Turkey, however, continues to face significant challenges. Despite its upper-middle-income status, Turkmenistan is still at an early stage of transition. Indeed, its abundant natural resources have arguably masked the need for change, delaying first-generation reforms such as price and trade liberalization, privatization, and the creation of institutions for market regulation, which began only after 2007.

Tight administrative controls and the public sector’s large overall role in economic activity remain the key obstacles to private sector development in Turkmenistan. The public sector and state-owned monopolies continue to dominate the economy and the formal labor market. Foreign direct investment (FDI) remains limited outside the hydrocarbon sector.

Growth remains highly dependent on hydrocarbons and related sectors. After the successful diversification of natural gas export routes in 2009, China became the largest export market for Turkmenistan. Medium-term plans envisage a further increase in natural gas exports to China and other destinations in East and South Asia, at the same time that exports to Russia have come to a halt due to transit pricing disputes.

Exports of natural gas to Iran remain limited. In this context, a planned third pipeline to China and the proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline, if they materialize, would more than double gas export capacity. Despite the ongoing and planned diversification of markets, Turkmenistan’s exports are increasingly dependent on a single large market (China) and continue to be dominated by a single product (natural gas), making the economy vulnerable to fluctuations in global prices beyond its control.

At a Glance

- Turkmenistan’s stable economic performance continued in 2017. The real GDP growth rate increased and the external and fiscal gaps narrowed, while the inflation rate remained moderate.

- Medium-term growth will continue, supported by higher gas exports to China and import-substitution policies in the non-hydrocarbon sector.

- Implementation of structural reforms has been slow but steady. Additional measures are required to improve the business climate, modernize the financial sector and reform state-owned enterprises (SOEs), strengthen public and private sector institutions, reform the labor market, and improve access to and the quality of basic social services. Recent global and regional developments provide the authorities with an opportunity to accelerate the pace of reforms.

- The World Bank’s knowledge-based program outlined in the strategic engagement document continues to support Turkmenistan’s growing aspiration for a deeper integration into global trade flows and its gradual transition to a more market-based economy.

<table>
<thead>
<tr>
<th>TURKMENISTAN</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population, million</td>
<td>5.7</td>
</tr>
<tr>
<td>GDP, current US$ billion</td>
<td>36.2</td>
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<tr>
<td>GDP per capita, current US$</td>
<td>6,389</td>
</tr>
<tr>
<td>Life Expectancy at birth, years</td>
<td>67.5</td>
</tr>
</tbody>
</table>
The World Bank and Turkmenistan

The latest strategy for Turkmenistan, the Country Engagement Note (CEN) for the period covering FY2016–17, was discussed by the World Bank Board of Executive Directors in November 2015.

The program centered on deepening collaboration in such areas as financial sector development and improved macroeconomic statistics through sharing with the Turkmen authorities the World Bank Group’s international knowledge, experience, and best practices in areas relevant to Turkmenistan’s growth agenda and integration into the global economy.

The knowledge-based program, which is at the cornerstone of the CEN, is fully consistent with the Government’s strategic priorities and is being delivered primarily through the Reimbursable Advisory Services (RAS) program. The Government of Turkmenistan primarily funds this program, which is being supplemented by the World Bank Group’s other advisory and analytical services.

Through its own resources, the Bank complements activities under the ongoing program in such areas as the development of a welfare monitoring system, support for the regional water agenda, and others.

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

Key Engagement

Reimbursable Advisory Services Program

On October 7, 2016, the World Bank Group and the Turkmen Ministry of Finance signed a second RAS agreement, which is an integral part of the CEN for Turkmenistan.

The activities under the RAS agreement build on areas previously proposed by the Turkmen authorities in the framework of the first RAS agreement signed in 2013.

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

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

Turkmenistan’s stable economic performance continued in 2017. The real GDP growth rate increased by an estimated 6.4% year-on-year (y-o-y) during the first eight months of 2017 compared to 6.2% during the same period in 2016. Higher exports of natural gas to China and more favorable terms of trade—as natural gas prices increased by more than 20% y-o-y—were the main growth drivers.

The headline inflation rate accelerated to 3.6% between January and June 2017 compared to 0.4% during the same period in 2016. Expansionary credit policy and an increase in public sector salaries and pensions (by 10% since January 2017) contributed to the higher inflation rate.

In the first eight months of 2017, consumption growth was supported by higher government transfers that drove retail trade up by 17.6% y-o-y, and the transport and communication sectors grew by 10.9% y-o-y. On the other hand, cuts in public investments and lower inflows of FDI led to only moderate growth in the construction sector of 3.1% y-o-y during the first eight months of 2017.

The external position improved in 2017 due to terms-of-trade gains, solid natural gas demand from China (while gas exports to Russia and Iran stalled), and a contraction in imports. Substantial cuts in public investment, controls on foreign exchange, and tightened import regulations led to a 25% decline in merchandise imports and a significantly improved trade balance, narrowing the current account deficit considerably.

The improved external position allowed the central bank to maintain the exchange rate peg at 3.5 Turkmen manat per U.S. dollar without significant drawdowns of official reserves. Progressively tightened restrictions on foreign exchange trading remain in place.

Economic Outlook

Turkmenistan’s economic outlook will depend largely on the price and external demand of natural gas, although industrial policy (import substitution and non-hydrocarbon export promotion) is expected to gradually help promote non-hydrocarbon activity.

Over the medium term, the country’s growth rate is projected to hover below 7% a year—much lower than the double-digit growth observed in the previous period—despite the continued expansion of gas exports to China.

The external position will continue to improve thanks to higher hydrocarbon exports. The current account deficit is expected to be financed by increases in FDI and other capital inflows, allowing the central bank to protect its official reserves and maintain the exchange rate peg.

Fiscal consolidation is expected to continue, which should strengthen fiscal and debt sustainability.
The "Country Snapshot" is a bi-annual update, highlighting the country’s recent developments, economic outlook and major overview of the World Bank’s partnership with the country. You can find the latest updates at http://www.worldbank.org/turkmenistan

FIGURE 1  Turkmenistan / Real GDP growth and gas prices

Source: State Statistics Committee of Turkmenistan.

FIGURE 2  Turkmenistan / Exchange rate and oil prices

Source: Central Bank of Turkmenistan.