TURKMENISTAN

Highlights

- **Growth has changed little.** Officially reported real GDP growth was 6.4 per cent year-on-year in the first half of 2017, after 6.2 per cent in 2016 and 6.5 per cent in 2015.
- **The local currency remains significantly overvalued.** The black market rate reached around 6.6 manat to one US dollar by September 2017 compared with the official peg rate of 3.5 manat to one US dollar. The government has responded by introducing harsher currency restrictions. Information on foreign currency reserves is not disclosed.
- **The government terminated social transfers for electricity, gas and water in June 2017.** Exceptions are made for socially vulnerable groups. This indicates that the country has begun to better target budget expenditures, adjusting to lower revenues as the dollar value of gas exports has remained 40 per cent below its peak in 2014.

Key priorities for 2018

- **The authorities need to address currency convertibility issues and move towards unifying the black and official exchange rates.** The harsh currency controls and the significantly overvalued peg are distorting the economy and holding back private sector development.
- **The banking sector needs to be reformed.** Necessary measures include a gradual reduction in state-directed lending and state lending programmes through commercial banks, and a move to a more market-based financial intermediation.
- **Efforts to improve the business environment need to accelerate.** It is important to advance structural reforms, with particular focus on the commercialisation of state-owned companies and their gradual privatisation, and the liberalisation of cross-border trade, which would strengthen the country's integration into regional and global markets.

Main macroeconomic indicators %

	2013	2014	2015	2016	2017 proj.
GDP growth	10.2	10.3	6.5	6.2	5.7
Inflation (average)	6.8	6.0	7.4	3.6	6.0
Government balance/GDP	1.5	0.9	-0.7	-1.3	-1.1
Current account balance/GDP	-7.3	-6.4	-14.0	-21.0	-15.4
Net FDI/GDP [neg. sign = inflows]	-7.3	-8.8	-8.5	-6.2	-6.1
External debt/GDP	22.1	18.0	19.4	23.9	25.9
Gross reserves/GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	n.a.	n.a.	n.a.	n.a.	n.a.

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Macroeconomic performance

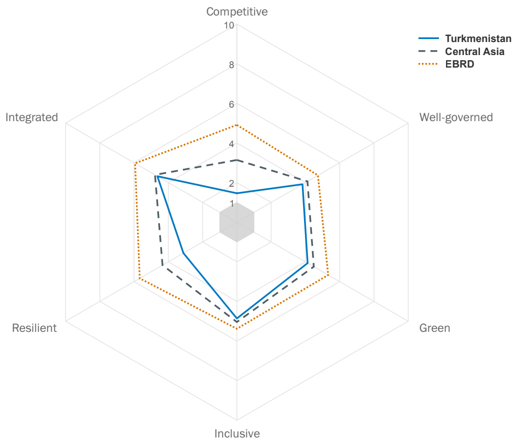
Growth remained little changed in early 2017. Officially reported real GDP growth reached 6.4 per cent year-on-year in the first half of 2017, after 6.2 per cent in 2016 and 6.5 per cent in 2015. This is substantially below the growth rates achieved in 2011-14, when gas exports were increasing rapidly. Recent growth has been supported by rising domestic consumption and import substitution. Retail trade turnover expanded by 16.9 per cent year-on-year in 2016 and by 17.2 per cent in the first half of 2017. However, fixed investment stalled in 2016 and early 2017 despite the preparation of the Asian Indoor and Martial Arts Games, which took place in September 2017. The halt of gas exports to Russia since 2016 and gas disputes with Iran, leaving China as the sole major gas recipient for the country, combined with the fall in global energy prices reduced exports to US$ 7.5 billion in 2016 from its peak of US$ 11.3 billion in 2014, according to the IMF.

The gap between the official and unofficial exchange rates has widened significantly, suggesting that the manat is significantly overvalued. The black market rate depreciated to 6.6 manat per US dollar in September 2017 from 4.4 manat per US dollar, while the official peg of 3.5 manat per US dollar has been maintained since January 2015. The government responds by continuously introducing harsher currency restrictions, severely disrupting trade.

Despite some recovery in revenues, state finances have remained under pressure. The budget slipped into a marginal deficit in 2015. In 2016 the deficit widened to 1.3 per cent of GDP, even though budget expenditures remained 13 per cent below plan, not least due to public wages arrears and cuts and lay-offs of public sector workers. Revenues decreased by 11 per cent year-on-year, and expenditures by 18 per cent, in 2016. In the first half of 2017, revenues began to recover and rose 18 per cent from a year earlier, with expenditures up by a moderate 3 per cent. The end of social transfers for electricity, gas and water from June 2017 will put a further cap on spending growth. Turkmenistan nevertheless spent significant amounts on preparation for the September 2017 Asian Indoor and Martial Art Games (for example, a new sports complex for US$ 6 billion and a new airport for US$ 2 billion), at least in part from off-budget funds.

Real GDP growth can be expected to slow to an average of 5.7 per cent in 2017 and 5.1 per cent in 2018, due to fiscal tightening measures and continuing currency depreciation that eats into real household income and spending. Relatively meagre export growth and the failure to introduce much-needed reforms to enhance the country's competitiveness and attract investment will also weigh on growth.

Assessment of transition qualities (1-10)



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Major structural reform developments

Turkmenistan remains in a very early stage of transition. The country has the lowest assessment of transition quality (ATQ) score among the EBRD's countries of operations. Significant gaps remain across all qualities, in particular in competitiveness, resilience and governance. Competitiveness of the private sector is low due to the challenging business environment and the significant state presence in the economy.

A "National Development plan for 2018-2024" was adopted in October 2017. It aims to create job opportunities in all provinces of Turkmenistan; facilitating self-sufficiency up to province level and where possible up to district level; fast-track measures to reduce imports and boost exports; nurturing the small and medium-sized enterprises to serve as the backbone of the economy; creating conditions for the emergence of private farmers as the primary guarantors of food security. It foresees also major industrial projects in the mining, chemical, metallurgical industries and in logistics. The government also passed several legislative reforms, including the amendments to the law on free economic zones, labour code, land code and tax code of Turkmenistan.

The government ended social transfers for electricity, gas and water in June 2017. Exceptions are made for socially vulnerable groups. This termination of transfers suggests better targeting but also that the government faces significant shortages in revenues as a result of low commodity prices. Turkmen citizens had enjoyed such benefits since late 1992, although limits were later imposed on the amounts that citizens could use for free. The government is also pushing to eliminate cash transactions in favour of bank cards, which suggests there is a serious shortage of hard currency.

Customs stamps have been reintroduced. The measure was implemented in June 2017, requiring importer companies to obtain a stamp for the State Commodity and Raw Materials Exchange before customs clearance. This has therefore increased non-tariff barriers to trade. Such a rule had existed from the time of Turkmenistan's independence in 1991 until 2008, when the government ended the requirement for imports valued below US$ 1 million after the official manat exchange rate was harmonised with the market rate.

The construction of a new gas pipeline has been postponed. In March 2017 it was decided to indefinitely postpone work on Line D of the Central Asia-China gas pipeline. Line D is the fourth branch of this pipeline, which was launched in 2009. Line D was particularly important for Turkmenistan as it would have enabled the country to raise its total gas exports to China to 65 billion cubic metres by 2020 from an estimated 30 billion cubic metres in 2016. Turkmenistan's economy is left particularly exposed by this decision, as it is entirely dependent on China as its only gas export market, after gas exports to Russia and Iran were halted in 2016-17. The construction of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline is progressing slowly, owing to diplomatic, financial, security and technical challenges.