

NEAR EAST UNIVERSITY

Faculty of Economics and Administrative Sciences

Institute of Graduate Studies

THE ROLE OF THE BANKING SECTOR

IN THE

ECONOMY OF THE TURKISH REPUBLIC OF NORTHERN CYPRUS

AND

THE METHODS OF FINANCING INTERNATIONAL TRADE

GCM 627

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(i)

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I would like to express my appreciation and thanks to my supervisor Prof. Dr. **FIKRET KUTSAL** for his personal interest, encouragement and invaluable help he has given me in the preparation during the short period that I had available.

While of course it is understood that he is not at all responsible for any mistake that may be found in the following pages.

Yusuf Değirmencioğlu

LEFKOŞA-KKTC

20.08.1998

(ii)

1.b) INTRODUCTION :

In its very long history, which may be traced back to the beginning of the 6th Millennium B.C., Cyprus had been the battleground on which many nations have fought and left their legacies. As Sir George Hill said "He who would become and remain a great power in the East must hold Cyprus in his hands". The proximity of Cyprus to Europe, Asia and Africa added considerably to its importance as a strategic island and it was this strategic location that characterized the history of Cyprus. Although the historic development of Cyprus is outside the scope of this project, very briefly, we can say that in 1878, after the defeat of the Ottoman Turks in the Russia-Turkish war of 1877-1878, the Turks, by the Convention of Cyprus, agreed to hand the reigns of Cyprus over to Britain in return for an Anglo-Turkish defensive alliance against Russian expansionism towards the Mediterranean and the Middle East. In 1914, when Turkey joined the First World War on the side of Germany, Britain annexed Cyprus. Turkey renounced all her rights that she had on Cyprus since 1571 by the Treaty of Lausanne and Cyprus was proclaimed a Crown Colony by Britain in 1925. When Britain was forced to withdraw her military bases from Suez, the strategic importance of Cyprus was further enhanced. In 1954 Britain announced that it would never give up Cyprus and this led to a campaign of violence against the British by the Greek Cypriots in Cyprus which lasted until 1959. The Turkish Cypriot Community at first was not disturbed but gradually the relationship between the two ethnic communities became more hostile with consequential effect upon the relationship between Greece and Turkey. The Communal Fighting that took place between the Turkish and Greek Cypriots in December 1963, the Turkish Peace Operation in 1974, and the proclamation of the TRNC in 1983 were the results of the animosity between the two communities which started in the late 1950's which shaped the present status of the Island.

Although there is ample material on Cyprus for the political historian, relatively little is known about the economy of Cyprus before 1960. As far as the Turkish Republic of Northern Cyprus is concerned, from the point of economic data and research, the situation is even worse. It is only after 1977 that figures relating to the basic economic indicators of the TRNC are available. This paper will be divided into four main sections. In the first section, the economy of the Turkish Republic of Northern Cyprus will be examined. In the second section, the banking sector will be analyzed. The methods of financing international trade constitutes the subject of section three. In section four, conclusion and recommendation section, problems stemming from the use of another country's currency, lack of control over exchange rates and interest rates, the amount of aid received from Turkey and problems associated with it, and problems encountered in financing international trade will be examined.

It will be stressed that in order to get rid of its existing main problems the TRNC must give up using the Turkish Lira in the TRNC as the Legal Tender. In line with restoring the necessary confidence a new currency must be issued by the Central Bank of the TRNC which will be backed by foreign currency reserves and gold. The reserves of the Central Bank are adequate. But the Central Bank must completely be independent of the Government intervention. The ultimate aim should remain to enter the European Union parallel to the Southern part of Cyprus. When the TRNC takes its place among the international community, the Banking Sector will play a crucial role in financing its international trade.

2. THE ECONOMY OF THE TURKISH REPUBLIC OF NORTHERN CYPRUS:

2.1 THE NEED FOR DEVELOPMENT PLANNING:

Economists have been showing a great deal of interest in development planning since the Great Economic Depression of 1929-32. The reason for the absence of any real economic planning before the Great Depression was the presence of **laissez-faire** attitude towards economic matters. After the Great Crash, many people began to think that economic planning was needed on a scale which transcended the capacity of the private entrepreneur. But modern interest in economic development started with Roy Harrod's work in 1939, which was later stimulated by E. Domar. The so-called **Harrod-Domar** model has provided the theoretical underpinning of an enormous volume of literature on economic growth.

The Second World War delivered a serious blow to colonialism and many countries gained their independence in the following 20 years. Emancipation from colonialism was accompanied by demands for economic emancipation. Former colonial countries considered political independence and economic development synonymous and many resorted to economic planning. Many countries initiated development programmes suited to their own special economic problems. Resort to economic planning has been the result of the recognition that the free interaction of the market forces of supply and demand in bringing about the desired restructuring of the economy via allocating scarce resources among alternative uses is far from satisfactory.

Also in some underdeveloped countries it became evident that Keynesian budgeting and monetary manipulation needed supplementing with something more long-run and purposive. Many poor countries realized that only planned approach to economic development will remove the obstacles to optimum economic and social growth. The result has been the sudden upsurge of interest in the problems of growth and development planning and hence the initiation of annual, medium-term, and long-run development plans.

The Republic of Cyprus, when it gained its independence from Britain on 16 August 1960, was faced with an urgent need for a complete restructuring of its economy. She was confronted with many problems like rising unemployment, flight of capital, emigration on a large scale, depression in major sectors of the economy, a declining national income, inflation, balance of payments problem, and so on. The Republic of Cyprus sought and obtained United Nations technical assistance in formulating an economic development programme for Cyprus. In 1961, The First-Five Year Programme for Cyprus was formulated. The economic development policy of the Government was molded by 3 important factors:

- a) Small size of Cyprus
- b) Reliance on free foreign trade
- c) Island's comparative advantage of location and climate.

A Planning Commission was set up to draw up and administer a development programme with the aim **"to provide for the most efficient use of all human, physical and financial resources within a framework of individual freedom and democratic institutions"**.

2.2 LONG-TERM PLANS AND OBJECTIVES OF THE DEVELOPMENT POLICY IN THE TRNC :

The move by the Greek Cypriots to change the constitution of the Republic of Cyprus in December 1963 led to a civil war between the Turkish and the Greek Cypriot Communities. The Communal fighting created physical separation everywhere in the Island. The Turkish Cypriot Community, which was forced to live in enclaves, established separate administrative, judicial and legislative organs for their community. During December 1963 - July 1974, the separate existence of the Turkish Cypriot Community in Cyprus was made possible by the continuous substantial aid from Turkey. The Turkish Cypriot Community's main aim during this period was survival and all resources were allocated into defending its enclaves. The struggle for survival deprived the Turkish Cypriot Community of all opportunities which could have been used to achieve socio-economic growth equal to the Greek Cypriots'.

With the Turkish Peace Operation that took place on 20 July 1974 the Turkish Cypriots gained their independence and started to concentrate on developing their skills, entrepreneurship and manpower resources. The war in 1974, led to a population exchange and bizonality of the Island; The Turkish Cypriots living in the Northern part of the Island and The Greek Cypriot Community in the South. The ultimate aim after 1974 was to win the economic war. In 1977, national income accounts started to be kept and Long Term Development Plans have been prepared. The period between 1974 and 1983 can be regarded as a transitional period. Then, the Proclamation of the Turkish Republic of Northern Cyprus took place on 15 November 1983.

The economy of the Turkish Republic of Northern Cyprus possesses the characteristics of a Mixed Economy. This type of economy is occupying the middle ground between The Free Market Economy and the Centrally Planned Economy (the Command Economy). The TRNC, parallel to the South Cyprus, has been preparing Long-Term Development Plans and Annual Economic Programmes since 1977 which marked the beginning of the Planning Period.

The main objectives of the **First Five Year Development Plans and Annual Economic Programmes**, or shortly the **objectives of the Development Policy**, in the T.R.N.C. can be summarized as follows:

- a) To secure the achievement of the highest possible rate of growth compatible with the maintenance of economic stability,
- b) The improvement of the balance of payments.
- c) More equitable distribution of the economic burdens and the National Income.
- d) The general improvement of the standard of living,
- e) The further expansion and improvement of social services.

The **Second Five Year Development Plan, 1989-1993** followed mainly the path of the First Five Year Development Plan.

The Third Five Year Development Plan (1993-1997), which is in action, basically aims:

- a) the improvement of the liberal economic system;**
- b) reduction in the rate of growth of consumption expenditures and increase in domestic savings;**
- c) encouragement and enhancement of investments in priority sectors, especially in tourism and industry;**
- d) increase in export-oriented production and thus increase in exports;**
- e) improvement and expansion of the finance sector and social services.**

In accordance with the liberal economic policy adopted by the Government of the T.R.N.C., trade, tourism, education, banking, transportation and industrial sectors preserved their priority and importance.

2.3 ASSESSMENT OF THE ECONOMIC PERFORMANCE OF THE TURKISH REPUBLIC OF NORTHERN CYPRUS:

a) GNP and Per Capita GNP :

The Five-Year Development Plans and Annual Economic Programmes created favourable effects on the economy of the Turkish Republic of Northern Cyprus. The economy has been growing steadily at an average annual growth rate of 5.3% in the past 19 years. The increase in GNP between 1977 and 1996, at constant prices of 1977, is 101.4%. As can be seen from the examination of TABLE 1, the GNP which was 3,810.5 million TL in 1977 rose to 7,673.7 million TL in 1996 at constant prices of 1977. In terms of US\$, the corresponding figures are US\$ 209.4 in 1977 and US\$ 773.9 in 1996. Per capita GNP figures are also given on TABLE 1. During the period between 1977 and 1996, per capita GNP increased by 59.3% at constant prices of 1977, at an annual average growth rate of 3.2%. Per capita GNP which was 26,279 million TL in 1977 rose to 41,865 million TL in 1996, at constant prices of 1977. In terms of the US\$, per capita GNP in 1996 was US\$ 4,222. Please see TABLE 1.

b) Employment and Unemployment :

The employment policy aims at attaining full employment and systematic promotion of schemes for the training and re-training of the labour force for increasing productivity and eventually the most efficient utilization of manpower. An examination of employment by sectors show that the working population, which was 44,795 in 1977, rose to 79,368 in 1996, an increase of 77.18%. Please see TABLE 2. The population of the Turkish Republic of Northern Cyprus was 183,290 in 1996 and the working population constitutes 43.3% of the total population.

There is not any acute unemployment problem in the Turkish Republic of Northern Cyprus because the official registers of unemployment has shown a constant decline over the years. The statistics published by the Department of Employment show that the average number of unemployed dropped from 1,337 in 1977 to 946 in 1996, a fall of 29.24 %. The rate of unemployment in 1996 was 1.2 %. Please see TABLE 2a.

c) Inflation :

Looking at the price trends in the Turkish Republic of Northern Cyprus, changes in the Consumer Price Index show that a high rate of inflation has been prevailing in North Cyprus since 1977. The rate of inflation in 1977 was 23%. Although it went up as high as 93% in 1980, it declined in the subsequent years. But these positive developments were deteriorated in 1994 when the Consumer Price Index rose to the level of 215% in line with the "5th of April measures" taken in Turkey. At the end of 1996, the rate of inflation was 87.5%.

The distribution of the cost of living according to the categories of goods and services shows that increases in food constitutes the major part of the cost of living in the Turkish Republic of Northern Cyprus. Another important share is taken by transport and telecommunications. Since the Turkish Lira is used as Legal Tender in the country, it can be said that major part of the inflation prevailing in the Turkish Republic of Northern Cyprus is being imported from Turkey. Details of price increases are given on TABLE 3a and TABLE 3b.

d) Foreign Trade :

The economy of the Turkish Republic of Northern Cyprus has the characteristic of an island economy with very limited natural resources. During the period between 1977 and 1996, there was an increase in the volume of foreign trade, from US\$ 106.9 million in 1977 it rose to US\$ 388.9 million in 1996, an increase of 263.8%.

During this period, the imports of the country increased from US\$ 82 million in 1977 to US\$ 318.4 million 1996, an increase of 288.3%. Exports, on the other hand, rose from US\$ 23.9 million in 1977 to US\$ 70.5 million in 1996, an increase of 194.9%. As can be seen from these figures, export earnings are not covering total imports. The foreign trade deficit increased from US\$ 57.1 m. in 1977 to US\$ 247.9 m. in 1996. The rate of imports meeting exports has been declining continuously. In other words export/import ratio is falling. In 1996 export/import ratio was 22.1%

In 1982, this ratio was 32.9%. In 1996, 55% of the imports of the Turkish Republic of Northern Cyprus came from Turkey. If we look at the export figures we will see that in 1996, 48% of the exports went to Turkey (This figure in 1982 was only 18%). This shows that the Turkish Republic of Northern Cyprus is still suffering from economic embargoes. Details are given on TABLE 4.

e) State Revenues and Expenditures.

The basis of the Fiscal Policy in the Turkish Republic of Northern Cyprus is the creation of necessary conditions for internal monetary stability, supporting the more productive infrastructural projects, reducing the dependence on foreign loans needed to finance the budget deficits and limiting the rate of growth of personnel expenditures, transfers and subvention.

The breakdown of State Revenues and Expenditures shows that, TABLE 5, the budget deficit in the Turkish Republic of Northern Cyprus is enormous. The Budget Deficit, in current prices increased from TL 364.8 million in 1977 to TL 2,125,793.8 million in 1996. This budget deficit is covered, to a large extent, by foreign aid and loans from Turkey. As mentioned earlier, Turkey is the only country recognizing the Turkish Republic of Northern Cyprus. In 1985, the amount of aid received by Turkey TL 10,450.9 million. In 1996, this figure rose to TL 6,119,642.4 million. (huge defense expenditures and financing of the main infrastructure projects are not included in these figures). In 1985, 88% of the total aid received by the Turkish Republic of Northern Cyprus came from Turkey. The share of other foreign aid was 12%. In 1996, Turkey's share in total foreign aid increased to 98% whereas the share of other aid fell to 2%. But even this aid is not adequate to cover the budget deficit. The Government tries to borrow both internally and externally. A major part of external borrowing, due to non recognition of the country comes from Turkey. Details are given on TABLE 6.

f) Sectoral Analysis of the economy of the TRNC :

An analysis of the sectoral structure of the economy of the Turkish Republic of Northern Cyprus shows that the importance of services sectors, mainly tourism and higher education, has been increasing at the expense of the agriculture sector. The agricultural sector has been showing a declining trend. Its share in the GDP has decreased from 16.4% in 1977 to 11.4% in 1996. Its share in total exports also decreased from 77.5% in 1977 to 44% in 1996. (in terms of US\$ its share in 1977 was 18.5 million out of 23.9 and in 1996 this share fell to 31.0 million out 70.5 million)¹

Tourism sector has developed considerably. It has been declared as one of the locomotive sectors of the economy. Tourist arrivals has increased from 113,146 in 1977 to 365,116 in 1996 (289,131 from Turkey and 75,985 from other countries), an increase of 222.7%. Net tourism revenues also increased from US\$ 30.2 million to US\$ 175.6 million in 1996, an increase of 481.5%².

1. Statistical Yearbook 1996, State Planning Organization, pp 240-241, June 1997, Lefkoşa, Turkish Republic of Northern Cyprus.
2. Economic and Social Indicators 1996, State Planning Organization, p.38, October 1997, Lefkoşa, Turkish Republic of Northern Cyprus.

The sectors of manufacturing and finance are also showing satisfactory performances. In terms of foreign exchange earnings, higher education sector is also showing a satisfactory performance.

Other relevant statistical tables relating to the economy can be found on TABLES 7, 8, 9 and 10.

STATISTICAL TABLES AND DIAGRAMS RELATING TO THE
BASIC ECONOMIC INDICATORS OF THE ECONOMY OF THE
TURKISH REPUBLIC NORTHERN CYPRUS
ARE GIVEN ON PAGES 7 to 29.

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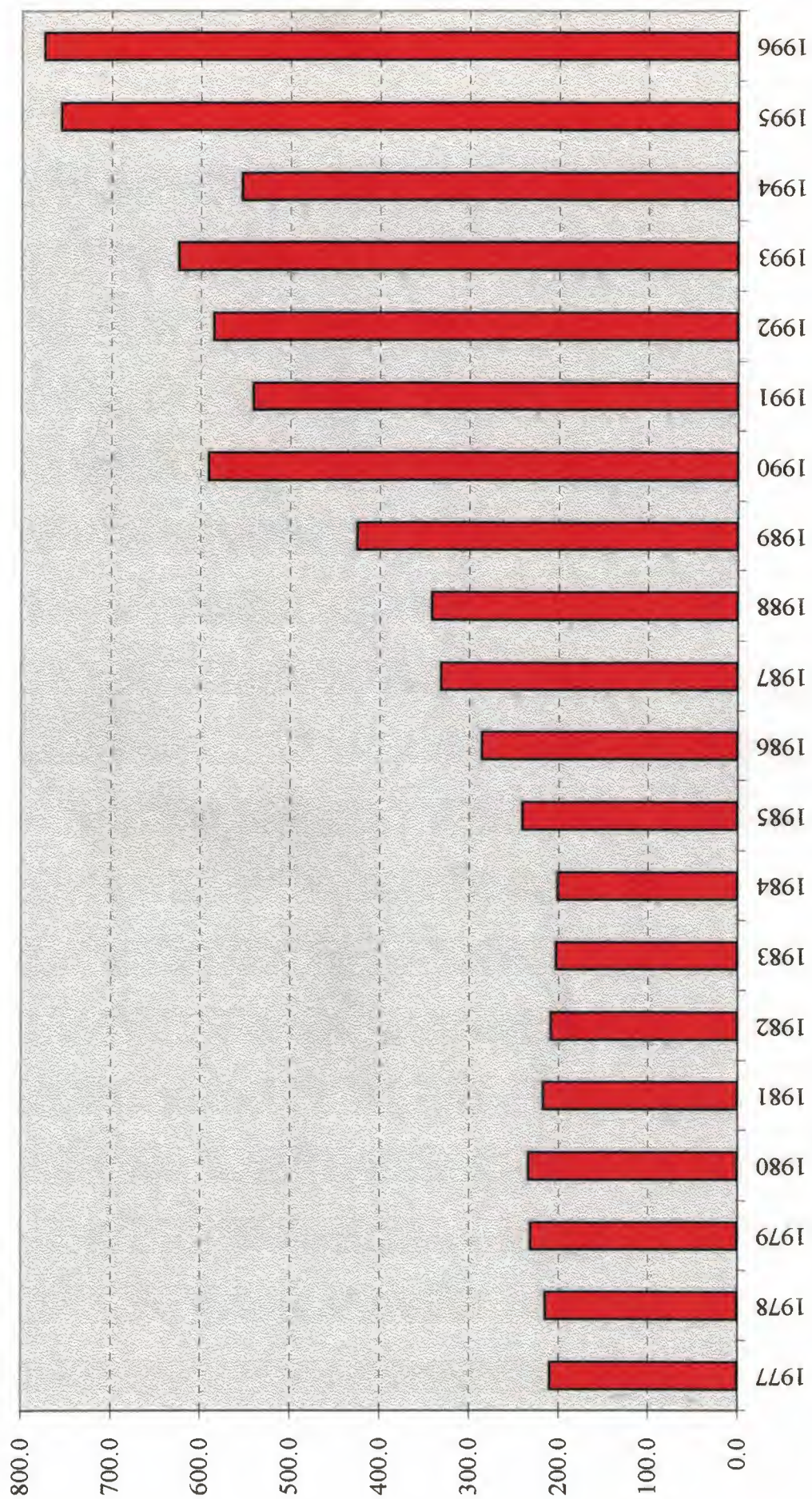
TABLE 1

GROSS NATIONAL PRODUCT (GNP)									
Year	GNP (million TL)		Growth Rate %	GNP per capita (Million TL)		Population	1 US\$ = TL	GNP (Millions US\$)	GNP (Per capita)
	Current	Constant		Current	Constant				
1977	3,810.5	3,810.5	-	26,279	26,279	145,000	18.20	209.4	1,443.9
1978	5,281.0	4,031.3	5.8	35,989	27,472	146,700	24.60	214.7	1,463.0
1979	8,504.5	4,210.1	4.4	57,269	28,351	148,501	36.80	231.1	1,556.2
1980	17,541.5	4,248.4	0.9	117,248	28,396	149,610	75.10	233.6	1,561.2
1981	24,525.6	3,929.8	-7.5	162,171	25,985	151,233	113.00	217.0	1,435.1
1982	34,148.0	4,369.5	11.2	222,841	28,430	153,239	163.75	208.5	1,360.8
1983	47,040.2	4,440.4	1.6	302,468	28,552	155,521	231.83	202.9	1,304.7
1984	73,937.8	4,725.2	6.4	468,008	29,909	157,984	367.40	201.2	1,273.8
1985	126,874.2	5,080.4	7.5	791,544	31,696	160,287	528.30	240.2	1,498.3
1986	195,142.7	5,324.1	4.8	1,199,579	32,728	162,676	682.53	285.9	1,757.4
1987	289,106.4	5,684.1	6.8	1,751,788	34,442	165,035	871.98	331.6	2,009.0
1988	485,848.2	6,084.0	7.0	2,904,818	36,375	167,256	1,422.00	341.7	2,042.8
1989	910,058.6	6,603.0	8.5	5,376,309	39,008	169,272	2,139.52	425.4	2,512.9
1990	1,547,793.0	6,977.4	5.7	9,026,664	40,692	171,469	2,618.98	591.0	3,446.6
1991	2,273,698.1	6,606.4	-5.3	13,085,580	38,021	173,756	4,199.67	541.4	3,115.9
1992	4,037,702.2	7,124.7	7.8	23,057,037	40,685	175,118	6,896.25	585.5	3,343.4
1993	6,941,224.3	7,547.4	5.9	39,189,387	42,612	177,120	11,106.99	624.9	3,528.4
1994	16,581,566.8	7,268.3	-3.7	92,526,934	40,558	179,208	29,915.67	554.3	3,092.9
1995	35,178,971.7	7,457.8	2.6	193,969,948	41,121	181,363	46,554.51	755.7	4,166.5
1996	63,576,940.6	7,673.7	2.9	346,865,297	41,865	183,293	82,151.45	774.2	4,222.5

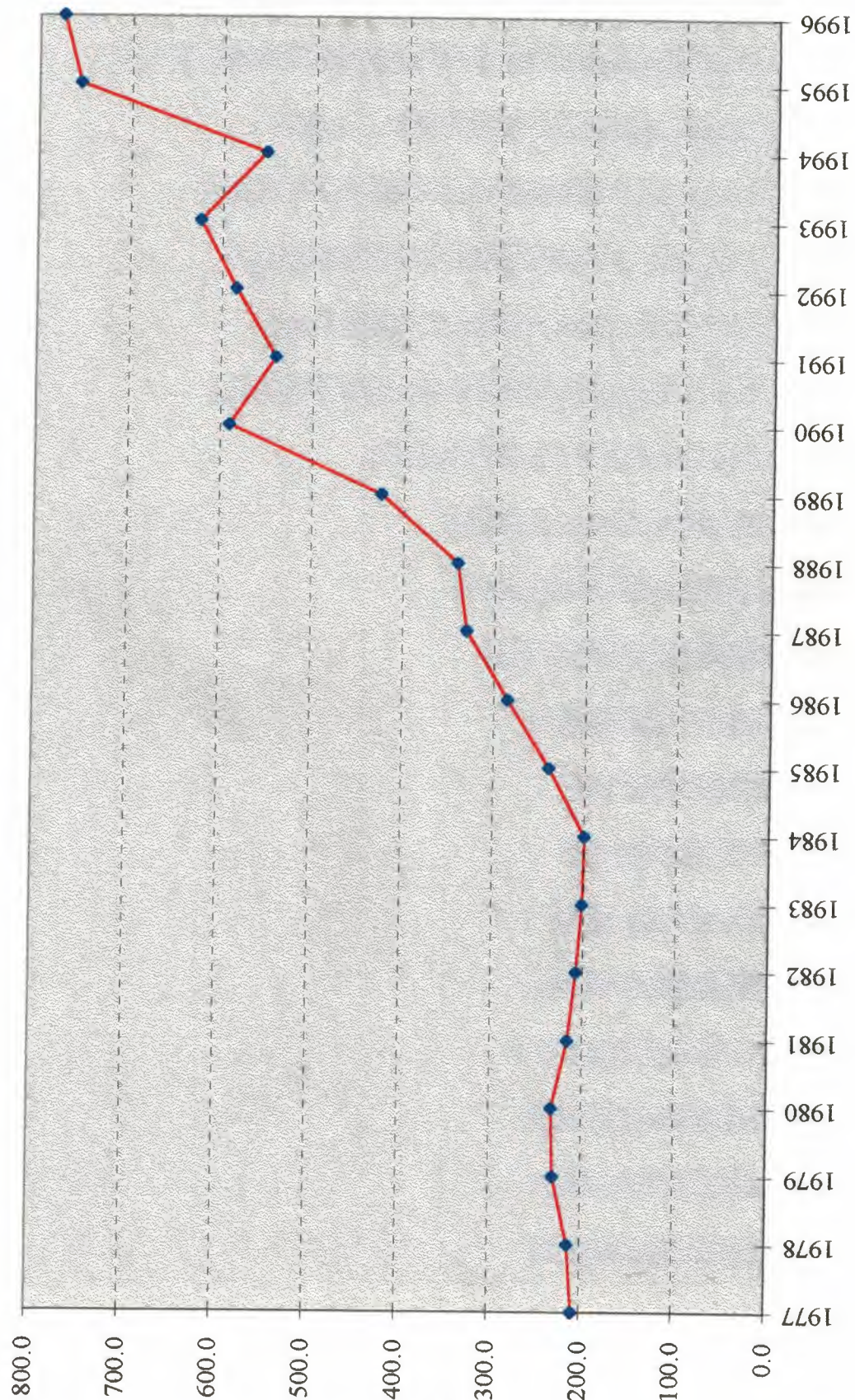
Source : Economic and Social Indicators, State Planning Organization, October 1977, p.1, Lefkosa, Turkish Republic of Northern Cyprus.

Note : Constant prices refer to 1977 prices.

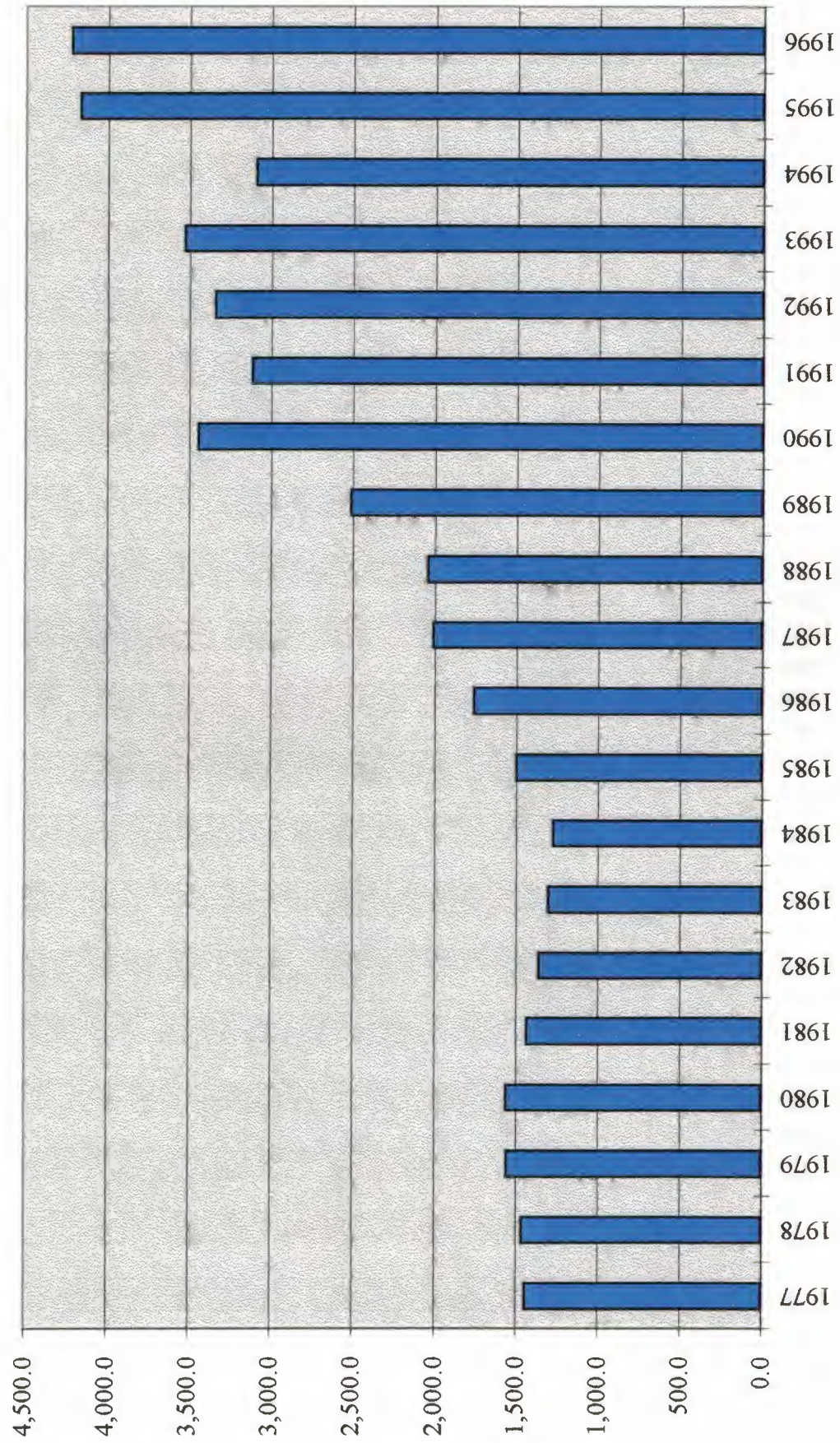
GROSS NATIONAL PRODUCT (GNP)



GROSS NATIONAL PRODUCT, 1977-1996



GROSS NATIONAL PRODUCT PER CAPITA INCOME



GROSS NATIONAL PRODUCT PER CAPITA INCOME 1977-1996 (US \$)

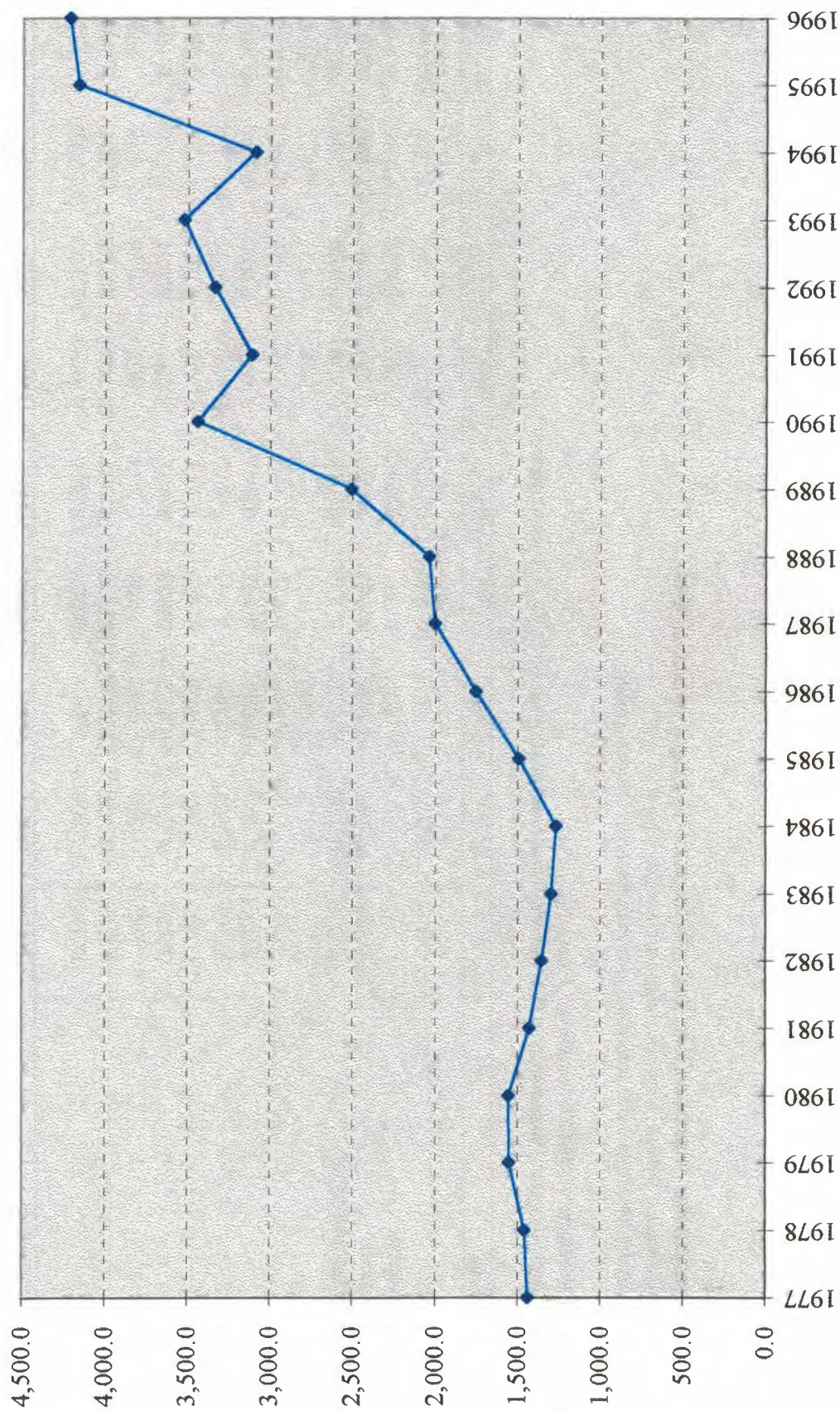


TABLE 2

EMPLOYMENT BY SECTORS

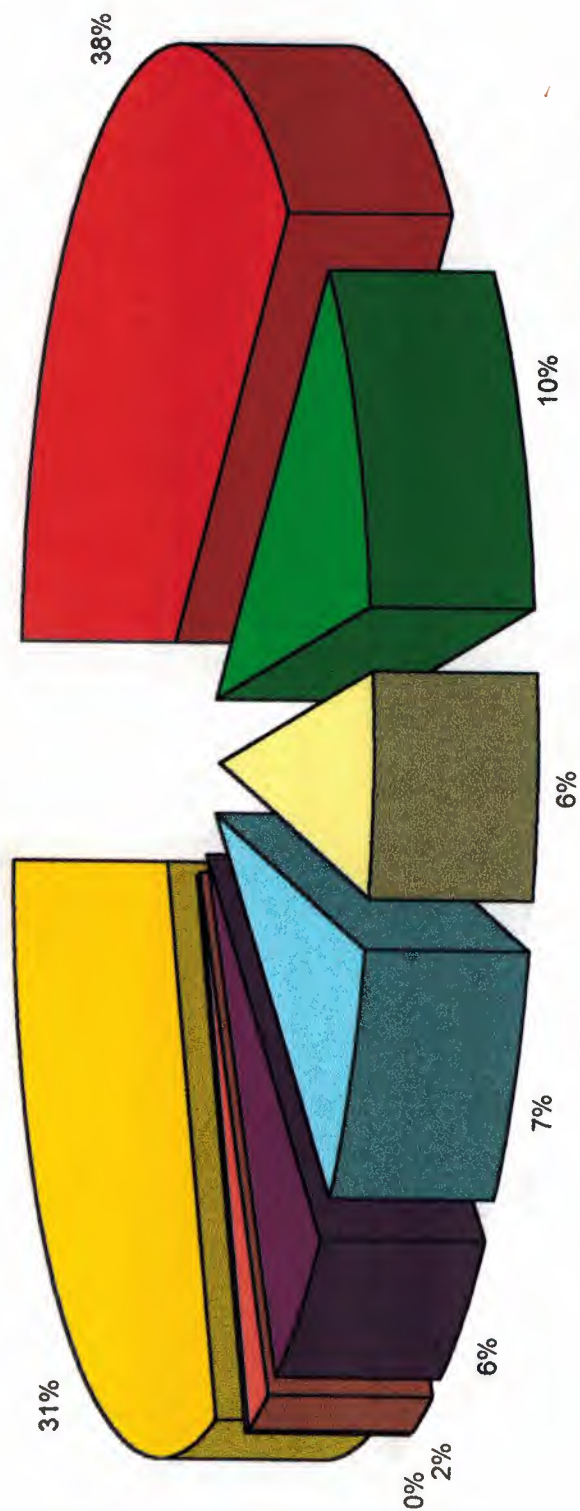
Sectors	1977	1982	1989	1990	1991	1992	1993	1994	1995	1996
I. Agriculture	18,817	21,208	19,345	19,094	18,846	18,469	18,100	17,738	17,383	16,862
II. Industry	4,818	5,700	7,919	8,034	8,062	8,169	8,198	8,207	8,348	8,354
1- Mining	497	589	903	907	913	958	976	976	976	976
2- Manufacturing	3,572	4,224	5,827	5,938	5,932	5,991	5,991	6,000	6,107	6,107
3- Electricity, Water	749	887	1,189	1,189	1,217	1,220	1,231	1,231	1,265	1,279
III. Construction	2,360	3,567	7,396	7,451	7,820	9,070	9,584	9,584	9,584	9,807
IV. Trade-Tourism	3,077	4,220	6,552	6,942	6,942	7,473	7,889	8,004	8,367	8,367
1- Trade	-	*	4,948	5,172	5,172	5,172	5,182	5,182	5,470	5,470
2- Tourism	-	*	1,604	1,770	1,770	2,301	2,707	2,822	2,897	2,897
V. Transport and Communication	1,838	3,338	5,538	5,728	5,728	5,806	6,144	6,228	6,510	6,756
VI. Financial Institutions	809	1,250	1,866	1,968	2,040	2,074	2,162	2,194	2,397	2,456
VII. Professional Services	-	-	5,904	6,329	6,397	6,765	6,936	7,266	7,276	9,867
VIII. Public Services(x)	13,076	17,508	15,521	15,979	16,106	16,211	16,365	16,589	16,589	16,899
TOTAL EMPLOYMENT	44,795	56,791	70,041	71,525	71,941	74,037	75,378	75,810	76,454	79,368

Source : Economic and Social Indicators, State Planning Organization, October 1997, p.48, Lefkosa, Turkish Republic of Northern Cyprus

* Business and Personal Services were included in public services before 1983. Trade and Tourism sectors were considered separately after 1983.

Sub- sectoral distribution of Agriculture was not possible after 1983 due to lack of data.

EMPLOYMENT BY SECTORS, 1982



- I. Agriculture
- II. Industry
- III. Construction
- IV. Trade-Tourism
- V. Transport and Communication
- VI. Financial Institutions
- VII. Professional Services
- VIII. Public Services(x)

EMPLOYMENT BY SECTORS, 1996

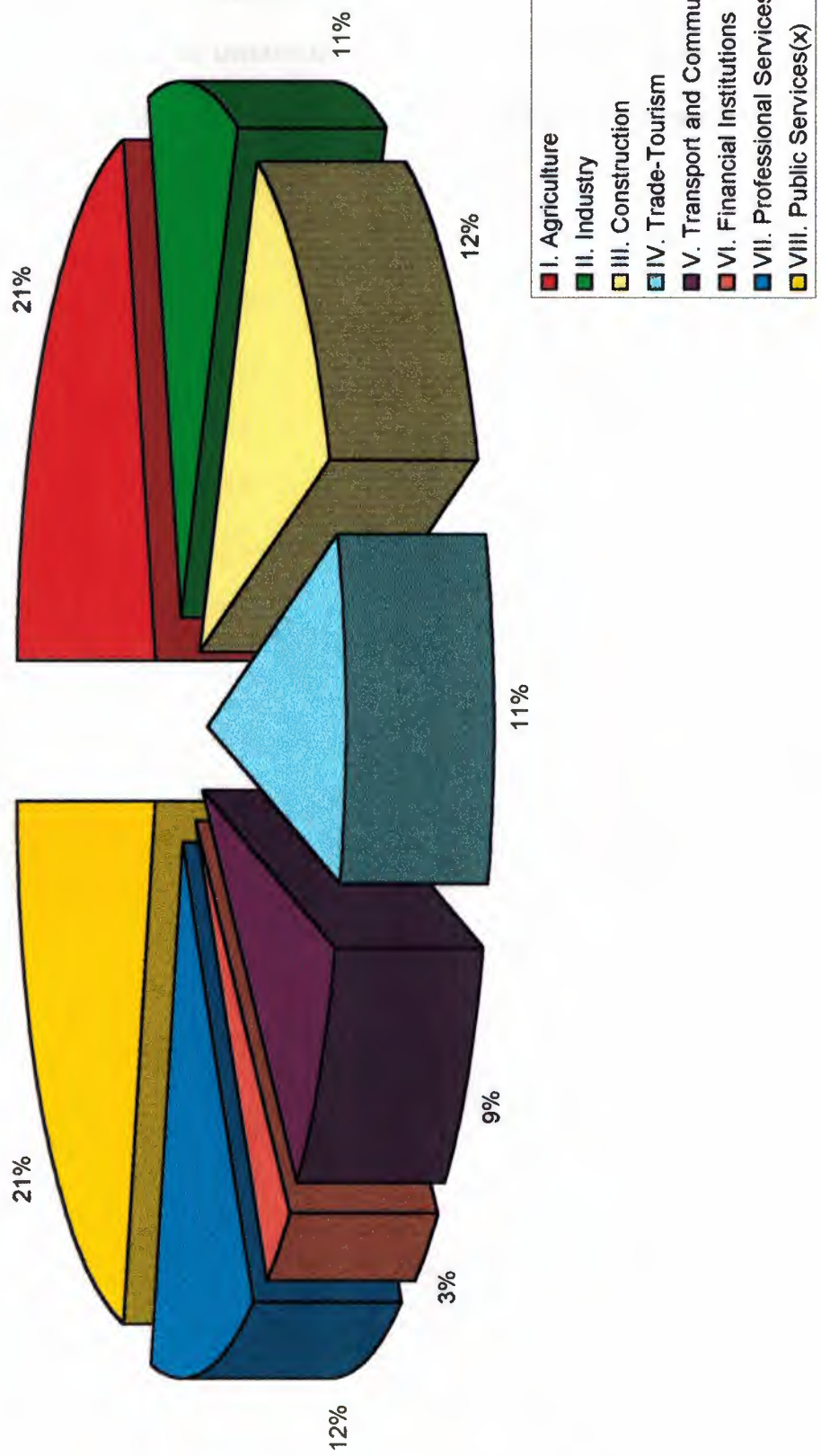


TABLE 2 (a)

ANNUAL AVERAGE NUMBER OF UNEMPLOYED AND UNEMPLOYMENT RATE

Years	Number of Unemployed (*)	Unemployment Rate (%)
1977	1337	2.90
1978	2471	5.04
1979	2060	4.04
1980	1789	3.29
1981	1632	2.94
1982	1421	2.44
1983	1294	2.15
1984	1663	2.69
1985	1405	2.23
1986	1568	2.38
1987	1210	1.79
1988	908	1.32
1989	778	1.10
1990	849	1.18
1991	1027	1.41
1992	738	1.00
1993	569	0.75
1994	704	0.92
1995	752	0.98
1996	946	1.20

(*) Annual average number of unemployed registered at the Labour Office

Source : Economic and Social Indicators, State Planning Organization,
October 1977, p.51, Lefkosa, Turkish Republic of Northern Cyprus.

TABLE 3(a)

INFLATION in the Turkish Republic of Northern Cyprus

Year	Consumer Price Index (December 1978 = 100)	Change in Consumer Price Index (%)
1979	177.66	77.66
1980	342.83	92.97
1981	489.71	42.84
1982	652.28	33.2
1983	872.93	33.83
1984	1,490.29	70.72
1985	2,131.64	43.04
1986	3,156.68	48.09
1987	4,514.26	43.01
1988	7,338.83	62.57
1989	11,141.19	51.81
1990	18,874.57	69.41
1991	27,619.60	46.33
1992	45,122.29	63.37
1993	72,718.86	61.16
1994	229,068.45	215.01
1995	394,340.01	72.15
1996	739,557.65	87.54

Source : Economic and Social Indicators, State Planning Organization, October 1997, p.52
Lefkosa, Turkish Republic of Northern Cyprus.

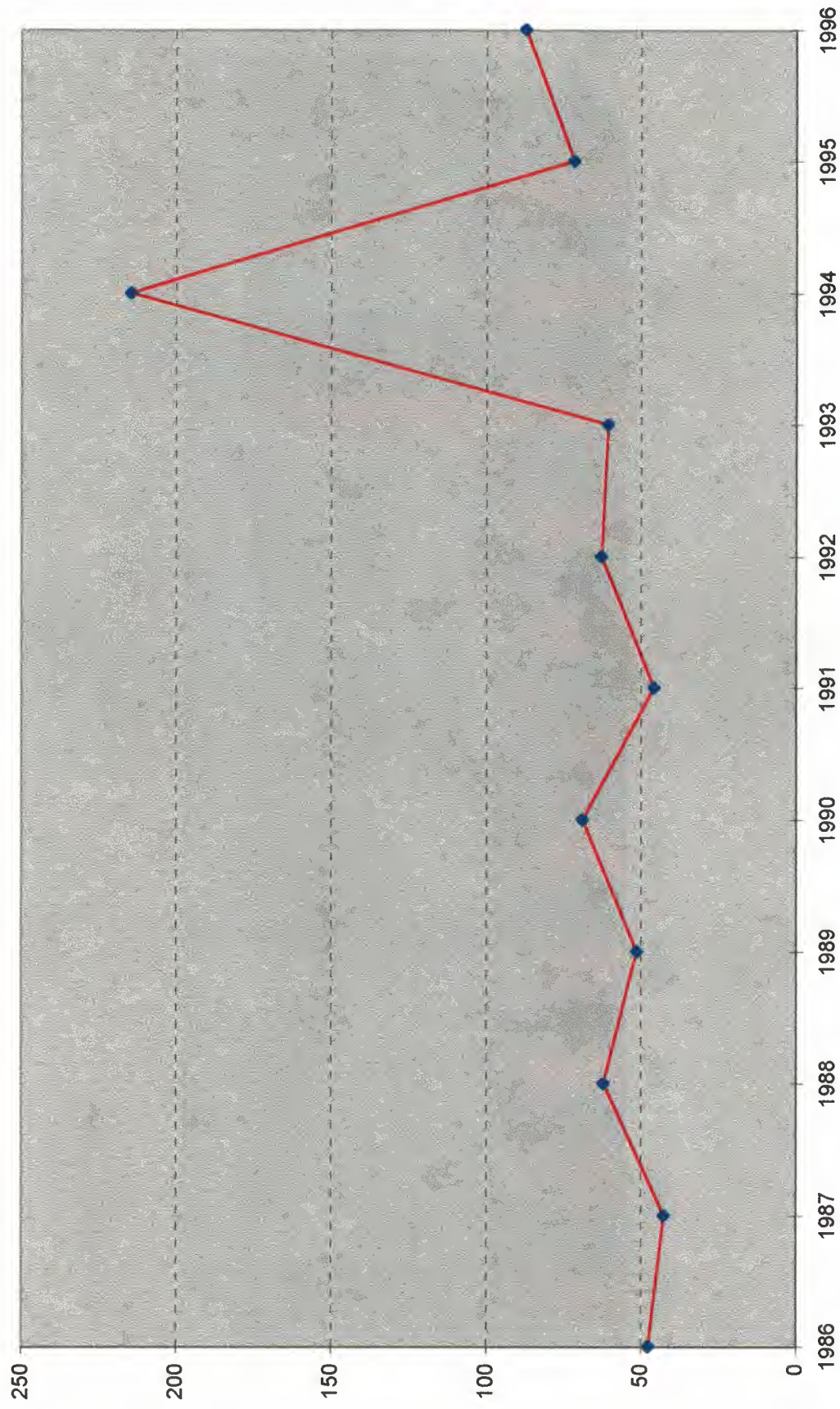
TABLE 3(b)

DISTRIBUTION OF COST OF LIVING ACCORDING TO CATEGORIES OF
GOODS AND SERVICES

	1988	1989	1990	1991	1992	1993	1994	1995	1996
	%	%	%	%	%	%	%	%	%
Food	27.53	27.87	21.71	22.44	22.83	24.13	103.43	29.28	31.36
Clothing	5.57	5.66	7.88	3.62	6.57	7.50	19.82	8.21	10.28
Household Goods	6.49	3.10	5.96	4.04	5.39	4.14	17.57	4.13	5.05
Health and Medical care	3.36	2.21	2.61	2.56	3.45	3.19	10.28	3.20	5.90
Transport & Telecom	9.62	6.96	19.46	5.63	13.73	14.05	37.06	13.42	19.78
Culture, Education & Entertainment	4.78	1.66	5.17	3.06	4.22	4.06	7.84	4.17	4.57
Housing	3.15	2.88	4.53	3.30	4.93	2.81	14.11	7.45	8.01
Tobacco	2.07	1.47	2.09	1.68	2.25	1.28	4.90	1.59	2.59
TOTAL	62.57	51.81	69.41	46.33	63.37	61.16	215.01	72.15	87.54

Source : Statistical Yearbook 1996, State Planning Organization, October 1997, p.261
Lefkosa, Turkish Republic of Northern Cyprus.

INFLATION IN THE TRNC, 1986-1996



INFLATION IN THE TRNC

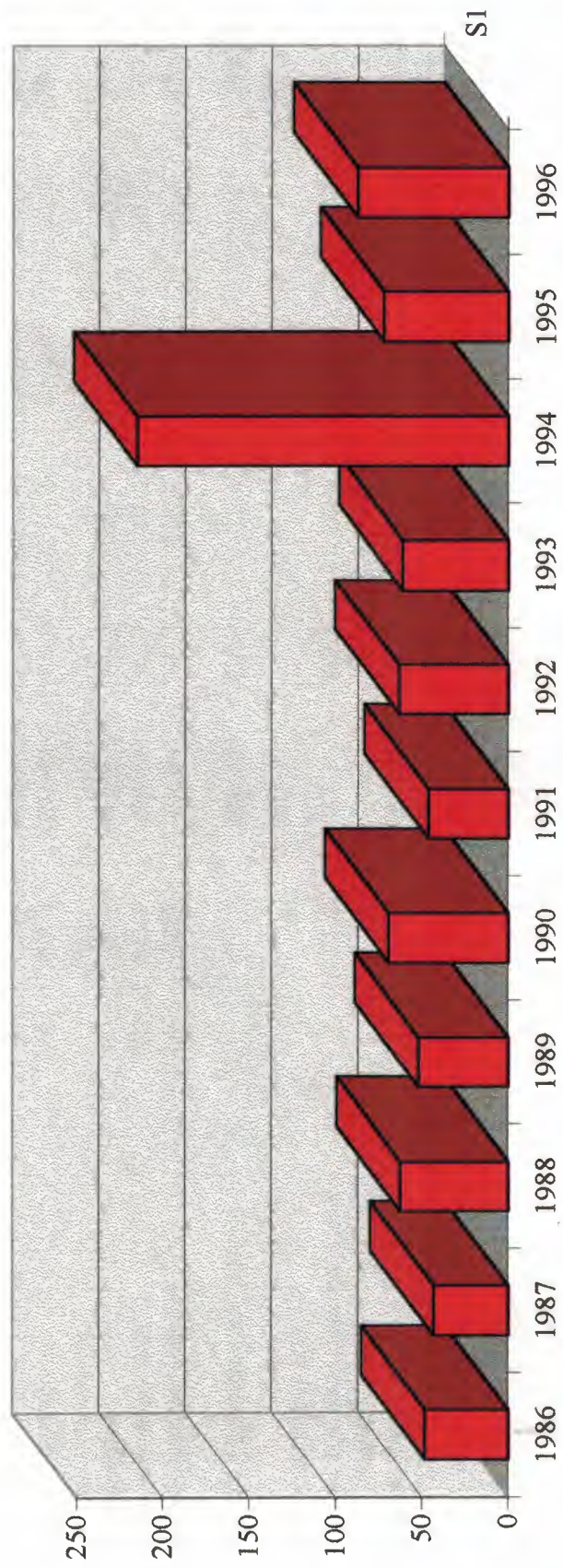


TABLE 4

BALANCE OF PAYMENTS

	1977	1982	1987	1992	1993	1994	1995	1996
(Million \$)								
I. CURRENT ACCOUNTS								
1- Foreign Trade								
a) Exports	24.9	39.5	55.1	54.6	54.5	53.4	67.3	70.5
b) Imports	82.0	119.9	221.0	371.4	363.9	286.6	366.1	318.4
Foreign Trade Balance	(57.1)	(80.4)	(165.9)	(316.8)	(309.4)	(233.2)	(298.8)	(247.9)
2- Invisibles Accounts								
a) Tourism (Net)	30.2	27.2	103.5	175.1	224.6	172.9	218.9	175.6
b) Other Invisibles (Net)	1.9	24.8	41.7	118.3	83.8	56.1	67.6	70.3
Invisibles Account Balance	32.1	52.0	145.2	293.4	308.4	229.0	286.5	245.9
CURRENT ACCOUNT BALANCE	(25.0)	(28.4)	(20.7)	(23.4)	(1.0)	(4.2)	(12.3)	(2.0)
II. CAPITAL MOVEMENTS								
1- Foreign Aid and Loans by Turkey	31.0	37.7	35.5	36.8	30.1	22.1	28.4	82.8
2- Other Foreign Aid	3.0	0.5	8.3	1.6	1.5	1.8	2.4	2.8
3- Imports By Waiver	32.7	51.0	63.9	147.2	160.7	136.1	151.6	139.0
4- Other Short Term Capital Movements	(47.1)	(51.0)	(63.9)	(143.9)	(129.7)	(107.9)	(105.9)	(125.2)
CAPITAL MOVEMENTS BALANCE	19.6	38.2	43.8	41.7	62.6	52.1	76.5	99.4
GENERAL BALANCE	(5.4)	9.8	23.1	18.3	61.6	47.9	64.2	97.4
III. CHANGE IN RESERVES	5.4	(4.8)	(29.6)	(16.2)	(68.0)	(47.1)	(66.1)	(95.9)
NET ERRORS AND OMISSIONS	-	(5.0)	6.5	(2.1)	6.4	(0.8)	1.9	(1.5)
Average US \$ Exchange Rate	18.2	163.8	872.0	6,896.3	11,107.0	29,915.7	46,554.5	82,150.5

Source : Economic and Social Indicators, State Planning Organization, October 1977, p.30, Lefkosa,
Turkish Republic of Northern Cyprus.

BALANCE OF PAYMENTS, FOREIGN TRADE BALANCE

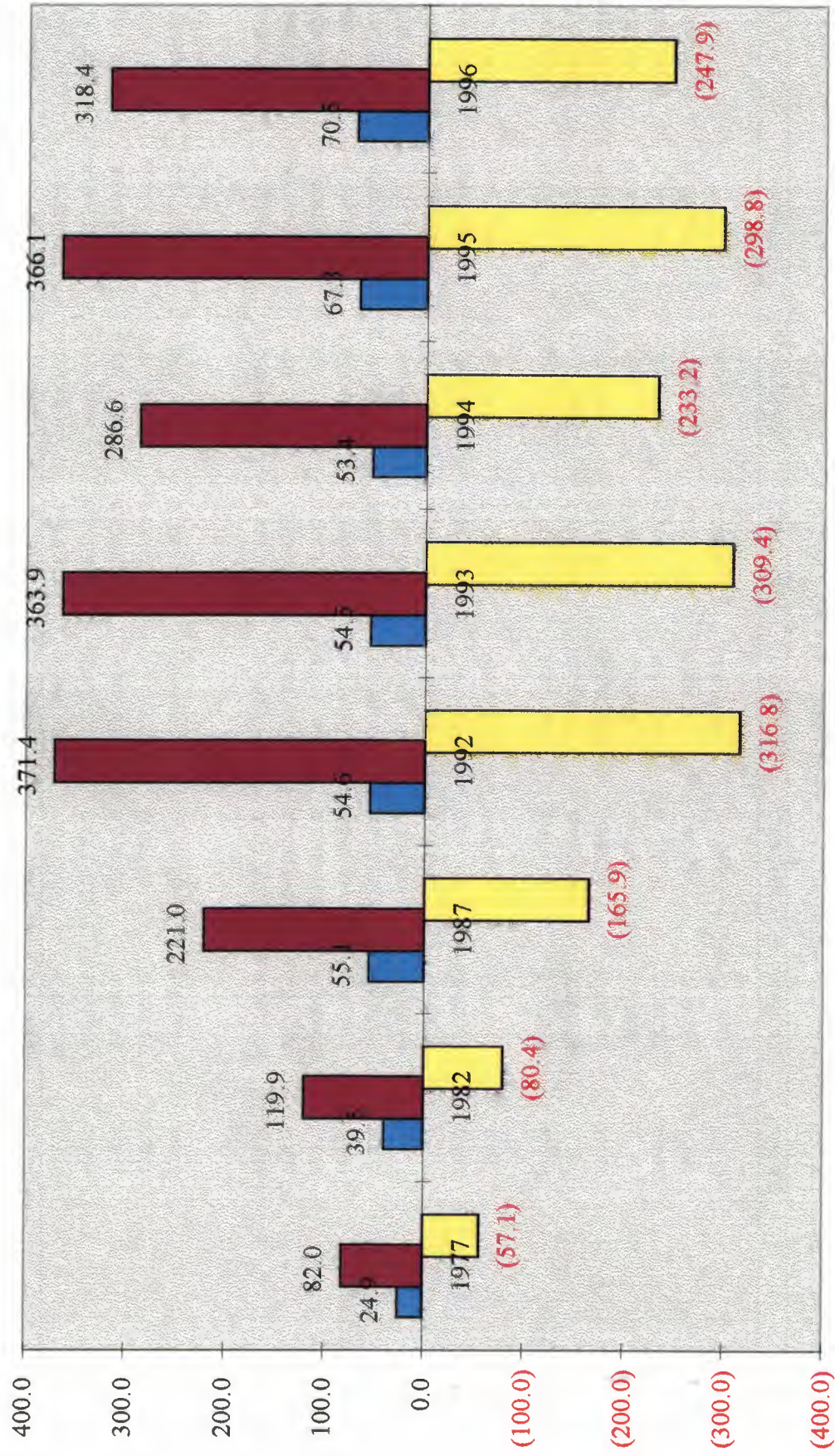


TABLE 5

BREAKDOWN OF STATE REVENUES AND EXPENDITURES

	(At Current Prices, million TL.)									
	1977	1989	1990	1991	1992	1993	1994	1995	1996	
I. LOCAL REVENUES										
1- Taxes	627.1	195,748.7	390,329.1	521,869.3	876,946.5	1,689,502.0	4,748,525.1	8,463,386.0	15,528,392.7	
a) Direct Taxes	408.0	162,989.3	331,717.8	425,804.3	728,738.0	1,392,382.4	3,129,140.4	6,202,681.8	11,366,588.0	
b) Indirect Taxes	135.9	84,424.3	166,109.9	243,580.9	392,651.3	727,805.0	1,813,865.8	3,661,102.4	6,518,720.4	
2- Other Income	272.1	78,565.0	165,607.9	182,223.4	336,086.7	664,577.4	1,315,274.6	2,541,579.4	4,847,867.6	
3- Fund Revenues	219.7	32,759.4	58,611.3	96,065.0	148,208.5	297,119.6	757,998.0	1,609,166.6	3,138,274.4	
	-	-	-	-	-	-	861,386.7	651,587.6	1,023,530.3	
II. EXPENDITURES										
1- Current Expenditures	1,186.1	257,142.9	524,749.0	891,063.2	1,369,323.9	2,504,274.9	6,260,479.1	13,655,393.2	24,380,624.4	
a) Personnel Expenditures	668.0	129,114.0	247,636.2	400,163.9	654,652.1	1,162,462.7	3,037,803.5	6,263,359.4	10,671,604.0	
b) Other Current Expenditures	553.3	108,093.1	206,942.8	341,748.5	557,737.0	973,752.4	2,669,305.3	5,509,473.8	9,275,954.3	
2- Transfers	114.7	21,020.9	40,693.4	58,415.4	96,915.1	188,710.3	368,498.2	753,885.6	1,395,649.7	
a) Social Transfers	283.7	85,584.6	182,573.9	331,505.7	496,217.1	901,119.5	2,303,510.4	5,794,161.5	9,867,171.5	
b) Other Transfers	-	64,262.9	144,852.1	231,674.0	398,854.7	693,920.0	1,821,121.8	5,002,953.9	7,682,524.6	
3- Defence Expenditures	143.6	21,321.7	37,721.8	99,831.7	97,362.4	207,199.5	482,388.6	791,207.6	2,184,646.9	
4- Investments	90.8	12,550.0	20,140.0	46,975.0	84,150.0	126,100.0	310,265.8	747,500.0	1,247,500.0	
		29,894.3	74,398.9	112,418.6	134,304.7	314,592.7	608,899.4	850,372.3	2,594,348.9	
III. FOREIGN AID AND LOANS										
1- Foreign Aid	558.4	61,394.2	134,419.9	369,193.9	492,377.4	814,772.9	1,511,954.0	5,192,007.2	8,852,231.7	
a) Aid From Turkey	193.6	37,192.9	50,884.9	113,680.3	150,698.5	296,341.6	632,062.4	1,294,957.6	6,226,437.9	
b) Other Foreign Aid	193.6	33,297.3	48,988.6	109,767.6	149,212.7	291,885.0	621,234.9	1,253,647.9	6,119,642.4	
2- Loans	-	3,895.6	1,896.3	3,912.7	1,485.8	4,456.3	10,827.5	41,309.7	106,795.4	
a) Internal Loans	364.8	24,201.3	83,535.0	255,513.6	341,678.9	518,431.3	879,891.6	3,897,049.6	2,625,793.8	
b) Foreign Loans	88.8	24,201.3	73,535.0	156,813.6	237,121.8	517,321.7	879,891.6	3,897,049.6	2,125,793.8	
	276.0	-	10,000.0	98,700.0	104,557.1	1,109.6	-	-	500,000.0	
GNP	3,810.5	910,058.6	1,547,793.0	2,273,698.1	4,037,702.2	6,941,224.3	16,581,566.8	35,178,971.7	63,576,940.3	

Source : Economic and Social Indicators, State Planning Organization, October 1997, p.23, Lefkosa,
Turkish Republic of Northern Cyprus.

BUDGET DEFICITS, 1986 - 1996
(Million TL.)

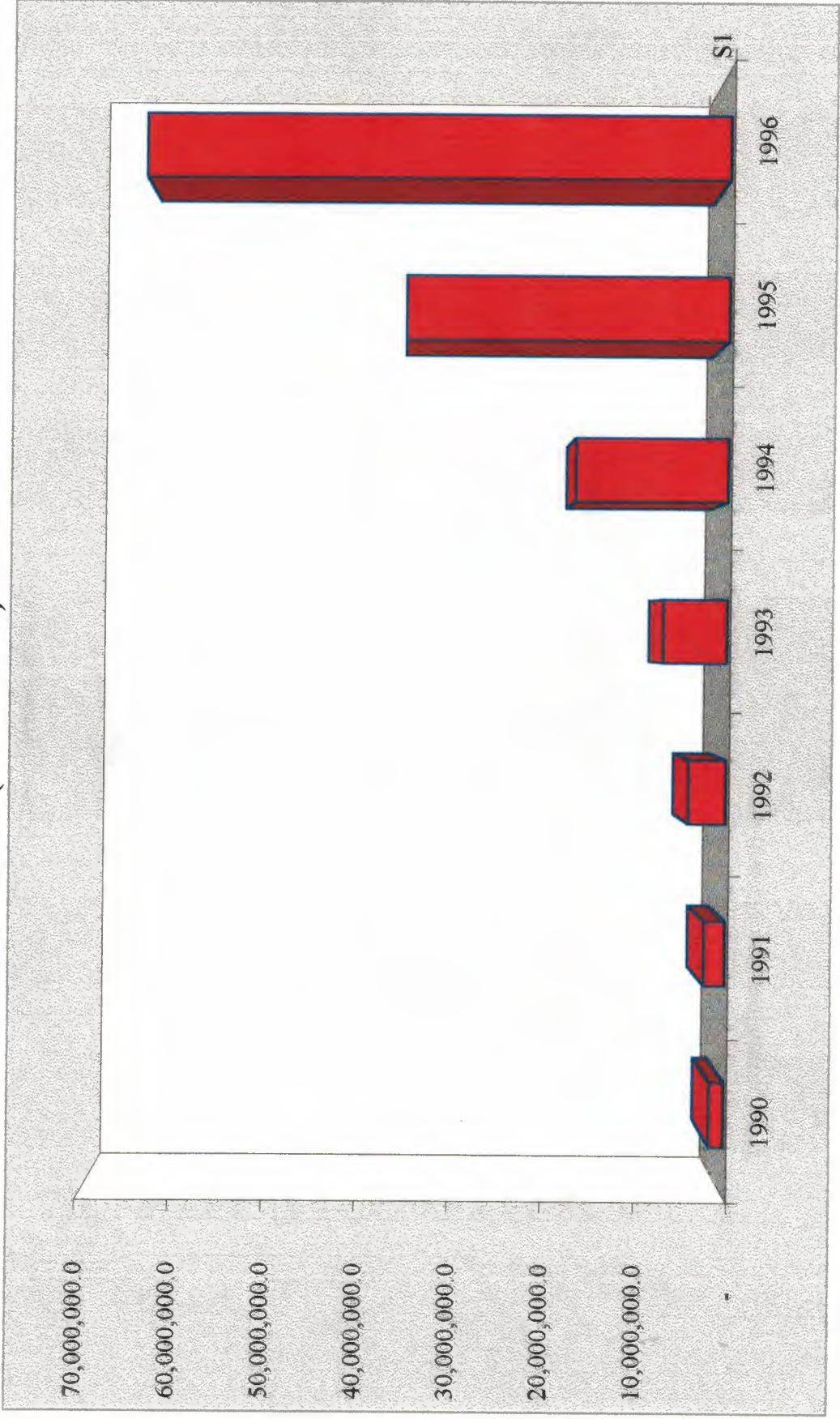
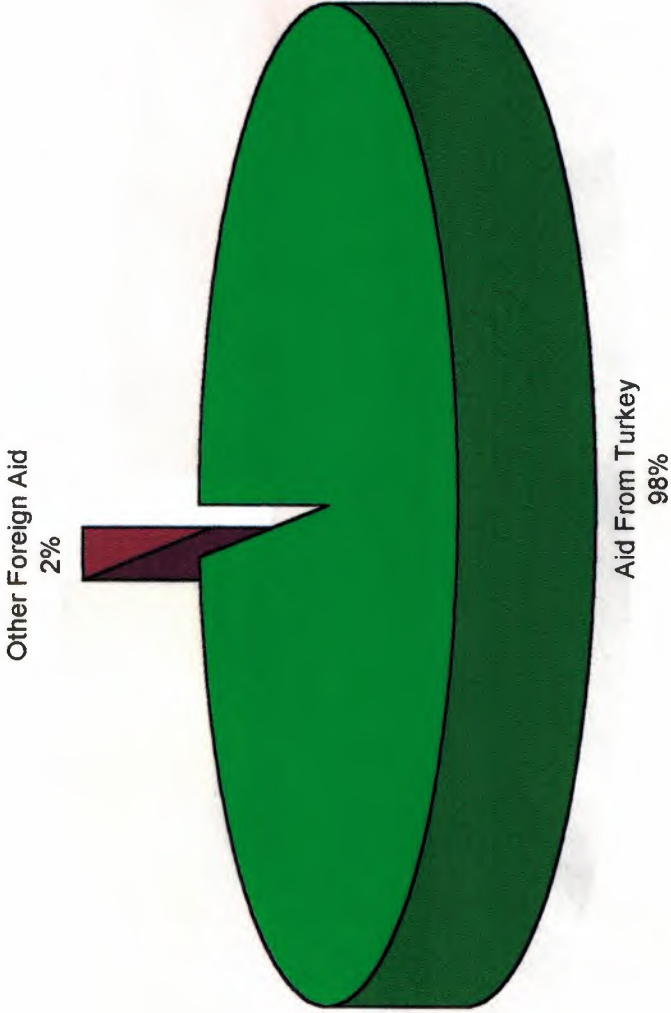


TABLE 6
FOREIGN AND OTHER AID, AND INTERNAL AND EXTERNAL LOANS 1978-1996

Current Prices, Million TL				
	Aid From Turkey	Other Foreign Aid	Internal Loans	External Loans
1978	220.5	51.1	74.7	289.3
1979	374.1	50.9	34.8	666.6
1980	606.6	39.0	30.3	1,541.3
1981	1,720.7	24.4	-	2,024.8
1982	2,236.6	37.7	-	2,856.8
1983	3,866.2	46.5	-	3,722.7
1984	6,961.8	53.3	-	6,789.8
1985	10,450.9	1,377.0	3,754.8	8,750.0
1986	11,707.7	2,905.9	4,585.4	18,000.0
1987	19,942.6	5,959.8	11,117.9	10,000.0
1988	15,455.0	6,677.4	19,386.5	-
1989	33,297.3	3,895.6	24,201.3	-
1990	48,988.6	1,896.3	73,535.0	10,000.0
1991	109,767.6	3,912.7	156,813.6	98,700.0
1992	149,212.7	1,485.8	237,121.8	104,557.1
1993	291,885.0	4,456.6	517,321.7	1,109.6
1994	621,234.9	10,827.5	879,891.6	-
1995	1,253,647.9	41,309.6	3,897,049.6	-
1996	6,119,642.4	106,795.4	2,125,793.8	500,000.0

Source: The Ministry of Finance and Prime Ministry State Planning Organization, Lefkosa, p.12,
1997, Turkish Republic of North Cyprus

AID RECEIVED FROM TURKEY AND OTHER FOREIGN COUNTRIES, 1996
Million TL.



INTERNAL AND EXTERNAL LOANS, 1996
Million TL.

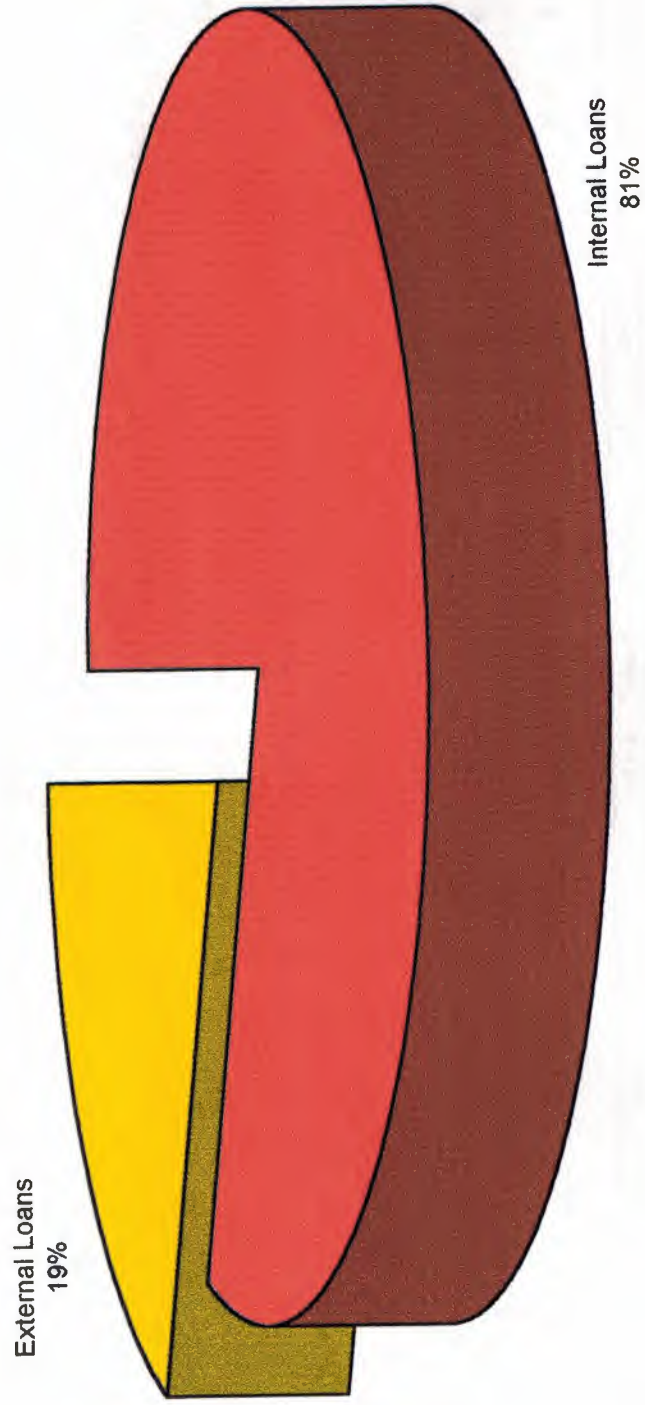


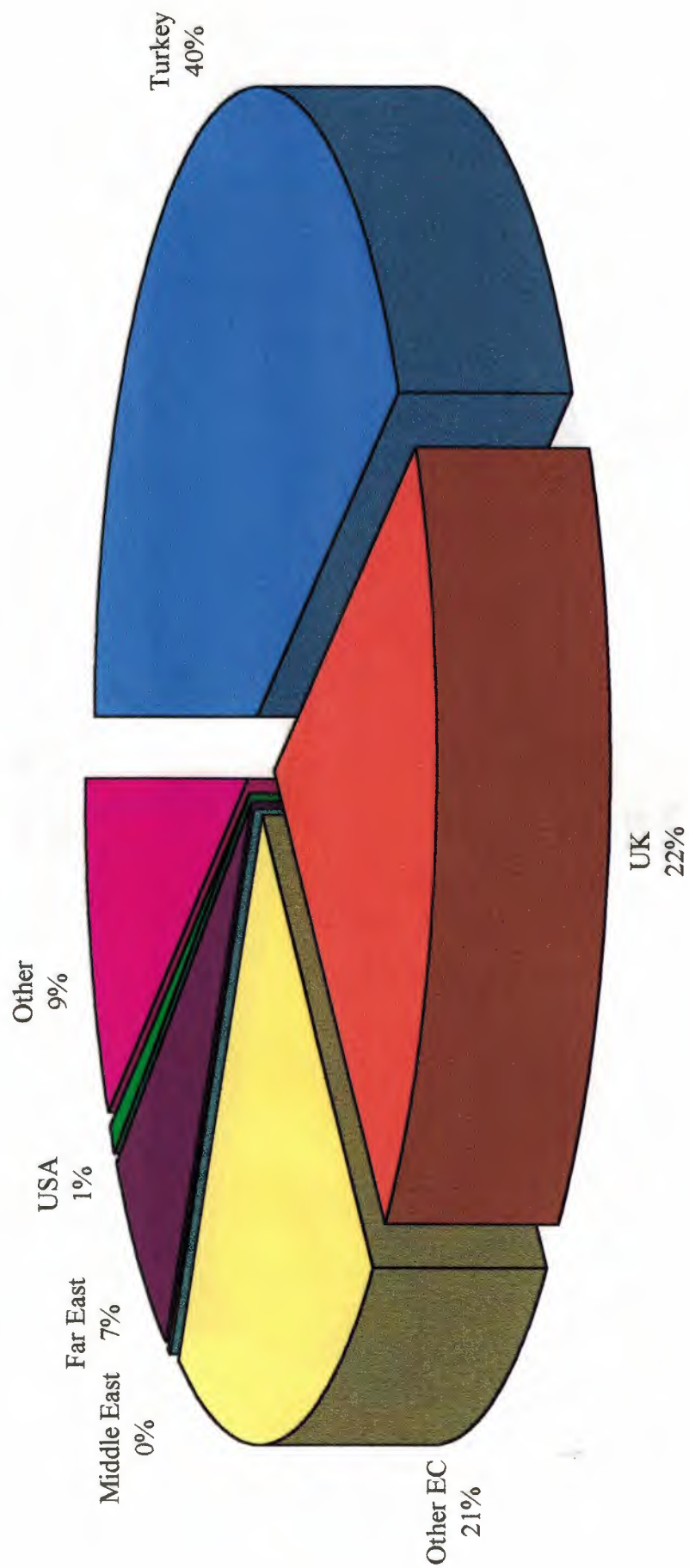
TABLE 7

FOREIGN TRADE BY COUNTRIES

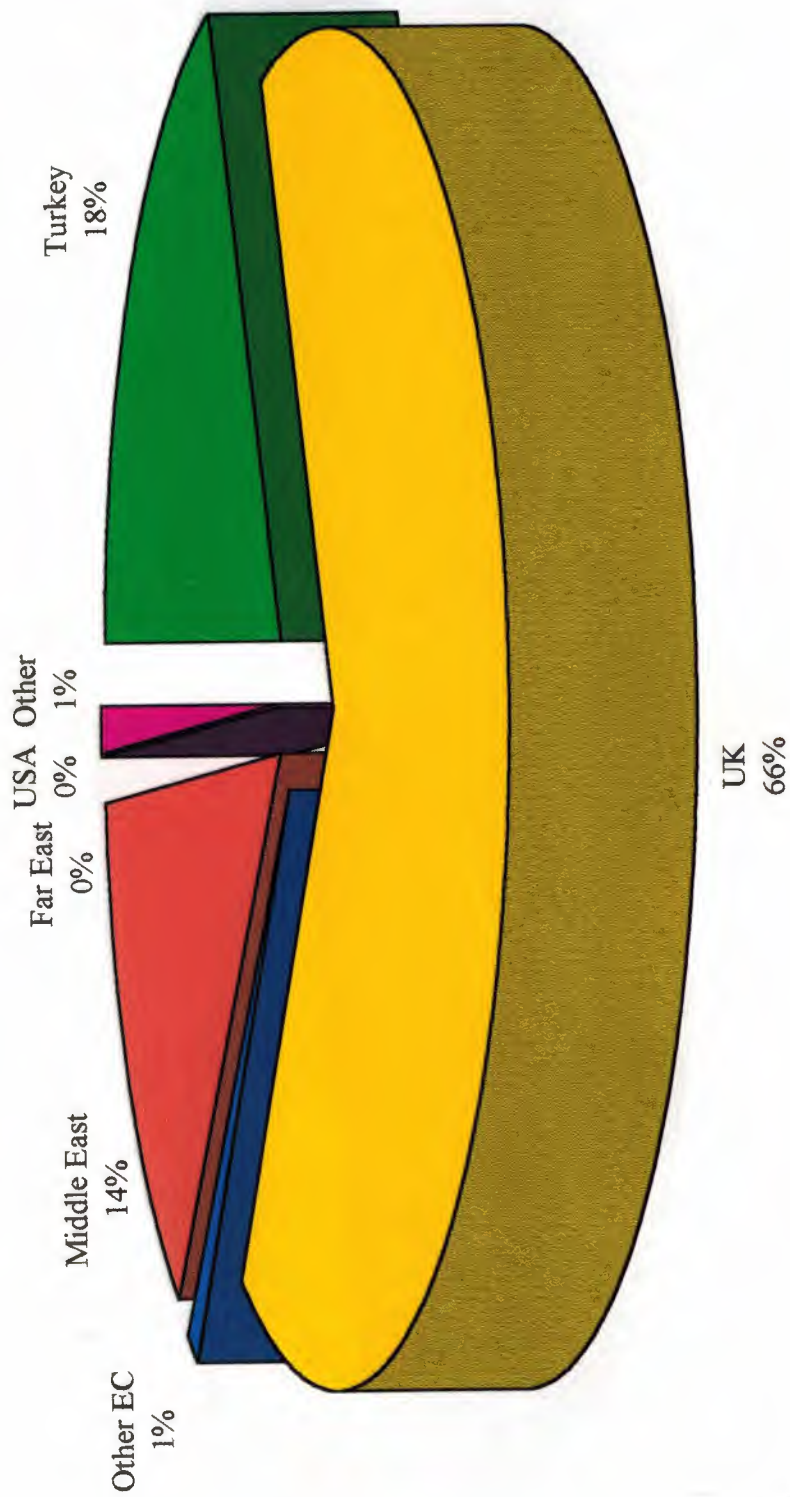
COUNTRIES	1977		1982		1987		1992		1993		1994		1995		1996	
	Im.	Ex.	Im.	Ex.	Im.	Ex.	Im.	Ex.	Im.	Ex.	Im.	Ex.	Im.	Ex.	Im.	Ex.
	(Million US\$)															
I. TURKEY	30.9	6.6	49.5	7.3	94.3	7.9	178.7	9.1	150.9	12.5	129.3	10.4	194.8	20.2	176.1	34.0
II. OTHER COUNTRIES	51.1	17.3	70.4	32.2	126.7	47.2	192.7	45.5	213.0	42.0	157.3	43.0	171.3	47.1	142.3	36.5
1- EC Countries	37.3	15.3	50.5	26.4	71.7	41.4	91.4	41.8	121.7	36.4	104.4	34.2	102.0	36.5	81.0	24.7
a) United Kingdom	20.8	11.8	25.9	25.9	31.4	36.7	45.5	36.3	65.4	26.7	73.4	24.7	49.4	23.8	44.0	15.0
b) Other EC Countries	16.5	3.5	24.6	0.5	40.3	4.7	45.9	5.5	56.3	9.7	31.0	9.5	52.6	12.7	37.0	9.7
2- Middle East Countries	3.4	1.2	0.1	5.4	3.2	3.6	2.3	1.5	3.2	2.2	2.8	6.5	8.1	1.6	4.6	5.8
3- Far East Countries	5.1	-	8.0	-	33.0	-	37.9	0.1	47.3	0.1	25.0	-	26.8	-	15.4	-
4- USA	0.4	0.2	1.3	-	1.6	1.0	7.4	-	3.1	0.1	4.5	-	2.8	0.1	4.3	0.7
5- Other Countries	4.9	0.6	10.5	0.4	17.2	1.2	53.7	2.1	37.7	3.2	20.6	2.3	31.6	8.9	37.0	5.3
TOTAL	82.0	23.9	119.9	39.5	221.0	55.1	371.4	54.6	363.9	54.5	286.6	53.4	366.1	67.3	318.4	70.5

Source : Statistical Yearbook 1996, State Planning Organization, October 1997, p.227, Lefkosa, Turkish Republic of Northern Cyprus.

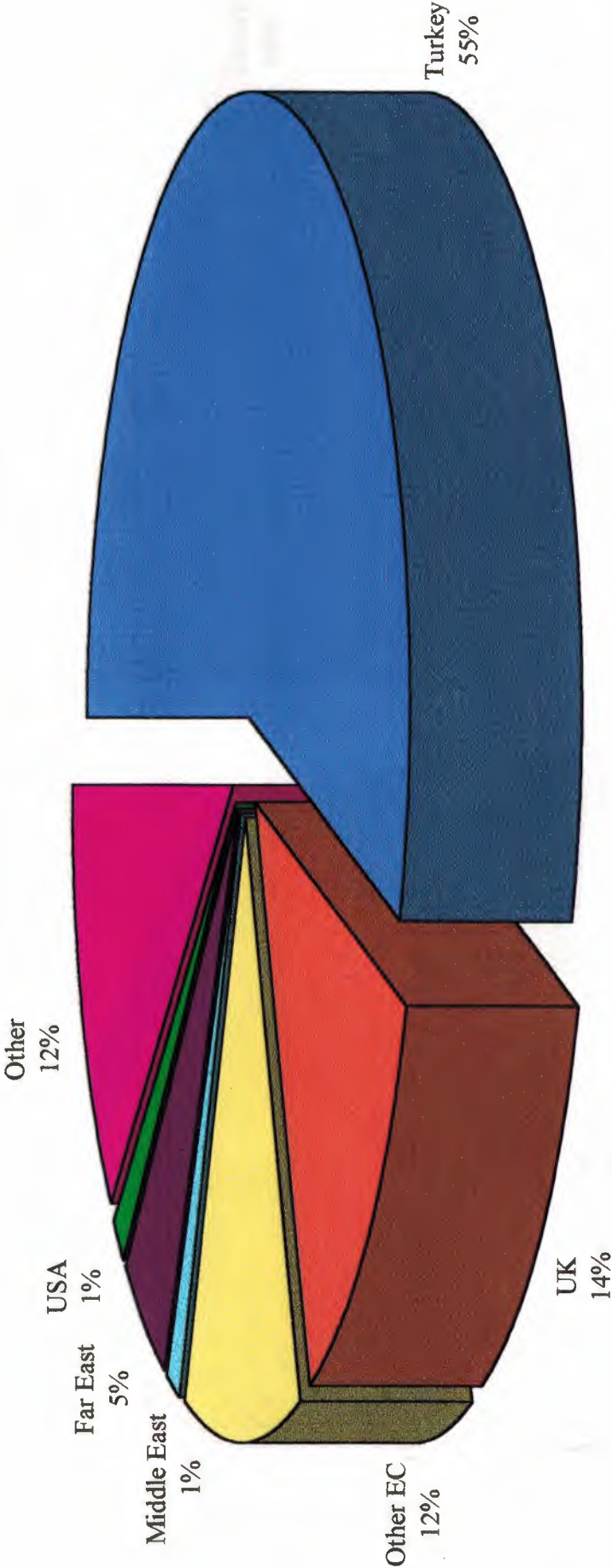
IMPORTS BY COUNTRIES, 1982 (Million US\$)



EXPORTS BY COUNTRIES, 1982 (Million US\$)



IMPORTS BY COUNTRIES, 1996
(Million US\$)



EXPORTS BY COUNTRIES, 1996
(Million US\$)

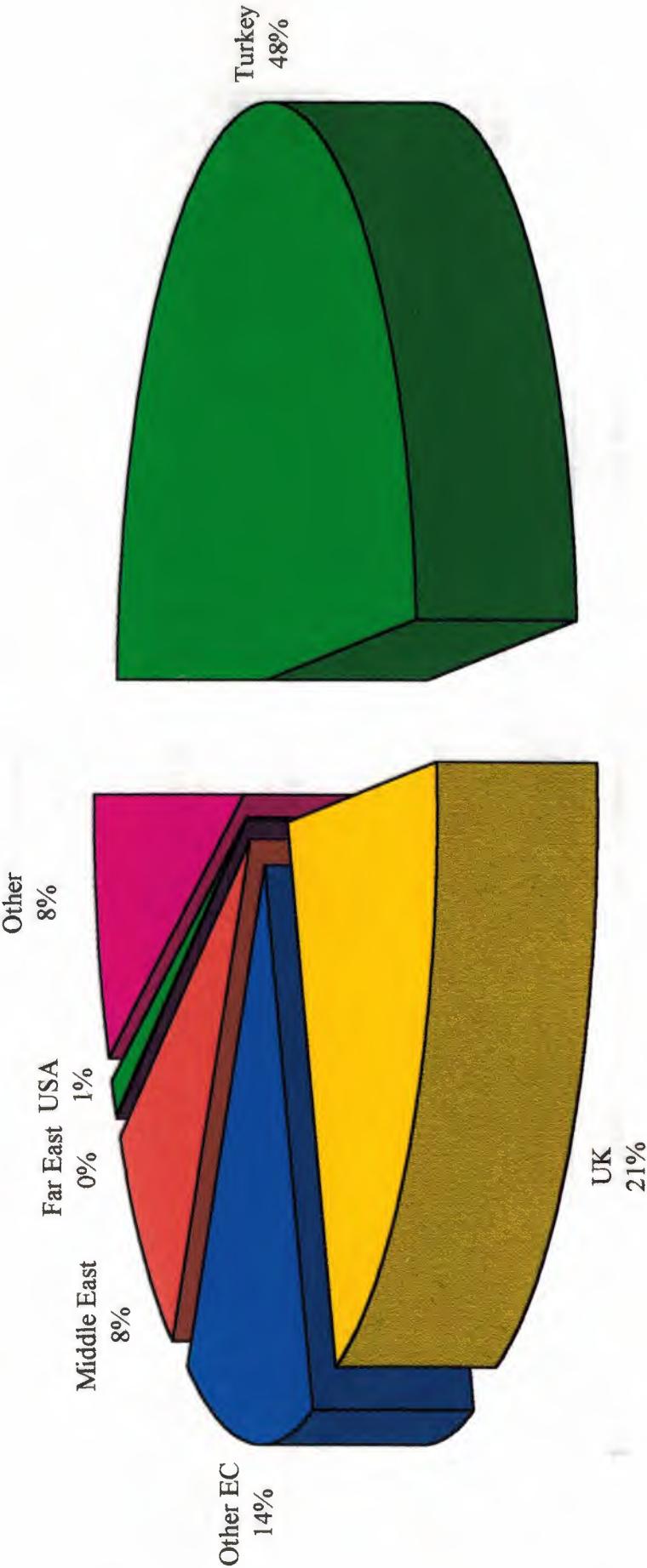


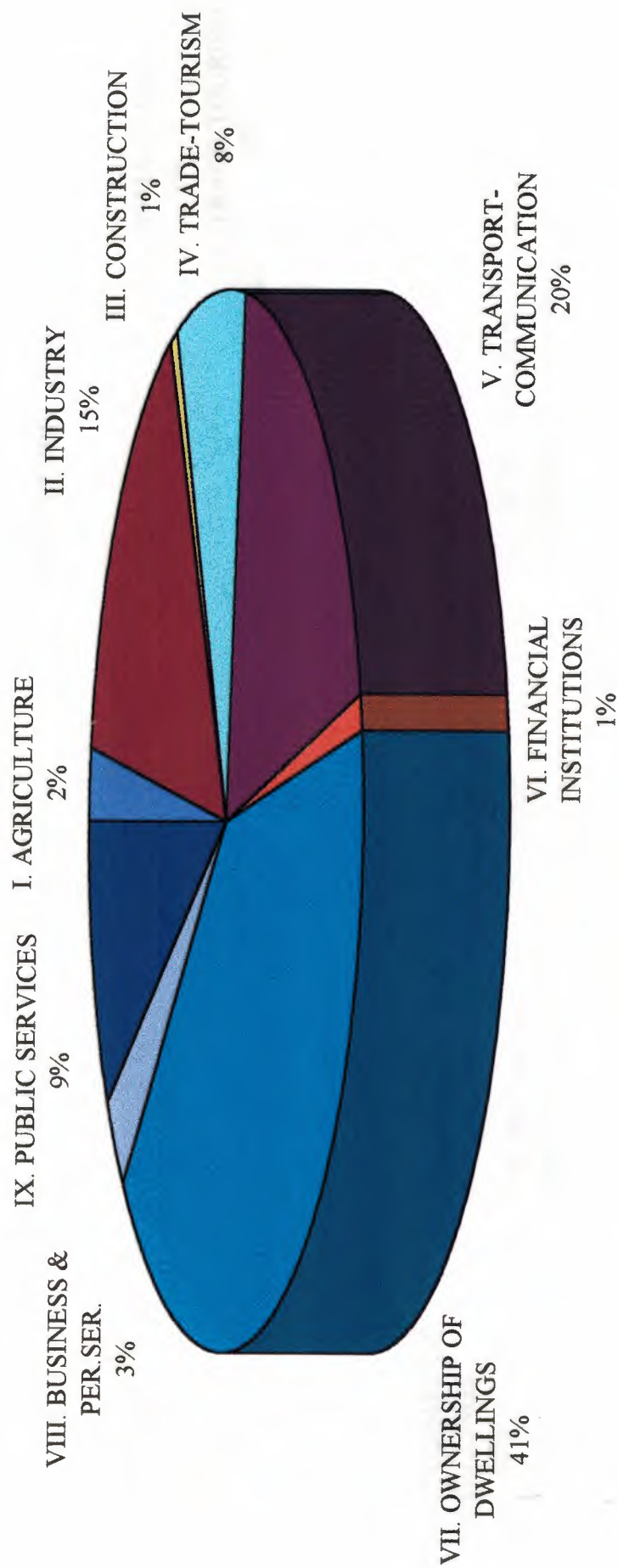
TABLE 8

SECTORAL DISTRIBUTION OF FIXED CAPITAL INVESTMENTS

SECTORS	1977 Constant Prices (million T.L.)									
	1977	1982	1987	1992	1993	1994	1995	1996		
I. AGRICULTURE	67.0	125.1	25.8	73.1	116.9	47.5	61.8	117.4		
II. INDUSTRY	86.2	104.0	168.5	119.6	99.3	96.6	90.1	77.5		
1- Mining & Quarrying	-	-	-	-	1.5	1.3	1.3	1.1		
2- Manufacturing	44.1	87.1	83.4	83.9	69.1	67.0	70.6	56.5		
3- Electricity-Water	42.1	16.9	85.1	35.7	28.7	28.3	18.2	19.9		
III. CONSTRUCTION	4.0	7.9	11.4	24.9	16.9	26.6	18.2	24.2		
IV. TRADE-TOURISM	35.0	51.1	87.4	84.9	110.7	71.8	90.3	75.6		
1- Trade	24.3	35.4	59.6	49.0	72.0	47.9	56.0	36.6		
2- Tourism	10.7	15.7	27.9	35.9	38.7	23.9	34.3	39.0		
V. TRANSPORT-COMMUNICATION	94.2	134.1	215.9	163.5	270.9	202.4	178.7	288.7		
VI. FINANCIAL INSTITUTIONS	9.5	18.7	11.2	6.4	11.4	9.3	9.8	8.5		
VII. OWNERSHIP OF DWELLINGS	195.9	260.8	447.7	380.4	382.2	384.8	349.7	278.4		
VIII. BUSINESS & PER.SER.	-	6.6	36.0	22.0	22.2	26.2	25.8	31.0		
IX. PUBLIC SERVICES	32.8	44.7	96.8	71.3	110.7	105.8	75.9	166.0		
1- Health	13.3	0.4	9.8	5.8	14.8	6.3	6.6	20.3		
2- Education	3.7	12.9	19.2	25.7	58.0	47.7	33.8	55.8		
3- Other	15.8	31.4	67.8	39.8	37.9	51.8	35.5	89.9		
TOTAL	524.6	753.0	1,100.7	946.1	1,141.2	971.0	900.3	1,067.3		

Source : Economic and Social Indicators, State Planning Organization, October 1977, p.15, Lefkosa, Turkish Republic of Northern Cyprus.

SECTORAL DISTRIBUTION OF FIXED CAPITAL INVESTMENTS, 1987



SECTORAL DISTRIBUTION OF FIXED CAPITAL INVESTMENTS, 1996

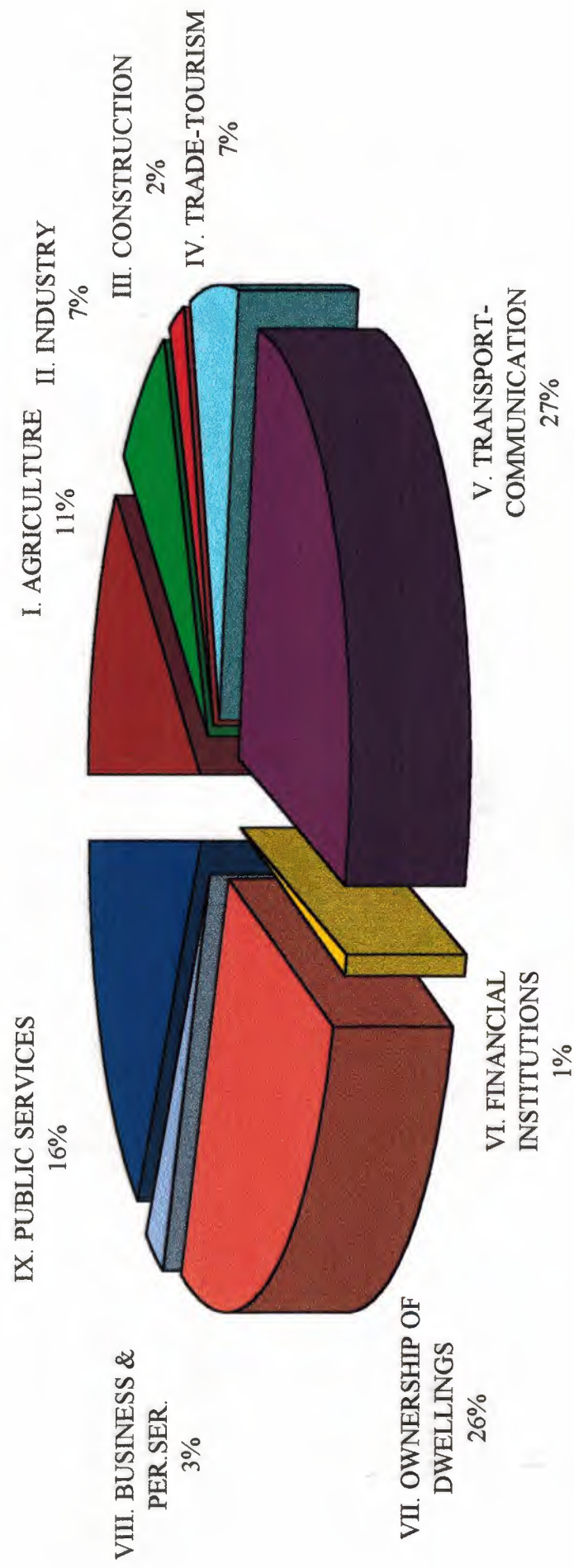


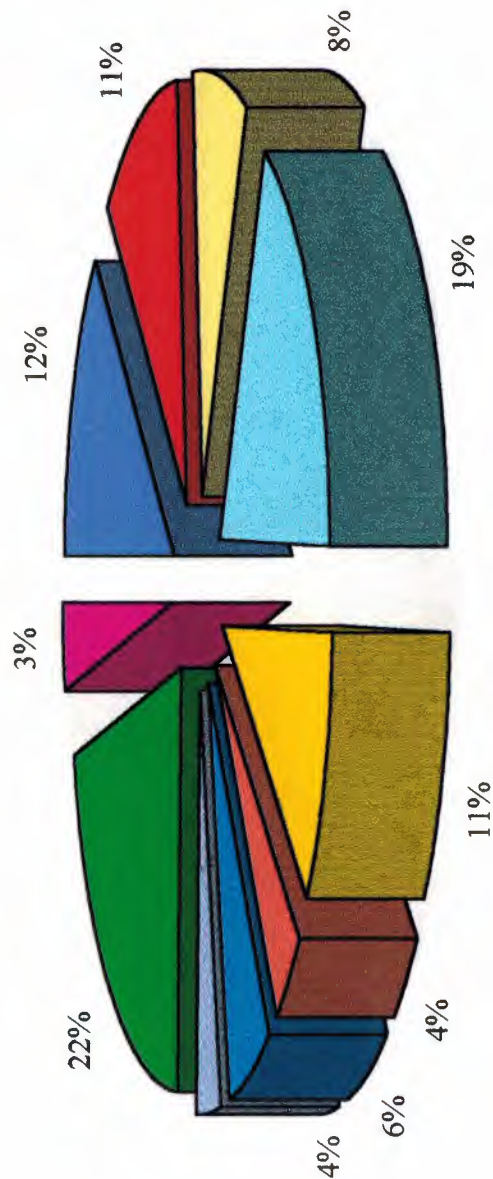
TABLE 9

SECTORAL DISTRIBUTION OF GROSS DOMESTIC PRODUCT

SECTORS	(1977 Prices, %)									
	1977	1982	1987	1992	1993	1994	1995	1996		
I. AGRICULTURE	16.4	17.9	12.1	11.7	12	10.9	10.9	11.4		
II. INDUSTRY	9.7	11.0	11.4	13.4	12.8	13.3	13.6	12.9		
III. CONSTRUCTION	4.1	4.7	8.1	9.3	9.5	9.1	6.9	6.8		
IV. TRADE-TOURISM	21.2	19.7	18.7	17.8	17.6	17.6	18.9	16.3		
V. TRANSPORT-COMMUNICATION	6.8	8.7	10.9	9.7	10.1	10.7	11.0	11.2		
VI. FINANCIAL INSTITUTIONS	3.1	3.8	4.4	4.7	4.8	5.1	5.6	5.5		
VII. OWNERSHIP OF DWELLINGS	9.4	7.4	6.3	5.5	5.3	5.6	5.6	5.5		
VIII. BUSINESS & PER.SER.	3.4	3.7	3.6	4.0	4.0	3.9	3.8	6.8		
IX. PUBLIC SERVICES	19.9	21.1	21.2	18.4	17.8	18.8	17.9	17.7		
X. IMPORT DUTIES	6.0	2.0	3.3	5.5	6.1	5.0	5.8	5.9		
GNP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

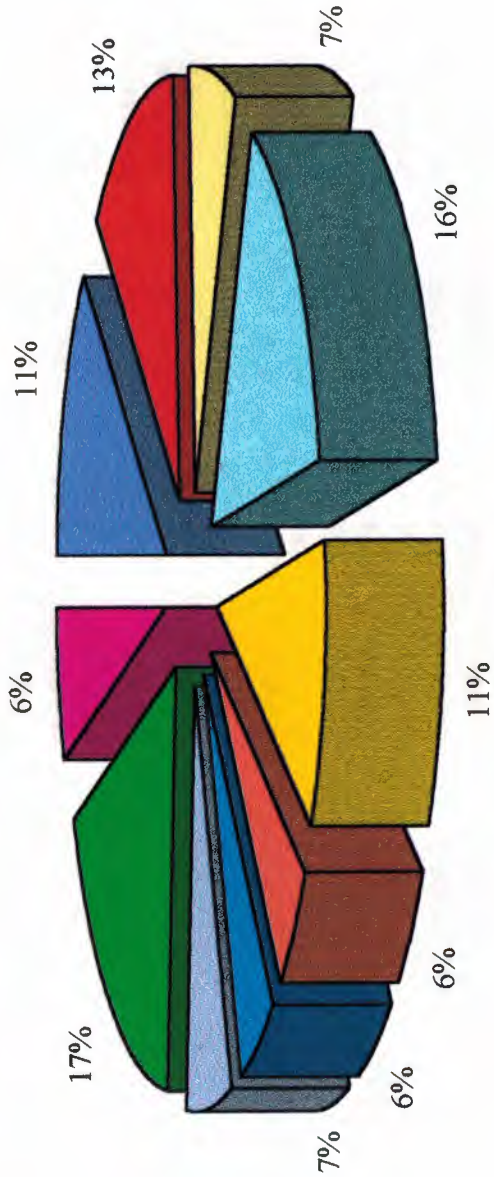
Source : Economic and Social Indicators, State Planning Organization, October 1997, p.6, Lefkosa, Turkish Republic of Northern Cyprus.

SECTORAL DISTRIBUTION OF GROSS DOMESTIC PRODUCT, 1987



AGRICULTURE	INDUSTRY	CONSTRUCTION
TRADE-TOURISM	TRANSPORT-COMMUNICATION	FINANCIAL INSTITUTIONS
OWNERSHIP OF DWELLINGS	BUSINESS & PER. SER.	PUBLIC SERVICES
IMPORT DUTIES		

SECTORAL DISTRIBUTION OF GROSS DOMESTIC PRODUCT, 1996



- | | | |
|--------------------------|---------------------------|--------------------------|
| ■ AGRICULTURE | ■ INDUSTRY | ■ CONSTRUCTION |
| ■ TRADE-TOURISM | ■ TRANSPORT-COMMUNICATION | ■ FINANCIAL INSTITUTIONS |
| ■ OWNERSHIP OF DWELLINGS | ■ BUSINESS & PER. SER. | ■ PUBLIC SERVICES |
| ■ IMPORT DUTIES | | |

TABLE 10

GENERAL BALANCE OF THE ECONOMY

	(Current Prices, Million TL.)					
	1982	1987	1992	1993	1994	1996
I. TOTAL RESOURCES	38,801.0	307,137.5	4,199,074.5	6,952,331.3	16,707,212.6	35,751,592.2
1- GNP	34,148.0	289,106.4	4,037,702.2	6,941,224.3	16,581,566.8	35,178,971.7
2- Current Account Deficit	4,653.0	18,031.1	161,372.3	11,107.0	125,645.8	572,620.5
II. TOTAL INVESTMENTS	6,016.8	59,839.5	639,115.9	1,197,935.8	2,388,525.3	4,826,688.7
1- Fixed Capital	5,884.7	55,981.9	536,155.3	1,049,499.0	2,215,173.7	4,247,018.7
a) Public	1,745.8	21,707.2	157,994.1	407,014.0	780,605.1	1,152,616.9
b) Private	4,138.9	34,274.7	378,161.2	642,485.0	1,434,568.6	3,094,401.8
2- Changes in Stocks	132.1	3,857.6	102,960.6	148,436.8	173,351.6	579,670.0
a) Public	(66.0)	1,324.9	55,764.1	45,461.2	32,928.5	122,801.5
b) Private	198.1	2,532.7	47,196.5	102,975.6	140,423.1	456,868.5
III. TOTAL CONSUMPTION	32,784.2	247,298.0	3,559,958.6	5,754,395.5	14,318,687.3	30,924,903.5
IV. PUBLIC DISPOSABLE INCOME	3,198.5	56,184.3	795,186.7	1,527,993.5	3,946,519.1	4,966,148.4
1- Public Consumption	7,722.0	59,710.8	909,361.0	1,523,275.7	3,944,913.8	8,078,733.9
2- Public Savings	(4,523.5)	(3,526.5)	(114,174.3)	4,717.8	1,605.3	(3,112,585.5)
3- Public Investments	1,679.8	23,032.1	213,758.2	452,475.2	813,533.6	1,275,418.4
4- Difference in Public	(6,203.3)	(26,558.6)	(327,932.5)	(447,757.4)	(811,928.3)	(4,388,003.9)
V. PRIVATE DISPOSABLE INCOME	30,949.5	232,922.1	3,242,515.5	5,413,230.8	12,635,047.7	30,212,823.3
1- Private Consumption	25,062.2	187,587.2	2,650,597.6	4,231,119.8	10,373,773.5	22,846,169.6
2- Private Savings	5,887.3	45,334.9	591,917.9	1,182,111.0	2,261,274.2	7,366,653.7
3- Private Investments	4,337.0	36,807.4	425,357.7	745,460.6	1,574,991.7	3,551,270.3
4- Difference in Private	1,550.3	8,527.5	166,560.2	436,650.4	686,282.5	3,815,383.4
VI. TOTAL DOMESTIC SAVINGS	1,363.8	41,808.4	477,743.6	1,186,828.8	2,262,879.5	4,254,068.2
Total Marginal Savings Tendency(%)	-	16.6	12.3	24.4	11.2	10.7
Investments/GNP (%)	17.6	20.7	15.8	17.3	14.4	13.7
Savings/GNP (%)	4.0	14.5	11.8	17.1	13.6	12.1

Source : Economic and Social Indicators, State Planning Organization, October 1997, p.7, Lefkosa, Turkish Republic of Northern Cyprus.

3. ROLE OF THE BANKING SECTOR IN THE TRNC :

3.1 Creation of Money (Credit) by the Banking System :

When gold was used as a medium of exchange, the creation of money was much like the production of jewelry. Gold ore was mined from the ground and smelted, and the pure metal was molded into coins. How much money was created depended primarily on the amount of gold in the ground and the cost of getting it out. Today, in developed countries, money is created principally through the commercial banking system.

The creation of credit by the banking system, or, as it is sometimes called, "the multiple expansion of bank deposits", takes place when a bank grants a customer a loan and creates a bank deposit in that customer's name. This will be used to make purchases, almost certainly by writing a cheque against the bank deposit. This will be paid into somebody else's bank account and will appear as an increase in another bank's assets. This increase in the other bank's assets will be used to make a further loan. After being used to make purchases this will be re-deposited with yet another bank and will make possible still further lending. In this way, by expanding their loans, banks can **create credit**.

However, in the real world banks cannot create credit without limit. As we know on any particular day a bank's assets might fall. In particular, banks must be prepared to meet demands for cash by their customers. This means they must keep part of their assets in the form of cash, or in assets that can quickly be turned into cash. Suppose that all banks in the economy maintain a **cash ratio** of 10 per cent between the amount of cash they hold and their total assets, and that they plan to maintain the same cash ratio in the future. In this case banks will lend 90 per cent of any increase in their assets.

To understand what this means let us consider a bank which receives an increase in assets in the form of a deposit of £100. The bank will keep with the Central Bank £10 to maintain its cash ratio and lend out £90. When this is spent, it will be re-deposited with another bank (or perhaps even the same bank). Whichever bank receives the deposit of £90 will experience an increase in assets of £90. In order to maintain its cash ratio of 10 per cent it will lend £81, that is, 90 per cent of £90. This £81 will be re-deposited with another bank and again 90 per cent, or £72.9, will be lent.

It can be seen that each time money is lent and re-deposited it leads to another loan, but of a smaller amount. Because the amount the bank lends at each stage falls, the process of credit creation cannot go on indefinitely. In fact, credit can be created only as long as the ratio of cash to total deposits is greater than 10 per cent. This means that the banking system can create credit until the entire amount of the original £100 deposit represents 10 per cent of the total increase in deposits - in other words, when lending has increased by £900 which, including the original £100 cash deposit, means that total deposits have increased by £1000.

Now if we are given the cash ratio that banks intend to maintain, we can work out the **credit multiplier**. This is simply the number that an original increase in deposits must be multiplied by in order to obtain the final increase in bank deposits. The credit multiplier is given by the formula:

$$\text{CreditMultiplier} = \frac{1}{\text{CashRatio}}$$

In the example above, the cash ratio is 10 per cent and therefore the credit multiplier is $\frac{1}{0.1} = 10$. If we multiply the original increase in deposits of £100 by 10 we obtain the final increase in total deposits, which is £1000.

3.2 MULTIPLE EXPANSION OF BANK DEPOSITS :

One important way in which bank deposits are created is when a customer opens an account and makes a deposit. In cases like this, or when existing customers add to their deposits, a bank acquires asset. On the other hand, when bank deposits are used to make purchases, a bank's assets fall. On any particular day a bank's assets might rise or they might fall, but **over time** assets have a tendency to rise. Even on days when assets fall they rarely fall significantly and any reduction in assets is quickly made up. This is very important because it means that only a fraction of the deposits lodged with a bank will be withdrawn on a particular day. The remainder can be lent to customers who wish to borrow.

TABLE 11
THE CREATION OF MONEY BY MULTIPLE EFFECTS

INDIVIDUAL DEPOSITOR CUSTOMER	AMOUNT OF DEPOSIT	RESERVE RATIO (20%)	LIABILITIES AND LOANS
1	10,000	2,000	8,000
2	8,000	1,600	6,400
3	6,400	1,280	5,120
4	5,120	1,024	4,096
5	4,096	819	3,277
6	3,277	655	2,622
7	2,622	524	2,098
8	2,098	420	1,678
9	1,678	335	1,343
10	1,343	268	1,075
11	1,075	215	860
12	860	172	688
13	688	137	551
14	551	110	441
15	441	88	353
16	353	71	282
17	282	56	226
18	226	45	181
19	181	36	145
20	145	29	116
	50,000	10,000	40,000
TOTAL	49,436	9,884	39,552

As can be seen from the above **Table 11, "The Creation of Money By Multiple Effects"**, I have tried to show the process of credit creation, in this case, with a **cash reserve ratio of 20%**. Let us assume that the original amount of deposit this time is in U.S. Dollars and is \$10,000.-. This initial deposit can be lent several times by a Bank to make it \$50,000.-. In other words, by extending loans, banks create money. I have rounded up the figures to 50,000. 10,000 and 40,000 for the sake of simplicity.

3.3 TYPES OF BANKS OPERATING IN THE TRNC :

TRNC has an active and open banking system, made up of **State and Private** banks. Currently there are 33 banks operating in TRNC. 26 are commercial Banks; 1 is special purpose Development Bank owned by the state; 2 are Co-operative Banks; 3 are foreign owned branch Banks (Türkiye İş Bankası, TC Ziraat Bankası and Türkiye Halk Bankası) and 36 off-shore banks. The banking sector accounts for about 5.52% of the **GNP¹** and about 3.1% of **employment of the economically active population²** in the TRNC at the end of 1996. The Island's geographic position and economic expectations of businessmen have caused an increase of bank openings in the TRNC.

Apart from the above there is one special finance institution operating under Islamic Principles which called Faisal Islamic Bank Ltd. Altogether these banks have a total of 130 branches at home and 12 abroad and 2456 employees. These figures exclude the Central Bank and Off-Shore Banks.

The list of the **ON-SHORE BANK** operating in the TRNC is given on **TABLE 12**, and **OFF-SHORE BANKS** on **TABLE 13**.

1. Economic and Social Indicators, State Planning Organization, October 1997, p.3, Lefkoşa, TRNC.
2. Economic and Social Indicators, State Planning Organization, October 1997, p.48, Lefkoşa, TRNC.

TABLE 12

ON-SHORE BANKS ACTIVE IN THE TRNC

1. KIBRIS VAKIFLAR BANKASI LTD.
2. K.T.KOOP.MERKEZ BANKASI LTD.
3. KIBRIS KREDİ BANKASI LTD.
4. TÜRK BANKASI LTD.
5. KIBRIS TİCARET BANKASI LTD.
6. KIBRIS ENDÜSTRİ BANKASI LTD.
7. ASBANK LTD.
8. AKDENİZ GARANTİ BANKASI LTD.
9. KIBRIS İKTİSAT BANKASI LTD.
10. KIBRIS HÜR BANK LTD.
11. RUMELİ BANK LTD.
12. EVEREST BANK LTD.
13. KIBRIS EURO BANK LTD.
14. FİNBA FİNANSAL BANK LTD.
15. LİMASOL TÜRK KOOP.BANKASI LTD.
16. T.C.ZİRAAT BANKASI
17. TÜRKİYE İŞ BANKASI A.Ş.
18. TÜRKİYE HALK BANKASI A.Ş.
19. K.FAİSAL İSLAM BANKASI LTD.
20. DENİZBANK LTD.
21. KIBRIS ALTINBAŞ BANK LTD.
22. KIBRIS TUNCA BANK LTD.
23. YAKIN DOĞU BANK LTD.
24. MED BANK LTD.
25. YASA BANK LTD.
26. KIBRIS FİNANS BANK LTD.
27. ERBANK LTD.
28. HAMZABANK LTD.
29. AKFİNANS BANK LTD.
30. YEŞİLADA BANK LTD.
31. UNIVERSAL BANK LTD.
32. VİYA BANK LTD.
33. CONTINENTAL BANK LTD.

Source : Registrar of Companies, Ministry of Economy, TRNC

Not : The Ministry of Finance issues permits for new banks and there are 4 new applications waiting for approval.

TABLE 13

OFF-SHORE BANKS ACTIVE IN THE TRNC

1. EAST MEDITERRANIAN TRUST BANK OFF SHORE LTD.
2. THE EUROPEAN BUSINESS BANK LTD.
3. THE EUROPEAN COMMERCE BANK LTD.
4. THE EURO TEXTILE BANK LTD.
5. CYPRUS UNITED TRADE AND INVESTMEN BANK LTD.
6. İMAR BANK OFF SHORE LTD.
7. PASİFİK BANK OFF SHORE LTD.
8. ATLASBANK OFF SHORE LTD.
9. ÖZBANK OFF SHORE LTD.
10. ALIANCE INVESTMENT BANK OFF SHORE LTD.
11. OKİ BANK OFF SHORE LTD.
12. MEDITERRANIAN UNION BANK OFF SHORE LTD.
13. WORLD VAKIF OFF SHORE BANKING LTD.
14. OPTIMA BANK OFF SHORE LTD.
15. NORTHERN ISLAND OFF SHORE BANK LTD.
16. CYPRUS ISLAMIC OFF SHORE BANK LTD.
17. FACTO BANK OFF SHORE LTD.
18. FIRST MERCHANT BANK OFF SHORE LTD.
19. OVERSEAS BANK OFF SHORE LTD.
20. ŞEKERBANK OFF SHORE LTD.
21. TOPRAK BANK OFF SHORE LTD.
22. ADABANK OFF SHORE LTD.
23. GLEVELAND OFF SHORE BANK LTD.
24. BANK TURQUOISE OFF SHORE LTD.
25. GOLDEN UNION OFF SHORE BANK LTD.
26. TRADE DEPOSIT OFF SHORE BANK LTD.
27. SOVERING GOLD DEPOSITORY BANK OFF SHORE LTD.
28. UNIBANK OFF SHORE LTD.
29. CYPRUS TRADE DEVELOPMENT BANK OFF SHORE LTD.
30. METROPOLITAN INVESTMENT BANK OFF SHORE LTD.
31. MARITIMA OFF SHORE BANK LTD.
32. YAŞARBANK FOREIGN TRADE OFF SHORE LTD.
33. EGS BANK OFF SHORE LTD.
34. TECNICAL EXPORT IMPORT OFF SHORE BANK LTD.
35. SOUTHSTAR OFF SHORE BANK LTD.
36. BANK 2000 OFF SHORE LTD.
37. EXCESS BANK OFF SHORE LTD.

Source : Registrar of Companies, Ministry of Economy, TRNC

3.4 DETAILS OF LOANS EXTENDED BY BANKS IN THE TRNC :

TABLE 14, TABLE 15 and TABLE 16 give a breakdown of loans extended by the financial institutions operating in the TRNC to each sector identified. From the examination of these Tables it can be seen that although the share of the public sector, Government and Public Economic Organizations (KIT's), has been declining since 1992, they still occupy an important part in loans, both in Turkish Lira and Foreign Currency. Their share fell from 71.58% in 1992 to 48.03% in 1997 (March). The importance of Foreign and Domestic Trade cannot be underestimated. The examination of these Tables show that their share increased from 17.81% in 1992 to 31.42% in 1997. The importance of the banking sector in financing the foreign trade of the TRNC, especially in the light of political sanctions and economic embargoes, has already been stressed. **The Fourth Five Year Development Plan** is underway. Liberalization and privatization will give a new shape to the economy of the TRNC. Private sector is expected to occupy its place at the expense of the public sector.

In the total assets of the banks operating in the TRNC, Turkish Lira and Foreign Currency Deposits, in the form of cash balances held with Central, Local and Foreign Banks, occupy an important part. Even if we take into consideration only cash balances, which consist of Turkish Lira deposits 23.2 trillion, and Foreign Currency deposits 43.9 trillion, total of 67.1 trillion (1997 March figures) they occupy 59.75% of their total assets.

In **Section 3.1**, in the Creation of Credit, I explained how banks created credit. The banking sector in the TRNC creates credit in the same way. The **TABLE 17** shows that the total deposits of banks in March 1997 is 112.3 trillion. The sum of the Turkish Lira Deposits (**TABLE 18**) and Foreign Currency Deposits (**TABLE 19**) is 67.1 trillion. The Banks in the TRNC are required to keep **15% cash ratio** with the Central Bank.

If we apply the **Credit Multiplier** formula to the above figures, we will see that the Credit Multiplier will be 6.67 and if we multiply the Credit Multiplier with 67.1 trillion deposits we will get a figure of **448 trillion** worth of deposits which will be used in the generation of economic activity.

The banking sector accounts for about 5.52% of the **GNP** and about 3.1% of **employment of the economically active population** in the TRNC at the end of 1996. The Island's geographic position and economic expectations of businessmen have caused an increase of bank openings in the TRNC. These can be easily noticed especially after 1990. There were three domestic banks; two Turkish branch banks from Turkey (**Türkiye İş Bankası** and **TC Ziraat Bankası**), and three foreign banks (**Barclays Bank**, **Grindlays Bank** and **Ottoman Bank**) in the pre-1974 period. By 1997 there are 70 banks operational in the TRNC. These banks carry on their businesses after being authorized under the Banking Law.

TABLE 14

ANALYSIS OF FOREIGN CURRENCY ADVANCES, LOANS AND BILLS DISCOUNTED

Million TL.

Date	Government and Pub.Corpor.	Agricultural	Manufacturing	Transport and Communic.	Foreign and Dom.Trade		Tourism	Building and Construction	Personal and Professional	TOTAL
1992	21,289.4	106.3	4,255.7	18,055.4	298,212.2		19,944.4	2,436.5	32,672.9	396,972.8
1993	221,561.8	-	61,143.0	-	601,853.7		34,453.5	6,358.7	371,700.1	1,297,070.8
1994	589,671.7	-	74,270.0	7,369.6	1,855,297.0		149,557.4	28,643.5	2,290,998.0	4,995,807.3
1995	811,937.0	1,392.8	110,555.9	4,351.8	7,123,850.7		421,386.8	51,888.2	3,684,324.2	12,209,687.4
1996	3,845,164.7	1,746.1	391,480.1	30,743.9	10,079,632.6		639,355.8	428,561.8	3,879,165.2	19,295,850.2
1997 March	4,741,343.5	10,979.3	417,833.1	23,158.7	11,772,416.9		853,148.1	565,208.5	4,770,711.5	23,154,799.6

Source : Compiled from publications of THE CENTRAL BANK of the TRNC

Note: No separate Foreign Currency statistics were kept before 1992 by the banking sector.

TABLE 15

ANALYSIS OF ADVANCES, LOANS AND BILLS DISCOUNTED IN TURKISH LIRA

Million TL.

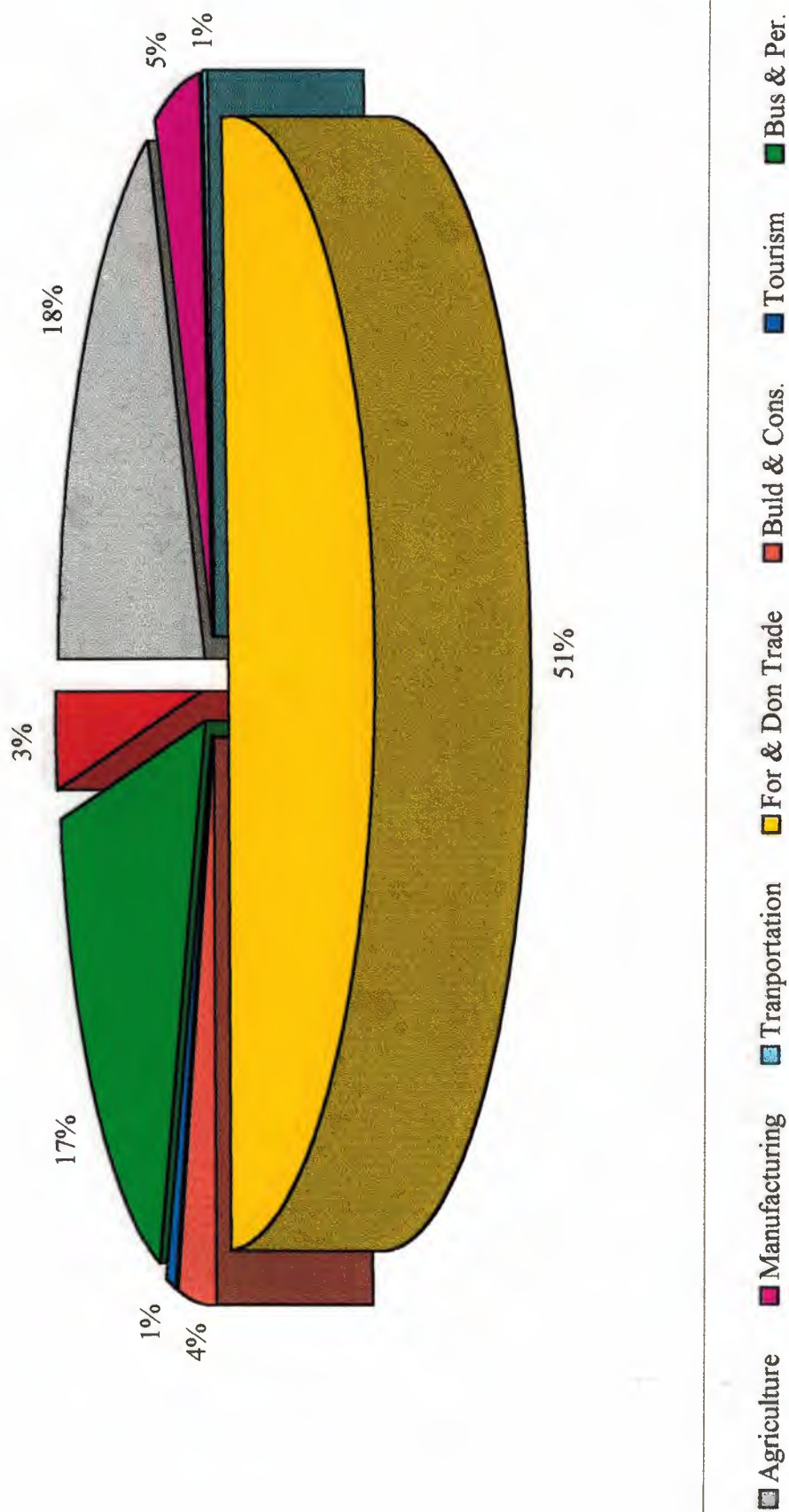
Date	Government and Pub. Corp.	Agricultural	Manufacturing	Transport and Communic.	Foreign and Dom. Trade	Tourism	Building and Construction	Personal and Professional	Bills Discounted	TOTAL
1986	11,107.4	6,670.5	1,971.1	250.6	14,516.3	185.4	1,011.5	4,032.2	4,217.3	43,998.7
1987	11,354.6	9,306.8	2,601.1	274.1	27,984.1	589.2	2,103.2	7,951.5	3,821.8	65,986.4
1988	11,263.8	16,251.3	3,695.2	446.6	43,425.3	1,751.7	2,877.4	12,584.1	6,058.8	98,354.2
1989	12,950.8	28,126.5	9,326.8	2,384.2	90,785.8	9,195.2	10,034.2	25,750.2	8,414.0	196,967.7
1990	37,919.8	55,783.8	17,549.8	22,490.9	220,840.3	20,582.0	13,762.9	56,100.8	13,894.7	458,925.0
1991	87,022.8	51,716.4	40,657.6	21,012.2	290,872.3	35,237.3	15,938.9	70,527.0	11,813.9	624,798.4
1992	2,879,322.1	68,112.2	42,411.6	4,253.8	423,318.2	49,142.6	18,424.8	128,026.9	42,116.9	3,655,135.1
1993	660,020.6	171,137.5	72,582.5	7,843.8	655,460.6	62,414.7	19,100.0	220,214.3	49,708.9	1,918,482.9
1994	2,187,347.7	196,074.7	98,494.7	5,683.7	912,176.0	88,592.8	28,863.3	419,304.1	70,381.3	4,006,918.3
1995	8,671,349.4	534,973.6	79,517.6	319.3	2,160,429.6	71,917.8	11,180.9	874,606.7	447,105.5	12,851,400.4
1996	19,172,498.1	1,143,604.4	116,376.4	3,028.1	3,993,287.9	75,068.3	34,696.1	1,267,797.8	945,254.7	26,751,611.8
1997	19,801,510.5	1,271,458.6	117,592.8	117,621.2	4,284,679.3	31,375.3	44,213.4	1,238,997.2	1,040,953.3	27,948,401.6
March										

Source : Compiled from publications of THE CENTRAL BANK of the TRNC

Notes : (1) Total amount of credit of foreign resource nature, obtained from T.C.Ziraat Bankasi constituting Public Debt of the TRNC has, as from December 1986, been excluded from Balance Sheet of T.C.Ziraat Bankasi in order to render more meaningful, Advances, Loans and Bills Discounting operations of local banks.

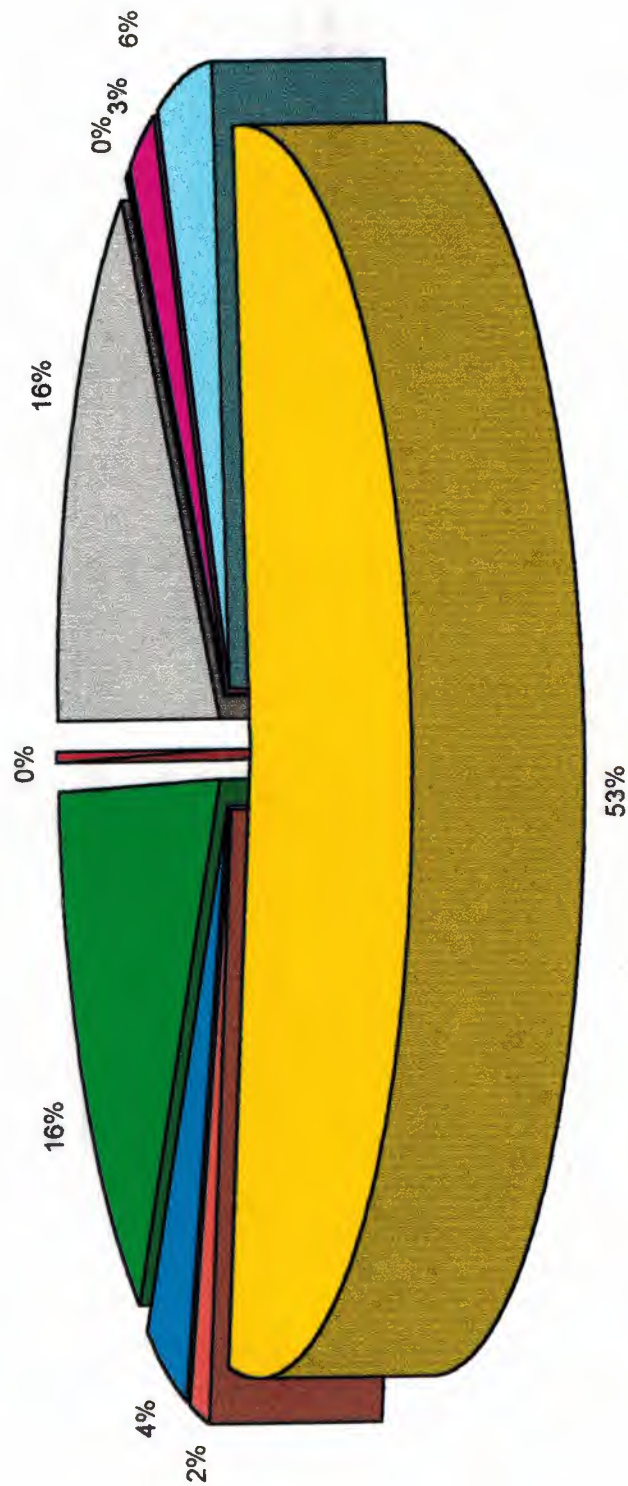
(2) This table includes amounts of Advances and Loans in foreign currency as for December 1990.

SECTORAL DISTRIBUTION OF BANK LOANS, 1987 Million TL.



Loans of Public Enterprises and Institutions are spreaded to the related sectors.

SECTORAL DISTRIBUTION OF BANK LOANS, 1996 Million TL.



■ Agriculture
 ■ Mining & Quarrying
 ■ Manufacturing
 ■ Transportation
 ■ For. & Dom. Trade
 ■ Building & Constr.
 ■ Tourism
 ■ Buss. & Personal
 ■ Artisans

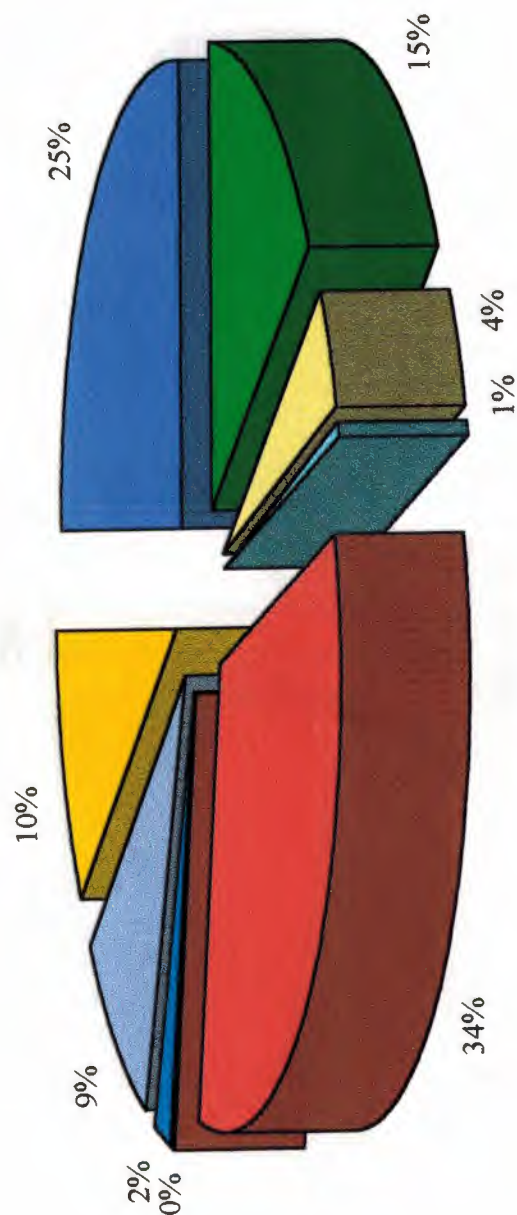
TABLE 16

PERCENTAGES OF ADVANCES, LOANS AND BILLS DISCOUNTED IN TURKISH LIRA AND FOREIGN CURRENCY

Date	Government and Pub.Corpor.	Agricultural	Manufacturing	Transport and Communic.	Foreign and Dom.Trade	Tourism	Building and Construction	Personal and Professional	Bills Discounted	TOTAL
1986	25.25	15.16	4.48	0.57	32.99	0.42	2.30	9.16	9.59	100
1987	17.21	14.10	3.94	0.42	42.41	0.89	3.19	12.05	5.79	100
1988	11.45	16.52	3.76	0.45	44.15	1.78	2.93	12.80	6.16	100
1989	6.58	14.28	4.74	1.21	46.09	4.67	5.09	13.07	4.27	100
1990	8.26	12.16	3.82	4.90	48.12	4.49	3.00	12.22	3.03	100
1991	13.93	8.28	6.51	3.36	46.55	5.64	2.55	11.29	1.89	100
1992	71.58	1.68	1.15	0.55	17.81	1.70	0.52	3.97	1.04	100
1993	27.42	5.32	4.16	0.24	39.10	3.01	0.79	18.41	1.55	100
1994	30.85	2.18	1.92	0.14	30.74	2.65	0.64	30.10	0.78	100
1995	37.84	2.14	0.76	0.02	37.05	1.97	0.25	18.19	1.78	100
1996	49.99	2.49	1.10	0.07	30.56	1.55	1.01	11.18	2.05	100
1997	48.03	2.51	1.05	0.27	31.42	1.73	1.19	11.76	2.04	100
March										

Source : Compiled from publications of THE CENTRAL BANK of the TRNC

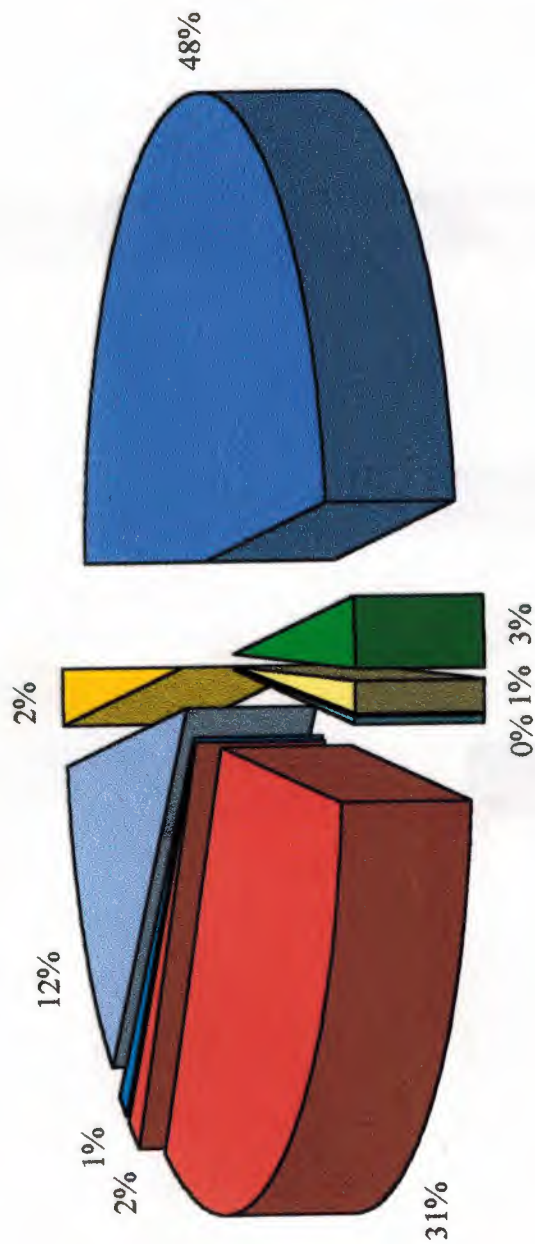
PERCENTAGES OF ADVANCES, LOANS AND BILLS DISCOUNTED IN TURKISH LIRA AND FOREIGN CURRENCY 1986



- Government and Pub. Corpr.
- Transport and Communic.
- Building and Contruction
- Agricultural
- Foreign and Dom. Trade
- Personal and Professional
- Manufacturing
- Tourism
- Bills Discounted

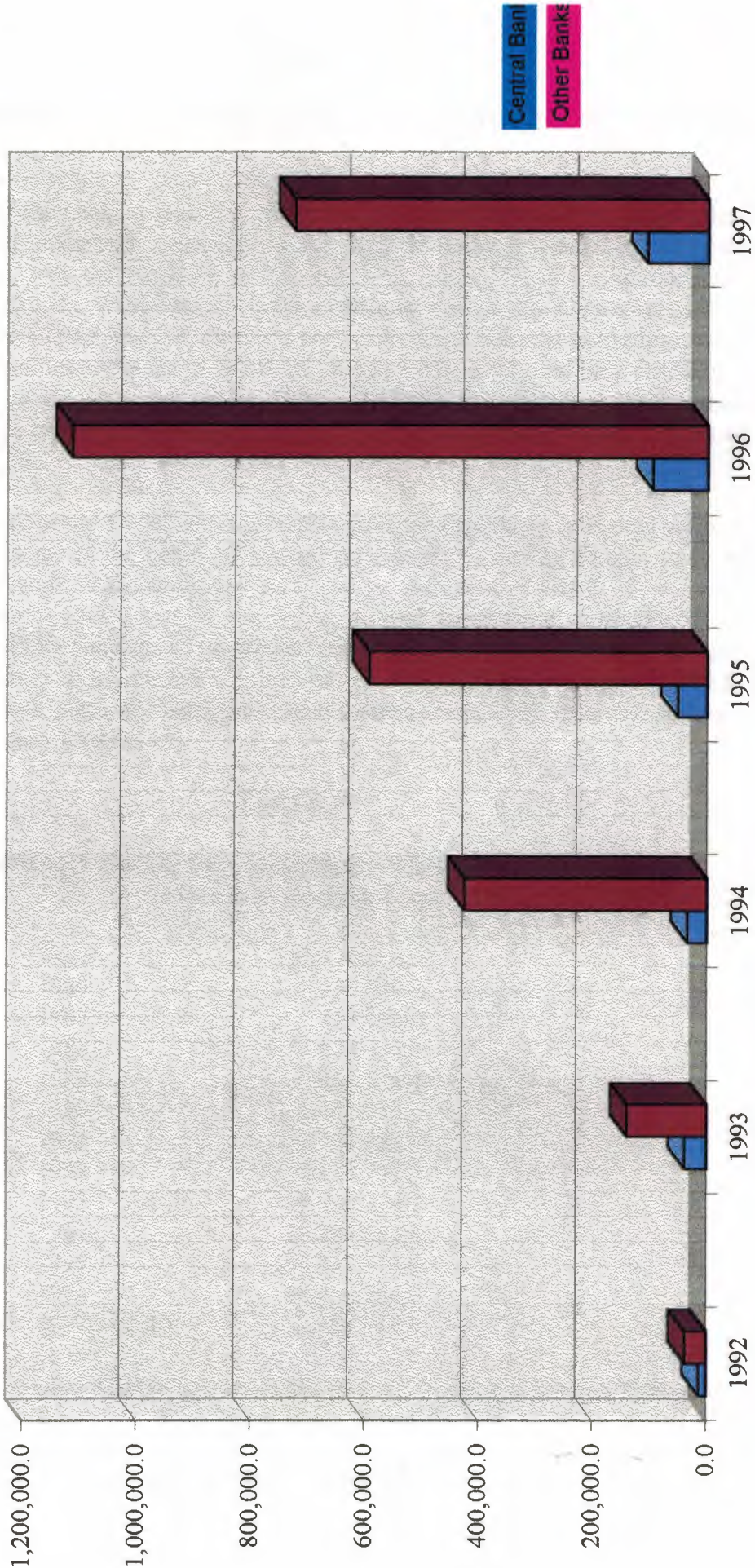
PERCENTAGES OF ADVANCES, LOANS AND BILLS DISCOUNTED IN TURKISH LIRA AND FOREIGN CURRENCY

1997 March



- Government and Pub. Corpr.
- Transport and Communic.
- Building and Contruction
- Manufacturing
- Tourism
- Bills Discounted
- Agricultural
- Foreign and Dom. Trade
- Personal and Professional

**Official Deposits held by the Central Bank of the TRNC and Other Banks in
FOREIGN CURRENCY (Million TL)**



3.5 THE CONTRIBUTION OF THE BANKING SECTOR TO THE ECONOMY OF THE TRNC

The contribution of the banking sector to the economy of the Turkish Republic of Northern Cyprus is extremely important, especially in the light of political sanctions and economic embargoes imposed, with the exception of Turkey, on the TRNC by all foreign countries and world institutions, like **the World Bank, IMF, European Union, the Commonwealth**, etc. As explained in **Sections 3.1 and 3.2**, money is created by these financial institutions, details of these financial institutions are given on **TABLE 12 and TABLE 13**; and they distribute loans to various sectors of the economy of the TRNC. **TABLE 16, "Sectoral Distribution Of Bank Loans"** gives information on the distribution of loans to the different sectors of the economy of the TRNC.

The Banks, operating in the TRNC, through their corresponding banks in Turkey and in other countries, also use some of the below-mentioned total assets to finance foreign trade and to help to various investors in the economy. As it can be seen from **TABLE 17**, compared to 1986, in 1997 (March) total assets of the Banks showed an increase of 86,290.5%. If we examine the Turkish Lira Deposits of the Banks we will see that the increase that took place in **Turkish Lira Deposits** in March 1997, compared to 1986, is 36,984.4%, (**see TABLE 18**). The increase that took place in **Foreign Currency Deposits** in 1997 (March), compared to 1992, is 3,045.7%, (**see TABLE 19**).

TABLE 17

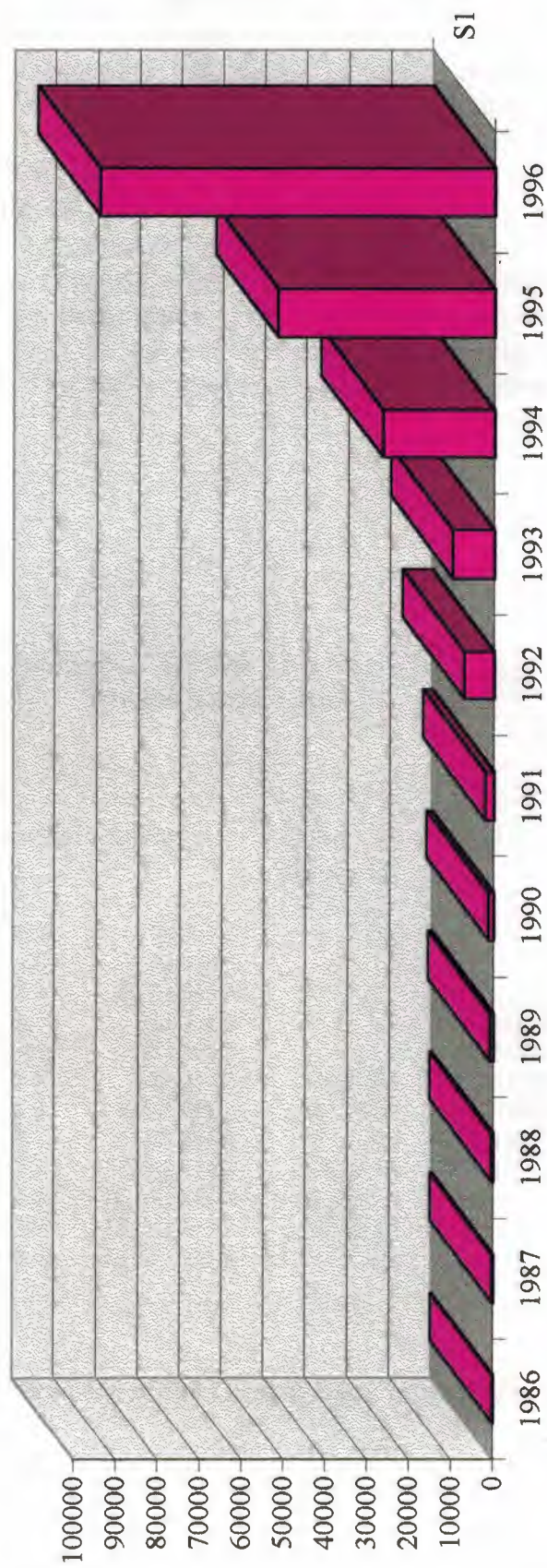
SUMMARY OF TOTAL ASSETS OF BANKS in the TRNC, (MILLION Turkish Lira)

Year	Total Assets
1986	130,020.7
1987	219,696.6
1988	423,337.1
1989	758,548.1
1990	1,247,019.0
1991	2,104,984.8
1992	7,117,734.3
1993	9,996,156.2
1994	26,727,884.8
1995	51,837,317.0
1996	94,466,784.0
1997(March)	112,325,586.0

Note : Total assets consist of cash balances with Central, Local and Foreign Banks; Security Portfolio, Additional Reserves; Bills Discounted, Advances and Loans, Fixed and Other Assests.

Source : Compiled from publications of the Central Bank of the TRNC.

SUMMARY OF TOTAL ASSETS OF BANKS IN THE TRNC (BILLION TURKISH LIRA)



Any person in the TRNC may freely open foreign currency accounts with Banks operating in the TRNC. In order to attract deposits into the banking system all controls on the origin of funds have been lifted. Authorized banks and institutions may also open foreign currency accounts in respect of foreign currencies. The volume of foreign currency deposits increased enormously because depositors wanted to hedge their savings against the high inflation prevailing in the TRNC, which is originating from Turkey as a result of the Turkish Lira being the **Legal Tender** in the TRNC. Also, large discrepancies between the rates of interest in Turkey and TRNC, led to the flight of funds from TRNC to Turkey and resulted in acute liquidity problems in the fragile economy of the TRNC. In other words, there has been a switch from Turkish Lira deposits to Foreign Currency deposits by all the banks. **TABLE 20, the Official Deposits held by the Central Bank of the TRNC and other Banks in FOREIGN CURRENCY**, demonstrates this. The share of the Central Banks' foreign currency reserves in total deposits is not very high. The share of the other Banks is around 90%.

TABLE 18

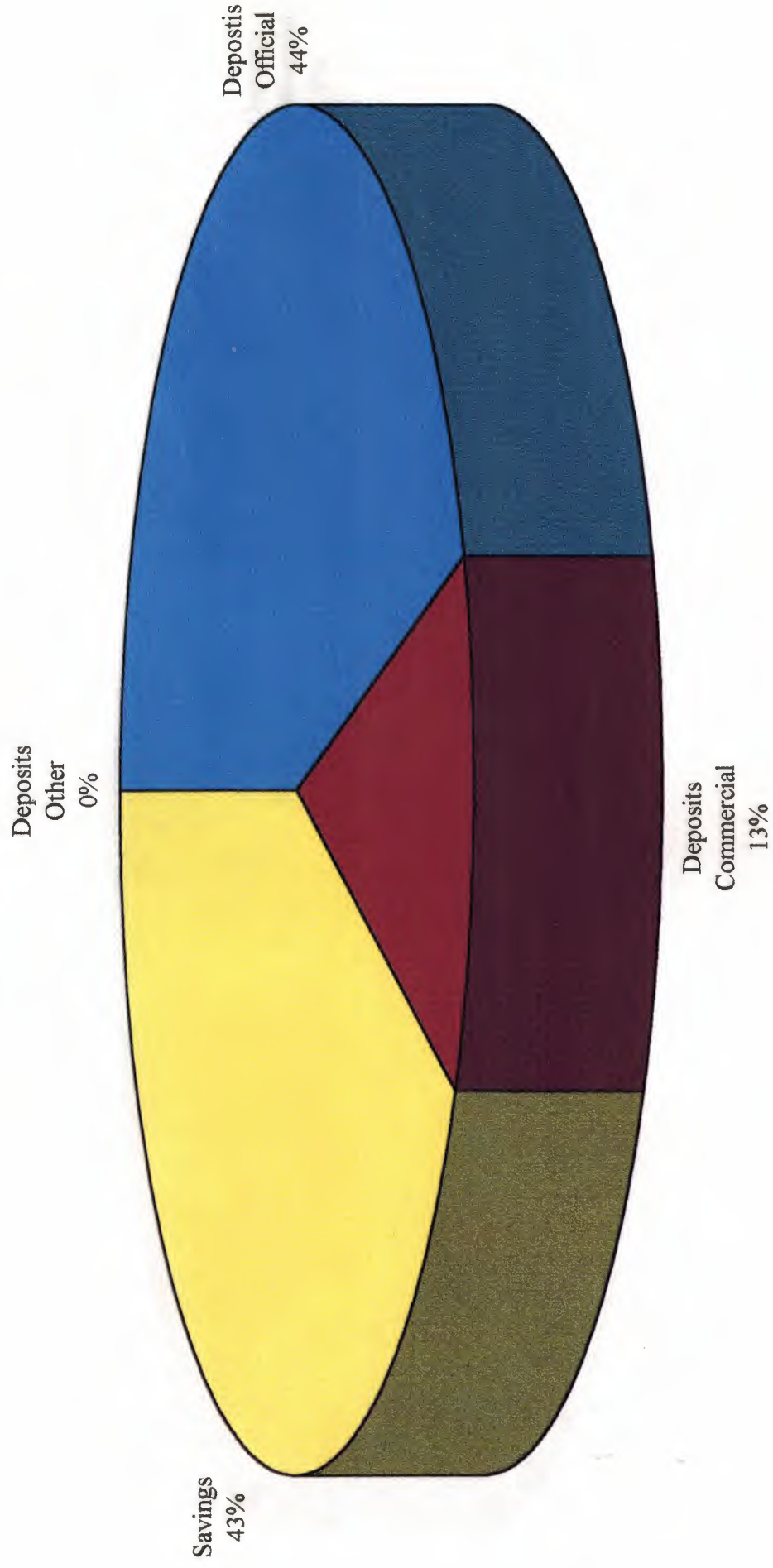
**Analysis of Turkish Lira Deposits
(Million Turkish Lira)**

	Official Deposits	Commercial Deposits	Savings	Other Deposits	Total
1986	27,565.7	8,169.3	26,936.3	-	62,671.3
1987	49,057.3	9,812.0	52,580.8	-	111,450.1
1988	73,369.4	16,044.4	81,564.3	-	170,978.1
1989	98,851.6	30,190.5	215,758.9	-	334,801.0
1990	140,010.5	25,524.3	383,466.5	-	549,001.3
1991	179,125.1	39,272.9	627,031.2	26,532.4	871,961.6
1992	375,017.3	91,309.8	1,002,221.9	81,686.3	1,550,235.3
1993	786,881.3	158,049.4	1,908,184.8	145,003.3	2,998,118.8
1994	1,369,585.2	387,539.7	3,434,614.2	292,065.6	5,483,804.7
1995	2,022,943.8	560,677.2	6,630,843.4	632,293.0	9,846,757.4
1996	4,149,228.4	933,891.7	12,698,695.7	987,684.7	18,769,500.5
1997	4,698,855.1	1,065,579.6	16,121,922.1	1,354,904.5	23,241,261.3

(March)

Source : Compiled from publications of the Central Bank of the TRNC.

ANALYSIS OF TURKISH LIRA DEPOSITS, 1986
(BILLION TURKISH LIRA)



ANALYSIS OF TURKISH LIRA DEPOSITS, 1996 (BILLION TURKISH LIRA)

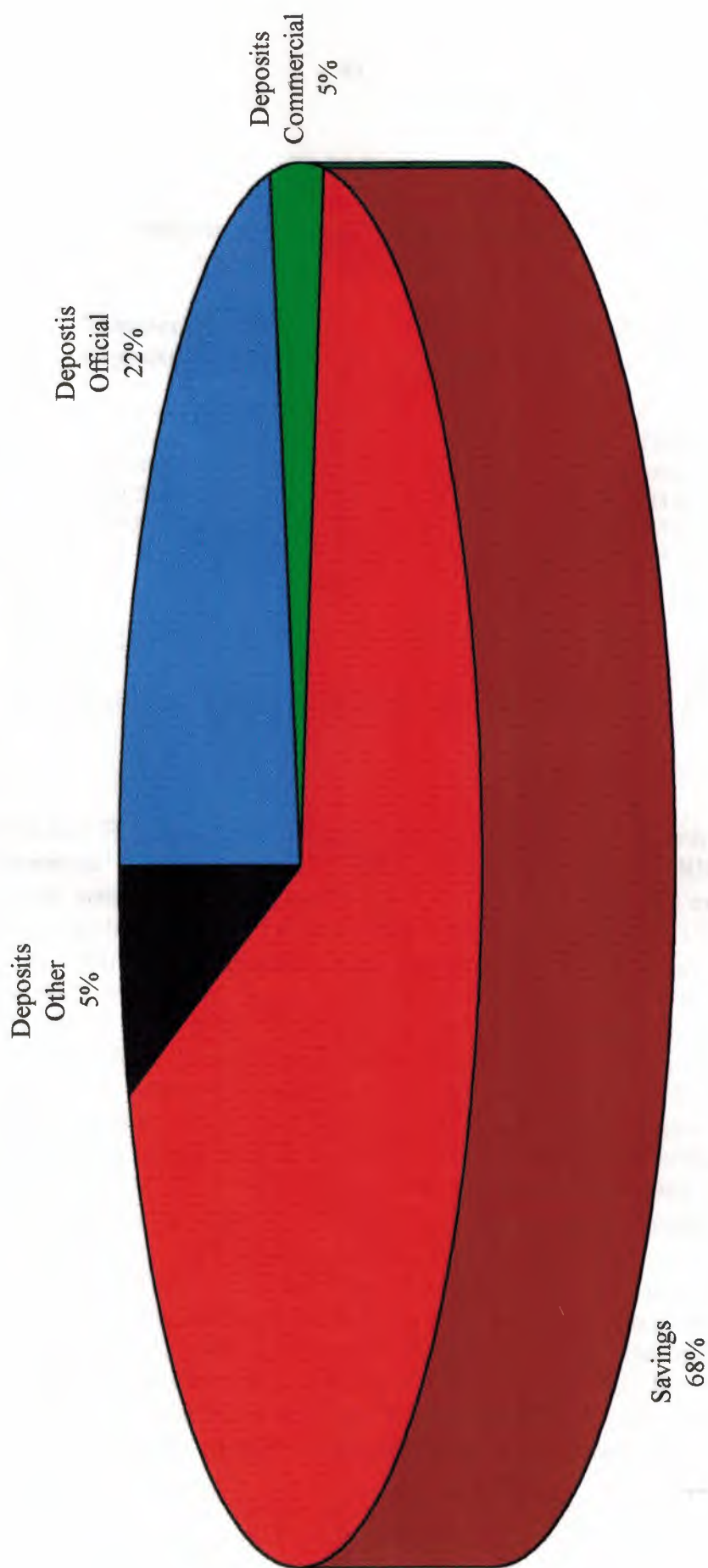


TABLE 19

Analysis of Foreign Currency Deposits
(Million Turkish Lira)

	Official Deposits	Commercial Deposits	Savings	Other Deposits	Total
1992	49,463.2	84,271.2	1,245,269.4	16,838.2	1,395,842.0
1993	176,999.2	154,325.2	2,260,351.4	34,183.0	2,985,858.8
1994	458,723.9	470,984.0	9,775,547.0	86,645.7	10,791,900.6
1995	644,577.8	1,051,276.3	17,446,295.4	98,183.8	19,240,333.3
1996	619,378.3	1,509,880.4	16,731,405.7	166,941.0	18,977,605.4
1997 (March)	1,266,790.8	1,691,161.7	40,691,817.8	258,638.8	43,908,409.1

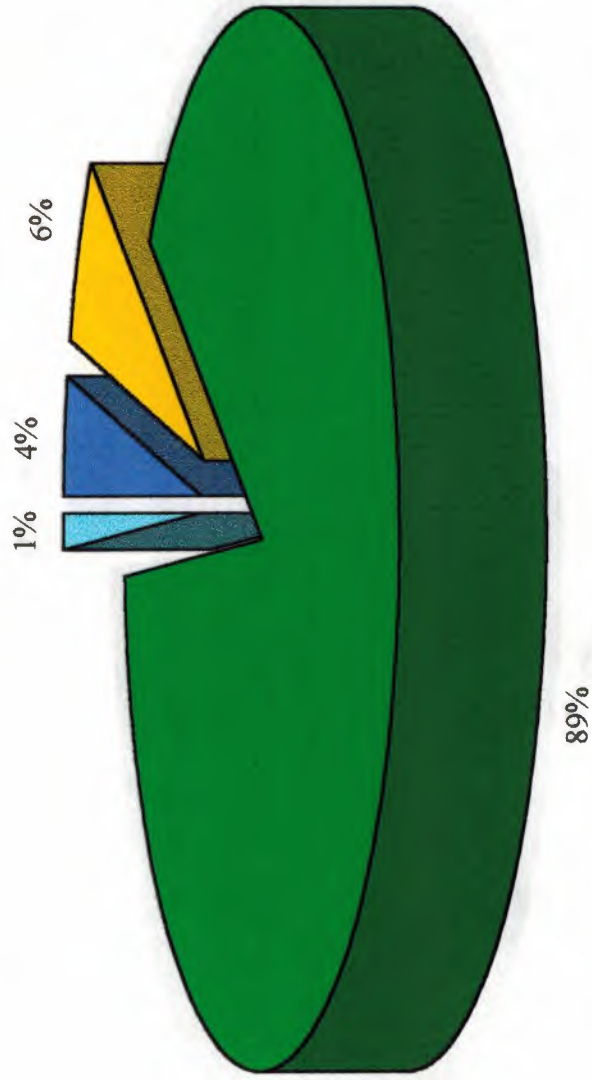
Source : Compiled from publications of the Central Bank of the TRNC.

Note: No statistics are available in foreign currency deposits before 1992 for the banking sector.

The "Stabilization and Structural Adjustment Programme", or, as popularly called, "The 5th of April Measures" taken in Turkey, affected the economy of the TRNC adversely, through affecting the sensitive banking system. As it can be seen from the examination of "Sectoral Development in GNP", the GNP fell from 7,547.4 million T.L. in 1993 to 7,268.3 million T.L. in 1994, a fall of 3.7%. In 1995, it was again below the 1993 figure. On TABLE 1, "GNP Per Capita", we can see that Per Capita GNP fell end of 1994 to US\$ 3,092.9 from US\$ 3,528.4 end of 1993, a fall of 12.34%. Fixed Capital Investments also fell from 1,141.2 million T.L. in 1993 to 971.0 million T.L. in 1994 and 900.3 million T.L. in 1995, a fall of 7.28% in one year. Inflation increased from 61.16% end of 1993 to 215.01% end of 1994. Annual Budget Deficit, which was 879,891.6 million Turkish Lira in 1994 increased to 3,897,049.6 million Turkish Lira in 1995, an increase of 342.9%. As a result of the devaluation of the Turkish Lira, end of 1993, 1US\$ = 11,106.99 TL. and end of 1994 it reached to 1US\$=46,554.51 TL, a loss of value of 319.15%. The deficit in the balance of trade, increased from US\$ 233.2 to US\$ 298.8, an increase of 28.13%. End of 1994, inflation increased to 215.01% from 61.16% in 1993. There was a big financial chaos in the country. Three of the banks in the TRNC, Akdeniz Garanti Bankası Ltd., Yatırım Bankası Ltd. and Everest Bank Ltd., collapsed parallel to the Impex Bank, TYT Bank, and Marmara Bank in Turkey. (Akdeniz Garanti Bank Ltd. was taken over in April 1995 by the State, and Everest Bank Ltd. was sold to new owners. Only Yatırım Bank Ltd. went into liquidation.) In short, every single sector of the economy of the TRNC was affected negatively from the 5th of April Measures.

ANALYSIS OF FOREIGN CURRENCY DEPOSITS (Million Turkish Lira)

1992



- Official Deposits
- Commercial Deposits
- Savings
- Other Deposits

ANALYSIS OF FOREIGN CURRENCY DEPOSITS
(Million Turkish Lira)
1997 March

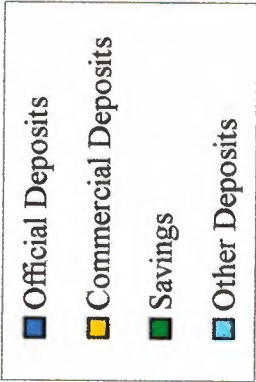
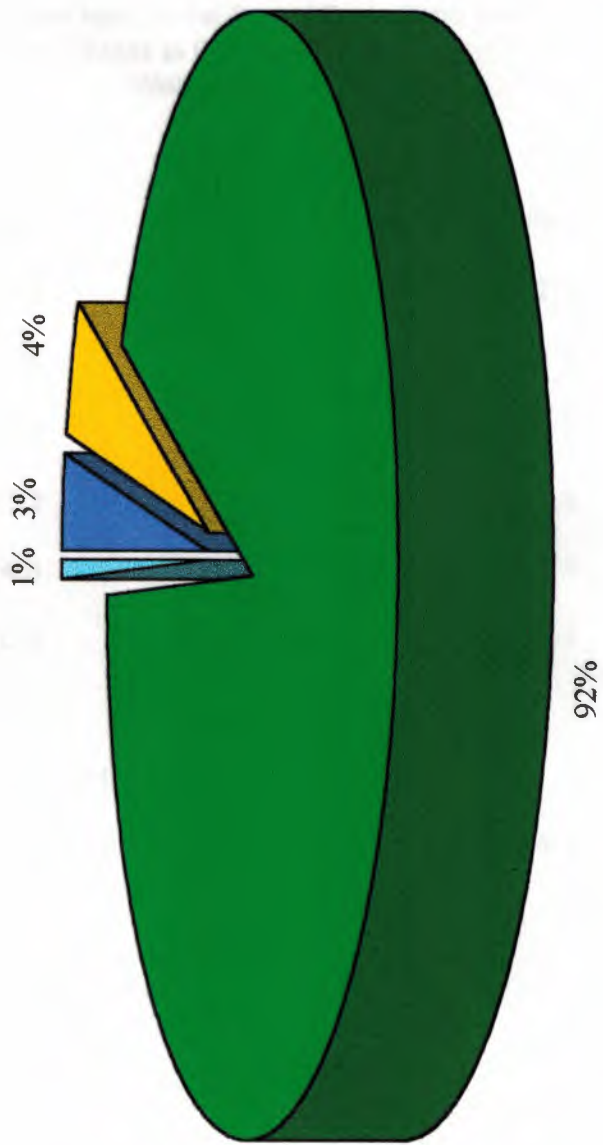


TABLE 20

Official Deposits held by the Central Bank of the TRNC
and Other Banks in FOREIGN CURRENCY.
(Million T.L.)

	Central Bank	%	Other Banks	%
1992	12,420.9	25.11	37,042.3	74.89
1993	37,802.8	21.26	139,196.4	78.64
1994	33,133.6	7.22	425,610.3	92.78
1995	51,280.2	7.96	593,297.6	92.04
1996	96,374.8	7.95	1,115,489.8	92.05
1997	106,220.9	12.78	725,028.3	87.22

Source : Compiled from publications of THE CENTRAL BANK of the TRNC

No statistics are available separately in foreign currency deposits before 1992 for the banking sector.

4. METHODS OF FINANCING INTERNATIONAL TRADE:

4.1 Importance of Foreign Trade :

Foreign trade or international trade is the exchange of goods and services between one country and another. This exchange takes place because resources are unevenly distributed, climate varies, and the people of some areas have natural advantages over the people of other areas. The Law of Comparative Advantage is the backbone of international trade. David Ricardo showed by the Law of Comparative Advantage that it was not necessary for one country to have an absolute cost advantage in the production of a commodity. Even if a country produced all commodities more expensively than any other, trade, to the benefit of all, could take place provided that the relative costs of production exist because countries possess different natural resources regarding the type and quantity of raw materials, the skill and the size of the labour force, the quantity of physical capital, etc. It can be said that it is the comparative advantage and not absolute advantage that counts.

The free movement of goods and services in international trade will increase the welfare of each country by widening the range of goods and services available for consumption. The classical economists condemned mercantalism for its advocacy of government control over trade in order to achieve export surpluses and the doctrine of laissez-faire developed in the late 18th century to the early 20th century. As a result of the Great Economic Depression of the late 1920s and early 1930s, economic protectionism increased at the expense of the doctrine of laissez faire. All governments are heavily involved in regulating overseas trade through tariffs, import quotas and export subsidies after the First World War. An international free trade policy is desirable to optimize world output and income levels in the long-run. Since, the Second World War, there has been a general acceptance internationally of the dangers of protectionism. Progress has been slow and many trade restrictions still remain. The establishment of customs unions, like European Community, the EFTA, the Central American Common Market, etc., on the one hand created free trade between member countries, but on the other hand, discriminated against outsiders.

4.2 IMPORTANT SHIPMENT TERMS or TERMS OF DELIVERY IN INTERNATIONAL TRADE :

Incoterms are drafted by the International Chamber of Commerce (ICC). Full details of incoterms can be found in the ICC publications 460 or 461/90. The purpose of incoterms is to provide such a set of standardized terms which mean exactly the same to both parties which will be interpreted the same way by courts in every country. The problem of international trade is that different countries have different interpretations of the same contract wording and this problem can only be solved by creating a set of internationally agreed terms.

Incoterms are not incorporated into national or international law but they can be made binding on both buyer and seller provided the sale contract specifies that a particular incoterm will apply.

There are 13 different incoterms, each term sets out the obligations of the seller and the buyer, i.e., the exporter and the importer. These terms are described in detail in the Finance of International Trade in Unit 12 by P. Cowdell and D. Hyde. These terms are as follows:

1. **EX WORKS** :The standard ICC abbreviation used for **Ex Works** is **EXW**. The obligations of the exporter consist of making the goods available for the collection of the importer, providing a commercial invoice for the importer, and suitably packing the goods for the type of transport being used. Once the goods collected by the importer, the responsibility of the exporter ends.

The responsibilities of the importer consist of taking the delivery from the exporter's place, making all arrangements at own cost and risk, taking goods to own premises, arranging the necessary insurance, and obtaining relevant import and/or export license.

2. **FREE CARRIER**: The standard ICC abbreviation used for **Free Carrier** is **FCA**. The Exporter delivers the goods to a specified place to be collected by the importer. The exporter completes export and custom documentation, including obtaining export license where necessary and also pays any costs relating to these, including export duties or taxes. The importer is supplied with commercial invoice with bill of lading or multimodal transport document.

The importer makes all arrangements at their own risk to cover transport of goods to their own premises from the exporter's delivered place. Insurance is also arranged by the importer. The importer should obtain an import license if needed and should pay any import taxes duties.

3. **FREE ALONGSIDE SHIP**: The ICC abbreviation used for **Free Alongside Ship** is **FAS**. The exporter delivers the goods to the quay side of the nominated line at the port, say port of London. The exporter advises the importer of delivery and supplies a commercial invoice with dock receipt. The liability of the exporter ceases once it delivers the goods at the quay side.

The importer makes arrangements with a shipping company for transport of goods by sea from the port of London to, say, the port of Hong Kong. The importer notifies the exporter of the day and time that delivery is required at the port of London, and the name of the nominated shipping line. It arranges the relevant export and/or or import licenses if required. It pays all costs including taxes and duties. The importer is responsible for all risks from the quay side in London to the delivery of the goods to their ultimate destination. The insurance is arranged by the importer.

4. **FREE ON BOARD**: The standard ICC abbreviations for **Free On Board** is **FOB**. It is like the FAS but the exporter's liability does not cease until the goods have crossed the ship's rail and have been loaded on board a named ship at the port of, say London. The exporter must also arrange any export license and completes any customs formalities, including the payment of costs, duties and taxes. Port loading costs must also be borne if not included in carriage charge.

As far as the importer is concerned the same obligations exist as for FAS with the exception of not having to arrange an export license and not being responsible for the goods until they have crossed the ship's rail in the port.

5. **COST and FREIGHT:** The standard ICC abbreviations for **Cost and Freight** is **CFR**. If the goods are going to be delivered to Antwerp it is called **CFR Antwerp**. The exporter arranges and pays for transportation of goods to the port of Antwerp. Loading and unloading costs should be met where they form part of the charge for carriage. The exporter arranges issue of export license where necessary and completes export formalities, including payment of costs, duties and taxes. The importer is advised of details of voyage and supply of commercial invoice and bill of lading. The exporter is free of liability (for insurance purposes) once the goods have crossed the ship's rail in the United Kingdom port.

The importer's responsibility is to arrange issue of import license and pay any duties or taxes. Also arranging and paying for the insurance costs of the goods is the liability of the importer. The liability starts as soon as the goods cross the ship's rail in the U.K port

6. **COST, INSURANCE and FREIGHT:** The ICC abbreviations for **Cost, Insurance and Freight** is **CIF**. If the goods are going to be delivered to Hong Kong, it is called **CIF Hong Kong**. The same conditions are valid as the **CFR** but in addition, the exporter must insure the goods as far as the port of Hong Kong, and supply the importer the insurance policy.

As far as the importer in Hong Kong is concerned the conditions of **CFR** exit but insurance risk only falls on the importer in Hong Kong when the goods have crossed the ship's rail at Hong Kong.

7. **CARRIAGE PAID TO:** The ICC Abbreviation used for **Carriage Paid To** is **CPT**. This is similar to **CFR** except that the exporter arranges and pays to the place of destination, which could be an inland container depot, say in Antwerp as opposed to a port. The exporter must advise the importer of the name and address of the, say UK carrier into whose custody the goods been given so that the importer can arrange insurance. The exporter arranges issue of export license where necessary and complete export customs formalities including payment of costs, duties and taxes.

The exporter arranges and gives the importer commercial invoice together with a relevant bill of lading. The importer arranges issue of import license and pays any duties or taxes. The importer insures goods from the moment they are delivered into the custody of the carrier in the UK and pays all costs of transport to its own premises in Antwerp.

8. **CARRIAGE and INSURANCE PAID TO:** The ICC abbreviation used for **Carriage and Insurance Paid To** is **CIP**. This similar to **CPT** except that the exporter pays for the insurance charges during the carriage. The relevant insurance policy or document must be supplied by the exporter to the importer.

As far as the importer is concerned the responsibilities are similar to **CPT** except that the importer does not have to arrange and pay insurance charges which are met by the exporter.

9. **DELIVERED AT FRONTIER:** The ICC abbreviation used for **Delivered at Frontier** is **DAF**. The exporter arranges and pays for transport and insurance of goods to a named port on the frontier of the buyer's country. For example, **DAF** Kapıkule. The term **DAF** is usually used when goods go overland across a continent. The exporter supplies commercial invoice and bill of lading to the exporter. It also arranges issue of export license where necessary and completes export customs formalities including payment of costs, duties and taxes.

The importer arranges issue of import license and pays any duties or taxes. All costs and risks from the frontier point are the buyer's responsibility.

10. **DELIVERED EX SHIP:** The ICC abbreviation used for **Delivered EX Ship** is **DES**. This is similar to **CIF** except that the exporter's liability does not cease until the goods have been placed at the disposal of the importer on board of a vessel at the named port of destination. Theoretically the exporter need not insure the goods, but in practice the exporter would be wise to do so.

The importer's responsibilities are similar to the ones in **CIF**. The importer's liability exists from the time when goods are placed at its disposal in the named port of destination.

11. **DELIVERED EX GOODS QUAY:** The ICC abbreviation used for **Delivered Ex Goods Quay** is **DEQ**. The exporter delivers the goods on the quay or wharf at the named port of destinations and pays unloading costs. It also supplies the importer with commercial invoice and bill of lading. It arranges import and for export licenses where necessary and completes export and import customs formalities, including payment of costs, duties and taxes. It arranges and pays for contract of carriage to the named port of destinations. This term can be amended to exclude any particular duties or taxes, for example 'DEQ VAT unpaid'. Theoretically, the exporter need not insure the goods on their voyage. However in view of the exporter's liability for the goods, such action would be unwise.

The importer, on the other hand accept delivery of goods at named port of destination. The importer is liable for goods from the time they are placed at its disposal on the quay or wharf.

12. **DELIVERED DUTY UNPAID:** The ICC abbreviation used for **Delivered Duty Unpaid** is **DDU**. The exporter must deliver the goods to the named place in the importing country. It must bear costs and risks involved in carrying the goods to the named place of destination including carrying out customs formalities. The exporter is not responsible for payment of import charges, duties or taxes unless they are specifically mentioned, for example 'DDU, VAT paid' named place of destinations. The exporter supplies the importer with a commercial invoice and bill of lading. The importer arranges the issue of import license and payment of import costs, duties and taxes. The importer takes delivery of goods at named place of destination and is liable for all risks from there own.

13. **DELIVERED DUTY PAID:** The ICC abbreviation used for 'Delivered Duty Paid' is **DDP**. This is similar to **DDU** except that the exporter is responsible for all import formalities and payments in addition. The importer is not responsible for all import formalities and payments.

4.3 International Methods of Payments:

Letter of Credit is an instrument between exporter's and importer's banks which is opened in favour of the exporter by the importer through their banks. It enables the exporter, which sells its goods to the importer, to receive the value of its goods.

Suppose that ETI Enterprises Ltd. in North Cyprus wants to buy coffee from a coffee exporter, Brazil Coffee Export Ltd., in Brazil. We further suppose that these two firms do not know each other and they are entering into business relationship for the first time. The importer, ETI Enterprises Ltd., when ordering the coffee may send a cheque to the exporter. But there may be certain problems. The exporter may not trust the importer. The exporter having received the amount of the coffee, may not send the goods, or even may go bankrupt. By the time the goods arrive to North Cyprus, the amount of the coffee will be transferred, so the cost of the transfer must be taken into consideration. Also during the shipment the goods may be damaged. The importer, though difficult, may be forced to sue the exporter in Brazil. This is very difficult. It may take a very long time. As far as the exporter is concerned, there are also a number of problems. The goods may be shipped but the exporter may want the cheque or the transfer. ETI Enterprises Ltd. may be in a temporary financial difficulty and may delay the payment of the coffee. Also, ETI Enterprises, for some reason, may give up taking these goods. As a result, Brazil Coffee Export Ltd., will be forced to sell its goods in another country at a very cheap price.

The establishment of a letter of credit between the banks of the exporter and the importer enables the buyer and the seller to work in an atmosphere of security with many beneficial results to both parties. So it can be said that the opening bank and the beneficiary bank play an important role in minimizing the problems of the buyer and the seller.

International trade (or foreign trade) is financed by banks through different means. The contribution made by banks to the finance of foreign trade cannot be exaggerated. The finance facilities offered by banks to importers and exporters are as follows:

- a) Letter of Credit
- b) Acceptance Credit
- c) Advance on import documents of goods
- d) Leasing
- e) Prefinancing
- f) Advance on export documents and negotiating documentary bills
- g) Advance on export goods
- h) Forfeiting
- i) Export credits
- j) Factoring
- k) Factoring exchange credits
- l) Letters of guarantee

As far as the banks operating in the Turkish Republic of Northern Cyprus is concerned, the foreign trade of the country is mainly financed through the instrument of Letter of Credit. A sample Letter of Credit form of the Akdeniz Garanti Bankası Ltd. can be found on the following page. But there are many types of Letters of Credit. Letters of credits can be classified as follows:

- a) Revocable Letter of Credit
- b) Irrevocable Letter of Credit
- c) Confirmed Letter of Credit
- d) Unconfirmed Letter of Credit
- e) Fixed Letter of Credit
- f) Revolving Letter of Credit
- g) Letter of Credit
- h) Letter of Credit deferred Payment
- i) Acceptance Credit
- j) Negotiable Letter of Credit
- k) Back to Back Letter of Credit
- l) Transferable Letter of Credit
- m) Anticipatory Letter of Credit
- n) Red Clause Letter of Credit
- o) Green Letter of Credit
- p) Stand by Letter of Credit

An examination of advances, loans, and bills discounted in Turkish Lira and foreign currency shows that in 1990 as high as 48.12% of them were used in the finance of foreign and domestic trade. In March 1997, this percentage was 31.42%. This demonstrates the contribution made by banks to the economy of the country.

AKDENİZ GARANTİ BANKASI LTD.

- CYPRUS.

Telegrams :

Telex No :

Dear Sirs,

IRREVOCABLE CREDIT NO.

(To be quoted on all drafts and correspondence)

By order and for account of

We have established an Irrevocable Credit in favour of

for the sum of

(Say :

expiring for payment in
C.I.F. / F.O.B. / C.& F.)

on the

to cover the
value of the following goods

to be shipped from

to

not later than

Partshipment

Transshipment

This Credit is available for the negotiation of draft(s) at sight on Akdeniz Garanti Bankası Ltd. and accompanied by following documents

1. Commercial Invoice in five copies.

2. Complete set of at least two Clean "On Board" Bills of Lading issued or endorsed to our order and marked "freight"

3. Packing list in three copies showing contents, gross and net weights and measurements of packages.

4. Insurance Policy or Certificate (in duplicate) endorsed in blank for the Invoice Value of the goods plus % covering marine and war risks,

Insurance to be effected in

by beneficiaries / buyers

SPECIAL INSTRUCTIONS :

Please notify the beneficiary (ies) without adding / by adding your confirmation.

INSTRUCTIONS FOR NEGOTIATING BANK

In consideration of your negotiating on our behalf bills in terms of this Credit and forwarding the bills and documents as detailed above direct to us in two complete sets together with a certificate of compliance by registered air mail you will be reimbursed in accordance with para as under

A. We hereby undertake that your sight bills on for the face value of the bills, plus your charges, will be duly honoured on presentation provided they are marked "Drawn under the Akdeniz Garanti Bankası Ltd. - CYPRUS. Credit No.

B. We hereby authorise you to debit our account in your books provided that all terms and conditions of the credit have been complied with.

KINDLY ACKNOWLEDGE RECEIPT.

Yours faithfully,

Akdeniz Garanti Bankası Ltd.

- CYPRUS

AKDENİZ GARANTİ BANKASI LTD.

- CYPRUS.

Telegrams :

Telex No :



(CYPRUS)

Dear Sirs,

IRREVOCABLE CREDIT NO.

(To be quoted on all drafts and correspondence)

By order and for account of

We have established an Irrevocable Credit in favour of

for the sum of

(Say :

expiring for payment in
C.I.F. / F.O.B. / C.& F.)

on the

to cover the
value of the following goods

to be shipped from

to

not later than

Partshipment

Transshipment

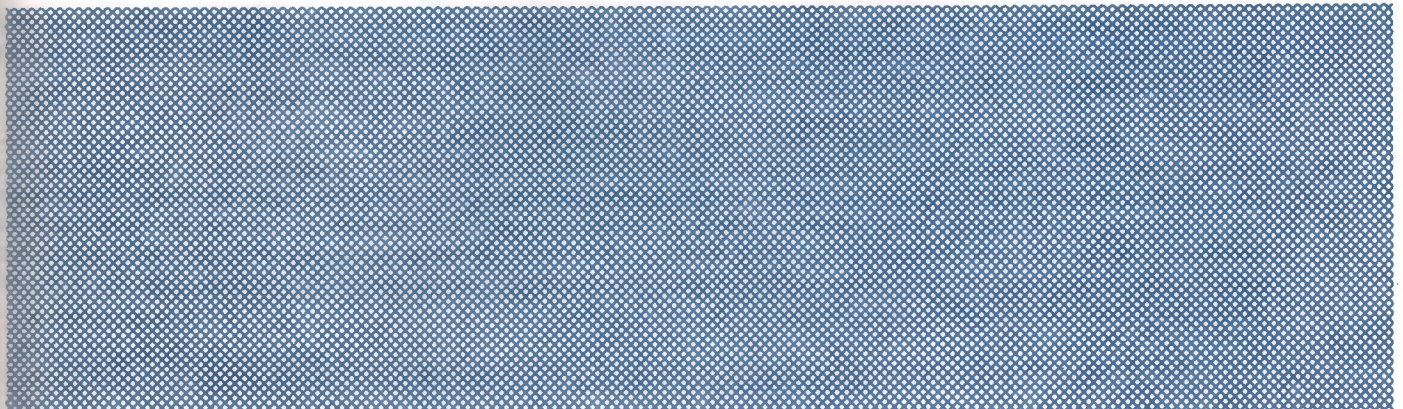
This Credit is available for the negotiation of draft(s) at sight on Akdeniz Garanti Bankası Ltd. and accompanied by following documents

1. Commercial Invoice in five copies.
2. Complete set of at least two Clean "On Board" Bills of Lading issued or endorsed to our order and marked "freight"
3. Packing list in three copies showing contents, gross and net weights and measurements of packages.
4. Insurance Policy or Certificate (in duplicate) endorsed in blank for the Invoice Value of the goods plus % covering marine and war risks,

Insurance to be effected in

by beneficiaries / buyers

SPECIAL INSTRUCTIONS :



KINDLY ACKNOWLEDGE RECEIPT.

Yours faithfully,

Akdeniz Garanti Bankası Ltd.

- CYPRUS

I/We request you to open by cable/air mail irrevocable/revocable credit as per particulars shown overleaf.

I/we do not wish this credit to be confirmed by your Correspondents.

In consideration of your opening or establishing the credit overleaf I/we hereby agree that the following agreements and conditions shall apply to it :-

I/We authorise you to accept and/or pay for my/our account all drafts purporting to be drawn under this credit.

I/We undertake to indemnify you against all losses, cost, damages, expenses claims, and demands which you may incur or sustain by reason of your opening or establishing this credit and to provide you with. unless otherwise agreed to meet all payments made by you or your Agents and all drafts drawn or accepted by you or your agents and the amount of all charges commission and interest in connection with the relative goods and I/We authorise you to debit our account with you with such moneys on receipt by you of payment or at any times thereafter at your discretion.

Neither you nor your Agents nor any person, firm or company who shall make any payment in consequence of this credit shall responsible for:-

- (i) The correctness of the description, quantity, quality or value of the goods or of the charges as stated in invoices or Bills of Lading or other documents.
- (ii) The validity, genuineness, terms conditions or sufficiency of any documents tendered.
- (iii) Delays or errors in transmission or non-delivery of telegrams to or from Agents of for delays in transmission or loss of documents through the post for Telex delays loss or damage to goods.
- (iv) It is understood and agreed that all exchange risks arising out of or consequent on the issue of this credit are to be born by me/us.

I/we undertake that the goods shall be fully insured against all risks that the insurance policies shall be assigned to you and that until payment by me/us of all amounts due to you in respect of this Credit and of all our other indebtedness or liability to you on any account the insurance moneys payable are to be held as available to you and if received by me/us shall be paid to you forthwith and until so paid shall be held by me/us on your behalf.

All documents received by you or your Agents under this credit and the goods represented thereby shall be held by you as security for the due payment by me/us of all moneys due to you by me/us in respect of this credit.

I/We agree to assign to you our rights as unpaid sellers to transfer the goods into your control and that until payment by me/us of such moneys due to you the proceeds of the sales of the goods are to be held as available to you and if received by me/us shall be paid to you forthwith and until so paid shall be held by me/us on your behalf.

On arrival of the goods you shall be at liberty to have them warehoused in your name and insured against fire but without obligation on you to so warehouse and insure and you will be in no way responsible for any loss or damage entailed through your omission to so warehouse and insure without prejudice to any other rights or remedies to which you may be entitled. I/We agree that if I/we fail to repay on demand all moneys due by me/us to you from time as afore-said you may without notice or further consent of any persons interested sell the goods in such manner and at such times as you may think fit and to apply the net proceeds of any such sale in or towards the discharge of such moneys and I/we undertake to pay you on demand the amount of any deficiency remaining after such sale together with all usual expenses and interest at % per annum and commission charges.

I/We agree that the rights and powers conferred by this agreement are in addition and without prejudice to any other securities which you may now or hereafter hold for my/our account and this agreement shall continue in force notwithstanding any change in the individuals composing my/our firm or otherwise.

Against this credit I/we deposit with you the sum of

and authorise you to hold this amount as security until such time to the credit may be utilised, or until such time as it has expired and you have received advice that it has not been utilised, or until it is cancelled with beneficiary's consent; I/we further authorise you immediately you shall have received air mail/cable advice of any payment, negotiation or acceptance effected under the credit to apply at once to such payment, negotiation or acceptance the funds now placed with you as security and I/we undertake to pay you the balance at the same time for the same purpose.

The agreement and all contracts arising out of it, is and are to be construed according to the law obtaining in Cyprus.

Dated this day of19

Name

Signature

I/We request you to open by cable/air mail irrevocable/revocable credit as per particulars shown overleaf.

I/we do not wish this credit to be confirmed by your Correspondents.

In consideration of your opening or establishing the credit overleaf I/we hereby agree that the following agreements and conditions shall apply to it :-

I/We authorise you to accept and/or pay for my/our account all drafts purporting to be drawn under this credit.

I/We undertake to indemnify you against all losses, cost, damages, expenses claims, and demands which you may incur or sustain by reason of your opening or establishing this credit and to provide you with.
unless otherwise agreed to meet all payments made by you or your Agents and all drafts drawn or accepted by you or your agents and the amount of all charges commission and interest in connection with the relative goods and I/We authorise you to debit our account with you with such moneys on receipt by you of payment or at any times thereafter at your discretion.

Neither you nor your Agents nor any person, firm or company who shall make any payment in consequence of this credit shall be responsible for:-

- (i) The correctness of the description, quantity, quality or value of the goods or of the charges as stated in invoices or Bills of Lading or other documents.
- (ii) The validity, genuineness, terms conditions or sufficiency of any documents tendered.
- (iii) Delays or errors in transmission or non-delivery of telegrams to or from Agents or for delays in transmission or loss of documents through the post for Telex delays loss or damage to goods.
- (iv) It is understood and agreed that all exchange risks arising out of or consequent on the issue of this credit are to be borne by me/us.

I/we undertake that the goods shall be fully insured against all risks that the insurance policies shall be assigned to you and that until payment by me/us of all amounts due to you in respect of this Credit and of all our other indebtedness or liability to you on any account the insurance moneys payable are to be held as available to you and if received by me/us shall be paid to you forthwith and until so paid shall be held by me/us on your behalf.

All documents received by you or your Agents under this credit and the goods represented thereby shall be held by you as security for the due payment by me/us of all moneys due to you by me/us in respect of this credit.

I/We agree to assign to you our rights as unpaid sellers to transfer the goods into your control and that until payment by me/us of such moneys due to you the proceeds of the sales of the goods are to be held as available to you and if received by me/us shall be paid to you forthwith and until so paid shall be held by me/us on your behalf.

On arrival of the goods you shall be at liberty to have them warehoused in your name and insured against fire but without obligation on you to so warehouse and insure and you will be in no way responsible for any loss or damage entailed through your omission to so warehouse and insure without prejudice to any other rights or remedies to which you may be entitled. I/We agree that if I/we fail to repay on demand all moneys due by me/us to you from time as afore-said you may without notice or further consent of any persons interested sell the goods in such manner and at such times as you may think fit and to apply the net proceeds of any such sale in or towards the discharge of such moneys and I/we undertake to pay you on demand the amount of any deficiency remaining after such sale together with all usual expenses and interest at % per annum and commission charges.

I/We agree that the rights and powers conferred by this agreement are in addition and without prejudice to any other securities which you may now or hereafter hold for my/our account and this agreement shall continue in force notwithstanding any change in the individuals composing my/our firm or otherwise.

Against this credit I/we deposit with you the sum of

and authorise you to hold this amount as security until such time to the credit may be utilised, or until such time as it has expired and you have received advice that it has not been utilised, or until it is cancelled with beneficiary's consent; I/we further authorise you immediately you shall have received air mail/cable advice of any payment, negotiation or acceptance effected under the credit to apply at once to such payment, negotiation or acceptance the funds now placed with you as security and I/we undertake to pay you the balance at the same time for the same purpose.

The agreement and all contracts arising out of it, is and are to be construed according to the law obtaining in Cyprus.

Dated this day of 19

Name

Signature

AKDENİZ GARANTİ BANKASI LTD.

- CYPRUS.

Telegrams :

Telex No :

(CYPRUS)

Dear Sirs,

IRREVOCABLE CREDIT NO.

(To be quoted on all drafts and correspondence)

By order and for account of

We have established an Irrevocable Credit in favour of

for the sum of

expiring for payment in
C.I.F. / F.O.B. / C.& F.)

on the

(Say :

to cover the
value of the following goods

to be shipped from

not later than

Partshipment

to

Transshipment

This Credit is available for the negotiation of draft(s) at sight on Akdeniz Garanti Bankası Ltd. and accompanied by following documents

1. Commercial Invoice in five copies.

2. Complete set of at least two Clean "On Board" Bills of Lading issued or endorsed to our order and marked "freight"

3. Packing list in three copies showing contents, gross and net weights and measurements of packages.

4. Insurance Policy or Certificate (in duplicate) endorsed in blank for the Invoice Value of the goods plus % covering marine and war risks,

Insurance to be effected in

SPECIAL INSTRUCTIONS :

by beneficiaries / buyers

Please notify the beneficiary (ies) without adding / by adding your confirmation.

INSTRUCTIONS FOR NEGOTIATING BANK

In consideration of your negotiating on our behalf bills in terms of this Credit and forwarding the bills and documents as detailed above direct to us in two complete sets together with a certificate of compliance by registered air mail you will be reimbursed in accordance with para as under

A. We hereby undertake that your sight bills on

for the face value of the bills, plus your charges, will be duly honoured on presentation provided they are marked "Drawn under the Akdeniz Garanti Bankası Ltd.

- CYPRUS. Credit No.

B. We hereby authorise you to debit our

account in your books provided that all terms and conditions of the credit have been complied with.

KINDLY ACKNOWLEDGE RECEIPT.

Yours faithfully,

Akdeniz Garanti Bankası Ltd.

- CYPRUS

I/We request you to open by cable/air mail irrevocable/revocable credit as per particulars shown overleaf.

I/we do not wish this credit to be confirmed by your Correspondents.

In consideration of your opening or establishing the credit overleaf I/we hereby agree that the following agreements and conditions shall apply to it :-

I/We authorise you to accept and/or pay for my/our account all drafts purporting to be drawn under this credit.

I/We undertake to indemnify you against all losses, cost, damages, expenses claims, and demands which you may incur or sustain by reason of your opening or establishing this credit and to provide you with.
unless otherwise agreed to meet all payments made by you or your Agents and all drafts drawn or accepted by you or your agents and the amount of all charges commission and interest in connection with the relative goods and I/We authorise you to debit our account with you with such moneys on receipt by you of payment or at any times thereafter at your discretion.

Neither you nor your Agents nor any person, firm or company who shall make any payment in consequence of this credit shall responsible for:-

- (i) The correctness of the description, quantity, quality or value of the goods or of the charges as stated in invoices or Bills of Lading or other documents.
- (ii) The validity, genuineness, terms conditions or sufficiency of any documents tendered.
- (iii) Delays or errors in transmission or non-delivery of telegrams to or from Agents or for delays in transmission or loss of documents through the post for Telex delays loss or damage to goods.
- (iv) It is understood and agreed that all exchange risks arising out of or consequent on the issue of this credit are to be born by me/us.

I/we undertake that the goods shall be fully insured against all risks that the insurance policies shall be assigned to you and that until payment by me/us of all amounts due to you in respect of this Credit and of all our other indebtedness or liability to you on any account the insurance moneys payable are to be held as available to you and if received by me/us shall be paid to you forthwith and until so paid shall be held by me/us on your behalf.

All documents received by you or your Agents under this credit and the goods represented thereby shall be held by you as security for the due payment by me/us of all moneys due to you by me/us in respect of this credit.

I/We agree to assign to you our rights as unpaid sellers to transfer the goods into your control and that until payment by me/us of such moneys due to you the proceeds of the sales of the goods are to be held as available to you and if received by me/us shall be paid to you forthwith and until so paid shall be held by me/us on your behalf.

On arrival of the goods you shall be at liberty to have them warehoused in your name and insured against fire but without obligation on you to so warehouse and insure and you will be in no way responsible for any loss or damage entailed through your omission to so warehouse and insure without prejudice to any other rights or remedies to which you may be entitled I/We agree that if I/we fail to repay on demand all moneys due by me/us to you from time as afore-said you may without notice or further consent of any persons interested sell the goods in such manner and at such times as you may think fit and to apply the net proceeds of any such sale in or towards the discharge of such moneys and I/we undertake to pay you on demand the amount of any deficiency remaining after such sale together with all usual expenses and interest at % per annum and commission charges.

I/We agree that the rights and powers conferred by this agreement are in addition and without prejudice to any other securities which you may now or hereafter hold for my/our account and this agreement shall continue in force notwithstanding any change in the individuals composing my/our firm or otherwise.

Against this credit I/we deposit with you the sum of

and authorise you to hold this amount as security until such time to the credit may be utilised, or until such time as it has expired and you have received advice that it has not been utilised, or until it is cancelled with beneficiary's consent; I/we further authorise you immediately you shall have received air mail/cable advice of any payment, negotiation or acceptance effected under the credit to apply at once to such payment, negotiation or acceptance the funds now placed with you as security and I/we undertake to pay you the balance at the same time for the same purpose.

The agreement and all contracts arising out of it, is and are to be construed according to the law obtaining in Cyprus.

Dated this day of 19

Name

Signature

AKDENİZ GARANTİ BANKASI LTD.

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(Say :

expiring for payment in
C.I.F. / F.O.B. / C.& F.)

on the

to cover the
value of the following goods

to be shipped from
not later than
Partshipment

to

Transshipment

This Credit is available for the negotiation of draft(s) at sight on Akdeniz Garanti Bankası Ltd. and accompanied by following documents

1. Commercial Invoice in five copies.
2. Complete set of at least two Clean "On Board" Bills of Lading issued or endorsed to our order and marked "freight"
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4. Insurance Policy or Certificate (in duplicate) endorsed in blank for the Invoice Value of the goods plus % covering marine and war risks,

Insurance to be effected in
SPECIAL INSTRUCTIONS :

by beneficiaries / buyers

Please notify the beneficiary (ies) without adding / by adding your confirmation.

INSTRUCTIONS FOR NEGOTIATING BANK

In consideration of your negotiating on our behalf bills in terms of this Credit and forwarding the bills and documents as detailed above direct to us in two complete sets together with a certificate of compliance by registered air mail you will be reimbursed in accordance with para as under

- A. We hereby undertake that your sight bills on for the face value of the bills, plus your charges, will be duly honoured on presentation provided they are marked "Drawn under the Akdeniz Garanti Bankası Ltd. - CYPRUS. Credit No.
- B. We hereby authorise you to debit our account in your books provided that all terms and conditions of the credit have been complied with.

KINDLY ACKNOWLEDGE RECEIPT.

Yours faithfully,

Akdeniz Garanti Bankası Ltd.

- CYPRUS

Muhabir Akreditif No.

ALINAN MASRAFLAR										
Tarih	Açılan ve Eklenen Miktar	Çekilen veya iptal edilen	Bakiye	Alınan Marj	Muvakkak Hesap No.	Mülâhazat	Tarih	CİNS	Faiz ve kom.	Muh. Kom.

5. CONCLUSION AND RECOMMENDATIONS :

The **British Colonial Rule**, which lasted between 1878 and 1960, ended with the proclamation of the Republic of Cyprus as an independent State on August, 16th, 1960. The establishment of the Republic of Cyprus was based on 3 Treaties: **The Treaty of Establishment, The Treaty of Guarantee, and The Treaty of Alliance**. The **Constitution** was a fragile construction. The structure of Government was designed to safeguard the interests of **Greek and Turkish Communities**, as well as those of the **United Kingdom, Greece, and Turkey**.

The **Communal Fighting** between the Turkish and Greek Cypriots in December 1963 created physical separation everywhere in the Island for 11 years. The overthrow of the Makarios Government in July 1974 by the **Greek Junta in Greece** and the move to unite the Republic of Cyprus with Greece, the so-called '**enosis**', led to the war in 1974. Turkey, in accordance with the **Treaty of Guarantee**, intervened as a guarantor power on July 20, 1974.

With the '**Turkish Peace Operation**' that took place on **July 20th, 1974** the Turkish Cypriots gained their independence and started to concentrate on developing their skills, entrepreneurship, and manpower resources. The war in 1974, led to a **population exchange and bizonality of the Island**: the Turkish Cypriots started to live in the Northern part of the Island, and the Greek Cypriots in the Southern part. The ultimate aim, for the Turkish Cypriots, after July 20th 1974 was **to win the economic war**.

The Turkish Cypriots, living in the Northern part of the Island, were confronted with many problems: **negative effects of political sanctions and economic embargoes, lack of skills, capital, and entrepreneurship, high unemployment, flight of capital, balance of payments problems**, etc. In order to solve these problems, the Turkish Cypriots, like the Greek Cypriots living in the Southern part of the Island, started to prepare **Long-Term Development Plans and Annual Economic Programmes**. The year 1977 marked the beginning of the **Planning Period** for the Turkish Cypriots when the **First Five-Year Development Plan** was introduced. The main objectives of the **First Five-Year Development Plan** and the **Third Five-Year Development Plan**, which is still in action, are given in Section 2.

5.1 Problems Stemming from the use of Another Country's Currency :

The economic performance of the TRNC cannot be underestimated. The positive developments in the basic economic indicators, like the increases in GNP and per capita GNP, reductions in unemployment, increases in Fixed Capital Investments, etc., reflect the success of the Five Year Development Plans and Annual Economic Programmes. But there are still many great economic problems. One of the main problems facing the economy is that **the TRNC does not have its own currency**.

She is using the currency of another country. The Turkish Lira is the **LEGAL TENDER** in the TRNC. Using another country's currency deprives the TRNC of the tools which are necessary for the correction of macro-economic imbalances in the TRNC. It has **no control over the emission of money that she is using**. The Government of the TRNC, as a result, cannot employ its own **Monetary Policy** in its own country. **The non-recognition and economic embargoes** forced the economy of the TRNC to increase its trade with Turkey. As it can be seen from the examination of **TABLE 7**, and relevant **PIE CHARTS**, Foreign Trade by Countries in 1982, Turkey occupied **40%** of TRNC's total imports. In 1996 Turkey's share in imports increased to **55%**. As far as exports are concerned, in 1982, as high as **66%** of TRNC's exports went to the U.K. In 1996, this figure dropped to **21%**. In 1982, Turkey's share in the exports of the TRNC was **18%**. In 1996, this share increased to **48%**. The main reason for this is the decision of the **European Court of Justice (ECJ)** that the goods of the TRNC should not be imported by the member countries of the European Union.

Another important problem stemming from the use of the Turkish Lira in the TRNC is the inevitable **importation of the high inflation from Turkey to the TRNC**. As it can be seen from **TABLE 7** and the relevant **PIE CHARTS**, as high as **55%** of imports in 1996 came from Turkey and the use of the same currency in Turkey and TRNC, creates a lot of problems for the economy of the TRNC. In other words, with the importation of the goods the inflation from Turkey is also imported into the TRNC. Inflation in both countries shows the same trend each year. It moves on the same parallel lines. **The economy of the TRNC is being affected by the Monetary and Fiscal Policies implemented in Turkey**. For example, the "**5th of April Measures**", pushed inflation in the TRNC to **215%**, parallel to the inflation of Turkey's. Increases in the value of foreign currencies against the Turkish Lira followed the same trend in the TRNC; the **crash of the Impex Bank, the TYT Bank, and the Marmara Bank** in Turkey caused similar **bank crashes** in the TRNC (the **Akdeniz Garanti Bank Ltd.**, the **Everest Bank Ltd.** and the **Yatırım Bankası Ltd.**); the adverse and favorable trends on the Stock Exchange in Turkey leads to similar effects in the TRNC, etc.

5.2 Lack of Control over Exchange Rates and Interest Rates :

Since the TRNC does not have its own currency, **it can not have control over the exchange rates**. Turkey uses the system of **flexible exchange rates**. When the Turkish Lira is devalued in Turkey, the Central Bank of the TRNC follows the same devaluation, whether she likes it or not, in the TRNC. The official **Annual Average Exchange Rates** in both countries follow the same trend. The foreign exchange rate instability led to the **frightening away of investment capital**, and the **outflow of savings** from the TRNC to avoid their depletion.

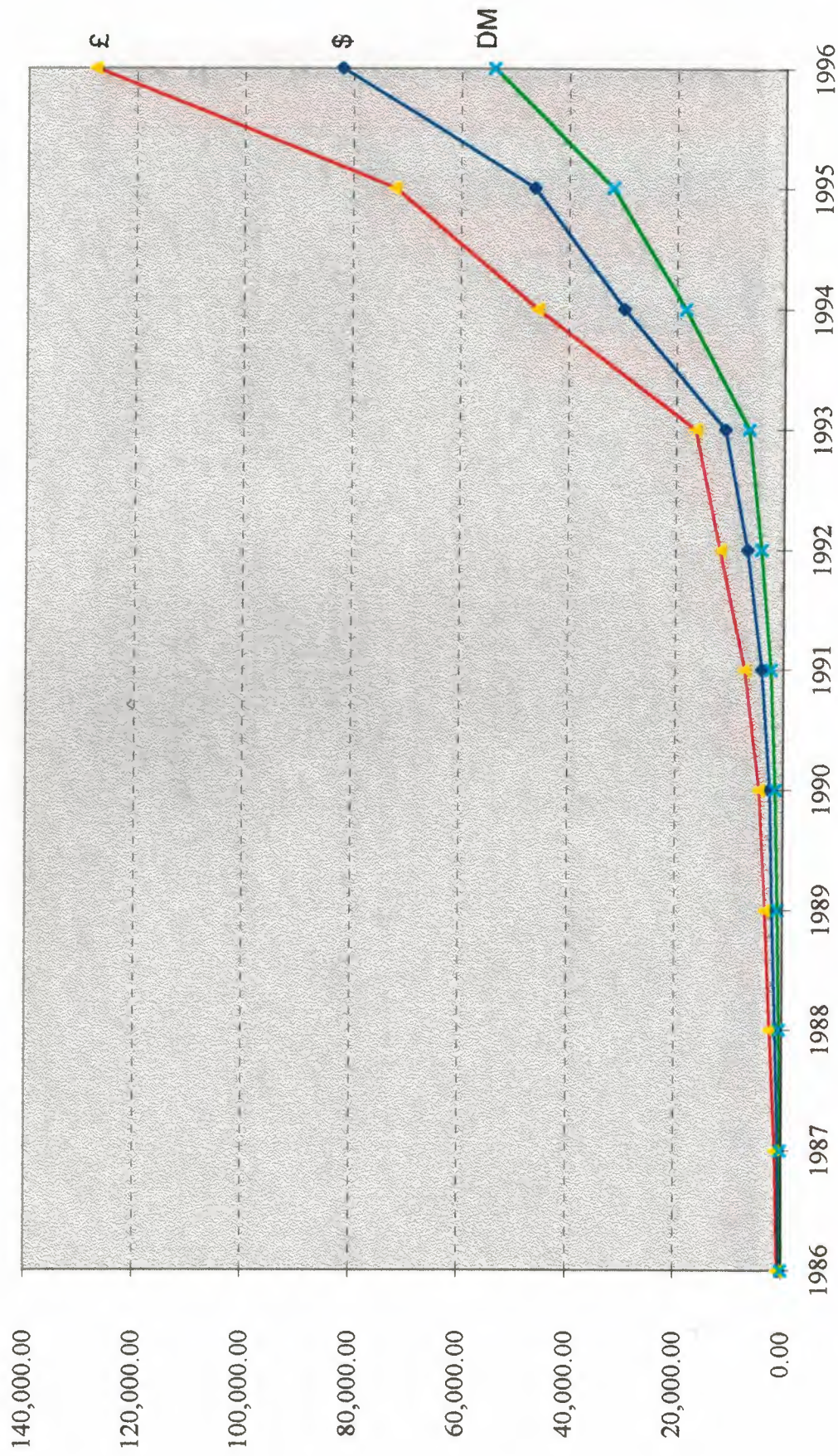
TABLE XXI

ANNUAL AVERAGE EXCHANGE RATES

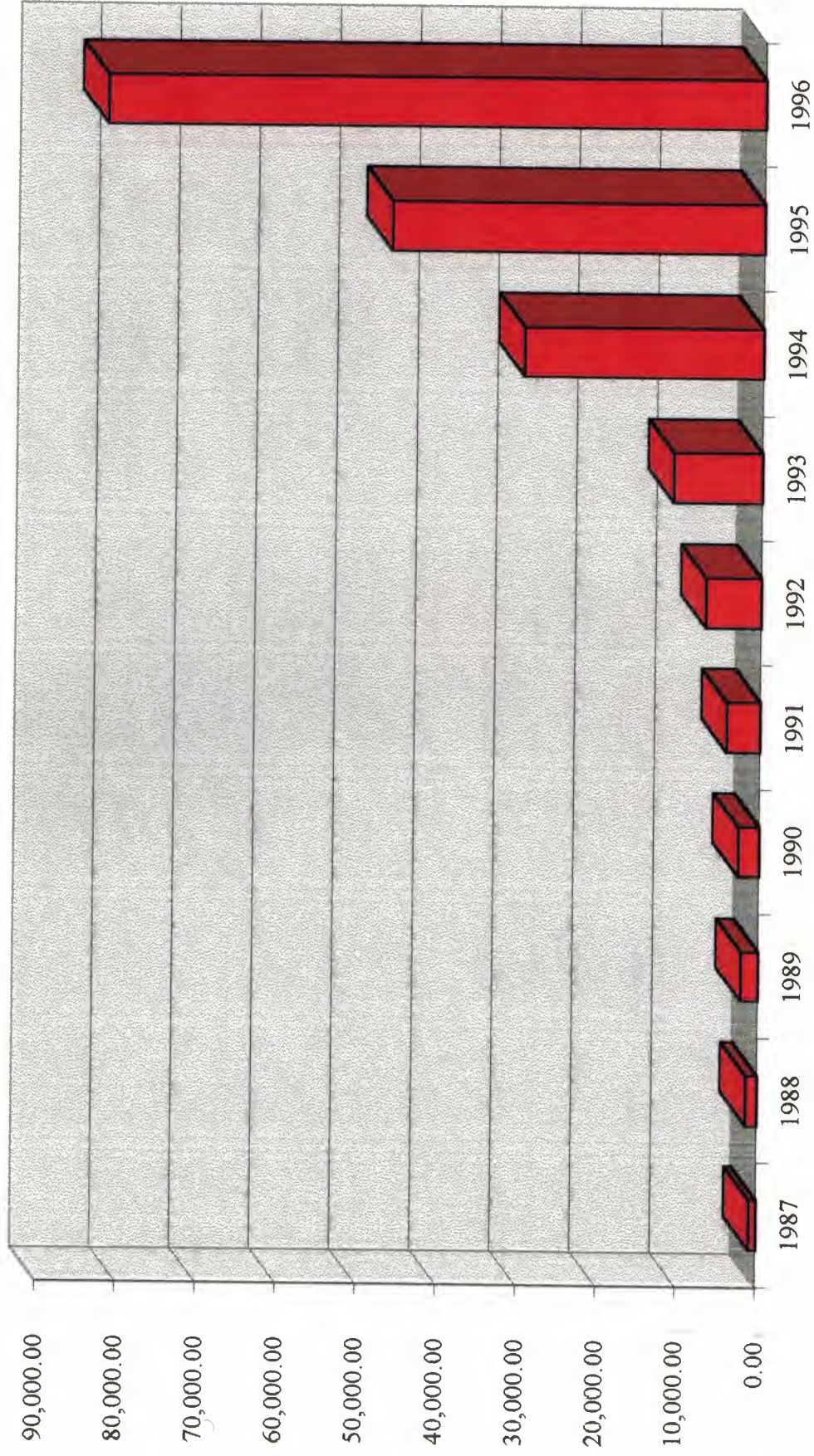
Years	1 US \$ = TL	1 Stg = TL	1 Cy £ = TL	1 DM = TL
1977	18.20	31.72	44.59	7.72
1978	24.60	47.15	65.92	11.95
1979	36.80	77.93	103.78	22.04
1980	75.10	174.24	212.53	42.76
1981	113.00	228.06	268.94	49.80
1982	163.75	294.37	345.51	67.52
1983	231.83	351.02	440.48	89.22
1984	367.40	490.37	624.58	129.65
1985	528.30	686.24	866.41	181.43
1986	682.58	999.78	1,324.21	314.84
1987	871.98	1,433.97	1,813.72	486.49
1988	1,422.00	2,549.69	3,038.20	817.43
1989	2,139.52	3,493.64	4,206.22	1,129.53
1990	2,618.98	4,663.48	5,523.38	1,621.05
1991	4,199.67	7,415.84	8,144.81	2,537.31
1992	6,896.25	12,130.06	14,230.32	4,418.55
1993	11,106.99	16,702.24	20,998.67	6,716.20
1994	29,915.67	46,085.94	54,798.64	18,548.15
1995	46,554.51	72,398.16	95,673.66	32,070.17
1996	82,150.50	127,813.53	171,459.04	54,069.90

Source : Compiled from publications of THE CENTRAL BANK of the TRNC

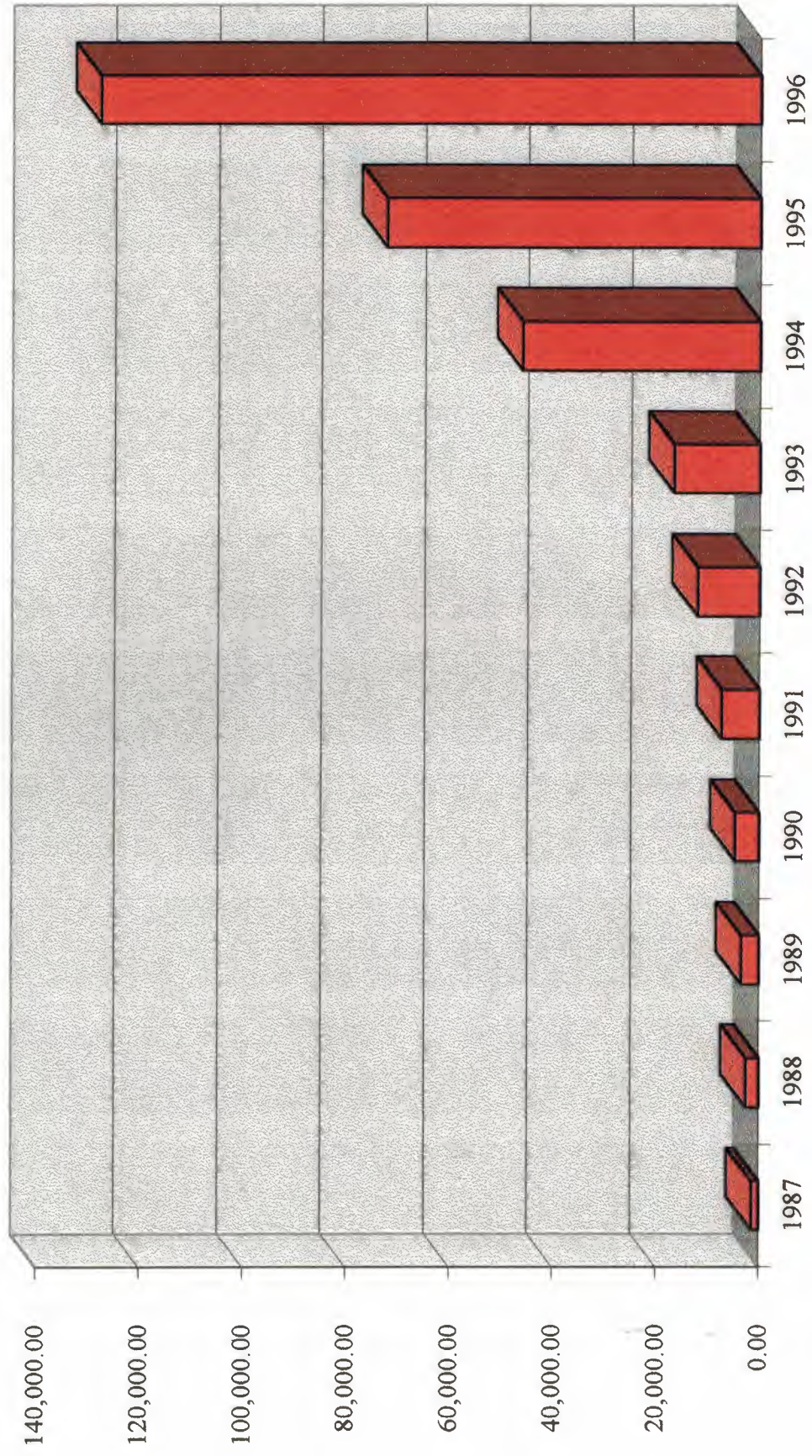
ANNUAL EXCHANGE RATES, 1986-1996



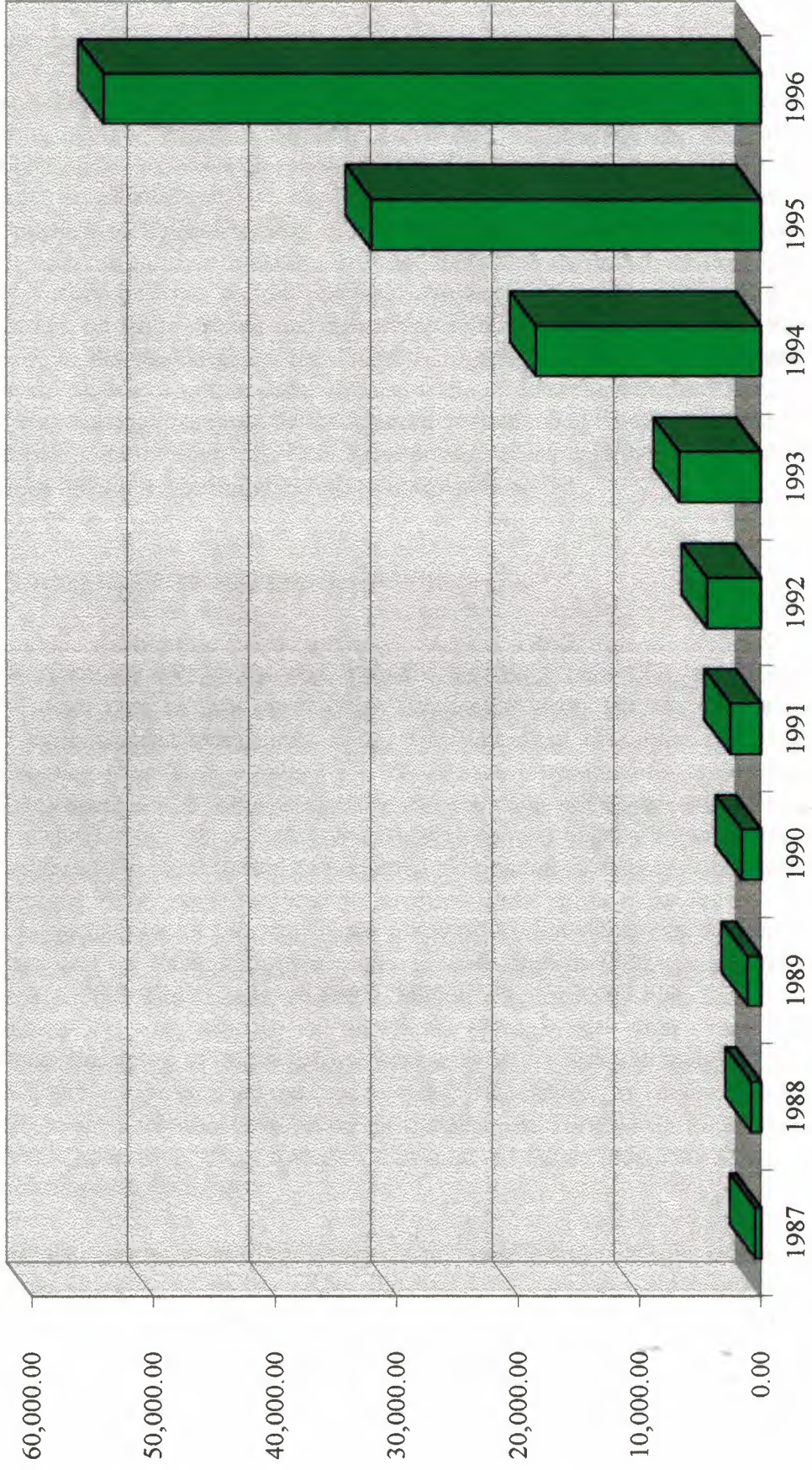
1 US \$ = TL RATE



1 STG.£ = TL RATE



1 DM = TL RATE



To a great extent, the TRNC does not have control over the **interest rates** in its own country. Since she is using another country's currency it can only be regarded as **'normal'** to be affected by certain measures when the owner of the Turkish Lira takes to protect its own economic interests in her own country. The problem that the TRNC faces is twofold: In the first place, the **outflow of limited savings** in the TRNC becomes unavoidable vis-a-vis very **attractive high interest rates in Turkey**. In order to reduce its deficit in its Budget, the Government of Turkey borrows on the domestic market. High interest rates paid by the **Treasury** in Turkey on **State Bonds and Securities** lead to a **flight of savings** from the TRNC to Turkey. In the second place, the TRNC is forced to **follow a high interest rate policy**, whether she likes it or not, in order to keep some of its savings in the TRNC. As we stressed earlier, these savings are given by the financial institutions of the TRNC in the form of loans to various sectors of the economy. But high interest rates increase the cost of investment. **High capital costs have a deterring effect upon investments.**

5.3 Aid From Turkey and Problems Associated With It :

The fragile economic relationship between Turkey and the TRNC can be explained by the phrase **"WHEN TURKEY SNEEZES THE TRNC CATCHES THE COLD"**. Being aware of this reality Turkey tries to help the Turkish Cypriots through **aid**. As I have already stressed, the Turkish Cypriot Community up to 1974 managed to survive only with the substantial aid coming from Turkey. When the TRNC was proclaimed as an **Independent State** in 1983, the effects of the political sanctions and economic embargoes started to be felt more seriously in the TRNC. All the infrastructure projects and military expenditures in the TRNC are undertaken with the technical and financial aid granted by Turkey. The dependence of the economy of the TRNC on Turkey and the negative effects of the measures implemented in Turkey, led to an increase in the size of aid given by Turkey. This can be seen on the relevant pie charts and on **TABLE 6, (See pages 19 and 20)**. In 1985, the amount of aid given by Turkey to the TRNC was **10,450.9 Million TL**. In 1996 this figure rose to **6,119,642.4 million TL**, an increase of **58,456%**. **(Please note that huge Defense Expenditures and financing of main infrastructure projects are not included in these figures.)** In 1985, **88%** of the total aid received by the TRNC came from Turkey. The share of other foreign aid in total aid was **12%**. In 1996, the share of Turkey's in total foreign aid increased to **98%**. The share of other foreign aid in total aid fell to only **2%**. Please see the relevant diagrams on pages 58 and 59.

Even these substantial aids received from Turkey are not adequate to cover the Budget Deficit in the TRNC. The Government of the TRNC borrows both internally and externally. As a result of the political non-recognition, the TRNC is not able to borrow on international monetary markets and international institutions like the **World Bank**, the **IMF**, etc.

She is only able to borrow from the Government of the Republic of Turkey, and financial organization in Turkey, like the **EXIMBANK**, the **Development Bank**, etc. In 1985, of the total amount of loans, **70% is external loans and 30% is internal loans**. In 1996, the share of external loans in total loans fell to **19%** and the share of internal loans increased to **81%**. (Please see **TABLE 6** and relevant **pie chart one page 21**). In line with the improvement of the liberal economic system, privatization carries a role of paramount importance. The revenues from privatization must be directed to improve the economic situation, not to cover the deficit in the Budget of the TRNC. **Competition** in the economy of the TRNC must be improved. It is hoped that if these measures are taken dependence on Turkey will be reduced to a minimum level.

The Turkish Republic of Northern Cyprus is the only State in the world who has not got its own national currency. As a result, she is not in a position to implement her own Monetary Policy. She has no control over the emission of the Turkish Lira, over the exchange rates, over inflation, over interest rates, etc. These problems cannot be solved by foreign aid. As we also know that aid is accompanied with problems: the **Donor country wants to control the projects, instructs how it will be allocated, it hinders local skills and entrepreneurship, it loosens self confidence, etc.** (this is the concept of **aid with ties**). In order to be able to get rid of the above problems the TRNC must have her own currency.

But the Central Bank of the TRNC must be **free of Governments' intervention**, especially during election periods and when money is needed to **cover the deficit in the Budget**. The printing of money with the populist aims would create more problems. Another problem is the **Foreign Aid** granted by Turkey. As we said, the people of the TRNC, up to now, managed to survive only with the substantial aid coming from Turkey. Because the economy of the TRNC is being affected negatively by the measures implemented in Turkey, every year the **Budget Deficit** in the TRNC is getting bigger and bigger. So, each year, the size of the aid, granted by Turkey to the TRNC, is increasing as well. All infrastructure projects are undertaken with the technical and financial aid granted by Turkey. The Government of the Republic of Cyprus is recognized by all countries of the world as the '**legal**' Government representing the whole of Cyprus. All technical assistance and foreign financial aid are received by the Government of the Southern Cyprus. The TRNC is considered as an "**Illegal State**" and receives nothing. This is the main reason why the **Per Capita GNP in the Southern Part of Cyprus is \$14,000.-** as opposed to **\$4,222.5** in the TRNC.

In the light of the above-mentioned problems, the financial institutions in the TRNC tried to play an important role in solving these problems. The financing of the foreign trade of the TRNC, vis-a-vis political sanctions and economic embargoes, was the major contribution made by the banks to the economy. The banks in the TRNC, with their corresponding banks in Turkey and in other countries, provided the funds required to finance some of the main investment projects. The loans granted by the banks acted as the **economic lifeblood of the TRNC**. Analysis of Foreign Currency Advances, and Analysis of Turkish Lira Advances, Loans and Bills Discounted by Sectors, throw light upon the importance of the role of the banks in the economy of the TRNC. In other words, the banks, by creating money, tried to help the economic development of the TRNC. **Without the banking sector, the problems facing the economy of the TRNC could have been insurmountable.**

5.4 Problems encountered in the finance of foreign trade of the TRNC :

The Banks operating in the Turkish Republic of Northern Cyprus, with their very limited financial resources, are doing their best to finance to foreign trade of the TRNC. The success of these banks cannot be underestimated. **Documentary Credits and Letter of Credits** are the **two major forms of financing the foreign trade**. The political sanctions and economic embargoes are hindering the banks. **With a just and long-lasting political solution to the Cyprus problem, the performance of the banks will reach at satisfactory levels.**

In conclusion, it can be said that the TRNC can be classified as a **'developing country'** with the old term, as an **'underdeveloped country'**, meaning that the TRNC's economy is **depending on one or two strategic commodities, like agricultural products and tourism**. During the period between 1963 and 1974, the main aim of the Turkish Cypriots was survival and all their limited resources were allocated into defending its enclaves. From the point of view of the Turkish Cypriots, during this period all opportunities were sacrificed. The Greek Cypriots benefited a great deal from these advantages. This is one of the main reasons why political solution cannot be found to the Cyprus problem because the Greek Cypriots are still exploiting these advantages. The Greek Cypriot Economy is constructed on sound financial bases. (Inflation in the Greek Cyprus is around 4%, Per Capita Income is \$14,000.-, **there are no Balance of Payments problems, no emigration and no flight of capital, there is influx of foreign capital, and she is an associate member of the European Union, etc.**). With a population of less than 200,000 and with the disadvantages of the severe political sanctions and economic embargoes, the TRNC could not do any better for the time being. She relies completely on Turkey. The financial institutions play their role as well.

The long lasting and just solution to the Cyprus problem, from the point of view of the Turkish Cypriots, depend on the TRNC's taking her place among the international countries. **The TRNC should not be forced to stand on her feet with aid. Integration with Turkey should not be the final aim. The European Union membership must be targeted.**

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