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The Russia-Ukraine war, which began in 2022, triggered an economic recession that persisted in 2023 and the world economy painted a negative picture. Inflation and low growth risks prevailed globally throughout the year.

The tight fiscal policies and high interest rates implemented in 2023 to combat global inflation led to a slowdown in the world economy and a contraction in trade.

Although the uncertainty over the Russia-Ukraine war continues to have a negative impact on the markets, a gradual recovery is expected in the 2023-2024 period as the pressure of high inflation on incomes eases. International organizations such as the OECD, IMF and the World Bank continue to highlight the challenges facing the global economy. Growth forecasts for end-2023 are 2.9, 2.9 and 2.6 per cent, respectively.

In this period, when the pressures from rising energy and food prices persist, the downward trend continues, although risks have stabilised to some extent. To establish the proper course against the fluctuations, effective and efficient planning of structural measures and fiscal policies is therefore required.

Many factors such as global inflation and the supply crisis have adversely affected and continue to affect the TRNC economy. In this context, determining medium-term, resilience-building and recovery- accelerating policies will provide an opportunity to shed light on the upcoming period.

The TRNC economy, which was deeply affected by the Covid-19 pandemic, contracted by 16.2% in 2020. According to the data of the Statistical Institute, in 2021, it recovered and grew by 3.9%. In 2022, despite unfavourable economic developments, the TRNC economy grew by 13.3%. No estimates have yet been published regarding the growth figures for 2023.

The waning of the pandemic's impact and the relative mobilization of the economy in 2021 caused the unemployment figures to fall back to single digits. **According to the Household Labour Force Surveys, the unemployment rate in the TRNC was calculated as 7.8% in 2021 and 6.3% in 2022. By the end of 2023, the unemployment rate declined to 5.1 per cent.**

While the employment rate in the TRNC was 48.1% in 2019; it fell to 45.9% in 2020 and to 40.4% in 2021 due to the impact of the pandemic. In 2022, it started to rise again, reaching 46% and 48.3% in 2023. While the labour force participation rate in the TRNC in 2020 was 51.1%; it fell to 43.8% in 2021. Then In 2022, it increased to 49.1% and in 2023 to 50.9%. **The youth unemployment rate in the TRNC decreased from 21.4% in 2021 to 19.2% in 2022 and to 14.9% at the end of 2023.**

In 2020, the coverage ratio of exports to imports reached 8.2%, the highest since 2010. In 2021, this ratio remained unchanged. **According to TRNC Trade Department figures, the ratio of exports to imports decreased to 5.6 per cent in 2022. By the end of 2023, this percentage increased to 6.3%.**

Inflation, which was 15.03% at the end of 2020, rose considerably in 2021 after the climb in commodity and freight costs, as well as due to the significant depreciation of the Turkish Lira. At the end of 2021, annual inflation reached 46.09%. The global inflation caused by the Russia-Ukraine war, which started in February 2022, also deeply affected the TRNC economy. By the end of 2022, annual inflation was 94.51%. **At the end of the fourth quarter (Q4) of 2023, annual inflation stood at 83.63%. This has meant that the TRNC economy faced the highest**

inflation rate since 1994.

Due to the pandemic, a serious burden was put on the TRNC budget. While the coverage ratio of local revenues to local expenses in the TRNC rose to 101% in 2018, it fell to 96% in 2019 and 87% in 2020. In 2021, this rate was calculated as being at 85.3%. At the end of the fourth quarter of 2022, the ratio of local revenues to local expenses in TRNC increased to 92.1%. **At the end of the fourth quarter of 2023, this ratio declined to 84.2%.**

Asset size, which was 125 billion 332 million TL at the end of 2022, increased by 82.5% to 228 billion 721 million TL at the end of 2023. Total gross loans increased by 13.8% in the last quarter and 62.7% in the last one year to 92 billion 47 million TL. Deposits, on the other hand, increased by 13.4% in the last quarter and 79% in the last one year, reaching 186 billion 718 million TL. As it becomes evident, during the last year deposits, in other words savings, have risen more than loans, in other words investments and household expenditures. This points to an economy which is slowing down. The shareholders' equity of the banks rose by 16.7% in the last year and came in at 16 billion 819 million TL.

Along with the pandemic, and as in other countries, the tourism sector had a hard time in the TRNC. Although the number of passenger arrivals rose by 42% compared to the previous year, the tourism sector, which experienced an increase in activity due to a rise in vaccination rates in 2021, could not achieve the expected momentum. With the year 2022, the lessening of the effect of the pandemic has positively impacted the tourism sector. **Compared to the same period of the previous year, at the end of 2022, the number of passenger arrivals rose by 156.2%, the number of accommodation rose by 156.6% and the number of overnight stays rose by 189.1%. However, despite this rapid recovery in tourism in 2022, the pre-pandemic level could not be achieved. At the end of the fourth quarter of 2023, compared to the same period of the previous year, the number of arrivals increased by 31.1%, the number of accommodation increased by 20.4% and the number of overnight stays increased by 9.7%. Thus, the tourism sector in TRNC has exceeded the pre-pandemic level.**

Türkiye continued its uninterrupted growth trend after 2009 with a real increase of 1.8% in 2020. In 2021, the Turkish economy grew by 11%, showing that the recovery continues strongly. However, by the end of Q3 of 2021, the uncertainties in the monetary policy and the fall in foreign exchange reserves caused serious fluctuations in foreign exchange rates, led to price instability and high inflation. In 2022, the Turkish economy went through a difficult period due to the global inflation and supply crisis. According to Turkish Statistical Institute (TUIK) data, growth rate was 5.5% in 2022. The Turkish economy maintained its growth trend in 2023 and grew by 4.5% at the end of the fourth quarter.

The Greek Cypriot Administration (GCA) economy, which shrank by 5.1% in 2020 due to the pandemic, grew by 5.5% at the end of 2021 and 4.6% in 2022. At the end of the fourth quarter of 2023, the GCA economy grew by 2.5%.

2. GLOBAL ECONOMIC OUTLOOK

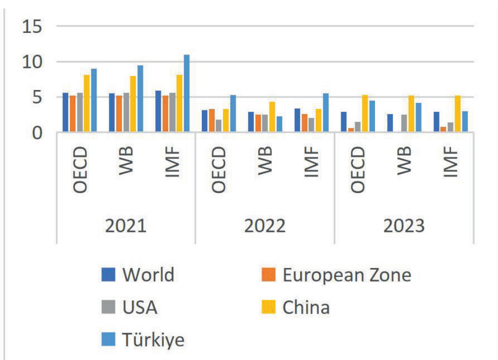
In 2022, the global economy entered a troubled period with the Russia-Ukraine war. Due to the war, supply chain was shaken and commodity and food prices have risen. This situation has undermined the security of supply and caused financial fluctuations on a global scale.

In 2023, even with positive developments in the world economy, the recovery remained fragile throughout the year. Forecasts regarding the world economy have become increasingly challenging due to the unpredictability of the Russia-Ukraine war and the reappearance of possible pressures in the global energy markets.

International organisations such as the IMF, the World Bank and the OECD have drawn attention to the challenges facing the global economy through 2022. For 2023, global growth was projected to remain below 3%. A gradual improvement is expected in the 2023-2024 period as the pressure of high inflation on incomes eases.

As a result, global growth is estimated at 2.9%, 2.9% and 2.6% for 2023 by the OECD, IMF and World Bank, respectively. In Chart-1, the growth forecasts of OECD, World Bank and IMF for 2021, 2022 and 2023 for the world, EU, USA, China and Türkiye are shown.

Chart 1: Global Economic Outlook Estimates



Source: OECD, World Bank, IMF

In 2022, countries started to implement tightening monetary policies depending on the economic developments. These policies are believed to continue until there are signs of a permanent decline in inflationary pressures. Therefore, policy rates remained high in many countries, including the USA and the European Zone, throughout 2023. Interest rate hikes are likely to continue for a while.

Global trade, which contracted in the second half of 2022 due to deteriorating economic conditions throughout the year, is expected to contract in 2023 as well.According to World Trade Organisation (WTO) data, the total global trade in goods and services in 2023 is projected to decrease by 1.5 trillion USD compared to 2022 and reach 31 trillion USD. On the other hand, the World Trade Organisation expects that the increase in global trade volume in 2023 will be limited to 0.8%, while trade will recover in 2024 and reach a growth rate of 3.3%.

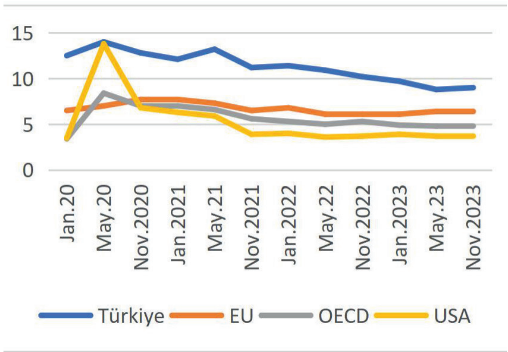
Regional wars, zero carbon policies and transformation efforts towards the transition to green energy, trade wars, and developments in the field of artificial intelligence, which are closely related to global political economy, standout as factors that will continue to affect the global economy and trade in 2024.

International Labour Organization (ILO) has published the 2023 version of the "World Employment and Social Outlook: Trends" Report, which is being published every year regularly. The report underlines that labour markets have shown surprising resilience despite the deterioration in economic conditions. However, expectations for further social justice have been undermined by new vulnerabilities and subsequent crises. Therefore, the post-pandemic recovery continues to experience ups and downs.

According to ILO data, unemployment remains below pre-pandemic levels. The 2023 global unemployment rate fell to 5.1%, slightly below that of 2022 (5.3%), showing limited improvement. However, in 2023, an improvement has been observed in global job shortages and labour market participation rates.

The ILO shares very worrying projections for 2024. First, it warns of rising productivity stagnation, and second, it predicts the labour market and global unemployment to worsen further. Thirdly, according to ILO, it is foreseen that existing inequalities will further increase with the impact of all these.

Chart 2: Unemployment rate (%)



Source: OECD, World Bank, IMF

As can be seen in Chart 2, a pandemic- induced rise took place during quarter 1 (Q1) of 2020 in selected economies in unemployment rates. Unemployment rates fell with the recovery of global economic activities.

3. OUTLOOK FOR THE TRNC, TÜRKİYE AND THE GCA ECONOMIES

2023 was a year in which inflation and low growth risks persisted globally. Tight monetary policies and high interest rates implemented throughout the year to combat global inflation led to a slowdown in the world economy and a contraction in trade.

Structural reform efforts are essential to stimulate productivity growth and ease supply constraints. In this unfavourable economic process we are going through, the robustness of the measures being tak-en to stabilise the economy is very critical.

Although energy, food and commodity prices have fallen, they are still well above the levels of a few years ago. Therefore, it is important to gradually withdraw comprehensive policy support and provide tailored support to those in greatest need.

Reform efforts to strengthen productivity increase will not only improve sustainable living standards, but also ease supply shortages and inflationary pressure,facilitating the exit from the current slow-down. In order to revitalise the growth trend, it is important to increase investment and productivity in a sustainable manner.

In this process, vulnerabilities in the TRNC economy are increasing and new risks are emerging. No clear and foreseeable structural measures have yet been put in place against these fluctuations. Our primary desire for is the elimination of uncertainties in terms of economics, and therefore the attainment of an environment of stability by more reliable forecasting. On the other hand, the hope is that the structural reforms required for this desired environment will be prepared and put into effect as soon as possible.

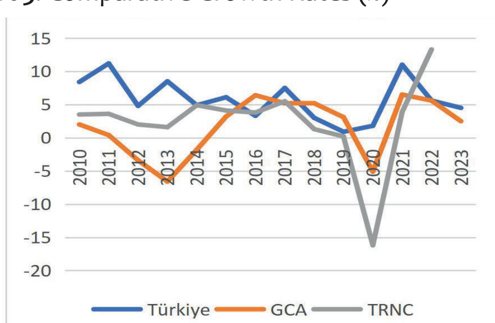
Despite the shrinking global economy in 2020, the Turkish economy grew by 1.8% thanks to credit-oriented expansionary policies. In 2021, it showed a growth rate of 11% and in 2022, it grew by 5.6%, despite the increase in freight and commodity prices due to the Russia-Ukraine war and the excessive depreciation of the Turkish Lira, which increased input costs. Although global developments continued to pose risks to the Turkish economy for 2023, growth of 4.5% was achieved at the end of the fourth quarter.

Like all other economies, the GCA economy was also adversely affected by the Covid-19 outbreak. The GCA economy, which shrank by 5.1% in 2020, grew by 5.5% in 2021. Despite the unfavourable economic conditions caused by the Russia-Ukraine war and the factors related to this war, the GCA economy grew by 5.6% in 2022 and at the end of the fourth quarter of 2023, the GCA economy grew by 2.5%.

3.1. Growth

Once the growth trend in the TRNC, Türkiye and the GCA economies for thelast 10 years is analysed, it can be ob-served that the TRNC and Türkiye performed better and in a more stable fashion than the GCA until 2015. The GCA economy begun to recover with the measures implemented after 2015. During the 10-year period of 2010-2019, the average growth rate of Türkiye, the GCA and the TRNC was 5.86%, 1.36% and 2.98%, respectively.

Chart 3: Comparative Growth Rates (%)



Source: TRNC Statistical Institute, CYSTAT, TÜİK

Due to the Covid-19 pandemic, 2020 has been a difficult year for all three countries. Especially in the first two quarters, when the pandemic peaked and shutdowns occurred, the economies of Türkiye, the GCA and the TRNC contracted significantly. Post the economic stagnation and contraction during the first two quarters, with resumption of fi-nancial support and the acceleration of economic activity, economic recovery was underway in all three countries, especially in the summer months.

For the whole of 2020, which was significantly influenced by the pandemic, Türkiye continued its uninterrupted growth trend after 2009 with a real increase of 1.8%.

The Turkish economy grew by 11% in 2021 and 5.6% in 2022. According to TÜİK data, the Turkish economy grew by 4% in the first quarter, 3.9% in the second quarter, 5.9% in the third quarter, and by 4.5% at the end of the fourth quarter in 2023.

At the end of the fourth quarter of 2023, public expenditures grew by 3.8%. On a sectoral basis, the highest growth was observed in the financial and insurance activities sector with 9%. The growth in other sectors was 7.8% in construction and 6.4% services, respectively. The agriculture, forestry and fishing sector shrank by 0.2% in this period.

In the IMF's World Economic Outlook Report published in October 2023, growth expectations for the Turkish economy were revised upwards for this year and next year. The Turkish economy is forecast to grow by 4% this year and 3.25% the following year.

The Greek Cypriot Administration (GCA) economy shrank by 5.1% in 2020 due to the pandemic. With private consumption falling by 3.9% and investment by 2% in 2020, the impact on domestic demand was only partially mitigated by temporary income support measures.

The GCA economy grew by 5.5% in 2021 and 5.6% in 2022. Growing by 3.3% in the first quarter, 2.6% in the second quarter and 2.5% in the third quarter of 2023, the GCA economy grew by 2.5% in the fourth quarter. Sectors with positive growth in the aforementioned period are "Hotels and Restaurants", "Construction", "Wholesale and Retail Trade", "Motor Vehicle Repair", "Administrative and Support Services", "Information and Communication" and "Transport- Storage".

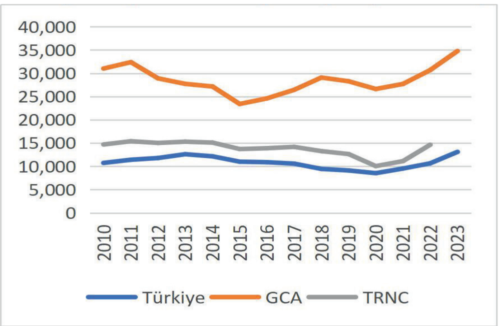
In its report published in October 2023, the IMF lowered its 2023 growth rate projection for the GCA to 2.2%. The report, published before in April, stated that 2.5% growth was anticipated.

According to data from the Statistical Institute, the TRNC economy, which contracted by 16.2% in 2020, expanded by 3.9% in 2021. In 2022, a growth rate of 13.3% was recorded. The Statistical Insti-tute has not yet announced its growth estimate for 2023.

After the Russia-Ukraine war started in February 2022 and the sanctions imposed on Russia, the ensuing rise in commodity prices, especially in energy, and globally rampant inflation continue to adversely affect the TRNC economy.

The per capita income development trend of the TRNC, Türkiye and the GCA is seen in Chart-4.

Chart 4: Comparative GDP per Capita (US Dollars)



Source: TRNC Statistical Institute, CYSTAT, TÜİK

While the GDP per capita in the TRNC reached its highest nominal level with 15,302 USD in 2013, it fell to 13,277 USD in 2018 due to the rise in foreign exchange rates. GDP per capita dropped by 5% in 2019 and 20.5% in 2020, falling to 10,055 USD. The Statistical Institute announced the GDP per capita for 2021 as being 11,129 USD. In 2022, it increased to 14,648 USD. For the year 2023, however, no work has been undertaken to form an estimate yet.

While the GDP per capita in Türkiye reached its highest nominal level with 12,582 USD in 2013, it fell to 9,213 USD in 2019 due to the rise in foreign exchange rates and the slowdown in the economy. As a result of the shrinking economy with the effect of the pandemic in 2020, the per capita GDP in Türkiye fell to 8,599 USD. In 2021, GDP per capita rose to 9,539 and in 2022 to 10,655 USD. According to TÜİK data, GDP per capita in 2023 is 13,110 USD.

In GCA, per capita income, which was 31,023 USD in 2010, dropped during the economic crisis and fell to 23,354 USD in 2015. Since 2015, with the recovery of the economy, the per capita income which has risen continuously until 2019, was 27,858 USD in 2019. According to the figures of 2020, the per capita income in the GCA fell to 26,785 USD. The per capita income in the GCA rose to 27,715 in 2021 and 30,693 USD in 2022. In 2023, GDP per capita reached 34,791 USD.

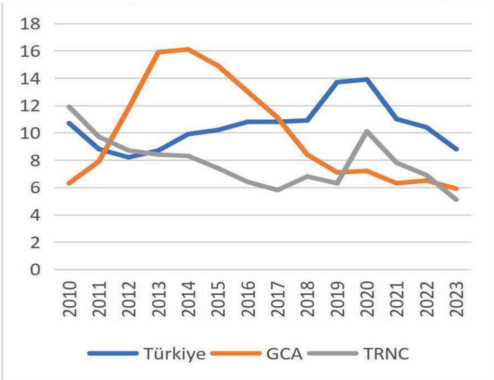
3.2. Employment

The unemployment rate in the TRNC is announced annually. According to the 2020 Household Labour Force Survey, the unemployment rate in the TRNC reached double digits once more and after 10 years it rose to 10.1%. The sectors that were closed due to the Covid-19 pandemic and the time taken to return to normal has caused an increase in unemployment. The increase in vaccination rates and the relative mobilization of the economy in 2021 caused the unemployment figures to fall back to single digits. According to the 2021 Household Labour Force Survey, the unemployment rate in the TRNC was calculated as 7.8%, while the unemployment rate for 2022 was announced as 6.3%. According to the Household Labour Force Survey, the unemployment rate declined to 5.1% in 2023.

Unemployment rates, which fluctuated in Türkiye, were in double digits except for the years 2011-2014. The 2020 unemployment rate was announced as being 13.2%. After the Covid-19 pandemic, with the start of economic activity andrecovery, the unemployment rate fell to 12% at the end of 2021. At the end of 2022, the unemployment rate was 10.4%. TÜİK announced that the unemployment rate decreased to 8.8% at the end of the 4th quarter of 2023.

In the GCA, the unemployment rate, which reached double digits in 2012, rose to 16.1% in 2014. The recovery of the economy since 2015 had a positive impact on unemployment rates, and the unemployment rate, which begun a decline since that date, fell to 7.1% in 2019. In 2020, unemployment started to rise again and was recorded as 7.6% due to the effect of the pandemic. Unemployment rate fell to 6.3% in 2021. By the end of 2022, the unemployment rate in the GCA increased to 6.9%. The unemployment rate, which rose as high as 7% in the first quarter of 2023, declined to 5.9% by the end of the fourth quarter.

Chart 5: Comparative Unemployment Rates (%)

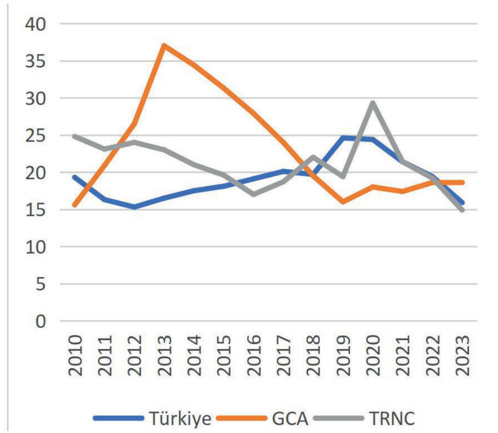


Source: TRNC Statistical Institute, CYSTAT, TUIK

As shown in Chart 6, the youth unemployment rate in the TRNC was 24.8% in 2010. This rate, which fell continuously until 2016, was recorded as the lowest rate of the period at 17%. Youth unemployment rate, which rose again in 2017 and in 2018, fell slightly in 2019 and came in at 19.4%. The youth unemployment rate in the TRNC rose by about 10 points in 2020, reaching 29.3%. In 2021, the youth unemployment rate fell to 21.4%. According to the Household Labour Force Surveys, youth unemployment declined to 19.2% in 2022 and 14.9% in 2023.

Similarly, youth unemployment continues to be a serious problem in Türkiye. The youth unemployment rate, which ranged between 15% and 20% between 2010 and 2016, rose to 25.4% in 2019. In 2020, this rate was 25.3%. At the end of 2021, the youth unemployment rate fell to 21.4%. According to TUİK data, at the end of 2022, the youth unemployment rate in Türkiye was 19.4%. By the end of the 4th quarter of 2023, youth unemployment rate decreased to 15.9%. In the GCA, which faced a serious economic crisis between the years 2012 to 2015, the youth unemployment rate reached a record lev-el of 38.9% in 2013. This rate, which started to decline with the recovery of the econ-omy since 2016, dropped to its lowest lev-el, of the period, with 16.6% in 2019. How-ever, due to the pandemic, this rate rose to 18.2% in 2020. At the end of 2021, the youth unemployment rate in the GCA fell to 17.4%. The youth unemployment rate for 2022 is 18.6%. At the end of the 4th quarter of 2023, youth unemployment rate remained unchanged at 18.6%.

Chart 6: Comparative Youth Unemployment Rates (%)



Source: TRNC Statistical Institute, CYSTAT, TUIK

While the employment rate in the TRNC was 43.7% in 2010, it rose to 48.2% in 2016 and in 2017. This rate, which fell by 0.9 points in 2018, rose again in 2019 and came in at 48.1%. In 2020, it fell to 45.9% due to the negative impact of the pandemic. In 2021, the employment rate continued its decline and fell to 40.4%.

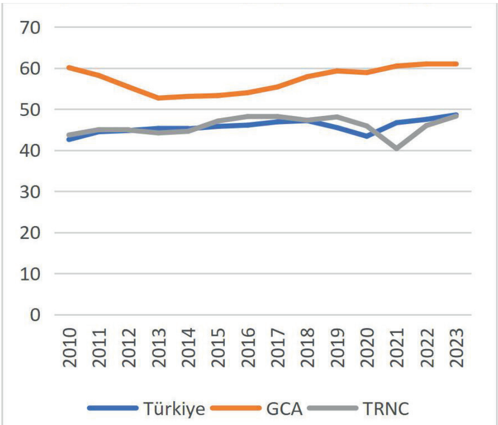
In 2022, the employment rate increased to 46% and according to the 2023 Household Labour Force Survey, the employment rate reached 48.3%.

The employment rate, which is as crucial as unemployment, is quite low in Türkiye compared to the EU average and to other developed countries' economies. After its lowest rate of 41.3% in 2010, this rate fluctuated between 43% and 47% between 2011 and 2019, and was 46.7% at the end of 2021. According to TÜİK data, the employment rate increased to 47.5% by the end of 2022. As of the fourth quarter of 2023, the employment rate reached 48.6%.

The GCA is in a better position than the TRNC and Türkiye in terms of employment rate. Although the employment rate, which was

60.2% in 2010, fell to 53% in 2015, it begun to rise again as of 2016 and climbed to 58.5% at the end of 2019. In 2020, it fell to 57.9% and rose to 60.5% at the end of 2021. By the end of 2022, it increased to 61%. As of the end of the 4th quarter of 2023, the employment rate reached 61.1%.

Chart 7: Comparative Employment Rates (%)



Source: TRNC Statistical Institute, CYSTAT, TUIK

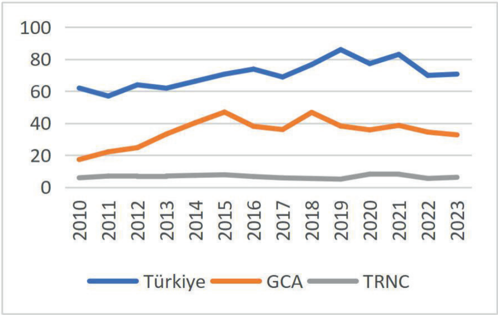
3.3. Balance of Trade

In the TRNC, the coverage ratio of exports to imports was around 6-7% between 2010 and 2017. In 2018 and 2019, this rate fell further to 5.5%. Despite the rise in foreign exchange rates, imports fell in 2020 due to the negative impact of the pandemic on the tourism sector and the higher education students' preference to stay in their countries and receive distance education. When this decline in imports was backed up by the increase in exports, the coverage ratio of exports to imports rose to 8.3%, the highest rate of the peri-od. While this rate rose to 17.4%, which is the highest rate of the last period, due to the rise in exports and the fall in imports in first quarter of 2021, a decline was observed at this rate based on the easing of the lock down measures during the summer months, the increase in demand and therefore the rise in imports. At the end of 2021, the coverage ratio of exports to imports was 8.2%. By the end of 2022, the ratio of exports to imports declined to 5.6%. According to the commercial data for 2023, this ratio increased to 6.3%.

The coverage ratio of exports to imports in Türkiye had risen in the last 10 years and reached 86% in 2019, but fell to 77.2% in 2020. By the end of 2021, the coverage ratio of exports to imports rose to 83%. At the end of fourth quarter of 2022, this rate fell to 69.9%. At the end of the 4th quarter of 2023, the ratio of exports to imports was 70.7%.

In the GCA, this rate, which was 17.4% in 2010, climbed continuously and reached 46.8% in 2018. In 2019 and in 2020, it fell to 38.2% and to 36.5%, respectively. The coverage ratio of exports to imports rose by the end of 2021 and reached 38.7%. This rate fell to 34.5% at the end of the fourth quarter of 2022 and to 32.8% at the end of the fourth quarter of 2023.

Chart 8: Comparative Export-Import Coverage Ratio (%)



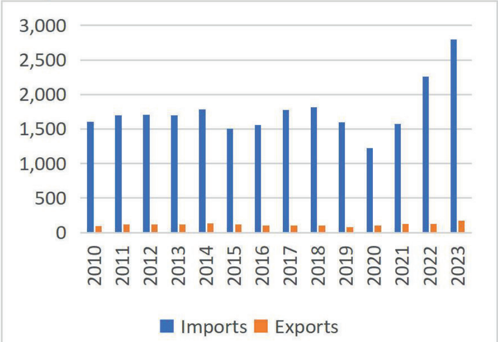
Source: TRNC Statistical Institute, CYSTAT, TUIK

In the TRNC, exports in 2021 rose by 27.2% compared to the same period of the previous year and reached 128.6 million USD. Imports, on the other hand, rose by 19% in the same period and reached 1,572 million USD.

In 2022, exports fell by 2.3% compared to the same period of the previous year, while imports rose by 44%. In the period in question, exports were 126 million USD and imports were 2.259 million USD.

At the end of the fourth quarter of 2023, imports increased by 23.7% compared to the same period of the previous year and reached 2,795 million USD. Exports increased by 39.8% in the same period and reached 176 million USD.

Chart 9: TRNC Imports and Exports (Million USD)



Source: TRNC Depart. of Trade

In 2022, the balance of trade deficit rose from 1,443 million USD to 2,133 million USD compared to the previous year. In 2023, the balance of trade deficit rose by 44.7% compared to the same period of the previous year.

Table 1: TRNC Balance of Trade for 2022-2023

	2022 (Million $)	2023 (Million $)	Change (%)
Exports	126	176	39,8
Imports	2.259	2.795	23,7
Balance of Trade	-2.133	-2.619	22,8

Source: TRNC Depart. of Trade

While 2023 commercial data has been announced on the basis of general totals, product-based data has not yet been shared. Therefore, according to 2022 data, the items with the highest export volume in the TRNC was dairy products with approximately 53 million USD. Next came citrus with $24 million. The share of these two items in total exports is 61.1%.

Table 2: Main Export Items

	2021 ($)	2022 ($)	Change (%)
1- Dairy products	46.134.401	52.959.979	15
2- Citrus	28.730.283	24.282.888	-15,5
3- Scrap metal	15.242.394	14.587.529	-4
4- Cartridges and related materials	14.796.324	12.840.021	-13
5- Carob (Seeds)	3.196.143	1.604.804	-50
6- Concentrate	1.513.757	3.500.595	131

Source: TRNC Depart. of Trade

In 2022, the most imported item was fuel with 299 million USD. In 2022, motor vehicles were another important import item with 155 million USD. Rebar imports, on the other hand, were in the third place with approximately 69 million USD.

Table 3: Main Import Items

	2021 (Million $)	2022 (Million $)	Change (%)
1- Fuel	169.378.112	299.046.692	77
2- Motor Vehicles	110.673.459	155.273.052	40
3- Rebar	50.744.492	68.520.457	35
4- Confection-ary	34.764.130	49.229.290	42
5- Alcoholic Drinks	28.403.797	44.307.008	56
6- Industrial Machine	23.713.066	42.902.934	81
7- Mobile phones	28.448.715	40.815.320	43,5
8- Animal feed	46.330.744	38.287.036	-17
9- Barley	27.112.088	35.667.590	32
10- Pharmaceu-ticals	29.390.314	35.114.063	19

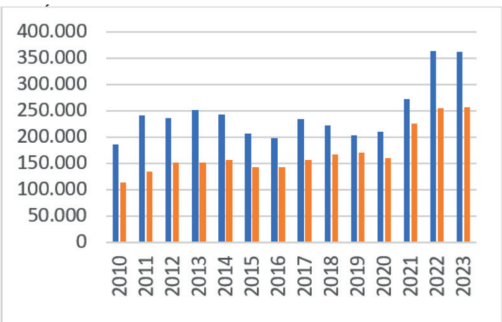
Source: TRNC Depart. of Trade

Note: The steep rise in the amount of fuel imports is due to the abolition of the fixed exchange rate regulation applied to fuel prices after July 2021.

Actual exports in 2022 in Türkiye rose by 12.9% compared to the previous year and reached 254.2 billion USD. Imports, on the other hand, climbed by 34% in the same period, rising from 271.4 billion USD to 363.7 billion USD.

At the end of the 4th quarter of 2023, exports increased by 0.6% compared to the same period of the previous year and reached 256 billion USD, while imports decreased by 0.5% to 362 billion USD.

Chart 10: Türkiye Imports and Exports (Billion USD)



Source: TR Ministry of Trade

Due to these developments, the balance of trade decreased by 3.2% when compared to the previous year and fell to 106 billion USD at the end of the 4th quarter of 2023.

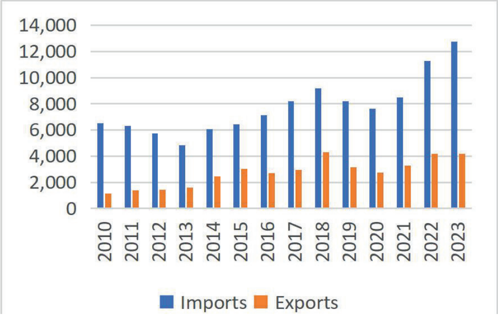
Table 4: Türkiye's Balance of Trade 2022-2023

	2022 (Bil. $)	2023 (Bil. $)	Change (%)
Exports	254.170	255.777	0,6
Imports	363.711	361.774	-0,5
Balance of Trade	-109.541	-105.997	-3,2

Source: TR Ministry of Trade

In 2022, exports in the GCA totalled 4 billion 189 million euro and imports 11 billion 290 million euro.

Chart 11: GCA Imports and Exports (Mil. Euro)



Source: CYSTAT

The balance of trade deficit in the GCA rose by 18.1% from 7.261 billion euro to 8.575 billion euro.

Table 5: The GCA's Trade Statistics for 2022-2023

	2022 (Bil. euro)	2023 (Bil. euro)	Change (%)
Exports	4.209	4.190	-0,5
Imports	11.470	12.764	11,3
Balance of Trade	-7.261	-8.575	18,1

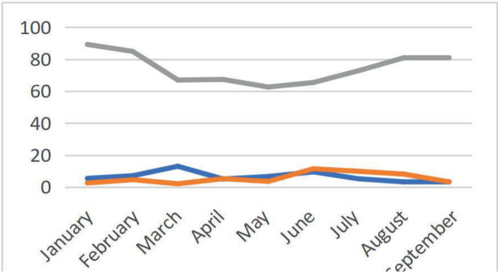
Source: CYSTAT

3.4. Inflation

The TRNC inflation, which has risen to double digits since 2016, was 29.66% in 2018, when there was a rise in foreign exchange rates. Whereas, 2019 year-end inflation fell to 11.66%. The pandemic in 2020 and the rise in foreign exchange rates in the second half of the year pushed inflation up again and the year-end inflation was 15.03%. In 2021, when the effect of the pandemic persisted, especially during the third quarter, increased freight and commodity prices and the depreciation of the Turkish Lira were the factors that pushed inflation up. Annual inflation reached 46.09% at the end of 2021 and %94.51 at the end of 2022.

As a result, the TRNC economy has faced the highest inflation rate since 1994. Inflation, which remained high from 1994 to the middle of 2002, remained at lower levels in the following years. Inflation, which remained below 20% and even in single digits for many years, begun to rise as of 2017. It climbed to very high levels last year due to the Covid-19 pandemic, the Russia-Ukraine war and the depreciation of the TL.

Chart 12: The Course of the TRNC's Inflationary Path (%)



Source: TRNC Statistical Institute

At the end of the first quarter of 2023, annual inflation declined to 66.97% and at the end of the second quarter, it further decreased slightly to 65.43%. However, annual inflation increased to 81.22% at the end of the third quarter. Then at the end of the fourth quarter of 2023, annual inflation reached 83.63%. On a monthly basis, fourth quarter inflation was 1.92% in October, 4.42% in November and 5.44% in December.

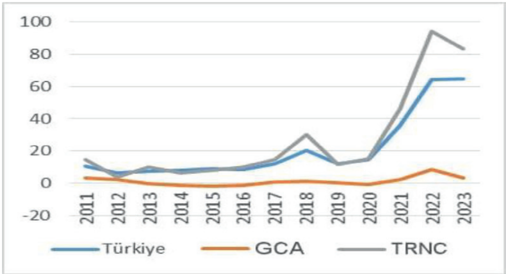
The process took on a similar path in Türkiye. Inflation, which was 14.6% in 2020, rose to 36.08% in 2021. In Türkiye, the year 2022 was closed with 64.27% inflation.

At the end of the first quarter of 2023, annual inflation in Türkiye fell to 50.51%. It continued to decline at the end of the second quarter and was realised as 38.21%. However, annual inflation increased to 61.53% at the end of the third quarter. At the end of the fourth quarter of 2023, annual inflation stood at 64.77%.

In the GCA, on the other hand, inflation has remained low after the transition to the European Currency Unit, though the consumer price index becomes deflationary, that is, negative, in times of economic contraction. Annual inflation in the GCA, which was -0.6% in 2020, reached 2.45% in 2021. At the end of 2022, annual inflation was 8.4%.

Annual inflation in the GCA declined to 5.8% at the end of the first quarter of 2023 and to 1.91% at the end of the second quarter. At the end of the third quarter, it rose to 4.02% and at the end fourth quarter, to 3.53%.

Chart 13: Comparative Inflation Rates (%)



Source: TRNC Statistical Institute, CYSTAT, TUIK

Based on the fact that we are going through a period of relatively less fragile global economic developments, global inflation is expected to remain lower in 2024 than in 2023. In addition to this, inflation is considered to be fragile for Türkiye and the TRNC, based on the developments in exchange rates throughout the year.

The annual increase in inflation in terms of the main commodity groups of the 3 countries is given in Table 6.

Table 6: Change in Main Commodities (%)

	GCA	TR	TRNC
Food and non-alcoholic drinks	7,74	72,01	64,35
Alcoholic drinks and tobacco	2,33	71,26	69,24
Clothing and footwear	2,15	40,74	70,66
Housing, water, electricity, gas and other fuels	4,98	40,39	89,45
Furniture, household tools and domestic services	4,49	58,46	84,36
Health	1,53	79,59	96,09
Transport	-1,82	77,14	83,25
Communication	-1,40	51,02	111,93
Entertainment and Culture	4,46	61,26	72,38
Education	1,99	82,06	116,63
Hotels and Restaurants	5,92	93,24	111,95
Misc. items and services	4,19	58,97	80,70
TOTAL	**3,53**	**64,77**	**83,63**

Source: TRNC Statistical Institute, CYSTAT, TUIK

Looking at the annual change in the main goods groups in the TRNC at the end of fourth quarter of 2023, the highest rise was in ‘Education’ with 116.63%. This commodity group is followed by ‘Hotels and Restaurants’ with 111.95%, ‘Communication’ with 111.93% and ‘Health’ with 96.09%. The commodity groups with the lowest annual change are ‘Food and non-alcoholic drinks’ with %64.35 and ‘Alcoholic drinks and tobacco’ with %69.24 respectively.

Annual inflation in Türkiye stood at 64.77% at the end of the fourth quarter of 2023. Moreover, the cost of the 44.22% increase in the Producer Price Index (PPI) at the end of the fourth quarter compared to the previous year is expected to move inflation upwards in the period ahead.

At the end of 2023 quarter four, when the annual change in the main commodities groups in Türkiye is analysed, the highest increase was in the ‘Hotels and Restaurants’ group with 93.24%. It is followed by ‘Education’ with 82.06%, ‘Health’ with 79.59% and ‘Transport’ with 77.14%. The commodity groups with the lowest annual change in Türkiye are ‘Housing’ with %40.39 and ‘Clothing and footwear’ with %40.74 respectively.

For the GCA, at the end of the third quarter of 2023, annual inflation stood at 3.53%. Analysing the annual change in the main commodity groups in the GCA, the highest increase was recorded in the ‘Food and non-alcoholic drinks” group with 7.74%. This group was followed by ‘Hotels and restaurants’ with 5.92%, ‘Hous-ing, water, electricity, gas and other fuels’ with 4.98% and ‘Furniture, household tools and domestic services’ with 4.49%. Negative inflation was recorded in ‘Transport’ with 1.82% and ‘Communication’ with 1.40%.

3.5. Budget

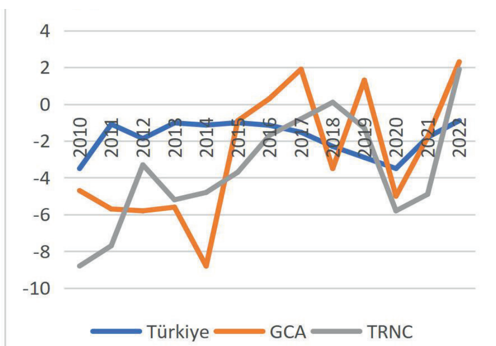
After the improvements in the budget deficit to GDP ratio over the last 10 years, the TRNC, Türkiye and the GCA economies have faced various challenges, like all world economies, in the fight against the Covid-19 pandemic. Additional expenditures made for the health services created a burden on budgets.

Unforecasted expenditures in this context revealed a serious cash deficit problem in the TRNC in 2020 and in 2021. While the ratio of budget deficit to the GDP was calculated as -5% in the GCA for 2020, this ratio was -3.5% in Türkiye. In the TRNC, the ratio of budget deficit to the GDP in 2020 was calculated as -5.8%.

At the end of 2021, the ratio of budget deficit to the GDP in GCA was calculated as -1.8%. Similarly, the ratio of budget deficit to the GDP was -1.8% in Türkiye. In the TRNC, the ratio of budget deficit to the GDP for the end of 2021 was calculated as -4.9%.

The start of the Russia-Ukraine war in 2022 and the negative impact on economies also strained the budgets of Türkiye, the GCA and the TRNC. In 2022, the ratio of budget deficit to GDP was -0.9% in Türkiye and 2.3% in the GCA. In the TRNC, this ratio was realised as 1.9%.

Chart 14: Comparative Budget Deficit to GDP Ratios (%)

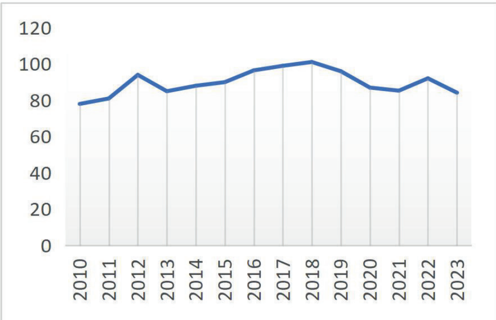


Source: TRNC Statistical Institute, CYSTAT, TUIK

While the coverage ratio of local revenues to local expenditures in the TRNC rose to 101% in 2018, it fell to 96% in 2019 and to 87% in 2020. In 2021, this rate fell to 85.3%. At the end of 2022, this rate rose to 92.1%. While the ratio of local revenues to local expenditures

rose to 104.3% at the end of the first quarter of 2023, it declined to 90.6% at the end of the third quarter and to 84.2% at the end of the fourth quarter. When local revenues and local expenditures in the TRNC are compared, a deficit of 5 billion 370 million TL was recorded.

Chart 15: The Coverage Ratio for Local Revenues of Local Expenditures in the TRNC (%)



Source: TRNC Ministry of Finance

While the revenues in the TRNC for 2019 were 21.64% above the budget forecast, in 2020, the revenues remained below forecast due to the effect of the pandemic. As of the end of the year, while tax revenues were at the level of 90% of the budget estimate, the line item relating to the support of the public finances with-in the scope of the loans offered by the Republic of Türkiye played an important role in the fulfilment of theobligations to the public.

The local budget, which had a deficit of over 1.65 billion TL at the end of 2020, had a deficit of 1.311 billion TL by the end of 2021. At the end of 2022, a deficit of 1.650 billion TL was incurred in the local budget. At the end of 2023, the local budget had a deficit of 1 billion 188 million TL. While the budget deficit at the end of 2021 constituted 17.3% of local revenues, the local budget deficit at the end of 2022 was equal to 8.6% of local revenues. At the end of the fourth quarter of 2023, the local budget deficit was equivalent to 3.6% of local revenues.

Table 7: 2022–2023 Q4, Local Budget Deficit/ Surplus

	2022 4th quarter	2023 4th quarter
Local Revenues (TL)	14.353.762.508	28.614.255.708
Local Expenditures (TL)	18.183.534.997	33.984.559.114
Deficit/Surplus (TL)	-1.650.257.043	-1.187.741.610

Source: TRNC Ministry of Finance

While the coverage ratio of local revenues to local expenditures was 85.3% at the end of 2021; by the end of 2022, this rate rose to 92.1%. By the end of 2023, it declined to 84.2%.

Local revenues, which were forecasted as 21.5 billion TL at the end of 2023, reached 28.6 billion TL in this period. According to the figures, local revenues were 33% high-er than anticipated in this period.

TRNC public finance revenues consist of 5 main items. These are 1) Tax Revenues, 2) Non-Tax Revenues, 3) Capital Revenues, 4) Donations, Aids and Loans Received, and 5) Other Revenues.

Due to the impact of the pandemic in the TRNC in 2020, 4.9 billion TL of the tax revenues, which was forecasted as 5.4 billion TL in the revenues budget, could be collected, and a performance loss of 10% was recorded. The performance loss in revenue items, which can be directly associated with economic activities, continued in the first, second and third quarters of 2021. However, as of the end of the year, thanks to the higher taxrevenues in fourth quarter of 2021, 10.5% more tax revenue was collected than the 5.4 billion TL tax revenue forecasted in the budget. Similarly, tax revenues, which were forecasted as 8.6 billion TL at the end of 2022, came in above forecast, at 13.4 billion TL.

According to the 2023 budget, tax revenues constitute 62.5% of total revenues. Tax revenues, which were projected to be 20.5 billion TL at the end of the year, were realised as 27.1 billion TL above the forecast. In this context, 32.2% more tax revenues were obtained than the projected.

Although different tax revenue items have different collection periods, in order to evaluate quarters, based on the assumption that tax collections are spread evenly throughout the year, performance measurement for quarters can be taken as a monitoring tool for those who follow financial data and policy makers.

In this respect, at the end of fourth quar-ter of 2023, approximately 1.2 billion TL more revenue was collected as Income Tax than what was anticipated in the 20223 budget. In Corporations Tax, approximately 745 million TL more revenue was collected than anticipated.

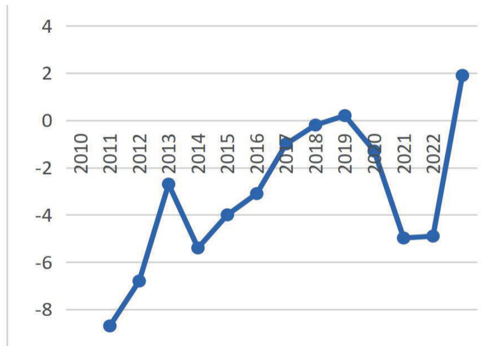
While approximately 18 million TL more income was collected from Motor Tax than envisaged in the 2023 budget, approximately 505 million TL more income was collected from Property Tax in the fourth quarter.

Revenues collected from Customs Tax in the fourth quarter were 503 million TL more than anticipated in the 2023 budget. What is more, approximately 2.2 billion TL extra income was derived from the Value Added Tax on Imports than predicted.

The performance of the Fund allocations, which has a noteworthy place in the Non-Tax Income bracket, was 23.6% at the end of fourth quarter of 2023. Accordingly, an excess of about 649 million TL in Fund income was obtained. Price Stabilisation Fund (FİF) revenues, which were ex-pected to reach 2 billion 350 million TL at the end of fourth quarter of 2023, were around 2 billion 830 million TL and closed with a surplus of around 480 million TL.

In 2020, according to the TRNC Ministry of Finance data, the ratio of local deficit to GDP in 2020 is around -5%, considering a local deficit of 1.065 billion TL and a GDP of 21,407 billion TL announced by the State Planning Office (DPO). This rate gets the attention as being the highest rate after the rate of -5.4% in 2013. The ratio of local deficit to GDP in 2021 was calculated as being -4.9%. For 2022, it was realised as 1.9%. No GDP projections have been made yet for 2023.

Chart 16: Local Deficit - GDP Ratio in the TRNC (%)



Source: TRNC Ministry of Finance, TRNC Statistical Insti-tute

In Türkiye, at the end of fourth quarter of 2022, central budget revenues rose by 99.9% compared to the same period of the previous year and came to 2.802,355 trillion TL. Budget expenditures, on the other hand, rose by 83.4% compared to previous year and amounted to 2.941,420 trillion TL.

At the end of the fourth quarter of 2023, central budget revenues increased by 86.1% compared to the same period of the previous year to 5 trillion 210 billion 488 million TL, while budget expenditures increased by 123.8% to 6 trillion 585 billion 456 million TL.

While the central government budget run a deficit of 142.660 billion TL in the fourth quarter of 2022, it incurred a deficit of 1 trillion 374 billion 968 million TL in the fourth quarter of 2023.

While a primary surplus of 168 billion 243 million TL was raised at the end of the fourth quarter of 2022, a primary deficit of 700 billion 353 million TL was recorded in the same period of 2023.

When the increase in general budget revenues is analysed, the realisation rate of tax revenues compared to the budget estimate was 105.4%.

In terms of tax types, income tax increased by 94.7%, corporate tax by 55%, domestic VAT by 188.6%, private consumption tax by 121.1%, banking and insurance transactions tax by 126.4%, import value added tax by 64%, stamp du-ty by 96.9%, fees by 68.7% and other tax revenues by 111.5% in 2023 compared to 2022.

In 2010, the ratio of budget deficit to GDP in GCA was 4.7%, above the Maastricht criteria. After 2012, with the crisis, budget deficits rose even more and peaked in 2014 with 8.7%. As a consequence of the financial measures taken, including salary cuts of up to 10% and a reduction in the number of civil servants, all within the framework of the agreement with the Troika, budget surpluses were produced in 2016 and 2017. In 2018, the budget defi-cit to GDP ratio was 3.7% due to the fact that the 1,725 million euro to be paid pur-suant to the agreement to privatise the Cooperative Central Bank and the Hellenic Bank, were met from the budget. (Without this transfer, the budget surplus to GDP ratio would have been 4.5%). In 2019, the budget rose by 323.6 million eu-ro, producing a surplus of 1.5% of GDP. GDP. In 2020, due to the pandemic, there was a budget deficit of 1,193.2 million euro, -5.7% of GDP. At the end of 2021, the ratio of the budget deficit of 409.3 million euro to the GDP was -1.8% and in 2022, it was 2.3%.

At the end of 2023, budget deficit totalled 11 billion 887 million euro, up by 10.3% compared to the same period of the previous year. Social assistance increased by around 321 million euro (by 7.6%) to 4 billion 533 million euro.

Budget revenues totalled 12 billion 763 million euro at the end of 2023, an in-crease of 1 billion 307 million euro (11.4%) compared to the same period of the previous year.

VAT revenues increased by 8.4% at the end of 2023 compared to the same period of the previous year.

Table 8: GCA 2022 and 2023 Budget Revenues and Expenditures

	2022 (Bil-lion €)	2023 (Billion €)	Change (%)
Revenues	11.456	12.763	11,4
Expenditures	10.780	11.887	10,3
Balance	676,3	876,3	29,6

Source: CYSTAT

3.6. Banking

At the end of 2022, asset size was 125.332 billion TL. At the end of 2023, it increased by 82.5% compared to the same period of the previous year and reached 228 billion 722 million TL.

Total gross loans rose by 13.8% in the last quarter and by 62.7% during last year reaching 92 billion 47 million TL. Deposits, on the other hand, rose by 13.4% in the last quarter and by 79% during last year, reaching 186 billion 718 million TL. As can be observed, during last year deposits, (in other words savings), have risen more than loans, (in other words investments) and household expenditures. This shows that the economy is slowing down. The shareholders' equity in the banks rose by 81.3% during last year and reached 16.819 billion TL.

Table 9: Banking Asset/Liability BalanceSheet (Billion TL)

	Dec. 2022	March 2023	June 2023	Sept. 2023	Dec. 2023
Cash and Cash Equivalent	42.633	44.857	57.935	64.633	74.496
Securities Portfolio (MDC)	15.443	18.913	31.999	34.735	41.669
Total Gross Loans	56.587	60.633	65.788	80.892	92.047
Asset/ Liability Totals	125.332	136.914	184.296	200.147	228.722
Savings	104.325	112.525	152.484	164.693	186.718
Payables to Banks	6.082	7.198	10.970	11.394	13.690
Shareholders' Equity	9.279	10.276	11.996	14.417	16.819

Source: TRNC Central Bank

Table 10: Asset/Liability Balance Sheet (Change, %)

	Last Quarter Rise	1 Year Rise
Cash and Cash Equivalent	15,3	74,7
MDC	20	169,8
Total Gross Loans	13,8	62,7
Asset/ Liability Totals	14,3	82,5
Savings	13,4	79
Payables to Banks	20,1	125,1
Shareholders' Equity	16,7	81,3

Source: TRNC Central Bank

Business Loans make up the largest share in loans with 72.7%. Business Loans rose by 13.5% in the last quarter and by 59.7% during last year, reaching 63.900 billion TL. Consumer Loans, which account for 17.9% of Total Loans, rose by 68.2% during last year and by 8.6% in the last quarter, reaching 15.769 billion TL. The rise in Cred-it Cards borrowings was 17.3% in the last quarter and 92.8% during last year. While the total loan size was 53.947 billion TL at the end of 2022, it reached 87.871 billion TL at the end of 2023.

Table 11: Total Credits (Billon TL)

	Dec. 2022	March 2023	June 2023	Sept. 2023	Dec. 2023
Business Loans	40.001	42.455	54.308	56.309	63.900
Consumer Loans	9.377	10.617	13.483	14.519	15.769
Credit Cards	1.771	1.939	2.520	2.911	3.413
Other Credits	2.799	2.901	3.556	4.398	4.789
Total Credits	53.947	57.913	73.868	78.136	87.871

Source: TRNC Central Bank

Table 12: Total Credits (Change %)

	Last Quarter Rise	1 Year Rise
Business Loans	13,5	59,7
Consumer Loans	8,6	68,2
Credit Cards	17,3	92,8
Other Credits	8,9	71,1
Total Credits	12,5	62,9

Source: TRNC Central Bank

Savings Deposits, which make up 69.6% of the total deposits, rose by 14.6% in the last quarter and by 79.4% during last year and reached 129.916 billion TL. Commercial Deposits, on the other hand, rose by 81.1% during last year and reached 46.882 billion TL. Public Deposits rose by 8.5% in the last quarter and by 44.3% during last year, reaching 6.304 billion TL.

The thinking is that some of the rise in deposits stems from the jump in the foreign exchange rates. The share of foreign currency deposits in total deposits was 84% as of the end of 2023.

Table 13: Total Deposits (Billion TL)

	Dec. 2022	March. 2023	June 2023	Sept. 2023	Dec. 2023
Savings	72.404	78.635	106.573	113.374	129.916
Commercial	25.888	27.171	37.575	42.723	46.882
Public	4.368	4.645	5.626	5.808	6.304
Other	1.664	2.074	2.710	2.788	3.615
Total deposits	104.325	112.525	152.484	164.693	186.718

Source: TRNC Central Bank

Table 14: Total Deposits (Change %)

	Last Quarter Rise	1 Year Rise
Savings	14,6	79,4
Commercial	9,7	81,1
Public	8,5	44,3
Other	29,7	117,3
Total Deposits	13,4	79

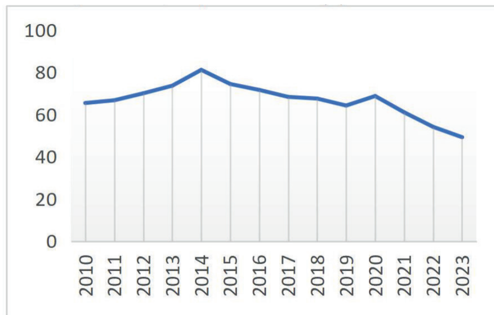
Source: TRNC Central Bank

One of the main problems of the TRNC economy is that despite the high savings rate, the share of investments in national income is around 15%. This situation can also be understood by looking at the loan-deposit rates.

The loan- deposit ratio, which was 65.5% in 2010, rose to 81.2% in 2014. As of this date, this rate started to fall and came in at 68.8% in 2020. The loan-deposit ratio, which fell to 61.1% at the end of 2021, declined to a very low rate of 54.2% at the end of 2022. By the end of 2023, this ratio declined further to 49.3%.

Ultimately, the disruption of economic activities in the TRNC due to the impact of the pandemic and the global economic crisis that ensued, reflected on the banking sector as well, while the savings rose, the expected rises in loans did not materialize and the credit- deposit ratio fell to its lowest level.

Chart 17: Credits/Deposits Ratio (%)

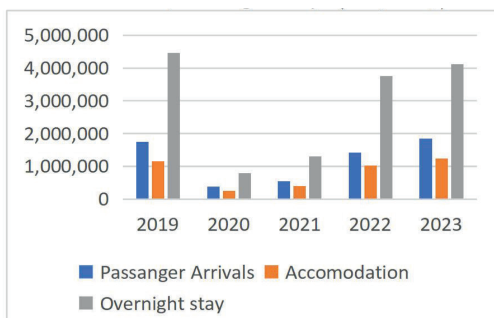


Source: TRNC Central Bank

3.7. Tourism

The pandemic has had a very negative impact on the TRNC tourism, as it has all over the world. In 2020, the number of passenger arrivals (excluding TRNC nationals) fell by 77.8% compared to the previous year and amounted to 388,837. The number of accommodations and overnight stays fell by 78.7% and 82.2% respectively to 244,614 and 791,959.

Chart 18: TRNC Passenger arrivals, accommodation, overnight Stays (2019-2023)



Source: TRNC Tourism Planning Office

With the start of global normalization in and in our country in 2021, the tourism sector has begun its revival. The number of passenger arrivals in 2021 rose by 42% compared to 2020, from 388,837 to 552,317.

At the end of 2022, and compared to the same period of the previous year, the number of passenger arrivals (excluding TRNC nationals) rose by 156.2%, reaching 1 million

415 thousand. After the pandem-ic period, the number of passengers, accommodation and overnight stays is increasing rapidly.

At the end of the fourth quarter of 2023, the number of passengers arriving to TRNC (excluding TRNC nationals) was 1 million 854 thousand. This number increased by 31.1% compared to the same period of the previous year. In the aforementioned period, accommodation and overnight stays increased by 20.4% and 9.7%, respectively.

Likewise, it is observed that there is a revival in the tourism sector in Türkiye. After the Covid-19 pandemic in 2020, the number of foreign visitors coming to Türkiye in 2021 rose by 85.5% compared to the previous year and reached 29,357,000. At the end of 2022, this number rose by 75% compared to the same period of the previous year and reached 51 million.

At the end of 2023, the number of foreign visitors to Türkiye increased by 11.1% compared to the same period of the previous year. The number of visitors in the aforementioned period reached 57 million.

Türkiye's tourism revenues, which were 34.5 billion USD in 2019, fell by 65% to 12.1 billion USD in 2020. In 2021, Türkiye's tourism revenues rose to 24.5 billion USD. Especially during the months of fourth quarter, which consisted of October, November and December, tourism revenues rose by 95% compared to the same quarter of the previous year and reached 7.631 billion USD. At the end of 2022, tourism revenues were 46 billion USD. At the end of 2023, tourism revenues increased by 16.9% compared to the same period of the previous year and reached 54 billion 316 million USD.

The situation is not different in the GCA. With the effect of the pandemic, the number of tourists arriving in the GCA during 2020 fell by 84.1%. With the start of normalization in 2021, the number of tourists visiting the GCA rose by 206.7% compared to the previous year. In 2021, the number of tourists arriving in the GCA reached approximately 2 million. At the end of 2022, this number rose by 65.3% compared to the previous year and reached 3.2 million. At the end of 2023, the number of tourists arriving in the GCA increased by 20.1% compared to the same period of the previous year and reached approximately 3.8 million.

In the GCA, whose tourism revenues were 392 million euro in 2020, this figure rose by 286.1% to 1,513 million euro at the end of 2021. In the January-November period of 2022, the tourism income of the GCA rose by 63.2% compared to the previous year and reached 2,382 million euro. It reached 2,439 million euro by the end of 2022. By the end of 2023, tourism revenues increased by 22.6% compared to the same period of the previous year and totalled 2,991 million euro.

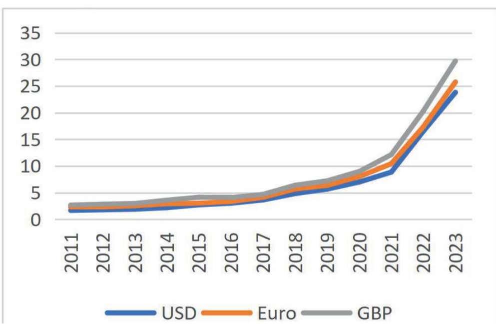
4. DEVELOPMENTS IN THE MARKETS

In this section, developments related to foreign exchange, petrol prices and interest rates, which are directly related to market activities, are covered.

4.1. Foreign Exchange

The exchange rates, which remained flat between 2010 and 2014, begun to rise since 2015. In 2018, the Turkish Lira depreciated against all currencies. Based on the average exchange rates, and compared to the previous year, the depreciation was 31.9% against the USD, 37.6% against the euro and 36% against the sterling. In 2019, the depreciation continued. Compared to 2018, depreciation was 17.8% in the USD, 12.1% in the euro and 13.3% in the sterling.

Chart 19: Average Foreign Exchange Rates 2011-2023



Source: TR Ministry of Treasury and Finance

During the spring of 2020, a run on the currency took place in the months of August-November as well. With a change in economic management and an uptick in interest rates in November, there was a slight decline in exchange rates in December. However, upon the dismissal of the Head of the Central Bank, who was appointed on 20 March 2021, in November, there was a renewed fluctuation in foreign exchange rates. Comparing the end-2021 average exchange rate with the end-2020 data, there was an increase of 26.6% in the US dollar, 30.3% in the euro and 35.2% in the sterling. This upward trend continues. The average exchange rate at the end of 2022 is as follows: USD 16.55, euro 17.36 and sterling 20.32.

For the first quarter of 2023, the average exchange rates were 18.97 USD, 20.26 euro, and 22.94 sterling and second quarter exchange rates were 20.71 USD, 22.53 euro and 25.97 sterling. Exchange rates continued to rise in the third quarter of 2023 as well. Average exchange rates in the July-August-September period were as follows: 26.83 USD, 29.21 euro and 34.04 sterling.

In the last quarter, the USD was 28.53, the euro 30.69 and the sterling 35.51. When analysed on an annual basis, an increase of 57.4% was observed in the US dollar, 63.4% in the euro and 66.5% in the sterling within a year.

4.2. Fuel Prices

Brent oil price, which fell to 40.3 USD in 2016, increased to 75 USD in 2018. Oil pric-es, which were 61.6 USD at the end of 2019, fell to 31 USD between March and May due to the decline in oil demand as a result of the pandemic and the stock capacities being full. At the end of De-cember 2020, the price of Brent oil was 51.8 USD. Oil prices, as expected, started to climb in 2021 and rose by 35.6% compared to the previous year, reaching 94.75 USD by the end of the year. By the end of 2022, the price of Brent oil was $85.91. At the end of the first quar-ter of 2023, the price of Brent oil fell to 77.79. Brent oil rose in the second quarter, reaching 85.43 at the end of June. It fluctuated in the third quarter and closed September with 85.02. In the last quarter of 2023, Brent oil, which started to decline in the last quarter of the year, was recorded as 80.55 at the end of the year.

At the end of 2023, the reflection of Brent oil on petrol prices in the TRNC was as follows unleaded 98 petrol price 31.77 TL, unleaded 95 petrol 31.21 TL and Euro Die-sel 30.65 TL.

4.3. Interest Rates

The Central Bank of the Republic of Türkiye did not change the 8% interest rate set on 25 November 2016 until June 2018. However, the Central Bank responded to the exchange rate shock experienced in 2018 with an increase of 850 basis points first, then an increase of 125 basis points, and an increase of 625 basis points in September, i.e. a total of 1600 (16%) basis points. The interest rate, which had not moved from 24% until July 2019, was reduced to 8.25% by making a total of 9 discounts from this date until May 2020. With the pandemic that begun in March, the effect of the fluctuations in foreign exchange rates caused the interest rates to be raised to 10.25% with a lift of 200 basis points in May, but this increase did not slow the volatility of the exchange rates. After the foreign exchange rates broke a historical record in November, the head of the Central Bank was dismissed. With this governor change, base interest rates were increased 475 points in November and by 200 points in December, and the interest rates were lifted to 17%. These increases have lowered the exchange rates. In March, rising expectations about inflation and rising commodity and food prices prompted the Central Bank to raise interest rates again. However, despite the market expectation for an increase of 100 basis points, the increase was set at 200 basis points.

In 2021, the first rate cut was made on September 23, and the policy rate was reduced by 100 basis points to 18%. Then, the policy rate, which was lowered by 200 basis points on October 21, was once again reduced by 100 basis points on November 18. Finally, the policy rate, which was lowered by another 100 basis points on December 16, was reduced by 5 points during the last 4 months to 14%. Until July 2022, the policy rate was kept constant at 14%. The policy rate was lowered to 13% on 18 August 2022. At the September meeting of the Monetary Policy Committee, this rate was lowered to 12%.

The Monetary Policy Committee decided to reduce the one-week repo auction rate, which is the policy rate, from 12% to 10.5% at its first meeting in October (fourth quarter) of 2022. At its meeting in November, it decided to reduce the interest rate from 10.5% to 9%. At the last meeting of 2022, the Committee decided to keep the interest rate constant.

In 2023, the Monetary Policy Committee held its first meeting on 19 January and kept the policy rate (one-week repo auction rate) unchanged at 9%. At its February meeting, the Committee lowered this rate to 8.5%. The Committee held its last meeting of the first quarter of 2023 on 23 March and kept the policy rate, the one-week repo auction rate, un-changed.

At the end of the second quarter of 2023, the Monetary Policy Committee decided to raise the policy rate, the one-week repo auction rate, from 8.5 to 15%. The Central Bank of the Republic of Türkiye continued to raise interest rates in the third quarter, raising the policy rate to 17.5% in July, 25% in August and 30% in September.

The Central Bank kept raising the policy rate and tightening its policies throughout the final quarter of 2023 in an effort to fight inflation. The Monetary Policy Committee raised the policy rate, the one-week repo auction rate, to 35% in October, 40% in November and 42.5% in December.

As a result of the decisions taken by the Central Bank of the TRNC, which operates similarly to Türkiye, the annual deposit interest rates and interest rates applied to legal reserves at the end of quarter four of 2023 are as presented in the tables be-low.

Table 15: TRNC Central Bank Annual Deposit Interest Rates (%)

	20 May 2022	23 June 2022	26 July 2023	11 Oct. 2023	1 Dec. 2023
TL	12.75	13.75	20.25	26.0	36.0
USD	0.5	1.0	1.5	1.5	2.0
Euro	0.25	0.5	1.0	1.0	1.25
Sterling	0.3	0.6	1.25	1.25	2.0

Source: TRNC Central Bank

Table 16: TRNC Central Bank Interest Rates Applied to Legal Reserves (%)

	20 May 2022	23 June 2022	26 July 2023	1 December 2023
TL	6	6	6	15
USD	0.25	0.50	0.75	1.0
Euro	0.10	0.25	0.5	0.75
Sterling	0.15	0.30	0.65	1.0

Source: TRNC Central Bank

5. STRUCTURAL REFORM AGENDA

In this section, the macroeconomic targets envisaged in the short and medi-um term in the TRNC, Türkiye and the GCA and, if any, salient arrangements in their structural reform agendas are included.

The TRNC signed the 2023 Economic and Financial Cooperation Agreement with the Republic of Türkiye on 31 March 2023, which includes an action plan.

The said agreement covers a resource of 9.5 billion TL. It includes 26 schools, 3 hospitals, 1 health centre, 1 national disaster and earthquake centre, civil defence and fire brigade reinforcement projects. In addition, it focuses on a varie-ty projects on energy, agriculture, transportation, working life, public finance, industry, e-government and technology.

It was declared that with the Agreement, steps would be taken both to ensure economic stability and to strengthen finances. It was also noted that highly important projects for the community would be realised.

By the end of 2023, a total of 5 billion 229 million TL was transferred to the TRNC budget within the scope of Republic of Türkiye Aid and Loans. Approximately 1 billion of this amount was used to support public finance, while 1.6 billion TL was used for investment, 2.5 billion for de-fence and 72 million TL for supporting the real sector.

Türkiye's "2023-2025 Medium Term Programme" (MTP), which is a 3-year roadmap for the economy, was published in the Official Gazette on September 5, 2022 and implemented in 2023.

With the MTP, basic macro indicators such as inflation, employment, growth, exports and account deficit for the 2023-2025 period have been determined.

The GCA, on the other hand, tried to implement the Stabilisation Programme for the period 2022-2025, published on April 20, 2022, throughout 2023. The programme was submitted to the European Commission on May 2, 2022 in accordance with the European Semester requirements and took into account the main policy orientations presented in the Annual Sustainable Growth Survey.

6. KTTO POLICY RECOMMENDATIONS

Currently, where prices are rising from energy to commodities, from raw materials to logistics costs, the TRNC economy presents a negative picture. In this process, some policy recommendations brought forward by the KTTO in order to plan and accelerate economic activities are as follows:

1. Inflation Adjustment and Currency Exchange Profits: The introduction of inflation accounting for the protection of businesses operating in an environment where inflation is certain to exceed 100% remains a necessity for businesses if they were to continue on their way and for employment to be sustained. Therefore, based on the authority given by the Inflation Accounting adhibition article of the Tax Procedure Law No. 27/1977, a new law should be made that would bring forth the balance sheet values (excluding stock, tangible assets and capital – monetary values) to the current conditions with the coefficient to be published in the Official Gazette by the Ministry of Finance, so that 50% of the foreign exchange income of those who have foreign exchange income should be deducted from the tax base.

2. Regulation of Dividend and Corporate Tax Rate: Taxation on undistributed corporate income of companies reduces the financial resources of enterprises, and the adversely affect the strengthening of their capital structures. It should be ensured that there is no withholding tax on the undistributed corporate income (15%) and that it is taxed (5% at the most) and not combined with other incomes (to be a definite tax) in case the profit is distributed as dividends. Thus, it will encourage a more realistic arrangement of business balance sheets and as well as the additional investments of those who earn such income. Two legal regulations that will make the necessary changes in Income Tax and Corporations Tax Laws have been prepared by our Chamber.

3. Value Added Tax of Fixed Assets Subject to Depreciation: It should be ensured that the value added tax of depreciable economic assets is deducted at a single instance during the taxation period when they are active or begun to be utilised.

4. Income Tax Rates: Income tax rates should be rearranged so that the tax burden would be reduced, lower incomes would be taxed at lower rates and their purchasing power would rise. In addition, since wage costs will fall, it would contribute to the increase in employment. Since the unrecorded revenues due to high tax rates will be registered, it will have a positive contribution to higher tax revenues after a certain period. The legal regulation that will provide the necessary change in the Income Tax Law has been prepared by our Chamber.

5. Investment Discount: The principles regarding the taxation of new investments of enterprises have become a deterrent, not an incentive, with the regulations created in the recent past. Investment is necessary to stimulate the economy. If there is no investment, there will be no economic recovery. In the first stage, the investment discount should be returned to its previous format.

6. Public Private Partnership and Privatizations: Emphasis should be placed on executing the existing and planned port, telecommunication, public transportation and energy investments in the TRNC, without using public resources while benefiting from the dynamism of the private sector, in a build-operate-transfer system with the participation and contribution of domestic capital, and with-in the Public- Private Partnership model.

7. Company Registrations: One of the most basic steps to be taken to reduce

administrative and bureaucratic obstacles is to transfer, as much as possible, some of the authorities that public institutions have (for example, the authority to issue/approve documents) to the relevant Chambers. Such steps, which will not only noticeably add to reducing the bureaucratic burden in public institutions, they will also contribute significantly to the development of policies, strategies and measures related to the development of the public institutions' areas of interest. In this regard, the reforms made by the Republic of Türkiye should be taken as an example. Namely; With the amendment made in the Turkish Commercial Code in 2003, within the scope of the reform on the establishment of a company in Türkiye, the authority to issue company registration certificates, which was under the authority of the Ministry of Industry and Trade, was transferred to the Union of Chamber and Commodity Exchanges of Türkiye (TOBB) and the Chambers. By 2007, with the implementation of this regulation, the process that took 13 stages and 38 days before the reform, was reduced to 6 stages and 6 days. Today, company establishment procedures are completed on the same day, in a single centre (Registry Offices within the Chambers) and only over 3 stages. Necessary arrangements should be initiated at the earliest in order to transfer the company registration authority of the Registrar of Companies affiliated to the Ministry of Economy and Energy, to the Turkish Cypriot Chamber of Commerce.

8. VAT Deferment on Imports: Extending the VAT deferment period from 60 days to 90 days so that the importing enterprises would not experience problems in financing within this inflationary environment, will be of great service to the enterprises that have financing problems.

9. Taxation on FOB Value: The rise in international freight prices has meant a negative cost increase to the selling prices of products in the market. In accordance with the aim of bringing affordability to the market, all taxes and duties charged at customs for a certain period of time should be calculated over the Free on Board (FOB) value.

10. Price Stabilization Fund: within a framework that will provide the least fall in the state's fund revenues; funds collected from basic consumer goods, excluding fuel, vehicles, alcoholic beverages and tobacco products, should be abolished, and input costs of producers in domestic production areas that create added value for the country's economy should be reduced, and they should also be continuously supported in their marketing and export operations.

11. Arrangement for Rents: in order to encourage the forming of lease contracts in Turkish Lira, the tax withholding rates for foreign currency and Turkish Lira lease contracts should be rearranged, with the difference between being 10% (increasing the rental withholding tax from 13% to 15% for foreign currency lease contracts and reducing the withholding tax from 8% to 5% for contracts made in Turkish Lira).

12. Encouraging Credit Card Use: Although the law on the Credit Card and Debit Card use, which was put in place to prevent off the books transactions by encouraging the use of credit cards and debit cards, and the 1% refund on expenditures made for their own needs, is in effect, it has not provided the desired benefit as it was not implemented properly and the rate was low. In order for the relevant law to promote and be beneficial in preventing off the books transactions, the rate should be raised to 2% and the implementation should be done seamlessly.

13. Deferred VAT: The fact that some businesses make sales with zero or reduced VAT rates causes them to not be able to

reduce all of the VAT they have incurred due to the expenses they have made for the realization of such activities, and consequently their accounts are constantly deferring VAT. Businesses in this situation have to constantly finance an amount equal to the amount of the deferred VAT. This disrupts the financial structure of such businesses. The amount of deferred VAT liability incurred by businesses in this situation should be refunded quarterly or should be deducted from their social security, corporate tax or income tax liabilities.

14. Disposal of Company Shares: In order to encourage registered local and foreign capital in the country to invest, to improve institutionalization and to strengthen the capital structure of enterprises, no tax should be levied for the disposal (transfer) of company shares, if the holding period of such shares is five years or more. In addition, the fact that TR residents are exempt from tax on the income obtained from the transfer of the shares they hold in local companies registered in the TRNC, is an injustice to the TRNC citizens. Ensuring a similar implementation is important in terms of tax justice. Doing this will also ensure that the beneficiary of the income makes a correct statement.

15. Incentives, Exemptions and Exceptions: Incentives, exemptions, and exclusions should be thoroughly re-examined.

16. Energy: KIB-TEK management should be rid of politics, should be autonomous, and should consist of professional managers to be appointed by the relevant non-governmental organizations, including our Chamber. The energy efficiency law should be taken up and finalized as soon as possible and the Energy Supreme Council should be created.

17. E- Government: Automation and online systems such as e-government, e-tax and e-customs, which are critical for the restriction of the black economy, should be developed and implemented as soon as possible.

18. Public Reform: In line with the understanding that “citizen is not for the state, the state is for the citizen” in the public sector, public reform is demanded in order to remove the burden from the economy and to structure it in a way that supports the economy. The “Draft Law on Public Servants”, which is an important component of public reform, needs to be enacted in a way that will put an end to the consultancy system, which has be-come a bleeding wound for the country, and provide a public management system based on merit, performance and efficiency.

19. Regulation of Public Working Hours: Public working hours slow down the execution of public services, reducing the quality and effectiveness of the service the private sector receives from the pub-lic, and adds to its cost. In order to create a private sector-oriented economy, public working hours should be arranged as outlined below on the basis of providing the highest quality service as well as to increase efficiency, and to accelerate the private sector and not slow it down.

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