



TURKMENISTAN

Highlights

- **Turkmenistan continues to report strong GDP growth despite a large drop in the country's export revenues.** Officially reported real GDP growth slowed to 5.8 per cent year-on-year in the first three quarters of 2020 from 6.3 per cent a year ago.
- **The Covid-19 pandemic has hit Turkmenistan's export revenues hard.** The outbreak of the crisis and the subsequent collapse of demand for gas has led China, Turkmenistan's main export market, to significantly reduce its pipeline gas imports from Turkmenistan.
- **The budget is being revised to cut down spending.** In April 2020 the president instructed the government to prepare proposals for revising the state budget and expenditure and to develop short- and medium-term measures to reduce the negative impact of the global economic contraction and the virus on business activities.

Key priorities for 2021

- **A key priority is to deal with the economic and healthcare implications of Covid-19.** The government should offer financial support to the affected sectors and households. Measures should focus on liquidity as well as solvency.
- **Currency convertibility issues need to be addressed and the exchange rate should be adjusted to reflect macroeconomic fundamentals.** Removing exchange rate distortions would improve the competitiveness of the country's exports and correct external imbalances while stimulating growth of the private sector.
- **The authorities should take measures to increase data transparency.** Collection of economic and social data and its availability must be improved to facilitate sound decision-making by all stakeholders and the public at large. Greater transparency would help private sector actors in planning investment, production and financial management decisions, while also helping the government take timely policy actions grounded in rigorous statistical evidence.

Main macroeconomic indicators %

	2016	2017	2018	2019	2020 proj.
GDP growth	6.2	6.5	6.2	6.3	-1.0
Inflation (average)	3.6	8.0	13.3	5.1	8.0
Government balance/GDP	-2.4	-2.8	-0.2	-0.3	-1.4
Current account balance/GDP	-20.2	-10.4	5.5	5.1	1.0
Net FDI/GDP [neg. sign = inflows]	-6.2	-5.5	-4.9	-4.8	-2.5
External debt/GDP	23.1	26.9	27.7	29.2	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.

Covid-19: macroeconomic implications

Turkmenistan continues to report strong GDP growth despite the global economic contraction. Officially reported real GDP growth slowed to 5.8 per cent year-on-year in the first three quarters of 2020 from 6.3 per cent a year ago. The government reported that retail trade turnover increased by 19.4 per cent year-on-year in the first three quarters of 2020. According to official data, Covid-19 has not been diagnosed in the country. However, the authorities took preventive steps to restrict cross-border and internal movements and impose social distancing. Large shopping centres, markets, theatres, parks and sports facilities had to briefly suspend operations from 21 July to 1 August 2020. Nevertheless, domestic containment measures in Turkmenistan have thus far been milder than in other Central Asian countries, with services and small and medium-sized enterprise (SME) sectors affected to a much lesser extent than elsewhere.

Covid-19 has hit Turkmenistan's export revenues hard. In 2019, Turkmenistan was number one exporter of gas to China. Around 90 per cent of Turkmenistan's exports are supplied to China. The outbreak of the coronavirus crisis and the subsequent collapse of demand for gas has led China to reduce its pipeline gas imports. In March 2020, China issued a *force majeure* notice to its gas suppliers to suspend imports. In May 2020, the Chinese authorities indicated their intention to cut natural gas imports proportionally between Turkmenistan, Uzbekistan and Kazakhstan. According to the International Monetary Fund (IMF) and Trade Map data, exports declined by 44 per cent year-on-year in the first seven months of 2020, mostly consisting of gas supplies to China.

Reduced foreign exchange inflows have translated into tighter foreign exchange regulations. These added restrictions are interfering with private sector activities. While the official exchange rate peg is maintained at 3.5 manats per US dollar, the parallel market exchange rate has depreciated from 18 to 19 manats per US dollar in January 2020 to 23 to 24 manats in September 2020. In May the government established the Reserve Currency Fund which will accumulate the foreign currency earnings of all state enterprises.

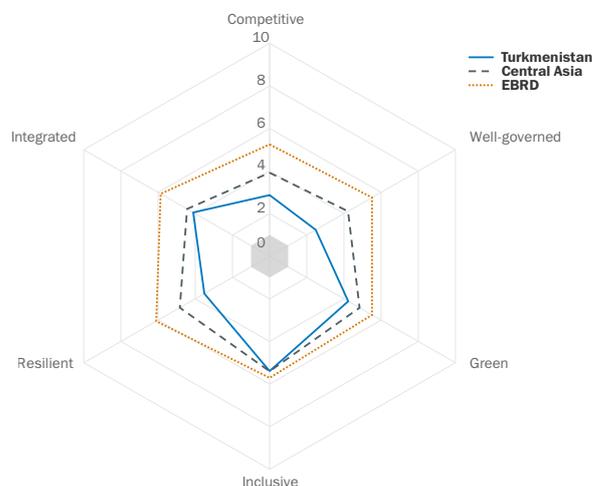
The economy is likely to contract in the short term, given the large drop in gas exports. We forecast GDP to contract by 1.0 per cent in 2020 and return to growth of 1.0 per cent in 2021, supported by a recovery in China's demand for gas. Major uncertainty remains around these forecasts given the paucity of reliable economic data in Turkmenistan.

Policy response to Covid-19

A plan is in place to combat Covid-19 infections. In March 2020, the president approved the Preparedness and Response Plan, which is designed to prevent the emergence of Covid-19 in Turkmenistan. The plan was developed in collaboration with the United Nations and its agencies (United Nations Development Programme, World Health Organization [WHO] and the United Nations Children's Fund). Measures in the plan have been reported to fully comply with WHO recommendations. Those undertaken so far include closures of borders, restrictions on internal movement, cancellations of public sport activities, closures of gyms, theatres and other public places, and extensions of school holidays. Passenger railway transportation has been suspended since mid-July 2020 and citizens are required to wear masks in all public places.

The budget is being revised to cut down spending. In April 2020 the president instructed the government to prepare proposals for revising the state budget and expenditure and to develop short- and medium-term measures to reduce the negative impact of the global economic contraction and the virus on business activities. Suggestions focused on expanding lending to SMEs, tax and loan deferrals, supporting the transportation sector and creating jobs in the private sector. At the same time, all social payments and healthcare expenditure will be safeguarded, while construction spending will be downsized to preserve only socially important facilities.

Assessment of transition qualities (1-10)



Structural reform developments

There has been steady progress with advancing the digitalisation agenda. Digitalisation has been identified as the core pillar of the Program of the President of Turkmenistan for the socio-economic development of the country for 2020-25. An important milestone in this regard was the adoption of the Law of Turkmenistan “on electronic documents, electronic document management and digital services” in March 2020. In July 2020 the Ministry of Finance and Economy implemented electronic document management for its units, with the president emphasising the need to transition to e-government. In August 2020 online registration of businesses was introduced, allowing entrepreneurs to accelerate the process of registration and liquidation. In addition, the “Electronic Tax” system is being introduced to optimise tax returns and simplify tax reporting.

Turkmenistan was granted observer status in the WTO in July 2020. The authorities had previously submitted a request for observer status in May 2020, intending to start negotiations for WTO accession within five years. This is a positive step towards further integration into global trade and may provide an impetus towards diversifying the economy from hydrocarbon exports. In addition, there are associated benefits of increased transparency for investors and trading partners.

Construction of the Turkmenistan–Afghanistan–Pakistan–India (TAPI) gas pipeline is being delayed. Turkmenistan failed to reach financial close for the project, which is worth US\$ 8 to 10 billion, in early 2020 and will aim to do so in 2021. This pushes the deadline for the project to become operational from 2021 to 2023. So far the Turkmen side has built 200 kilometres of the pipeline from the Galkynysh gasfield to its border with Afghanistan. The pipeline’s design capacity is planned to be 33 billion cubic metres of gas annually, helping reduce dependence on China as the country’s main export market.