

## I. ECONOMIC ENVIRONMENT

### (1) MAJOR FEATURES OF THE ECONOMY

1. The Republic of Turkey has a landmass, including lakes, of 814,578 km<sup>2</sup> (about 30% is arable); around 68% of its 73 million people live in urban areas. The most populated cities are Istanbul (almost 11.6 million), and the capital Ankara (around 4.4 million); annual population growth was 1.3% in 2006 (down from 1.6% in 2001). Over 4 million Turkish people live abroad, more than half of them in Europe, particularly Germany. Turkey has a young population (25.5% are in the 0-14 age group, and 67.7% are between 15-64 years).<sup>1</sup> In 2006, Turkey ranked 92<sup>nd</sup> out of 177 countries in terms of Human Development Indicators.<sup>2</sup>

2. Turkey's location between Europe and Asia, and along the Mediterranean, Aegean, and Black seas constitutes a major advantage.<sup>3</sup> Its ambitious reforms, supported by its Stand-By Arrangements (SBAs) with the IMF<sup>4</sup>, have been successful in stabilizing its economy, and contributing to high economic growth, rapid disinflation, and declining public and external debt burdens. Recent reforms have also been aimed at bringing Turkey closer to its goal of EC accession. At present, Turkey is an upper middle-income country, with a GNP per capita of US\$5,477 in 2006 (up from US\$2,598 in 2002).<sup>5</sup> Nonetheless, some structural problems remain: notably the widening current account deficit makes the economy vulnerable to external shocks; unemployment remains high; and key industries are still dominated by public companies (Chapter III(4)(ii)). The steps taken to address these problems have resulted in, *inter alia*, the ongoing shift in production patterns towards higher-value/more capital-intensive products, e.g. in the textile and clothing industry (Chapter IV(4)(iii)(a)).

3. Services constitute the most important sector in terms of contribution to real GDP (about 58%), and employment (over 50% of Turkey's labour force). The sector is led by tourism (a major net foreign exchange earner), and financial services. Manufacturing (with high domestic content for agri-industries, and high import content for the others<sup>6</sup>), contributes around 25% to real GDP and over 80% to the total value of merchandise exports. Agriculture remains an important sector of the Turkish economy, despite the decline in its contribution to real GDP to about 11%; it employs almost 30% of the population. The mining, quarrying, and energy sector is being developed; Turkey is among the fastest growing energy markets in the world.

4. The national currency is the Turkish lira (TL). On 1 January 2005, the TL was redenominated, dropping six zeros<sup>7</sup>: all amounts in Turkish currency in this report are expressed in new TL (YTL), unless otherwise specified. On 22 March 1990, Turkey accepted the obligations of

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<sup>1</sup> World Bank (2007).

<sup>2</sup> UNDP (2006).

<sup>3</sup> Turkey has borders with Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Iran, Iraq, and Syria.

<sup>4</sup> Turkey has signed 19 SBAs with the IMF since 1961. The current SBA is due to end in May 2008 (OECD, 2006b).

<sup>5</sup> Turkstat online information. Viewed at: <http://nkg.die.tr/en/son10.asp>.

<sup>6</sup> According to Turkey's Treasury, certain industries have a high import content, such as boilers, machinery and mechanical appliances (57.8%); motor vehicles (69.1%); iron and steel (75.2%); and electrical machinery and apparatus (78.6%).

<sup>7</sup> One new TL is equivalent to 1,000,000 old TL. The redenomination of the TL was aimed at, *inter alia*, simplifying monetary transactions; it marked the end of the inflationary cycle, and the start of price stability.

Article VIII of the IMF Articles of Agreement, and moved from a crawling peg to a floating exchange rate system on 22 February 2001.<sup>8</sup>

## (2) RECENT ECONOMIC DEVELOPMENTS

5. At the time of its previous TPR, Turkey was recovering from the 2001 economic crisis.<sup>9</sup> Since then, the key elements of its economic reform programme have been: maintaining the floating exchange-rate regime; introducing inflation targeting in January 2006<sup>10</sup>; further strengthening the banking system; fiscal discipline to foster medium-term debt sustainability; addressing redundancy problems in public-sector employment; improving the investment climate to attract larger foreign direct investment (FDI) inflows; speeding up the privatization of public enterprises; and social security and tax reforms.

6. Turkey's reform programme has resulted in impressive economic performance in the past few years. The economy rebounded strongly and GNP growth averaged 7.4% per year during 2002-06 (compared with -1.6% over 1998-01), led largely by private investment and consumption, fuelled, in turn, by large capital inflows, declining interest rates, and credit expansion. Total factor productivity growth also played an important role, having increased from an annual average of 24.5% during 1996-00 to 42% over 2001-05. Due to the robust economic growth, the unemployment rate decreased from 10.3% in 2002 to 9.9% in 2006 (Table I.1).<sup>11</sup> Economic growth of 5% is expected for 2007, partly driven by strong domestic demand.<sup>12</sup>

7. The inflation-targeting framework used by the Central Bank of the Republic of Turkey (CBRT) proved effective in reducing consumer price inflation from 29.7% in 2002 to single digit rates in 2004-06.<sup>13</sup> Tight fiscal policies, structural reforms, and high productivity growth also contributed to the disinflation process. However, the inflation rate climbed from 7.7% in 2005 to 9.6% in 2006 mainly due to high world oil prices and the strength of domestic demand. The CBRT expects the inflation rate to drop to between 5.1% and 6.9% by the end of 2007, partly due to its tight monetary policy stance, including relatively high interest rates.<sup>14</sup> During 2002-05, as a result of record high capital inflows, the TL appreciated steadily.<sup>15</sup> At the end of 2006, however, interest rate hikes in

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<sup>8</sup> The move from a crawling peg to a floating exchange rate system resulted in an immediate depreciation of the TL (see WTO, 2003).

<sup>9</sup> In 2001, real GNP contracted by 9.5%, largely as a result of exchange rate shocks caused by the adoption of the floating exchange rate system (see WTO, 2003).

<sup>10</sup> End-year inflation target of 5% for 2006 (with an uncertainty band of 2%) was announced at the beginning of that year (OECD, 2006b).

<sup>11</sup> The high unemployment rate among the young and educated population continues to be one of the most important problems in Turkey's labour market. State Planning Organization (2006), *Ninth Development Plan 2007-13*, Ankara.

<sup>12</sup> IMF (2007b).

<sup>13</sup> The institutional framework for monetary policy was strengthened by amending the Central Bank Law in April 2001, granting the CBRT autonomy to pursue its primary mandate of maintaining price stability (WTO, 2003).

<sup>14</sup> CBRT online information. Viewed at: <http://www.tcmb.gov.tr/yeni/eng/> [July 2007].

<sup>15</sup> In 2005, for example, the real exchange rate appreciated by almost 20%, well above historical averages. This real appreciation of the TL was driven mainly by ample global liquidity conditions, and Turkey's positive economic performance (IMF, 2006).

major industrial countries prompted a real depreciation of the YTL estimated by the CBRT at 6.6%.<sup>16</sup> More recently the exchange rate has recovered somewhat.

**Table I.1**  
**Main economic indicators, 2002-06**

	2002	2003	2004	2005	2006
<b>Miscellaneous</b>					
GNP (US\$ billion)	182.7	238.5	301.5	360.9	399.7
GDP (US\$ billion)	184.5	240.5	300.6	361.5	400.0
GNP per capita (US\$)	2,598	3,383	4,172	5,008	5,477
Real GNP (annual percentage change)	7.9	5.9	9.9	7.6	6.0
Unemployment rate (per cent)	10.3	10.3	10.3	10.2	9.9
Consumer price index (end of period; percentage change)	29.7	18.4	9.3	7.7	9.6
Real effective exchange rate (CPI-based; end of period) <sup>a</sup>	7.8	12.1	1.8	19.7	-6.6
<b>Monetary sector</b>					
Money supply (M2 = broad money; percentage change) <sup>b</sup>	25.4	13.0	22.1	29.5	24.7
Average nominal treasury bill interest rate (per cent)	64.6	45.1	24.7	16.2	18.1
<b>Share of real GNP</b>					
	(per cent)				
Agriculture	13.7	12.6	11.7	11.5	11.2
Mining and quarrying	1.2	1.1	1.1	1.1	1.1
Industry	29.3	29.9	29.7	29.4	29.8
- Manufacturing	24.7	25.3	25.3	25.0	25.3
Services, including construction and utilities	55.8	56.4	57.5	58.0	57.9
<b>Government finance</b>					
	(percentage of GNP)				
Primary balance	5.1	6.2	7.2	6.8	6.6
Overall balance	-12.5	-9.1	-4.6	-1.2	-0.8
Net debt of public sector	78.4	70.3	64.0	55.3	44.8
<b>National accounts</b>					
	(percentage of GDP)				
Private consumption	66.3	66.5	66.0	67.3	67.9
Public consumption	14.0	13.6	13.2	13.1	13.1
Gross fixed capital formation	16.6	15.5	17.8	19.6	21.0
Change in inventories	4.7	7.3	7.9	5.2	2.9
Exports of goods and non-factor services	29.2	27.4	28.9	27.4	28.2
Imports of goods and non-factor services	30.7	30.7	34.7	34.0	35.9
<b>Memorandum</b>					
Current account balance (percentage of GNP)	-0.8	-3.4	-5.2	-6.3	-8.2
Gross external debt (percentage of GNP; end of period)	71.7	56.4	50.1	46.8	51.9
Official foreign reserves (US\$ billion)	28.1	35.2	37.6	52.4	63.3
Official foreign reserves (months of total imports)	7.1	6.5	5.0	5.7	5.7
Import cover (ratio of exports to imports)	84.6	78.5	73.7	69.7	69.0
Trade in goods and services (percentage of GNP)	60.5	58.5	63.8	61.5	64.1
Terms of trade (percentage change)	-0.6	-0.1	1.0	-1.3	-4.5

a A positive sign indicates real appreciation of the Turkish lira.

b M2 = Currency in circulation + demand deposits + time deposits. As of December 2005, the monetary liabilities of participation banks and investment and development banks have been added to M2.

Source: IMF, *International Financial Statistics*, various issues; and information provided by the CBRT.

8. Turkey has continued to improve its fiscal position over the last few years, a central plank of its economic programme. The public sector primary balance went from a surplus of 5.1% of GNP in

<sup>16</sup> Turkey was not the only country hit by the increase in world interest rates but it was the most affected among the group of emerging market economies. The OECD estimated the real depreciation of the YTL at 17% in 2006 (OECD, 2006b).

2002 to 6.6% in 2006 (the target being 6.5%), while the overall fiscal deficit was reduced to 0.8% of GNP (from 12.5% in 2002). Similarly, net public sector debt declined from 78.4% of GNP in 2002 to 44.8% in 2006. Revenues have been buoyant mainly on account of the positive economic performance and an improved tax administration.<sup>17</sup> The introduction of expenditure targets at all layers of general government, combating tax fraud (estimated at almost 0.5% of GNP in 2005), together with further simplification of the tax code and broadening of the tax base, are expected to safeguard Turkey's medium-term fiscal position. Furthermore, a new law on pensions and social security is due to come into force in 2008. For 2007, the public sector primary surplus target is 6.7% of GNP.<sup>18</sup>

9. Turkey's gross total external debt dropped from 71.7% of GNP in 2002 to 46.8% in 2005, while the nature of external financing shifted to, *inter alia*, larger FDI inflows (section (3)(ii) below). Nevertheless, gross total external debt increased some five percentage points of GNP in 2006 (to 51.9%) mainly as a result of the YTL depreciation that year and debt financing of the external current account.<sup>19</sup> For 2007, gross total external debt as percentage of GNP is estimated at 52.8%.<sup>20</sup> Moreover, gross financing requirements went from US\$43.6 billion in 2003 to US\$102.4 billion in 2007, making Turkey very vulnerable to a sudden stop in capital inflows.<sup>21</sup>

### **(3) TRADE PERFORMANCE AND INVESTMENT**

#### **(i) Trade in goods and services**

10. Turkey's balance of payments moved from an annual average deficit of about US\$2,340 million during 2002-05 to a surplus of US\$2,395 million in 2006, when the financial account surplus offset the widening external current account deficit (Table I.2). In line with the country's strong economic performance, and the appreciation of the real effective exchange rate up to 2005 (Table I.1), the external current account deficit, as a percentage of GNP, went from 0.8% in 2002 to 6.3% in 2005, and reached 8.2% in 2006. For 2007, the current account is expected to benefit from the slowdown in investment<sup>22</sup>, and the softening in domestic demand. Further strengthening of Turkey's fiscal policy is deemed necessary to reduce its external current account deficit. It is expected by the authorities to remain at 8.2% of GNP in 2007.<sup>23</sup>

11. A continuous increase in Turkey's merchandise trade deficit has been registered since its last TPR, in line with the significant appreciation of the lira throughout most of the period. In 2006, the deficit peaked at US\$41.2 billion despite the real depreciation of the YTL, Turkey being a price taker in international trade (for both imports and exports). Turkey's trade (exports and imports) in goods and services as a percentage of GNP rose from 60.5% in 2002 to 64.1% in 2006 (Table I.1). In 2005, Turkey ranked 22<sup>nd</sup> among world merchandise exporters (considering the countries of the EC together

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<sup>17</sup> The revenue administration has been reorganized, and a new autonomous Tax Collection Agency has been established in the Ministry of Finance.

<sup>18</sup> IMF information notice No. 07/66 of 12 June 2007.

<sup>19</sup> Each 10% of lira depreciation adds approximately 6 percentage points to the gross external debt ratio (IMF, 2006).

<sup>20</sup> IMF information notice No. 07/66 of 12 June 2007.

<sup>21</sup> Near-term public and external financing requirements represent 30% and 27% of GNP, respectively (IMF, 2007a).

<sup>22</sup> A slowdown in investment may result in a slowdown in imports of equipment and inputs required by industries (mainly non-agricultural industries with high import content).

<sup>23</sup> The IMF expects Turkey's external current account deficit to decline to 7.3% of GNP in 2007 (IMF, 2007b).

and excluding intra-EC trade), and 16<sup>th</sup> among importers; for trade in services, it ranked 14<sup>th</sup> among exporters and 24<sup>th</sup> among importers.<sup>24</sup>

**Table I.2**  
**Balance of payments, 2002-06**  
(US\$ billion)

	2002	2003	2004	2005	2006
<b>Overall balance</b>	<b>-0.1</b>	<b>-4.9</b>	<b>-2.2</b>	<b>-2.1</b>	<b>2.4</b>
<b>Current account</b>	<b>-1.5</b>	<b>-8.0</b>	<b>-15.6</b>	<b>-22.6</b>	<b>-32.8</b>
<b>Merchandise trade account</b>	<b>-7.3</b>	<b>-14.0</b>	<b>-23.9</b>	<b>-33.5</b>	<b>-41.2</b>
Exports	40.1	51.2	67.1	76.9	91.9
Imports	-47.4	-65.2	-90.9	-110.5	-133.2
<b>Services (net)</b>	<b>7.9</b>	<b>10.5</b>	<b>12.8</b>	<b>15.3</b>	<b>13.4</b>
Credit	14.0	18.0	22.9	26.6	24.5
Debit	-6.1	-7.4	-10.1	-11.4	-11.1
Transportation (net)	0.9	-0.5	-1.1	0.0	0.0
Travel (net)	6.6	11.1	13.4	15.3	14.1
Construction services (net)	0.8	0.7	0.7	0.9	0.9
Financial services (net)	-0.4	0.0	0.0	0.0	-0.2
Other business services (net)	0.0	0.0	0.1	-0.2	-0.4
Government services (net)	-0.6	-0.7	-0.7	-0.9	-0.7
Other services (net)	0.6	0.0	0.5	0.2	-0.1
<b>Income (net)</b>	<b>-4.6</b>	<b>-5.6</b>	<b>-5.6</b>	<b>-5.8</b>	<b>-6.6</b>
Credit	2.5	2.2	2.7	3.7	4.5
Debit	-7.0	-7.8	-8.3	-9.5	-11.1
<b>Current transfers</b>	<b>2.4</b>	<b>1.0</b>	<b>1.1</b>	<b>1.5</b>	<b>1.7</b>
Workers remittances	1.9	0.7	0.8	0.9	1.1
Official transfers (net)	0.5	0.3	0.3	0.6	0.6
<b>Financial account</b>	<b>1.4</b>	<b>3.1</b>	<b>13.4</b>	<b>20.5</b>	<b>35.2</b>
Direct investment (net)	1.0	1.3	2.0	8.7	19.1
Portfolio investment	-0.6	2.5	8.0	13.4	7.4
Assets	-2.1	-1.4	-1.4	-1.2	-4.0
Liabilities	1.5	3.9	9.4	14.7	11.4
Other investment	7.2	3.4	4.2	16.2	14.8
Assets	-0.8	-1.0	-7.0	0.3	-12.4
Liabilities	8.0	4.4	11.1	15.9	27.2
Reserve assets	-6.2	-4.0	-0.8	-17.8	-6.1

Source: CBRT online information. Viewed at: <http://www.tcmb.gov.tr/>; and information provided by the Turkish authorities.

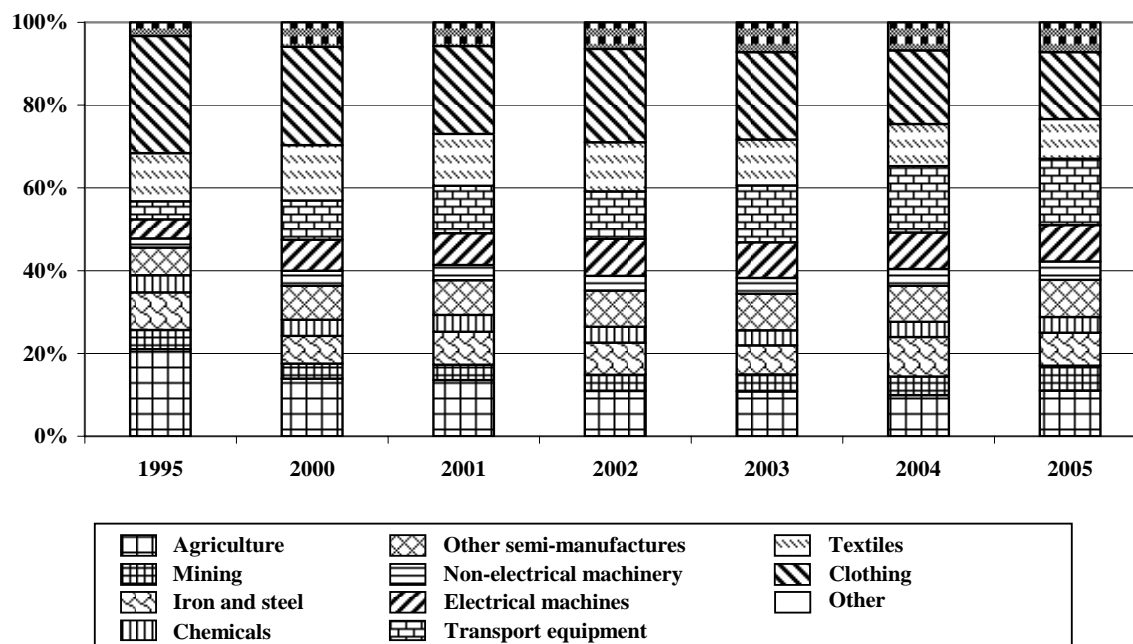
12. Turkey's merchandise exports have more than doubled since 2002, with manufactured goods contributing over 80%, followed by agriculture, and mining products (Table AI.1 and Chart I.1). Machinery and transport equipment, automotive products, textiles, food, iron and steel, and chemicals are the main exports. In particular, the share of automotive goods in total merchandise exports has risen substantially over the last few years, while that of textile and clothing products has declined.

13. More than half of Turkey's exports still go to the EC; Germany remains the single major export market, followed by the United Kingdom, Italy, the United States, and France (Table AI.2 and Chart I.2). Turkey's goods exports to the United States and some Asian countries have decreased during the last few years, whereas exports to Middle East countries, notably Iraq, have risen continuously since 2003.

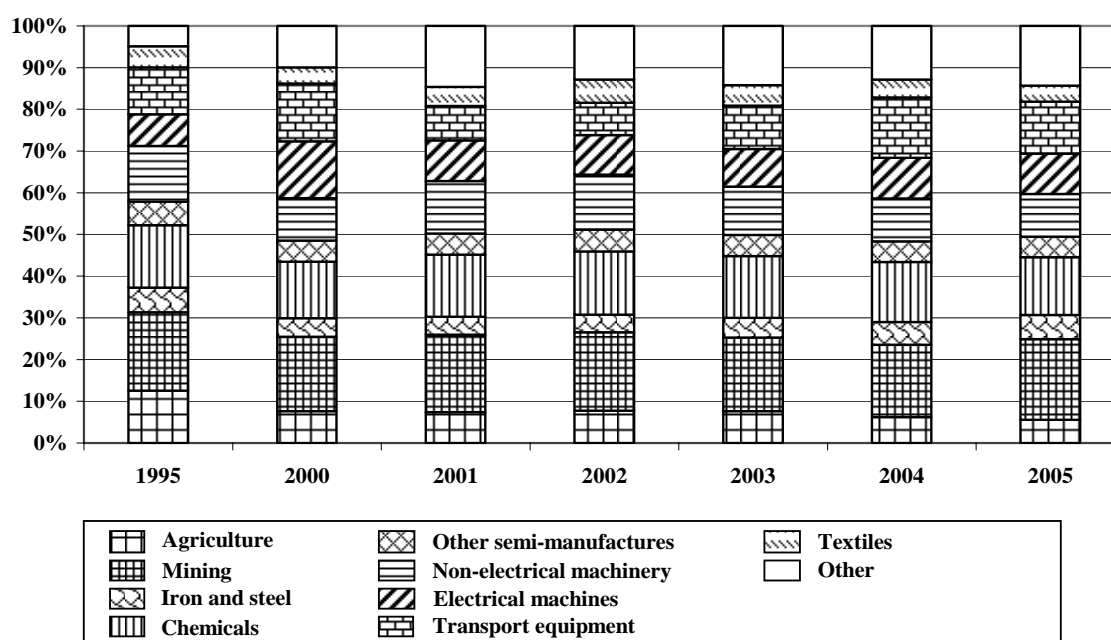
<sup>24</sup> WTO (2006).

**Chart I.1**  
**Structure of merchandise trade, 1995 and 2000-05**

**(a) Exports**



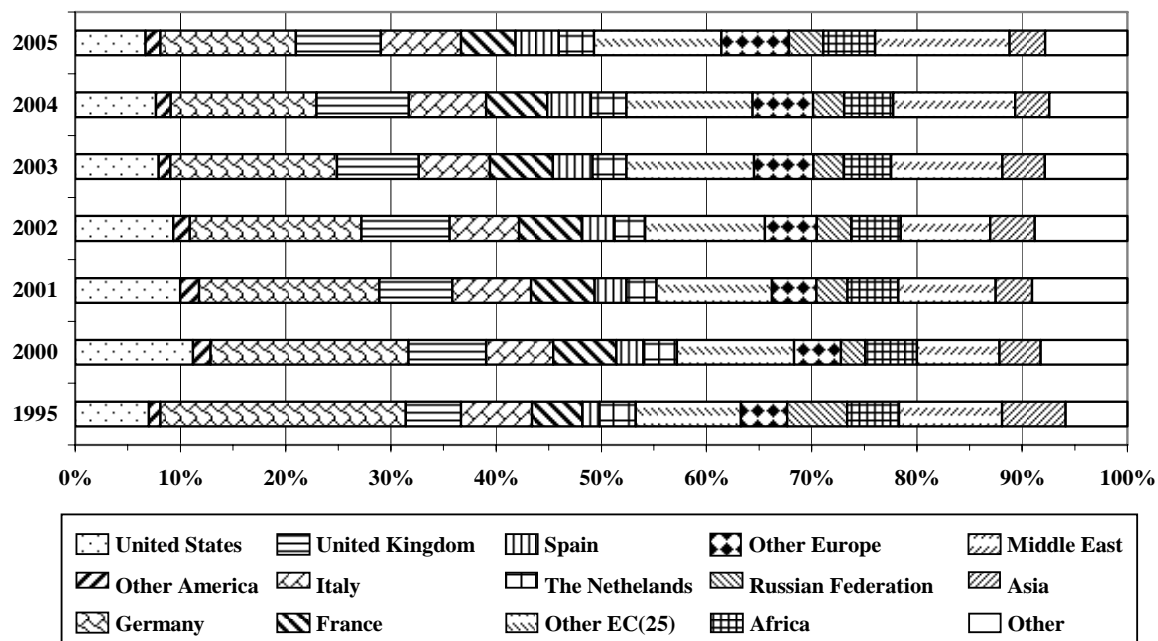
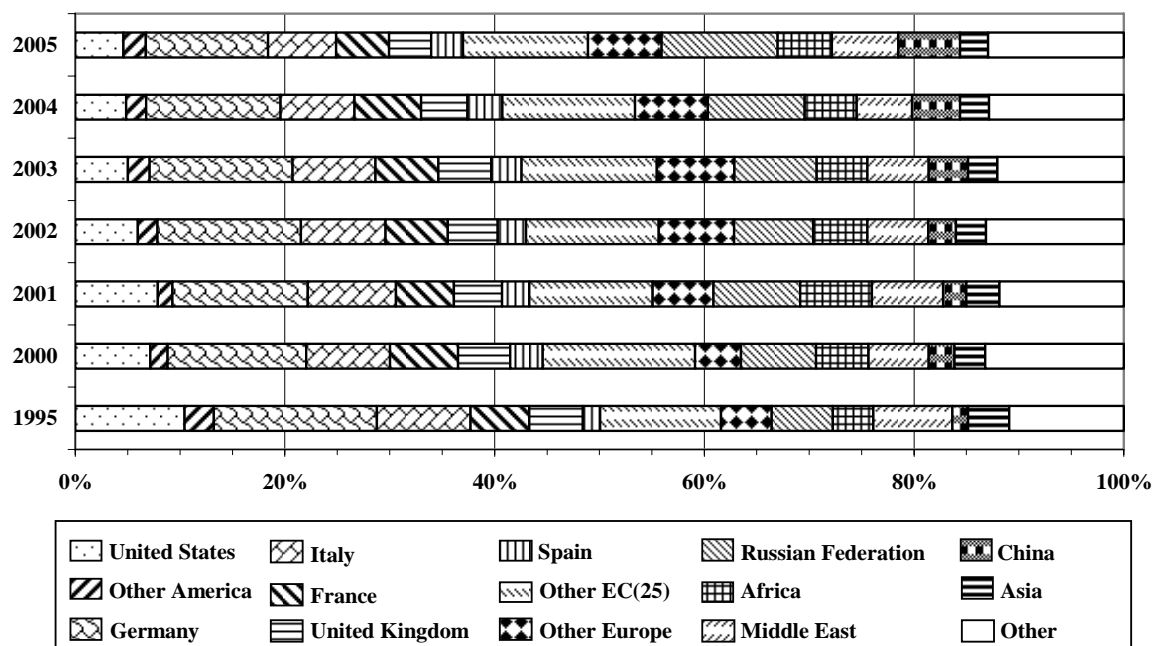
**(b) Imports**



Source: WTO Secretariat calculations, based on UNSD, Comtrade database (SITC Rev.3).

**Chart I.2****Direction of merchandise trade, 1995 and 2000-05**

Percent

**(a) Exports****(b) Imports**

Source: WTO Secretariat calculations, based on UNSD, Comtrade database (SITC Rev.3).

14. Turkey's merchandise imports have also more than doubled since 2002, with manufactured goods representing about two thirds of total merchandise imports, followed by mining, and agriculture products (Table AI.3). Machinery and transport equipment, chemicals, automotive products constitute the main imports (Chart I.1). Despite the increase in oil prices, the share of fuels in total merchandise imports has remained relatively stable over the last few years.

15. About half of Turkey's goods imports originate in Europe, mostly in the EC: Germany is still the leading source of Turkey's imports, followed by Russian Federation, Italy, China, and the United States (Table AI.4 and Chart I.2). Goods imports from the Russian Federation and some Asian countries have increased significantly over the last few years, whereas some African and Middle East countries have maintained their shares.

16. Balance-of-payments data indicate that Turkey continues to be a net exporter of services, with a surplus of US\$13.4 billion in 2006 (up from US\$7.9 billion in 2002). Total exports of services rose from US\$14 billion (equivalent to 7.8% of GNP) in 2002 to US\$24.5 billion (6.1% of GNP) in 2006, while total imports of services increased from US\$6.1 billion to US\$11.1 billion. Travel services (net) more than doubled to US\$14.1 billion in 2006, after peaking at US\$15.3 billion in 2005 (Table I.2).

## (ii) Foreign direct investment

17. Turkey's annual FDI inflows rose from an average of US\$791 million during 1990-00 to US\$3,852 million over 2002-05 (Table I.3). This was largely the result of the successful programme of economic stabilization, and the implementation of its privatization programme (Chapter III(4)(ii)). Moreover, according to the authorities, FDI inflows reached US\$20,070 million in 2006. However, as a percentage of GNP, the stock of inward FDI fell from 15.3% in 2002 (US\$27,900 million) to 11.6% in 2005 (US\$42,170 million). On the basis of UNCTAD's Inward FDI Performance Index, Turkey ranked 95<sup>th</sup> out of 141 economies in 2005 (124<sup>th</sup> in 2000).<sup>25</sup> Turkey's annual FDI outflows averaged US\$709 million over 2002-06 (US\$227 million during 1990-00). According to UNCTAD's Outward FDI Performance Index, Turkey ranked 67<sup>th</sup> out of 141 economies in 2005 (77<sup>th</sup> in 2000).<sup>26</sup>

**Table I.3**  
**Foreign direct investment, 2002-05**  
(US\$ million)

	2002	2003	2004	2005
FDI inflows	1,137	1,752	2,837	9,681
FDI inward stock	27,900	29,652	32,489	42,170
FDI inward stock (% of GNP)	15.3	12.5	10.8	11.6
FDI outflows	175	499	859	1,078
FDI outward stock	5,702	6,201	7,060	8,138
FDI outward stock (% of GNP)	3.1	2.6	2.3	2.2

Source: UNCTAD (2006), *World Investment Report*, Geneva.

<sup>25</sup> UNCTAD's Inward FDI Performance Index measures the extent to which host countries receive inward FDI, and ranks countries by the amount of FDI they receive relative to their economic size. It is calculated as the ratio of a country's share in global FDI inflows to its share in global GDP.

<sup>26</sup> UNCTAD (2006).



18. Turkey's position in UNCTAD's Inward FDI Potential Index improved somewhat during the review period, moving from 72<sup>nd</sup> in 2000 to 68<sup>th</sup> in 2004.<sup>27</sup> Since its last TPR, Turkey has been implementing measures to improve the investment climate in the country, including: a major tax reform (section (2) above); streamlining the registration of companies; a new real estate law which liberalized non-resident entry; and privatization of some state-owned enterprises (e.g. Turk Telecom, Tupras, and Erdemir). In addition, a new Commercial Code was submitted to Parliament in November 2005 but has not yet been adopted (Chapter III(4)(iii)). Nonetheless, FDI in Turkey has been inhibited by several factors, notably its relatively short history of responsible macroeconomic policies, and foreign investors still face restrictions in certain key activities (Chapter II(4)).

19. During the last few years, the services sector has attracted the large majority of FDI inflows (partly due to the privatizations of several state-owned companies in the sector), followed by manufacturing, while FDI in agriculture and mining has been very low. The share of services in total FDI increased from 71% in 2002 to 88.3% in 2006, while the share of the manufacturing sector fell from 29% to 10.4%.<sup>28</sup> The EC (led by the Netherlands, Belgium and Greece) continues to be by far the largest investor in Turkey, representing 82% of total FDI inflows in 2006.

20. Manufacturing accounted for 76.7% of Turkey's FDI outflows in 2006, and the remainder went into services: 62.2% went to the EC, led by Germany and the Netherlands.

#### **(4) OUTLOOK**

21. Turkey is expected to continue its comprehensive economic reform programme with a view to advancing in the negotiation process with the EC; avoiding falling back into the boom-bust cycle of the past; and overcoming the deep dualities between the few highly productive enterprises and the large number of low productivity companies that hinder the country's long-term growth performance. Turkey is taking steps to move to a competitive market economy through an acceleration of structural reforms, including completion of the privatization agenda and sectoral reforms (e.g. labour, education, health).

22. Under Turkey's ninth development plan, GDP is expected to increase at an annual average rate of 7% during 2007-13, with a projected per capita income of US\$10,100 by 2013.<sup>29</sup> The share of agriculture in real GDP is to decline to 7.8% in 2013, while the contributions of manufacturing and services are projected to increase to 27.2% and 65%, respectively. Exports of goods and services, as a percentage of GDP, are to rise from 28.2% in 2006 to 32.4% in 2013, while imports are to fall from 35.9% to 35.8%.<sup>30</sup>

23. Turkey's long-term strategy up to 2023 envisages promoting an export-oriented, technology-intensive production structure, with emphasis on high-value-added manufactured products and

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<sup>27</sup> UNCTAD's Inward FDI Potential Index measures the extent to which host countries receive inward FDI, and ranks countries by the amount of FDI they receive relative to their potential. It is calculated on the basis of structural variables, such as country risk, and trade-related measures.

<sup>28</sup> In 2006, 0.7% of FDI inflows went to mining and quarrying, 0.6% to electricity, gas and water supply, and 0.03% to agriculture (Central Bank of Turkey, 2007).

<sup>29</sup> According to the latest IMF projections for 2008, Turkey's real GDP growth is expected to reach 6%, the inflation rate is anticipated to decline to 4.3%, and the external current account deficit is predicted to fall to 6.8% of GDP (IMF, 2007b).

<sup>30</sup> State Planning Organization (2006).

services. This is to be achieved at the expense of agriculture, which is projected to fall to 5% of GNP by 2023.<sup>31</sup>

24. In the long term, the ratio of total investment expenditures to GNP is expected to increase (from about 22% in 2000) to approximately 27% in 2023, and the share of the public sector in total investments to decrease (from 30%) to 10%. Public investment is set to be intensified in education, health, and R&D; and to be maintained at current levels in energy, transport, and communications until 2010, after which it will be gradually reduced.<sup>32</sup>

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<sup>31</sup> WTO (2003).

<sup>32</sup> WTO (2003).