TURKMENISTAN

Table 1	2018
Population, million[a]	5.8
GDP, current US$ billion[a]	42.4
GDP per capita, current US$[a]	7356
School enrollment, primary (% gross)[b]	88.4
Life expectancy at birth, years[c]	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).

Even as favorable external environment supported export expansion, Turkmenistan's economic growth eased slightly in 2018 on weaker domestic demand. Trade and fiscal balances improved, benefitting from higher hydrocarbon prices. However, rising inflation - driven by prices for imported consumer goods - and continued cutbacks in welfare subsidies negatively affected living conditions. Higher global demand for energy and emerging regional cooperation opportunities suggest favorable GDP growth prospects, although the slow pace of structural reforms presents downside risks.

Recent 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 sharply (by 26 percent) in the context of fiscal consolidation, lower inflows of foreign direct investment and weaker credit expansion.

Officially-reported inflation subsided to 7.2 percent in 2018 (from 10.4 percent in 2017). While 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. The upward adjustment of gasoline prices (by 50 percent) and public salaries, pensions, and other social transfers (by 10 percent) in early 2018 also contributed to the accumulation of inflationary pressures.

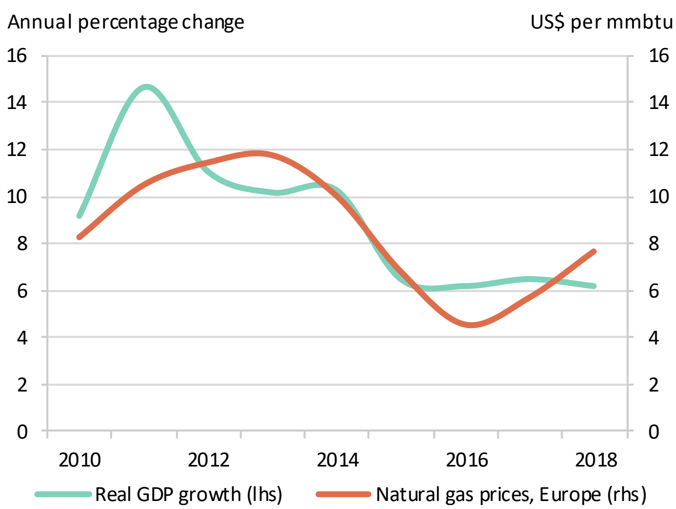
Turkmenistan's external position improved in 2018 on account of improved terms of trade and lower demand for imports of capital and consumer goods. Strong Chinese demand, coupled with surging natural gas prices (up by over 30 percent in 2018 year on year), boosted export earnings by almost 50 percent. 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. As a result, the current account deficit is estimated to have narrowed to about 2.9 percent of GDP, a sharp decline from double-digit levels in recent years.

Throughout 2018, the authorities continued to impose tight foreign exchange controls on international trade and access to hard currency reduced in early 2018. Although strong export earnings served to ease pressure on the exchange rate in mid-2018, pressures remained elevated. Market trends suggest overvaluation of the official manat rate.

The government continued fiscal consolidation efforts in 2018 in line with its medium-term objective of a balanced budget. Revenue collection slightly over - performed budget projections, bolstered by higher hydrocarbon proceeds, while expenditure was reduced by 17.6 percent following cuts to non-priority capital investment and a reduction of welfare transfers.

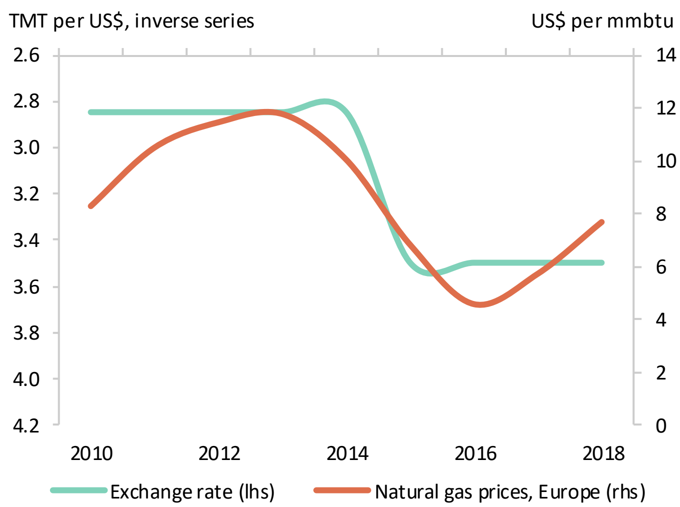
Turkmenistan does not release official statistics on living standards, and little is known about the country's labor market. Data constraints prevent a thorough analysis of the social impact of slower economic growth. Nonetheless, the gradual reduction of welfare subsidies—which the population has enjoyed since shortly after independence—has negatively affected living standards.

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



Source: Statistical Committee of Turkmenistan.

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



Source: Central Bank of Turkmenistan.

Outlook

Turkmenistan's positive economic outlook assumes that global energy demand remains strong and that China's economy does not falter; both assumptions carry significant uncertainties. Ongoing high-level talks with the Russian Federation may result in the resumption of natural gas sales to Russia. 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 considerations to adjust the national currency will largely depend on the evolution of public sector foreign liabilities. 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 supported by export promotion and import-substitution policies. However, ongoing challenges associated with expatriating profits will discourage strong FDI inflows.

The government will seek consolidation of the state budget in the medium term as it attempts to rebuild depleted policy buffers. However, the expansion of public investment in strategic infrastructure using off-budgetary funds cannot be ruled out.

While ending free access to water, gas, and electricity in 2019 may result in deteriorated living standards for the poor, such measures underscore the government's firm commitment to reforming the country's utilities and improving their 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.

Risks and challenges

External and domestic risks to the economy will remain elevated. A sudden drop 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.

In a push to improve the fiscal accounts and, more broadly, adopt market economy principles, Turkmenistan recently reversed a long-standing policy of providing free water, electricity, natural gas, and housing. While full information on the depth and breadth of the tariff increases is not yet officially available, such measures undoubtedly will impact the welfare of households. 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 the social protection system in Turkmenistan consists of a set of social policies (both cash and non-cash), a performance assessment of the system in terms of coverage, targeting accuracy, and impact on the Sustainable Development Goals - in particular, goal 1 (no poverty) and goal 10 (reduced inequality) - is needed.

TABLE 2 Turkmenistan / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	6.2	6.5	6.2	5.6	..	..
Inflation (consumer price index, end of period)	6.2	10.4	7.2	6.0	..	..
Current account balance (% of GDP)	-19.9	-11.5	-2.9	-2.4	..	..
Financial and capital account (% of GDP)	5.9	7.3	5.8	7.2	..	..
of which: net foreign direct investment (% of GDP)	5.4	5.1	3.4	4.3	..	..
Fiscal balance (% of GDP)	-2.4	-2.8	0.4	0.0	..	..
Public debt (% of GDP)	24.1	28.8	29.9	31.2	..	..

Sources: World Bank, International Monetary Fund.
Notes: e = estimate, f = forecast.