

The World Bank in Turkmenistan

Country Snapshot



An overview of the World Bank's work in Turkmenistan

October 2019

TURKMENISTAN	2018
Population, million	5.8
GDP, current US\$ billion	40.8
GDP per capita, current US\$	7,065
School Enrollment, Primary (% gross)	88.4
Life Expectancy at birth, years	67.8

At a Glance

- Growth weakened, inflation accelerated, and pressures on the national currency increased in 2018, reflecting the Turkmen economy's adjustment to declining hydrocarbon revenues in 2016–17. A reduction of public investment helped to improve 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, and cuts in budget subsidies may negatively affect public welfare.
- Policies aimed at fostering private sector development and economic diversification should be prioritized to promote the non-hydrocarbon sectors and contribute to inclusive growth.
- Inflationary and exchange rate pressures are expected to remain as hydrocarbon earnings decline.

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.

Although in July 2019 Turkmenistan signed a five-year contract with the Russian Federation to supply natural gas, the resumed volumes will be significantly lower than three years ago, making China the largest market for Turkmenistan's hydrocarbon exports. Additionally, the country is in the process of constructing the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline. Gas exports to other regions through gas swap mechanisms 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 (SOEs), 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 (WBG) 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 WBG 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.

Key Engagement

During 2016–18, the WBG 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 reform 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 WBG in line with international best practices.

Currently, the WBG 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.

Recent and ongoing World Bank support is focused on such areas as the development of a welfare-monitoring system, support for a regional water and climate agenda, and technical assistance for the hydrometeorology committee.



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Recent Economic Developments

The following analysis is based on estimations using the limited data available and should therefore be viewed in this context.

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 that reflected a decline in 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.

The Government's fiscal consolidation efforts nearly resulted in a balanced budget in 2018 compared to 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.

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 a 47.8 percent reduction in imports.

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. Data constraints prevent a thorough analysis of the social impact of slower economic growth.

Economic Outlook

Turkmenistan's weak economic outlook reflects a projected fall in the price of natural gas and the softening global demand for energy resources. The global economy, including China and Russia, is expected to slow down in 2019–20. As noted above, Turkmenistan's new five-year contract to supply natural gas to Russia will involve volumes that are significantly lower than when trade was suspended three year ago.

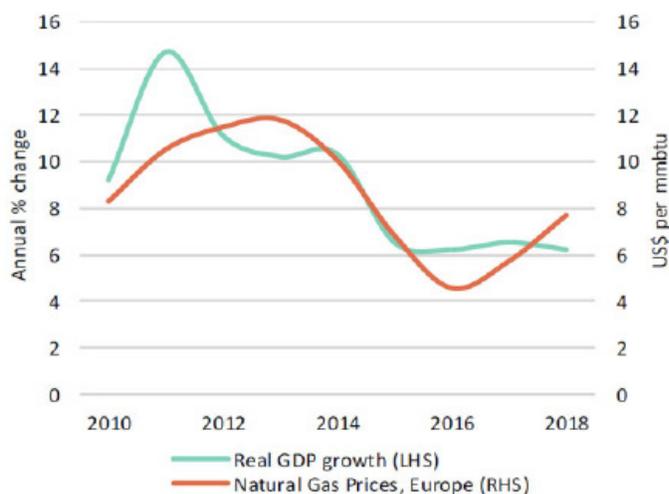
Policies aimed at fostering private sector development and economic diversification should be prioritized to promote the non-hydrocarbon sectors and contribute to inclusive growth. Inflationary and exchange rate pressures are expected to remain as hydrocarbon earnings decline. The authorities are likely to adhere to the exchange rate peg; considerations to adjust the national currency will largely depend on the evolution of the public sector's foreign liabilities.

Turkmenistan's external position is projected to deteriorate in 2019–20 but then benefit from the expected expansion of natural gas exports. The country's industrial output is also 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.

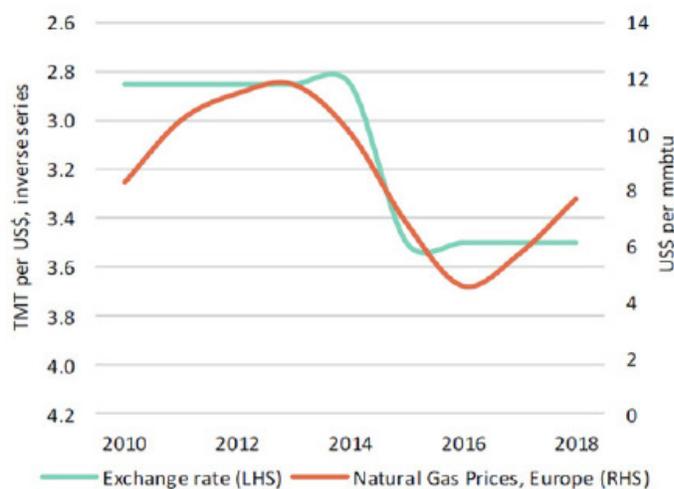
Although ending free access to water, gas, and electricity may result in a deterioration in living standards for the poor, such measures underscore the Government's commitment to improving the finances of Turkmenistan's utilities and reducing state budget liabilities. The agriculture sector—which employs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

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.

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