP(market prices)	3,720,248,399.6	100.0	3,981,037,812.0	100.0	7.0
NET FACTOR INCOME FROM ABROAD	86,521,500.0		90,976,318.0		5.1
GNP (market prices)	3,806,769,899.6		4,072,014,130.0		7.0
Indirect Taxes	503,378,988.8		535,091,865.1		6.3
GNP (Factor Prices)	3,303,390,910.8		3,536,922,264.9		7.1

¹ Provisional Figures

Source: State Planning Organization

3.2 General Balance of the Economy

In 2007, due to 7 % increase in GNP and 0.2 % limited increase in current account deficit, the total resources is projected to increase by 6.3 % (table 24). Public investments, which are allocated mainly for infrastructural requirements, are projected to increase by 8.8 % while the 4.9 % growth rate is being projected in private sector investments.

The share of total investments in GNP will be 23.5 % and the share of total consumption will constitute 86.6 % of GNP in 2007. As a result of limitation of current account deficit, the total marginal savings tendency which was 27 % in 2006 and is expected to be 20.2 % in 2007. In order to provide an increase in total savings, 19.6 % decrease in the public

savings deficit and 3.3 % increase in the private savings is projected. In this way the total domestic savings share in GNP will increase to 13.4 % from 12.9 %.

Table - 24 General Balance of the Economy

	(2006 Prices, YTL)				
	2006 ¹		2007 (Target)		Change (%)
	Value	GNP Share (%)	Value	GNP Share (%)	
1. TOTAL RESOURCES	4,215,669,899.6	110.7	4,481,731,930.0	110.1	6.3
1.1. GNP	3,806,769,899.6	100.0	4,072,014,130.0	100.0	7.0
1.2. Current Account Deficit	408,900,000.0	10.7	409,717,800.0	10.1	0.2
2. TOTAL INVESTMENTS	900,737,729.5	23.7	955,008,771.5	23.5	6.0
2.1. Fixed Capital Investments	848,733,923.5	22.3	900,074,345.3	22.1	6.0
2.1.1. Public	248,115,682.4	6.5	270,022,303.6	6.6	8.8
2.1.2. Private	600,618,241.1	15.8	630,052,041.7	15.5	4.9
2.2. Changes in Stocks	52,003,806.0	1.4	54,934,426.2	1.3	5.6
2.2.1. Public	5,029,348.0	0.1	5,376,373.0	0.1	6.9
2.2.2. Private	46,974,458.0	1.2	49,558,053.2	1.2	5.5
3. TOTAL CONSUMPTION	3,314,932,170.1	87.1	3,526,723,158.5	86.6	6.4
4. PUBLIC DISPOSABLE INCOME	762,185,038.4	20.0	855,171,613.1	21.0	12.2
4.1. Public Consumption	924,816,444.9	24.3	985,854,330.3	24.2	6.6
4.2. Public Savings	-162,631,406.5	-4.3	-130,682,717.2	-3.2	-19.6
4.3. Public Investments	253,145,030.4	6.6	275,398,676.6	6.8	8.8
4.4. Difference in Public Savings- Investments	-415,776,436.9	-10.9	-406,081,393.8	-10.0	-2.3
5. PRIVATE DISPOSABLE INCOME	3,044,584,861.2	80.0	3,216,842,516.9	79.0	5.7
5.1. Private Consumption	2,390,115,725.2	62.8	2,540,868,828.2	62.4	6.3
5.2. Private Savings	654,469,136.0	17.2	675,973,688.7	16.6	3.3
5.3. Private Investments	647,592,699.1	17.0	679,610,094.9	16.7	4.9
5.4. Difference in Private Savings- Investments	6,876,436.9	0.2	-3,636,406.2	-0.1	..
Private Savings Rate (%)	21.5		21.0		
Marginal Private Savings Tendency (%)	34.0		12.5		
6. TOTAL DOMESTIC SAVINGS	491,837,729.5	12.9	545,290,971.5	13.4	10.9
Total Marginal Savings Tendency (%)	27.0		20.2		
Total Investments/GNP (%)	23.7		23.5		
Savings/GNP (%)	12.9		13.4		

¹ Provisional Figures

Source: State Planning Organization

3.3 Balance of Resources and Expenditures

The constituents of total resources; GNP and current account deficit are projected to increase by 7 % and 0.2 % respectively in 2007. In this parallel the total resources are projected to increase by 6.3 % and the share of foreign resources are aimed to be reduced in economic growth. According to the provisional figures of 2006, current account deficit

has a share of 10.7 % in GNP. In 2007 the share of current account deficit will decrease to the level of 10.1 % and total resources will constitute 110.1 % of GNP (table 25).

Table - 25 Balance of Resources and Expenditures

	2006 ¹		2007 (Target)		
	Value	GNP Share (%)	Value	GNP Share (%)	Real Change (%)
I. TOTAL RESOURCES	4,215,669,899.6	110.7	4,481,731,930.0	110.1	6.3
1.1. GNP	3,806,769,899.6	100.0	4,072,014,130.0	100.0	7.0
GDP	3,720,248,399.6	97.7	3,981,037,812.0	97.8	7.0
Net Factor Income From Abroad	86,521,500.0	2.3	90,976,318.0	2.2	5.1
1.2. Current Account Deficit	408,900,000.0	10.7	409,717,800.0	10.1	0.2
2. TOTAL INVESTMENTS	900,737,729.5	23.7	955,008,771.5	23.5	6.0
2.1. Fixed Capital Investments	848,733,923.5	22.3	900,074,345.3	22.1	6.0
2.1.1. Public	248,115,682.4	6.5	270,022,303.6	6.6	8.8
2.1.2. Private	600,618,241.1	15.8	630,052,041.7	15.5	4.9
2.2. Changes in Stocks	52,003,806.0	1.4	54,934,426.2	1.3	5.6
2.2.1. Public	5,029,348.0	0.1	5,376,373.0	0.1	6.9
2.2.2. Private	46,974,458.0	1.2	49,558,053.2	1.2	5.5
3. TOTAL CONSUMPTION	3,314,932,169.8	87.1	3,526,723,158.5	86.6	6.4
3.1. Public	924,816,444.6	24.3	985,854,330.3	24.2	6.6
3.2. Private	2,390,115,725.2	62.8	2,540,868,828.2	62.4	6.3
4. TOTAL DOMESTIC SAVINGS	491,837,729.8	12.9	545,290,971.5	13.4	10.9

¹ Provisional Figures

Source : State Planning Organization

Total consumption is projected to increase by 6.4 %, provided by 6.6 % increase in public consumption and 6.3 % increase in private consumption (table 26).

GNP per capita is projected to increase by 6 % in real terms while the increase in consumption per capita is projected to realize as 5.4 %, 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 4.8 % in current prices and reach to 12,367 \$ in 2007.

Table - 26 Consumption Expenditures

	2006 ¹	2007 (Target)		(2006 Prices, YTL)	
		2006 Prices	Current Prices	Change (%)	
				Real	Current
GNP	3,806,769,899.6	4,072,014,130.0	4,275,614,836.5	7.0	12.3
1.Total Consumption	3,314,932,170.1	3,526,723,158.5	3,703,059,316.4	6.4	11.7
1.1. Public Consumption	924,816,444.9	985,854,330.3	1,035,147,046.8	6.6	11.9
1.2. Private Consumption	2,390,115,725.2	2,540,868,828.2	2,667,912,269.6	6.3	11.6
TOTAL CONSUMPTION / GNP (%)	87.1	86.6	86.6		
TOTAL CONSUMPTION PER CAPITA	14,902	15,709	16,494	5.4	10.7
GNP PER CAPITA	17,114	18,138	19,045	6.0	11.3
GNP PER CAPITA (\$)	11,802		12,367		4.8

¹ Provisional Figures

Source: State Planning Organization

3.4 Balance of Investment and Savings

Investments and savings are projected to increase by 6 % in 2007 Program period (table 27). Total savings are aimed to constitute 23.5 % of GNP by increase of 10.9 % in domestic savings and 0.2 % in external 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 6 % and 5.6 % respectively. Public fixed capital investments are projected to constitute 32 % of GNP and be allocated according to the requirements of social and economic infrastructure and improvement of traditional public services.

In 2007 Program public and private fixed capital investments are projected to have 6.6 % and 15.5 % share in GNP respectively, therefore total fixed capital investments share will be 22.1 % in GNP.

Table - 27 Balance of Investments and Savings

	(2006 Prices, YTL)				
	2006 ¹		2007(Target)		
	Value	GNP Share (%)	Value	GNP Share (%)	Real Change (%)
1.TOTAL INVESTMENTS	900,737,729.5	23.7	955,008,771.5	23.5	6.0
1.1. Fixed Capital Investments	848,733,923.5	22.3	900,074,345.3	22.1	6.0
1.1.1. Public	248,115,682.4	6.5	270,022,303.6	6.6	8.8
1.1.2. Private	600,618,241.1	15.8	630,052,041.7	15.5	4.9
1.2. Changes in Stocks	52,003,806.0	1.4	54,934,426.2	1.3	5.6
1.2.1. Public	5,029,348.0	0.1	5,376,373.0	0.1	6.9
1.2.2. Private	46,974,458.0	1.2	49,558,053.2	1.2	5.5
2. TOTAL SAVINGS	900,737,729.5	23.7	955,008,771.5	23.5	6.0
2.1. Domestic Savings	491,837,729.5	12.9	545,290,971.5	13.4	10.9
2.1.1. Public	-162,631,406.5	-4.3	-130,682,717.2	-3.2	-19.6
2.1.2. Private	654,469,136.0	17.2	675,973,688.7	16.6	3.3
2.2. External Savings	408,900,000.0	10.7	409,717,800.0	10.1	0.2
Difference in Private Savings - Investments	6,876,436.9	0.2	-3,636,406.2	-0.1	-152.9
Difference in Public Savings - Investments	-415,776,436.9	-10.9	-406,081,393.8	-10.0	-2.3
Difference in Total Domestic Savings -Investments	-408,900,000.0	-10.7	-409,717,800.0	-10.1	0.2
Public Fixed Investments/ Total Fixed Investments (%)	29.2		30.0		
Private Savings Rate (%)	21.5		21.0		
Public Savings Rate (%)	-21.3		-15.3		
GNP	3,806,769,899.6	100.0	4,072,014,130.0	100.0	7.0

¹ Provisional Figures

Source: State Planning Organization

3.5 Capital Accumulation and Fixed Capital Investments

Fixed capital investments are projected to reach 900,074,345.4 YTL in 2006 prices due to 7 % growth target of GDP in 2007 Program year (table 28).

The fixed capital investment required is expected to reach 945,078,062.7 YTL in 2007 prices due to projected 5 % inflation rate in 2007. The sectoral distribution of fixed capital investments will be as follows; industry 18.6 %, ownership of dwelling 15.3 %, public sector 15 %, business and personal services 14.2 % , transport and communication 13.9 % and tourism 11.8 %.

Table - 28 Sectoral Fixed Capital Investment Requirement for 2007

	2006 Prices	Current Prices	(YTL) Share (%)
1.AGRICULTURE	46,321,468.0	48,637,541.4	5.1
1.1.Crop Production	32,750,059.6	34,387,562.6	3.6
1.2.Livestock Production	12,205,918.9	12,816,214.8	1.4
1.3.Forestry	332,991.0	349,640.6	0.0
1.4.Fishing	1,032,498.5	1,084,123.4	0.1
2.INDUSTRY	167,187,771.2	175,547,159.8	18.6
2.1.Quarrying	3,316,762.9	3,482,601.0	0.4
2.2.Manufacturing	64,917,974.0	68,163,872.7	7.2
2.3.Electricity-Water	98,953,034.3	103,900,686.0	11.0
3.CONSTRUCTION	15,658,059.9	16,440,962.9	1.7
4.TRADE	131,099,413.0	137,654,383.7	14.6
4.1.Wholesale and Retail Trade	24,490,085.8	25,714,590.1	2.7
4.2.Hotels and Restaurants	106,609,327.2	111,939,793.6	11.8
5.TRANSPORT-COMMUNICATION	124,840,661.9	131,082,695.0	13.9
6.FINANCIAL INSTITUTIONS	15,248,738.2	16,011,175.1	1.7
7.OWNERSHIP OF DWELLING	137,355,629.5	144,223,411.0	15.3
8.BUSINESS AND PERSONAL SERVICES	127,412,526.8	133,783,153.1	14.2
9.PUBLIC SERVICES	134,950,076.9	141,697,580.7	15.0
TOTAL	900,074,345.4	945,078,062.7	100.0

Source: State Planning Organization

3.6 General Balance of Public Sector

In 2007 Program, aiming to provide some improvement in general balance of public sector, public revenues are projected to increase by 10 %. Within this context, taxes will increase by 16.1 %, income other than taxes by 1.9 % and income from factors and funds by 3.4 % (table 29). Increase in direct taxes is projected to reach 33 % as a result of broadening tax base and 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 General Balance of Public Sector

	(YTL)						
	2006 ¹		2007 (Target)		Change		
	Current Prices	GNP Share (%)	2006 Prices	GNP Share (%)	Current Prices	Real (%)	Current (%)
1.Public Revenues	1,488,609,157.4	39.1	1,637,056,411.6	40.2	1,718,909,232.1	10.0	15.5
1.1.Taxes	795,289,181.5	20.9	923,332,421.4	22.7	969,499,042.5	16.1	21.9
1.1.1.Direct Taxes	291,910,192.7	7.7	388,240,556.3	9.5	407,652,584.1	33.0	39.7
1.1.2.Indirect Taxes	503,378,988.8	13.2	535,091,865.1	13.1	561,846,458.3	6.3	11.6
1.2.Income Other Than Taxes	211,257,660.2	5.5	215,271,555.7	5.3	226,035,133.5	1.9	7.0
1.3.Income From Factors and Funds	482,062,315.7	12.7	498,452,434.4	12.2	523,375,056.2	3.4	8.6
2.Transfers	726,424,119.0	19.1	781,884,798.5	19.2	820,979,038.4	7.6	13.0
3.Public Disposable Income	762,185,038.4	20.0	855,171,613.1	21.0	897,930,193.8	12.2	17.8
4.Public Current Expenditures	924,816,444.9	24.3	985,854,330.3	24.2	1,035,147,046.8	6.6	11.9
5.Public Savings	-162,631,406.5	-4.3	-130,682,717.2	-3.2	-137,216,853.1	-19.6	-15.6
6.Public Investments	253,145,030.3	6.6	275,398,676.6	6.8	289,168,610.4	8.8	14.2
6.1.Fixed Capital	248,115,682.3	6.5	270,022,303.6	6.6	283,523,418.8	8.8	14.3
6.2.Changes in Stocks	5,029,348.0	0.1	5,376,373.0	0.1	5,645,191.7	6.9	12.2
7.Public Deficit	415,776,436.8	10.9	406,081,393.8	10.0	426,385,463.5	-2.3	2.6

¹ Provisional Figures

Source: State Planning Organization

3.7 General Balance of Private Sector

In 2007 Program period, parallel to high increase projected in public disposal income, the private disposal income is projected to increase by 5.7 % (table 30). As a result of 6.3 % growth target in private consumption, its share in GNP will decrease from 62.8 % to 62.4 % in 2007. In the parallel of 3.3 % increase in private savings and the expected improvement in incentives, investments will increase by 4.9 %. Therefore investments which were behind the savings in 2006 are projected to exceed the savings in 2007 and the ratio of investments/savings will be improved.

Table - 30 General Balance of Private Sector

	(YTL)						
	2006 ¹		2007 (Target)		Change		
	Current Prices	GNP Share (%)	2006 Prices	GNP Share (%)	Current Prices	Real (%)	Current (%)
1.Private Disposable Income	3,044,584,861.2	80.0	3,216,842,516.9	79.0	3,377,684,642.7	5.7	10.9
2.Private Consumption	2,390,115,725.2	62.8	2,540,868,828.2	62.4	2,667,912,269.6	6.3	11.6
3.Private Savings	654,469,136.0	17.2	675,973,688.7	16.6	709,772,373.1	3.3	8.5
4.Private Investments	647,592,699.1	17.0	679,610,094.9	16.7	713,590,599.6	4.9	10.2
4.1.Fixed Capital	600,618,241.1	15.8	630,052,041.7	15.5	661,554,643.8	4.9	10.1
4.2.Changes in Stocks	46,974,458.0	1.2	49,558,053.2	1.2	52,035,955.9	5.5	10.8
5.Transfer to Public Sector	6,876,436.9	0.2	-3,636,406.2	-0.1	-3,818,226.5	..	..

¹ Provisional Figures

Source: State Planning Organization

3.8 Balance of State Revenues and Expenditures

Local revenues are projected to increase by 17.9% in 2007 Program period (table 31). Projected increase in local revenues in real terms will be realized by 20.9 % increase in tax revenues, 13.6 % increase in funds revenues and 10.7 % increase in other revenues. In 2007, budget expenditures are programmed to increase by 9.4 % and aimed to be behind of the increase of local revenues which is expected to be 17.9 %. Personnel expenditures will increase by 9.7 % and other current expenditures are projected to increase by 4.8 %.

Defence 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 255,305,000 YTL in current prices with 13.1 % increase, of which 210,000,000YTL amount will be financed by aid from TR and the rest by local resources.

As a result of 17.9 % increase in local revenues and 9.4 % increase in expenditures, budget deficit is projected to reduce. In this way an improvement will be displayed at budget deficit's share in GNP which is financed by TR aid and credits. The share of foreign aid and credits is projected to decrease to 13.1 % in 2007, from 14.3 % in 2006.

Investments which are projected to increase by 13.1 % in real terms, will increase their share in GNP from 5.6 % to 6 %. In this way a relative improvement will be displayed at budget expenditure structure.

Table - 31 Balance of State Revenues and Expenditures

	(YTL)					
	2006 ¹		2007 (Target)		Change	
	Current Prices	GNP Share (%)	2006 Prices	GNP Share (%)	Current Prices	Real (%) Current (%)
I. REVENUES	1,710,566,495.0	44.9	1,908,421,735.2	46.9	2,003,842,822.0	11.6 17.1
1. Local Revenues	1,166,212,341.4	30.6	1,375,088,401.9	33.8	1,443,842,822.0	17.9 23.8
1.1. Tax Revenues	760,625,840.5	20.0	919,314,761.9	22.6	965,280,500.0	20.9 26.9
1.1.1. Direct Taxes	287,208,457.0	7.5	386,682,857.1	9.5	406,017,000.0	34.6 41.4
1.1.2. Indirect Taxes	473,417,383.5	12.4	532,631,904.8	13.1	559,263,500.0	12.5 18.1
1.2. Other Income	167,336,653.0	4.4	185,205,390.5	4.5	194,465,660.0	10.7 16.2
1.3. Fund Revenues	238,249,847.9	6.3	270,568,249.5	6.6	284,096,662.0	13.6 19.2
2. Foreign Aid and Credits	544,354,153.6	14.3	533,333,333.3	13.1	560,000,000.0	-2.0 2.9
2.1. Foreign Aid	283,402,953.6	7.4	319,047,619.0	7.8	335,000,000.0	12.6 18.2
2.1.1. Republic of Turkey	283,260,922.7	7.4	319,047,619.0	7.8	335,000,000.0	12.6 18.3
2.1.2. Other	142,030.9	..	-	-	-	- ..
2.2. Credits	260,951,200.0	6.9	214,285,714.3	5.3	225,000,000.0	-17.9 -13.8
2.2.1 Republic of Turkey	260,951,200.0	6.9	214,285,714.3	5.3	225,000,000.0	-17.9 -13.8
II. EXPENDITURES	1,744,990,966.5	45.8	1,908,421,735.2	46.9	2,003,842,822.0	9.4 14.8
2.1. Current Expenditures	698,912,430.3	18.4	762,235,136.2	18.7	800,346,893.0	9.1 14.5
2.1.1. Personnel Expenditures	607,941,137.8	16.0	666,940,064.8	16.4	700,287,068.0	9.7 15.2
2.1.2. Other Current Expenditures	90,971,292.5	2.4	95,295,071.4	2.3	100,059,825.0	4.8 10.0
2.2. Transfers	731,024,119.1	19.2	783,991,361.0	19.3	823,190,929.1	7.2 12.6
2.3. Defence Expenditures	100,000,000.0	2.6	119,047,619.0	2.9	125,000,000.0	19.0 25.0
2.4. Investments	215,054,417.1	5.6	243,147,619.0	6.0	255,305,000.0	13.1 18.7
III. BALANCE OF BUDGET	-34,424,471.5		-		-	

¹ Provisional Figures

Source : State Planning Organization

3.9 Balance of Payments

The foreign trade volume is projected to increase by 3.4 % and reach to 1,402.3 million \$ in 2007, due to provisional figures of 2006 which is estimated as 1,356.1 million \$ (table 32).

Exports which are estimated to realize as 65.1 million \$ in 2006, are projected to increase by 5.8 % and reach to 68.9 million \$ in 2007. 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 2007 imports are projected to increase by 3.3 % and reach to 1,333.4 million \$ in the direction of the required growth and investment targets. Therefore foreign trade deficit will increase by 3.1 % and reach to 1,264.5 million \$ from 1,225.9 million \$.

Net tourism revenues which have share of 27.4 % in invisible accounts balance are projected to increase by 6.3 % and other invisibles item to increase by 3.6 %. These positive developments will cause an increase of 4.4 % in the invisible accounts balance, which will reach to 985.1 million \$ in 2007.

According to provisional figures of 2006, current accounts deficit which was 282 million \$ will decrease by 0.9 %, and realize as 279.4 million \$ in 2007.

Loans provided from Republic of Turkey in 2007 are projected to decrease by 18.8 % and reach to 146.1 million \$. While other capital movements increase by 6.9 %, the capital movements balance which realized as 250.7 million \$ in 2006 is projected to decrease by 11.6 % and be 221.7 million \$ in 2007. As a result of these developments General Balance which had 31.3 million \$ deficit, is projected to have 57.7 million \$ deficit in 2007.

Consequently decrease in change in reserves, is projected to increase by 35.4 % and reach to 57.7 million \$ in 2007, while it was 42.6 million \$ in 2006.

Table - 32 Balance of Payments

	(Million\$)		
	2006 ¹	2007 Target	Change %
1. CURRENT ACCOUNTS			
1.1. Foreign Trade			
1.1.1. Exports	65.1	68.9	5.8
1.1.2. Imports	1,291.0	1,333.4	3.3
Foreign Trade Balance	-1,225.9	-1,264.5	3.1
1.2. Invisible Accounts			
1.2.1. Tourism (Net)	258.3	274.5	6.3
1.2.2. Other Invisibles (Net)	685.6	710.6	3.6
Invisible Accounts Balance	943.9	985.1	4.4
Current Accounts Balance	-282.0	-279.4	-0.9
2. CAPITAL MOVEMENTS			
2.1. Foreign Aid and Loans by Turkey	180.0	146.1	-18.8
2.2. Other Capital Movements (Net)	70.7	75.6	6.9
Capital Movements Balance	250.7	221.7	-11.6
General Balance	-31.3	-57.7	84.3
3. CHANGE IN RESERVES			
(- Increase, + Decrease)	42.6	57.7	35.4
Net Errors And Omissions	-11.3	-	-
Average US\$ Exchange Rate: YTL			
	1.45	1.54	6.2

¹ Provisional Figures

Source : State Planning Organization

3.10. Labour Force Requirement and Employment

Due to GDP and sectoral growth targets, 5,485 extra employment, except agriculture, is required in 2007 Program period.

As a result of economic developments, as extra labour force needed in service and industrial sectors will be provided from agriculture to some extent, a decrease in employment of agricultural sector will take place and thus this will cause an increase in labour force productivity per unit in agriculture. The net increase in total employment required is estimated to be 4,864.

The shares of additional labour force requirement of sectors in total, excluding agriculture are; 5.5 % in industry, 27.9 % in construction, 5.2 % in trade, 9.5 % in tourism, 11.5 % in transport and communication, 2.3 % in financial institutions, 25.9 % in business and personal services and 12.2 % in public services.

Table - 33 Additional Labour Force Requirement for 2007

Sectors	Marginal Increase	Additional	Share
	in GDP (YTL)	Labour Force Requirement Excluding Agriculture	(%)
1. Industry	29,697,866.0	303	5.5
1.1. Quarrying	1,579,410.9	52	0.9
1.2. Manufacturing	13,901,065.1	208	3.8
1.3. Electricity-Water	14,217,390.0	43	0.8
2. Construction	18,865,132.4	1,531	27.9
3. Trade	53,490,145.2	805	14.7
3.1. Wholesale And Retail Trade	30,612,607.2	285	5.2
3.2. Hotels And Restaurants	22,877,538.0	520	9.5
4. Transport-Communication	35,668,760.5	629	11.5
5. Financial Institutions	16,222,061.9	125	2.3
6. Business and Personal Services	33,008,426.6	1,421	25.9
7. Public Services ¹	33,737,519.2	671	12.2
Total	220,689,911.8	5,485	100.0

¹ Including PEE and Municipalities
Source: State Planning Organization