

# TURKMENISTAN

## Recent developments

**Table 1** 2018

Population, million <sup>a</sup>	5.8
GDP, current US\$ billion	40.8
GDP per capita, current US\$ <sup>a</sup>	7065
School enrollment, primary (% gross) <sup>b</sup>	88.4
Life expectancy at birth, years <sup>c</sup>	67.8

Source: IMF, WDI, Macro Poverty Outlook, and official data.

Notes:

(a) estimations.

(b) Most recent WDI value (2014).

(c) Most recent WDI value (2016).

*Growth weakened, inflation accelerated, and pressures on the national currency increased in 2018, reflecting the adjustment of the Turkmen economy to declining hydrocarbon revenues in 2016-17. A reduction of public investment helped to improve the fiscal and external balances in 2018. The public sector-driven and hydrocarbon-dominated economic structure assumes a recovery in public investment and an expansion of gas exports to sustain growth. The slow pace of reforms presents a downside risk; cuts in budget subsidies may negatively affect welfare.*

The availability and quality of statistical data are major concerns in Turkmenistan; the following analysis should be viewed with that caution.

Real GDP growth weakened slightly in 2018, slowing to 6.2 percent from 6.5 percent in 2017, reflecting a decline in the non-hydrocarbon economy. Net exports positively contributed to economic growth, but this was more than offset by weakened domestic demand, reflecting a decline of public investment (to 22 percent of GDP in 2018 from an average of 30 percent in 2014-17). Following the government's decision to discontinue the free provision of water, natural gas, electricity, and salt, the authorities eliminated budget subsidies for utilities, which also negatively impacted domestic demand.

Average annual inflation rose sharply in 2018, to 13.2 percent (up from 8 percent in 2017). In addition to eliminating budget subsidies, the authorities adjusted utility tariffs (gasoline prices rose by 50 percent) and increased public salaries, pensions, and other social transfers by 10 percent. Reduced consumer imports, owing to currency shortages, also stoked price pressures. However, greater administrative price controls and state procurement and imports of basic consumer staples—which boosted food supply—helped to contain food price inflation during the second half of the year. The government's fiscal consolidation efforts nearly resulted in a balanced budget in 2018 (compared with a deficit of 2.8 percent of GDP in 2017). Revenue was

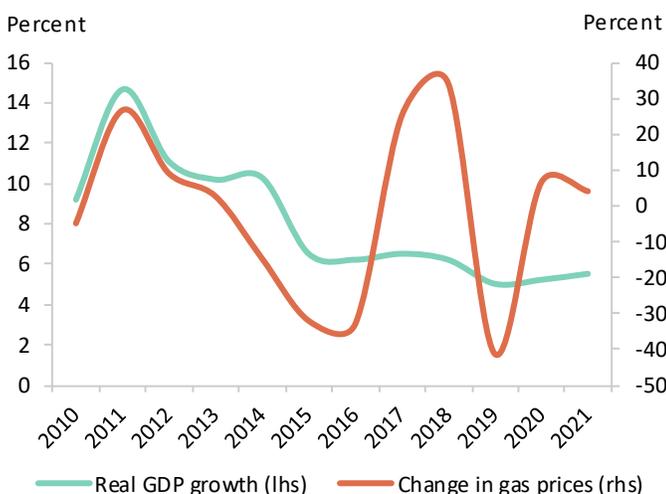
bolstered by higher hydrocarbon proceeds, while public spending was reduced by 17.6 percent on account of sharp cuts to public investment and subsidies. External borrowing to finance large investment projects is estimated to have increased the public external debt to 25.4 percent of GDP in 2018 (from 21.8 percent of GDP in 2015). Turkmenistan's external position reversed in 2018; the current account recorded a surplus of 5.7 percent of GDP from a deficit of 10.3 percent of GDP in 2017. Higher prices and export volumes of natural gas were the main drivers of this reversal. Meanwhile, continued import substitution efforts combined with lower demand for imported construction materials resulted in 47.8 percent reduction in imports. However, once tight foreign exchange controls are eased, and the deficit of foreign exchange is eliminated, the external position may again revert. The official exchange rate of the Turkmen manat to the U.S. dollar is still set at 3.5 manat/US\$, despite significant pressures.

Foreign investment continued to decline in 2018 owing to challenges in the foreign exchange market, the dominance of inefficient state-owned enterprises (SOEs), and a challenging business environment.

The authorities continued their directed lending and easy credit policies in 2018, although credit growth slowed slightly. The loan portfolio continues to be allocated mostly to SOEs at concessional financing terms by the central bank.

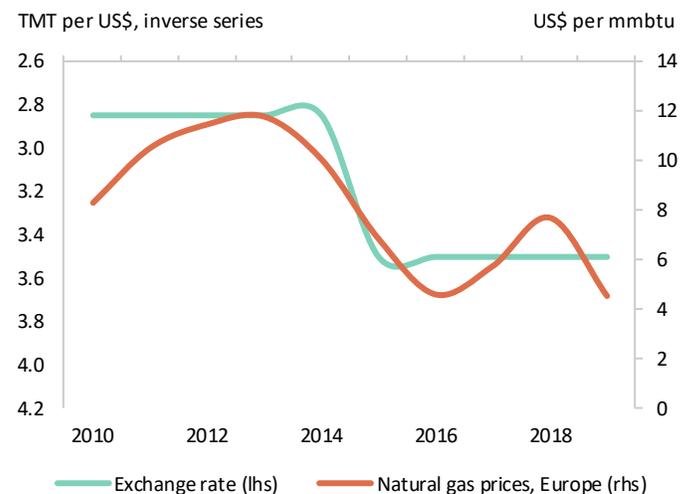
Turkmenistan does not release official statistics on living standards, and little is known about the country's labor market or the prevalence of poverty. Nonetheless, the gradual reduction of welfare subsidies—

**FIGURE 1 Turkmenistan / Real GDP growth and natural gas prices**



Source: State Committee of Statistics of Turkmenistan.

**FIGURE 2 Turkmenistan / Exchange rate and natural gas prices**



Source: Central Bank of Turkmenistan.

which the population has enjoyed since shortly after independence—is expected to have negatively affected living standards. International migration drives substantial poverty reduction in neighboring economies but is restricted from Turkmenistan, and remittance flows remain much lower than elsewhere in Central Asia.

## Outlook

Turkmenistan's weak economic outlook reflects the projected fall in the natural gas price and softening global demand for energy resources. The global economy, including China and Russia, is expected to slow down in 2019-20. Although in July 2019 Turkmenistan and the Russian Federation signed a 5-year contract for resuming natural gas supply, the agreed volumes will be significantly lower than used to be the case until three years ago. Policies aimed at fostering private sector development and economic diversification should be prioritized to promote non-hydrocarbon sectors and contribute to inclusive growth.

Inflationary and exchange rate pressures are expected to remain as hydrocarbon earnings decline. The authorities are likely to adhere to the exchange rate peg. Considerations to adjust the national currency will largely depend on the evolution of public sector foreign liabilities.

Turkmenistan's external position is expected to deteriorate in 2019-20 but then benefit from the expected expansion of natural gas exports. Also, the industrial output is expected to respond to the government's export promotion and import-substitution policies. However, ongoing challenges associated with expatriating profits will discourage strong FDI inflows. The government will seek fiscal consolidation in the medium term to rebuild depleted policy buffers. However, the expansion of public investment in strategic infrastructure using off-budgetary funds cannot be ruled out.

Although ending free access to water, gas, and electricity may result in a deterioration in living standards for the poor, such measures underscore the government's commitment to improving the finances of Turkmenistan's utilities and reducing state budget liabilities. 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.

## Risks and challenges

External and domestic risks to the economy will remain elevated. A decline in

hydrocarbons prices would significantly reduce economic growth prospects. Other external risks include the escalation of trade tensions or the tightening of global liquidity, which could result in a sudden deceleration in economic growth in Turkmenistan's trade partners.

Domestically, risks include slow progress on the implementation of policies that support economic diversification and private sector development. Liberalizing business regulations and easing foreign exchange controls will be necessary to improve investor confidence. Long-term socio-economic sustainability will require a shift toward investment in human capital. Turkmenistan's restrictions on internal mobility are the strictest in Central Asia, resulting in the exclusion of rural residents from more diverse urban labor markets and the relative prosperity of higher-income areas, in particular the capital, Ashgabat.

Utility tariff increases will impact the welfare of households over the medium term. Therefore, the social consequences of the reform should be considered, and a distributional analysis performed, together with mitigating measures to protect vulnerable households through a well-targeted social protection mechanism. Although Turkmenistan has a social protection system in place, a performance assessment is needed to evaluate the targeting accuracy, and implications on the Sustainable Development Goals.

**TABLE 2 Turkmenistan / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2016	2017	2018	2019 e	2020f	2021 f
<b>Real GDP growth, at constant market prices</b>	6.2	6.5	6.2	5.0	5.2	5.5
<b>Inflation (consumer price index, period average)</b>	3.6	8.0	13.2	13.4	13.0	8.0
<b>Current account balance (% of GDP)</b>	-20.2	-10.3	5.7	-2.0	-2.3	-4.0
<b>Financial and capital account (% of GDP)</b>	5.9	6.1	3.6	4.2	4.5	4.5
of which: net foreign direct investment (% of GDP)	5.4	4.0	3.7	3.0	2.9	2.6
<b>Fiscal balance (% of GDP)</b>	-2.4	-2.8	-0.2	-2.2	-1.5	-0.8
<b>Total Public debt (% of GDP)</b>	24.1	28.8	29.1	30.4	29.5	29.9

Source: National authorities, International Monetary Fund and World Bank  
Notes: e = estimate, f = forecast.