The World Bank in Turkmenistan

Country Snapshot

An overview of the World Bank's work in Turkmenistan

October 2018

TURKMENISTAN	2017
Population, million	5.8
GDP, current US$ billion	37.9
GDP per capita, current US$	6,587
School Enrollment, Primary (% gross)	89.4
Life Expectancy at birth, years	67.8

At a Glance

- Real GDP growth decelerated by 0.2 percentage points to 6.2% in the first half of 2018, according to official estimates. Although net exports and private consumption benefited from improved terms of trade, declining foreign direct investment inflows and fiscal consolidation resulted in a 20% decline in capital investment.
- Rising hydrocarbon prices and fiscal tightening have helped to alleviate external and domestic imbalances.
- The economic growth outlook remains positive, but downside risks persist due to foreign exchange liquidity constraints and the slow pace of structural reforms to diversify the economy and develop the non-hydrocarbon private sector.
- The authorities are expected to pursue prudent monetary and fiscal policies that are necessary for macroeconomic stability and the re-building of foreign and domestic buffers.

Country Context

Turkmenistan is located at the center of the Eurasian continent and has been classified as an upper-middle-income country. 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% 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, and 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 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.

Additionally, with its own resources, the World Bank complements the ongoing program in areas such as the development of a welfare-monitoring system, support for the regional water agenda, and technical assistance for the hydrometeorology committee.

The Government and the World Bank Group are currently in the process of identifying potential areas for expanding cooperation—once the follow-up CEN has been finalized—to help Turkmenistan implement additional reforms and overcome obstacles impeding the country's socioeconomic development potential.

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, a keystone of the CEN.

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

The RAS program aims to support:

(i) business model reform and corporate governance in the banking sector;

(ii) the development of a credit reporting system;

(iii) the implementation of national risk assessments on money laundering and terrorist financing; and

(iv) the reinforcement of macroeconomic statistics. The entire RAS program is managed, delivered, and supervised by the World Bank Group in line with international best practices.

Recent Economic Developments

Official real GDP growth decelerated to 6.2% during the first six months of 2018, down from 6.4% during the same period a year earlier. Although net exports and private consumption benefited from improved terms of trade, plunging FDI inflows and fiscal consolidation resulted in a drop of more than 20% in capital investment.

On the supply side, the economy continued to demonstrate solid growth during January–July 2018, with the strongest expansions recorded in retail trade (19.5%), transport and communication (10.9%), and industry (4.5%). Agriculture growth accounted for only for 3.8%, indicating the possible consequences of natural disasters (the May 2018 salt storms). The construction sector decreased by 0.5%, reflecting declining public and foreign investment.

Annual consumer price inflation surged to 8.9% in June 2018, up from 3.6% in June 2017, largely reflecting price increases in imports and a 50% upward adjustment in subsidized gas prices (decreed in the context of welfare reforms) and other public services. At the same time, public sector salaries, pensions, and other government payments were increased by 10% in early 2018.

The trade deficit narrowed in the first half of 2018, owing to the continued recovery in hydrocarbon prices, which contributed to a sharp rise in overall export earnings of 43.4%.

At the same time, following an official policy focus on import substitution, there was a significant contraction in import spending of 43.5% as a result of a decline in imports of capital intensive goods after the suspension or completion of large-scale projects. This downward trend was amplified by the restricted access to foreign exchange, which also contributed to the contraction in import spending.

Economic Outlook

The upward trend in hydrocarbon prices and continued strong Chinese demand for natural gas represent key factors supporting Turkmenistan's economic outlook.

The economy is projected to grow by 6.2% in 2018 before softening over the medium term as public investment eases. Inflation is expected to moderate as exchange rate pressures subside.

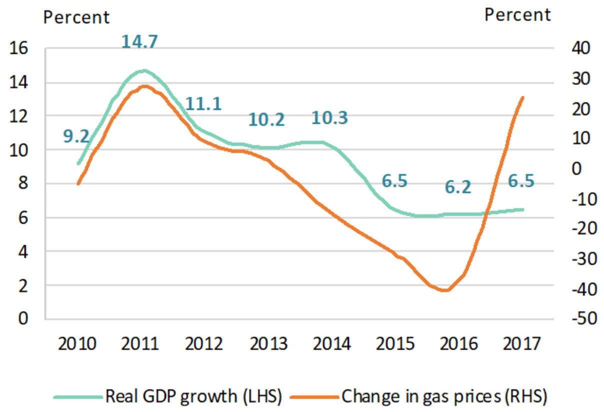
The external position will benefit from improving terms of trade and China's growing demand for natural gas (expected to rise by about 60% in 2017–23, according to projections of the International Energy Agency's recent report, "Gas 2018").

Although China is considering building a spur line from Pakistan, once the TAPI gas pipeline becomes operational, Russian officials have indicated a possible resumption of negotiations on Turkmen gas imports in late 2018.

The limited access to foreign exchange is likely to suppress consumer goods imports and prevent the resumption of more active FDI.

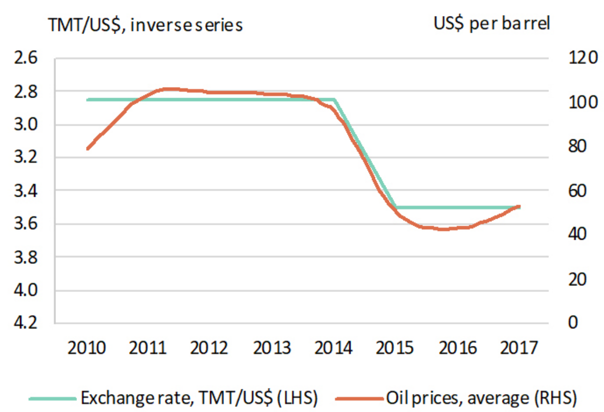
The authorities are expected to pursue the prudent monetary and fiscal policies needed for macroeconomic stability and the re-building of foreign and domestic buffers.

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.

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