

Testing Budget Revenues as A Determinant of Government Expenditure in North Cyprus

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Abstract

This study analyzes the relation between government budget revenue as an influencer on budget spending. Direct and indirect tax revenues as well as foreign aid is taken as a main budget revenue sources for NC. 1985-2019 yearly data used for causal testing. Growing size of the government is continuing issue for recent decades for many countries. This situation becomes even more important for Northern Cyprus, considering the importance of the share of foreign aid in the budget. NC does not have access to financial sources to finance budget deficit and Turkey is the only provider of financial support as aid and grant. This dependency on Turkey has become one of the catastrophic issue for NC economy. The question to be answered must be “do NC really needs foreign aid?” could be answered by political bodies but it is essential to identify where we spent the money. The study mainly based on two hypotheses; first one “does increase at government spending results with increase at tax revenues?” (Friedman, 1978) and second one “Does increase at government tax revenues results with higher government spending?” (Barro, 1979). As foreign aid is a structural revenue for NC we analyzed the impact of foreign aid on government spending as well. There are different studies that analyzes the relation between budget revenues and expenditure but this study differentiates the impact of direct and indirect taxes as well as foreign aid.

Keywords: Budget revenues, government spending, foreign aid, direct taxes, indirect taxes