KTTO ECONOMIC BULLETIN

2020, QUARTER IV

October-November-December

Summary

The course of the Covid-19 outbreak continues to be the main determinant of global economic and financial developments. Even though the harsh measures and high economic losses experienced in the first two quarters of 2020 were attempted to be compensated in the third quarter by partially opening up and through financial support, the global economy incurred serious damage in 2020 due to the heavy impact of the crisis that the pandemic induced. Although the vaccination has generated some hope for 2021, the assessment is that the recovery from the effects of the pandemic on economies will not be easy. economic devastation of the pandemic offers an opportunity to build sustainable economies that are also strengthened by structural measures. The success of countries in the post-pandemic period will be measured by how they exploit these opportunities. Prepared by KTTO 2020 Quarter IV Economic Bulletin; addresses in a detailed manner the macro-economic developments in the global economy, the TRNC, Turkey and the Greek Cypriot Administration.

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1. EXECUTIVE SUMMARY

The course of the Covid-19 pandemic continues to be the main determinant of global economic and financial developments. In the second quarter of 2020, within the framework of the lockdown measures implemented for the first wave of the pandemic, the economic contraction recorded at a global scale was at an unprecedented level. However, the economic and social policies implemented in addition to the health measures taken against the pandemic, in general, supported a relative recovery of activity in the third quarter of the year. As the economies began to open up, the relative recovery observed in the third quarter of the year showed differences between countries and regions.

It has been observed that developed economies, in terms of their current income levels and opportunities, are aiming to respond to the Covid-19 crisis with stronger and more direct support. As a matter of fact, official and private institutions have revised their global growth forecasts for the whole of 2020 upwards. However, the increased risk of a second wave of the pandemic in the last quarter of the year and the inclination towards renewed lockdowns is negatively affecting the last quarter outlook.

The ongoing uncertainty around the Covid-19 crisis led to 2020 to pass by with economic losses. Although economies partially reopened and activity picked up in the third quarter of 2020, it was not possible to compensate for the losses in 2020 with the sharp decline in the second quarter with the increase in cases, and slowdown in activity in the last quarter.

As a matter of fact, according to the estimated averages of international organizations, it is predicted that the contraction of the world economy will be around 4.3% in 2020. (IMF, OECD, WB).

As in many countries, the TRNC economy continues to be deeply affected by the pandemic, mainly due to losses in tourism and higher education. **It is estimated that the TRNC economy will shrink by around 14.3% by the end of 2020.**

In the TRNC, the parity for local revenues to meet local expenditures increased to 101% in 2018, while it declined to 96% in 2019 and to 87% in 2020. While the ratio of the budget deficit to the GDP in TRNC in 2010 was -8.8%, this ratio improved to -1.3% in 2019. According to the calculations of the State Planning Office (SPO), this rate is estimated to have declined to -5.7% in 2020.

In the TRNC, with the effect of the pandemic, the unemployment rate increased to double digits, reaching 10.1% for the first time in 2020. The TRNC's youth unemployment rate increased by approximately 10% in 2020 and reached 29.3%. This shows that the pandemic mostly affects the young negatively and the increase in the unemployment rate is mainly due to the increase in youth unemployment. At the same time, the proportion of the public sector in employment, which had decreased to 25% since 2010, has again increased in 2020 to 30.6%. In addition, **the number of people employed in the public sector has increased by 14.3% during last year.**

When viewing the trade balance experienced in the TRNC during the first 11 months of 2020, the observation is that imports shrank by 23.1% compared to the same period of the previous year. The 22.1% increase in exports positively affected the balance of trade, resulting in an improvement of 26.1%.

The inflation in the TRNC, which had increased to double digits since 2016, was 29.66% in 2018, due the rapid appreciation of foreign currency values. The 2019 year-end inflation fell to 11.66%. The pandemic in 2020 and the rise in foreign exchange values in the second half of the year increased inflation again, and the year-end inflation was at 15.03%.

As of September 2020, the size of the balance sheet in the banking sector has increased to 48,497 billion TL. In the December-September period, the increase in asset size was 19.2%. While Total Gross Loans, which are more than half of the asset size, increased by 20.84%, the increase in deposits, constituting 80% of the liabilities, was 22.17%.

Despite the decrease in investments during the pandemic, the increase seen especially in business loans indicates that businesses are kept alive by loans.

It could be argued that there are two reasons for the increase in deposits. The first is the increase in foreign currency deposits caused by the increase in the value of foreign currency, and the second is that households directed their savings to deposits due to the pandemic as their consumption decreased.

As in the whole world, tourism which together with higher education is the most important sector for the TRNC, has been the sector most affected by the pandemic. While the number of passengers coming to the TRNC by air and sea in 2019 was 1,749,979 (excluding TRNC nationals), after the onset of the pandemic in March, this number decreased by 77.8% in 2020 and reached 388,837. Accommodation, on the other hand, decreased by 78.7% to 244,614 during the same period. The number of overnight stays decreased from 4,456,543 to 791,959 (-82.2%).

As examined for the Bulletin, Turkey's economy showed a 6.7% growth in the third quarter after the 9.9% hard contraction in the second quarter. At the same time, with the recent increases in interest rates implemented by the Central Bank of Turkey, an attempt has been made to try to slow down inflation and dollarization. However, the depreciation of the TL, the weakness of foreign exchange reserves, the tendency of the residents to prefer foreign currency and the high unemployment continue to pose risks. On the other hand, the resolute emphasis by the new economic management for the need to maintain fiscal discipline, their stated determination to achieve pricing stability and the preparations for legal reform have provided positive signals to the markets.

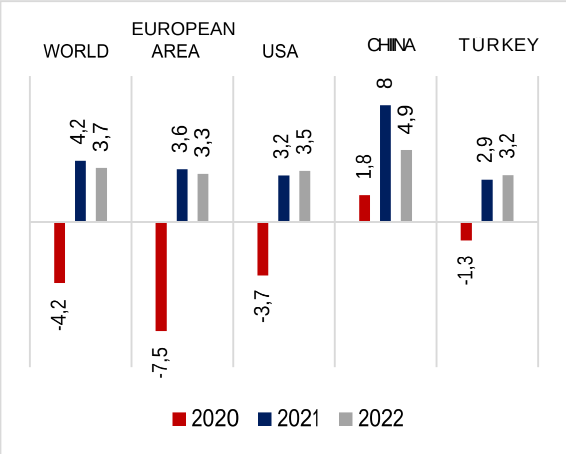
The Greek Cypriot economy grew by 9.4% in the third quarter, after contracting by 11.9% in the second quarter, while the deflationary trend continued as in the previous quarter with an increase in unemployment.

In all three countries, notwithstanding the results of the third quarter, the increase in Covid-19 infections in late 2020 and the implementation of tighter restrictions since mid-October are expected to prevent recovery in the last quarter of the year. Nevertheless, the accepted view is that the rollout of the recently started vaccination programme will provide a serious opportunity for economic recovery in 2021. With the support of the tourism and higher education sectors, which are expected to recover, the economy is expected to gather strength in the second half of 2021.

2. GLOBAL ECONOMIC OUTLOOK

According to the OECD, which published the latest updated estimates on the global economy in its December 2020 Economic Outlook Interim Report, the global economy will contract by 4.2% in 2020.

Chart 1: Global Economic Outlook Estimates



Source: OECD

Due to the on-going uncertainties regarding the COVID-19 pandemic in 2020, international organizations have updated their growth forecasts. The OECD, which predicted a 5% growth in the world economy for 2021 in its September 2020 report, revised this expectation down to 4.2%. However, with the success of vaccination rollouts in 2021 and the development of effective treatment methods, coupled with the expectation that trust will increase and demand will strengthen, the estimates are that growth rates may show a higher performance in 2021.

After the first peaks and with the containment of the pandemic, the economies that gradually eased their quarantine measures as of May, albeit partially, continued to shrink on an annual basis in the third quarter, but critically their contraction rates eased, and recorded a significant recovery compared to the previous quarter.

Table 1: GROWTH RATE OF SELECTED COUNTRIES IN QUARTER 3 OF 2020 (%)

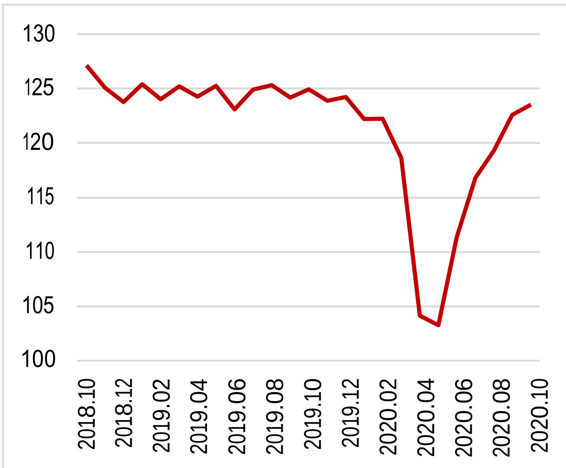
	2019 - 3rd Quarter Growth	- 2nd Quarter Growth
USA	-2,9	33,1
China	4,9	2,7
Turkey	6,7	15,6
Europe	-4,3	12,7

Source: OECD and relevant statistical office of the Country concerned.

However, the second peak of the pandemic during the last quarter of the year slowed down economic activities again. On the other hand, the fact that lockdowns were not as common as during the first period and monetary support was handed out, the contraction in economies was more limited to some extent.

Although global trade prior to COVID-19 focused on trade wars between the USA and China, the pandemic and the US Presidential elections rapidly narrowed the global trade volume, especially during the early stages of the pandemic.

Chart 2: Global Volume of Trade*



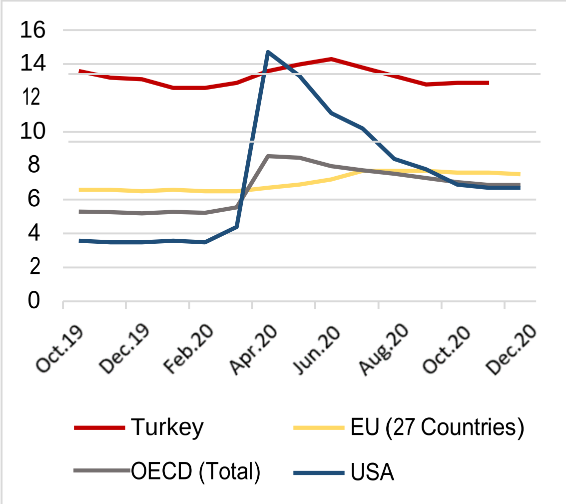
Source: WTO
*Seasonally adjusted 2010=100

World Trade Organization (WTO) data point to a partial recovery in global trade in the third quarter. However, the WTO estimates that the volume globally traded goods will contract by 9.2% for the full year in 2020. According to IMF estimates, the volume of global trade is expected to contract by more than 10% by the end of 2020. However, according to the International Monetary Fund (IMF) estimates, with the end of vaccination rollouts and optimistic expectations, world trade volume is expected to increase by 8% in 2021. While the WTO estimates that the world trade volume will increase by 7.2% in 2021, it is noted that the course of the pandemic and the policies of countries to reduce its effects will be decisive.

The slowdown in economic activities, which emerged as a result of the partial or complete shutdown of many sectors during the first half of 2020, also negatively affected the labor markets on a global scale. As can be seen in Graphic-3, the increase in global economic activity with the normalization steps in the third quarter of the year have partially affected the labor market in a positive way. This situation indicates that as a result of the measures taken, the global economic activity has partially recovered and the labor market will improve compared to the first half of the year.

The US unemployment rate, which had stabilized around 4% for some time, jumped to 14.7% in April 2020 due to the effect of slowing economic activity, and then decreased to 6.7% in December with the opening of the economy. With the pandemic and quarantine measures carried out in the EU, unemployment increased to 7.8% in July 2020, and started to follow a downward trend in the next period. The OECD average, which had been around 5.3% for some time, increased to 8.5% in May 2020 and decreased to 6.8% in December.

Chart 3: Unemployment rate (%)



Source: OECD

In order to achieve economic recovery, it is necessary to implement sufficiently supportive policies in health, to have a highly coordinated monetary and fiscal policy, and to provide financial conditions that support consumption and investment. An effective policy mix being the primary condition for making the economic outlook more optimistic is highlighted

In reports which emphasize the importance of effective policy use to deal with the pandemic, the emphasis is that governments should avoid the mistake of tightening their fiscal policy too quickly. In addition, it is suggested that governments should ensure continuity in supportive policies to reduce corporate bankruptcies and unemployment, and governments were called on to spend more for the "green economy".

3. ECONOMIC OUTLOOK FOR TURKEY, THE TRNC AND THE GCA

The Covid-19 outbreak continues to be the main determinant of economic and financial developments in many countries. In the second quarter, when the epidemic reached its first peak and the lockdowns were intense, an unprecedently hard and sharp economic contraction occurred. In addition to the health measures taken, the economic and social policies put into practice and the partial opening of the economies during the summer period enabled the economic activity to recover relatively in the third quarter of the year. As a matter of fact, public and private institutions have revised their global growth forecasts upwards for the whole of 2020. However, the second wave of the pandemic and trend towards partial closures in the last quarter of the year negatively affect the last quarter outlook. However, the start of global vaccination rollout has increased the expectations that the economies will begin to recover in 2021.

As in many countries, the Turkish Republic of Northern Cyprus (TRNC) economy continues to be deeply affected by the pandemic, mainly due to losses in tourism and higher education. In the TRNC, Covid-19 cases, which appeared with the first case in March 2020, had vanished with the measures taken. The rapid increase in the number of cases with the relaxation of the measures on July 1 led to the re-implementation of measures, including the restriction of entering and leaving the country in September. The effects, which started to be felt partially in the first quarter of 2020, became more traumatic during the second quarter, causing serious harm to the economy.

During this period, the contraction in the tourism sector, the absence of higher education students in the country, and the decline in public revenues as a result of the slowdown in economic activity placed the TRNC economy in a difficult phase.

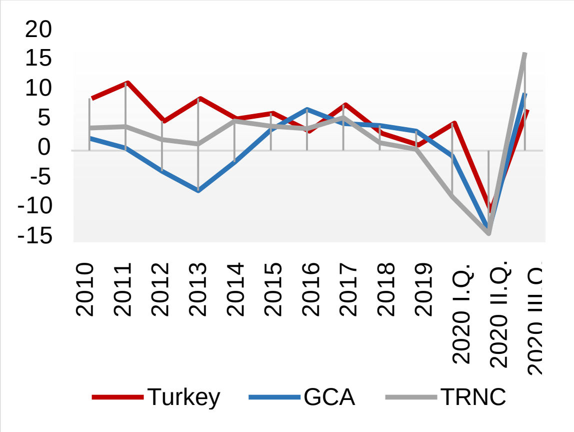
Turkey's economy has suffered from the economic slowdown caused by the pandemic. On the other hand, Turkey's economy improved in 2020 and is diverging in a positive direction with respect to developing countries. The depreciation seen in TL, decline in foreign exchange reserves, outflow of foreign capital, the preference of domestic residents to hold foreign currency and the rate of decline in employment has continued to pose risks to the Turkish economy. However, with the recent increases in interest rates made by the Central Bank of the Republic of Turkey an attempt has been made to slow down inflation and dollarization.

The Greek Cypriot Administration (GCA), like all other economies, has been negatively impacted in this period with serious reductions in both the number of tourists arriving and tourism revenues, a deflationary period emerged again and the budget deficit increased. Coupled with this, the lack of progress in privatizations, with judicial reform and the non-performing loans in the banking system stand out as other factors that increase the risk in the economy for the GCA. As a matter of fact, the economy of the GCA has shrunk almost twice as much in the second quarter of this year compared to the same period of the 2013 financial crisis.

3.1. Growth

When we look at the last 10-year growth trend occurring in the TRNC, Turkey and the GCA economies; although the TRNC and Turkey showed better and more stable performance than the GCA till 2015, the GCA began to recover after 2015 with the implementation of certain economic measures. 2018 and 2019 the TRNC had an average growth of 0.75%, and Turkey's average growth was 1.85%, while the average growth rate has been 3.65% in the GCA.

Chart 4: Comparative Growth Rates (%)



Source: TRNC Statistical Institute, CYSTAT, TUIK

The year 2020 has been a difficult year for all three countries with the impact of the COVID-19 pandemic. Especially in the second quarter when the lockdowns were taking place and the pandemic was at its peak, the economies of Turkey, the GCA and the TRNC shrank respectively by -9.9%, -13.1%, and -13.6%. After the economic stagnation and contraction of the first two quarters, especially during the summer months, with the acceleration of economic activity, opening up and financial support, all three countries grew by 6.7%, 9.4% and 16.1%, respectively, in the third quarter.

While in the first three quarters of 2020 (January-September), Turkey realized a nine-month GDP growth of 0.5%, the annualized GDP growth was 2%. After seasonal and calendar adjustments, the GDP growth rate was 15.6% in the third quarter of the year. In the same quarter of the year, the agricultural sector grew by 6.2%, the industrial sector by 8% and the services sector (including construction) by 4.9%.

While the total fixed capital investments in Turkey increased by 22.5% over the same period; private consumption and public consumption increased by 9.2% and 1.1%, respectively. The contribution of net exports to growth was negative 9.1 points. In this period, the contribution of private consumption was 5.4 points to economic growth, while public consumption contributed 0.1 points. While the increase in construction investments under Total Fixed Capital Investments was 14.7%, the increase in machinery and equipment investments was 23.5%.

According to the New Economic Program (YEP) Turkey announced on September 29th, the economy will grow 0.3% in 2020, and is projected to grow 5.8% in 2021. However, the prediction that if the impact of the pandemic increases in the fourth quarter, the economy will shrink by 1.5% at the end of the year and will grow by 3.7% in 2021. In contrast, in the OECD December 2020 Economic Outlook report the expectation is that Turkey's economy will shrink by 1.3%, while in 2021, it is projected to grow by 2.9%. It is considered that Turkey, with the economic contraction it will show in 2020, will be the least affected country by the pandemic after South Korea and China.

The GCA economy, which grew by 9.4% in the third quarter of 2020 compared to the previous quarter, contracted by 4.4% as opposed to the same period of the previous year. The recovery in the GCA is mainly attributed to domestic demand. Household expenditures in the GCA increased by 5.5% on an annual basis in the third quarter, pointing to the best period since the first quarter of 2017. In addition, fixed investments regressed at a significantly softer pace of 6.9% in the third quarter, following the 45.3% decline recorded in the previous quarter. However, the increase in public consumption decreased significantly in the third quarter and increased by 8.9% and was below the 17.4% increase in the second quarter.

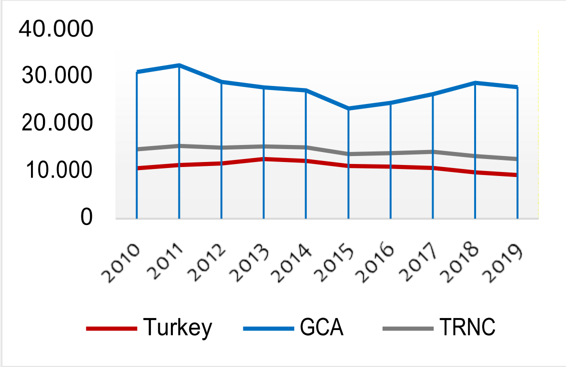
In the GCA, exports of goods and services fell more sharply by 33.0% in the third quarter due to the stagnation of the tourism sector and the decline in foreign demand (Q2: -15.6%). Similarly, imports of goods and services declined by 19.4% in the third quarter and contracted more sharply (Q2: -17.2%).

The estimation for the third quarter of the TRNC GDP 2020 was made by the SPO. The weighted data which was used in the calculation and estimation of this number was based on some leading indicators as well the items such as foreign trade, banking, demography and public budget. As a result of the calculations, it was estimated that the GDP shrank by 8.44% from year to year (between 2019 Q3 and 2020 Q3) in the third quarter of 2020, and it experienced a growth of 16.07% within the quarter (2020 Q3). The growth figure in the first two quarters of the year which is 7.56% (2020 Q1) and 13.60% (2020 Q2), respectively, is the growth forecast predicated upon the opening of the economy after quarterly contractions. According to the calculations made by the SPO for the end of 2020, an annualized decrease of 14.3% is expected.

Despite the results of the third quarter, the increase in Covid-19 infections in late 2020 and the tightening of restrictions since mid-October are expected to a prevent recovery in the last quarter of the year. However, it is assessed that the vaccination rollout that has started will provide a serious opportunity for economic recovery in the 2021 period.

Chart-5 shows the TRNC, Turkey and the GCA national income per capita trend of the last 10-years.

Chart 5: Comparative GDP Per Capita (US Dollar)



Soure: TRNC Statistical Institute, CYSTAT, TUIK

While the GDP per capita in the TRNC reached its highest nominal level with 15,302 dollars in 2013, it decreased to 13,277 dollars in 2018 due to the increase in foreign exchange rates. In 2019, GDP per capita declined by around 5% to $ 12,649

In Turkey, while per capita GDP in the year 2013 had reached its highest level with a nominal value of 12,582 US dollars, due to the slowdown in growth in the economy and the rise in foreign currency exchange values, it fell to USD 9,213 in 2019.

National income per capita in the GCA, which was 31,023 USD in 2010, decreased during the crisis period and fell to 27,129 USD in 2014. With the recovery of the economy since 2015, the per capita national income, which kept rising until 2019, had reached a mark above the pre-crisis period with USD 27,858 in 2019.

In 2010, GDP per capita in the GCA was approximately 3 times that of the TRNC. In 2015, this rate had dropped to being twice as much. However, it rose to the 2010 level again by being about 3 times in 2019.

3.2. Employment

While the unemployment rate in the TRNC was double digits with 11.9% in 2010, it remained in single digits between 2011-2019, but did not fall below that of 5.7% in 2017. **In 2020, with the effect of the pandemic, the unemployment rate increased to double digits with 10.1% for the first time in 9 years.**

In Turkey, unemployment has followed a more volatile path. It stayed in double digits except between 2011-2014. The unemployment rate announced last in November 2020 was 12.9%. The reason for the unemployment rate not increasing despite the pandemic is the implementation of the severance ban during this period. However, the "broadly defined unemployment", which includes the unemployed, the unemployed who have lost hope of finding a job, the unemployed who are not looking for a job but are ready to work, seasonal and time-dependent underemployed workers, was at 28.8% in November.

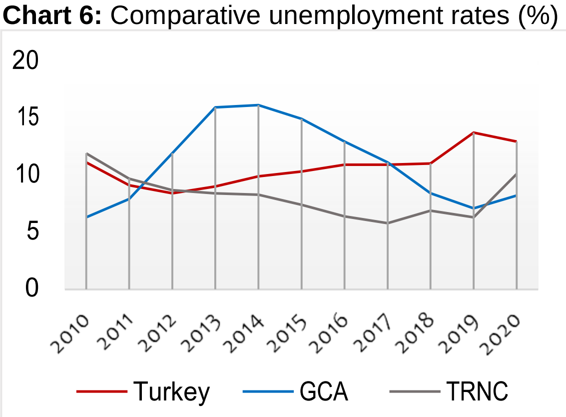
In GCA, the unemployment rate, which had increased to double digits in 2012, rose to 16.1% in 2014. The recovery of the economy since 2015 has also reflected positively on unemployment rates and unemployment, which started to decline since this date, decreased to 7.1% in 2019. In the third quarter of 2020, it increased again to 8.2%.

The Youth Unemployment rate in the TRNC was 24.8% in 2010. This rate, which decreased continuously until 2016, was recorded as the lowest rate for that period with 17%. The Youth Unemployment Rate, which rose again in 2017 and 2018, fell back slightly in 2019 to 19.4%. **In the TRNC, the youth unemployment rate increased by approximately 10 points in 2020 and reached 29.3%. This situation shows that the pandemic most negative affect is on young people and the increase in the overall unemployment rate is mainly due to the increase in youth unemployment.**

Likewise, youth unemployment remains a serious problem in Turkey. The Youth Unemployment rate, which varied between 15% and 20% between 2010 and 2016, rose to 25.4% in 2019. According to November 2020 data, this rate remained at 25.4%.

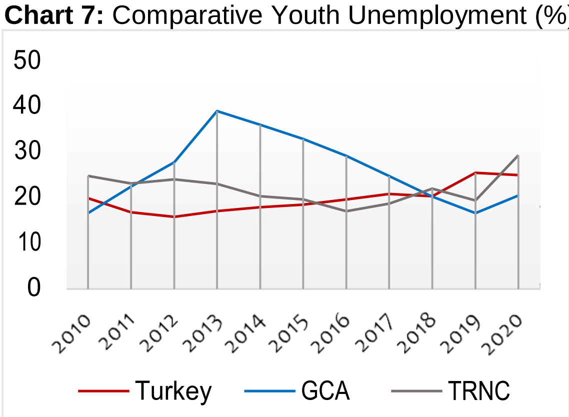
Faced with a serious economic crisis between 2012 and 2015, the Youth Unemployment Rate in the GCA reached a record level with 38.9% in 2013. Youth Unemployment, which started to decline since 2016 with the recovery of the economy, fell to its lowest level of this period with 16.6% in 2019. However, with the Pandemic in Quarter 3 this ratio increased again in the quarter to 20.4%.

Chart 6: Comparative unemployment rates (%)



Source: TRNC Statistical Institute, CYSTAT, TÜİK

Chart 7: Comparative Youth Unemployment (%)



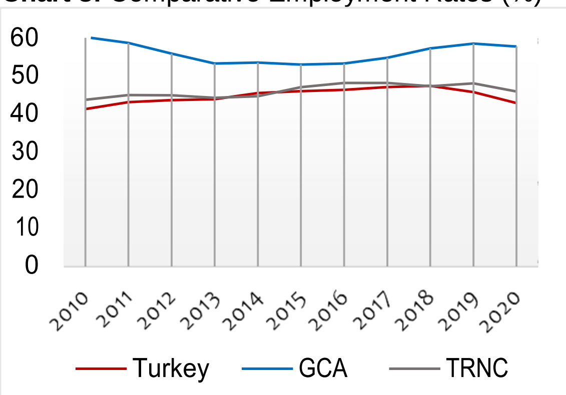
Source: TRNC Statistical Institute, CYSTAT, TUIK

Although Unemployment and Youth Unemployment Rates are very important indicators for the employment market, the coverage of the employment market is determined by the Employment Rate, which indicates the proportion of the population at working age that are employed. Employment rate in the TRNC increased from 43.7% in 2010 to 48.2% in the years 2016 and 2017. This rate, which fell by 0.9 points in 2018, rose again in 2019 to 48.1%. In 2020, again with the negative impact of the pandemic it fell to 45.9%..

The employment rate in Turkey has similarly kept a low course. After the lowest rate of 41.3% in 2010, this rate fluctuated from 43% to 47% between 2011-2019, and in November 2020 it was at 42.9%.

GCA, in terms of the employment rate, is in a better situation than the TRNC and Turkey. Although the employment rate, which was 60.2% in 2010, fell to 53% in 2015, it started to rise again since 2016 and got up to 58.5% at the end of 2019. With the effect of the pandemic in the third quarter of 2020, it fell to 57.7%.

Chart 8: Comparative Employment Rates (%)



Source: TRNC Statistical Institute, CYSTAT, TÜİK

The increase in foreign currency values in 2018 made it more attractive to work in Southern Cyprus and a further rise in foreign currency values in 2020 made it even more attractive do so. **While only 356 TRNC citizens were working in the south in 2017, this number increased by approximately 4 times in 2020 to 1,406.**

Table 2: TRNC Employment Data

	2018	2019	2020
Working Age Population	279.779	287.810	289.348
Labour Force	142.283	147.755	147.835
Employment	132.411	138.438	132.885
Those working in Southern Cyprus	1.145	1.051	1.406
Workforce Participation Rate (%)	50,9	51,3	51,1
Employment Rate (%)	47,3	48,1	45,9
Unemployment Rate (%)	6,9	6,3	10,1
Youth Unemployment (%)	22	19,4	29,3

Source: TRNC Statistical Institute

The most important ratio in the population not included in the TRNC workforce is constituted by the pensioners with 26.4% and then those in continuous education at 26.2% (this ratio was 15.1% in Turkey in 2019). The high ratio of those in continuous education provides for an incompatibility with the TRNC labour market which is weighted towards services, and especially in the private sector, leads to obtaining unskilled labor from Turkey and from third world countries.

When we look at the sectoral distribution of employment in the TRNC, the service sector occupies first place with 79.1%. **Although the ratio of the public sector in employment fell from 30% in 2010 to 25% in 2019, it rose to 30.6% again in 2020. The number of people employed in the public sector in 2018 was 35,474, and in 2019, this number increased by only 51 people and reached 35,535. However, the number of people employed in the public sector reached 40,623, with an increase of 5,088 people, or 14.3%, in 2020 compared to the previous year**.

Table 3: Sectorial Distribution of TRNC Employment (%)

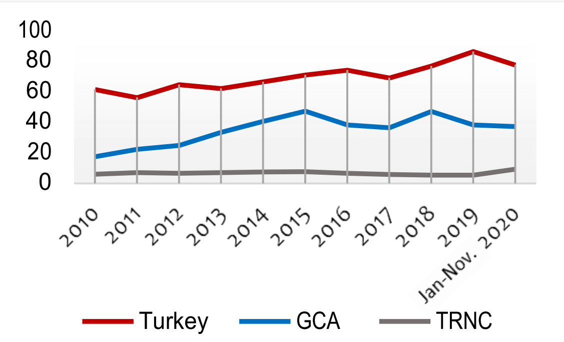
	2017	2018	2019	2020
1. Agriculture	3,6	2,7	4,1	3,1
2. Industry	9,2	9,1	10	10,2
3. Construction	7,6	7	7,9	7,6
4. Services	79,6	81,2	78,1	79,1
4.1. Public Sector	28,1	26,8	25,7	30,6

Source: TRNC Statistical Institute

3.3. Balance of Trade

Considering the import coverage ratio of exports, which is one of the important indicators for the balance of trade, the TRNC's rate, which is around 6%, in the period January-November 2020, increased to 9.4% due to the factors such as foreign students staying in their own countries, the depreciation of the TL, and especially, the serious decrease in the number of tourists which reduced imports. This rate rose over the last 10 years in Turkey and in 2019 increased to 86%, but during the first 11 months of 2020 fell to 76.9%. The ratio of exports to imports, which was 14.4% in 2010 in the GCA, was 37.1% during the first 11 months of 2020.

Chart 9: Comparative export/import coverage ratio (%)

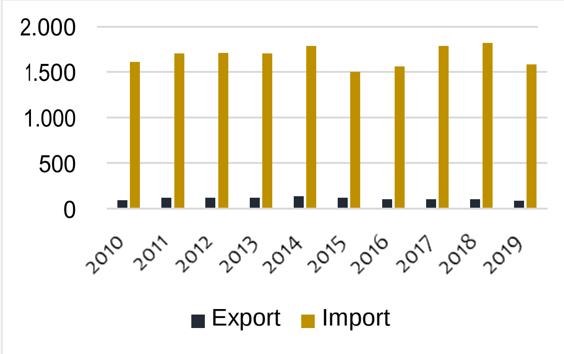


Source: TRNC Statistical Institute, CYSTAT, TÜİK

The exports of the TRNC in 2019 fell by 14% compared to 2018 and amounted to 86.6 million US dollars.

The imports of the TRNC in 2019 fell by 13% compared to 2018 and amounted to 1 billion 585 million US dollars. Balance of trade decreased by 12.6% Compared to the previous year and reached 1 billion 488.4 million dollars.

Chart 10: Export/Import course in the TRNC (Million US Dollars)



Source: TRNC Department of Trade

When assessing the trade balance in the TRNC for the first 11 months of 2020, it can be observed that imports shrank by 23.1% compared to the same period of the previous year. The 22.1% increase in exports positively affected the balance of trade, resulting in an improvement of 26.1%.

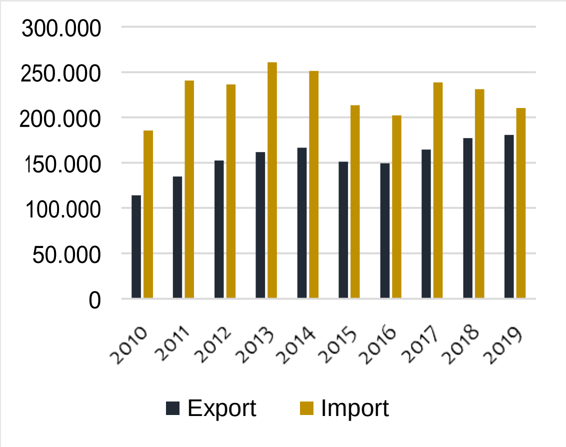
Table 4: TRNC Balance of Trade in 2020

	2019 Jan - Nov	2020 Jan - Nov	Change (%)
Export (Million $)	77,1	94,2	22,1
Import(Million $)	1.297,9	996,3	-23,2
Balance of Trade	-1.220,8	-902,1	26,1

Source: TRNC Department of Trade

Turkey's 2018 exports were worth $ 177.1 billion, and with an increase of 2.1% in 2019 was 180.8 billion dollars. Imports, on the other hand, decreased by 9% from 231.1 billion dollars to 210.3 billion dollars in the same period. The foreign trade deficit decreased by 45.3% in 2019 compared to the previous year, from $ 53.9 billion to $29.5 billion.

Chart 11: Export/Import course in Turkey (Million US Dollars)



Source: Rep. of Tr. Ministry of Trade

Turkey's exports fell during January-November 2020 compared to the same period of the previous year by 8.3% to 151,670 billion dollars, imports increased by 3.5% and came in at 197,013 billion dollars. In the January-November period, foreign trade deficit increased by 82.5% from 24,844 billion dollars to 45,344 billion dollars. While the ratio of exports to imports was 86.9% in the January-August period of 2019, it fell to 76'9% in the same period of 2020.

Table 5: Turkey's Balance of Trade in 2020

	2019 Jan - Nov	2020 Jan - Nov	Change (%)
Export (Million $)	165.446	151.670	-8,3
Import (Million $)	190.290	197.013	3,5
Balance of Trade	-24.844	-45.344	-82,5

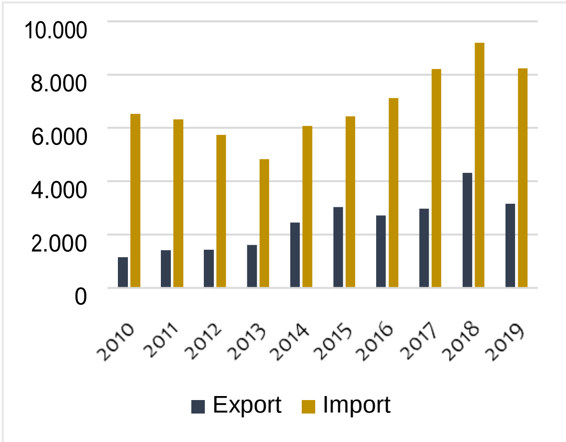
Source: Rep. of Tr. Ministry of Trade

When the foreign trade of the GCA between 2010 and 2019 is examined, it is seen that exports have increased approximately 3 times during the last 10 years, while imports have increased by a quarter. Despite the significant increase in exports, the foreign trade deficit only fell by around 5%.

In 2018, total exports in the GCA reached the highest rate of the period with 4,309 million Euros, and decreased to 3,146 million Euros in 2019.

Similarly, while it peaked at 9.2 billion Euros for imports in 2018, it fell to 8.2 billion Euros in 2019. There was an increase in the foreign trade deficit. It rose from 4,890 million Euros in 2018 to 5,089 million Euros in 2019.

Chart 12: Export/Import course in GCA (Million Euro)



Source: CYSTAT

The GCA's total exports in 2019, 1,289.3 (40.9%) million, were made to the European Union countries. The country receiving the most exports was the Netherlands with 405.8 million Euros. The Netherlands is followed by Libya with 315 million Euros, Greece with 235.4 million Euros and the United Kingdom with 189.4 million Euros. Of the imports made, 5,435 million Euros (65.9%) were from the European Union countries. The country which the most was imported from was Greece with 1,669 million Euros. Next comes the UK with 588.2 million Euros, Israel with 488 million Euros and China with 411.6 million Euros.

According to the data of the first 11 months of 2020 in the GCA, exports fell by 11.7% compared to the same period of the previous year to 2,546.9 million Euros, and imports fell by 8.6% to 6,859 million Euros. Foreign trade balance, on the other hand, had a deficit of 4.312 million Euros, decreasing 6.7% compared to the previous year.

Table 6: GCA Balance of Trade in 2020

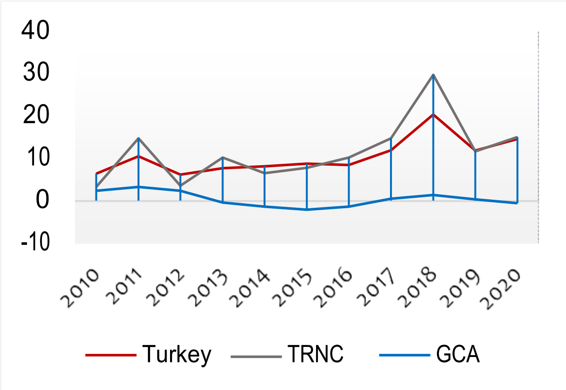
	2019 Jan - Nov	2020 Jan - Nov	Change (%)
Export (Million Euro)	2.884,2	2.546,9	-11,7
Import (Million Euro)	7.510,2	6.859	-8,6
Balance of Trade	-4.626	-4.312	6,7

Source: CYSTAT

3.4. Inflation

The TRNC's, which uses the Turkish Lira, and the Republic of Turkey's inflation trend has remained close to each other. However, in the TRNC, as it is more sensitive to imports and therefore to foreign exchange rates, the effect of fluctuations in foreign exchange on inflation is higher. Inflation in the GCA is low, consequently this leads to negative inflation during the years when the economy contracts.

Chart 13: Comparative Inflation Rates (%)



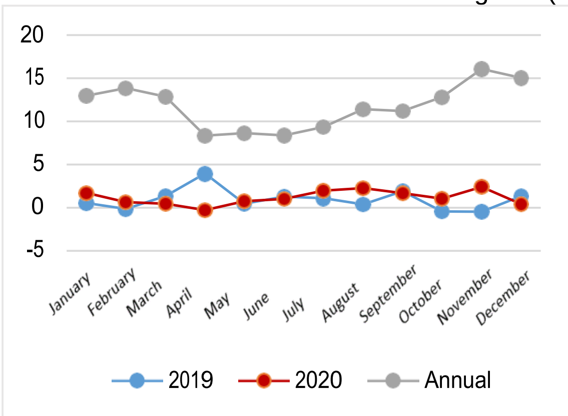
Source: TRNC Statistical Institute, CYSTAT, TUIK

The TRNC inflation, which increased to double digits since 2016, was 29.66% in 2018 when there was an increase in foreign currency values. The 2019 year-end inflation fell to 11.66%. The pandemic in 2020 and the increase in foreign exchange values in the second half of the year increased inflation again and the year-end inflation came in at 15.03%.

In the previous bulletin, the July-December inflation, which determines the cost of living increase to be offered to public service employees in January, was estimated to be around 9-10%. In line with this forecast, the 2020 July-December inflation came in at 10.65.

Inflation in the last quarter was recorded as 1.04% in October, 2.41% in November, the highest inflation rate of the year, and 0.41% in December.

Chart 14: TRNC Course of Inflation Progress (%)



Source: TRNC Statistical Institute

When we look at the annual change for the main goods groups in the TRNC, the highest increase occurred in Furniture, Home Appliances and Home Care Services with 26.6%. Then comes Transportation with 21.68%, followed by Health with 20.57%. Despite the decrease in oil prices, the increase in the Transportation goods group is due to the increase in the prices of air tickets because of the pandemic, and to rises in foreign currency values, and automobiles. Also, due to the pandemic, the increase in the demand for healthcare services and the effect of price increases caused by the rise in foreign exchange costs on medical products, which are mainly imported, are thought to be effective. The least increase in 2020 was seen in Communication with 7.42% and in Clothing and Footwear goods group with 8.35%, respectively.

In the last year some of the increases among the 40 most weighted products included in the inflation basket are remarkable. **In this period, automobile (G Type-Diesel) fee increased by 50.43%, Private University Fee (Third Country Student) 43.16% and 10 kg cylinder of gas increased 37.06%.**

Some examples showing the relationship between inflation in the TRNC and foreign currency are interesting. In Turkey, a core commodity group, Education, rose by 6.84%, while the rise in the TRNC was 15,13%. It is accepted that the difference is due to the fact that private school fees in the TRNC are indexed to foreign currency. Another example is the increase in rental fees by an average of 20.45% despite the absence of students in the TRNC and the departure of employees with a work permit which meant a serious decrease in the demand for rental housing.

Table 7: Change in Major Commodity Groups (%)

	TRNC	TR	GCA
Food and non-alcoholic beverages	14,63	20,61	1,22
Tobacco and alcoholic beverages	9,6	0,65	-0,2
Clothing and Footwear	8,35	-0,32	-0,48
Housing, Water, Electricity, Gas and other Fuels	11,57	9,59	-3,32
Furniture, Home Appliances and Home Care Services	26,66	18,04	-0,71
Health	20,57	16,67	0,46
Transport	21,68	21,12	-4,11
Communications	7,42	5,73	0,41
Culture and Entertainment	9,41	10,44	1,1
Education	15,13	6,84	1,04
Hotels and Restaurants	10,15	12,7	0,76
Various goods and services	17,08	28,12	0,3
TOTAL:	**15,03**	**14,6**	**-0,64**

Source: TRNC Statistical Institute

December inflation rate in Turkey was %1.25. With this increase, the 12-month annual inflation rate was 14.6. The highest monthly increase was in the household goods group with 3.46% and the highest decrease was seen in the clothing and footwear group with -3.18%.

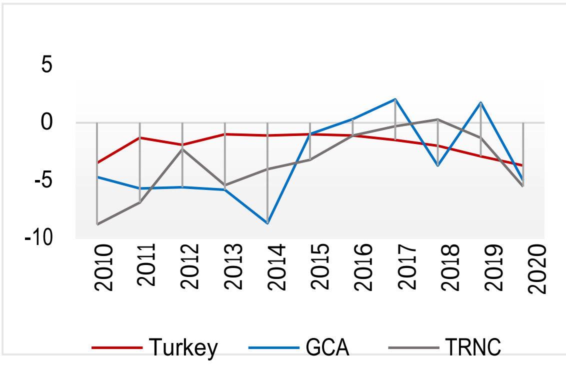
The GCA economy, which experienced a deflationary period between 2013 and 2016, entered a deflation phase again with the effect of the pandemic. Monthly inflation was -0.7% and annual inflation was -0.6% in December. Due to the decrease in oil prices, the highest decrease during last year occurred in transportation main goods group with -4.11%. In the same period, there was an increase of 1.22% in the food and non-alcoholic beverages goods group.

3.5. Budget

The TRNC, Turkey and the GCA, all three economies, have achieved improvements in their budget deficit to GDP ratio during the last 10 years.

While the ratio of budget deficit to GDP in the TRNC in 2010 was -8.8%, this rate reached -1.3% in 2019. This deficit in Turkey was -3.5% in 2010, rose to -1% in 2015, but in 2019 the ratio fell back to -2.9%. The ratio of budget deficit to GDP in the GCA increased from -4.7% in 2010 to 1.7% in 2019. According to the 2020 estimates, the ratio of budget deficit to GDP is calculated as -5% in GCA, while it is predicted to be -3.7% in Turkey. According to the calculations of the SPO, estimate for this rate in 2020 is -5.7% for the TRNC.

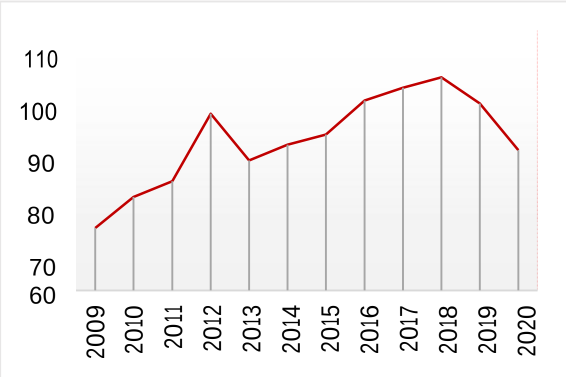
Chart 15: Comparative Budget Deficit to GDP Ratio (%)



Source: TRNC Statistical Institute, CYSTAT, TÜİK

In the TRNC, the ratio of local revenues to local expenses increased to 101% in 2018, while it declined to 96% in 2019 and as far low as 87% in 2020.

Chart 16: TRNC local revenues to local expenses ratio (%)



Source: TRNC Ministry of Finance

While the revenues realized in the TRNC in 2019 were 21.64% above the budget estimate, the revenues in 2020 were below the budget estimate. As the year-end tax revenues of 90% were in terms of future income of the budget estimate, its ability to fulfil public liability obligations was aided by the framework of loans offered by the Republic of Turkey under the item on assisting its public finances.

At the TRNC, 4.9 billion of the tax revenues, which were estimated as 5.4 billion as revenues for the budget in 2020, were collected, and a performance loss of 10% was recorded. Performance loss in income items that can be directly associated with economic activities is as in Table-8.

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

Table 8: Performance Losses in some Income Items as of September 2020 in the TRNC (%)

	Performance Loss (%)
Declaration Based Income Tax	-9,4
Declaration Based Corporate Tax	-5,4
Domestic VAT	-10,7
Personal Communication Tax	-15,8
Gambling Tax	-38,1
Motor Vehicle Tax	-37,2
Customs Duty on Imports	5,23
VAT Receipts from Imports	-17,4
Stamp Duty	-3,9
Title Deed Fees	-3,7
ID Card Fees	-54,5
Passport Fees	-67,4
Telephone, Telegram, Telex Charges	-27,5
Revenues from Ancient Artefacts, Museums and Ruins	-72,6
Price Stability Fund	-3,0
Tourism Incentive Fund Income	-5,75
Ercan Airport Privatization Revenues	-66,8

Source: TRNC Ministry of Finance

According to the 2020 revenues budget, Tax Revenues constitute 61.74% of the total revenue. Considering the performance loss determined in light of the year-end realization, from a budget that was projected to be 5.4 billion a loss of 537 million in tax revenues occurred. It is accepted that the said losses arise from the stagnation in economic activities.

In the Declaration Based Income Tax, an income loss was 100 million was observed as of the end of the year, while over 28 million was lost in the Declaration Based Corporate Tax area. The performance in BITT collections, which is above the budget projection, is associated with the taxes collected from foreign exchange deposits due to the increase in foreign currency values. On the other hand, of the end of the year, 72 million losses were experienced in Declaration Based VAT income. Due to the decrease in the number of people living in the country, the annual performance for collections in Personal Communications Tax remained at 84%. As a result, the revenue loss in this item was 22.9 million as of the end of the year. In Gambling Tax, while the performance was at the level of 62%, 66 million less revenue could be recorded as at the end of the year. Similarly, annual performance in Motor Vehicle Tax collection remained at 63%. A loss of over 87 million revenue has occurred in this item as of the end of the year. Annual performance in Customs Duty and VAT on Import items was 105% and 83%, respectively. Accordingly, as of the end of the year, Customs Tax on Imports is 5 million more than anticipated, while a 171 million loss in VAT on Imports occurred. The decrease in imports due to the stagnation in the markets has caused serious losses in public revenues. In the Title Deeds area, the loss was 4 million TL as of the end of the year, due to the annual performance remaining at 96%.

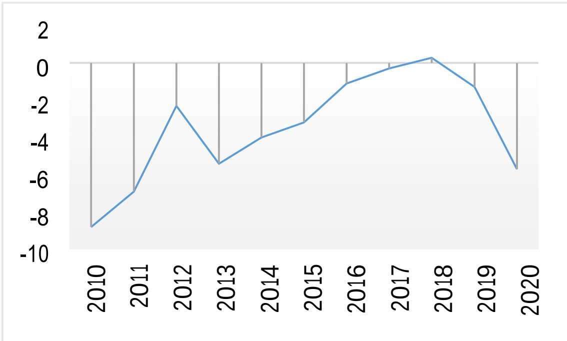
Annual performance of Fund Shares, which is an important Non-Tax Income item, was 96.5%. Accordingly, there was a loss of over 35 million TL as of the end of the year. An important part of this loss, over 26 million TL, is made up of the Price Stability Fund losses.

Other Revenues item includes Ercan Airport Privatization Revenues. Annual performance for this item is only 33%. As of the end of the year, the income foreseen from this item, 200 million remained at 66 million TL, while the loss was over 133 million TL.

Considering the 1,041 million local deficit included in the TRNC Ministry of Finance data as of December 2020 and the 2020 GDP estimate of the SPO (-14.3%), it is predicted that the ratio of the local deficit to GDP this year will be -5.7%. This rate stands out as the lowest rate after -5.4% in 2013.

Chart 17: Local Deficit - GDP Ratio in the TRNC

(%)



Source: TRNC Ministry of Finance, TRNC Statistical Institute

Central government budget expenditure in Turkey in December 2020 was 138.3 billion TL, budget revenues were 97.6 billion TL and the budget deficit was 40.7 billion TL. While the central government budget had a deficit of 31.8 billion TL in December 2019, the deficit came to 40.7 billion TL in December 2020. Budget deficit rose by 27.9% compared to the same month of the previous year.

As of December, Central government budget expenditures in Turkey was 138.3 billion TL. Interest expenditures were 4.9 billion TL and non-interest expenditures were 133.4 billion TL. December budget expenditures increased by 32.2% compared to the same month of the previous year. Central government budget revenues were realized as 97.6 billion TL as of December. Tax revenues were 78.5 billion TL, and general budget non-tax revenues were 15 billion TL.

While the budget revenues were 72.8 billion TL in December 2019, it increased by 34 per cent in the same month of 2020 and reached 97.6 billion TL. Tax revenues in December 2020 increased by 29.4 per cent compared to the same month of the previous year and reached 78.5 billion TL. Referring to the cumulative data of 2020, the central government while the budget deficit in Turkey for 2019 was 124.7 billion TL, in 2020 showed a deficit of 172.7 billion TL. 2020 budget expenditure increased by 20.2% compared to the previous year, and budget revenues increased by 17.6%.

In Turkey, for 2020 central government budget the expenditure was lower than expected and on the revenues side, the performance was better than anticipated. Thus, the budget deficit was 173 billion, remaining below the projected 239 billion.

When assessing risks to the budget, despite the risks originating from the global epidemic in 2021, the commitment by Turkey's President Erdogan that there will be no compromise on fiscal discipline is taken to suggest that there will not be any serious problems, yet, on the expenditure side, such practices as the short-time working allowance, unpaid leave support, tradesmen support package which will continue to be on the agenda indicates that program goals could be exceeded.

Turkey, while using fiscal policy actively in 2021, is utilising fiscal discipline measures as an important anchor by placing possible budget deficit reduction measures on the agenda. In this context, the aim is to keep the budget deficit at 3.5% of the national income.

In 2010, the ratio of budget deficit to GDP in the GCA was 4.7%, above the Maastricht criteria. After 2012, with the crisis, budget deficits increased even more and reached its highest level with 8.7% in 2014. A budget surplus occurred in 2016 and in 2017 as a result of the financial measures taken, including salary cuts, which amounted to 10% within the framework of the agreement made with the Troika, and the reduction in the number of civil servants. In 2018, the budget deficit had a GDP ratio of 3.7%, with the effect of meeting the 1,725 million Euros required to be paid within the framework of the Hellenic Bank agreement and with the privatization of Cooperative Central Bank. (Without this transfer, the budget surplus would have been 4.5% of GDP.) In 2019, the budget went into positive again, with a surplus of 1.7% of GDP.

When we compare the data of January-November 2020 and the same period in 2019 for the GCA, the fairly negative impact of the pandemic on the budget can be observed. While budget revenues decreased by 7.2% in the January-November period of 2020, budget expenditures increased by 10.5%. However, the main change occurred in the budget balance. During the said period in 2019, the budget of the GCA had a surplus of 566.3 million Euros, while the budget balance deteriorated by -241.1% in 2020, and the budget deficit was 799.2 million Euros.

Table 9: GCA January-November 2019 and 2020 Budget Revenues and Expenditure

	2019 Jan - Nov (Mil. Euro)	2020 Jan - Nov (Mil. Euro)	Change (%)
Revenues	8.051,5	7.471,4	-7,2
Expenditure	7.485,2	8.270,5	10,5
Balance	620,8	-581,1	-241,1

Source: CYSTAT

3.6. Banking

At the end of 2019, the asset size of the banking sector reached 40 billion 788 million TL.

The ratio of this asset size to GDP was 190.5%. As of September 2020, the asset size has increased to 48 billion 497 million TL. The increase in asset size in the December-September period was 19.2%. Most of the increase occurred in the March-September period, which includes the pandemic period. While Total Gross Loans, which are more than half of the asset size increased by 20.84%, the increase in deposits constituting 80% of the liabilities was 22.17. Information on loans and deposits will be discussed in more detail below.

Equity in banks increased by 12.1% in December-September period and reached 4 billion 260 million TL.

Table 10: Banking Assets/Liabilities Balance Sheet (Mil. TL)

	Dec.	March	June	Sept.
Cash and Cash Equivalent	13.277	12.508	11.871	13.636
Securities Port.	2.124	2.503	3.077	3.496
Total Gross Loans	22.557	23.472	24.468	27.259
Other Assets	2.788	3.561	3.728	4.204
Assets/ Liabilities total	40.748	42.045	43.146	48.597
Deposits	32.837	34.251	35.275	40.120
Debts to Banks	2.436	2.250	2.242	2.549
Other Liabilities	1.674	1.582	1.608	1.666
Equity	3.800	3.960	4.020	4.260

Source: TRNC CB

Business Loans takes the largest share in loans with 64.4%. Business Loans increased by 20.5% in December-September and reached 16,601 billion TL. There was a significant increase in these loans, especially in June and September. Consumer Loans, which accounted for 24.3% of total loans, increased by 23.5% in the same period and reached 6,269 billion TL. The increase in credit cards, on the other hand, increased by 14.4% due to the decrease in consumer spending. The total loan size increased from 21,207 billion TL at the end of December to 25,764 billion TL with an increase of 22%.

Saving Deposits, which constitute 71% of Total Deposits, increased by 22.6% in December-September period and rose from 23,316 million TL to 28,590 million TL. Commercial Deposits, on the other hand, increased by 27.6% to 8 billion 238 million TL During this period, the only deposit type that decreased was official deposits. Official Deposits decreased from 2 billion 624 million to 2 billion 611 million TL.

Table 11: Total Loans (Million TL)

	Dec.	March	June	Sept.
Business Loans	13.782	14.143	14.807	16.601
Consumer Loans	5.075	5.352	5.618	6.269
Credit Cards	556,7	508,7	576,6	639,6
Other Loans	1.693	1.976	1.984	2.034
Total Loans	21.107	21.981	22.987	25.764

Source: TRNC CB

Part of the increase in deposits is thought to stem from the increase in foreign currency values in the December-September period. While the share of foreign exchange deposits in total deposits was 60.37% at the end of December, this ratio reached a high rate like 64.89% at the end of September. The ratio of FX Loans increased from 52.75% to 53.81% in the same period.

Table 12: Total Deposits (Million TL)

	Dec.	March	June	Sept.
Savings	23.316	24.047	25.082	28.590
Commercial	6.457	6.968	7.265	8.238
Statutory	2.624	2.685	2.325	2.611
Other	438	550	601	680
Total Deposits	32.837	34.251	35.275	40.120

Source: TRNC CB

In summary, there was a considerable rise in both loans and deposits during the pandemic period. Despite the decrease in investments during the pandemic period, the increase seen especially in business loans indicates that businesses are surviving on loans. It could be said that there are two reasons for the increase in deposits. The first is the increase in foreign exchange deposits caused by the increase in foreign exchange values, and the second is that households directed their savings to deposits due to the decrease in consumption as a consequence of the pandemic.

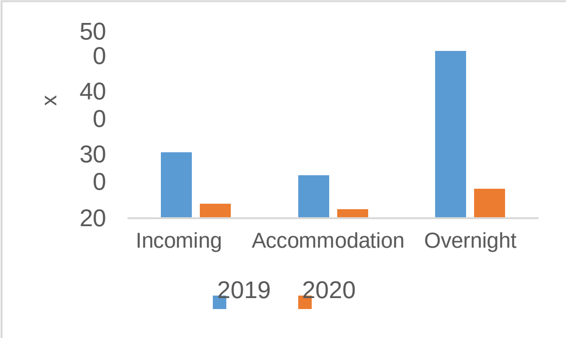
3.7. Tourism

Global tourism industry hit by pandemic has written off the summer of 2020. There has been a serious contraction in the tourism sector, one of the locomotive sectors of the TRNC, due to the pandemic. While the number of passengers arriving to the TRNC by air and sea in 2019 was 1,749,979 (excluding TRNC nationals), this number decreased by 77.8% to 388,837 for 2020 after the pandemic hit in March. There was a decrease of 77.3% among Turkish nationals and 79.3% among other foreign nationals.

While the number of people staying in tourist accommodation facilities in the TRNC in 2019 was 1,149,714, this number fell by 78.7% to 244,614 in 2020. The number of overnight stays decreased from 4,456,543 to 791,959 (-82.2%). It is estimated that the average occupancy rate in tourist accommodation facilities in 2020 in the TRNC is 16.9% for open facilities that received certificates after the pandemic in March. In 2019, this rate was 50.4%.

Likewise, a serious contraction can be observed in the tourism sector in Turkey. As at year's end, the number of foreign visitors arriving in Turkey decreased by 69.15% and equalled 16 million people. The number of foreign visitors arriving in Turkey in the fourth quarter were down 60.6% to a monthly average of 1.4 million people. Turkey's tourism revenues were 34.5 billion dollars in 2019, but fell to 12.1 billion dollars in 2020 with a decrease of 65%.

Chart 18: TRNC Incoming Passengers, Accommodation and Overnight (2019 and 2020)



Source: TRNC Tourism Planning Department

The situation is not different in the GCA. The number of tourists visiting the GCA in January-December period decreased by 79.9% compared to the same period of the previous year. While 5.8 million tourists came in the previous year, this number is 1.2 million in 2020. According to the January-November estimates published on tourism revenues, GCA tourism revenues fell by 85.4% compared to the same period of the previous year and were 382.9 million Euros.

4. SUPPORT OF THE REAL ECONOMY

All over the world, in the 4th quarter of 2020, real sector support became an agenda topic within the scope of pandemic measures. In this section, the post 2020 3rd Quarter support items brought forward for the real economies in the TRNC, Turkey and the GCA are summarised.

The following points were included in the economic support package announced after the decision for a lockdown in the TRNC in February 2021:

1. Insurance Premium support will apply from February 2021 until June, based on social security records dated December 31, 2020, as follows:

- For businesses with a maximum of 10 employees; all of the employer's share for the insurance premium,
- For businesses with 11-20 employees; fifty per cent (50%) of the employer's share for the insurance premium
- Thirty-five per cent (35%) of the employer's share for the insurance premium at enterprises with 21 or more employees. (%35).

2. In the period when the partial curfew was imposed, the employees of the closed businesses, who were determined to be affected the most, will receive support, up to a maximum of 1,500 TL per month, taking into account the period of time the businesses are closed. The said payment will be deposited into the employees' accounts.

3. Those whom did not benefit from the previously announced credit packages, in 2021;

- 15 million TL for tourism transporters, and
- A new loan package with a total amount of 120 million TL, including 105 million TL for other small tradesmen, agriculture and livestock breeders, will be implemented.

Within the scope of the package in question, each enterprise will be granted a loan up to 120 thousand TL, 100 thousand TL of this amount can be used regardless of the purpose (without seeking a certificate of clearance of any social insurance and reserve fund debt), 20 thousand TL of which will be offered upon the presentation of a workplace lease contract. The said loan will have a grace period of one year, will be payable in 4 years, and have an interest rate of 15 per cent applied.

4. For restructuring existing loans; If the relevant bank finds it appropriate, certain payment terms loans can be extended up to six months or postponed for up to six months, although the original maturity will not change.

Within the scope of this restructure, no change will be made against the borrower in the interest rates being applied. If the debtor's existing loan is restructured, no fee will be charged by the bank. The early payment penalty that can be received by banks for prematurely settled loans within the scope of this restructuring will not exceed 0.5% (five per thousand) of the amount paid for the settlement of the loan. This regulation will be valid until 30 June 2021. Stamp duty will not be collected until the end of 2021 from the contracts to be drawn up for the restructuring of such loans with the banks.

5. Regarding the cheque withholding period;
In accordance with the Bills of Exchange Law, for the checks that are stamped "insufficient balance/re-submission" and/or for the checks to be presented for the first time, the second submission period, which was previously 15 business days, will be increased to 22 business days, and the second submission period will be increased to 27 business days. All checks that are submitted to be paid by June 30, 2021 and have not got a 'dishonour' stamp will benefit from this application.

6. Regarding quarantine payment to employees who are contactees;

Payment will be made to the contactees that test positive for Corona Virus (Covid-19) whom are also insured and are quarantined by the Ministry of Health. The foremost details in this regulation are as follows:

The amount of payment - the daily amount of the quarantine allowance, will be 1/75 (seventy-fifth) of the official monthly minimum wage, based on the condition that the insured is still working and unemployment insurance premium has been paid for at least 720 days in total.

7. The Foundations Administration will make a 25 per cent reduction in the rental prices, with the exception of residence and some workplaces, provided that they are paid regularly every month for 2021.

8. The electricity support, which applies as 25 kurus per kilowatt (10 kurus plus 15 kurus covid support) in 2020, will continue in January, February and March of 2021.

In Turkey, 200 thousand trades can take advantage of up to 40 thousand TL turnover support as part of an implemented programme. The turnover loss support is covered by the appropriation placed in the budget of the T.R. Ministry of Trade. Enterprises with ongoing business that they started in 2019 or before and have active obligations as of January 27, 2021, whose turnover in 2019 was 3 million lira or below, and whose turnover decreased by 50% or more in 2020, benefit from this support. Value Added Tax declarations submitted which relate to the taxation periods in 2019 and 2020 as of January 27 are taken as the basis in determining the turnover of the business. The declarations submitted for the periods 2019 and 2020 after the said date are not taken into consideration in the turnover calculation. In addition, the VAT rate for workplace rental services, which has been reduced from 18% to 8%, will continue to be applied as 8% until 1 June.

In accordance with the decisions taken in the fourth quarter of 2020, the tradesmen who were directly affected by the pandemic, whose total number reached 1 million 239 thousand 438 people, were paid 1.000 TL per month for 3 months. Taxi, minibus and service operators, marketers, tailors, auto repairers, restauranteurs, confectioners, men and women hairdressers, hostel and dormitory operators, nursery and wedding hall operators have benefited from the direct support payments given in the form of a grant. Tradesmen who rent their workplaces are given 750 TL per month in metropolitan cities and 500 TL in other provinces for 3 months. The period of withholding tax on real estate rents, reduced from 20% to 10% until the end of 2020, has been extended until June 1, 2021.

In the GCA, a three-stage approach was applied in 2020 within the scope of combating the pandemic. It was determined that the transitions between the stages will be decided in the light of epidemiological data, and an economic support program was put into effect to reduce the impact of the pandemic with full closure measures being implemented. The gradual reopening of economic activities in the second phase and the introduction of the strategy of restarting the economy in the third phase are envisaged.

Depending on the increasing number of cases, new form of support has been brought into consideration with the lockdown decision taken in December 2020.

Some of the support is as follows:

1. If businesses that create added value have lost more than 35% due to the lockdown (compared to 2019), rent, instalments and other operating expenses are covered by the state with grant support up to 300 thousand Euros, and employees continue to benefit from the Ministry of Labour's salary support separately.

2. Subsidization of rent, instalments and other operating expenses of businesses that do not have VAT registration since their annual taxable transactions are less than 15,600 Euros.

3. 6 months deferral of debt and interest for businesses with loan repayments. (Enterprises that have postponed in 2020 to benefit from this decision for a total of 9 months).

4. Suspension of rental payments for business for 2 months.

5. 6 month interest support for loans used to establish a new business.

6. To meet the 6-month interest of the loan debt for those who acquire a property for less than 300 thousand Euros in order to own a house.

7. The freeze applied for 6 months in 2020 for those who were unable to pay their debts for their home or workplace to be implemented again for 3 months during the new lockdown.

8. Supporting the construction sector by accelerating the tender processes of public fixed capital investments.

9. Continuing tourism with incentives.

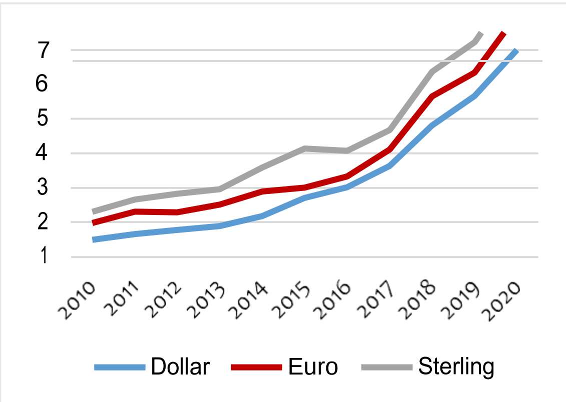
5. DEVELOPMENTS IN THE MARKETS

Included in this section are, developments regarding foreign exchange, oil prices and interest rates, which directly relate to market activities.

5.1. Foreign Exchange

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

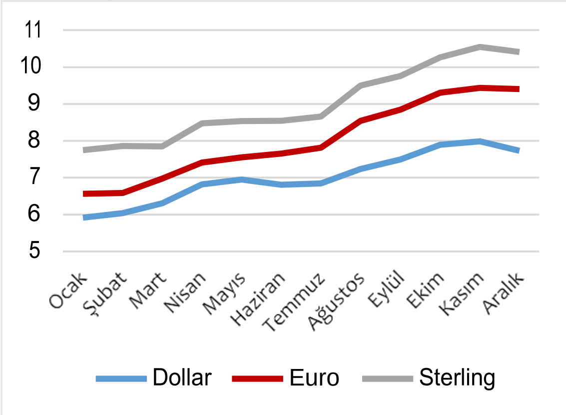
Chart 19: 2010-2019 Foreign Exchange Rates



Source: TR Ministry of Treasury and Finance

In 2020, exchange rates began to stir again in March, April and May. Exchange rates were stable in June and July, but the increase which started again in August peaked in November. With the change in economic management and the increase in interest rates in November, there was a slight decline in foreign currency values in December. Thus, based on the average exchange rates in September, the depreciation of the dollar was 3%, the euro was 6.3% and the sterling was 6.6% in the last quarter.

Chart 20: 2020 Jan. – Dec. Foreign Exchange Rates



Source: TR Ministry of Treasury and Finance

5.2. Petrol Prices

Brent oil price, which had decreased to 40.3 dollars in 2016, rose to 75 dollars in 2018. Due to the pandemic, oil prices which were $ 61.6 at the end of 2019, fell to $ 31 between March and May because of the collapse in demand and excess capacity in stock. At the end of December, brent oil price was 51.8 dollars. Depending on how the effects of the pandemic would be overcome, brent oil price is expected to rise in 2021 with the increasing demand.

5.3. Interest Rates

The Central Bank of the Republic of Turkey had not changed, the 8% interest rate determined on 25 November 2016, until June 2018. However, the Central Bank responded to the exchange rate shock experienced in 2018 with an increase of 850 basis points first, then an increase of 125 basis points and an increase of 625 basis points in September, in other words, a total increase of 1600 points (16%). The interest rate, which was kept at 24% until July 2019, was lowered to 8.25% through making a total of 9 rate cuts by May 2020. With the pandemic starting in March, the effect of the volatility in foreign exchange rates resulted in an increase in interest rates to 10.25% (an increase of 200 basis points) in May, but this raise did not slow the rate of increase in foreign exchange values. After foreign currency rates broke historic records in November, the head of the Central Bank was dismissed. With the change of the Central Bank Governor, the interest rates were raised to 17% by making an increase of 475 base points in November and 200 in December. Although these increases slowed down the pace of foreign exchange, high inflation, weak signals about reverse dollarization and weak foreign exchange reserves of the Central Bank are important indicators for the persistence of interest rates at this level. On the other hand, the emphasis of the new economic management of their determination for price stability and compliance with fiscal discipline, and the preparations for legal reform have been positive signals for the markets.

The Central Bank of the TRNC had also decided to raise the interest rate at its board of directors meeting on the last day of September.

The annual interest rate applied to Turkish Lira deposit accounts subject to interest at the Central Bank was increased from 6.75% to 8.25%. In foreign currency, the interest rate applied to US dollar deposit accounts was raised from 0.40% to 0.60% per annum, for Euro deposit accounts from 0.15% to 0.25% per annum, and for British Pound Sterling deposit accounts from 0.25% per year to 0.30%.

In the last meeting of the year held on December 24, TL deposit interest rate was increased from 8.25% to 13.75%. Foreign currency deposit rates, on the other hand, remained unchanged.

Table 13: TRNC Central Bank Annual Deposit Interest Rates (%)

	24 Aug.	30 Sept.	24 Dec.
TL	6,75	8,25	13,75
Dollar	0,40	0,60	0,60
Euro	0,15	0,25	0,25
Sterling	0,25	0,30	0,30

Source: TRNC Central Bank

The interest rate applied to Turkish Lira legal reserves at the Central Bank was raised from 2.75% to 3.50% annually on 30 September 2020, while the annual interest rate applied to USD legal reserves was raised to 0.25% from 0.20%, for Euro legal reserves it was increased from 0.05% to 0.10%, and for the British Pound Sterling legal reserves it was raised from 0.10% to 0.15%. On November 19, the interest rate applied to TL was increased to 6%. Interest rates in foreign currency did not change. With the last change made on December 24, the TL interest rate was raised again to 13.75%. Legal reserve ratios in foreign currency, on the other hand, remained unchanged..

Table 14: TRNC Central Bank Interest Rates Applied to Legal Reserves (%)

	23 August	30 Septem ber	25 Decemb er
TL	2,75	3,5	8,0
Dollar	0,20	0,25	0,25
Euro	0,05	0,10	0,10
Sterling	0,10	0,15	0,15

Source: TRNC Central Bank

6. STRUCTURAL REFORM AGENDAS

In this section, the short to medium term macroeconomic targets, and if any, noteworthy aspects of the arrangements in the structural reform agendas of the TRNC, Turkey, and the GCA are included.

i. TRNC

As of the end of 2020, there is no medium-term programme prepared for the 2021-2023 timeframe in the TRNC.

Structural regulations within the scope of the Economic and Financial Cooperation Agreement signed with Turkey on 3 March 2021 will be evaluated in the bulletin being prepared for the first quarter of 2021.

ii. Turkey

The New Economic Programme 2021-2023 which was announced during the third quarter in Turkey, aims to tackle the objectives for the next three years under the headings; the new equilibrium, the new normal, and the new economy.

Throughout the program, policies and measures related to basic objectives, growth and productivity, financing of growth, employment, price stability, public finance, foreign trade, tourism and financial stability are discussed in detail.

The macroeconomic objectives to be achieved within the framework of the program are shown in Table 15.

Linked to the programme objectives, a Medium Term Financial Plan was prepared in the fourth quarter.

Table 15: Turkey Macroeconomics Objectives (%)

	2019	2020	2021	2022	2023
Growth	0,9	0,3	5,8	5	5
Unemployment	13,7	13,8	12,9	11,8	10,9
Budget Deficit / GDP	-3,2	-6,1	-4,7	-4	-3,6
Public Debt / GDP	32,5	41,1	40,8	41,6	41,8
Inflation	11,8	10,5	8	6	4,9

Source: TR Ministry of Treasury and Finance

The central government budget for the years 2021, 2022 and 2023, which has been prepared in line with the Medium-Term Fiscal Plan for the period 2021-2023, and with the New Economy Program/Medium-Term Program (2021-2023), together with the total revenue and expenditure estimates, the target deficit and borrowing status, will also include the appropriation proposal ceilings of the public administrations.

The main objective of economic policy in the Medium Term Fiscal Plan is explained as follows:

"The main objective of economic policy in the period of 2021-2023 is to preserve and develop the gains obtained through the New Economic Programs, restoring internal and external balance, realizing the economic transformation and change based on production, export and financial stability through use of the economic opportunities created by the new normal emerging in the global economy, with the strategic reforms to be built on this balance, and policies aiming at an inclusive, sustainable and employment-oriented growth. In this period, under the leadership of the private sector and the strong support of the public, the capital accumulation and

Industrialization process will be accelerated, productivity will be increased in every field, the level of domestic savings and productive investments will be increased, production processes will be transformed into an export-oriented, innovative structure with reduced import dependency."

The main objective of the fiscal policy in the Medium Term Fiscal Plan is explained as follows:

"The main objective of the fiscal policy during the term of the Fiscal Plan is to continue fiscal discipline with determination. In this context, a more efficient use of public resources will be ensured by switching to a program budget system that will increase the efficiency of public service delivery and administrative structure and meet their needs via a dynamic structure in the 2021-2023 period. In order to increase the income performance of the budget, efficiency in continuous and permanent income sources and tax collection will be increased and the black economy will be reduced. Thus, public debt will continue to be kept at low and sustainable levels. Strong coordination of monetary and fiscal policies will be maintained."

Central government budget balance and primary balance targets for the term of Medium Term Fiscal Plan are shown in the table below:

Table 16: Turkey Budget Objectives

	2021	2022	2023
Central Government Budget Balance (Million TL)	-244.993	-248.450	-247.308
Central Government Budget Balance/GDP %)	-4,3	-3,9	-3,5
Primary Balance (Million TL)	-65.450	-43.864	-29.210
Primary Balance / GDP (%)	-1,2	-0,7	-0,4

Source: TR Ministry of Treasury and Finance

iii. GCA

In addition to the measures taken within the scope of combating the pandemic in Southern Cyprus, together with the perspective of sustainable long-term growth, the "National Reform Program" was announced in April 2020 in order to benefit from EU funds. Within the framework of this program, primarily, increasing the efficiency of public and local governments and strengthening governance in state economic enterprises, further reducing the majority of non-reversible loans and increasing monitoring capacity in the financial sector (excluding banks), advancing reforms in the education and training system and improving child care, sustainability and competition focusing on capability priorities, targets such as strengthening productive investments, improving the business environment, improving the efficiency of the judicial system and accelerating anti-corruption reforms are included.

In the fourth quarter of 2020, no structural reform programme was brought forward by the GCA, and the government made several statements on the continuation of the work in line with the above-mentioned targets.

7. CTCC POLICY RECOMMENDATIONS

Some policy recommendations brought forward by the KTTO in order to accelerate economic activities in the 2020 Q IV, when the effects of the Covid-19 outbreak continue are as follows:

1. Starting from the fact that vaccination is the best way to end the pandemic and achieve sustainable and rapid economic recovery, and in order to turn the wheels in terms of health and economy, the vaccination process should be implemented quickly and effectively within the vaccination program.
2. Planning for the arrival of foreign students and their participation in face-to-face educational activities by taking necessary protective measures within the scope of the initiatives for expanding external demand in order to ensure the sustainability of our economy, which is affected by the Covid-19 pandemic; Urgently determining and declaring the conditions of entry of tourists to Northern Cyprus and supporting specific marketing for tourists; Facilitating the lawful entry to foreigners who have bought or will buy housing in our country, the TRNC.
3. Among this support there must be; Social insurance premium support to the employer, which was put in place in August 2020 in order for the employers to continue employing their staff and is committed to continue until June of this year, will be extended until the end of June (this year), salary support for private sector employees, deferment and instalment of liabilities (such as taxes) without late payment penalties, lease arrangements, electricity costs, loan configurations, and grant and loan programs.

Prioritizing work on e-Government in order to rapidly digitize public services and thus increase the service capacity and speed of the public service

4. Implementing reform in the public sector aligned with the sensibility of ‘the citizen is not for the state, the state is for the citizen’, in order to remove the burden on the economy and to restructure it in a way to support the economy.
5. Exercising Discipline over public expenditure and saving at least 10%.
6. Increasing the investment discounts to at least 50% to encourage investments during the pandemic, removing the restrictions and including the technological infrastructure and digitization investments of the companies within the scope of investment allowance.
7. Making the market cheaper by reducing VAT, fund and withholding tax, thus facilitating the survival of our people and businesses.
8. Ending restrictive and prohibitive practices in imports that cause high prices in the markets.
9. Immediate introduction of inflation accounting.
10. Establishing a holistic investment incentive system.
11. Ensuring digitization of the economy through privatization in telecommunications and improvement in fibre optic infrastructure.
12. Elections to be held in October 2021 with an election law that will ensure political stability, as stipulated in the government program.

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