

The World Bank in Turkmenistan

Country Snapshot



An overview of the World Bank's work in Turkmenistan

April 2019

TURKMENISTAN	2018
Population, million	5.8
GDP, current US\$ billion	42.4
GDP per capita, current US\$	7,356
School Enrollment, Primary (% gross)	88.4
Life Expectancy at birth, years	67.8

At a Glance

- Despite the fact that the favorable external environment has supported export expansion, Turkmenistan's economic growth eased slightly in 2018 on weaker domestic demand.
- Higher global demand for energy and emerging opportunities for regional cooperation suggest favorable GDP growth prospects, although the slow pace of structural reforms presents downside risks.
- The authorities are likely to adhere to the exchange rate peg, and a determination of whether to adjust the national currency will largely depend on the evolution of foreign liabilities in the public sector.
- The external position will continue to benefit from elevated prices for natural gas and controlled access to foreign exchange, accompanied by expanded industrial output that is supported by export-promotion and import-substitution policies.
- External and domestic risks to the economy will remain elevated. Factors such as a drop in hydrocarbon prices, as well as slow progress on economic diversification and private sector development, may affect economic growth prospects.

Country Context

Turkmenistan is located at the center of the Eurasian continent and has been classified as an upper-middle-income country since 2012. It borders Kazakhstan, Uzbekistan, Iran, Afghanistan, and, to the west of the country, the Caspian Sea, which offers abundant natural resources of gas and oil deposits.

Turkmenistan's gas reserves are estimated to be the world's fourth largest, representing about 10 percent of global reserves. In addition to cotton and natural gas, the country is rich in petroleum, sulfur, iodine, salt, bentonite clays, limestone, gypsum, and cement—all potential inputs to chemical and construction industries.

China remains the largest market for Turkmenistan's hydrocarbon exports. In an attempt to diversify gas exports, the country is embarking on the construction of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline. In addition, the potential resumption of gas supplies to Russia, as well as the possibility of exporting gas to the South Caucasus by using gas swaps with Iran, would help diminish the risk of overreliance on a single client.

Tight administrative controls and the public sector's dominant role in economic activity have hindered private sector development. Despite the growth of the private sector's share in segments of the economy, public sector and state-owned monopolies continue to govern the economy and the formal labor market. Apart from the hydrocarbon sector, foreign direct investment (FDI) remains limited.

Opening the economy, improving the business regulatory environment, accelerating the corporatization and privatization of state-owned enterprises, and investing more heavily in human capital would be vital to boosting private sector development and achieving medium- and long-term national development goals.

The World Bank and Turkmenistan

The latest strategy for Turkmenistan, the Country Engagement Note (CEN) FY16–17, focused on deepening collaboration in such areas as financial sector development and improved macroeconomic statistics.

In non-lending operations, the World Bank Group has been sharing the relevant international knowledge, experience, and best practices in areas critical to Turkmenistan’s growth agenda and its attempted integration into the global economy.

Funded by the Government of Turkmenistan and supplemented by the Bank’s other Advisory Services and Analytics, the knowledge-based Reimbursable Advisory Services (RAS) program—the cornerstone of the CEN—was prepared to support and be consistent with the Government’s strategic priorities.

The Government and the World Bank Group are currently in the process of identifying potential areas for expanding cooperation to help Turkmenistan implement additional reforms and overcome obstacles impeding the country’s socioeconomic development potential.



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Key Engagement

During 2016–18, the World Bank Group and the Government of Turkmenistan implemented the second RAS agreement, which was an integral part of the CEN for Turkmenistan.

The RAS program was designed to support business model reforms and corporate governance in the banking sector, the development of a credit reporting system, the administration of national risk assessments with regard to money laundering and terrorist financing, and the strengthening of macroeconomic statistics.

The entire program under the agreement was managed, delivered, and supervised by the World Bank Group in line with international best practices.

Currently, the World Bank Group and the Turkmen authorities are discussing potential areas to be included in a new RAS agreement to continue supporting Turkmenistan’s development objectives, as stated in the National Program for Social and Economic Development, through the transfer of global knowledge and expertise and capacity-building activities.

The World Bank currently supports the country in such areas as the development of a welfare-monitoring system, regional water concerns, the climate agenda, and technical assistance for the hydrometeorology committee.

Recent Economic Developments

Real GDP growth slowed to 6.2 percent in 2018 from 6.5 percent in 2017, according to official estimates. Improved terms of trade and continued strong Chinese demand for natural gas helped to sustain the strong rate of economic growth.

On the other hand, public and private investment fell in the context of fiscal consolidation, lower inflows of FDI, and weaker credit expansion.

Officially reported inflation subsided to 7.2 percent in 2018 from 10.4 percent in 2017. Although limited access to hard currency drove inflationary pressures for imported non-food items, administrative measures and the state-led import of consumer staples (to ease food supply constraints) contained food prices.

Turkmenistan's external position improved in 2018 on account of improved terms of trade and lower demand for imports of capital and consumer goods.

Meanwhile, reduced capital investment, limited access to foreign exchange, and broadening domestic production (supported by import substitution programs) resulted in a 47.8 percent reduction in import spending.

Foreign investment continued to drop owing to challenges in the foreign exchange market and the economy's weaker growth prospects.

Turkmenistan does not release official statistics on living standards, and little is known about the country's labor market. Data constraints prevent a thorough analysis of the social impact of slower economic growth.

Economic Outlook

Turkmenistan's positive economic outlook is based on the assumptions that global energy demand will remain strong and China's economy will not falter. Both expectations carry significant uncertainties, however. Policies aimed at fostering private sector development and economic diversification could gradually promote non-hydrocarbon sectors and contribute to inclusive growth.

Inflationary and exchange rate pressures are expected to ease, supported by ample hydrocarbons earnings. The authorities are likely to adhere to the exchange rate peg, and a determination on whether to adjust the national currency will largely depend on the evolution of foreign liabilities in the public sector.

Turkmenistan's external position will continue to benefit from elevated prices for natural gas and controlled access to foreign exchange, accompanied by expanded industrial output that is supported by export-promotion and import-substitution policies. However, ongoing challenges associated with expatriating profits will discourage strong FDI inflows.

Although ending free access to water, gas, and electricity in 2019 may affect living standards for the vulnerable, such measures underscore the Government's firm commitment to reforming the country's utilities and improving its finances.

The agriculture sector—which employs most of the labor force—is expected to benefit from increased government procurement prices for wheat and cotton, which were raised by 100 percent and 50 percent, respectively, in January 2019.

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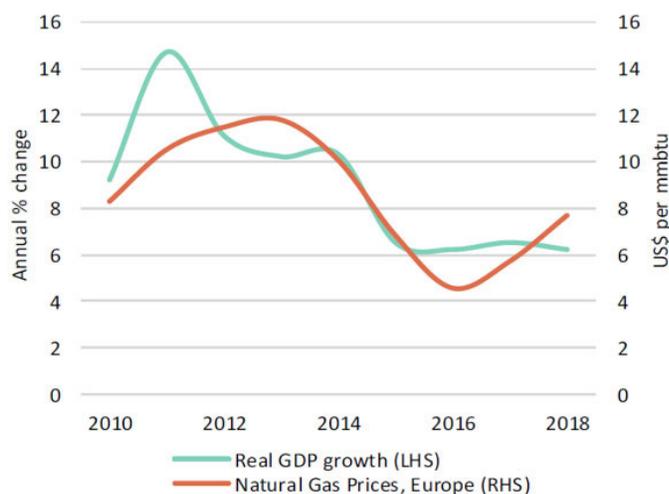
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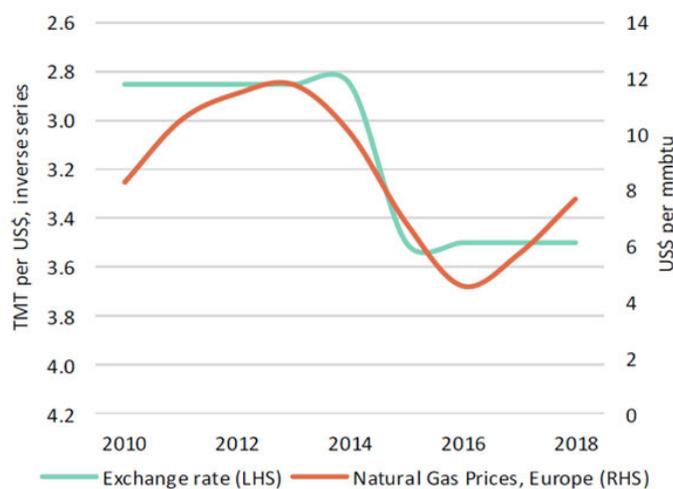
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FIGURE 1 Turkmenistan / GDP growth and natural gas prices, 2010-18



Sources: Statistical Committee of Turkmenistan.

FIGURE 2 Turkmenistan / Official exchange rate and natural gas prices, 2010-18



Sources: Central Bank of Turkmenistan.