

Turkish Cypriot Economy:

TRANSLATING OPPORTUNITIES INTO SHARED PROSPERITY

A Macroeconomic Monitoring Note

Special Issue: Evidence-based Policy making for Shared Prosperity



Funded by
the European Union

May 2024

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ABBREVIATIONS and ACRONYMS

BOP	Balance of Payments
CAR	Capital Adequacy Ratio
CPI	Consumer Price Index
COICOP	Classification of Individual Consumption by Purpose
COVID-19	Coronavirus Disease 2019
EFT-POS	Electronic Funds Transfer at Point of Sale
EMDEs	Emerging Markets and Developing Economies
EU	European Union
EUR	Euro
FX	Foreign Exchange
GC	Greek Cypriot
GDP	Gross Domestic Product
GL	Green Line
GLR	Green Line Regulation
GLT	Green Line Trade
HBS	Household Budget Survey
IMF	International Monetary Fund
IOT	Input-Output Tables
MTBF	Medium-Term Budget Framework
NPL	Nonperforming Loan
RE	Renewable Energy
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RoC	Republic of Cyprus
RoC GCA	Republic of Cyprus Government-Controlled Area
SA	Social Assistance
SSC	Social Security Contribution
SDG	Sustainable Development Goal
TC	Turkish Cypriot
TCc	Turkish Cypriot community
TL	Turkish lira
VAT	Value-Added Tax
WDI	World Development Indicators
yoy	year-on-year



EXECUTIVE SUMMARY

The recovery of the Turkish Cypriot (TC) economy in 2023 was stronger than expected, and GDP is estimated to have rebounded to its pre-pandemic level. Following a deep recession in 2020—the deepest in Europe and in the history of the TC economy—and after a modest recovery in 2021, the TC economy rebounded more vigorously in 2022, with GDP growth reaching 13.3 percent, and it is estimated to have grown at above 5 percent in 2023. Real GDP is estimated to have finally recovered to, and slightly surpassed, the pre-pandemic level. In 2023, Green Line (GL) crossings reached new record highs, as well as GL trade.¹ The increase in GL trade reflects both structural progress and short-term opportunities but, despite this significant progress, it remains well below potential both in terms of volume and composition—with the top five products accounting for the 88 percent of total GL trade. The agriculture sector in 2023 is estimated to have contributed positively to growth, benefiting from the Turkish lira (TL) depreciation, reduced input prices, and favorable weather. Robust ‘imports’ reflect resilient domestic demand, despite persisting high inflation that is reducing purchasing power.

Labor market indicators have exceeded pre-pandemic levels, and over 9,600 jobs were created, 44 percent of which were for women. In 2023, over 9,200 jobs were created in the private sector, while about 400 jobs were created in the ‘public sector’, where employment remained at around 36,000 after reaching its peak during the pandemic. Furthermore, the labor force reached its highest level in 2023, at 156,000 people. The services and construction sectors contributed most to the creation of new jobs in 2023.

Women’s employment increased significantly in 2023, reaching an historical high. Forty-four percent, or 4,177, of the new jobs, went to women, with most jobs created in the services sector. The significant rebound in female employment since 2021 was a consequence of the disproportionately adverse impact of the pandemic on female employment. While the Turkish Cypriot community (TCc) has still one of the lowest female labor force participation rates, it is encouraging to observe more women joining the labor force in 2023.

The cost-of-living crisis has persisted, due to continued depreciation of the TL, the currency used in the TC economy, and high inflation.

The Turkish lira depreciated further during the second half of 2023. Inflation in Türkiye hit almost 70 percent in March 2024, its highest level since November 2022, reflecting the pass-through of steep currency depreciation, higher labor costs and government tax hikes. The new economic team in Türkiye has been implementing an ambitious package of measures aimed at correcting previous macroeconomic imbalances. In this context, inflation remained high in the TC economy throughout the post-pandemic period. After reaching its peak at 120.7 percent in October 2022, the inflation rate fell to 32.6 percent in May 2023, but then increased again, reaching 94.5 percent in March 2024. Food inflation is the most elevated among European economies, at 79 percent—substantially higher than food inflation recorded in the Republic of Cyprus - government - controlled areas (RoC GCA) at 2 percent and the average for the euro area, at 3 percent—posing continuous risks for poor and vulnerable households in the TCc.

The fiscal consolidation, which started in 2021, has continued since, with the fiscal deficit returning to the pre-pandemic levels.

¹ The Green Line Regulation was adopted in April 2004. It sets out special rules for goods, services, and persons crossing the Green Line from the Turkish Cypriot community, which is outside the effective control of the government of the Republic of Cyprus and where the EU acquis is suspended, to the areas which are under the effective control of the government and where the acquis applies.



While spending reached almost TL 40 billion in 2023 (in nominal terms, equivalent to EUR 1.5bn), double the 2022 volume, it remained stable compared with 2022, in terms of percentage of GDP, at about 29 percent. After the peak in 2020 at about 40 percent of GDP, the post-pandemic spending ratio (as a percentage of GDP) has been declining, to well below the pre-pandemic average of 39 percent in the period 2010–2019. More than 40 percent of total expenditures in 2023 remain destined to transfers, followed by wages and compensation at just above 40 percent. Capital expenditures declined further to about 7 percent of total expenditures in 2023, from 9 percent in 2022. Meanwhile, local revenues, excluding grants, reached almost TL 35 billion (in nominal terms, equivalent to EUR 1.3bn), from TL 17 billion in 2022, (EUR 0.964bn) and slightly increased as a percentage of GDP from 22.6 percent in 2022 to 25.6 percent in 2023. This was mostly driven by indirect taxes, which make up about 40 percent of local revenues, due to rising prices, and direct taxes, at 34 percent of local revenues. While recovering in terms of percentage of GDP with respect to 2021 and 2022, revenues remain well below the pre-pandemic average of 30 percent in the period 2010–2019. The fiscal deficit has been also reducing to the pre-pandemic levels, after the record deficit reached in 2020. The fiscal consolidation also reflects a general contraction of financial support received from Türkiye as the government in Türkiye faces rising expenditures and post-earthquake investment needs. The approval of the first ever Medium-Term Budget Framework (MTBF) 2024–2026 in the TCc is an important first step toward building a rules-based and sustainable public finances framework.

The banking sector proved resilient, but risks remain high. Banking sector lending in the TC economy further intensified in 2023. While the 2023 bank loan portfolio quality improved slightly compared with 2022, the end-2023 outcome marks an increase in non-performing loans (NPLs) toward the end of the year. The overall banking system shows solid levels of stability, capitalization, and profitability, but differences remain stark between different banking groups. Risks remain high due to interest rate dynamics and uncertainties

surrounding future economic developments that could impact the services sector.

Against the backdrop of persisting high inflation and weak external environment, economic growth in the TC economy is expected to moderate to 2.7 percent in 2024. Risks to this outlook remain tilted to the downside. On the external side, a slower-than-expected recovery in key trading partners, especially in the euro area and Türkiye, could dampen growth for the TC economy, also given its high reliance on external funds. On the domestic side, inflationary risks to the outlook appear to remain high, affected mostly by exchange rate developments and macroeconomic policies in Türkiye, as well as by ‘import’ prices. Longer-than-expected higher interest rates could also elevate risks to financial stability. Rising price pressures could create further fiscal pressures, slowing the rebuilding of fiscal buffers. Already the local administration in the TCc has rather limited policy buffers to counter new shocks and scale up investment to tackle climate change.

But opportunities lie ahead to consolidate short-term gains into sustainable growth. First, GL trade and crossings are expected to continue increasing and supporting the TC economy, representing a key opportunity for growth and economic integration. Secondly, with labor force participation expanding, as more women and workers in general join the labor force, economic capabilities of the TC economy are also expected to expand further. In addition, labor mobility across the TC economy and RoC GCA is expected to increase, hence contributing not only to income growth but also to knowledge spillovers. Finally, as funds and investment are directed to sustain the green and digital transitions, these also constitute opportunities for economic growth, if adequately supported by re-skilling and social protection to shield those impacted the most.

Addressing structural challenges holds the potential to boost resilience and competitiveness in the TC economy, by consolidating opportunities and reducing vulnerabilities for shared prosperity. The period 2020–24 makes the weakest start to a decade in terms of economic growth since

the 1990s. This applies not only to the TC economy, but also more broadly to the euro area and global economies. Given that the TC economy has benefited from trade expansion and travel re-opening to rebound from the pandemic-inflicted recession, it is important to make use of this window to tackle longer-term challenges in order to consolidate the short-term opportunities and gains to sustainable growth. Moreover, addressing longer-term challenges is key to building resilience to future shocks. While setting an adequate macroeconomic policy framework to anchor the reform agenda, in the aftermath of multiple crises five reform priorities emerge:

- (i) maintain the focus on providing emergency support to the poor and most vulnerable, i.e., those most impacted by the cost-of-living crisis;
- (ii) strengthen energy security, by boosting investment in renewable energy (RE) sources, promoting energy efficiency, and reforming energy tariffs;
- (iii) strengthen resilience to natural disaster and climate change-related risks;
- (iv) strengthen resilience in the broader sense, through competitiveness-enhancing reforms, thereby building a more competitive private sector; and
- (v) enhance human capital and the recovery from pandemic-induced losses.

While limited data were available to assess the socio-economic impact of the multiple crises, the Special Issue of this report discusses how the newly available datasets can help policy makers to make better informed decisions.

Key economic and social data—crucial for evidence-based policymaking, successful public service delivery and transparency—are still scarce in the TCc, but significant progress has been made since 2019. To increase the efficiency of data collection, an independent ‘Statistics Office’ (‘SO’) in the TCc is established in 2019, replacing the ‘State Planning Organization’ under the ‘Prime Minister’s Office’ as the main agency responsible for data collection. While the establishment of the ‘SO’ was an important first step, the ‘SO’ still requires extensive support to increase the scope and efficiency of data collection. Over

the course of 2022 and 2023, with the technical assistance provided by the World Bank and funded by the European Union (EU), two important new datasets for the TC economy were made available: the Input-Output Tables (IOT) and the Household-Budget Survey (HBS).

The IOT analysis concludes three main findings, unveiling vulnerabilities and opportunities for the private sector.

These findings are: (i) a strong reliance on services, and a small domestic industrial production; (ii) a high dependence on imported vs domestically produced inputs for the TC economy, and relative to its size; and (iii) a high dependence on imported inputs in the agriculture and industry sectors, although less so in the services sector. A high dependence on imports at a given point in time for an economy is a sign both of vulnerabilities and opportunities. For a small open economy like the TC economy, access to world-class imports is extremely important for export and domestic competitiveness of downstream production and participation in value chains and creates opportunities for small economies beyond just increasing external trade. It can lead to a deepening of industrial linkages that promotes technological change. The contrast in import dependencies between the Greek Cypriot (GC) and Turkish Cypriot economies also reveals opportunities for intra-island trade. Those sectors in the TC economy that are heavily dependent on imported inputs can benefit from increased trade with the RoC GCA, hence also reducing time and cost of transport and production. Moreover, intra-island trade can spur knowledge and technology transfers, and synergies, for the benefit of both TC and Greek Cypriot (GC) companies.

The HBS analysis reveals instead three important vulnerabilities affecting households in the TCc: (i) increased inequality; (ii) reduced human capital accumulation; and (iii) large differences between poor and non-poor households.

Between 2015 and 2022, inequality increased while the relative poverty rate declined only slightly.; human capital accumulation in the TCc, namely health, education, and job market outcomes, lags the levels seen in the EU; and consumption patterns have changed over time, with significant differences among poor



and non-poor households. Further analysis is needed to assess the socio-economic impact of the ongoing cost-of-living crisis, and to design targeted policies to help the poor and most vulnerable. A similar assessment should accompany fiscal policy documents, such as the recent MTBF 2024-2026, to provide a comprehensive and sound assessment of the impact of proposed policies.

A three-pronged approach is needed to strengthen evidence-based policymaking in the TCc. The use of data is particularly important for the TCc to allocate scarce resources more efficiently and monitor key economic and social indicators, thereby mitigating vulnerabilities among households.

The TC economy has witnessed multiple crises over the past decade, but policy makers at that time had only limited tools to assess their impact on the economy, households and firms, and to design the right policy responses. Going forward, three important actions are needed to strengthen overall evidence-based policymaking:

- (i) enhancing data collection practices;
- (ii) promoting the use of data for policymaking, including also in support of initiatives for economic integration between the TC and GC communities; and
- (iii) investing in data literacy.



Chapter 1: Recent Economic Developments and the Short-term Outlook

1.1 Growth in 2023 was stronger than expected

Growth in the euro area weakened sharply in 2023 to an estimated 0.4 percent, amid macroeconomic headwinds (Figure 1.1). High energy prices weighed on household spending and firm activity, particularly in manufacturing. Exports softened further reflecting tepid external demand. In Türkiye, the region’s second largest economy, growth slowed to an estimated 4.5 percent in 2023 from 5.5 percent in 2022, as a shift towards more restrictive monetary and fiscal policies led to slower growth of private consumption. In the Republic of Cyprus, GDP growth in 2023 is estimated at 2.4 percent (European Commission, Winter 2024 Forecast), where demand for tourism services continued its rebound in 2023, with arrivals increasing by 20.1 percent, almost reaching pre-pandemic levels.

Against this background, the economic recovery of the TC economy in 2023 was stronger than expected, and GDP is estimated to have rebounded to its pre-pandemic

level (Figures 1.1 and 1.2). Following a deep recession in 2020—the deepest in Europe and in the history of the TC economy—and a very modest rebound in 2021, the TC economy recovered more strongly than expected in 2022—a year characterized by multiple crises. While the TC economy was already dealing with high inflation, triggered by the post-COVID-19 recovery and Turkish lira depreciation at the end of 2021, Russia’s invasion of Ukraine added further pressure through supply chain disruption, increased prices, and higher uncertainty. GDP growth is estimated to have reached 13.3 percent in 2022, and above 5 percent in 2023—a year characterized by persisting challenges, including also the consequences of the earthquakes in Türkiye in February, 2023, and persisting cost-of-living crisis. Only in 2023, real GDP is estimated to have finally recovered, and slightly surpassed, the pre-pandemic level, mostly supported by the services sector, as discussed in the following paragraphs.

In 2023, Green Line (GL) crossings reached new record highs (Figures 1.3 and 1.4). After having fallen by almost 80 percent in 2020

Figure 1.1 Real GDP annual growth, 2020-2024f

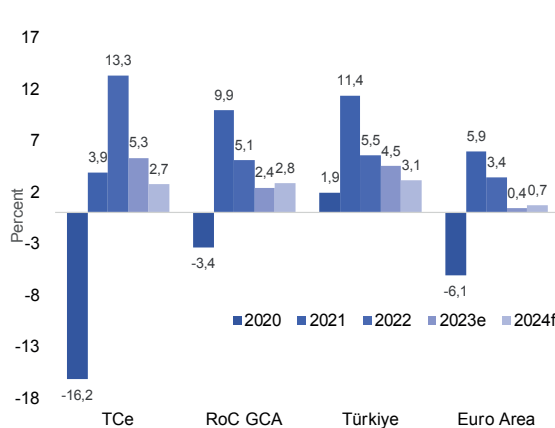
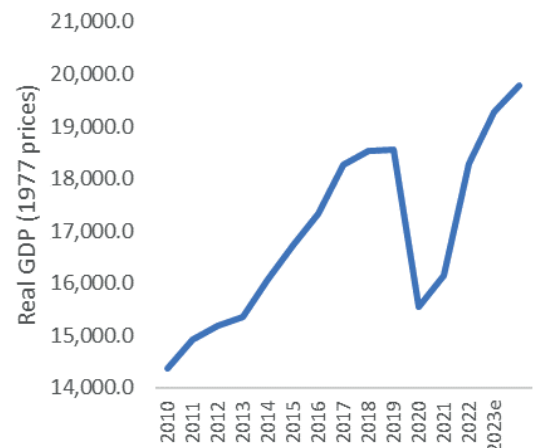


Figure 1.2 Real GDP, 2010-2023e



Source: World Bank staff estimates, TCC ‘statistics office’ (‘SO’); World Development Indicators (WDI); EC Winter Forecast, 2024

Figure 1.3 GL crossings, excluding Turkish Cypriots

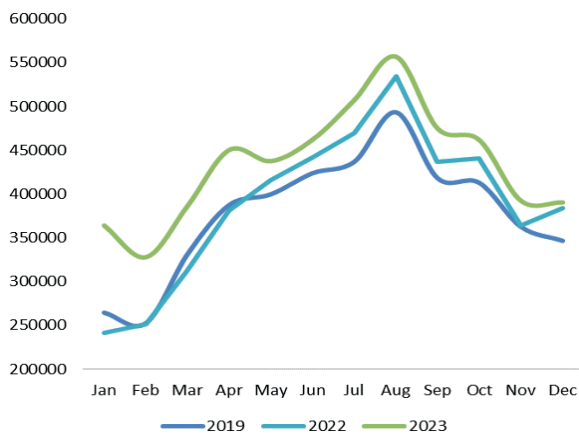
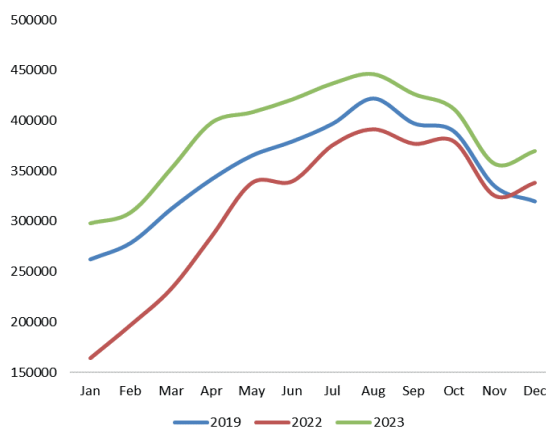


Figure 1.4 GL crossings, excluding Greek Cypriots



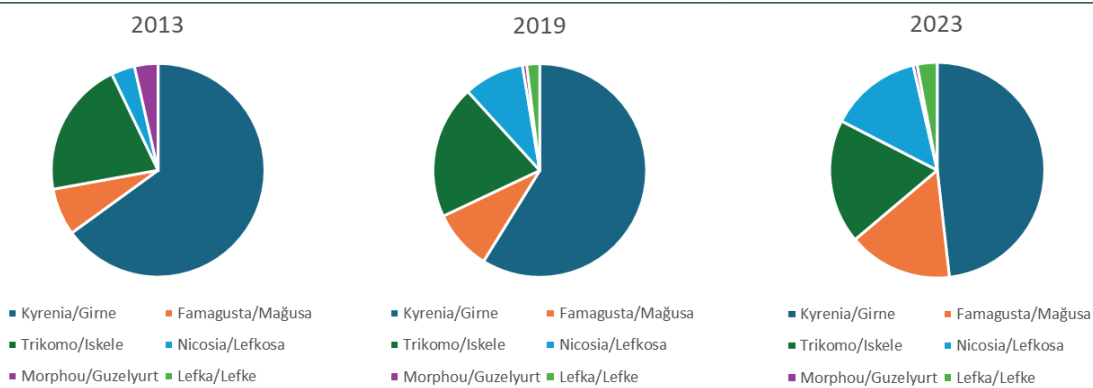
Source: TCc 'tourism department'.

year-on-year (yoy), GL crossings have been in an increasing trend ever since, in 2023 surpassing by almost 10 percent the 2019 levels, reaching 7.7 million crossings. Forty percent of crossings are by Greek Cypriots, 32 percent by Turkish Cypriots, and the remaining 28 percent by others, displaying a significant recovery from the COVID-19 period, when almost 50 percent of crossings were by Turkish Cypriots only.

GL crossings are an important indicator of the economic performance of key sectors of the TC economy, in particular the services sector. Services were the main drivers of the 2023 growth performance, including retail trade and 'tourism'. When looking at other tourism-related indicators, the capacity of the sector, expressed in number of beds, increased by 33 and 6 percent in 2023 compared with 2013 and 2019, respectively. The number of

facilities increased by 20 and 8.5 percent since 2013 and 2019, respectively. The distribution of the facilities has also changed significantly, spreading across the different regions (Figure 1.5). Two important factors, however, should be considered, namely the large difference in the type of structures available across different regions, as well as the predominant informality in the sector, as captured by the increasing share of informal employment (see Section 1.2) and potentially due to the expansion of short-term rental activities, as seen in other similar economies. These two aspects not only affect how income generated is distributed across regions and businesses, but also the extent of the contribution of the sector to overall economic growth. Among services, the construction sector is also estimated to have contributed significantly to the economic recovery in 2023. The construction boom has

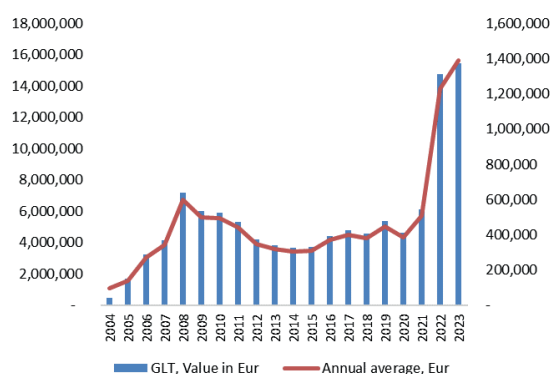
Figure 1.5 'Tourism' facilities, by region in selected years



Source: TCc 'tourism department'.

been contributing to a general increase in house prices and rents, making it difficult for households to purchase or rent housing.

Figure 1.6 GL trade, annual value and monthly average values in euros, 2004–2023



Source: World Bank staff, TC Chamber of Commerce

GL trade also reached a new record high, increasing by almost three times since 2019 (Figure 1.6). GL trade reached EUR 15.5 million in 2023, almost three times higher than in 2019, when GL trade stood at only EUR 5.4 million. On average, monthly GL trade transactions amounted to EUR 1.4 million in 2023, up from EUR 0.4 million in 2019.

The increase in GL trade reflects both structural progress and short-term opportunities. Recent changes to the GL regulation (GLR) contributed to increasing GL trade, by expanding the list of products allowed to cross since 2022.^{2,3} As shown in Table 1.1, while manufacturing products have the largest shares in GL trade, new products witnessed a significant increase, including fruits and vegetables. GL trade for one product, and the only one traded in 2022 through GL, namely cherry tomatoes, increased from EUR 2,345 in 2022 to EUR 32,716 in 2023. In general, GL trade for fruits and vegetables increased from EUR 2,345 in 2022 to over EUR 80,000 in 2023. The strong performance of GL trade in 2023 also reflects the improved performance of the two sectors of the TC economy—manufacturing and agriculture—benefiting from short-term opportunities, such as the Turkish lira (TL) depreciation and, more recently, the commodity price stabilization. Between mid-2022 and mid-2023, global commodity prices plummeted by nearly 40 percent. This helped to drive most of the roughly 2-percentage-point reduction in global inflation between 2022 and 2023. Since mid-2023, however, the World Bank’s index of commodity prices has remained essentially unchanged.⁴

Table 1.1 Top 10 GLT products: share in 2023 GLT and growth rate 2023 vs 2022

Top 10 GLT Products	Share	Growth
Prefabricated container	25%	-1.9%
Construction Materials	24%	2.4%
Wooden furniture	19%	-2.4%
Plastic products	15%	26.0%
Waste / Scrap products	5%	31.4%
Fresh fish	5%	-3.4%
Mattress	4%	12.3%
Paper and cardboard	1%	228.8%
Fruit and vegetable	1%	3375.9%
Potatoes	0%	238.6%

Source: World Bank staff, TC Chamber of Commerce.

² https://commission.europa.eu/publications/annual-report-2022-implementation-green-line-regulation_en

³ Sales of *hellim/halloumi*, which was awarded the Protected Designation of Origin (PDO), have not yet started and are expected to start in 2024. As of February 2024, four producers from the TC economy had received PDO certification and another 15 farms had received certifications for PDO and being free of disease. Source: <https://kibrisgazetesi.com/hellim-ihracatinin-2024-hazirana-kadar-baslamasi-amaclaniyor/>

⁴ See more at <https://www.worldbank.org/en/news/press-release/2024/04/25/commodity-markets-outlook-april-2024-press-release>

Despite this significant progress, GL trade remains well below its potential. The performance of GL trade was spectacular in the post-pandemic years, and the trade value has been increasing at an annual average rate of 60 percent since 2019, doubling the average annual growth rate of 30 percent since 2004. However, despite this significant progress, GL trade remains well below its potential, both in terms of volumes traded and in terms of types of products traded with the top five products accounting for 88 percent of total GL trade.⁵ More action is needed to address long-standing constraints to its expansion, mainly related to three areas: payment, logistics, and quality standards.

The agriculture sector in 2023 is estimated to have contributed positively to growth, benefiting from the TL depreciation, reduced input prices, and favorable weather. While the strong economic performance may reflect the short-term benefits of the TL depreciation, sales have also been strong toward other countries, for example, Türkiye (Table 1.2). This suggests that the sector has been benefiting from other factors, such as reduced input prices and favorable weather. Despite this, numerous constraints have been holding back growth in the agriculture. Average yields for most crops lag behind yields in the EU-27 countries. These low yields are primarily due to the challenging agro-climatic conditions, including frequent

droughts, the suboptimal use of production factors, outdated technologies and deficient farming practices. Low agricultural growth has also resulted in stagnation of most farmer incomes in previous years, which in turn affects the capacity of farmers to invest, for example, in health, education, and more critically in the modernization and technological upgrading of their farms. Moreover, the ‘public’ support program has resulted in a high dependency on direct income support, while providing little incentive to invest in agricultural productivity. Finally, weak compliance with food safety and quality standards prevents the TCc from accessing the higher-value EU market (World Bank, 2021).⁶

Robust ‘imports’, for example from Türkiye, reflect a resilient domestic demand, while the trade deficit keeps widening. Private consumption remains the key growth driver in the TC economy, from the demand side, as proxied by robust ‘imports’ of goods. ‘Imports’ from Türkiye increased by 72 and 13 percent, in 2022 and 2023, respectively (yoy). Key products include machinery, plastic, iron and steel products, pharmaceutical products, furniture, and food and beverages, beyond fuel. While goods ‘exports’ have expanded, the TC economy remains extremely reliant on ‘imports’. The trade deficit keeps widening, reaching its highest value in the past decade in 2023.⁷

Table 1.2 Top 10 ‘Export’ to Türkiye 2022-2023 (as a share of total ‘export’ to Türkiye)

	Product Group	2022	2023	Growth
4	Dairy products, birds eggs, natural honey ext.	17.4	20.1	13%
7	Edible vegetables and certain roots and tubers	0.6	0.9	37%
8	Edible fruits and nuts, peel of melons or citrus fruits	24.7	45.3	79%
21	Miscellaneous edible preparations	3.0	3.9	25%
48	Paper and paperboard	1.4	1.3	-11%
72	Iron and steel	5.3	2.8	-49%
73	Articles of iron and steel	14.0	10.7	-26%
78	Lead and articles thereof	4.2	4.0	-7%
85	Electrical machinery and equipment, parts thereof	6.7	0.2	-97%
95	Toys, games and sports requisites, parts thereof	11.9	4.3	-65%
		89.3	93.3	

Source: World Bank staff, Turkstat.

5 World Bank. 2022. *Testing the Resilience of the Turkish Cypriot Economy: A Macroeconomic Monitoring Note*. Available at: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099161502282335982/p1550440e68ffb09709c630c8cf40f3dcc8>

6 World Bank. 2021. *Turkish Cypriot Economy. Impact of the COVID-19 Pandemic – A Path to Building Back Better. A Macroeconomic Monitoring Note*. Available at: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/774861620796239281/turkish-cypriot-economy-impact-of-the-covid-19-pandemic-a-path-to-building-back-better-special-issue-improving-the-effectiveness-of-public-funds-in-agriculture>

7 BOP data for 2023 are not available.

1.2 More than 9,600 jobs were created in 2023, of which 44 percent for women

Labor market indicators have exceeded the pre-pandemic levels. Unemployment decreased significantly by 14.5 percent between October 2022 and October 2023, from 9,340 to 7,988. Similarly, employment also increased in 2023, with job gains reaching 7 percent of total employment in the TCc in 2022 (Figure 1.7, Panel a). Moreover, job gains in the private sector were much higher; over 9,200 jobs were created in the private

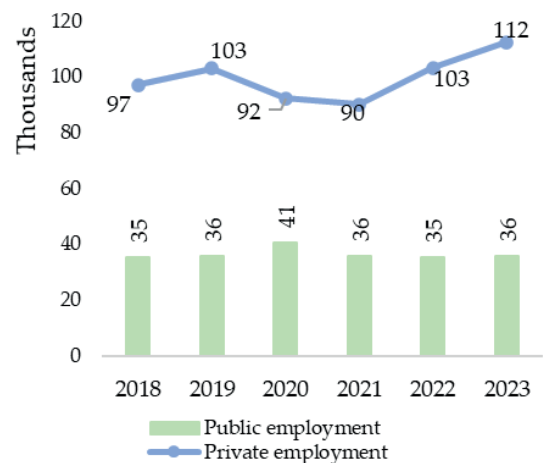
sector (a 9 percent increase in private sector jobs), while employment in the ‘public’ sector remained around 36,000 after reaching its peak during the pandemic (Figure 1.7, Panel b). Furthermore, the labor force reached its highest level in 2023, at 156,000 people. Unlike the trends in the TCc, employment and the labor force in the RoC GCA rose significantly between 2018 and 2023, without any contraction in employment during the pandemic (Figure 1.7, Panel c). Similarly, employment in the public sector remained stable over time, while job gains were driven by the employment opportunities in the private sector (Figure 1.7, Panel d).

Figure 1.7 Employment in the TC economy and in the Roc GCA, October 2018–October 2023

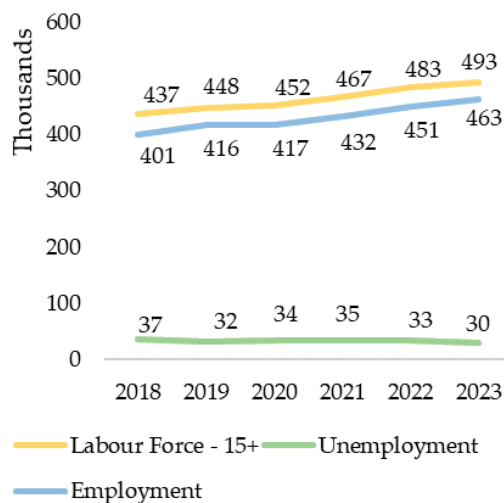
Panel a. Labor market outcomes in the TCc



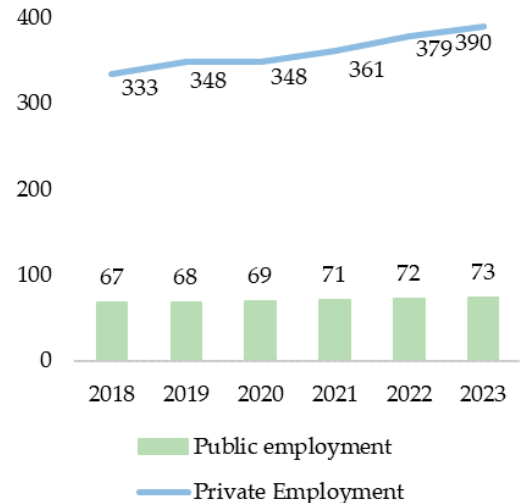
Panel b. Public vs Private employment in the TCc



Panel c. Labor market outcomes in the RoC GCA



Panel d. Public vs Private employment in the RoC GCA

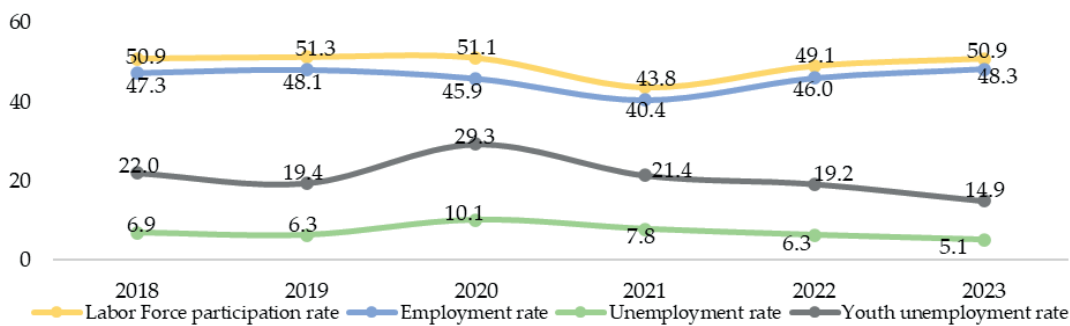


Source: TCc ‘SO’; CYSTAT.

The unemployment rate in the TCc declined to 5.1 percent in 2023, the lowest rate achieved since 2018 (Figure 1.8). The youth unemployment rate continued its decline in 2023 (14.9 percent) after reaching 29.3 percent during the COVID-19 pandemic. The employment rate increased to its pre-pandemic levels at 48.3 percent only in 2023, while the labor force participation rate increased to 50.9 percent after a significant decline in 2021.

they depend on external factors, such as external demand. The agriculture sector has experienced employment cuts unlike other sectors, with 1,300 workers losing their jobs, or equivalent to 24 percent of employment in the sector. Furthermore, the employment increase in 2023 was mainly driven by wage and temporary workers among all forms of employment. Wage and temporary workers rose by 23 and 7 percent compared with 2021 and 2022, respectively (Figure 1.10, Panel a).

Figure 1.8 Employment, unemployment and labor force participation rates, October 2018-October 2023

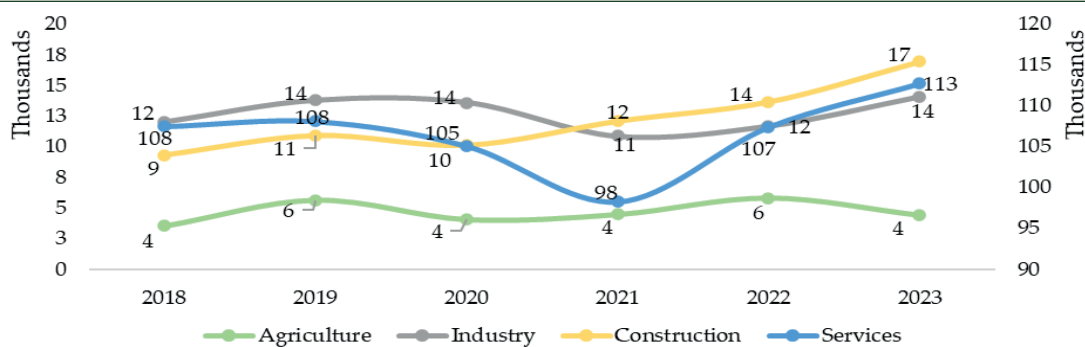


Source: TCC 'SO'.

The services and construction sectors contributed most to the creation of new jobs in 2023 (Figure 1.9). The services sector is the largest employer in the TCc, with around 76 percent of total employment. Around 3,000 jobs were created in the services sector over the past year, namely 56 percent of total new jobs. The construction sector has become the second-largest employer, with a 70 percent employment increase since 2020. However, jobs created in sectors such as tourism and construction may be highly volatile, as

Women’s employment increased significantly in 2023 reaching an historical high. Overall, 9,602 net jobs were added in 2023, of which 44 percent, or 4,177, went to women, although women make up 35 percent of employment in the TCc (Figure 1.10, Panel b). The significant rebound in female employment since 2021 was a consequence of the disproportionately adverse impact of the pandemic on female employment. While the TCc has one of the lowest labor force participation rates for women, more women joined the labor force

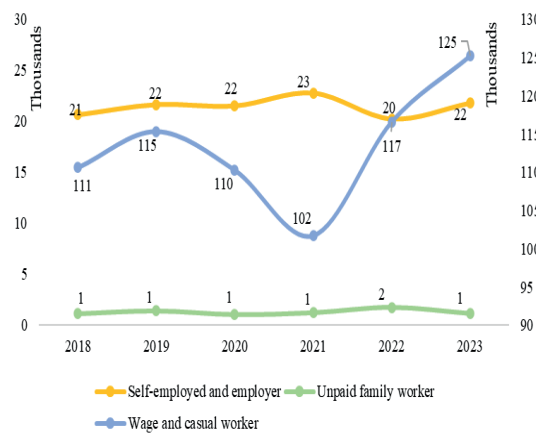
Figure 1.9 Employment by sector in TCc, October 2018-October 2023



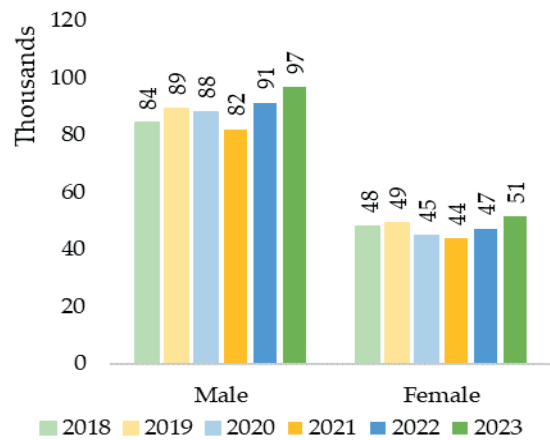
Source: TCC 'SO'.

Figure 1.10 Employment by type and by gender in the TCc, October 2018-October 2023

Panel a. Employment by type



Panel b. Employment by gender



Source: TCc 'SO'.

in 2023, with the labor force participation rate increasing from 36.9 percent in 2022 to 38.3 percent in 2023. Similarly, the employment rate of women rose from 33.7 percent in 2022 to 36.1 percent in 2023, while the unemployment rate of women declined sharply from 8.6 percent in 2022 to 5.8 percent in 2023. The services sector remains the main employer for female workers, and where most new jobs are created.

Services empower women (Figure 1.11). In the TC economy, similarly to the RoC GCA, around 90 percent of women with jobs worked in the services sector.⁸ This compares with a worldwide average of 57 percent, and with the EU average of 84 percent as of 2022. Services make up a growing share of the world's economies, including among low-income economies. The share of women

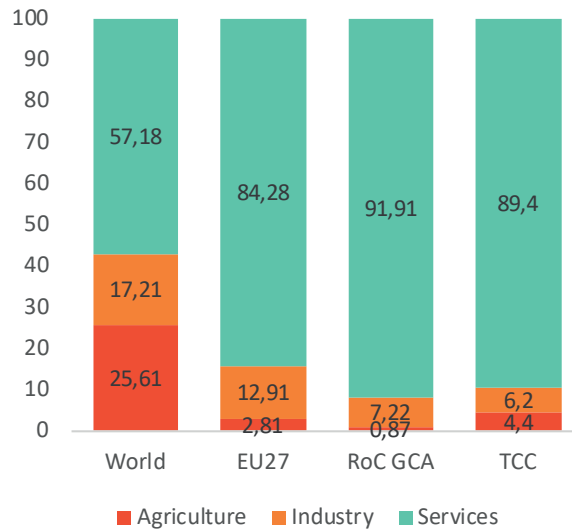
working in services jobs is also growing. These jobs, which offer scope for higher productivity and earnings relative to agriculture and industry, represent an important source of female empowerment and promote shared prosperity.⁹

Informal employment rose significantly in 2023. Around 4,700 informal jobs were added to the labor market over the past year, corresponding to 49 percent of total new jobs in 2023 (Figure 1.12, Panel a). As a result, the informality rate reached its peak at 7.6 percent in 2023. A significant share of informal jobs originated from the services and construction sectors (Figure 1.12, Panel b). Agriculture remains the sector with the highest share of informal jobs, mostly composed of small farmers.

⁸ See women statistics at <https://stat.gov.ct.tr/HABERLER/2024-kad%4%b1n-%c4%b0statistikleri>

⁹ Read more at: https://www.wto.org/english/res_e/booksp_e/trade_in_services_and_development_e.pdf

Figure 1.11 Employment by gender and sector (2022)



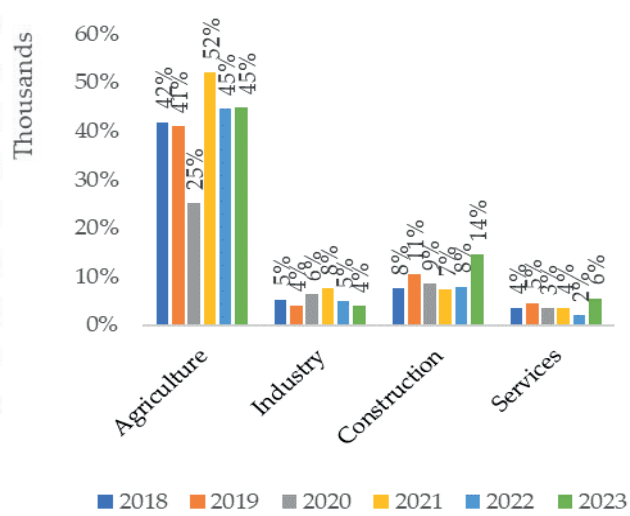
Source: WDI; TCC 'SO'.

Figure 1.12 Employment by formality in the TCc, October 2018-October 2023

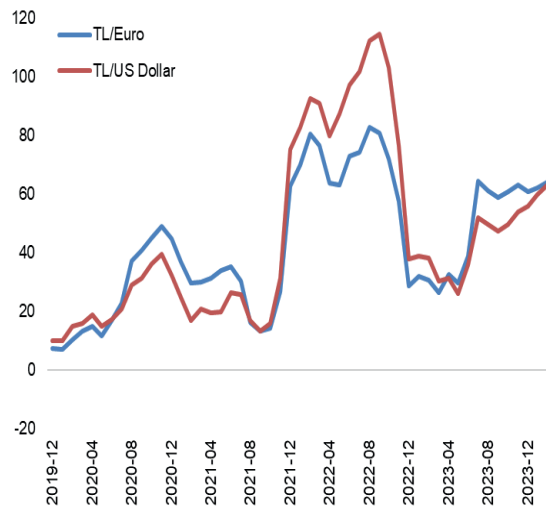
Panel a. Employment by formality



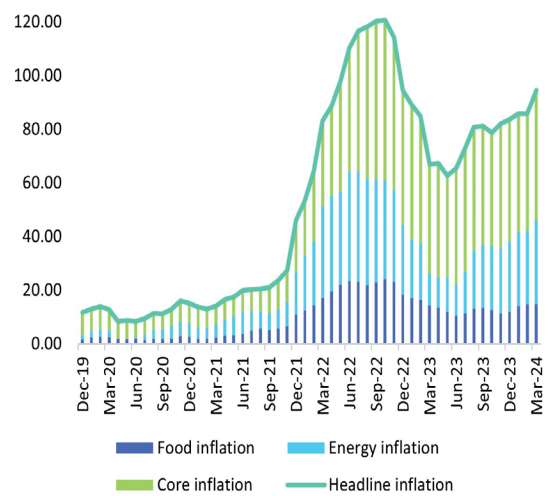
Panel b. Informal employment



Source: TCC 'SO'.

Figure 1.13 TL, yoy change, 2018.01–2024.03

Source: World Bank staff calculations, Central Bank of Türkiye.

Figure 1.14 Inflation in the TCc, 2022.02–2024.03

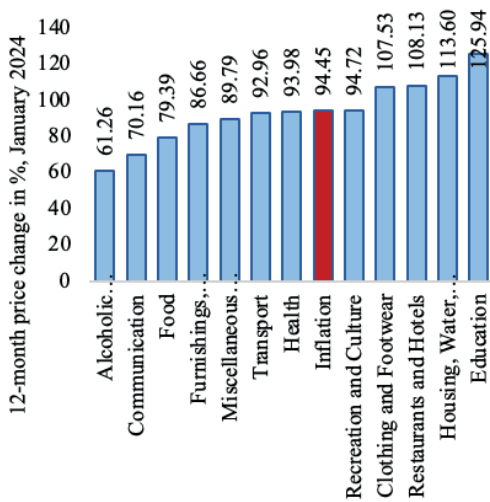
Source: World Bank staff calculations, TCc 'SO'.

1.3 Price pressures remain high, as well as households' vulnerabilities to further shocks

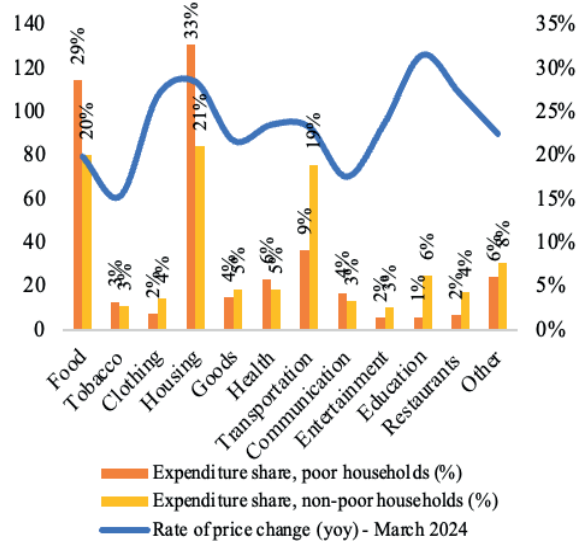
The cost-of-living crisis has persisted, due to continued depreciation of the TL and high inflation (Figure 1.13 and 1.14). The Turkish lira depreciated further in the course of the second half of 2023. Inflation in Türkiye hit almost 70 percent in March 2024, its highest level since November 2022, reflecting the pass-through of steep currency depreciation, higher labor costs and government tax hikes. The new economic team in Türkiye has been implementing an ambitious package of measures aimed at correcting previous macroeconomic imbalances. The Central Bank of the Republic of Türkiye (CBRT) increased the policy rate by 4,150 bps from May 2023 to 50 percent in March 2024, while also adjusting reserve requirements, rolling back the FX-protected deposit scheme, lessening FX interventions, and providing targeted credit to exporters. In this context, inflation remained significantly high in the TC economy throughout the post-pandemic period. After reaching its peak at 120.7 percent in October 2022, the inflation rate fell to 32.6 percent in May 2023, but then increased again, reaching 94.5 percent in March 2024.

High inflation, particularly high food price inflation, poses further risks for poor and vulnerable households in the TCc (Figure 1.15). In particular, inflation was higher for education, communication, restaurants, housing and health expenditures where prices doubled compared with 12 months ago. The rates of price inflation for food (79.4 percent) and housing (113.5 percent) are especially affecting poor households, since these expenditure items comprise a larger share of their budgets. Poor households spent around two thirds of their consumption expenditure on food and housing in the TCc, while this share was only 41 percent among non-poor households (Figure 1.16). Food inflation is the most elevated among European economies, at 79.4 percent, substantially higher than food inflation recorded in the RoC GCA at 2 percent and the average for the Euro area, at 3 percent (Figure 1.17).

While year-on-year price levels are high in the TCc, a closer look into the Consumer Price Index over time signals important vulnerabilities for households. The overall Consumer Price Index (CPI) rose by 7 times between January 2019 and January 2024. The drivers of the CPI in the past five years were mainly restaurants, goods, recreation, health, transport and food prices. The pace of inflation has accelerated particularly in the past two

Figure 1.15 Inflation by product group, March 2024


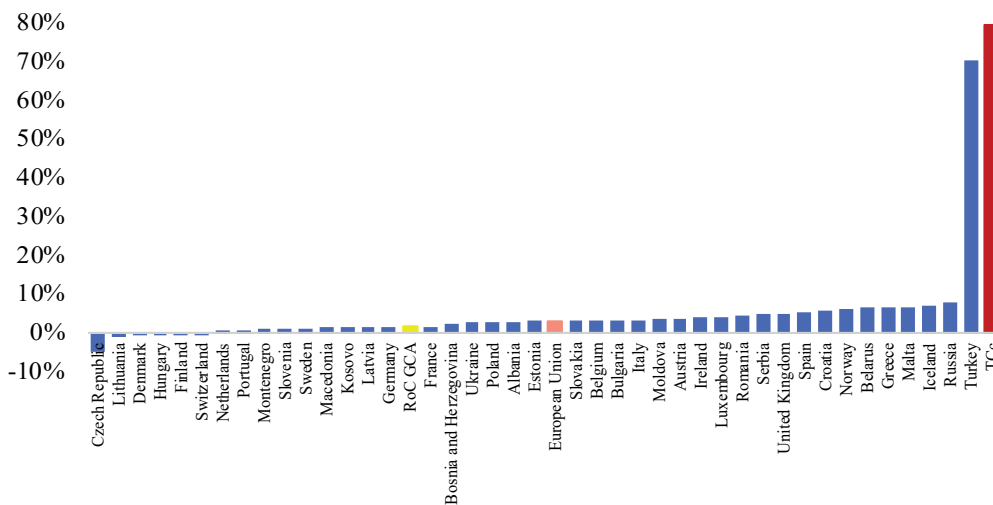
Source: TCc 'S0'.

Figure 1.16 Expenditure shares, poor and non-poor households


Source: HBS 2022

Figure 1.17 Food inflation, March 2024

Food inflation in Europe, March 2024



Source: TCc 'S0'; Eurostat.

years. The overall CPI doubled between January 2019 and January 2022 while the CPI increased by 3.5 times in the past two years. To mitigate the risk for low-income households, the authorities increased the minimum annual wage from TL 2,740 in 2019 to TL 24,000 in 2024, an 8.8-fold increase. However, wage income constitutes only 53 percent of overall income

among the poor, while 37 percent of overall income depends on social transfers from the local administration in the TCc (Figure 1.19). Between 2019 and 2024, retirement pensions and social assistance payments increased by only 4.6 and 6.2 times, respectively.

Figure 1.18 CPI by component, January 2019-2024

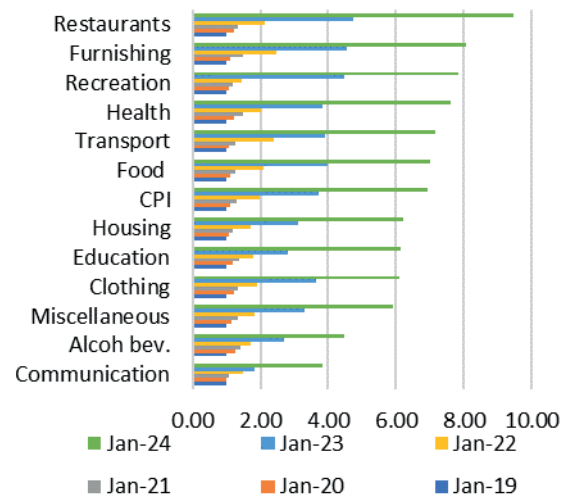


Figure 1.19 Sources of income, poor and non-poor households



Source: World Bank staff calculations based on the HBS, 2022; TCc'SO. The poverty is calculated as the share of people having an equivalized disposable income.

1.4 Fiscal consolidation continued, amid persisting pressures from current expenditures

The fiscal consolidation, which started in 2021, has continued since, with both spending and revenues below their pre-pandemic averages, as a percentage of GDP (Figure 1.20). While spending reached almost TL 40 billion in 2023 (in nominal terms; equivalent to EUR 1.5bn), double the 2022 volume, it remained stable compared with 2022, in terms of percentage of GDP, at about 29 percent. After the peak in 2020 at about 40 percent of GDP, the post-pandemic spending ratio (as a percentage of GDP) has been declining, to well below the pre-pandemic average of 39 percent in the period 2010–2019. More than 40 percent of total expenditures in 2023 remain destined to transfers, followed by wages and compensation at just above 40 percent. Capital expenditures declined further to about 7 percent of total expenditures from 9 percent in 2022. The share of defense spending instead increased slightly to 7 percent of total expenditures in 2023 from 6 percent in 2022. Meanwhile, local revenues, excluding grants, reached almost TL 35 billion (in nominal terms, equivalent to EUR 1.3 bn), from TL 17 billion in 2022 (EUR 0.964

bn), and slightly increased as percentage of GDP from 22.6 percent in 2022 to 25.6 percent in 2023. This was mostly driven by indirect taxes, which make up about 40 percent of local revenues, due to rising prices, and direct taxes, at 34 percent of local revenues. While recovering in terms of percentage of GDP with respect to 2021 and 2022, revenues remain well below the pre-pandemic average of 30 percent in the period 2010–2019. The fiscal deficit has been also reducing, reaching the pre-pandemic levels, after the record deficit hit in 2020.

The fiscal consolidation also reflects a general contraction of financial support received from Türkiye as the Türkiye government faces rising expenditures and earthquake-related investment needs. Financial Support received from Türkiye in the form of grants constitutes the most important source of funding in alleviating the financing gap between revenues and budget expenditures, amounting to TL 4.2 billion (EUR 0.165 bn), of which more than half was in the form of defense grants (Figure 1.21). Loans from Türkiye amounted to TL 0.991 billion (EUR 38 million). The decline in financial support from Türkiye has also an impact on external balance and external financing, hence aggravating the twin deficits. Debt is expected to remain high, but the debt-to-GDP ratio

Figure 1.20 Fiscal accounts: revenues, expenditures and balance (% of GDP)

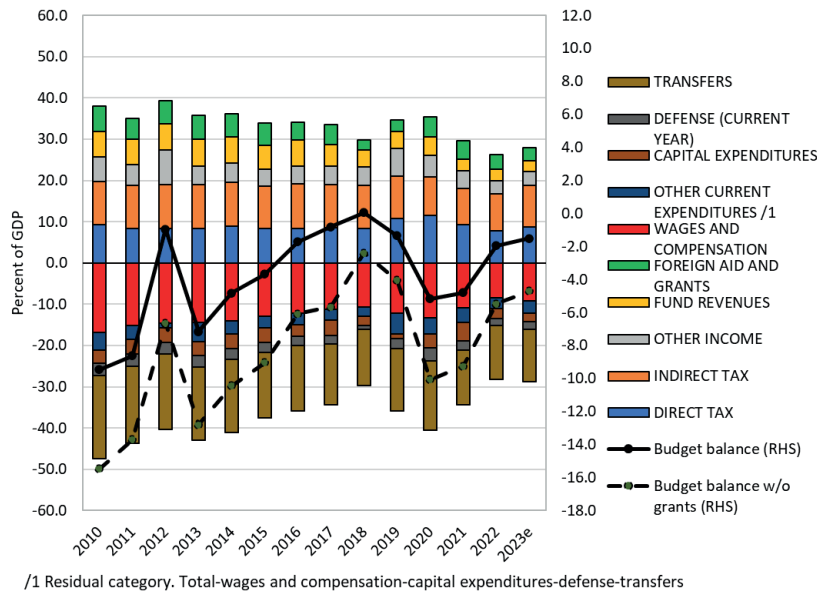
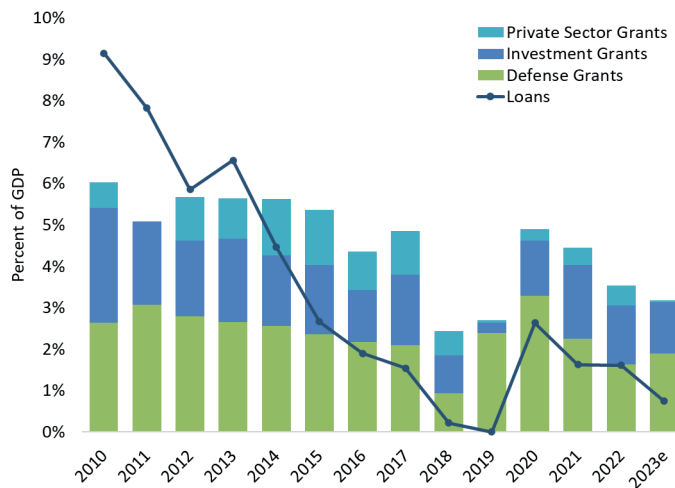


Figure 1.21 External financing from Türkiye



Source: World Bank staff calculations, TCc 'department of finance'.

should remain below the historical average due to high inflation. However, while in the short run this may benefit 'public' finances, in the context of high inflation, a negative impact on economic activity from an adverse supply shock may end up outweighing the positive impact of higher inflation on debt ratios.

The approval by the local administration in the TCc of the (first ever) medium-term budget framework (MTBF) at the end of 2023

is an important first step toward building a rules-based and sustainable public finance framework (see Box 1.1). First of all, the MTBF could be further strengthened by also considering the direct and indirect impact of the proposed policy measures on households. This will also allow the local administration in the TCc to design targeted support to protect the poor and most vulnerable.¹⁰ Second, the MTBF could be further strengthened by introducing indicators to track the resilience

10 World Bank. 2023. *Turkish Cypriot Economy: Navigating through Challenging Times. Macroeconomic Monitoring Report.* Available at: https://www.abbilgi.eu/sites/default/files/2023-06/tccmacromonitoring_2023_en.pdf

of the budget, for example, by assessing whether investment and budget expenditures contribute to the adaptation and mitigation agenda through climate-budget tagging. More generally, MTBFs typically constitute part of a wider set of frameworks for medium-term fiscal policy planning, including fiscal rules, fiscal

councils, and other standing requirements to commit to, and report against, and be held accountable for medium-term aggregate fiscal objectives, such as debt limits, surplus targets or deficit ceilings, or broad expenditure limits (see also World Bank, 2022).¹¹

Box 1.1: The first ever medium-term budget framework for the TC economy

In 2023, the local administration in the TCc approved the first ever MTBF. An MTBF is a set of institutional arrangements for prioritizing, presenting, and managing revenue and expenditure in a multiyear perspective. Such a framework enables policy makers to demonstrate the impact of current and proposed policies over the course of several years, signal or set future budget priorities, and ultimately achieve better control of public expenditure. An MTBF comprises all the systems, rules, and procedures that ensure fiscal plans are drawn up with a view to their impact over several years. Usually, MTBFs are adopted with different, but mutually reinforcing, objectives: (i) strengthening the sustainability of public finances and multi-year fiscal discipline; (ii) promoting a more effective allocation of expenditure between sectors and priorities; and (iii) encouraging the more efficient use of resources by budget managers.

The MTBF 2024–2026 for the local administration in the TCc seeks to maximize the impact of public investments on growth, bolster private sector investments, and improve employment and welfare. Furthermore, the plan emphasizes fostering inclusive growth within a framework of macroeconomic stability. This involves gradually reducing the current account deficit and inflation. During this period, the focus will also be on promoting growth through increasing savings, promoting investment, and boosting the economy's competitiveness and productivity. These elements are identified as the primary priorities for achieving a more robust and equitable economic landscape.

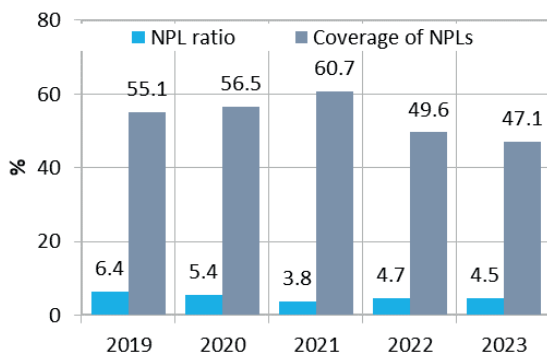
The MTBF 2024–2026 includes key policies both from expenditure and revenue side. For example, among expenditure-related policies, the MTBF includes budget expenditure and investment-related policies, with a focus on improving efficiency and accountability for budget allocation. Among the revenue-related policies, tax reforms—for example, related to gambling, financial assets, and leveraged transactions (forex), income tax—are expected to increase tax revenues. Reforms related to the property tax and luxury consumption taxes are expected to reflect current values and trends in the property market, and contribute toward raising tax revenues. The introduction of the mandatory use of new generation fiscal devices with EFT-POS features, initiated in April 2024, aims at reducing informality and increasing value-added tax (VAT) revenues. Finally, the MTBF includes tax administration measures, such as seasonal and regional inspection programs, which are expected to increase revenues through better compliance and enforcement.

11 World Bank. 2022. *Testing the Resilience of the Turkish Cypriot Economy: A Macroeconomic Monitoring Note*. Available at: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099161502282335982/p1550440e68ffb09709c630c8cf40f3dcc8>

1.5 The TC banking sector proved resilient, but risks remain high

Banking sector lending in the TC economy further intensified in 2023. Gross loans increased by 62.7 percent in 2023. The acceleration was driven by corporates' working capital loans and households' consumer loans. Compared with 2022, TL loans increased by 47.9 percent, while forex loans grew by 72.5 percent. Higher production costs for businesses translated into stronger demand for working capital. Demand for consumer loans was spurred by the robust labor market paired with improvement in consumer optimism. With almost 84 percent of deposits denominated in foreign currency, and a large share of loans still denominated (but on a declining path) in TL, currency mismatch may expose the TC banking system to indirect systemic risk.

Figure 1.22 Asset quality of the TC banking sector



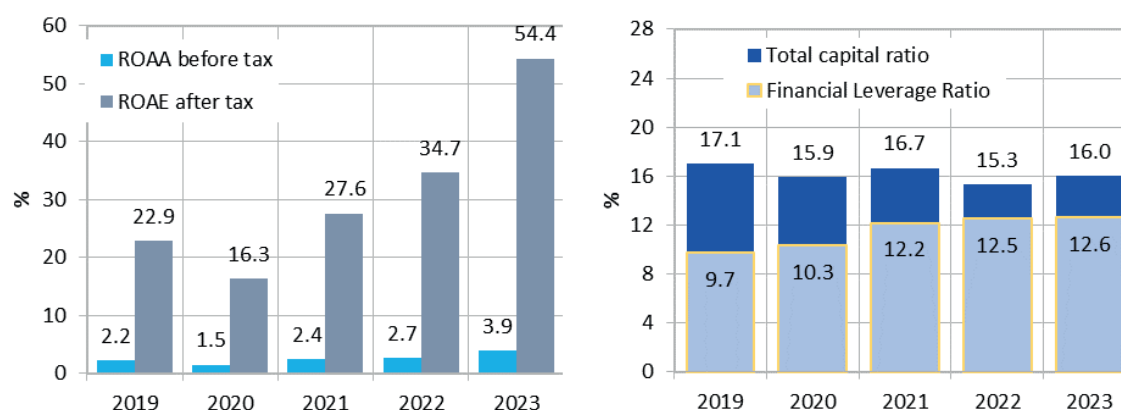
Source: World Bank staff, TCc' central bank.

While the 2023 banks' loan portfolio quality improved slightly compared with 2022, the end-2023 outcome marks an increase of NPLs toward the end of the year (Figure 1.22). The NPL ratio stood at 4.5 percent at end-2023 and improved compared with end-2022 results, when it stood at 4.7 percent. This masks the results throughout 2023, where initial good results in a reduction of the NPL ratio by mid-2023 were later reversed as a result of the higher recognition of non-performing exposures at end-2023. Provisions for NPLs

(as a share of NPLs) partially deteriorated, declining to 47.1 percent at the end of 2023. In this context, risks stemming from the financial sector should be closely monitored and acted upon.

The overall banking system shows solid levels of stability, capitalization, and profitability, but the differences remain stark between different banking groups (Figure 1.23). The bulk of liquid funds is in the form of cash and deposits, which further upholds the banks' resilience to sudden shocks. The overall capital adequacy ratio (CAR) reached 16 percent at the end of 2023, albeit with significant differences between the different banking groups. Although the CAR is low and close to the legal limit among private banks, the improvement in 2023 by around 2 percentage points compared with 2022 has resulted in better capitalization of the overall system, despite deteriorating trends among some banking groups (public and branches). The capital position seems to be affected by the unfavorable impact on financial asset valuations, with a significant increase in assets carrying a high risk weighting. Profitability reached record highs. The key returns indicators grew substantially as well: return on average assets (ROAA) from 2.7 percent at the end of 2022 to 3.9 percent in 2023 and return on average equity (ROAE) from 34.7 percent to a staggering 54.4 percent in 2023. The greatest contribution to profitability growth came from income from highly liquid assets and net interest income.

Risks remain high due to interest rate dynamics and uncertainties surrounding future economic developments that could impact the services sector. Interest rates have continued to increase. For example, the maximum interest rate reported by private sector banks to be applied on deposits in TL reached 47 percent in March 2024 from 37 percent in March 2023. For loans, interest rates on consumer loans in TL reached 55 percent and 12 percent for loans in foreign currency. While real interest rates remain still negative, rising rates pose a risk for highly indebted firms and households, also due to the elevated, and increasing, currency mismatch between loans and deposits. On the one hand, the better debt servicing capacity of corporations makes it possible for credit

Figure 1.23 Profitability and capitalization of the TC banking sector

Source: World Bank staff, TCc 'central bank'.

institutions to absorb the initial shock of interest rate hikes and enables the servicing of a greater amount of debt undertaken by corporations, mitigating significant increases in risks in the services sector. On the other hand, rising costs of production/delivery process financing paired with difficulties in the refinancing of due liabilities may give rise to credit risk in the non-financial corporate sector, and this could have an adverse effect on the quality of banks' credit portfolios. Prolonged geopolitical instabilities and volatility of prices have an unfavorable impact on the business performance of the corporate sector, while the effects on the services sector, in particular 'tourism', could be more pronounced.

Supervisors should continue to monitor proactively any risks and require banks to be fully prepared for potential declines in asset quality. Progress has been made, with the introduction of the Interbank Money Transfer System and the introduction and strengthening of anti-money laundering regulations. However, it remains crucial to ensure that banks have robust credit risk monitoring and management, appropriate loan classification, accurate loan staging, and adequate loan loss provisioning. Regulators and supervisors should maintain vigilance and closely monitor real-estate lending (particularly commercial), unsecured consumer lending, highly leveraged borrowers, and sectors particularly vulnerable to rising inflation.

1.6 The outlook hinges on the normalization of price pressures and the pace of reforms

Against the backdrop of persisting high inflation and a weak external environment, economic growth for the TC economy is expected to moderate to 2.7 percent in 2024 (Figure 1.1 and Table 1.1). Growth for the euro area is forecast to improve modestly to 0.7 percent in 2024, supported by an easing of price pressures and a recovery in real wages, due to a base effect especially given the subdued contribution of external trade in the past year. Euro area trade in 2023 was in fact the worst on record outside recession years. Nonetheless, restrictive credit conditions, as well as low export growth, are expected to restrain domestic demand, particularly investment. For the Republic of Cyprus, growth in 2024 is forecast at 2.8 percent, slightly higher than previously expected, sustained by consumer and business economic sentiment. Domestic demand is expected to continue being the main driver, as automatic wage indexation for around half of the employees holds up their purchasing power. Large investment projects in real estate, healthcare, transport and tourism, partly supported by the Recovery and Resilience Facility, are also set to boost growth. By contrast, the contribution of net exports is expected to remain weak due to ongoing economic uncertainties and to the strong demand for imports induced

by investments. Growth in Türkiye is instead expected to weaken to 3.1 percent in 2024, its lowest reading since 2009 outside of the pandemic-affected years, as tighter policies continue to restrain domestic demand. In this context, while growth for the TC economy is expected to remain positive, it is expected to moderate to 2.7 percent in 2024, affected both by subdued external and domestic demand, while still strongly impacted by a lingering cost-of-living crisis.

Risks to the outlook for the TC economy remain tilted to the downside. On the external side, a slower-than-expected recovery in key trading partners, especially in the euro area and Türkiye, could dampen growth for the TC economy, also given its high reliance on external funds. This risk could intensify substantially if the global and regional geo-economic and trade fragmentation continues to deepen. On the domestic side, inflationary risks to the outlook appear to be still high, affected mostly by exchange rate developments and macroeconomic policies in Türkiye, as well as by import prices. The latter could also rise sharply if global commodity markets were to tighten again in response to the escalation of violence in major commodity producing countries and regions. Risks of a further TL depreciation would have repercussions for the TC economy and its banking sector. Higher interest rates for longer-than-expected could also elevate risks to financial stability. Rising price pressures could create further fiscal pressures, slowing the rebuilding of fiscal buffers. Already the local administration in the TC has rather limited policy buffers to counter new shocks and scale up investment to tackle climate change. Climate change represents another major risk for the TC economy and the island of Cyprus, affecting key economic sectors such as agriculture and tourism.¹² Finally, risks to the economic outlook stem from demographic challenges, such as ageing and brain drain, and from labor markets facing labor shortage and skills mismatch, especially in the face of the green and digital transitions.

But opportunities lie ahead to consolidate short-term gains into sustainable growth.

First, GL trade and crossings are expected to continue increasing and supporting the TC economy, representing a key opportunity for growth and economic integration. Secondly, as more women and workers in general join the labor force, there is potential to expand the economic capabilities of the TC economy. In addition, labor mobility is expected to increase across the TC economy and RoC GCA, hence contributing not only to income growth but also knowledge spillovers. Finally, as funds and investment are directed to sustain the green and digital transitions, these also constitute opportunities for economic growth, if adequately supported by re-skilling and social protection to protect those impacted the most (see Box 1.2).

1.7 Reforms are needed to translate opportunities into shared prosperity

The period 2020–24, including the forecast, marks the weakest start to a decade for growth since the 1990s. This applies to the TC economy, but also more broadly to the euro area and global economies (Figure 1.24). This is mostly due to another period characterized by geopolitical strains and a global recession, but also to persisting structural inefficiencies. With the post-recession rebound vanishing, the TC economy is in fact stabilizing below historical average growth rates, which have been low and declining. This translated into an extended period during which per capita incomes declined, making little progress toward convergence with the EU economy. As some of the most vulnerable EMDEs, the TC economy is also falling further behind, with per capita income forecast to remain below its 2019 level still in 2024 (Figure 1.25)— this is the case in over a third of low-income economies and more than half of economies facing fragile and conflict-affected situations.¹³ High prices for essential goods remain a major challenge to living standards and to human

12 World Bank. 2023. *Turkish Cypriot Economy: Navigating through Challenging Times. Macroeconomic Monitoring Report*. Available at: https://www.abbilgi.eu/sites/default/files/2023-06/tccmacromonitoring_2023_en.pdf

13 World Bank 2024. *Global Economic Prospects*, January 2024.

Figure 1.24 Real GDP annual growth, 1990-2024f

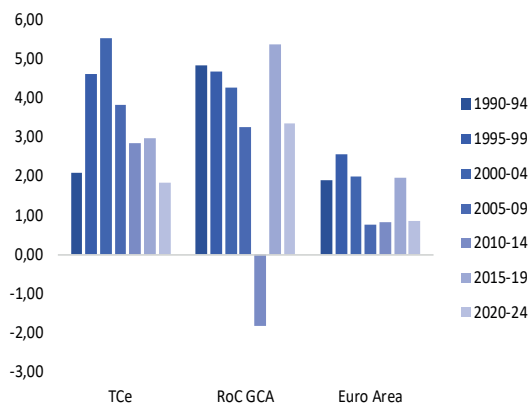


Figure 1.25 Real GDP per capita, 2005=100



Source: World Bank staff calculations based on TCc 'SO'; WDI.

capital development. Moderate declines in commodity prices since their 2022 peaks have not been fully reflected in consumer prices for food and fuel, and wage rises have generally failed to compensate for earlier runups in these costs.

The large shocks of the past few years, have hit low-income households disproportionately and exacerbated poverty; new data made available can help understand their impact and inform the policy response design. Shocks such as the pandemic and Russia's invasion of Ukraine have had an amplified effect on the low-income household due to factors as the unequal labor market impacts of the pandemic and low-income households' high share of spending on food. The impact has been different also across different firms and sectors. While so far limited data were available to the local administration in the TCc to assess the socio-economic impact of the multiple crises, the Special Issue of this report discusses how the newly available datasets, such as the Household Budget Survey and the Input-Output Tables, are instead meant to help policy makers take informed decisions.

Addressing structural challenges holds the potential of boosting resilience and competitiveness in the TC economy by consolidating opportunities and reducing vulnerabilities for shared prosperity. Given that the TC economy has benefited from trade expansion and travel re-opening

to rebound from the pandemic-inflicted recession, it is important to tackle longer-term challenges so as to consolidate those short-term opportunities and gains to sustainable growth. Moreover, addressing longer-term challenges is key to building resilience to future shocks. In a context of extremely high imbalances, prudent fiscal policies should be pursued aimed at ensuring medium-term debt sustainability, while raising potential growth in a sustainable manner. In this context, risks also stemming from the financial sector should be closely monitored and acted upon. Only an adequate macroeconomic policy framework can help the TC economy build resilience and should be used to anchor any reform agenda.

In the context of persistently high inflation, it is important to improve the quality of 'public' spending as the local administration in the TCc face rising spending pressures. High spending needs mostly come from the need to expand social protection to deal with the cost-of-living crisis. In the short term, the social protection system should in fact aim to protect the real value of the social assistance (SA) transfers. Moreover, the system should aim to provide SA transfers to poor and vulnerable households, by improving its targeting mechanisms, especially given limited resources. For example, the eligibility criteria for the "Poor in Need" program could be adjusted to improve the coverage of the program. Other spending needs arise from the much-needed investment to tackle climate



and natural disaster adaptation. With little fiscal space available, the local administration in the TCc should improve the quality of current spending and reorienting it toward productive items, by making overall spending more efficient and performance-oriented and by reducing untargeted and distortive subsidies.

Moreover, in the aftermath of multiple crises, five reform areas remain the priority for the TC economy to get back on track to achieve shared prosperity:

- Maintain the focus on providing emergency support to the poor and most vulnerable, i.e., those most impacted by the cost-of-living crisis.
- Strengthen energy security, by boosting investment in renewable energy (RE) sources, promoting energy efficiency, and reforming energy tariffs.
- Strengthen resilience to natural disaster and climate change-related risks. This can be achieved by strengthening financial protection, investing in risk reduction, and improving preparedness.
- Strengthen resilience in the broader sense, through competitiveness-enhancing reforms, thereby building a more competitive private sector.
- Enhance human capital and the recovery from pandemic-induced losses.

Box 1.2 The green transition as an opportunity for intergration and convergence

The local administration in the TCc ratified the Paris Treaty on February 27, 2023, and the first Climate Summit took place in October 2023—significant first steps in acknowledging the increasing relevance of climate change. However, sectoral policies related to agriculture, tourism, and the environment lack a comprehensive approach to climate agenda. The MTBF 2024–2026 does not include any provisions on tackling the climate concerns. Some of the key challenges for the TC economy include the lack of a water master plan, energy security, the lack of any sustainable tourism policies, and the lack of comprehensive data in line with the Sustainable Development Goals (SDG) indicators.

Adopting an island-wide approach to tackle climate change can help achieve greater success. The ratification by the TCc of the Paris Treaty and the RoC’s adherence to EU policies lay a foundational agreement on the importance of addressing climate change. Collaborative efforts could focus on shared challenges, including like water management, renewable energy development, and sustainable tourism.

Aligning green fiscal policy tools can help support the green transition. Both communities could benefit from implementing or enhancing green fiscal measures. For the TCc, introducing environmental taxes, subsidies for green technologies, and investments in renewable energy could align domestic policies with international commitments. Also, the banking sector needs to develop a climate-friendly strategy. For the RoC, further integration of green fiscal policies, such as incentives for emission reductions in transport and industry, could help improve its climate performance index ranking.

Finally, the active involvement of civil society and international support can bridge the gap between policy commitment and implementation. Encouraging investments in green infrastructure that can enhance interdependence, facilitating green finance and promoting sustainable practices across communities can help in accelerating the transition toward a sustainable economy.



Policy inaction and delays in implementing urgently needed structural reforms in the TC economy have also contributed to its vulnerability. Over the years, recurrence to procyclical fiscal policy, sustained also by procyclical financial support from Türkiye, has reflected into high budget rigidity and highly procyclical fiscal policy, hence aggravating the impact of the inflationary episodes, mostly triggered by TL depreciations.¹⁴ The tax framework, and in particular indirect taxes, have had a significant negative impact on household budgets and contribute to increased poverty, hence suggesting the need of a more effective system of taxes

and transfers to reduce the burden on the poor and address inequality.¹⁵ As previously mentioned, the approval of the MTBF 2024-2026, and commitment to it, are a crucial step in the right direction toward building a rules-based macroeconomic framework. The recurrence to non-competitive practices such as ‘import’ licenses has reflected into higher prices at the cost both of the private sector and households.¹⁶ Similarly, the delayed reform of the agriculture subsidy system has translated into productivity losses for the sector, and into an inefficient use of a relatively high share of ‘public’ spending.¹⁷

Table 1.3 Key economic indicators of the TC economy

	2019	2020	2021	2022	2023e	2024f
Real economy						
Real GDP, % change	0.2	-16.2	3.9	13.3	5.3	2.7
Agriculture, % volume change	2.7	1.8	-1.5	-5.3	2.0	0.2
Industry, % volume change	-14.6	-15	16.8	7.0	4.0	1.5
Services, % volume change	1.4	-18.4	7.9	4.7	6.3	3.2
CPI, period average, % change	19.5	11.7	21.4	99.7	73.8	85.0
Fiscal accounts						
Revenues, % GDP	34.6	35.5	29.7	26.2	28.0	26.0
Expenditures, % GDP	35.9	40.6	34.5	28.1	29.5	28.2
Fiscal Balance, % GDP	-1.3	-5.2	-4.8	-2.0	-1.5	-2.3
<i>excluding aid from Türkiye, % GDP</i>	-4.0	-10.1	-9.2	-5.5	-4.7	-5.7
Local Balance ^a % GDP	-0.5	-3.5	-2.5	-1.4	-0.8	-1.7
Balance of Payments^b						
Current Account Balance, % GDP	11.8	-9.7	-2.4	2.3	-5.4	-2.7
Excl. foreign grants, % GDP	9.1	-14.7	--6.9	0.5	-7.0	-4.4

Source: ‘SPO’, ‘statistics office’ and World Bank staff.

Note: e=estimate; f=forecast.

^a Local Balance is computed as the difference between local revenues (total revenues, excluding grants from Türkiye) and local expenditures (total expenditures, excluding the ones financed by Türkiye).

^b BOP data has been revised starting 2019, according to IMF VI Handbook.

14 World Bank. 2022

15 World Bank. 2023

16 World Bank. 2021b. Policy Note on the Impact of Import Restrictions on Goods Accessing the Turkish Cypriot Market. mimeo.

17 World Bank. 2021

Chapter 2: Special Issue: Evidence-Based Policymaking for Shared Prosperity

Data possess significant potential to enhance development by facilitating the design, implementation, evaluation of public programs and policies. The World Development Report 2021, titled “Data for Better Lives”, presents a conceptual framework describing the role of data in achieving development objectives. In particular, there are three principal pathways through which data can be leveraged:

1. The use of data for evidence-based policymaking and improved service delivery;
2. Engagement of civil society and individuals with data to monitor government policies and access to services; and
3. Application of data by private firms in the production process.

Key economic and social data—crucial for evidence-based policymaking, successful public service delivery and transparency—are still scarce in the TCc, but significant progress has been made since 2019. To increase the efficiency of data collection, an independent ‘Statistics Office’ (‘SO’) in the TCc is established in 2019, replacing the ‘State Planning Organization’ under the ‘Prime Minister’s Office’ as the main agency responsible for data collection. While the establishment of the ‘SO’ was an important first step, the ‘SO’ still requires extensive support to increase the scope and efficiency of data collection. Over the course of 2022 and 2023, two important new datasets for the TC economy were made available: the Input-Output Tables (IOT) and the Household-Budget Survey (HBS).¹⁸

This Special Issue builds on the findings of the two new surveys for the TCc and, more broadly, focuses on the importance of evidence-based policymaking for the TCc and how to strengthen it. In particular, this Special Issue addresses the following four questions related to the IOT and HBS: (i) what are they? (ii) why are they important? (iii) what do they say? (iv) how can they be used? It concludes

with a proposed three-pronged action plan to strengthen evidence-based policymaking.

2.1 Input-Output Tables: Vulnerabilities and Opportunities for the Private Sector

Input-Output Tables (IOTs) describe the sale and purchase relationships between producers and consumers, allowing analysis of sectoral interdependencies within an economy. They also allow analysis related to the impact on output of changing relative prices, labor and capital requirements, or the impact on GDP and its components of changes on final demand, etc. In addition, IOTs also allow the estimation of employment and emission multipliers. IOTs are a statistical tool of economic analysis that allow the measurement and description of productive relationships in one or several economies in a particular year, including linkages arising from trade. IOTs are a double-entry matrix where total input (row totals) and total output (column totals) are equal and provides measures of GDP from the production and expenditure approaches. Understanding how the linkages between economies and sectors are structured is useful, not only to analyze an economy’s dependence on the world, the role of key sectors, or how economies contribute to generating the value added of traded goods and services in global production networks, but also for policy makers to understand the vulnerabilities and opportunities of the private sector.

This analysis focuses on the TC economy and RoC GCA, building on newly developed IOTs for the TC economy, compared with the 2017 IOTs for the RoC GCA.¹⁹ The analysis of this Special Issue looks at three main aspects: (i) sectoral composition of value added; (ii) dependence on imported inputs over domestically produced ones; and (iii) size of imported inputs over the overall economy’s size. The analysis is both at the aggregate

18 Both the IOT and HBS were conducted by the ‘SO’, with the methodological support of the World Bank and financial support of the European Commission.

19 Available at: <https://www.cystat.gov.cy/en/>

Box 2.1 The Input-Output Tables for TCc

The supply-use table for the TCc was compiled by the ‘statistics office’, with the technical assistance provided by the World Bank and funded by the EU, using a comprehensive set of data sources from key sectors, including:

- Local administration: agriculture (agricultural prices, quantities, livestock data), including ‘departments’ of commerce, forestry, livestock; geology and mining; environmental protection; transport; tourism; finance (local revenue and expenses, corporations’ turnover); trade (‘import’/‘export’ data);
- ‘Statistics office’ (CPI HBS 2014-15 (with price/volume extrapolators); ‘State Planning Organization’ (Gross Fixed Capital Formation - GFCF)
- ‘KIBTEK’ (Energy data)
- Local community bodies
- Financial institutions (balance of payments from ‘central bank’; financial indicators including financial statements of ‘central bank’ and commercial banks; data turnover from corporations; insurance data from TC Union of Insurance and Reassurance Companies)

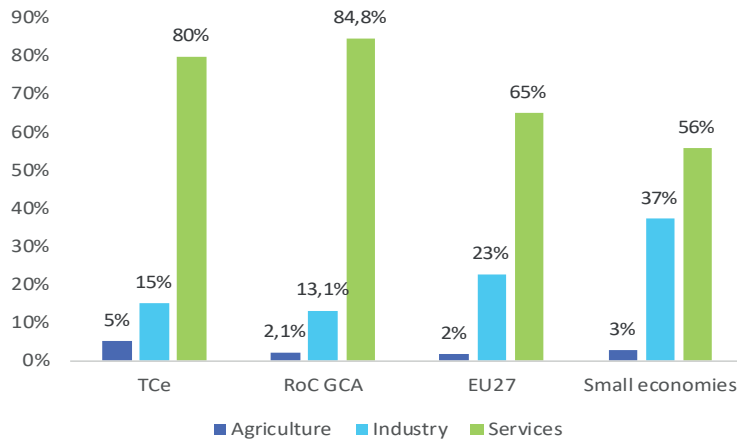
The choice of 2017 as the new base year was based on the results of a standard tool prepared by the World Bank’s team to measure the amount of information available in GDP terms in a series of years and rank them accordingly.

Industry by industry and product by product IOTs were prepared after transforming the use table from purchaser to basic prices and applying the product technology and fixed industry sales assumptions, respectively. The quantity and price models with input and output coefficients (Leontief and Gosh models, respectively) were formulated and used in simple impact analysis examples.

economy level, at the three aggregated sectoral level (agriculture, industry, and services) and at the 48-subsectors level. The analysis provides the first insights into the newly compiled IOT for the TC economy and vis-a-vis RoC GCA. Going forward, further dimensions could be explored, in support of policy-making, such as the estimate of the employment multiplier of different sectors in the TC economy and of those specifically involved in Green Line trade; the analysis of the contribution to emissions of each sector, and their role toward the green transition; the quantification of the competitiveness gains in downstream industrial sectors coming from improvements in services sectors, given the reliance on services inputs; the exposure of different sectors to different shocks, such as increased input prices.

Strong reliance on services, and a small domestic industrial production

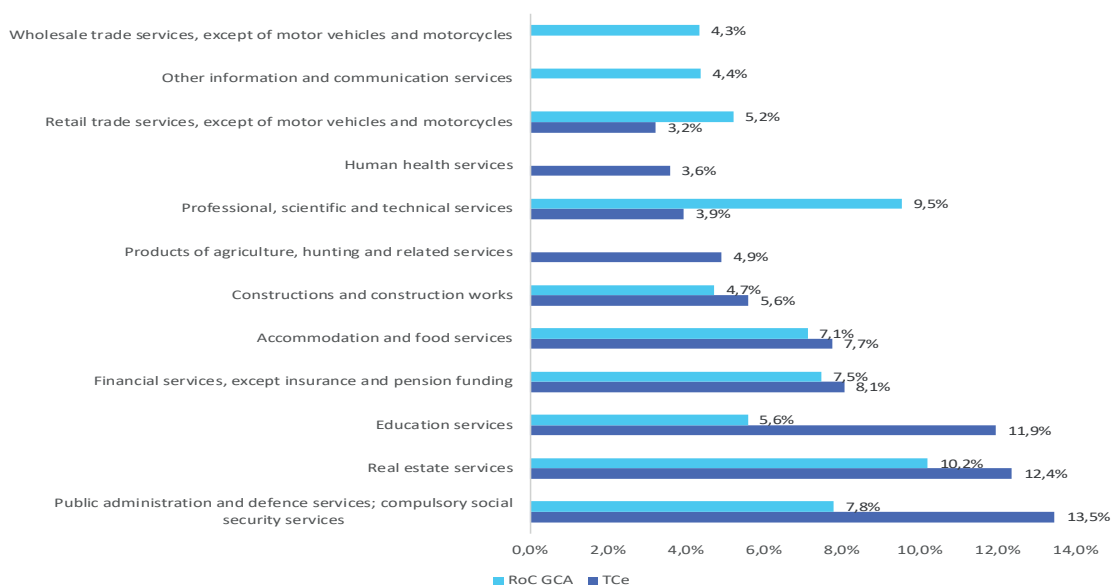
The TC economy and RoC GCA share a common characteristic, namely a high level of reliance on services (Figure 2.1). Value added of the services sector accounts for 79.8 and 84.8 percent of GDP, respectively, in the TC economy and RoC GCA. Value added from industry represents a more significant portion for the TC economy compared with the RoC GCA, at 15.0 and 13.1 percent of GDP, respectively. Value added from agriculture for the TC economy accounts, instead, for more than double the share in the RoC GCA, at 5.1 compared with 2.1 percent of GDP, respectively.

Figure 2.1 Sectors (value added as a share of GDP), 2017


Source: World Bank staff calculations, WDI.

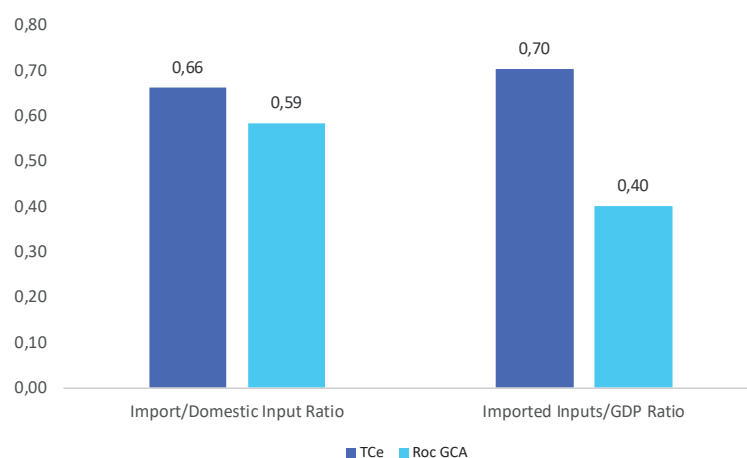
Compared with the EU, as well as other small economies, the TC economy and RoC GCA display a stronger predominance of the services sector and a significantly less-developed industry sector. Services account for between 56 and 65 percent of GDP (in terms of value added) for small economies and at the EU level, respectively. This is much lower than their share in the TC economy and in the RoC GCA. Industry, instead, appears to be significantly less important, while accounting for 23 percent of GDP at the EU level and up to 37 percent of GDP among small economies.

Services-related subsectors feature predominantly among the top ten sectors in both economies, but with clear differences (Figure 2.2). For the TC economy, the role of the ‘public’ administration, real estate and education is particularly large. In contrast, the RoC GCA is characterized by a larger role of ITC and professional services. Sectors related to accommodation and food services, financial services, and construction are instead almost equally important. Finally, in the TC economy, health-related services are also important. In addition to services, agriculture features among the top ten sectors for the TC economy.

Figure 2.2 Top ten sectors in the economy, as a share of GDP


Source: World Bank staff calculations.

Figure 2.3 Import dependency and imported inputs as a share of GDP:
TC economy vs Roc GCA



Source: World Bank staff calculations.

High dependence on ‘imported’ vs domestically produced inputs for the TC economy, and relative to its size

Overall, the TC economy and Roc GCA do not heavily depend on imports (ratios <1 in Figure 2.3), as both economies are more services-oriented. Understanding the import dependencies of an economy is crucial in assessing its vulnerability to external shocks, such as global market fluctuations and international trade dynamics. Figure 2.3 shows the import-to-domestic inputs ratio, namely the value of imported and domestic intermediate inputs used in the production of an economy. The inputs, both imported and domestic, are the direct requirements of a given economy, namely they do not take into account the indirect requirements. This indicator can also be used to measure dependence at the sectoral level, understood as the ratio of imported inputs over domestic inputs used by each sector.

The TC economy is slightly more ‘import’-dependent for intermediate inputs than the Roc GCA. The TC economy exhibits a higher ‘import’-to-domestic input ratio (0.66), indicating that a significant portion of the inputs used in production processes is sourced from ‘imports’. The Roc GCA shows a lower ratio (0.59), suggesting a lower dependence on imported inputs relative to its domestic production.

When looking at the size of ‘imported’ inputs as a share of an economy’s size, the TC economy exhibits a higher dependence or, conversely, a lower economic power. The ‘imported’ inputs-to-GDP ratio reaches 0.70 for the TC economy, highlighting that the value of imported inputs constitutes a larger share of GDP. For the Roc GCA, the ratio is much lower, at 0.40, indicating that imported inputs account for a smaller proportion of the economy’s overall output. The lower value of the indicator also reflects a denominator effect. The higher the value added (or intermediate consumption) that a country generates, the lower the ratio of inputs to GDP. These findings suggest not only potential vulnerabilities in the TC economy to external economic shocks, but also underline the importance of mitigating these risks and expanding the economic bases by using intermediate inputs efficiently.

Agriculture and industry in the TC economy are highly dependent on ‘imported’ inputs, but less so on the services sector

The industry sector for the TC economy is far more reliant on ‘imports’ (ratios >1 in Figure 2.4) than other sectors in the TC economy, and also than in the Roc GCA. Figures 2.4 and 2.5 show the share in imports of intermediate inputs over the use of domestic inputs for each sector of the two economies, as well as the share of imported inputs over GDP. The sector that requires the most ‘imported’

Figure 2.4 ‘Import’ dependency and ‘imported’ inputs as a share of GDP by sector: TC economy



Figure 2.5 Import dependency and imported inputs as a share of GDP by sector: RoC GCA



Source: World Bank staff calculations.

inputs is industry in the TC economy, with a ratio well above 1. Each unit of GDP produced in the industry sector in the TC economy requires almost 4 units of ‘imported’ inputs. This indicates a limited expansion of the domestic supply chains in the TC economy. While the information in the IOT does not give information on the origin of these inputs, it definitely indicates a large opportunity for intra-island trade.

Vulnerabilities, and opportunities

A high dependence on imports at a given point in time for an economy is a sign both of vulnerabilities and opportunities. On the one hand, the higher ‘import’ dependency ratios for the TC economy point to a potential vulnerability to international price changes, exchange rate fluctuations, and supply chain disruptions. This dependency underscores the need for economic policies aimed at diversifying the economy and enhancing domestic production capabilities and efficiency.

On the other hand, a high dependency ratio can lead to a deepening of industrial linkages that promotes technological change. For a small

open economy like the TC economy, access to world-class ‘imports’ is extremely important for ‘export’ and domestic competitiveness of downstream production and participation in value chains and creates opportunities for small economies like the TC economy beyond just increasing external trade. It can translate into a transfer of technology incorporated in ‘imported’ inputs to, in the next stage, expand the ‘export’ of manufactured products of greater complexity, which require advanced production technologies and high-quality inputs.

The contrast in import dependencies between the two economies also reveals opportunities for intra-island trade. Those sectors in the TC economy that are heavily dependent on imported inputs can benefit from increased trade with the RoC GCA, hence also reducing time and cost of transport and production. Moreover, intra-island trade can spur knowledge and technology transfers, and synergies, for the benefits of both TC and GC companies (see World Bank, 2022).²⁰

²⁰ World Bank. 2022. *Testing the Resilience of the Turkish Cypriot Economy: A Macroeconomic Monitoring Note*. Available at: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099161502282335982/p1550440e68ffb09709c630c8cf40f3dccc8>

2.2 Household Budget Survey: Sources of Income and Wellbeing for Households

The Household Budget Survey (HBS) is the only data source that monitors socio-economic statistics in the TC economy. However, the frequency at which it is conducted is only every 6–7 years, while in the EU such surveys are typically carried out annually. This low frequency limits the ability of the ‘SO’ to provide an accurate and timely assessment of the changes occurring in the TC economy, thereby constraining the ability of policy makers to devise effective policy responses. Poverty and vulnerability figures are updated too sporadically, potentially leaving families exposed to risks. Prices and household consumption cannot be monitored

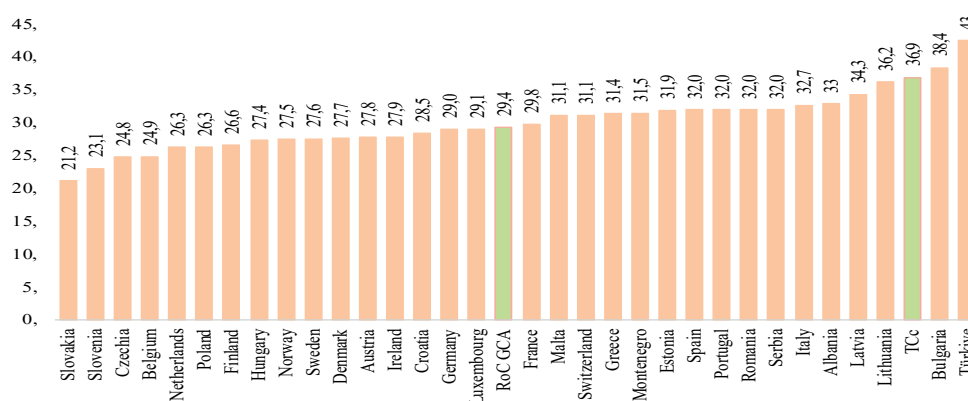
closely, and the social protection programs of the local administration in the TCc cannot be assessed as often as they should be, thereby increasing the risk of investing resources in inefficient tools.

The HBS collects data on expenditure, consumption, living conditions, measures of wellbeing, and various indicators related to the standard of living. The most recent survey was conducted between June 2021 and July 2022 with a cross-section design in the TCc. In total, 1,391 households were interviewed with 3,819 individuals. The sample units are households. Consumption, expenditure, and information on living conditions were collected at the household level, while information on demographic indicators, employment, and educational details related to household members are collected at the individual level.

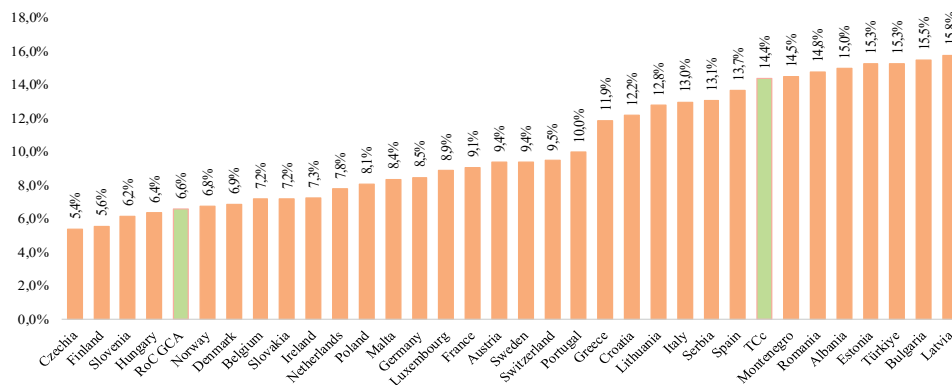
Box 2.2 The 2022 Household Budget Survey data collection process

The 2022 Household Budget Survey collection, realized with the technical assistance provided by the World Bank and funded by the EU, was divided into three stages. The first stage was the preparatory work for survey conduction which included creating enumeration areas for the TCc, sample selection, listing operation and questionnaire update. The preparatory work started in September 2020 with the creation of enumeration areas by using satellite images. The second stage begun with the fieldwork where 1,389 household face-to-face surveys were completed over 12 months. The sample was evenly distributed into a twelve-month period, from July 2021 through June 2022 to account for the seasonality of consumption and expenditure patterns in the TCc. The last stage included post survey controls, data cleaning and delivery of final raw dataset.

Figure 2.6 Inequality in selected economies, 2022



Source: World Bank staff calculations based on TCc Household Budget Survey 2022, Eurostat

Figure 2.7 Relative poverty rate in selected economies, 2022


Source: World Bank staff calculations based on TCc Household Budget Survey, Eurostat. Poverty is calculated as the share of people having less than 50 percent of the median equivalized disposable income

The HBS 2022 collection had five key objectives and also introduces two significant improvements with respect to the previous wave (HBS 2015). The objectives were to: (i) provide information on private consumption for economic accounts; (ii) estimate weights for calculating the consumer price index; (iii) monitor the changes of household consumption patterns over time; (iv) obtain a comprehensive system of indicators that reflect development trends and regional characteristics in the standard of living of the population; and (v) provide information for the determination of the poverty line and other socio-economic analysis. In addition, the HBS 2022 introduced two new improvements compared with the previous wave of the HBS in 2015.

- **Expenditure reporting methodology.** The previous round of the HBS asked households to record each of their purchases on a diary for a month, coding each purchase with 10-digit according to the Classification of Individual Consumption by Purpose (COICOP). For the 2022 round, food expenditures and consumption were collected by recall and coded with seven digits of the COICOP.
- **Survey mode.** The HBS 2022 was the first survey in the TCc to utilize Computer-Assisted Personal Interviewing (CAPI). Previous rounds of the HBS and the Labor Force survey were implemented with paper questionnaires that had to be digitized later.

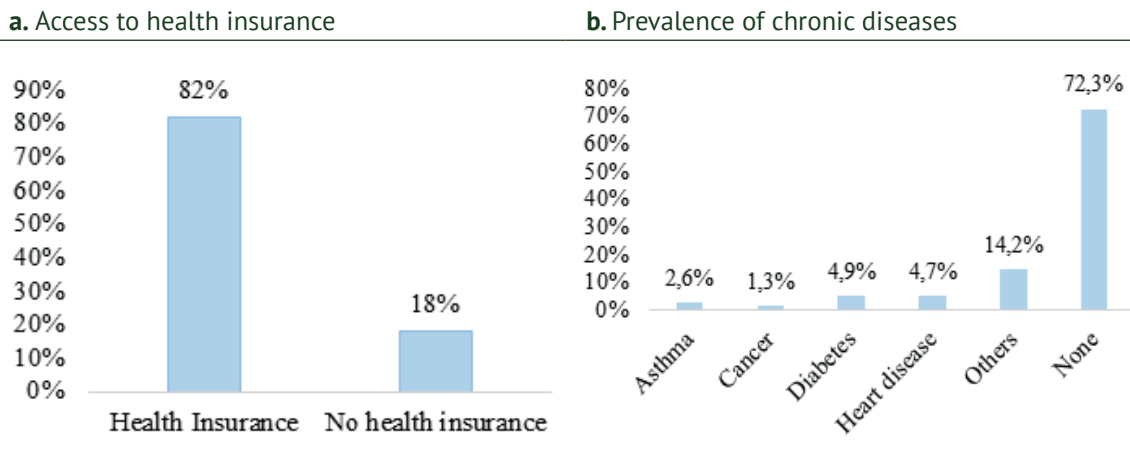
Between 2015 and 2022, inequality increased while the relative poverty rate declined only slightly

The HBS 2022 reveals important insights for the TC economy, in particular relating to a worsening of the indicators related to inequality, between two periods (Figure 2.6). The Gini coefficient—an indicator to measure inequality—increased from 0.34 to 0.37 between 2015 and 2022. Inequality in the TCc remains well above the levels seen in both the RoC GCA and the EU. While the share of income received by the richest 20 percent was at 40.6 percent of the overall income in 2015, this increased to 43.1 percent in 2022. Similarly, the share of income received by the bottom 20 percent declined from 7.1 to 6.6 percent, indicating worsening inequalities in household incomes in the TCc.

Relative poverty in the TCc decreased only slightly between 2015 and 2022, and remains almost double the level seen in the RoC GCA (Figure 2.7). Relative poverty is measured as the share of population living below 50 percent of the median equivalized household income. Between 2015 and 2022, relative poverty decreased slightly from 15.4 to 14.4 percent. Despite this improvement, poverty rates in the TCc remain significantly higher than the EU average and the rate seen in the RoC.



Figure 2.8 Health indicators of the population in the TCc, 2022



Source: World Bank staff calculations based on TCc Household Budget Survey 2022.

Human capital accumulation in the TCc, namely health, education, and job market outcomes, lags the levels seen in the EU

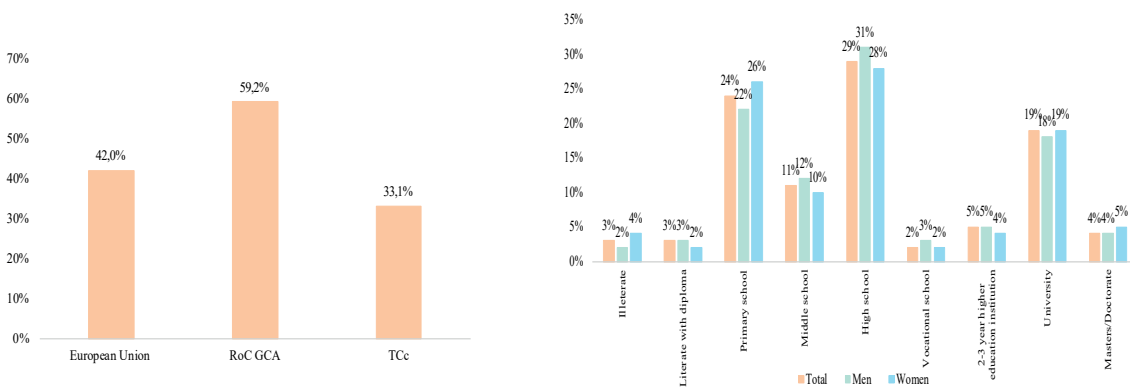
A significant share of the population has no health insurance in the TCc, despite of the high prevalence of health chronic diseases (Figure 2.8). Human capital—good health, knowledge, and skills—is key to enable people to achieve their full potential and drives economic growth. Around 18 percent of the population does not have any health insurance. This poses serious risks for individuals with regard to protecting themselves against any health shocks. Moreover, around 28 percent of adults reported that they suffer from chronic

diseases, which affect the ability to work and the level of productivity.

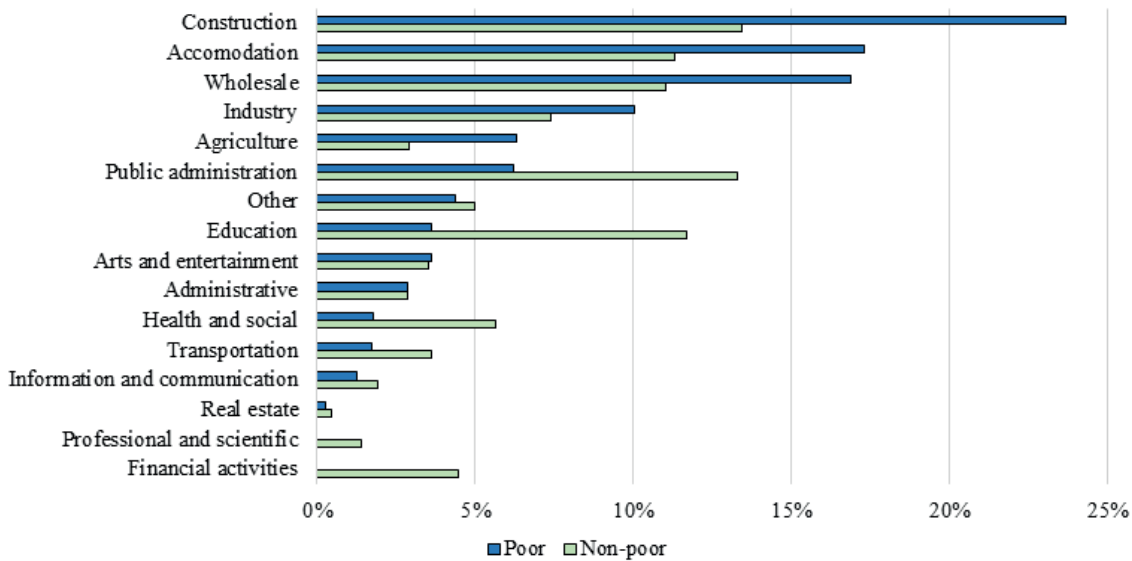
Adults in the TCc have lower tertiary education rates than both the RoC GCA and the EU (Figure 2.9). According to the results of the HBS 2022, the share of the population aged 25–34 that has successfully completed tertiary studies (e.g., university, higher technical institution, etc.) was only 33.1 percent in the TCc, well below the EU average at 42 percent and the share seen in the RoC, which reached 59 percent (Figure 2.9, panel a). Moreover, around 30 percent of adults have five years of education or less, while around 11 percent of adults completed only middle school, accounting for 41 percent of the adults having at most eight years of

Figure 2.9 Human capital accumulation in the TCc, 2022

a. Share of university graduates for adults aged 25-34 **b. Completed levels of education for adults 25+**



Source: World Bank staff calculations based on TCc Household Budget Survey 2022, Eurostat.

Figure 2.10 Sector of employment of workers in the TCc, poor and non-poor households, 2022


Source: World Bank staff calculations based on TCc Household Budget Survey, Eurostat. Poverty is calculated as the share of people having less than 50 percent of the median equivalized disposable income

completed education (Figure 2.9, panel b). However, gender differences are significant in educational attainment in the TCc.

Heads of poor households tended to work in low-skilled private sector jobs. In particular, low-income workers are more likely to be employed in the construction, accommodation, wholesale, industry and agriculture sectors. Among the poor, one-quarter of people worked in the construction sector, while only 13 percent of workers from non-poor households were employed in construction. The construction sector, together with agriculture and accommodation, is also characterized by higher shares of informal employment, which may further increase the vulnerabilities among those workers. On the other hand, the highest shares of workers from non-poor families are employed in the public sector, together with the education, health services and finance sectors.

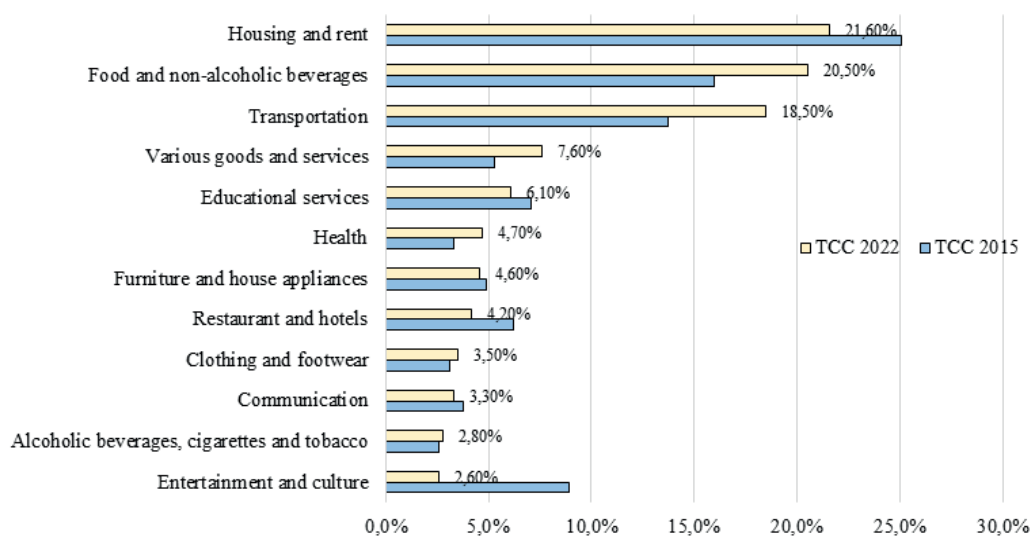
Consumption patterns have changed over time, with significant differences among poor and non-poor households

Households spent around 60 percent of their consumption on housing and rent, food and transportation in 2022, making them particularly vulnerable to the ongoing cost-of-living crisis (Figure 2.11). Housing and rent

constituted the highest share of consumption expenditure (21.6 percent), followed by food (20.5 percent) and transportation (18.50 percent). Groups that had the lowest shares in total expenditures were entertainment (2.6 percent), alcoholic beverages (2.8 percent), and communication (3.3 percent). A significant change in consumption pattern is observed since 2015, due to an overall increase in the aggregate consumption share going to housing, food, and transportation, as well as due to a change in the relative importance of these three categories. In particular, in 2015, households spent 55 percent of consumption on housing and rent, consumption, and transportation, with only 16 percent on food, 25.1 percent on housing and rent, and 13.7 percent on transportation.

The consumption patterns of low-income households differ significantly from those of non-poor households (Figure 2.12). Households in the bottom quintile spent a little over half of their consumption expenditure on food and housing, while this share was only 36 percent among households in the richest quintile. High-income households were more likely to spend more on education and leisure activities, while low-income households had very little income left for such activities.

Figure 2.11 Consumption patterns of households in the TCc, 2015 and 2022



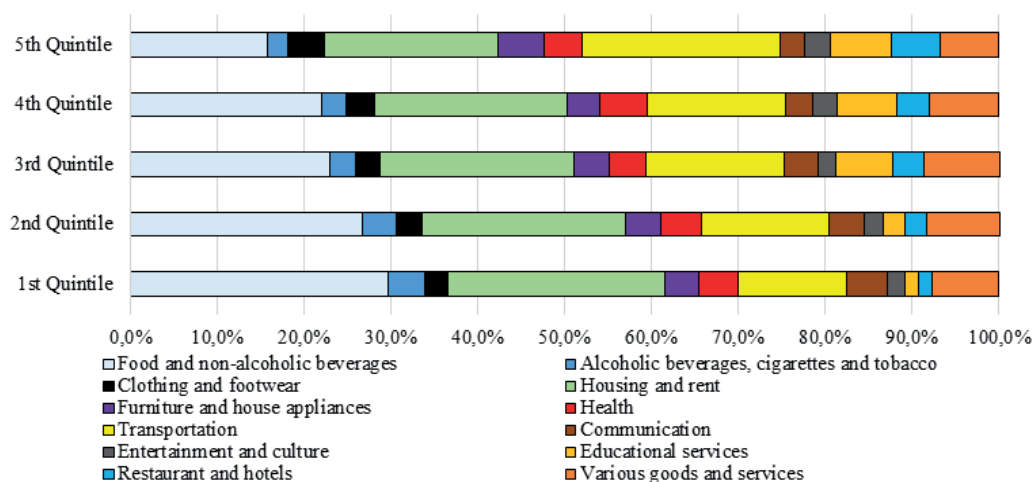
Source: World Bank staff calculations based on TCc Household Budget Survey 2022.

Access to sanitation is almost universal, but the same does not apply for other household equipment, and cars and computers (Table 2.1). Both poor and non-poor families report having decent sanitation and washing facilities in the TCc, reaching almost universal access. However, stark differences appear when looking at ownership of other equipment, such as air conditioners and dishwashers, as well as cars and computers. Car and computer ownership was much lower among poor families, with 67 percent of the poor owning

a car and 36 percent a computer versus 83 and 59 percent for non-poor households, respectively. Access to the internet was similar among poor and non-poor households.

Poor households held fewer assets compared with non-poor households (Table 2.1). The poor were significantly less likely to hold assets and access to services than non-poor families. Only 30 percent of the poor owned the houses in which they lived, while this share was 67 percent among on-poor households.

Figure 2.12 Consumption patterns of households in the TCc in 2022



Source: World Bank staff calculations based on TCc Household Budget Survey 2022. Delicacies are constructed by using the consumption expenditure.

Table 2.1 Access to services and asset ownership in the TCc, 2022

	Total	Poor	Non-poor
<i>House ownership</i>			
Owner	59%	30%	67%
Tenant	38%	68%	30%
Lodging	3%	2%	3%
<i>Goods and services</i>			
Indoor toilet	99%	98%	100%
Indoor shower	100%	100%	100%
Computer	54%	36%	59%
Internet	92%	92%	92%
Car	79%	67%	83%
Dishwasher	72%	55%	75%
Washing machine	99%	99%	99%
Air conditioner	80%	66%	83%

Source: World Bank staff calculations based on TCc Household Budget Survey, Eurostat. Poverty is calculated as the share of people having less than 50 percent of the median equivalized disposable income

2.3 How to Strengthen Evidence-based Policymaking

A three-pronged approach is needed to strengthen evidence-based policymaking in the TCc. The use of data is particularly important for the TCc to allocate scarce resources more efficiently and monitor key economic and social indicators, thereby mitigating vulnerabilities among households. The TC economy has witnessed multiple crises over the past decade, but policy makers at that time had only limited tools to assess their impact on the economy, households and firms, and to design the right policy responses. Going forward, enhancing data collection practices, promoting the use of data for policymaking, and investing in data literacy are three important actions needed to strengthen overall evidence-based policymaking.

1. Enhancing data collection practices

a. Allocating sustained and stable funding for data collection – Establishing a statistical program and securing continuous funding for data collections are crucial for the development of a stable data production system.

b. Investments in statistical and technical proficiency – Strengthening the infrastructure and capabilities necessary for the comprehensive collection, analysis, and dissemination of data.

c. Enacting legislation to safeguard data integrity – Ensuring that public data collection is confidential and safeguarded by policies to guarantee data security and ethical usage.

2. Promoting the use of data for policymaking

a. Incentivizing collaboration for data sharing and data collection – Establishing mechanisms for data sharing and data collection among different departments and agencies in the TCc.

b. Incentivizing the use of data by the local administration in the TCc in the policymaking process – Enhancing accountability and enabling individuals to make informed decisions through increased access to information and knowledge.



- c. Incentivizing the use of data in support of initiatives for economic integration between the TC and GC communities* - Establishing mechanisms for data collection, and the monitoring and evaluation of progress toward deepening economic integration between the two communities.
 - b. Establishing trust in public data quality* – Ensuring data are accessible to, and clear for, all stakeholders while ensuring the accuracy of data.
 - c. Increasing awareness of benefits for economic integration building on data and evidence* – Utilizing reliable data enhances transparency and credibility, fostering trust among the parties involved in the reunification process.
- 3. Investing in data literacy**
- a. Enhancing public engagement with data* – Encouraging and enabling individuals, firms, civil society and organizations to understand and use data effectively.



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