



Turkmenistan Highlights

- **The economy continues to grow strongly.** According to official data, gross domestic product (GDP) growth exceeded 6 per cent year on year in the first half of 2023, primarily driven by elevated gas exports and manufacturing output, as well as increased capital investment.
- **The country's engagement with neighbouring countries is gaining steam.** Bilateral and multilateral discussions on energy, transportation and water management are being held, potentially leading to improved regional cooperation.
- **Efforts to lower methane emissions have accelerated.** The authorities approved the 2023-24 Methane Roadmap and created the Intersectoral Commission for the Reduction of Methane Emissions, which bodes well for Turkmenistan's commitment to join the Global Methane Pledge.

Key priorities for 2024

- **The authorities should strengthen compliance standards in the banking system.** Strong compliance with the international sanctions regime is a key requirement of Western financial institutions when deciding on the provision of correspondent banking services, which are key to entrepreneurs' ability to send or receive foreign-exchange transfers from abroad.
- **Soft connectivity bottlenecks should be resolved.** Given its location at a strategic transportation crossroads, Turkmenistan is in a position to serve larger volumes of cargo moving along the East-West and North-South transport corridors. For this opportunity to materialise, the authorities need to harmonise Turkmenistan's border management policies on the movement of people and goods with those of its immediate neighbours.
- **Steps are needed to address water scarcity.** Facing the highest risk of water stress in Central Asia, Turkmenistan should embrace a holistic approach to food and water security, including measures to encourage the transition to water-saving agricultural crops and technologies, water re-use and recycling. In particular, robust diplomatic efforts are required to agree water intake and river management rules with Turkmenistan's neighbours, including Afghanistan.

Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	-3.4	-2.9	6.2	6.2	6.5
Inflation (average)	5.1	6.1	19.5	11.2	5.9
Government balance/GDP	-0.3	-0.1	0.4	2.4	0.9
Current account balance/GDP	2.8	2.6	6.5	7.1	3.4
Net FDI/GDP [neg. sign = inflows]	4.2	3.2	n.a.	n.a.	n.a.
External debt/GDP	14.7	12.4	n.a.	n.a.	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 developments and policy response

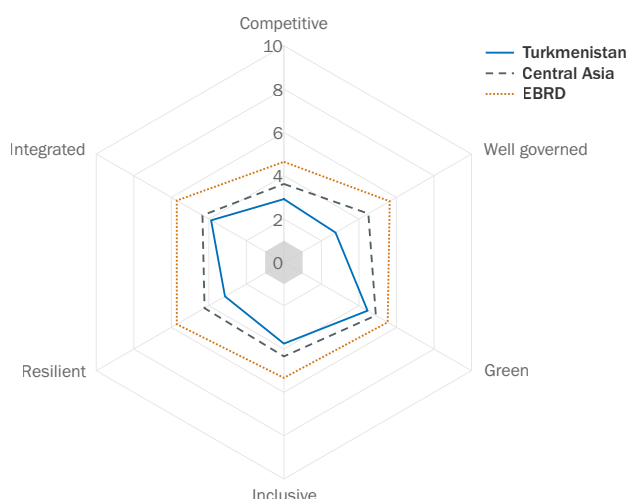
Strong economic growth continues in 2023. The official figure for GDP growth in the first half of 2023 was 6.2 per cent year on year. The country was able to exceed its plans for natural and associated gas production (by 8.3 per cent) and exports (by 12.1 per cent) thanks to the new Galkanysh well coming into operation. Agriculture and food production expanded 10.3 per cent year on year and manufacturing grew 9.6 per cent year on year, supported by the government's unorthodox industrial policies, including preferential access to foreign exchange. Growth in retail trade turnover (up 9.3 per cent year on year) and consumer loans (up 18.5 per cent year on year) reflect strong domestic demand, supported by recent increases in public-sector wages, pensions, stipends and social security benefits.

Higher capital investment is providing a strong growth impetus. In the first half of 2023 investment in fixed capital grew by 24.6 per cent (reaching around 16 per cent of the country's GDP), with almost 50 per cent being allocated to manufacturing. On 29 June 2023 the authorities inaugurated the new Arkadag city. Designed to be smart and environmentally friendly, Arkadag may attract additional investment. Turkmenistan's participation in the development of international transport corridors (both North-South and East-West) may trigger significant further investment in infrastructure, as well as in related logistics activities.

Inflation is trending downwards and growing tax receipts are strengthening the fiscal stance. While the authorities do not publish data on inflation, unofficial estimates suggest that inflation has been on a downward trajectory since early 2023, in line with global trends in food and transportation prices. The official exchange rate remains pegged at TMM 3.5 per US dollar and the black-market exchange rate stabilised in 2022 at around TMM 19 per US dollar. In the first half of 2023 the government budget posted a surplus of 2.3 per cent of GDP. In August 2023 Fitch affirmed Turkmenistan's B+ rating with a "positive" outlook, citing a strong fiscal position in the presence of structural challenges. Public debt is very low (around 5 per cent of GDP), well below levels in peer economies.

Strong growth will continue in the short term. We expect the economy to expand by 6.5 per cent in 2023 and 7 per cent in 2024, benefiting from its strong fiscal stance. Market-oriented reforms, if implemented, would strengthen the outlook. However, the country's extremely high reliance on a single commodity (gas) and a single export market (China), along with water scarcity, are major vulnerabilities.

Assessment of transition qualities (1-10)



Structural reform developments

The country is actively engaging with neighbouring Central Asian countries on energy, transportation and water management. On 4 August 2023 Turkmenistan hosted a trilateral summit with the leaders of Uzbekistan and Tajikistan. The three presidents expressed a strong commitment to deepening trilateral cooperation, with a particular focus on energy, transportation and the management of shared water resources. In the energy sector, discussions are progressing on the construction of Line D of the Central Asia-China gas pipeline, traversing Uzbekistan, Tajikistan and the Kyrgyz Republic. This project has the potential to increase gas supplies from Turkmenistan to Xinjiang by an additional 30 billion cubic metres (bcm). In the realm of transportation, the three countries are emphasising the importance of developing multimodal routes, harmonising tariffs and enhancing logistical capabilities. In addition, Turkmenistan has recently been acting as a gas supplier of last resort for Uzbekistan, which experienced severe shortages in winter 2022-23, and reached a short-term agreement to export up to 2 bcm of gas in 2023-24. A long-term deal is being discussed, including plans for more extensive cooperation in the energy field, potentially including electricity deliveries and transit.

The country is taking steps towards joining the International North-South Transport Corridor (INSTC). In April 2023 Kazakhstan, Turkmenistan and Russia agreed to establish a joint venture between the railway companies of the three countries. Its primary goal is to create a unified logistics operator for the eastern route of the INSTC, a multimodal transport network connecting the Indian Ocean and the Persian Gulf to northern Europe. In July 2023 Russia consented to Turkmenistan's accession to the INSTC agreement. Prior to joining, Turkmenistan's authorities emphasised ongoing efforts to streamline tariffs and visa regulations. They also highlighted the potential of the Akayla (Turkmenistan)-Inche Burun (Iran) route to enhance transit volumes along the INSTC route.

Progress is being made on World Trade Organization (WTO) membership. In February 2022 the WTO established a "working party" to negotiate multilaterally Turkmenistan's terms of accession to the trade bloc. At a roundtable with the WTO Secretariat and the Asian Development Bank in May 2023, the Turkmen president announced the establishment of a special working commission to develop a Memorandum on the Foreign Trade Regime (MFTR), the first formal document required on the path to accession negotiations.

Efforts are under way to mitigate methane emissions. Turkmenistan has the highest rate of "super-emitter" events in the world. Its two fossil-fuel fields produced a combined 4.4 million tonnes of methane leaks in 2022 – greater than the equivalent CO₂ emissions of the United Kingdom in the same year. To curb methane emissions and mitigate their pernicious climate impact, the authorities approved the 2023-24 Methane Roadmap and formed an Intersectoral Commission for the Reduction of Methane Emissions. These initiatives lay the groundwork for Turkmenistan's joining the Global Methane Pledge and enacting relevant legislation to curtail methane emissions.