

NEAR EAST UNIVERSITY

THE GRADUATE STUDIES

A RESEARCH STUDY OF T.R.N.C. BUDGET AND RECOMMENDATIONS FOR IMPROVEMENT

BY

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PREFACE

The main aim of this study is to analyze the budget of Turkish Republic of Northern Cyprus through the years and illustrate what the effects of expenditures and revenues , and give some recommendations about improvement of Turkish Republic of Northern Cyprus . The economy of North Cyprus is very strange because the per capita income is nearly 590,000,000 million TL but it is said that there is no unemployment. Actually it is not true because the hidden unemployment is very high and the unstable economy because of the lack of investment force people to immigrate. Furthermore, the North Cyprus is heavily depend on Turkish Republic , foreign aids and borrowings to maintain the economic activities.

There is no power in the hand of North Cyprus to control unemployment, money supply and inflation because she uses the Turkish Lira that is controlled by the Turkish Republic. The North Cyprus does not have any stock exchange to borrow from the public. In addition, the management of the

governments has not been able to overcome the problems meet North Cyprus.

Comparative elements of production and commerce between
Greek and Turkish Cypriots- in period 1962-63

	Greek Cypriot	Turkish Cypriot
Agriculture	87.4%	12.6%
Industry	91.8%	8.1%
Imports	96.1%	3.9%
Exports	99.5%	0.5%

Before 1974, the economic superiority of the Greek Cypriots over the Turkish Cypriots was shattering. The magnitude of the economic inequality can be seen from the exports of which the Greek Cypriots controlled 99.5% and the Turkish Cypriots only 0.5%.

After 1974 with the creation of new conditions and investment opportunities , increase the developments and constructions in all sectors of economy .

In the course of this study great efforts had been spent for analyzing the condition of Expenditures and

Revenues that effecting Turkish Republic of Northern Budget
and some alternative precautions has been proposed .

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I would also like to thank my dear engaged Özge for her moral

support and patience during my studies .

I am also deeply indebted to my father and to many of my

friends for their helpful comments and generous support for

this study .

AUTO-BIOGRAPHY

I was born in Nicosia , North Cyprus in 1976 . I completed Secondary School in Bayraktar TMK , Nicosia in 1993 . After Secondary School , I obtained my bachelor degree in Near East University , Nicosia in 1997 .

Since 1993 I have played Basketball in Near East University School team and Club team . On the other hand , I represented my Country in Turkey with National Basketball Team of TRNC .

Now , I work in Private Sector as a Sale Representative of Opel-Toros .

SECTION I

1. INTRODUCTION

1.1 History of TRNC and Other Developments

Cyprus is the third largest island , after Sicily and Sardinia, in the Mediterrenian Sea . 40 sea miles to the south of Turkey and 600 sea miles to the southeast of Greece . Due to its geographical location (and geopolitical importance) it was invaded and ruled by the Hittites , Egyptians , Assyrians , Persians , Romans , Byzantines , Lusignans and Venetians . In 1571 it became a part of the Ottoman Empire and remained under Turkish administration until 1878 when , according to a defensive alliance , it was rented to Great Britain – still belonging to the Ottoman Turks . During World War I , Cyprus was invaded unilaterally by Great Britain in response to the Ottoman Empire's alliance with Germany . Great Britain colnized the island in 1924 after the Lausanne Conference . Hence , Cyprus remained a British colony until 1960 .

In 1960 the island was granted a restricted independence. With the Treaties of Zurich and London (1959) an indipendent , bi-national or bi-communal state was established under the

Guarantership of Turkey , Greece , and the United Kingdom . The state , the Republic of Cyprus , was comprised of the Greek Cypriot and the Turkish Cypriot communities where each had the status of co-founder and equal partner of Republic , having 80% and 20% of the population , respectively . A constitution which safeguarded of the people of both communities was established . It was a compromise solution by both sides among the other alternatives .

The life of this partnership (Republic of Cyprus) lasted only three years . It is very difficult to find the real story of what really happened after the establishment of Republic of Cyprus . Each side have different history about that three years . But , one real think is ENOSIS (union of Cyprus with Greece) , which is the aim of the Greek Cypriot guerilla organization "EOKA" .

From 1963 to 1974 the turkish were force or , according the Greek Cypriot claim , chose to migrate and form their homegeneous enclaves . Due to this migration , the Turkish Cypriots left their land and homes and migrated to the Turkish Cypriot enclaves which constituted 3% of the island . Theidea

of Hellenization of the island was the Greeks national Megalo Idea . The powerful terrorist organization EOKA-B , of the Greek Cypriots , which it took its name from EOKA that was originally established to drive the British from the island before the 1960's , was also supported by the military regime in Greece against the Turkish Cypriots .

As a result of increasing of Greek fights as a violently , Turkey under the provision of the Treaty of guarantee of 1960 , sent troops into the island on July 20, 1974 in order to prevent the union of the island with greece , and to prevent the bloodshed , so that the Turkish Cypriot community regain their rights .

In 1975 the Turkish Cypriots established the “ Turkish Federated State of Cyprus ” . This was comprising of two federal states –a bi-zonal federation . After that year two state leaders cometogether and negotiate about on establishing a bi-communal and bi-zonal federal state but no solution .

In 1983 the Turkish Cypriots established their own independent state , the Turkish Republic of Northern Cyprus (TRNC) .They hoped to be recognized ,

So that they could established relations with the out side world and start economic and political connections with foreign countries for their economic and political survival

1.2 Economic Developments of North Cyprus

After the intervention of Turkey , in 1974 , Turkish Cypriots tried to build and improve the economic situation in north part of Cyprus . Furthermore , the North Cyprus is heavily depend on foreign aids and borrowings to maintain the economic activties .

Our World is in the process which are in fast developing , new economic integration and globalization occur . In these process near the new developings , there are to many problems . It is real that negative problems occur in the TRNC economy and also these problems effect

the TRNC economy . Reconstraction of TRNC economy need the Turkey and integration with world economy .

Turkish Cypriots now tasted freedom and the challenge of socioeconomic development in an environment free from discrimination . These were the sweet rewards of struggle but , as Turkish Cypriots later discovered , sacrifice and hard work were required to sustain them . The Greek-Cypriot political and socioeconomic embargo on Northern Cyprus (preventing effective international involvement and integration) and the inexperience of Turkish Cypriots in economic and public management both contributed to the difficulties that were encountered .

SECTION II

2. The Budget Concept

The budget concept emerged from the problem of balancing the unlimited wants with limited resources. Every individual, social units and institutions must or purposely try to balance their expenditures through their revenues and this balance is limited with a period in future. As explained, the budget expresses the anticipated revenues and expenditures of government for a specified period of time. It is worthy to note that the budget is future oriented expressing the anticipated actions which indicates actual revenues and expenditures.

The budget as a document varies because budget document tends to provide greater information on expenditures rather than revenues, only a brief section is devoted to revenues and the rest is to expenditures.

It is important to give some information about the functions of the budget that increases the public services and activities, control the aggregate demand and supply equilibrium in the economy. The three basic functions of budget policy are as below ;

1. The provision for social goods by which total resources use is divided between private and public goods and by mix of social goods is chosen. This is called allocative function of budget.
2. The application of certain corrections to the distribution of income as determined in the market requiring the Government to add to the income of some by transfers while reducing the income of others by taxes
3. The use of budget policy for purposes of economic stabilization, rendering it necessary under some conditions to raise the level of demand by a deficit policy and under others to curtail demand by a surplus policy.

Provisions for social wants express that government must provide for the satisfaction of social wants, it does not mean that the government itself must carry on the production of commodities. This may be necessary in some cases, such as justice and police protection.

The second objective is the fair income distribution. Fair income distribution is not produced as desired socially. Income

distribution are used to provide sufficient income to individual to support themselves and their families. Tax transfers, social security and unemployment benefits are designed to produce fair income distribution to one extend.

To provide economic stabilization, the government must consider the following components;

- equilibrium international balance of payments,
- full employment,
- economic growth,
- price stability.

With the above mentioned components or standards, it is easy to measure how economy is doing good or bad. Therefore, the budget is related with political system in which public officials are held responsible or accountable for their actions.

SECTION III

3. The Expenditures and Revenues of the TRNC Budget

Expenditures are the result of a set of choices or decisions made at all levels of government. The TRNC budget can be summarized under three items in order to set a careful analysis about the financial structure of the TRNC.

These three items are;

- Budget Expenditures
- Budget Revenues and
- Foreign aid and loans.

3.1. Expenditure Components of the TRNC budget

Since the government expenditures have a direct impact on the economy, these expenditures of TRNC must be examined. The expenditures of TRNC are mainly concentrated in Current Expenditures, Transfers, Defense and Investment.

3.1.1. Current Expenditures

Current expenditures covers the personnel wages and salaries and other current expenditures, such as post and telephone expenses, consumed goods and supplies and other expenditures. The current expenditure has had the highest share of the budget expenditure. As it is shown in Table 1 in the appendices, the current expenditure has shown a rapid increase from 6,263,395.4 million TL in 1995 to 20,375,173.6 million TL in 1997 at current prices . The reason is that many people are employed at the public sector and the lack of investment in TRNC. As it shown in table 2 in appendices , the share of current expenditures from 16.6 per cent to 17.2 per cent during 1986-1997 period .



3.1.2. Transfer Payments

The other important expenditure item of the TRNC budget is transfer payments. The transfer payments includes;

Pensions to retirees, fees to social security fund, aid to the poor scholarships, aid to martyr families and war veterans are named as social transfers.

The other transfers cover economic and financial transfers.

These transfers can be summarized as;

- aid to sports
- aid to Turk Agency
- aid to political parties
- aid to BRTK
- aid to religious institutions
- contributions to institution of Agriculture (TUK)
- contributions to municipal and other local institutions
- contributions to state owned enterprises.

It is obviously seen from Table 1 in appendices that the transfer payments has shown increase from 5,794,161 million

TL in 1995 to 19,359,870.8 million TL in 1997 at current prices. The critical point is the social transfers have had higher growth than other transfers that the other transfers cover economic and financial transfers. In Table 2 in appendices, the share of transfers in GNP has increased from 13.1 per cent to 16.4 per cent during the periods 1986 - 1997. The aim of social transfers are deemed to distribute a fair income. However, the mechanism TRNC uses is not able to do that because these expenditures are financed by the public workers.

3.1.3 Investment

Before giving the statistical figures about investment in TRNC, it is vital to write about what items the investment covers. These are infrastructure for transportation and communication, buildings for constructions, constructions of water walls and caring, agriculture and forestry, vehicles and machinery, infrastructure for tourism and industry and social

services. As it is seen in the table 2 , the share of investment expenditures in GNP has increased 3.9 to 5.2 percent during 1986-1997 period. Holding Table 1 in appendices, the investment spending has increased from 850,372.3 million TL to 6,100,817.7 million TL during period 1995-1997 at current prices.

3.1.4 Defense

The defense expenditures are mostly financed by Turkey and therefore the TRNC's spending on defense matters are very lowest among the other expenditures items. As it is shown in Table 1 in the appendices , defense expenditures has shown slow increase from 747,500.0 million TL in 1995 to 4,325,000.0 million TL in 1997 at current prices .Table 2 in appendices shows the share of defense expenditures in GNP that it increased from 2.5 per cent to 3.7 per cent during 1986-1997 periods .

3.2 The Revenue Side of TRNC Budget

The budget revenues contribute to a country to hold economic stabilization, allocation and meet the needs of the citizens. In short, revenues are generated and increased to provide the proper functioning of the economy. So that the country is supposed to run a successful economy with its generated revenues and meet the expenditures of the country through the generated revenues. In principle, if revenues meet the expenditures, it is called equality principle. However, the countries find deficit financing as a means to provide employment opportunities when revenues do not meet expenditures.

The revenue section of budget generally comprises three components. These are;

- Tax Revenues
- Other Revenues
- Fund Revenues

The Finance Ministry of the countries collects these revenues and off course, it is same for TRNC in which Finance Ministry

collects the revenues through its institutions and offices in its districts.

3.2.1 Tax Revenues

In TRNC, tax revenues are divided into two, direct and indirect taxes. Direct taxes include income tax, institution tax, property, vehicles and driving licenses and inheritance tax. On the other hand, indirect taxes comprise customs tax, value-added tax, bank and insurance tax. The TRNC's direct and indirect taxes are very similar with Turkey's budget tax revenues. In TRNC, the budget revenues are titled as Local Revenue.

As it is shown in Table 1 in appendices, tax revenues has shown huge increase from 6,202,681.8 million TL in 1995 to 25,100,952.4 million TL in 1997 at current prices. As it is shown in Table 2 in appendices, the share of tax revenues in GNP has increased from 13.9 per cent to 21.2 per cent during 1986-1997 periods.

3.2.2 Other Revenues

The other revenue items generally include revenues of public enterprises, revenues of public services and fees. Revenues from public enterprises come from electricity, farms, plantation and businesses, treasury property rents and miscellaneous revenues (sales of telephone directory, state press). Service revenue are telephone, telegrams, post, theater, sports and cultural activities, warehouse rents, port and boats pays, fines e.t.c. The rest is fees such as court, cadastre , identity, passport, export and import certificate, company and partners registration, and other fees. As it is shown in a Table 1 in appendices, other revenues has shown increase from 1,609,116.6 million TL in 1995 to 6,551,492.3 million TL in 1997 at current prices . As it is shown in a Table 2 in appendices, the share of other revenues in GNP has increased from 3.5 to 5.5 in 1986-1997 periods .

3.2.3 Fund Revenue

The fund revenue is defined as the funds collected from foreign exchange stability, price stability and tourism encouragement. These funds economically should be used for the tourism promotion, infrastructure in TRNC.

As it is shown in Table 1 in appendices, fund revenues has increased from 651,587.6 million T.L in 1995 to 2,732,645.2 million T.L in 1997 at current prices. As seen in table 2 in the appendices the share of fund revenues in GNP has decreased 5.2 per cent to 2.3 during 1994-1997 periods .

In the light of new legislation, the value-added tax will cause an increase in the indirect tax revenues and result to a share in GNP.

Fund revenues with the legislation in 1992 allowed the budget to use funds as revenues starting from 1994 budget. In 1994's budget, fund revenues showed 653.075 million T.L which constituted 22 per cent of the total budget revenues. The point is the fund is a new source of revenue and a burden on trade and tourism.

3.3 Foreign Aids and Loans

Foreign aids and loans deeply depend on Turkey , and other Arabic countries . As it shown in table 1 in the appendices , Foreign aids and loans has shown increase from 5,192,007.2 TL in 1995 to 15,775,772.2 TL in 1997 at current prices . Table 2 in the appendices how the share of Foreign aids and loans in GNP that it decreased from 19.1 percent to 13.3 percent during 1986-1997 periods .

SECTION IV

4. Demand for money

When the interest rate is low

the demand for money is high

financial institutions are

each other and the public

through the financial system

country is a financial center

supply of money is high

Therefore

borrowing

external

below

• Demand for money

• Foreign exchange

• Issuance

• Issuance of money

The

1. Foreign exchange

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SECTION IV

4. Deficit Financing in TRNC

From the table 3 in appendices , it is obviously seen that the TRNC budget shows a deficit and deficits must apply deficit financing approaches. However, the TRNC does not have stock exchange markets that government can borrow from public through selling treasury bills and bonds to the public. The countries that have their own currencies may control money supply or its own currency under its legal conditions. Therefore, TRNC has one opportunity to finance her deficit is to borrow or take aids. Borrowing may be either domestic or external. In theory, the means to finance deficits are as bellows,

- Domestic borrowing,
- Foreign borrowing,
- Issuing money,
- Issuing Treasury bills.

The TRNC`s ability for financing her deficit through;

1. Foreign aids: Aid from Turkey and other aids, such as Arab countries.

2. Loans: Domestic and external loans.

However, the average of borrowing has been showing a decline as the amount of borrowing increases. It is important to point out that when the aids come to the TRNC the investment at those periods has increased. It means that the investment is heavily depending on the aids, especially from Turkey.

Table 1 in appendices also illustrates of foreign aids and borrowings.

5. Problems Of TRNC Budget

Main problem of budget is deficit . This problem was tried solved every year but not solution found up to now . On the contrary the deficit continue to increase .

Deficit was 47.24 percent in 1996 , 43.7 percent in 1997 and 63.9 percent in the first six months of 1998 .

To be seen that , salaries of the more than 10 thousand government officials was the main factor of the deficit of government budget . That was the personnel expenditures cover than half part of the government revenues .

On the other hand general expenditures were much more than local revenues . That situation was most important factor for budget deficit problem .

As the same in 1996 and 1997 , the government expenditures were bigger than government revenues in 1998 . In the first six month of the 1998 , general expenditures were 42,165,000,000,000 TL and general revenues were 25,758,000,000,000 TL .

A the last moment increasing of budget deficit effect the economic developing of T.R.N.C .

SECTION VI

Corporate Budget for Improvement 2010 Budget

and analysis

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end of budget

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TRM

SECTION VI

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• Every

• Label

• To

• But

• Person

6. Recommendations for Improvement of TRNC Budget

After the research studies and analysis , I saw that the government precautions and improvement offers were not enough to close the deficits of TRNC budget . For that reason , I need to make some proposals about the improvement of TRNC budget .

- ◆ Give more importance to Education Systems about human power . Educate more well-informed citizens.
- ◆ Take care of new personnel appointments . More productive personnel must be appointed .
- ◆ Every retired person shouldn't take more than one retired salary . And “ Single Security ” system should be brought into existence .
- ◆ Labor force must be used more productively .
- ◆ To develop transportation and communication network . To build a new international route.
- ◆ Businessmen's will do more productive investments under the control of the government .
- ◆ Personnel whose work for the government , must be more productive and working hours must be used fully .

- ◆ Political stabilization must be improved for competing with fast developing world .
- ◆ Controlling of working hours , must be increased by Government authorities .
- ◆ Extra consumption over the budget must be decreased to minimum level with increasing government control on the government consumption .
- ◆ Control over the tax revenues must be increased . On the other hand tax revenues must be collected regularly and equally .
- ◆ Channeling the necessary funds to productive projects is an important aspect of promotion overall economy

However the government increase their controls and our proposals for improvements are not enough . All citizens have great personal duties . As citizens of TRNC , all together we must decrease our consumption's and we must use all government goods regularly and efficiently . Therefore above all things are very important steps to start to develop our country both economically and socially.

7.

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SECTION VII

7.

Conclusion

Since 1974 , North Cyprus has been in the process of developing economically and socially . During this periods to many things had been achieved but at the same time they face to some problems . Here it budget is one of the important problem of TRNC which was face to face .

On the other hand TRNC still not recognized state . For that reason , it is difficult to follow fast developing world .

TRNC must find out financial markets to enlarge more sources to the economy. Besides, the governments must decrease the current expenditures, especially the personnel expenditures to eliminate the current budget deficit that is a burden over the future development of the economy. In addition to this, for the increase of the budget revenue, North Cyprus must avoid the tax evasion.

Therefore, the TRNC with this way , it will increase the revenues and is able to encourage the investment opportunities. In short, the governments of North Cyprus should narrow the public sector and encourage private investment.

Appendices

Appendices

Table 1**BALANCE OF GOVERNMENT BUDGET**

	1995	1996	1997
I- BUDGET REVENUES	8,463,386.0	15,528,392.7	34,385,089.9
1. Tax Revenues	6,202,681.8	11,366,588.0	25,100,952.4
2. Other Revenues	1,609,116.6	3,138,274.4	6,551,492.3
3. Fund Revenues	651,587.6	1,023,530.3	2,732,645.2
II- BUDGET EXPENDITURES	13,655,393.2	24,380,624.4	50,160,862.1
1. Current Expenditure	6,263,359.4	10,671,604.0	20,375,173.6
2. Transfer Payments	5,794,161.5	9,867,171.5	19,359,870.8
3. Investment	850,372.3	2,594,348.9	6,100,817.7
4. Defense	747,500.0	1,247,500.0	4,325,000.0
III- FOREIGN AIDS AND LOANS	5,192,007.2	8,852,231.7	15,775,772.2

Table 2

GOVERNMENT BUDGET DEVELOPMENTS IN PERCENTAGE OF GNP

	1986	1994	1995	1996	1997
I- BUDGET REVENUES					
1. Tax Revenues	17.0	28.6	24.0	24.4	29.1
2. Other Revenues	13.5	18.8	17.6	17.9	21.2
3. Fund Revenues	3.5	4.6	4.6	4.9	5.5
		5.2	1.8	1.6	2.3
II- BUDGET EXPENDITURES					
	36.1	37.8	38.7	38.3	42.4
1. Current Expenditure	16.6	18.3	17.8	16.8	17.2
2. Transfer Payments	13.1	13.9	16.4	15.5	16.4
3. Investments	3.9	3.7	2.4	4.1	5.2
4. Defense	2.5	1.9	2.1	1.9	3.7
III- FOREIGN AIDS And LOANS					
	19.1	9.2	14.7	13.9	13.3
1. Foreign Aids	7.5	3.8	3.6	9.8	10.4
2. Loans	11.6	5.4	11.1	4.1	3.0

Table 3

BUDGET DEFICITS THROUGH YEARS

<u>Years</u>	<u>Budget Deficit</u>	<u>%GNP</u>
1975	156.2	8.6
1976	163.1	5.8
1977	275.9	7.2
1978	289.3	5.5
1979	666.6	7.8
1980	1,541.3	8.8
1981	2,024.8	8.3
1982	2,856.8	8.3
1983	3,722.7	7.9
1984	6,789.8	9.2
1985	12,504.8	9.9
1986	22,585.4	11.6
1987	20,154.2	7.3
1988	19,386.5	4.0
1989	24,201.3	2.7
1990	83,535.0	5.4
1991	255,513.6	11.2
1992	341,678.9	8.5
1993	518,431.3	7.4
1994	879,891.6	5.4
1995	3,897,049.6	11.1
1996	2,625,793.8	4.1
1997	3,494,295.8	3.0

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