



TURKMENISTAN

Highlights

- **Official GDP growth remains strong but masks significant challenges.** Growth has decelerated slightly in the first half of 2018 but remains above 6 per cent according to official figures. However, the economy is exposed to considerable external and fiscal pressures.
- **A partial recovery in export earnings in 2018 has been insufficient to ease foreign exchange scarcity.** This is reflected in the rapid depreciation of the unofficial exchange rate to between 16 and 17 manats per US dollar (September 2018) versus the official peg of 3.5 manats to the dollar.
- **The construction of alternative gas export routes is progressing slowly.** Work has started in 2018 on Line D of the Central Asia-China pipeline and the Afghan section of the Turkmenistan-Afghanistan-Pakistan-India pipeline. Further progress remains complicated by the lack of financing as well as security concerns. However, officials of Russia's Gazprom have announced the renewal of Turkmen gas exports to Russia from 2019 onwards.

Key priorities for 2019

- **Adjustment of the official exchange rate and termination of exchange rate rationing are key priorities.** Foreign and local businesses are significantly constrained in accessing foreign exchange for the import of required goods and services, payments are seriously delayed even for services rendered under government contracts. Corrective measures should be implemented while taking into account the effect on the socially disadvantaged portion of the population.
- **Fiscal policy should be tightened and public financial management should be strengthened.** Future government investment should be undertaken based on cost-benefit analysis to ensure optimal use of strained public finances.
- **Measures should be taken to significantly improve the business environment.** The main priority in this area is to reduce state interference in private sector business decisions. This will facilitate private sector growth and increase foreign investor confidence and investment.

Main macroeconomic indicators %

	2014	2015	2016	2017	2018 proj.
GDP growth	10.3	6.5	6.2	6.5	6.2
Inflation (average)	6	7.4	3.6	8	9.5
Government balance/GDP	0.9	-0.7	-2.4	-2.8	-1.2
Current account balance/GDP	-6.1	-15.6	-19.9	-11.5	-8.0
Net FDI/GDP [neg. sign = inflows]	-8.8	-8.5	-6.2	-5.5	-4.5
External debt/GDP	16.8	21.8	23.1	25.1	n.a.
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.

Macroeconomic performance

Turkmenistan continues to report strong growth, but macroeconomic pressures are rising.

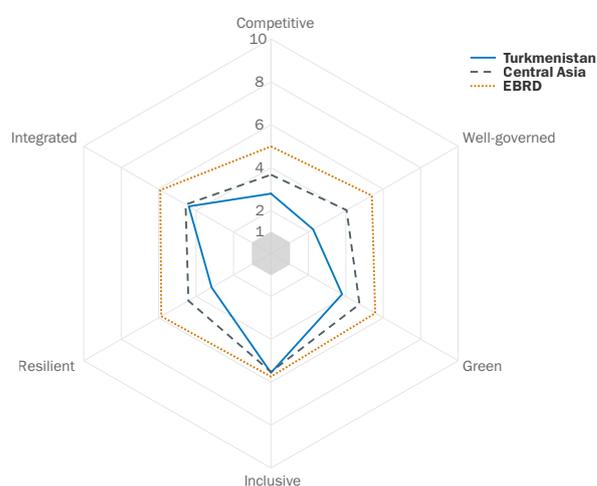
In the first three quarters of 2018 officially reported real GDP growth was 6.2 per cent year-on-year, following 6.5 per cent growth in 2017. Fixed investment fell by 20.2 per cent year-on-year in the first half of 2018, from its previously very high levels. Industrial production grew by 4.2 per cent year-on-year in the first three quarters of 2018. While exports rose in the first half of 2018 by 43.4 per cent year-on-year, they still remain well below their peak in 2014 following declines in the past three years. Import substitution policies led to a reduction of imports by 43.5 per cent in the same period. Despite the high official growth rates, the economy faces an array of challenges reflected in a severe foreign exchange scarcity, rising food prices, and high unemployment. Inflation accelerated from 6.2 per cent year-on-year in December 2016 to 10.4 per cent year-on-year in December 2017. Prices have officially grown further by 8.9 per cent between December 2017 and June 2018, elevating officially reported inflation to an estimated 15.7 per cent year-on-year in June 2018.

The exchange rate is under severe pressure. While the official peg is maintained at 3.5 manats per US dollar, the exchange rate in the parallel market reached 16 to 17 manats per dollar in September 2018, significantly up from 6.6 manats in September 2017. Foreign exchange continues to be heavily rationed, with the government prioritising the allocation of foreign exchange for projects deemed to be of highest importance. Lower imports of investment goods contributed to a narrowing of the current account deficit from around 20.0 per cent of GDP in 2016 to 11.5 per cent in 2017, according to IMF estimates.

The fiscal position remains weak. The state budget deficit widened from 2.3 per cent of GDP in 2016 to 2.8 per cent of GDP in 2017. Revenues reached 14.9 per cent of GDP in 2017, up from 11.7 per cent in 2016 while expenditures rose to 17.7 per cent of GDP in 2017 from 14.1 per cent in 2016. Revenues of the state budget for 2018 were set 8.0 per cent lower than in the 2017 budget. Expenditures in 2018 are planned at the same amount as revenues, which is 9.0 per cent below the 2017 budget plan. In the first half of 2018, state budget revenues fell by 8.8 per cent year-on-year, and expenditures by 3.9 per cent. Revenues were thus 3.0 per cent above plan, and expenditures 15.0 per cent below plan. The reduction in both spending and revenues relative to 2017 indicate difficulties in the public finances. External debt was 25.1 per cent of GDP in 2017, up from 23.1 per cent in 2016.

GDP growth is forecast to slow to 6.2 per cent in 2018 and 5.6 per cent in 2019. Growth will be weighed down by relatively small export growth, a further contraction of domestic consumption and fiscal consolidation efforts. The dependence of Turkmenistan's exports on China remains a major vulnerability to the economy. If, however, significant gas exports to Russia resume, it would ease the economic situation.

Assessment of transition qualities (1-10)



Major structural reform developments

Some reforms have been announced but implementation plans remain unclear.

Among recently announced measures, a “State Programme on Support of Small and Medium Entrepreneurship for 2018-2024” was approved by the President in March 2018 and a small and medium-sized enterprise (SME) fund was created. The President also approved a “State Programme on Energy Saving for 2018-2024”, which among other things envisages the construction of solar power stations, industrial wind generators and biogas plants. The authorities are preparing reforms such as medium-term budgeting, transition to GFSM2001 fiscal data reporting, and a financial regulatory overhaul, which would introduce elements of Basel principles into local regulations. However, the announced reforms in many cases lack detail, and it remains to be seen in what way and how fast they will be implemented.

Construction of gas pipelines is progressing but at a slow pace due to financial, security and technical challenges.

In February 2018, the construction of the Afghan section of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas line project was formally launched. TAPI intends to supply 33 billion cubic metres of gas from Turkmenistan to Afghanistan, Pakistan and India. However, the completion of the TAPI pipeline is still under question because of security issues in Afghanistan and Pakistan. The construction of the Tajikistan part of the Line D of the Central Asia-China pipeline, through which Turkmenistan intends to further increase gas deliveries to China, began in January 2018, but the future of the pipeline will depend on how much gas China is actually willing to purchase. Turkmenistan’s economy is highly dependent on China as its major gas export market, after halting its gas exports to Russia and Iran in 2016-17.

A new cargo and passenger seaport on the Caspian Sea has been opened. The seaport, which cost US\$ 1.5 billion, was opened in May 2018 with the aim of establishing Turkmenistan as a transit hub connecting Europe and China. Construction of the port started five years ago.

The government expects that the port will allow Turkmenistan to handle 17 to 18 million tonnes of cargo a year, bringing the total handling capacity (including an existing port) to 25 to 26 million tonnes. This complements Turkmenistan’s efforts to upgrade transport infrastructure following the opening of the new US\$ 2.5 billion airport in September 2016 designed to handle 14 million passengers and 200,000 tonnes of cargo annually. While these investments have high passenger and cargo potential, the lack of accompanying soft infrastructure enablers limits the utilisation of these investments.

Russia plans to resume gas imports from Turkmenistan in 2019 but a gas dispute with Iran is unresolved.

After halting gas imports from Turkmenistan in 2016, Gazprom representatives indicated in October 2018 that gas purchases from Turkmenistan would start in January 2019. This is long-awaited news for Turkmenistan which currently depends on China as its sole gas export market. Turkmenistan also used to export gas to Iran in return for goods and services until January 2017. However, it stopped supplying gas to Iran because of claims of outstanding debt of US\$ 1.8 billion for gas imported in 2007-08. In August 2018 the case went to the International Court of Arbitration but there is no notable progress to date.