



TURKMENISTAN

Highlights

- **Turkmenistan's economy continues to grow rapidly in 2021.** Real gross domestic product (GDP) growth was reported at 6.2 per cent year-on-year in the first three-quarters of 2021 after decelerating to 5.9 per cent year-on-year in 2020. Exports (primarily gas exports to China) rose by 36 per cent year-on-year in the first half of 2021 but are still below 2020 levels.
- **The digitalisation agenda is promoted through a government programme.** Signed in August 2021, a new government programme seeks to promote the development of information technology products by the country's small and medium-sized enterprises (SMEs). The programme includes such instruments as subsidised loans to SMEs as well as measures to support the demand for domestically produced software products and equipment.
- **Talks are under way to advance the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project.** Progress on this important project will depend on, among other things, discussions with the new regime in Afghanistan.

Key priorities for 2022

- **The government needs to deal with the healthcare implications of Covid-19.** In previous years, Turkmenistan made heavy investment in upgrading equipment and hard infrastructure. The focus should shift to strengthening the qualifications and skills of medical staff.
- **Currency convertibility issues should be resolved and the exchange rate adjusted to reflect macroeconomic fundamentals.** Using access to foreign currency at an undervalued exchange rate as a support mechanism for selected entrepreneurs, as the government has been doing, is clearly inferior to market-based selection of the fittest firms. 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 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 to make investment, production and financial management decisions, while also helping the government take timely policy actions grounded in rigorous statistical evidence.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	6.5	6.2	6.3	5.9	6.3
Inflation (average)	8.0	13.3	5.1	7.6	12.5
Government balance/GDP	-2.8	-0.2	-0.3	-0.2	-0.3
Current account balance/GDP	-10.4	5.5	5.1	-2.6	1.0
Net FDI/GDP [neg. sign = inflows]	-5.5	-4.9	-4.8	-2.5	-3.5
External debt/GDP	26.9	27.7	29.2	28.5	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.

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Covid-19: macroeconomic implications

According to official data, the economy continues to grow at pace in 2021. Real GDP growth was reported at 6.2 per cent year-on-year in the first three-quarters of 2021. In 2020 the economy grew by 5.9 per cent. Such strong growth in 2020 is hard to reconcile with the wider economic context and global disruption to trade and mobility. The IMF estimates that real GDP in 2020 contracted by 3.4 per cent while average annual inflation accelerated from 5.1 per cent in 2019 to 7.6 per cent.

External accounts came under pressure. The current account balance turned from a surplus of 1.3 per cent of GDP in 2019 to a deficit of 0.5 per cent in 2020. Exports, a major source of growth, plummeted by 30.7 per cent in 2020, while imports rose by 1.6 per cent, according to IMF data. Exports rose by 18 per cent year-on-year in the first five months of 2021 but are still below 2019 levels. The official exchange rate peg is maintained at TMM 3.5 per US dollar. The parallel market exchange rate depreciated from TMM 18 per US dollar in December 2019 to TMM 40 in April 2021 but has recovered since then to TMM 20-25 per US dollar as of October 2021.

State finances were balanced in 2020. The government budget turned into a marginal surplus (0.1 per cent of GDP) in 2020 from a deficit of 0.4 per cent of GDP in 2019. However, the 2021 budget envisages total spending being 6 per cent below the 2020 budget, indicating strained public finances. More than 70 per cent of expenditures will be directed at social sectors, such as education and healthcare. Wages and pensions will increase by 10 per cent in 2021.

The bulk of external debt was paid off. The government reported that in June 2021 it paid off the debt it owed China for the construction of a gas pipeline and associated projects, and that henceforth all gas revenues would accrue to the state budget. In August 2021 Fitch assigned Turkmenistan a B+ rating with a stable outlook. The rating balances healthy fiscal and external positions with concerns over the difficult business environment, weak institutional capacity and state-centric economic policies.

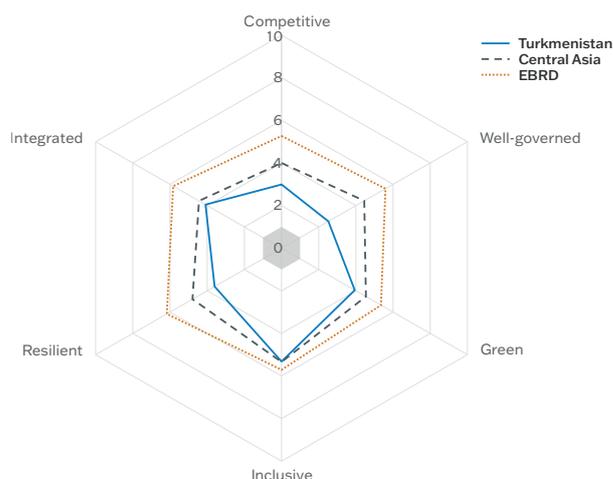
Economic growth is expected to moderate in the short term. Real GDP growth is projected at 6.3 per cent in 2021 due to substantial export growth. The growth rate of the economy is forecast to slow to 5.5 per cent in 2022, reflecting structural challenges in many areas, including the poor quality of the business environment, limited financial sector depth and restrictions on private sector operations in the country. Major uncertainty remains around these forecasts given the absence of reliable economic data and the global situation with the Covid-19 pandemic.

Policy response to Covid-19

There are no officially registered Covid-19 cases in the country as of August 2021 but several lockdown measures are in place. Due to a spike in Covid-19 cases in neighbouring countries, the authorities in Turkmenistan enacted nationwide restrictions in June 2021. There are limitations on domestic travel (roads, railways, airports). Land borders with Afghanistan, Iran, Kazakhstan and Uzbekistan are closed, and international commercial flights are suspended. All major shopping centres, swimming pools and gymnasiums are closed in Ashgabat as of August 2021. Gatherings, including family celebrations, have been banned across the country. Social distancing of at least two metres is to be maintained and face masks are compulsory in public areas. Vaccination is also compulsory for the population above the age of 18.

The World Bank approved US\$ 20 million for the Turkmenistan Covid-19 Response Project. The loan, approved in July 2021, will support priority activities under the National Pandemic Preparedness and Response Plan. The country's Covid-19 pandemic preparedness activities cover a range of possible transmission scenarios. An Emergency Anti-Epidemic Commission Operational Headquarters has been established to coordinate the national Covid-19 pandemic preparedness and response effort.

Assessment of transition qualities (1-10)



Structural reform developments

Financial support will be provided to SMEs to help their digitalisation efforts. The relevant resolution was signed by the president in August 2021 as part of the Concept for the Development of the Digital Economy in Turkmenistan for 2019-25. Loans will be issued to SMEs to help them develop hardware and software products. The loans will be for five years at a 2 per cent interest rate with a grace period of two years. In addition, financing will be provided for the purchase and commissioning of domestic software products and equipment for a period of three years at a 2 per cent interest rate with a grace period of six months.

Talks are under way on advancing the TAPI gas pipeline project. Turkmenistan failed to reach financial close for the project in 2020 but aims to do so in 2021. This pushes the deadline for the project to become operational from 2021 to 2023. The pipeline's design capacity is planned to be 33 billion cubic metres of gas annually, helping Turkmenistan to reduce dependence on China as the country's main export market. Further progress will depend on ongoing discussions with the new regime in Afghanistan, which is yet to form a unified position towards the project.